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SOCIAL INSURANCE AND INDIA

SOCIAL INSURANCE AND INDIA

By

Manohar R. Idgunji,

M.Com., LL.B.

FOREWORD

By

Dr. B. R. Ambedkar

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To
My Parents
in deep reverence
and
My Brother
in heartfelt gratitude

"The challenge confronting us in the twentieth century is that of economic insecurity, which weighs down our lives, subverts our liberty, and frustrates our pursuit of happiness. . . . The wage system has made economic security depend entirely on the stability of our jobs. Such utter dependence upon a wage for the necessities of life has never before been known in any society. . . . It is our complex civilisation which, while conquering nature, time and space, has made men the slaves of their jobs.

"It is the grim paradox of our present-day society that with granaries bursting with food supplies, warehouses filled with shoes and clothing, and foods of every kind in over abundance, men, women and children go hungry and naked or depend on charity for their very existence. Fantastic and ridiculous as it may seem to a visitor from Mars, it is the stark reality today. Unlike earlier days when insecurity was brought about only by forces beyond human control and from insufficiency of goods, the great insecurity of our day prevails despite our luxuriant plenty.

". . . The insecurity of our wage earners in the face of the hazards of modern life menaces more than mere national prosperity. It endangers the very existence of the social order. No society which exposes the majority of its members to such grave and continuous hazards can endure for long."

ABRAHAM EPSTEIN.

FOREWORD

MR. M. R. IDGUNJI'S book on *Social Insurance and India* is a well planned treatise.

It is divided into two parts. Part I is general and deals with two main topics: (I) the four principal branches of social insurance, viz., (i) Workmen's Compensation, (ii) Sickness Insurance, (iii) Pension Insurance, and (iv) Unemployment Insurance, and (II) the different financial aspects of social insurance such as the financial resources, the actuarial technique and financial administration. The discussion of the financial aspects of social insurance is aimed to explain the various problems connected with the financial resources required for the working of social insurance schemes, the various systems according to which the resources can be organised so as to have social insurance schemes working on sound lines and the problems of administration connected with the financial side of social insurance.

Part II deals with the problem of social insurance in relation to conditions prevalent in India. In this part the provisions of the Indian Workmen's Compensation Act, 1923, and of Sickness Insurance are subjected to a critical examination. In addition to this, there is a discussion of the Beveridge Plan of social security and of the scheme of social security adopted in New Zealand. The discussion ends by an exploration of the possibilities for social security measures in India. The author holds the view that sound social insurance measures are not feasible in India unless certain fundamental difficulties are removed, and the country makes a substantial advance economically and is rid of the stark poverty that prevails in it today. The reasons in support of the stand he has taken are set out clearly and fearlessly. Realizing that India is predominantly an agricultural country and that the agricultural population sadly needs protection, the author has suggested a scheme of crop insurance based on the principles of social insurance. If indeed a scheme of crop insurance be evolved on the lines suggested by the author, it should go a long way in bettering the conditions of the rural masses in our country

and lessening the terrors of famines that often visit them.

Social insurance is a new thing in India. The Indian contribution to the literature on the subject is naturally meagre. In the circumstances, Mr. Idgunji's book is sure to be welcomed by all students of the subject both as an addition to the scanty literature thereon and also as a critical examination of the problems arising out of it. His style is lucid and his exposition is very clear.

B. R. AMBEDKAR.

PREFACE

WITH the battle of freedom over, we are now face to face with a number of urgent economic problems that had been either ignored or shelved so far. The Government of free India is now shouldered with the grave and important responsibility of planning the future on foundations of justice and equity to fulfil the ideal of a happier and fuller life for the ordinary citizen. It must be realized that political freedom actually does not and shall not mean anything to the common man, so long as it does not secure for him freedom from want. Removal of economic insecurity has been rightly recognised as one of the foremost duties of the State. It is therefore, gratifying to find that India is now taking a step forward in that direction with the Workmen's State Insurance Bill on the legislative anvil.

The idea of social security is rather new to the people in India. Although the subject is quite popular, it—particularly its scope and possibilities—is not yet widely and clearly understood. This is mainly due to the fact that while there are a number of books dealing with particular aspects of it and particular countries, there is almost a complete lack of concise yet comprehensive books dealing with the whole subject and giving a comparative idea of the progress made in various countries. This fact was borne in mind while writing this book. Therefore the theory and practice and the financial aspects of social insurance have been described and explained in Part I of the book. It is hoped that this part would prove extremely useful to the average reader and its study should enable him to apply his mind independently to the question of introducing social insurance measures in India. After thus equipping the reader with this information, he is taken to the Indian scene in Part II of the book where the problem in India has been exhaustively and critically discussed. The peculiar conditions prevailing in our country have been given due thought in this discussion.

Appendix I deals with the economic conditions of Indian seamen and the proposed scheme of social insurance for them.

Appendix II gives some details regarding the benefits granted in New Zealand and its expenditure on social services. Appendix III states the actuarial formulæ involved in typical schemes of sickness and pension insurance. The Calcutta Claims Bureau representing insurance companies had issued a statement in defence of the present Workmen's Compensation Act sometime after the publication of the Adarkar Report. Appendix IV replies to that statement.

It may be added here that this work was originally written as a post-graduate thesis a little over three years ago. It was revised later and brought up-to-date. Yet it has not been possible to discuss the new legislation adopted in Great Britain particularly and a few other countries, and the Workmen's (now changed by the Select Committee to Employees') State Insurance Bill in the Indian legislature at present, as the manuscript was then already in press. However, a brief note on the Indian proposals embodied in the Bill has been added.

I must express here my gratitude to Professor G. S. Diwan, M.A., F.I.A.(Lond.), of the Sydenham College of Commerce and Economics, Bombay, for his useful guidance in my work and particularly for Appendix III of the book mentioned above. I am also obliged to Principal S. G. Panandikar, M.A., Ph.D.(Lond.), D.Sc. (Lond.), of the Sydenham College, and Professor K. T. Merchant, M.A., LL.B., B.Sc. (Econ.) (Lond.), of the Elphinstone College, for the interest they had taken in my work. Thanks are due to Mr. E. K. P. Menon for willing help in typing out the whole manuscript at short notice. I must also acknowledge the kind permission given by the editors of *Commerce* and *Eastern Economist* for reproducing in this book portions from my articles that appeared in these journals. I am grateful also to Mr. Sunil Janah and *The Illustrated Weekly of India* for the photographs which appear in this book.

Bombay,
March 1948.

MANOHAR IDGUNJI.

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(for Appendix III)

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CHAPTER I

CONCEPT OF SOCIAL INSURANCE

What is Insurance ?

INSURANCE, the *Encyclopædia Britannica* says, is " the practical devise by which civilized man protects himself against the contingencies of life ". It is a process of ensuring that compensation will be received for the financial loss caused by the happening of the contingency or event insured against. Broadly speaking, this process involves the sharing of the losses by persons who run risk of financial loss caused by the happening of the event to be insured against. The person who goes in for such insurance against some contingency pays a price for it, viz., the premium which is very small in amount as compared with the compensation which is promised in return for it in the case of the happening of the contingency or event. The economic function of insurance is the substitution of a known small loss for an uncertain large loss.

The main principle of insurance, based on the law of average, that operates with great regularity when great numbers are involved, is the theory of distribution of losses and the subsequent elimination of risk. This principle is well illustrated in the case of fire insurance. Assume, for the sake of simplicity, that all of us live in 5,000 similar houses, each of equal value, say, Rs. 10,000. Assume also that each house is equally likely to be gutted by fire. Let us suppose our experience to be that on an average one in 500 houses ends in flames and smoke. On this basis Rs. 1,00,000 will be required if the owners of the burnt houses are to be compensated. Now, nobody can be sure that his is not the house that will catch fire. So everyone of the 5,000 landlords faces the risk of losing his house. But if each one of them contributes Rs. 20 towards a common fund, he can be promised, in case of loss by fire, the full compensation of Rs. 10,000. In fact for such a contract

a landlord will be willing to pay much more than such a meagre sum as Rs. 20. Thus by this small payment the risk of loss by fire is eliminated so far as the insured person is concerned and there is security from ruin. This shows how the losses are spread over a large number of people and the risk is eliminated for the individual. This principle was well stated by a select committee of the House of Commons, who, in reporting in 1825 on the laws relating to the friendly societies, said, " wherever there is a contingency, the cheapest way of providing against it is by uniting with others, so that each man may subject himself to a small deprivation in order that no man may be subjected to a great loss. He, upon whom the contingency does not fall, does not get his money back, nor does he get for it any visible or tangible benefit ; but he obtains security against ruin and consequent peace of mind. He, upon whom the contingency does fall, gets all that those, whom fortune has exempted from it, have lost in hard money, and is thus enabled to sustain an event which would otherwise overwhelm him." Thus the essence of insurance lies in the elimination of uncertain risk of loss for the individual through the contribution of a large number of similarly exposed individuals who each contribute to a common fund premium payments sufficient to make good the loss caused to the unlucky individuals.

Its Growth

This principle was first applied to marine insurance, carried on as a profit-making business, round about the middle of the fourteenth century.* This start was made in Italy and interests like property and earnings that might be imperilled in a maritime adventure were insured. Insurance against fire was the next to arise and this was started by the beginning of the sixteenth century in Germany as a communal enterprise. Both these types of insurance came to be organised in the modern form of joint stock companies after 1700. Life insurance, as it exists today, arose only a century later. This late development of life insurance might be attributed to its more scientific foundations. Thus the principle of insurance came to be extensively applied

* *Encyclopædia of the Social Sciences*, Vol. VIII, p. 97.

and in course of time it was made use of in the case of many other miscellaneous contingencies. Insurance was all the time carried on as a commercial proposition. People who cared to or could afford to insure, voluntarily went in for insurance. Sufficient provisions were made for profits in the calculation of the premium that had to be paid as a price for insurance. All these types of insurance, whether life, marine, fire or any other type, were carried on as a purely profit-making business, although with all the social advantages that insurance has. Thus insurance was of a commercial and private nature.

A New Development

However, times were changing fast. The economic condition of different countries was rapidly changing, revolutionising with its change the social conditions and in the course of all this movement, starting in the second half of the nineteenth century, another branch of insurance evolved, that was quite different and distinct from the commercial insurance of the type explained above, to be known as Social Insurance. No attempt has so far been made to give any strict definition of social insurance. Instead of being first defined and then explained, it has always been merely described and explained, but never defined. As the term has been generally understood, it seems capable of two definitions : Firstly, *social insurance is the name given to a mechanism wherein the principle of insurance is applied compulsorily to whole sections of society.* This definition indicates that compulsion is one of the elements of social insurance and it emphasizes that this insurance is called social insurance because it is applied compulsorily to whole sections of the public. Secondly, social insurance may be defined as *a mechanism worked or aided by the society or the State, wherein the principle of insurance is applied to particular sections of society.* This definition does not consider compulsion as a necessary element in social insurance, and, further, emphasizes the part played by the State. These two definitions are thus somewhat different from each other. Since " insurance " is not sought to be defined or explained while defining " social insurance ", any definition of social insurance must bring out

the true import of the word " social ". The word " social " merely means " relating to classes of men or society ". So " social insurance " means insurance for any class of men or society. And this does not necessarily imply that such insurance must be compulsory for every man from that class. It only implies that insurance is meant for that particular class. Anyway, the question of the accuracy of any one of these two definitions becomes clear by studying the development of social insurance. Its history shows that the second definition is more accurate, since even voluntary schemes of insurance for the society were also grouped under the same heading of social insurance, and since probably no scheme not managed (partly or wholly) by the State was ever known as " social insurance ". But the modern conception seems to be tending towards a combination of the two definitions, in that compulsion is an essential element of any piece of social insurance legislation nowadays. Further, as the modern conception of the term goes, social insurance carried with it not only compulsion but also State subsidies and strict State supervision and control. An attempt has been made above to give the narrowest irreducible definition of social insurance. In actual practice the " whole sections of society " covered by social insurance are the lower middle classes, the large army of wage-earners and others in a similar position. Social insurance also covers the governmental measures designed to protect workmen and other groups of the lower or middle economic strata against the ordinary hazards of industrial life. It provides that protection to one part of the population, which some other is able to purchase voluntarily, through private insurance.

Important Elements in Social Insurance

The first is the element of insurance or the insurance method as distinguished from the assistance method, although the social objectives of both are the same, viz., helping the poorer sections of the community to protect themselves from the various risks that face them. Social assistance is a well known and much older attempt at obtaining social security, without the element

of insurance in it. This element consists in the actual payment by the person insured, partly or fully, of the premium, i.e., the cost of insurance, thus bearing a small known loss instead of an uncertain large one in the future. Further discussion of the distinction between social assistance and insurance might be reserved for a later stage.

Compulsion is another important element in social insurance, if compulsion might be so considered, as it should be, keeping abreast with the modern trends in the development of social insurance. Social insurance schemes are made compulsory, especially in modern times, in their application to certain defined sections of society. Many advantages result from insurance being made compulsory. For instance, compulsion serves the purpose of social uplift better, since social insurance is undertaken by the State with a view to protecting the worker's economic condition, and since the only alternative to social insurance on the worker's part is private saving that may lower down his already low standard of living. Another great advantage is that it prevents, what is technically called adverse selection. The meaning of this phrase can be well illustrated by taking an instance. Supposing that a sickness insurance scheme is kept voluntary, it is likely that only those persons most likely to fall ill will go in for such insurance and heavy morbidity may result so far as that group is concerned, rendering the principle useless and unworkable. All this is avoided, if the scheme is made compulsory. Further, compulsion is necessary so that the worker's family is protected against his own lack of foresight.

A third important element in social insurance is the part played by the State in controlling and managing wholly or partly the schemes of social insurance. This is useful inasmuch as it makes the machinery of social insurance as cheap as possible. This the State can do in various ways, e.g., it may provide an administrative organisation devoid of the element of profit or may assume part of the cost of such insurance. It is also the State which helps social insurance by making the schemes compulsory.

Commercial Insurance and Social Insurance

But as one goes on thinking about ordinary insurance and social insurance, both of which have been explained above, one question arises : we have seen how insurance involves the sharing of the loss of one person by a number of persons or in other words, how insurance works on the principle of distribution of losses and subsequent elimination of the risk for the individual, so that in a way it is through insurance that private enterprise seeks collective security and to that extent insurance may be said to be a socialising influence on the capitalistic economic structure. And hence it does appear a little strange that although all insurance is thus essentially a social function, there should again be a sub-division as between commercial or private insurance and social insurance. This however becomes clear when social insurance is compared and contrasted with commercial or private insurance. The distinction between the two also enables one to appreciate better the nature and purposes of social insurance.

Their common characteristic is that the theory of distribution of losses and the subsequent elimination of risk for the individual is common to both. This is easy to see, since both of them are but two different species of a single genus. Both are insurance essentially and the principle underlying the insurance theory is common to both, as also many other points that are inherent in insurance and its working.

Economic Condition of Wage-earners

The study of their essential differences, however, is much more important and it brings out clearly the field and domain of social insurance. Now in practice social insurance has been the insurance for the working classes or wage-earners. Insurance results in a small known loss immediately instead of an uncertain large loss in the future. To the ordinary man in the higher middle class or the richer class, this is only a small deprivation, causing only a slight discomfort and giving in return security from ruin and peace of mind. But the economic condition of the wage-earner is vastly different. His wages are barely sufficient for his living from day to day. He lives on a sub-

sistence level. Every pie that he earns counts for him in his expenditure. His wages being barely adequate to cover his current expenditure, the question of saving for the morrow and for the rainy day rarely arises in his case. So with this financial condition, the wage-earner and a man in similar economic condition faces, in the payment of an insurance premium, a very grave financial problem. To him it is not a small deprivation or a slight discomfort. To him it means the giving up of some expenditure on some of the very necessaries of life. So insurance means to the worker not a choice between some grave future danger and a small loss in the immediate present, but on the other hand, a choice between a possible loss in the future, and a sure and definite serious loss in the immediate present. Although security of life in a certain physical sense has increased with the progress of civilisation, such security in economic sense is yet distant, so far as the working classes are concerned.

Besides this economic condition of the working classes, there is yet another aspect of the problem as regards the nature of the risk against which insurance is to be effected. The contingency insured against is the loss of income or earnings. The sources of the loss of earnings are however many and varied in the case of the workers. The causes of this loss of earnings might be sub-divided under three main headings : (1) absence of a worker in a family, (2) interruption in work due to illness, accidents, etc., and (3) inability to find employment in spite of willingness to work. These incidents are not uncommon in the worker's life. Sickness, accidents, invalidity, premature or normal old age, premature death, and lastly, unemployment are the economic risks that every worker has to face throughout his life. The economic consequences of all these risks are very grave. Whenever they attack him, they cut off his earnings, and this is very serious in view of his low income that rarely leaves any margin for him to save ; in other words, the gravity of the situation is due to the fact that " the continuity of his income is too closely bound up with the continuity of effort ".

Unsuitability of Commercial Insurance

Now these risks are not only numerous and serious, but very

frequent as well. Working from first principles, it becomes clear that according to the theory of distribution of losses that underlies the sound working of insurance, the value of the compensation to be provided in the case of these risks, which are both numerous and frequent, materialising being very high, the cost of such insurance shoots up, and the premiums required to go in for insurance against these risks become considerably high. One cannot also forget how the actual premium charged in the case of private or commercial insurance is higher than the premium (net) theoretically necessary for any risk because of the provision made in the amount of the premium actually charged for expenses and profits called ' loading '. On the other hand, the economic condition of the wage-earners being extremely poor, the source from which such heavy premiums are to be paid is extremely limited. Thus if the workers are to go to private commercial firms transacting insurance business, the premiums chargeable, from an actuarial point of view, are bound to be too high for the workers to pay ; even if they be willing to go in for insurance, they will not be able to pay the premiums.

This discussion of the economic condition of the workers and wage-earners in all its aspects shows how private or commercial insurance is impossible for their special case which demands special insurance schemes. Dr. Rubinow very well summarises the case for social insurance when he says* : " Here then, is the social problem underlying the need of insurance of the wage-earning millions. Their economic condition is precarious ; the economic dangers threatening them many ; and the degree of risk in each case is very high. Individual provision is insufficient, (it is in fact impossible, and is insufficient where it is not impossible), social provision through distribution of loss (viz., insurance) is necessary but costly, often much too costly."

This analysis brings home to one the nature, purpose and the function of social insurance. In the light of this discussion it stands apart as being quite distinct from the private or commercial insurance. Although both are essentially social institutions, there is great difference between the two, consequent upon the vastly different economic conditions of the workers and the

* I. M. Rubinow, *Social Insurance* (New York, 1913), p. 9.

resultant difference in the psychological attitude of the two social groups (have-nots and haves) concerned towards insurance. Thus since the need of the workers for insurance is great and real, while they are not able to bear the cost of insurance carried on as a business, a public system of insurance has to be devised, and this is properly the field of social insurance. This has in fact been nowadays looked upon as one of the duties of the civilized State. Two features of social insurance (as conducted by the State) are absence of profits and of excessive overhead charges, both of which are common characteristics of the commercial type of insurance.

Arguments against Social Insurance

One important criticism of social insurance is as to its inadequacy to cover the problems involved. The problems involved are briefly the economic security and the improvement in the standard of living of the wage-earning class. Although this alleged inadequacy to some extent cannot be denied, there is no practical alternative to this method.

Social insurance is also criticised as having some harmful effects upon the social groups that are insured. It is said to result in demoralisation, lack of foresight, destruction of the habit of saving and even deliberate malingering especially in the case of health and unemployment insurance.

It is further alleged that social insurance places an excessive burden upon industry or the State or both. This complaint can, however, be remedied to a certain extent by the introduction of social insurance in all countries. In fact with this end in view the International Labour Office has been trying to encourage international agreements to equalise conditions and burdens upon industry in the various countries.*

Social insurance is also accused by radical and revolutionary critics of diverting the proletariat from its revolutionary goal and weakening the strength of its organisations. However, the acceptance of the principle of Social Insurance in the Soviet Union has to some extent weakened this argument.

There are some objections to Social Insurance from the

* *Encyclopædia of the Social Sciences*, Vol. XIV, p. 136.

theoretical economists as well. They say that its cost ultimately reverts to the worker, forcing down his wages. This danger, however, is much lessened by the assumption by the State of the cost of not only administration but of the insurance, in part, as well. They further complain that the absolute guarantee of a minimum standard of living, particularly by unemployment insurance, interferes with the law of wages and therefore hinders the adjustment of wages to economic conditions. No doubt this possibility has been correctly anticipated, but the social advantages to be gained from social insurance far outweigh these potentialities.

Some of the futile criticisms that have been mentioned above, viz., inadequacy and harmful effects, apply to any alternative that can be suggested in the place of social insurance. Both these defects, especially the latter, are least observed in social insurance.

Alternatives to Social Insurance

However all these criticisms induce one to examine whether there are any alternatives to social insurance that can be expected to fulfil the purposes and functions of social insurance, more so because the insurance method has been criticised as complicating unduly the social purpose of achieving security for the wage-earning masses. This criticism of the insurance method is forceful, because, social insurance cannot come up to the exacting laws of the science of insurance and the social insurance systems have in any case to deviate from the insurance principle. While the alternative of public grants, or social assistance, has been suggested in many places, the alternatives of higher wages and private savings have been suggested, particularly in the U.S.A.

Both the alternatives of higher wage and of private saving might be dealt with together. Private or individual saving, as has already been explained, does not mean much in the case of the wage-earner. His daily earnings hardly help him to live from day to day on bare necessaries of life. He is not left with a pie to spend on anything like luxury, even if he wills it. Hence a solution of the problem through private savings is impossible,

though of course it is undeniable that " in so far as there is a material waste in the wage-earner's expenditure, whether due to ignorance or extravagance, the necessary thing is to direct the current of expenditures into more advantageous channels ".* Though such an attempt will certainly be useful, it cannot go a long way in solving the main problem of social security for the wage-earning classes. But the other alternative suggested is the payment of a higher wage to the worker, in which case there might be some hopes of individual savings. To some it seems that a really adequate wage will quite easily achieve what social insurance tries to do in a complicated way. But as a matter of fact, no wage, however high, is by itself sufficient to secure economic security for the worker without insurance. It cannot be too adequate. A wage, alone, can cover only the fixed expenditure on necessaries like food, shelter and clothing. Whenever expenses have to be incurred on account of sickness or accident, none can say with certainty as to what wage will be adequate to cover the expenses. " Moreover, the losses of interrupted earnings through unemployment, invalidity or death of the wage-earner have so wide a range that no wage could be named as sufficient to cover them. These contingent items can be dealt with only by insurance, since by distributing the losses of individual workers over the whole wage-earning group, insurance reduces the varying and uncertain costs to certainty and uniformity."†

Social Assistance

The social assistance systems‡ had their origin in the old Poor Laws, passed in Great Britain for the first time in 1601 to replace voluntary charity. With the progress of civilisation, State intervention in such public charity increased, resulting in better schemes and greater adequacy of assistance in quality and in quantity. The State was instrumental in creating special schemes of assistance for distinct types of need. Before judging the merits of such schemes as substitutes for social insurance,

* Rubinow, op. cit., p. 9.
† *The Annals of the American Academy*, Vol. 170 (Philadelphia, 1933), p. 2.
‡ International Labour Office, Studies and Reports, Series M, No. 18, *Approaches to Social Security* (Geneva, 1942), pp. 3-20.

it will not be out of place to state briefly the forms of social assistance.

Social assistance has chiefly four schemes: Old age and invalidity pensions, mothers' pensions, unemployment assistance and medical assistance. All these schemes are non-contributory, i.e., the beneficiaries under them have not to contribute anything to receive the benefits under them. Old age and invalidity pensions and mothers' pensions are relatively old forms of assistance. Medical assistance, coming into existence a little later, is supported wholly or in part by public funds, is staffed by a salaried personnel and intended mainly for persons earning low incomes. Under medical assistance, services like hospital and other residential care, treatment of chronic diseases and care of mothers and children are rendered. Unemployment assistance arose with the depression of 1930-33. Work relief was provided or allowances were paid. The assistance granted under such schemes is generally discretionary and precarious and the right to reasonable maintenance is rarely recognised. The cost of such assistance is generally met entirely from public taxation. Allowances are sometimes invested with the nature of right and appeals are allowed in cases of denial or insufficiency of grants. However such schemes being costly and yet inadequate have given rise in countries like Canada, Norway and others to compulsory unemployment insurance. Yet another form of social assistance is the provision for the rehabilitation of the disabled, e.g., education, training or sheltered employment of physically defective children and adults without means.

Now, such regular public provision of social assistance is condemned by the upholders of social insurance, as being " in essence nothing but the antiquated poor law dole, modernised in certain respects, but basically the same bitter, wasteful process of handing out bread, soup and drugs ".* Charitable assistance given in the form of hospitals, grocery relief orders, etc., is provided for workers who by their own independent and intelligent organisation can help themselves. This " pauperising " is indeed a social disgrace. The ill-effects like moral degradation, etc., (mentioned above) ascribed to social insurance

* *The Annals*, op. cit., p. 1.

are in a much larger measure likely to result from pauperising, however intelligent and tactful the administration of such public charity may be. Again the effects on the self-esteem of the recipient are harmful. " This is a social tragedy, since it strikes at the personal quality without which no society can remain strong and healthy. Most charity is at best a short-sighted substitute for a programme of destitution prevention."

However, social assistance, though useless as a substitute, can be highly useful as a complement to social insurance, for instance, in Great Britain and Ireland, unemployment assistance schemes have been established on a permanent and highly systematic basis, side by side with compulsory unemployment insurance.*

Main Branches of Social Insurance

This analysis goes to show how social insurance is the best possible mechanism to solve the problem of economic security for the worker. In fact it has survived the test of time. In its development however, social insurance has split itself into different branches, strengthening the whole system. This might seem a little strange, when one considers the essential unity of risk in social insurance, viz., loss of earnings. As a matter of theory, there should have been no need for different forms of social insurance like workmen's compensation (industrial accidents), sickness insurance, old age invalidity, etc., pensions and unemployment insurance, and there should and could have been only one general form of social insurance covering all these sources of the risk. But in spite of this possibility, we actually find all the four types of social insurance in existence in all countries. The important causes of this sub-division seem to be : Firstly, the degree of urgency attributable to every branch is different. Secondly, the degree of difficulty of administrative problems involved in every branch is different. However, perhaps, the most material factor must be the historical one : At first, one risk was covered by the insurance mechanism, and when it was seen that it worked well, another was brought under insurance cover, and so on. Since at their inception the various

* I.L.O., Studies and Reports, Series M, No. 18, op. cit., p. 13.

risks were thus separately covered, it was but natural that they continued to remain separate, the essential unity of all the risks in the loss of earnings not being perceived.

The "classic pattern" of social insurance* consists of four "designs". Of these, two, viz., workmen's compensation and unemployment insurance stand apart from each other and the remainder, and the other two, viz., sickness and pension insurance, are connected with each other, though distinct. This classification is almost proof against a change, whether these branches of social insurance are regarded as deliberate specialisations or mere accidental, though deep-rooted and well established, specialisations. Each of these branches has displayed in its development an independence of growth, adapting itself to its specialised tasks by experience. Yet at the same time social insurance as a whole has been influenced by certain tendencies, the sharing of which has brought those branches closer together. So development along separate lines has not alienated them from each other, but rather has yet carried them towards a common point in methods and policy.* The four chief branches of social insurance might be briefly explained here, before discussing them in detail in the chapters that follow.

I. Workmen's compensation protects employed persons against industrial accidents and occupational diseases, and in most of the countries all the employed persons are included. Since the time insurance was made compulsory and a State insurance fund was established, it became insurance of workers rather than that of employers, the only peculiar feature being that instead of the workers the employers paid the premiums on their behalf. As the liability of any single employer towards his workers was replaced by the collective liability of all employers towards the workers and as this collective liability was discharged directly by the State through its specially established insurance funds, workmen's compensation became a branch of social insurance.

II. Sickness insurance provides preventive and curative medical care and partial compensation for loss of wages in cases of illness of non-occupational origin, for a limited period. It has been seen from experience that about 9/10ths of the total

* I.L.O., Studies and Reports, Series M, No. 18, op. cit.

volume of temporary incapacity is of non-occupational origin. Accidents resulting from some non-occupational causes also are covered by sickness insurance. However, the worker has not to prove the non-occupational origin ; he gets his benefits as a matter of right from the sickness insurance fund, the origin and subsequent sharing of the expenses, if any, being a matter between the workmen's compensation fund and sickness insurance fund. Generally maternity insurance is combined with sickness insurance, the periods of incapacity including periods of abstention from work before and after confinement and the medical care being provided by the sickness insurance medical services. In many countries, the compulsory insurance schemes grant even funeral expenses, except in Great Britain, of say, a month's wages.

III. Pension insurance covers old age and such invalidity and premature death as are not the liability of the workmen's compensation insurance. The cash benefits are essentially the pensions. Lump sum payments are provided rarely and play an insignificant part. The old age pension is a life annuity. The provision of qualifying periods eliminates bad risk for the other types of pensions. The pension rates for the three contingencies are necessarily interdependent.

IV. Unemployment insurance is the latest of the social risks to be covered by compulsory insurance. By 1940, compulsory unemployment insurance had been introduced in about twelve countries, while some fewer countries were still trying out subsidized voluntary insurance schemes, with trade unions as their agencies. The development has been comparatively slow. The risk covered is essentially that of temporary unemployment.

Growth of Social Insurance

The movement of social insurance* might be said to have begun in 1883 in Germany with the passing of the first compulsory Accident Insurance Act. This was followed by other enactments rapidly, covering old age, sickness, etc. The personality at the root of all this was Bismarck.† Germany has always

* *Encyclopædia of the Social Sciences*, Vol. XIV, pp. 134-5.

† See Chap. III, p. 40.

characteristically been under certain notions like the paternalistic role of the State in reference to its citizens. This idea formerly before the Industrial Revolution (in Germany) was seen effectually in the poor relief organisations and poor laws. With the industrialisation, however, the economic and social conditions underwent a great change and the idea about the paternal position of the State became more dominant than ever, and was put into practice in a more thorough and scientific way. Yet such legislation owed not a little to the efforts of the workers themselves made through their unions and friendly and mutual societies. Even before 1883, however, the principle of compulsion was employed in the case of pension insurance for some groups. Apart from this factor of compulsion, insurance managed by the State was already in existence in France in 1850 and in Italy in 1883. This insurance was voluntary so far as the worker was concerned ; the only important features being that the security was provided by the State on a non-profit basis, and the State also often contributed to the worker's premium.

The competition between the two methods, viz., the compulsory and the voluntary, started in 1883, when Germany adopted the compulsory method. This adoption was instrumental in the spread of the compulsory method to the other countries, especially those under the German cultural influence. The voluntary method was first supported in Great Britain and the countries of the Latin group. The controversy went on until at the session of the Congress of Social Insurance in 1908, the theoretical superiority of the compulsory method was conceded.

Social insurance spread rapidly through Europe first and then to the other Western countries and lately to Japan, South Africa and Australia. The World War of 1914-18 called a temporary halt to its progress ; but after the war it progressed with renewed energy at a more rapid pace. Now as many as 62 States in all have one or other of the social insurance schemes legislated. Of the different branches of social insurance the workmen's compensation insurance or insurance against industrial accidents is the oldest and almost universal with systems of pension insurance in case of old age, premature death, invalidity, etc., coming a close second. Health or sickness insurance is fairly wide-

spread, being more common in Europe than anywhere else. Unemployment insurance, being the latest and the most complicated and disputed, has been so far adopted only in some dozen countries, although it is perhaps the most important branch of social insurance.

In the U.S.A. the movement has a history of its own. That country lagged far behind the European countries in adopting social insurance measures. Their late introduction was due to several reasons : Firstly, the economic status of the average American worker was (and is) better than that of the average worker in Europe. The second factor was the dominant individualistic tendencies of the American people who looked with doubt and suspicion upon any interference by the State. The movement was also selfishly obstructed by the private insurance companies with the dog-in-the-manger tenacity and also by the employers. Before its introduction the social insurance movement was hotly discussed and debated all over America. At present, workmen's compensation insurance is in existence in almost all the States. Health Insurance although first accepted in many States, collapsed almost completely after the war. Pension insurance for old age, invalidity, etc., has been introduced as a Federal measure under the Social Security Act of 1935.* As to unemployment insurance the same Act by certain provisions, induced all the States to enact their own laws for unemployment compensation.†

Recently there has been a well-marked movement towards the compulsory method, considering social insurance in all its branches. The contributions are made in most cases by all the three important parties, the employees, employers and the State. Yet the subsidized voluntary schemes are fairly common especially in the European countries. Although the voluntary method has in those countries proved at least partially successful, and resistance to legal compulsion is still great, it seems quite likely that in course of time the subsidized voluntary method will disappear under the pressure of not one but two methods, viz., compulsory insurance on one hand and the gratuitous public

* Howard Patterson, *Social Aspects of Industry* (New York, 1943), p. 279.
† Ibid., p. 318.

grants, that have started supplementing insurance schemes, on the other.

CHAPTER II

WORKMEN'S COMPENSATIC

WITH the Industrial Revolution in the 18th century, the economic conditions of England changed. Soon similar changes in the method of production were introduced in other countries. One of the features of the new order was the factory system. With the rapid spread of the factories, close at the heels of the benefits that were reaped, the inevitable evils of the system came to light. Amongst these one of the most horrible was the plight of the factory workmen. With the introduction of machinery, the number of accidents amongst workers had naturally mounted and the question of relieving them attracted all thought and attention.

The problem of prevention of such accidents was tackled. Although very important in itself, prevention is not a perfect remedy. Preventive measures applied intelligently do reduce considerably, but not completely, the number of accidents ; not even the most perfect and ideal preventive measures do so. Some accidents are inevitable and hence the idea of compensating the workers for such injuries originated. This was the only solution to the problem of industrial accidents. This idea is indeed simple, practical, just and humane. However its realisation in practice and its institution in the legal system took a long time. The idea was that when a workman gets injured while working for his employer, the employer should compensate the worker for the economic loss caused to him by such injury. The law took a long time to realise and recognise this conception of employer's liability.*

Principle of Occupational Risk

This is a simple principle purporting that, apart from any

* In the case of Great Britain, the change from common law to Workmen's Compensation Act of 1897 makes an interesting study.

idea of responsibility, compensation for the damage caused by any object must be paid by the owner thereof.* When this principle is accepted, the problem becomes very simple. The idea of "fault" is removed. Since the employer is a person who owns the organisation whereby a number of men and machinery come together for work which may and does actually give rise to accidents and injuries, the burden of compensation for them without any question of fault or responsibility must naturally fall on the organisation and the employer, as after all the risks are inherent in the work. In fact these risks are as natural as those of depreciation of machinery, cost of repairs, upkeep of premises, etc. And therefore the cost of compensation for injuries should form one of the liabilities of the undertaking as the abovementioned expenses do.† Like the overhead expenses, this cost should be borne by the employer. This principle may even be looked upon as a compromise. The employer waives his common law protection and the worker waives a part of full compensation claimable on his proving employer's fault.

Since the employer's liability is made definite, there has been a scientific approach to the question of the amount of compensation. Since it involves the assessment of fixed compensation, fixed scales of compensation have been worked out in different countries, based on the injured person's wages, and allowing for the seriousness of the accident and its consequences or, in the event of death, based on the nature and the number of dependents.

According to the doctrine of occupational risk, in principle, when an injury attributable to the work befalls any worker, the legal basis of the right to compensation and of the liability to pay must be the same whatever the type of the undertaking, the workman, the work and the injury. However a review of the laws in the different countries shows that this is not so in practice, where it has serious limitations and exceptions, e.g., small under-

* International Labour Office, Studies and Reports, Series M, No. 2, *Compensation Against Industrial Accidents* (Geneva, 1925).

† International Labour Office, Studies and Reports, Series M, No. 12, *International Labour Office and Social Insurance* (Geneva, 1936).

takings, agriculture, domestic service, etc., are omitted from the operation of the laws.

Scope

Historically, since the principle of employers' liability for occupational risk arose owing to the impetus given by the scandals of the factory system, in the earlier schemes workmen's compensation was limited only to factories and mines, where the danger of accident was very great. However, the principle pressed on to its logical conclusion and has now spread to almost all undertakings, and covers most employed persons.

On a review of the present laws it appears that domestic service is the employment which is most commonly excluded from the schemes of compensation in about half the number of countries, which have at all adopted any scheme of workmen's compensation. Agricultural enterprise using machinery is now covered in most of the schemes, either generally or specially; still about a fourth of the Acts exclude all farm labour. Another group to be generally excluded is that of small industrial concerns or non-mechanised plants, which are excluded in about a third of the laws. Seamen are left out in about a third of the laws, casual workers in about a half and home workers or out-workers in the majority.*

So far as the undertakings are concerned, the scheme should not leave out any of them. There is no rational cause to be found for any omission. However in most countries small undertakings employing workers below a certain minimum fixed by the statute are exempted from the operation of the law, the reason given being that the resources of the small employer hardly exceed those of the worker and therefore he cannot be expected to carry the burden of compensation. Similarly some undertakings are left out on the ground that they involve only a slight accident risk, e.g., domestic service, agriculture, etc. These exceptions are incompatible with the principle of occupational risk and the right to compensation of the worker and the liability of the employer to pay it must be conceded and enforced in every case.

* *American Academy Annals*, op. cit.

So far as the workers are concerned, we again find similar limitations to the principle of occupational risk. Non-manual workers getting a salary above a certain limit are excluded in almost all countries. Similarly casual workers are left out, as also outworkers. Non-manual workers are excluded on the ground that they by virtue of their high remuneration are able to look after themselves. Such other exclusions are defended on the ground of expense and difficulty of collecting premia.

In Great Britain, persons covered are those who work under a contract of service whether by way of manual labour or clerical work or otherwise except (1) non-manual workers getting over £350 per year, (2) casual workers employed otherwise than for the purpose of the employer's trade or business, (3) members of the police force, (4) outworkers, (5) members of the employer's family dwelling in his house, (6) naval, military or air services of the Crown.*

There is one more point to be noted about the scope of workmen's compensation. With merely the principle of employer's liability, independent workers like the artisan, peasant or the fisherman are naturally left out. However if employers are made to insure compulsorily their risk against accident with a State Fund, and if thus workmen's compensation becomes a branch of social insurance, this accident insurance as a branch of social insurance can take care of these independent groups also and provision can be made for them to insure their occupational risk with the State Fund, either voluntarily or compulsorily as in Germany and Italy.†

Risks Covered

The risks covered by workmen's compensation are the economic loss, i.e., the loss of wages, and the medical expenses resulting from the injuries. Whenever a worker suffers injuries, these do not result in economic loss, i.e., loss of wages, on every occasion. According to Swiss experience, injuries involving economic loss amount to about two-thirds of all accidental injuries.‡ Indus-

* Salmond's *Law of Torts* (ninth ed.).

† I.L.O., Series M, No. 18, op. cit., p. 31.

‡ Ibid., p. 36.

trial injuries result in two ways either by industrial accidents or by occupational diseases. The latter have not yet received recognition in all countries, but they are now being compensated for in an increasing number of countries.

Industrial Accidents

The definition of the word " accident " has not been found easy to formulate. Most of the workmen's compensation laws have refrained from defining this term, for fear, perhaps, that any definition might unnecessarily work hardship on the worker by inadvertently providing some loophole for some accident cases to slip through. These laws have remained content with merely saying that there must be an injury connected with the victim's work. Etymologically, accident means simply an unusual event or unexpected occurrence. However, this meaning is quite inadequate for the compensation laws. Some countries have ventured upon some definition. For instance, in Brazil, an accident has been defined as a " sudden, violent, external and not wilfully caused occurrence, producing bodily injuries or functional disturbances ".*

Accidents may have different effects, all, however, varying in degree. The general result is that the worker is prevented from working and is thus incapacitated, i.e., loses his capacity of earning wages. Now this capacity may be affected in a number of ways ; and therefore four convenient divisions have been made of this incapacity, although they are not so followed in all the countries : (1) Permanent total incapacity, (2) Permanent partial incapacity, (3) Temporary total incapacity, and (4) Temporary partial incapacity.

Incapacity is said to be permanent when after the injury has been fully healed, the accident is found to have resulted in a definitive reduction in earning capacity. It is total when the worker is considered as being unable to engage regularly in any remunerative occupation. It is partial when the workman is able to obtain a diminished wage in some employment. Incapacity is said to be temporary, when in view of the nature of the injury, there is reason to believe that after a period, recovery

* *Compensation for Industrial Accidents*—I.L.O., M 2, p. 115.

will be complete and no definitive reduction in earning capacity will result. As in the case of permanent incapacity, temporary incapacity may also be total or partial.

Whatever the form in which " industrial accident " might have been defined in different countries, the interpretation of the definition has in most countries resulted in endless litigation and has created volumes of case law of bewildering bulk. This has been found to be so particularly in those countries like Great Britain, where there is no State insurance fund and cases are settled in ordinary law courts. In Great Britain, for instance, compensation is awarded to workers covered by the Act for " personal injury by accident arising out of and in the cause of employment ". To a layman these words look indeed quite clear, simple and straight. Yet the interpretation of these words has meant endless litigation and a veritable jungle of case law, through which neither light nor warmth can penetrate.* And this has naturally resulted in great hardship and injustice to the worker ; since his economic and educational disabilities make him too weak to stand against the resources available to a large insurance company or a big employer, even though he might be helped by a trade union. The term " accident " has been defined as " any unexpected injury resulting to the workman in the course of his employment from any unlooked for mishap or occurrence ".† Now, to arise out of the employment, the accident must be sustained while the injured person is engaged in doing something which it was his duty to do as part of his employment. To be in the course of his employment it must take place during the time that he is engaged in his employment. This has naturally resulted in a vast amount of litigation, since often the tendency of the employer or his insurance company is to avoid making the payment of the compensation. This indeed makes one doubt the practical benefit of the Workmen's Compensation Acts to the working class. The only remedy to this seems to be the compulsory insurance of the employer's liability with a State mutual fund, which affords better scope for the administration of the compensation laws in the real interests of

* *Social Security*, Ed. by Robson, p. 12.

† *Fenton* vs. *Thorley* (1903), A.C. 765.

the worker. The only benefit that the worker might have derived from such litigation might be said to be that these court decisions have tended to widen the notion of accident, which would have been impracticable for legislation to do.

As mentioned above, the principle of occupational risk lays down that accidents, without any idea of fault, must be looked upon as inherent in an occupation. Although this is generally the case, it cannot be denied that while on one side some accidents might result from the employer's negligence or fault, on the other side some might take place owing to wilful misconduct on the part of the workman. And in such cases it would be unjust to compel the insurers to pay or to allow the workman to get compensation. But such questions being very disputable, the general practice has been to ignore such cases except the most inexcusable like, say, the employer's failure to provide the prescribed safety appliances or, say, their wilful removal by the workers. In such cases the guilty party is made to suffer : the worker loses his compensation, while the employer, when guilty, has to repay compensation to the insurer or pay extra compensation to the injured workman. The placing of the liability on the employer has been said to be justified by the fact that he has the power to take preventive measures. This reason does not seem to be correct, since preventive measures, as said above, however intelligently applied or however perfect, can never completely eradicate the accidents, which are to a certain extent inevitable. It can be better justified on the ground of the worker's economic condition and by the fact that after all the worker works for the employer who owns that organisation and is in a position financially to pay compensation.

Occupational Diseases

Another point to be noted about the risks covered by workmen's compensation laws is that relating to the occupational diseases. The earlier laws covered occupational accidents only. The occupational diseases were excluded, because then it was thought impossible to prove that the disease in any particular case resulted from the work. However with the advance of the medical science, it became obvious that the diseases were caused

by the work. Soon the notion of occupational injury was held to cover occupational diseases that resulted from the work, and, at present, majority of the laws cover an evergrowing number of such diseases. These diseases have been covered in the different laws in two distinct ways. In some cases the diseases covered by the law have been expressly stated in a list. In Great Britain the Act contains a list in which against every disease in the list is mentioned the occupation which has been conclusively proved to cause it, so that, if such disease arises in any other occupation, the burden of proving that it resulted from the work falls upon the worker. Such lists of diseases have been lengthening (already over twenty) just as chemistry introduces new poisons into industrial processes and medical science confirms the occupational origin of the new diseases. The other method of inclusion has been that of simply defining the risk covered as physical injury met with during the work, so that this definition includes not only an accident, but any disease which can be proved to have originated in the work, whether suddenly or gradually. This is the case in Brazil, California and New South Wales. The ideal method seems to be first to give an exhaustive list of diseases together with the occupations originating them, and then add the abovementioned general definition of the risk covered, so as to include any new disease also.

Benefits

The benefits granted under workmen's compensation systems may be divided into two classes, viz., cash benefits and benefits in kind.

Cash Benefits

The cash benefits are calculated in terms of previous wages. Such wage from which the compensation is calculated is called the basic wage. It is used to measure the loss suffered. The basic wage generally means the average weekly or monthly wage during six months or a year next preceding the date of the injury. Maximum and minimum limits are put on the basic wage and consequently on the compensation payable—maximum, in order not to burden the employer too much, and minimum,

to avoid paying small compensations.

Now, the economic loss that befalls a worker from an injury may broadly be divided into three states : economic losses resulting from (1) temporary incapacity, (2) permanent incapacity, (3) death. Benefits granted in these cases perform, socially speaking, the same functions as sickness or invalidity insurance do. The different kinds of incapacities are already explained above.

Compensation in case of temporary incapacity is given in all countries by way of daily or weekly allowances. In most of the countries there is a waiting period, the object of which seems to be that of avoiding to put administrative machinery into motion on account of trifling injuries. Another object is to discourage malingering by making the worker bear the cost for first few days. The length of the waiting period differs in different countries—it varies from three days to ten or even fifteen days. Even about the working of the waiting periods there are three different plans : Taking the waiting period to be of n days, (1) payment may commence from the $(n—m)$th day, (2) payment is made from the nth day, but if the incapacity lasts for $n—m$ days, where m is a certain number, then in that case retrospectively payment is made as from the very first day, (3) lastly, payment may be made from the first day, only if, however, the period of illness outlasts the waiting period.* The payments once started last until recovery, or until it is ascertained on the completion of medical treatment that a permanent incapacity exists. A maximum period is set for the grant of temporary incapacity benefit. Another arrangement worth noting is the mingling of two systems in some countries, viz., the workmen's compensation and sickness insurance. It exists in Germany and some other central and eastern European countries. From the date of the injury, the sickness fund bears the expenses for the medical treatment and the payment of temporary incapacity benefit. If the incapacity exceeds a fixed period, the further expenditure of the sickness insurance fund is refunded by the Workmen's Compensation Fund concerned.

* *Compensation for Ind. Accidents*—I.L.O., M 2, p. 263.

Methods of Payments

So far as the compensation for permanent incapacity and death is concerned, three distinct methods of payment are in practice. One group of laws, following the practice of Germany and France, gives pensions for the permanently incapacitated and for the widows and children. Another group of countries, the prominent among them being Britain and Spain with some American States, gives compensation in these cases in the form of lump sums. The third group stands half-way between the first two : It consists of most of the American States. These laws provide for the calculation of the benefits as lump sums, but for their payment in equal instalments over a limited period.

The payment of benefits in lump sums is open to two main objections, viz., (1) there is the fear of the money being squandered away or ill-used and then from the social point of view the value of such payments is therefore almost zero. (2) The lump sum is often fixed without reference to the age of the injured person. In most countries, the payment is one-half to ten times the yearly earnings. In no case, however, is there any relationship between the extent of the pecuniary loss suffered and the compensation awarded. That the victim's age is an important factor in this matter can be made clear by one simple illustration : paying two persons of ages 25 and 60 the same amount for the same physical injury—it amounts to paying equal compensation for unequal loss.*

Payment in the form of pensions is easily seen to be the best method and it is gratifying to note that the tendency has been to adopt pensions as the normal form of compensation for permanent incapacity and death. Lump sum payments seem to be useful only in two cases : (1) exceptional cases on individual merit where they mean some valuable advantages for the beneficiaries and (2) in cases where the incapacity is very small, say, less than 10 per cent., so that pensions would amount to very small sums.

Amount of Compensation

The amount of the compensation is fixed at a proportion of

* I.L.O., Series M, No. 12, op. cit., p. 31.

wages—as allowance for temporary incapacity. At common law there were chances of huge amounts being obtained as damages even for pain and suffering. So this compensation is, as already said, almost a compromise, being a moderate but sure payment. A rational criterion for fixing the compensation rate is not easy to devise. The majority of the laws now follow the standard of Germany's pioneer measure in granting 2/3rds of the wage loss. Some Acts have even raised it to 70 or 75 per cent. of the basic wage. The British amount is lower, being 50 per cent. of the weekly wages. In Britain the maximum sum payable is £600. Additional compensation is paid in only few countries for incapacity caused by an accident or disease, necessitating the constant attendance of another person.

The payment of cash benefits has not been without its problems : One problem has been the adaptation of the pensions to the cost of living. This problem exists not only for workmen's compensation, but generally also for all social insurance schemes, but this problem has not been faced or tackled systematically. The procedure hitherto followed has been to wait till the situation of the pensioners or the insurance institutions becomes impossible and then to adjust the rate of compensation by *ad hoc* legislation. The British Act, it is worth noting, as amended in 1923, has provided that a change of 20 per cent. up or down in the level of wages in the victim's occupation at the time of accident justifies a corresponding adjustment in his periodical payment.* However, this rule has not much been seen in application because of the practice of lump sum settlement of claims for permanent incapacity. Countries with State Mutual Fund should find it easier to evolve some similar or other system for such adjustment.

Evaluation of Permanent Incapacity

The second problem is that of the evaluation of permanent incapacity. After the accident, before the worker recovers, he is in practice required to abstain from work during the healing period, when his incapacity is total. But when that period ends, the result may be permanent incapacity in some degree. Since accidents visibly affect a definite part of the body, the physical

* I.L.O., Series M, No. 18, p. 40.

damage can be easily described more or less accurately. However, the problem is the extent to which the earning power has been reduced by whatever incapacity that remains, since it is this reduction that the workmen's compensation scheme seeks to indemnify. The intention is to assess such permanent incapacity with reference to ability to earn in some occupation that the victim can get into. The factors to be considered are various, like age, occupation, sex, the state of the labour market and the workman's willingness to try at adaptation. The assessment is very difficult, especially because of the last two factors.

Several attempts have been made to solve the problem. Incapacity may be evaluated on the basis of three main conceptions* : (1) Physical invalidity : The loss of strength and fitness is evaluated by reference to the strength and fitness of a normal able-bodied and healthy person. No account is taken of likely economic or occupational consequences of the injuries. It is assumed that schedules of injuries can be prepared, attaching to each injury a specific degree of incapacity or a percentage of reduction in earning power. These schemes make no allowance for the very different consequences which the same injuries might have for persons differing in age, occupation and training. This method is followed in the major part of Australia, Chile, many American States, India, Italy and Japan.

(2) Occupational incapacity : It is evaluated by reference to given employment or group of employments. Only one undertaking or industry may be considered or whole occupations might be considered in assessment. Such method is useful for specialised occupations.

(3) General incapacity for work : This conception is similar to (2) but only wider. This conception is based on the remaining earning capacity in the general labour market. This conception exactly suits the intention of workmen's compensation scheme ; but its actual assessment is difficult and can be done only by the method of trial and error. After taking all the relevant factors into consideration, the judge may decide on some amount.

* For a detailed treatment of the problem, see *Evaluation of Permanent Incapacity for work in Social Insurance*, I.L.O., Studies and Reports, Series M, No. 14 (Geneva).

But such a decision is likely to leave always room for complaint, since it is a matter of opinion. For this reason alone, a fixed schedule having binding force as in the first case seems to afford a better solution to the problem.

The method of evaluating incapacity consists in comparing two wage rates : one is the actual individual wage over a period prior to incapacity and the other is the presumed wage when the incapacity is evaluated, i.e., that wage which the worker is expected to get with his remaining capacity.

Minimum Degree of Incapacity

Another problem that might just be mentioned here is that of the minimum degree of incapacity—the question whether the reduction in the earning capacity is substantial enough to justify the award of a benefit. So in certain countries it is laid down that a minimum degree of incapacity must be reached before benefit can be claimed. Such a minimum applies in Germany, Bulgaria, Brazil, Italy, Norway and some other countries. It does not apply in France, Great Britain, Japan, Chile and some other countries. The main argument in favour of the establishment of a minimum degree of incapacity is the theory of margin of error. In the evaluation of incapacity, there is always that margin of error which varies inversely with the degree of incapacity. In Germany this minimum is fixed at 10 per cent. and no evaluation is formulated where the degree is less than that figure. Other arguments in favour are : that small benefits have no real value, fear of undesirable psychological effect of small benefits, their unfavourable influence on vocational and physical adaptation and, lastly, that financially these small benefits result in heavy expenditure due to great frequency of minor injuries. The most important objection to a minimum degree of incapacity is that the factor of severity of loss should affect only the amount of compensation and not the very right to it.

In recent years there has not been much of a change in benefit rates. From the point of view of social considerations there has been one advance and that is the introduction of dependants' allowances. Such dependants' allowances are paid out of the funds of the workmen's compensation schemes in some countries,

while in other countries like Australia, Belgium and France they are paid out of other funds.

Medical Aid

Since the industrial injuries affect the worker physically, benefits in kind in the form of medical aid are very important, the purpose being to maintain as far as possible the physical integrity of the injured and to cure his incapacity. The medical aid is important not only to the worker, but also for the employer and the insurer whose expenses will be less according as the final incapacity is less serious and lasts for a shorter time. Even for the community it is important since it is interested in having as large a number of productive labour as possible and thus reducing the social burden.

Because of these advantages medical and pharmaceutical aid has become a normal feature in most compensation schemes, the cost of such aid being defrayed either by employer, accident insurance institution or sickness insurance fund. However, in some countries like Great Britain, (also India), no provision has been made for medical aid, although in the Dominions such provision is made. At first such provisions in earlier laws were only superficial. It was only after the Great War of 1914-18 that more generous provisions for medical aid appeared.

Even then medical care of the sickness insurance type is not adequate for accident injuries, which require specialised and complete medical care ; for instance, the supply of artificial limbs and similar surgical appliances is very important. Such provision is absent in most countries. Here again a centralised State Accident Fund is obviously the most convenient agency for such reform. Since it can have its own staff of medical supervisors and its own clinics or can contract with clinics complying with the standards it prescribes. The most advanced country in this respect is Germany, where the most ideal provisions for medical aid are made, the Accident Hospital of Dr. Boehler in Vienna being a typical illustration.

Rehabilitation

The recent development in the field of medical aid is the new

idea of "rehabilitation". The aim has been the maximum restoration of working capacity, for enabling the injured workman to compete again in the labour market. The new policy consists of two stages : the first is that after an operation (if necessary), care is continued to restore the fullest mobility and strength to the affected limb. Artificial limbs are supplied and renewed by the insurance institutions not only for curative purposes, but also for permanent use. This is by far the most important part of benefit in kind. Thus the first phase is complete medical care. The second stage is specially important for those who by virtue of their disablement must change their occupation. And for such persons training facilities are provided and they are helped in finding new employment. In many countries the first is the only phase seen in action, since it is believed that there are very few permanently disabled persons who must change their occupation, and the first phase adequately helps them to return to the old occupation. This rehabilitation in its most complete form is best seen in application in Germany, Spain, Cuba and Soviet Russia. In Germany, it has even been made compulsory for employers to engage a certain number of disabled persons in their undertakings. In some cases specific posts are set aside in preference for the disabled. Great Britain, so far lukewarm in this respect, has made, since the outbreak of World War II, arrangements for the training and placement of the disabled.

Administration

Insuring the Risk

The organisation and administration of the workmen's compensation schemes has been moulded differently by different national laws. While some laws have only declared the employer's liability, leaving the question of insurance to the option of the employer, others have made insurance of his liability compulsory, not touching, however, the question of the manner of insurance. This divergence in national laws may be traced to two distinct and quite opposite principles, regarding the nature of industrial accident insurance : The first is that this

insurance is primarily insurance of the employer only and this principle has dominated the optional insurance legislation. According to the second principle, such insurance can be considered only as insurance of workers, and this idea has been the keynote of compulsory insurance legislation. Both these types of legislation are almost the same in effect, because in the former case the employers, having found that insurance is the best method of meeting their liability, generally go in for insurance. Very few carry their own risk. The risk is insured with either private commercial insurance companies or the employers' mutual associations.

Socially also the insuring of the risk is important. It is not sufficient merely to assert the principles of occupational risk and employer's liability and fix compensation. It is even more important that the payment of that compensation be ensured or guaranteed. One method has been to make compensation the first charge on the property of the debtor. But this may prove inadequate. Many efforts have been made at discovering systems affording greater security, e.g., constitution of National Guarantee Fund, compulsory insurance, etc. And of all these systems, insurance with its many natural and social advantages seems to be the most convenient and useful.

The most common insurance carriers have been : Private commercial insurance companies, employers' mutual associations or the State mutual fund. The last is found to exist only in cases where the national laws have provided for one such monopolised fund. The first two are seen where insurance is optional, or made compulsory without reference to its method. Employers' mutual associations have been specified as insurance carriers by some compulsory laws.* While insurance is of course

* The various national laws may be grouped as follows :—

(1) No compulsory insurance and funds with no special security or guarantee :—Great Britain, India, South Africa, Brazil, Greece, and some Australian and Canadian States.

(2) No compulsory insurance but funds with special security :—Argentina, Belgium, Bolivia, France and Spain.

(3) Compulsory insurance, with liberty to choose the insurer :—Chile, Cuba, Denmark, Finland, Portugal, Sweden and some Australian States.

(4) Compulsory insurance, with insurance by employers' mutuals :—

useful in itself, insurance by the first two methods stated above is not the most useful. Since the greatest economy is essential in the administration of workmen's compensation schemes, competitive insurance is definitely wasteful for these purposes. Monopolistic insurer, in the form of a State mutual fund, has an obvious advantage in the economy of operation. Such monopoly insurance is again useful for the much-needed prompt and equitable settlement of claims. Monopoly insurance under State supervision gives the best results.

State Mutual Fund

The State mutual fund is actually the best carrier of all accidental risks. Endowed with the monopoly of accident insurance, a State mutual fund, when competently managed (free from political upheavals), possesses some definite and valuable advantages for both the employer and the worker. The advantage that the employer can enjoy is that of low premiums, since the element of profit is absent. Also some employers, whose risk might not have been accepted by the ordinary insurance companies because of its intensity, can conveniently insure it with the fund. A cheap and efficient method of collecting premiums can be followed. Insurance with a State mutual fund will further give advantages that are impossible when insurance is carried by private commercial bodies. Insurance can be automatic for all the workers within its scope, and the payment of admitted claims be perfectly guaranteed. Then again economy in administration enables improvement to be made in benefits. Another very important advantage is that friction between the claimant and the employer is removed, the beneficial result being that workmen's compensation is then administered in the real interests

Germany, Austria, Czechoslovakia, Japan, Latvia, Luxemburg and Poland.

(5) Compulsory insurance, with a specific insurer:—
   (a) With an autonomous institution: Italy (Agriculture) and Switzerland.
   (b) With a State fund: Bulgaria, Norway, Russia, the Australian State of Queensland, some Canadian States, Italy, Japan and some American States.

This grouping has been based mainly on facts given in I.L.O., Series M, No. 2, op. cit., pp. 366-445.

of the workers with less litigation. The participation of workers' and employers' representatives in the management of the fund secures that the law is administered in a fair spirit, and justifies the substitution of the fund itself for the courts as the arbitrator of claims. These particular advantages of the State mutual fund may be illustrated by an actual example. In Great Britain insurance is optional. Of course the majority of employers do insure ; but there is no State mutual fund. The result has been an enormous amount of litigation and consequent squandering away of money. Again administrative expenses are heavy. The Holman-Gregory Committee reported in 1920 that, " during the last 5 or 6 years, the employers had to pay £100 in premium for every £48 paid out in benefits to the injured workman."* In 1936, 63.66 per cent. of the income from premiums was expended in payments of compensation or damages, while 33.31 per cent. went into payment of commission and expenses of management. It must not be forgotten that the 63.66 per cent. included legal and medical expenses.† The State mutual fund, wherever it exists, has resulted in much lower ratio of expenses and lesser volume of litigation.

Another very important advantage that the State mutual fund affords is that because of its compactness it can provide the best facilities for medical aid and vocational and physical rehabilitation. The loose organisation which otherwise arises in the absence of a State mutual fund is obviously inconvenient for such purposes.

Method of Claiming Compensation

A brief reference might be made to the method of claiming compensation by taking the illustration of Great Britain : Before compensation can be obtained, notice of the accident has to be given as soon as practicable after its occurrence and before the workman has voluntarily left the employment. Failure to give notice may debar the workman from taking proceedings to enforce his claim. The rigidity of this and the next rule often works hardship on ignorant workers. After giving the notice, a claim

* Quoted in Robson, op. cit., p. 59.
† *Ibid.*, p. 59.

has to be lodged with the arbitrator within six months of the date of accident or death, if it is not otherwise settled by agreement. Most cases of serious incapacities are the subject of dispute and litigation, and court proceedings have their obvious disadvantages for the worker.

From this brief study of the workmen's compensation law in different countries in all its aspects like scope, risks, benefits and organisation, it appears that workmen's compensation on the whole has reached almost perfection only in few countries like Germany. In most countries there are some shortcomings yet. The question of occupational diseases does not now generally arise, except in the manner of their inclusion in the laws. Apart from some minor things, improvement and reform seem to be wanted *chiefly* in two directions : Firstly, the medical aid should be complete including even the specialised aid, and must be accompanied by the supply and renewal of artificial limbs. Also the second phase of rehabilitation, viz., the vocational training and placement of the disabled, must not be lost sight of. Secondly, a State mutual fund having a monopoly for accident insurance must be established in all countries. Such a fund will, with all its advantages, enable the administration of the workmen's compensation scheme to be carried in a proper spirit and in the real interests of the worker.

A Standard Scheme

The standard scheme of workmen's compensation insurance evolved by Mrs. Barbara M. Armstrong indeed deserves close study. Writing on workmen's compensation in *Insuring the Essentials*,* she says : " The study of the different measures suggests the outline of a standard measure that would (1) be compulsory and apply to all injuries including occupational diseases, suffered by the worker while at his job, (2) have an all-inclusive coverage and except no groups of employees, (3) require insurance and offer to employees either a monopoly or a State insurance carrier in which self-employed workers also should be allowed to insure their risks of industrial injury, (4)

* pp. 281-2.

provide retro-active waiting period to eliminate cases involving trifling accidents without reducing the compensation of the worker suffering other injury, (5) afford full medical, hospital and other remedial care to cure or relieve, (6) include a minimum compensation to prevent the compensation of the low-paid worker from falling below the subsistence level, (7) include a maximum weekly compensation high enough to scale down the compensation only of the exceptionally highly paid worker, (8) standardise weekly benefits at a percentage of wages, high enough at least to prevent the average working family becoming dependent, (9) provide for the dependants left by the worker suffering fatal injury, using the family allowance method of varying the benefits with the number of dependants left, (10) compensate the disabled worker for the entire period of disability, (11) rehabilitate as far as possible the worker whose injury stands in the way of his following his usual occupation, (12) provide for administration by a board or commission supported by a sufficient appropriation to make possible a real enforcement of the law for the benefit of the workers, and (13) capacitate the administration board to make and enforce safety orders for the prevention of industrial accidents and occupational diseases."

CHAPTER III

SICKNESS INSURANCE

ALTHOUGH like workmen's compensation, sickness insurance received increased attention after the development of industries with the introduction of machinery, it has a history of its own that extends far into the medieval times. The importance of protecting the workmen from the hazard of sickness was recognised even then and the guilds of the middle ages often provided for the assistance of their members in case of sickness and injury. These guilds were mostly founded on the occupational basis. The protection was granted not from any social motive, but only in the economic interests of the masters. As a rule the benefits were granted in the shape of a loan, to be repaid by the workmen when enabled to work after restoration to health. Obviously the field covered by these activities was very small.

The guilds then in course of time having become too strong and tyrannical were duly abolished. The State was at that time completely nonchalant about the affairs of individual persons under the spell of the doctrine of laissez-faire. Some stray attempts were made by the employers, for reasons altruistic or selfish, for the protection of the worker against sickness. Being confined to the factory, the attempts proved too weak. Again they were looked upon with distrust and suspicion by the workers. Similarly on the part of the workers, with the realisation of their position as a social class, attempts were made to organise themselves and in this process sprang relief funds. And in course of time mutual aid societies were formed, especially in Great Britain, and this movement soon spread to the continent. They were mainly based on trades.

Even the advent of the industrial revolution had not affected the attitude of the State. But towards the middle of the nineteenth century with the intensification of industrialisation, the

State slowly changed its attitude from laissez-faire to one of active interference for the good of those people who had suffered from all the evil effects of industrialisation. The State now took an increasing part in the problems of labour welfare, and amongst other things began to concern itself with the organisation of insurance against sickness.

Sickness insurance now started developing through two different channels. So far there were formed in many countries mutual aid societies on the initiative of some individuals and these had been administering sickness insurance. Some States carrying on the tradition of laissez-faire thought it better to encourage formation of such societies by private enterprise and initiative, and to facilitate such formation adopted legislation that gave such mutual aid societies special legal status more favourable than that of ordinary commercial firms or other associations, and in many cases the State provided financial assistance from public funds. Such legislation was adopted in Italy (1886), Sweden (1891), Denmark (1892), Belgium (1894), Finland (1897), France (1898), Spain (1908) and Switzerland (1911).

On the other hand in some other countries the State " as guardian of public health and national prosperity considered it both a right and a duty to impose compulsion ". The first country to introduce a compulsory scheme of sickness insurance was Germany. The person mainly responsible for this was Bismarck. In 1883 the scheme was introduced for industrial workers. In 1885 it was extended to commerce and to agriculture in 1886. This first sickness insurance scheme is said to be the result of a political, rather than social, motive : " This creation of Bismarck's, so keenly opposed at first by the German working classes, was doubtless inspired by a political motive. Its purpose was to attach the workers to the State as the defender of the capitalist system. It aimed at rendering innocuous the numerous relief funds connected with trade unions, which might have been dangerous weapons in a class struggle. By rendering secure the means of subsistence of the working class, his plan raised a solid barrier against social propaganda. It is for this reason that in the system of compulsory social insurance, introduced between 1883 and 1889, it is compulsory not only to

insure, but to belong to a specified fund. Whatever may have been the intentions of its originator, it is undeniable that the German scheme has exercised a great influence on the legislation of a large number of other countries."*

Soon the other countries followed the example of Germany, especially in the twentieth century, when Luxemburg (1901), Norway (1909), Serbia (1910), Great Britain (1911), Rumania and Russia (1912) introduced compulsory schemes. The post-war period saw their introduction in the newly-created European States and also in France, the main supporter of voluntary social insurance. Compulsory insurance has not yet spread to countries with late industrialisation, except Japan (1922) and Chile (1924). It has nevertheless shown itself, so to say, to be a natural consequence of a specific state of economic and social affairs.

Scope

The scope of the sickness insurance laws primarily depends upon whether the type of insurance adopted is compulsory or voluntary. The object of a voluntary scheme is merely to assist persons to insure. It therefore sets up a system of insurance and defines the rules for its working. It further defines the persons who may take advantage of the insurance system. It, however, leaves those persons free to join the scheme or not as they wish. It thus defines the maximum scope of the law. And this may be and actually is far wider than the actual field covered. On the other hand a compulsory insurance law does not rest content with only setting up a system of insurance. It not only defines persons entitled to insurance, but makes it compulsory for them to insure, under conditions laid down by the law. So the scope of the compulsory system of insurance is precisely defined by law.

Voluntary Insurance

Considering the scope of the voluntary type of insurance first, one fundamental difference is obvious between the compulsory and the voluntary systems, as noted above. The principal condi-

* *International Labour Review*, May 1927, p. 844.

tions for the insurance law to apply in the case of voluntary insurance is that the individual person must have joined the insurance society voluntarily. He is an insured man first in fact and only then in law. This freedom to belong to a mutual aid organisation is restricted only by the legal limitations that lay down the types of persons entitled to insure. Similarly the insurance societies are generally free to grant the application for admission to insurance or to refuse it. Generally all institutions are free to fix their conditions for admission—which have a tendency to broaden.

Physical conditions are imposed so as to allow only safe risks to come in. These refer to the state of health and age of the insured in the beginning, but sometimes their effect is that sickness insurance is not generally open to exactly those most needing it. Some countries have therefore tried to facilitate such admissions as far as possible. The age limits vary from 16 years (or 18) to 40 (or 45) years. It might be incidentally noted that certain societies in France, Belgium and Switzerland have formed school insurance funds for the insurance of school children.*

The economic conditions may be divided into two classes : In Denmark and Finland only those workers who earn wages below a certain level can join the system. On the other hand, in Spain, perhaps to safeguard the finances of the societies opposite conditions are levied. There are also to be found residential conditions which, by ruling that a person loses his membership, when he leaves the area, require the person to reside within the area of the fund. This condition is levied to remove administrative difficulties. In Switzerland the existence of the right of " free transfer " (from one fund to another) has rendered such a condition unnecessary. The condition of nationality is rarely found.

The scope of voluntary sickness insurance is thus not precisely defined by law. The actual extent of the working population to which the law will apply depends on the use made by the individuals of their right to apply for insurance and by the societies of their power of refusing admission. Therefore,

* International Labour Office, Studies and Reports, Series M, No. 7, *Voluntary Sickness Insurance* (Geneva, 1927), p. XXX.

although the legislation in various countries may be similar, the actual scope may vary considerably. While in Denmark 57 per cent. of the total population is insured, only 14 per cent. is covered in Belgium. In spite of continuous and tenacious efforts and development, voluntary sickness insurance has been making only slow progress. It has failed in most cases to cover more than 10 per cent. of the total population or more than a small portion of the working class. The scope of voluntary insurance has been too narrow in practice. Many persons fail to insure either by improvidence or through lack of means and low wages, so that many of the poorly paid working people, exactly those who have the greatest need of mutual aid, are unable to benefit from insurance. The number of members of voluntary societies is thus small, and is always seriously affected by economic crises that result in unemployment and reduced wages. The financial resources of the mutual aid societies, which are generally the agencies for the voluntary sickness insurance, are very low, because of the excessive number of such societies, a large majority of which have only a small membership. Therefore the benefits are small and inadequate and a considerable burden of loss falls on the worker. Again the geographical distribution of the societies is disorderly and unsatisfactory. While there are too few societies in the rural areas, there are so many in towns as to interfere with each other so much so that often one society can grow only at the expense of another. The divided effort results in gaps and overlapping, weakening the social effectiveness of mutual aid. Voluntary sickness insurance has indeed proved an inadequate and unsatisfactory solution to the problem of workers' insecurity on account of these shortcomings.

Compulsory Insurance

The only effective remedy has proved to be the compulsory sickness insurance. This view was expressed by the Tenth International Labour Conference (1927). Of course its introduction was not without opposition in the beginning. For instance, in Great Britain " Lloyd George's ' nine pence for four pence ' National Health Insurance Act of 1911 came into force against bitter opposition : The doctors said it interfered with their

professional status and freedom, trade unions and friendly societies said it trespassed into their preserves, the insurance companies disliked the State dabbling in insurance in any manner, and certain far-seeing Socialists, notably Keir Hardie and Philip Snowden, deplored the introduction of quasi-insurance social services based on contributions ; they preferred the State to provide these for the whole community out of taxation."* Such an opposition was met by compulsory insurance almost everywhere ; but by its numerous advantages it soon gathered support on all sides. To take Great Britain again. " The doctors, through the British Medical Association, put out suggestions for reforming National Health Insurance, but do not want to see it scrapped ; the friendly societies and the insurance companies have become, with few exceptions, a vested interest on the side of National Health Insurance ; and the Labour Party has done its best in the past to discredit the idea of tax-provided social services by dubbing these ' assistance ' and by extolling, by comparison, the magic of ' insurance '."

In the compulsory sickness insurance, the basic idea is the imposition of the legal obligation to insure only on those whose means are presumed to be insufficient to enable them to carry the risk of sickness single-handed. Therefore all compulsory laws exclude persons with over a certain minimum income from the operation of the scheme. The laws, as they now exist, may be divided into two classes : (1) laws applying to wage-earners alone under a contract of employment, (2) laws intended for all workers of small means, whether wage-earners or only independent workers (adopted only in Portugal and Chile).

I. Wage-earners' Schemes

In almost all the schemes of compulsory insurance of wage-earners, the definition of the term " wage-earner " has been avoided. To be liable to insurance against sickness a person must be engaged in (1) work in a dependent position, i.e., work for an employer, (2) work under a contract—oral or written, express or implied, (3) work in a job which is his ordinary means of livelihood—his principal source of income.

* *Social Security*, Ed. Robson, p. 75.

This general formula may not apply equally to all branches of economic activity. Sickness insurance was first applied to mining and sea-faring, these occupations being considered particularly dangerous. Later it was extended to industry and commerce, and to agriculture some time after, the tendency being to include all wage-earners.

Compulsory insurance now applies to industry and commerce in almost all countries except Rumania and Japan where only industry is covered. While the exception of small factories and of undertakings where the work is not unhealthy and dangerous is common enough in workmen's compensation laws, there is no such distinction made in the case of sickness insurance in most countries, except Esthonia and Japan, since sickness, unlike accidents, is a common hazard for all. In Japan and Esthonia however there is one single system for both accident and sickness and this explains the restrictions for sickness insurance to some extent.

The application of compulsory sickness insurance to transport affects seamen and railwaymen. In most countries seamen are protected by maritime codes which require the shipowner to take care of the crew at sea, until they are cured or return home. So sickness insurance for seamen becomes necessary only in the case of prolongation of sickness beyond the period of shipowner's liability. Seamen are covered by the general schemes in most of the countries including Germany, Great Britain, Ireland, Russia, etc., while special schemes cover them in France and Belgium. Similarly the railway employees may be covered by the general scheme or a special scheme. In most cases, non-manual workers are exempted since they are entitled to or are in a position to secure similar benefits by terms of their employment.

It is in agriculture that sickness insurance has made slow progress. At first compulsory sickness insurance did not seem quite necessary because of the patriarchal character of relations between the employer and the workers in agriculture. Again there was the difficulty of organisation on account of the sparseness of the agricultural population. In recent years however the family character of the relation between the employer and

worker is disappearing and need for social protection is being recognised. And in spite of the difficulty of organisation, compulsory sickness insurance now covers agricultural workers in many countries either by extension of old schemes or absence of distinction in new schemes. Several South American States, notably Chile, are attacking the problem of agricultural workers' insurance by advancing district by district, first equipping the area to be served with the necessary minimum of facilities and then putting the insurance into effect. By 1939, agricultural workers were covered in half a dozen schemes.

Sickness insurance is similarly being extended in a number of countries to domestic servants and home workers, since they are also equally liable to be affected adversely by sickness.

The question of sickness insurance for the public officials relates not to cash benefits but only to medical benefits in kind. They may be covered either by the general scheme (as in Norway and Russia) or by special schemes providing medical benefits only. The commonest practice, however, is to exclude public officials on the ground of their being otherwise entitled to or in a position to secure treatment at least equivalent to that of the workers under the general scheme. Such equivalent treatment does not however usually imply that medical attendance is provided.

Limiting Conditions

There are a number of exceptions to the application of compulsory insurance, and these limit the scope of sickness insurance. Some arise out of the occasional or temporary character of the employment ; for instance, most laws exclude occasional employment, subsidiary employment—defined to be so either by the nature of the work (as in Great Britain) or by the extent of dependence of the worker on it,—and temporary workers—distinguished from the occasional workers by the fact that their ordinary means of livelihood is wage-earning work. In Great Britain workers engaged in occupations prescribed as " subsidiary " are exempted, if they show their principal occupation to be something else. Some countries like Germany, Austria and Czechoslovakia, do cover temporary workers, defined as those working for less than one week.

Other limitations arise from the personal qualifications of the individuals. There exist generally conditions—physiological, economic or political. Amongst the physiological conditions, age limits, being indeed unnecessary, exist only in three countries, viz., Norway, Great Britain and Ireland. The condition of working capacity is universal : that the worker must be capable of performing work. As for the political conditions, nationality is generally ignored and foreigners and nationals are placed on the same footing. The economic conditions relate to the earnings of the workers. In most of the countries they apply to the non-manual workers only. Maximum earning is fixed at a certain level and all non-manual workers earning more than the maximum are exempted. The limit may be calculated on the basis of wages alone (as in most of the countries) or on the basis of all income from whatever source (as in Norway). A special reason for this exclusion in some cases has been the desire not to restrict unduly the area of private practice of the medical profession. The salary limits in some cases have been fixed rather low ; but the salaried employees do not seem to have any strong objection, in fact many appreciate their exemption as a social distinction. In Great Britain the limit was raised from £250 per year to £420 per year in 1941.

II. " Popular " Schemes

Another type of compulsory sickness insurance is one that covers all workers of small means. The workers may be wage-earners or only independent workers. The liability is not determined by a contract of service. The economic strength and security of the individuals is the real criterion. Such scheme exists only in Portugal, Chile and some Swiss cantons. The Portuguese system is the widest—covering " any person engaged in an occupation which has been recognised as worthy and honest by custom and tradition and has been sanctioned by the law."* In Portugal, the maximum income level is 900 escudos per year and in Chile it is 8000 pesos a year. Other limitations, similar to those discussed above, may exist, (e.g., there is the

* International Labour Office, Studies and Reports, Series M, No. 4, *Sickness Insurance* (Geneva, 1925), p. 39.

age limit in Portugal—15-75), but the chief value of such schemes lies in the fact that a genuine effort is made to cover all needy persons.

In a large majority of the countries, however, sickness insurance is confined to the wage-earners only. The proportion of insured persons varies from 3 to 35 per cent. of the total population and 15 to 86 per cent. of the employed population. The variations are explained by the variable importance of the wage-earning class in each country.

Other factors affecting scope

In all schemes of compulsory sickness insurance, two groups of people are often left out of the scheme : (1) Those who cease to be employed and, therefore, to be eligible to come under the compulsory scheme, and (2) independent workers of small means, if those schemes are restricted to only wage-earners in particular. Almost all such schemes provide voluntary insurance for such groups, although such voluntary insurance has proved to be of little value, since a health test is sometimes imposed and since the insured has to pay the entire contribution himself.

When a person has left the employment that made him liable to insurance, he is generally allowed to continue his insurance voluntarily. Such continuation is generally easy, although not without conditions. There are five types of conditions : (1) Income : This exists only in Hungary—there the maximum annual income is fixed at 24,000,000 crowns per year. (2) Nature of occupation : The person must remain essentially a wage-earner or be unemployed—this also applies only in Hungary. (3) Sex : In Great Britain and Ireland married women are excluded from voluntarily continuing insurance. (4) Duration of compulsory insurance : This condition exists in over half a dozen countries. In Great Britain it is hundred and four weeks, in Germany it is twenty-six weeks in the previous year or six immediate prior weeks. (5) Time for application : Such a period is necessary for the obvious reason that otherwise the persons concerned may wait till they are ill or debilitated. This period varies from country to country : In Great Britain it is twelve months, four weeks in Austria, Czechoslovakia, Hungary and

Poland, three weeks in Germany and ten days in Japan. Notice of desire to continue insurance must be given within this period. The long period in Great Britain is explained by the qualifying period there of two years (hundred and four weeks) of membership of compulsory insurance fund and it must not be forgotten that during those twelve months (within which an application for continuing under the voluntary insurance scheme must be made) the persons concerned are entitled to free sickness benefit.

Again, most of the compulsory sickness insurance schemes, covering wage-earners only, provide voluntary insurance for some of those who are outside the scope of the law. The important group here is that of the independent workers of small means. Only about eleven countries provide for this ; (Great Britain does not provide for such extension, Germany does). For their admission economic and physiological conditions are imposed : maximum salary, age limit, certificate of good health, etc. No physical conditions exist in Bulgaria, Greece and Lithuania.

The position of the unemployed persons with regard to continuation of sickness insurance is worth noting. A person, when he becomes unemployed, can continue as a voluntary member and contributor. But it is obviously difficult for him to pay his contributions which are now double his former ones (with employer's share), in the absence of any earnings. In order to enable the involuntarily unemployed to retain the advantages of sickness insurance, two different methods have been used to maintain their membership of the insurance fund : (1) The worker remains entitled to all or part of the sickness benefit, without being required to pay contributions. If he falls ill, the cost is borne by the insurance fund ; (2) there is a regulation for the unemployment relief institution that the contribution to the sickness insurance fund in respect of every unemployed worker must be compulsorily paid by unemployment insurance institution.* The first method is used in Norway, Poland, Austria and Czechoslovakia. The Norwegian Act does not limit the period of benefit during unemployment, while others do (from six to thirteen weeks). In Germany, the unemployment fund is required

* I.L.O., Series M, No. 4, op. cit., p. 32.

to pay the whole sickness contribution of the unemployed person.*

Two other factors, besides that of the existence of voluntary or compulsory system considered above, that affect the scope of sickness insurance, are the territorial limits and the time limits. As a legislative measure, the law applies within the limits of the territory of the State concerned. The territorial basis of insurance finds expression in the employment within the territory only involving the liability to insure. Therefore the result is that on the positive side, liability to insure devolves on those paid workers who carry on their occupation in the country. On the negative side, insurance is not compulsory for workers who, though resident within the country, do not carry on their principal occupation within the country, nor for those whose work in the country is temporary. As for the time limits, insurance commences either when the individual applies and his application is accepted in the case of voluntary system, or when he gets employed in a work involving insurance liability in the case of a compulsory system. The insurance continues until he ceases to be a member or ceases to work in an employment involving liability to be insured.

Risks Covered

Sickness

Sickness insurance schemes almost universally cover three important risks. It must be remembered that in all three the protection granted is against economic loss and related to medical cure. The first risk covered is that of sickness in its economic and medical (curative) aspects. It must be sickness of non-occupational origin. Sickness represents a double risk for the workers : (1) illness requiring medical treatment and (2) cessation of income through inability to continue at work. While sickness insurance is concerned mainly with illness due to diseases, it has to cover non-occupational accidents, which are, however, relatively few.

According to the sickness insurance laws, sickness is not exactly

* M. R. Carrol, *Unemployment Insurance in Germany* (Washington, 1929), p. 59.

what is commonly understood by the term, but it is that bodily or mental condition of the insured worker which has reached a pitch of abnormality necessitating medical treatment or suspension of employment.* Since this state of the body or mind can be ascertained to be present only by a medical practitioner, such a medical certificate is necessary. However, the non-occupational origin of the sickness need not be proved, because the sickness insurance institution is required to give immediately without question all the necessary medical care. The conception of sickness has been broad enough from the beginning. Yet the notion of incapacity giving rise to the claim for benefit has been affected in the direction of a change of emphasis from the necessity of medical treatment to suspension of employment, mainly because of the great importance attached to the preventive side of sickness insurance. Formerly the term " incapacity " meant that a man felt too ill to go to work and this subjective impression was confirmed by medical diagnosis. Nowadays, however, incapacity has come to mean a condition in which continuance of employment would endanger the patient's health or delay his recovery.

Maternity

The second risk covered by sickness insurance laws is that of maternity for the benefit of mothers and children. Is maternity an illness ? Maternity has all the outward attributes of a serious illness : it is accompanied by pain and suffering, there is substantial measure of danger to health and even to life, it requires the attendance of a physician and a medical establishment, and results in a fairly extended period of disability from work. On the other hand, maternity is a voluntary and self-inflicted condition. Considered along these lines, this would make an excellent subject for controversy ; but there is no doubt that though voluntary and self-inflicted, maternity is a necessary condition both from the point of view of the individual and of the State. Anyway, the maternity benefit has proved to be in actual practice an essential feature of most sickness insurance schemes. The loss of wages resulting from

* I.L.O., Series M, No. 4, op. cit., p. 71.

abstention from work due to confinement for some time before and after it is compensated for and the necessary medical care is provided. The covering of this risk for the millions of workers is important not only from the point of view of excess of births over deaths, but also as a preventive measure of sickness insurance for the better health of the future generation. And now generally this risk is covered not only for insured women, but also for the family of the insured person, at least his wife.

Death

Lastly, the sickness insurance laws cover the risk of death after illness. It must be noted that this protection is not like that of the survivor's benefits under pension insurance, but only a benefit granted to cover the funeral expenses incurred upon the death of the insured person. Sickness insurance thus rounds off the protection given against expenses and loss of wages incurred through illness. Logically this benefit really does not belong to the structure of a sickness insurance system, but it is related in so far as death in most cases follows immediately upon a period of illness, and imposes on the bereaved family a heavy financial burden. Only Great Britain does not cover this risk under the National Health Insurance Act of 1911, which is explained by the fact that because of the great development of industrial assurance in Great Britain, Lloyd-George by excluding this benefit from the compulsory insurance scheme made a deal with these interests that they would not oppose the scheme of compulsory National Health Insurance.

Cash Benefits

These risks whenever they materialise cause an economic loss to the worker through abstention from work. Therefore the insurance funds grant cash benefits which consist in the award to the beneficiary of a sum of money with which to buy goods and services, thus compensating at least in part for the economic loss incurred by the insured. This daily sickness benefit is payable during incapacity for work caused by illness. All systems of compulsory insurance guarantee its payment to sick persons who are unable to work, the amount and duration

of the benefit being defined by the law.

The cash benefits are usually payable to all insured persons only upon the satisfaction of some conditions. These conditions may be divided into three types : (1) Physiological condition, (2) Legal conditions and (3) Waiting period. All of these show considerable variations in the different countries.

Physiological Condition

The physiological condition, which is universal, is determined by the very purpose of cash benefit. The insured person must be unable to continue carrying on his occupation owing to sickness. The sickness to give a right to the benefit must be of a given severity. The symptoms must be such as to justify a belief that the state of health will be worse, in case the sick person is not trusted or is allowed to go to work. It is not enough if only simple care is required. Sickness, according to the insurance laws, is that abnormal bodily or mental condition which prevents the individual from working at a remunerative occupation or entails medical expense or results in both. The validity of claims for compensation is decided by the effect of the sickness on the capacity of the person suffering therefrom to perform his ordinary work. However, it must be noted that in cases of short-period incapacity only the normal occupation of the insured person is taken into account, while for the payment of disablement benefit, account is also taken of other occupations in which he might be expected to engage. As an illustration the German law may be stated : " A person is considered unable to work if he cannot continue to follow his former occupation or can do so only at the risk of aggravating his condition. The incapacity is considered to exist, even if the sick person might earn his livelihood by undertaking other work."* As a rule the cause of disease does not affect the right to sickness benefit, unless it lies in an industrial accident or in an act which is a punishable offence or has been performed wilfully in order to produce sickness. About nine-tenths of the total volume of

* Explanatory Memorandum to the Social Insurance Code, p. 155, quoted in I.L.O., Studies and Reports, Series M, No. 6, *Compulsory Sickness Insurance* (Geneva, 1927), p. 178.

temporary incapacity among employed persons generally is of non-occupational origin.* When illness is of occupational origin, the question is whether the loss will be borne by the sickness insurance institution or the accident insurance institution. The worker can claim compensation from either fund. If he does not enforce his claim against the accident fund, the sickness fund generally has to pay him the sickness benefit and then act on his behalf in order to reimburse itself from the accident fund. In Russia, the sickness insurance institution is always liable for sickness whether it be occupational or not. In Great Britain and some other countries the sickness fund is liable to pay benefit only in so far as it exceeds that paid or payable under other relevant Acts regarding occupational injuries. Further self-inflicted illness is excluded from the grant of sickness benefit. Of course, proof of such illness is so difficult that this restriction is insignificant. Limitations based on alcoholism or sexual immorality are very rare.† Lastly, the insurance institution has to be informed of the sickness in a prescribed manner, as for instance, by means of a medical certificate. Though the institution is not compelled to submit to this proof, it cannot oppose it unless it can produce medical evidence to the contrary.

Qualifying Period

The legal conditions necessary to be satisfied are two : one relating to the period of membership and the other being the residential condition. The first is a qualifying period during the currency of which the insured person must belong to a sickness insurance institution and fulfil his financial obligations arising out of his membership of it for a minimum period. In voluntary sickness insurance schemes, the imposition of such a period is quite common because of the possibility that many persons might join in when they are almost or actually ill. In Denmark this qualifying period for the voluntary sickness insurance scheme is fixed at six weeks. Such a period is fixed also for the supplementary voluntary insurance afforded under a general compulsory scheme. In Germany such a period is of six weeks.

* I.L.O., Series M, No. 18, op. cit., p. 43.

† *American Academy Annals*, op. cit., p. 114.

Although the qualifying period may thus be imposed for voluntary schemes, there does not seem any sound reason for which to have it in the case of compulsory schemes. The insured person cannot obviously belong as a compulsorily insured member to sickness insurance institution, before he is engaged in an occupation rendering him liable. The insured status must be automatic for him. Again, as to the regular payment of contributions during the period, it must be noted that his contributions are generally paid by the employer. On these grounds no such qualifying period is imposed in a number of compulsory sickness insurance systems, e.g., those in Austria, Czechoslovakia, Esthonia, Germany, Hungary, Japan, Latvia, Norway, Poland and Russia. However, some national schemes do require such qualification, for instance, in Great Britain the period is twenty-six weeks with twenty-six weekly payments, in Portugal it is six months.

Residential Condition

The other set of legal conditions is the one relating to residence of the insured person. This condition is laid down for the purposes of administrative convenience. As a general rule, the insurance institution is liable to pay benefits only to the claimants residing within its district. The exact position of a claimant outside the district varies according as he is living abroad or only in the country though outside that particular district. In the former case he is not generally entitled to benefit, though in some cases concessions may be made, as, for instance, when the insured person leaves the country with the consent of the institution. When, however, the person is outside the district but in the country, the claim is subject to some minor restrictions only, though generally wherever possible the claimant can apply to the nearest district fund and get assistance, while this latter fund gets indemnified by the proper fund.

Waiting Period

The third condition of a " waiting " period is almost universal. The claimant is not entitled to sickness benefit from the first day of his illness. He has to wait till a fixed period of time

elapses. The purpose behind the imposition of such a period is the prevention of abuse of the sickness benefit and to avoid overburdening insurance institutions with payments for short-term benefits (arising from very brief illness) that involve management expenses out of proportion to the advantages accruing therefrom. This waiting period runs for consecutive days, and is imposed in all countries except Bulgaria, Portugal and Russia. Waiting period is absolute, when the expenses during that time are absolutely borne by the worker and cash benefits are payable after the lapse of that period, as in Great Britain, Germany and some other countries. Waiting period is said to be relative, when after the period ends, payment is made with effect from the first day of illness, as in countries like Austria and Denmark. The waiting period is generally of two days (as in Germany) or three days (as in Great Britain).

It has to be noted that after the termination of membership, the insured persons are entitled to benefits for varying periods in different countries, if they fall sick within those periods. In Great Britain the period is twelve months, in Poland four weeks, Czechoslovakia six weeks, and three weeks in Austria, Hungary and Germany.

Amount and Rate

In fixing the amount of the cash benefits and its rate, the problem is of determining what the economic purpose of such benefit is to be. Two different conceptions exist as to the economic function of the sickness benefit. According to one the benefit is intended only to secure for the sick person a strict minimum of subsistence during the period of incapacity. According to the other conception, it is intended to enable the sick person to maintain his usual standard of living.

According to the first conception, the cash benefit is fixed at a flat rate for all insured persons irrespective of their earnings. This system is followed in Great Britain and New Zealand. In Great Britain there are three different rates for men, single women and married women. In New Zealand there is a single basic rate supplemented by dependants' allowances. This system affords great facilities for the administration of the fund. Such

a rate, calculated in such a manner as to afford only the strict minimum required for subsistence and no more, is open to a certain objection. It fails to take into consideration the customary differences of earnings and different standards of life. Such a minimum is apt to be of small economic value to the better-paid insured persons. Mention may be made here of the fact that in Great Britain cash benefit is payable at full rates only if contributions for a hundred and four weeks have been paid. It is paid at reduced rates when the contributions paid cover a period less than a hundred and four weeks, but more than twenty-six weeks.* Moreover, reduction to the extent of 100 per cent. may be made in the weekly benefits, if the contributions fall into arrear.

According to the second conception of the purpose behind cash benefits, the benefit is fixed in relation to the wages. While the maximum is limited by the actual wage loss, the notion of full restoration of loss has been rejected as being bad insurance as well as bad psychology since there must be an incentive left to the patient to long for recovery. While illness must not thus be made profitable, the rate of benefit must be sufficiently high to enable the worker to meet his essential needs and preserve something of his habitual standard of life. The economic value of the benefit is thus equal for all the insured persons. Therefore the benefit is payable at a certain percentage, fixed by law, of the contributor's basic wage. (Such a benefit is called the sliding-scale benefit.)

This system of benefits is, however, comparatively somewhat difficult to administer, since it entails notification and recording of all or most of the fluctuations in salaries and wages. Such difficulties are too numerous, when the actual earnings of the workers are taken as the basic wage on which to base the amount of benefits. So this system is rarely followed ; only in Germany, provision is made for payment, in cases where possible, of benefits according to actual earnings. The usual method is to take the basic wage as an approximate rather than as an actual equivalent of his earnings. To get this approximate estimate, the salaries and wages are split up into classes and categories. Each class includes all such contributors whose wages lie between

* Robson, op. cit., p. 77.

the maximum and the minimum fixed for that class. Such a classification renders the work of the insurance institution less difficult, since the institution is relieved of the necessity of recording individual wages. Greater the number of classes, nearer will be the basic wage to the actual. Such wage classes are three in Portugal, five in Norway and Rumania, six in Bulgaria, nine in Austria, ten in Czechoslovakia, fourteen in Poland and seventeen in Yugoslavia.

The amount of benefit varies in the different national laws from 50 per cent. to even 100 per cent. of the basic wage. To quote a few instances, it is 50 per cent. in Germany, Esthonia and Luxemburg, 60 per cent. in Norway and Poland, 66 per cent. in Czechoslovakia and Latvia, 75 per cent. in Hungary, 80 per cent. in Austria and 100 per cent. in Russia. In some cases benefit is payable at different rates, being progressively reduced as the rate of wages increases, for instance, in Austria, the rate is 80 per cent. of the basic wage for the first seven classes, 74 per cent. for the eighth and 66.2/3 per cent. for the ninth class. Although it is in some of the recent schemes that higher percentages are to be found, there does not seem to be any definite tendency to raise the sickness benefit rates. As to prolonged illness and its effects on the amount of benefit, the laws differ. Some laws increase the legal rate, if the incapacity is prolonged beyond a fixed period, as in Hungary ; while in Chile and Portugal, the rate is on the contrary, decreased week by week or month by month. A number of laws pay at a uniform rate throughout the maximum period for which cash benefit is at all payable.

Family responsibilities of the sick person may be taken into account by granting family allowances in addition to the normal benefit. In countries where there is a general system of family allowances, a sick person continues to receive the allowance, at least for a limited period, unless the benefit itself is adjusted.* A number of laws, however, permit sickness funds to grant dependants' allowances as an additional benefit. And the insurance institutions concerned have long taken advantage of their power to make allowances for family responsibilities by granting

* I.L.O., Series M, No. 18, op. cit., p. 45.

additional benefits. Some laws include the dependants' allowances in the legal benefit itself, for instance, the Rumanian law reduces the benefit for persons without family responsibilities to 35 per cent. (from 50 per cent.) of the basic wage. In Chile, a single person is paid at half the normal rate.

Period of Benefit

The problem of fixing the period during which the sickness benefit is to be paid is a somewhat complicated one. Obviously, longer such a period, the costlier the scheme. Any arbitrary limit is bound to cause hardship in certain number of cases ; but higher the limit, the fewer such cases would be. Two broad divisions of illness are made : short-term illness and the long-term illness—growing into almost permanent impairment of health. The latter cases almost border on old age or invalidity. They can be covered either by sickness fund or invalidity insurance or old age insurance fund. Any limit is reasonable and acceptable, only when the prolongation of insurance is beyond the limit is covered by an invalidity insurance scheme. Twenty-six weeks is the normal period in the majority of countries, while Czechoslovakia and Hungary have fixed it at fifty-two weeks. Some countries have set the maximum at thirty-nine weeks or authorised the extension from twenty-six to fifty-two weeks in case of tuberculosis, or other diseases requiring very long treatment.*

Other Benefits

In a majority of the laws, the sickness institutions are allowed to grant additional sickness benefits, if their financial resources are found to be adequate for the purpose. The fund has to show that it is in a sound financial position. In Great Britain a strict rule has been laid down. Additional benefits are payable only from a reserve fund which has been built up from the actuarial surplus accrued during the last five-yearly actuarial period. Additional benefits may be paid in any of the three forms : firstly, the maximum period during which benefit is payable may be extended ; secondly, benefit may be paid at a

* Ibid., p. 45.

rate higher than the legal one, or lastly, the waiting period may be wholly or partly dispensed with.

Instead of cash benefit, benefit in kind may sometimes be given, providing thereby those things for which perhaps the cash benefits were actually needed by the worker, for instance, maintenance in a hospital, as is provided in Austria, Germany and some other countries. When such alternative benefits are provided, the cash benefits may be fully or partly dispensed with. Generally when hospital maintenance is provided for the sick person, cash benefit is paid in part to the family.

All sickness insurance schemes provide maternity cash benefit for insured women at the same rate as the ordinary sickness benefit. Its duration is determined mainly by the legal provisions requiring or authorising women to abstain from work for certain periods before and after confinement. After the World War of 1914-18, most of the countries adopted a total duration of twelve weeks of absence from work—six before and six after confinement—as recommended by international opinion, expressed in the Childbirth Convention of 1919. In some schemes the mother receives a small benefit equal to one-half the maternity benefit during the first few months of lactation. In Great Britain the maternity benefit is payable only as a lump sum equal to about five weeks' sickness benefit, the wives of insured men getting only half such lump sum payment.

Lastly, a number of sickness insurance laws provide for the payment of an allowance for funeral expenses incurred for the insured person, the object being to lighten the burden of the insured person's death on his survivors or those arranging the funeral. The typical rate is a month's wage. Only in Great Britain such a benefit does not exist, because of the great development there of industrial assurance. The period of insurance or membership is not taken into account for the payment of this benefit (except in Rumania). Funeral benefit may be paid even for the death of a member of the insured person's family either under legal compulsion as in Czechoslovakia, Lithuania and Poland, or at the option of the insurance institution as in Austria, Hungary, Germany and Esthonia.

Medical Benefits

Importance

Benefits in kind have during the last thirty years proved to be more important than their counterpart, the cash benefits. The object of the earlier schemes was to compensate rather than provide curative treatment. For a worker who is ill, medical treatment is essential, and if it is not provided by the fund concerned, he has to incur expenses for that. Benefits in kind came to be provided by the insurance institutions, because two advantages were seen to exist in such provision : Such benefits could be cheaper, having been bought and paid for in wholesale and this helped the funds in that all-important factor of economy. The second advantage followed from the first in that they could, being cheaper, be given in larger quantities, thus helping the object of rapid recovery. Still the cash benefits continued to receive greater attention. With the passing of time, however, the conception of sickness benefits has changed and medical aid, as a benefit in kind, now occupies a far more important place than the cash benefit, though to the worker cash benefit is and will always remain highly important and useful, since loss of wages through illness falls heavily on him in the absence of savings. From the social point of view rapid and complete cure of the sick and their return to work has now become the chief aim of social insurance. A genuine policy of promotion of public health demands that insurance institutions should treat the provision of benefits in kind as a matter of vital concern. And therefore even the preventive function of sickness insurance institutions with regard to sickness is now acquiring almost a revolutionary importance. The proportion of benefit expenditure represented by medical care has risen from 50 per cent. to 60 per cent. and in some countries even to 80 per cent. This rising cost of medical care is due partly to the fact that sickness insurance funds make available to the sick persons the results of advancing medical science, whose methods of diagnosis and treatment grow ever more elaborate ; but it is due mainly to the extension of medical care to the family of the insured person.

That the cure of the sick and their return to work have become a matter of great importance is amply illustrated by the fact that the right to such medical benefit rarely depends upon any qualifying conditions. He is not subject to any waiting period conditions ; he is medically treated immediately he falls ill. Similarly as a rule no qualifying period of membership has to be completed. Only in very few countries such a period is imposed : eight weeks' contributions in Bulgaria, three months in Portugal. In Germany such a condition may be imposed for the voluntary supplement of the compulsory system at the discretion of the fund concerned, the maximum being fixed at six weeks.

Curative Treatment

Benefits in kind consist of medical treatment by qualified medical practitioners and the supply of necessary drugs and other services. The laws allow only fully qualified doctors entitled to practise to be appointed by the sickness fund, though auxiliary medical staff may treat the sick under the order and supervision and on the responsibility of a fully qualified doctor. As to the question of treatment by specialists over and above the services of the general practitioner, whenever necessary, there is no uniformity of provisions in the national laws. The highly organised insurance schemes of countries like Austria, Germany, Hungary, etc., all provide treatment by specialists. Other countries leave it to the discretion of the insurance institution, while assuring ordinary treatment by general practitioner.

With the object of effecting a rapid and complete cure as far as possible, treatment is always in accordance with the methods of medical science. This includes, in addition to diagnosis and general advice, all therapeutic methods applied by the medical profession. Although the legislature may desire the sick to benefit by the advances of medical science, it can only ensure that they shall receive sufficient and suitable medical treatment. Originally, medical benefit meant hardly more than a simple consultation with a general practitioner and the supply of a bottle of medicine. Medical benefit has, however, still remained a general practitioner service in Great Britain only and nowhere else. The British law only provides " a doctor and a bottle of medicine " ;

other needs are provided for only by public assistance. Before the present war, the medical benefits of compulsory sickness insurance in most other countries had come to include : free advice and treatment by a general practitioner and on the latter's prescription, the supply of drugs, and the less expensive appliances, treatment by specialists, physical treatment and hospitalisation. The simpler forms of dental treatment like extractions and stoppings are also provided as a rule. Convalescent care, longer periods of treatment, artificial limb, etc., can be provided by the sickness funds in their discretion.* However, sickness insurance being a social service, insured person may not claim medical assistance involving heavy charges for the insurance institution out of proportion to the nature and gravity of his illness. So all unnecessary and superfluous benefits are avoided. The cost of ordinary treatment including minor operations (even operations like extraction of teeth, stoppings, etc., for dental troubles) is borne by insurance institutions.

The curative treatment includes supply of drugs and curative appliances, but not generally tonics. The doctor prescribes them. No rigid rules have been laid down in any country as to prescribing by doctors,—the independent medical profession would hardly bow down to such rules. The obligation generally is to prescribe the necessary amount of appropriate medicines. Strict economy has to be observed. Excessive prescribing has to be avoided. Between two equivalent medicines the cheaper has to be prescribed, if it is not prejudicial to the sick person for rapid recovery. Under certain schemes, schedules have been prepared, such as the official pharmacopœia or a special schedule, and the attending physicians are authorised to prescribe only the medicines contained in such a list. Arrangements are made with chemists for the dispensing of the prescriptions. These arrangements may be regulated by law, or by a special contract between the chemists and the insurance institutions. The former method is followed in Czechoslovakia, Austria and some other countries, and the latter in Great Britain, Germany, etc. Medicines are often made available at reduced rates to the institutions. In order to prevent extravagance, prescriptions and chemists'

* Ibid., p. 46.

bills are sometimes subjected to special medical scrutiny. The German Act stipulates with the same object in view, 10 to 20 per cent. contributions for drugs, etc., from the patient in serious cases.

Period of Benefit

Medical benefit is not provided in all countries for an unlimited length of period. Only the British Act provided for continued medical care without any limit of time as long as it is required, for the chronically invalid as for those still acutely ill. Germany by a very recent measure has removed the limit on the duration of medical benefit, and the patient who does not leave the field of insurable employment permanently, as an invalid or otherwise, is always entitled to treatment. Certain Acts of recent date, for instance, the Bulgarian, Latvian, etc., do not put any limit for the grant of medical benefit, if the patient continues to work while receiving his treatment. Where a limit exists to the period for which the medical benefit can be drawn, the duration of medical benefit is, as a rule, the same as that of sickness benefit (cash benefit)—between sixteen and fifty-two weeks. In most countries after the expiry of this period, invalidity benefits are available. The duration of medical benefits, unless it is so followed by invalidity benefits, resulting in the cessation of treatment before complete cure indeed reflects very adversely on the real worth of sickness insurance.

Additional Benefits

Just as additional benefits are given in cash, they are given in kind also. In most of the cases their grant is left to the option of the insurance institutions, which provide them if their finances allow them. In Great Britain such benefits can be provided only from the surplus earmarked for the purpose by the Government Actuary after the periodical valuation of assets and liabilities of the approved societies. Additional benefits are granted generally in the form of extension of period of benefit, hospital treatment, or treatment in convalescent homes, supply of artificial limbs, or appliances, etc., etc. Germany provides an illustration of most of these benefits. The most common is

the hospital treatment. The ability of the insurance institutions to provide this benefit depends upon the number and standard of available public or private health institutions (hospitals) for the treatment of the members. Such establishments may be required to reserve a certain number of beds for the sickness insurance funds in their districts, and to treat their patients at cheaper rates. Of course, the best solution is for the funds to have their own hospitals. When hospital treatment is not practicable for any reasons then in rare cases treatment may be given in the homes of the sick by the physician with the assistance of nurses. Hospital treatment is in fact also an alternative benefit (in relation to cash benefit, as discussed above), since it is almost always accompanied by certain reduction in the sickness benefit.

There has been one very important development in the grant of benefits in kind, and that is the extension of the medical benefits to the family of the insured person. In the beginning the sickness insurance schemes were rigidly modelled on conceptions of private insurance and the benefits were available only to the insured person, so that insurance was far from being really social. Now, however, the social objective has been receiving greater emphasis than the insurance method. The insured persons—the wage-earners—form only a part of the class of persons who need such assistance. So by extension of the medical benefits to the families of the insured persons sickness insurance is serving the majority of the needy persons. This extension is important not merely because of the effects of family sickness on the wage-earner's health and purse, but also from the broader ideal of public health. Now, such benefits were introduced even before the 1914-18 war, but they spread rapidly in the post-war period. Benefits for the family are compulsorily payable in some countries like Czechoslovakia, Hungary, Norway, Rumania, etc. In Germany they are compulsory only in the case of the miners' scheme, although their extension to the general scheme is only a matter of time. In other countries the grant of such benefits is made to depend on the discretion of the insurance institution ; and wide use seems to have been made to this authorisation in a number of countries like Germany,

Austria, Latvia, etc. In Great Britain, they are included in the category of additional benefits, thereby being made subject to all conditions necessary for such additional benefits thus resulting in the rarity of actual extension of the medical benefit to dependants in practice. Benefits for the family, it should be noted, are not so ample in kind or long in duration as those given to the insured person himself, though any restrictions to this effect are not very desirable.

Maternity Benefits

Maternity benefits have in recent years come to form an important branch of sickness insurance benefits (although in some countries like France and Italy there are separate schemes for this), since the method of insurance was adopted to help the solution of the problem of maternity amongst the masses. For women labourers rest before and after confinement is essential in all cases and means abstention from work and consequent loss of wages. Again, medical attendance and aid is necessary during maternity. Although the recognition of these needs has produced legislation of prohibitions (and perhaps some rights), like prohibition of work immediately before or after confinement, this is of no practical benefit to the labourers in the absence of some means of subsistence during this period. Social insurance has attempted to solve this problem and provides benefits, in cash or kind or both, for the insured women.

Conditions for the grant of maternity benefit apply generally only to cash benefits. The qualifying period of membership, non-existent in Russia, Czechoslovakia, etc., varies between three and ten months. The insurance institutions are generally given the liberty to waive this condition about the qualifying period the notable exceptions being those in Great Britain and Ireland.* Obstetrical assistance is provided for by most of the laws. In some countries, however, instead of providing it on their own account, the insurance institutions are allowed to discharge that obligation by payment in cash, for instance, in Norway, the expenses of the insured women are reimbursed according to a

* I.L.O., Series M, No. 6, op. cit., p. 345.

scale laid down ; in Great Britain and Ireland, this responsibility can be discharged by a lump sum payment. It should be noted that maternity benefits have been generally included in the extension of medical benefits to the family of the insured persons. From the point of view of the broad object of securing better health for the next generation, this extension is very important. In about fourteen compulsory insurance laws, the wives of the insured persons are amongst those entitled to maternity benefits —to name a few of them : Austria, Germany, Great Britain and Hungary. In Esthonia and Luxemburg, such benefits are additional benefits. Although the family has been, in most cases, taken to mean only the wife of the insured person to the exclusion of other members of the family, such other members have also been given similar rights in some countries like Austria, Germany and Poland. Free attendance by a certified midwife and, if necessary, by a doctor, together with medicines, etc., is provided for the members of the family generally on the same conditions as enjoyed by the insured persons.

Organisation of Medical Service

The organisation of the medical service is not a very simple problem. It raises several difficult questions like the responsibility for the organisation, appointment of doctors, their remuneration, regulation of the medical services, etc., etc. The responsibility for the organisation of the medical service falls as a rule on the insurance institutions. This rule was first adopted in Germany and then copied in most of the other countries. Only in Great Britain, the approved societies are merely required to administer cash benefits. The Act lays down that public corporations called Insurance Committees, shall be formed in each administrative district and shall be responsible for organising medical service. On the other hand, in some of the Baltic countries, responsibility rests with the employer primarily, the rule being copied from the Russian Labour Code of 1912. In Russia, the medical assistance to insured persons and their families is entrusted to the General Health Authorities.

Selection and Appointment of Doctors

Selection or appointment of doctors presents the most difficult problem. It is unusual for the law to allow the parties concerned full freedom to organise the medical service as they choose. In the interests of all concerned, some definite method is prescribed. Broadly speaking, three methods may be distinguished : Firstly, all medical practitioners who apply may be appointed, the rule generally being that no applications can ever be refused in case of duly qualified men, whatever the number of men already admitted. Such free selection of doctors is followed, for instance, in Great Britain.* Secondly, the applying medical practitioners may be appointed only if they agree to certain conditions, the appointment taking place through the medium of a written contract. Thirdly, the insurance fund may appoint doctors in its discretion. Again, there are three ways in which the insured persons may choose their doctors. Firstly, their choice may be unlimited and they may choose any doctor who has agreed to treat members. Such a method exists in Great Britain.† Secondly, the patient may choose from only a limited set of doctors at least two in number, the choice being thus limited. According to the third method, the patient has no choice, but has to accept that doctor whom the fund appoints.

A satisfactory settlement of the problem of selection of doctors is essential to the proper working of the sickness insurance system. This problem has raised endless controversies between the insurance institutions and the medical practitioners and only in few countries they would appear to be finally settled. Both the parties have their own arguments. The medical profession is after all an independent profession, and the doctors claim the natural right of each person to choose that doctor whom he trusts. The sickness funds—if they follow the method of limited choice by choosing some particular doctors—exclude others, however willing those others might be to treat the insured persons. The exclusion is serious, when the proportion of insured persons is high, because then even the private practice of the doctors

* I.L.O., Series M, No. 4, op. cit., p. 103.
† Ibid., p. 104.

would be affected. The funds in their turn claim that they have a right to conclude contracts with any doctor that they choose. Of course, it is the business of the legislature to reconcile opposite views and interests. In any case insurance institutions must secure the co-operation of the medical profession on terms which recognise the fact that they are bodies organised in the public interest and for purposes of social protection. The insured person should be given the right to choose his own doctor from amongst those at the disposal of the insurance institution on equitable conditions, if it does not incur any considerable extra expense to the institution.

The organisation of medical service depends upon the conclusion of contracts between the insurance institutions and the doctors. The conditions of the medical contracts are now generally settled collectively between the insurance institutions and the central bodies representing the medical profession. Especially when the number of insured persons is large, such collective regulation proves very valuable. In Germany, the general practice is : general principles are determined by a national collective contract, adjustment of the national collective contract to local conditions is made by local collective agreement, and the final individual contract is concluded by acceptance of the collective agreements.

Their Remuneration

Remuneration of the medical practitioners is an important question, since it affects seriously the attitude of doctors towards the insurance system, although it is not so much controversial as the question of the selection of doctors. The method of remuneration is often influenced by the method of selection. Four ways of remunerating the doctors are seen to exist : One is the method of fixed salary. The doctors are paid a certain lump sum for a specified period, irrespective of the number of cases of sickness. Naturally, this method is adopted for permanent medical officers in a salaried service, or in systems where no free choice of a doctor is allowed for the patient. Provision is often made for periodical increases of salary and even pensions on retirement. By another method, the doctors are paid a fee per

insured person ; the remuneration is independent of the number of cases of sickness and attendance given ; it is determined by the number of insured persons in the doctor's care. The rate is fixed with reference to morbidity rate (i.e., average number of cases of sickness per insured person per annum) and the average number of consultations, etc., per case. Under this system both the doctor and the institution know in advance the amount of remuneration. This system does not cover by its rate special forms of attendance like operations, etc. This method exists in Austria, Czechoslovakia and Germany,* etc. According to a third system, the doctors are paid per case of sickness—whatever its duration or gravity. The advantage of this system is its simplicity ; but the danger is that the doctor may be tempted to certify any insured person who consults him as sick. This method is not widely followed. Lastly, the doctors may be paid according to the prescribed number of medical attendances : a unit of medical attendance is chosen for which a price is fixed, and the different forms of attendance given are referred to this unit according to a scale of coefficients (the total payment thus being the number of units multiplied by the basic price of a unit). Such a system is particularly suitable in countries where free choice of doctors is allowed, as in Germany, Austria, etc. It has to be noted that more than one of these systems may exist side by side in the same country.

Nationalisation

One not wholly desirable feature of the organisation of medical service has been its working on the lines of private individual practice. The doctors work individually in their own consulting rooms. Individual practice can give satisfactory results only where expense is no consideration, however economy in medical service, providing the best treatment for the available money, is a specially pressing consideration for the sickness insurance institution. Modern methods of diagnosis and treatment require an extensive and costly equipment of which only a group of doctors practising at the same centre can economically avail themselves. Medical supplies, auxiliary staff and overhead charges are like-

* See I.L.O., Series M, No. 6, op. cit., p. 387.

wise relatively cheaper for several doctors working together. Such centres or clinics may be started and owned by the insurance institution itself. This group practice of medicine gives a number of other advantages also.* In Western Europe especially, the medical service of the sickness insurance institutions is very largely organised on the lines of private individual practice. The need for the nationalisation of the medical service is, however, increasingly felt. In Central and Eastern Europe, such fully-equipped clinics have been established only for specialist treatment. It is only in Chile that rationalisation of insurance practice has been carried to the farthest possible limit. Insurance doctors, in that country, are employed on a salaried basis and all treatment is furnished at clinics by a group of general practitioners and specialists. For the rural areas, a service of travelling dispensaries is arranged, to visit the sick at the first-aid posts. It may be mentioned that a national medical service is in operation in New Zealand and in the Soviet Union, where every inhabitant is entitled to free medical attendance, drugs and hospital treatment.

The Problem of Economy

Mention may be made of the problem of applying the principle of economy to the medical and pharmaceutical benefits of sickness insurance funds. Because of the limited financial resources of the insurance institutions, it is not only right and natural but also quite essential that these institutions should try, by organising their work on scientific lines, to obtain the best possible result from those limited resources for the protection of the health of the insured. In Germany, the country in which compulsory sickness insurance was first introduced, this problem was first studied and a solution was attempted. The research into the question of economical prescribing was carried on by doctors who, on behalf either of sickness insurance funds or of medical associations, were responsible for keeping a check on the prescriptions of doctors treating insured persons. In 1924, a committee of representatives of sickness insurance funds and medical associations drew up the first guiding principles for economical prescribing, which have

* I. L. O., Series M, No. 18, op. cit., p. 50.

since been modified in various ways. Considerable progress has now been made and such principles are now in force in a number of countries like Czechoslovakia, Germany, Great Britain, Hungary, Latvia, Poland and Yugoslavia. In 1934, the International Labour Office called a meeting of experts to study the question of economical administration of medical and pharmaceutical benefits under sickness insurance with a view to comparing the experience in various countries on the subject. The experts at the meeting adopted a number of guiding principles and laid down rules for achieving the same.*

ORGANISATION

Grouping of persons

There are a number of methods of grouping insured persons together. The oldest of these has been the grouping by trades : Persons engaged in the same occupation form one institution. The range of action of a trade insurance institution may cover the entire territory of a country, e.g., seamen's fund ; generally, however, the workers covered are in a restricted territorial zone. This system has several advantages : All the persons are exposed to the same risk and are working under the same conditions. Actuarially the rate of contributions can be more easily adjusted to the risks. It further promotes solidarity amongst the members which may further help to secure effective mutual supervision by members. It lastly provides opportunity for co-operation between employers and workers. On the other hand this system is subjected to some serious criticism. In the first place, the stability of such institutions is very much liable to be seriously affected by economic disturbances or crisis. Secondly, there is the fear of concentration of only bad risks in some cases.

Another method by which insured persons may be grouped is the territorial method. Persons living in a particular area become members of the same insurance fund, whatever their occupations. Amongst the territorial funds, there may be some funds formed specially for some occupation like agriculture. The territorial

* For details, see *Economical Administration of Health Insurance Benefits*, I.L.O., M 15.

grouping affords numerous advantages : There is mutual compensation of good and bad risks. There is no fear of disturbance by any economic disturbances or crisis. A big advantage is that the organisation of medical benefits is facilitated, the most eloquent proof of this being the fact that in countries like Great Britain, where there are funds more on lines other than territorial, separate institutions (called " Insurance Committees " in Great Britain) on territorial basis have been established for administering medical benefits. Further, insurance against various risks can be unified. The territorial basis of the insurance institution may facilitate to a large extent the unification, for administrative purposes, of the various branches of social insurance. A unified system of social insurance has been thus attempted in Bulgaria, Czechoslovakia, Yugoslavia and Russia. Another important advantage of territorial grouping is economy in administration.

Insured persons may be grouped on religious or political basis. Such funds are rare. They are financially weak. There may be overlapping, increase in cost of administration and almost insuperable difficulties in the organisation of medical benefits. Countries with either territorial or trade grouping alone are only two in each case : Bulgaria and Lithuania in the former and Esthonia and Latvia in the latter case. In the large majority of the countries both the systems are to be found, though in many of these territorial groups preponderate.

Insurance Institutions

The formation and recognition of the insurance institution, to lay down a broad and general rule, depends upon the question whether it is managed by the State or by an independent body. Obviously if the institutions are to be managed by the State, they are created by the State. In the latter case, they are formed independently by individuals and are then recognised on certain conditions. In this latter category fall trade funds, mutual benefit societies, etc. In the former are to be found territorial funds usually constituted by central administrative authorities and their agents.

These different types of funds have developed to varying

degrees in the different countries. One or the other type, although not existing to the exclusion of others, preponderates in the various countries. This position is explained only by the development of the sickness insurance institutions. In the light of the development of the insurance institutions, three broad classes can be distinguished : Systems of free affiliation, systems of subsidiary legal affiliation and those of compulsory legal affiliation.

It must be remembered that before the introduction of compulsory sickness insurance, sickness insurance had developed in many countries to a greater or smaller extent. Mutual benefit societies were formed by some individuals of their own accord and persons could voluntarily join these societies. It is this development of the voluntary institutions that has influenced largely the organisation of the compulsory insurance institutions. On these voluntary institutions was based the new compulsory sickness insurance scheme for its organisation ; since their co-operation was indispensable because of their administrative experience in the field of sickness insurance.

Free Affiliation

In countries where such voluntary funds existed in considerable numbers, the legislation merely converted the voluntary association into associations empowered to administer the compulsory scheme. The mutual benefit group was made a statutory insurance organisation. The mutual benefit societies, trade union sickness funds and institutions due to private enterprise were entrusted with the work of operating compulsory sickness insurance. Great Britain affords a typical example of this state of things ; in that country the National Health Insurance Act of 1911 had only to enable existing insuring groups to be converted into the legal institutions of the same character and further authorised them to include therein such persons, now compulsorily subject to insurance, as had not previously joined any fund voluntarily. A system of free affiliation was adopted. Persons subject to insurance have been free to select their own insurance carrier and there is no coercion to join any particular insuring group. The formation of insuring groups is entirely due to private enterprise. There exists in Great Britain a great number of different

types of "approved societies"—societies recognised as sickness insurance carriers by law :—(1) Those known as friendly societies (whether registered or not as such under Friendly Societies Act of 1896). (2) Trade union funds. (3) Employers' provident funds. (4) Industrial assurance companies. (5) Co-operative societies. Now 46.5% of insured persons belong to friendly societies, 42.8% to industrial assurance approved societies, 9.9% to trade unions, and 0.8% to employer's provident funds. Conditions required for obtaining recognition as an approved society are few : In order to be qualified to obtain the privilege of becoming an approved society, it is necessary that the society shall not be carried on for profit and that it shall be absolutely controlled by its members.* The approved society is responsible for administering the cash benefits. Medical benefits, as has already been stated, are administered by separate funds known as Insurance Committees organised on territorial lines. The approved societies are wholly managed by the insured persons, except in the case of employers' provident fund where the employers are represented to the extent of 25%. Just as there is free formation of insurance funds, members are free to join any society. Applications for membership may be rejected by the society on any reasonable ground (except that of age) like occupation, residence, etc. A new entrant has to apply before 1st April or 1st October next following the end of the half year during which the applicant entered employment, and failing this he automatically becomes a deposit contributor, as become those also who ceasing to be members fail to join another society. These have to pay a certain statutory contribution to the deposit contributors' fund, which receives contributions from employers and a State subsidy. Actually this is only a system of saving since benefits correspond to the sums standing to the credit of the members. The advantages of such funds have been deliberately made negligible, with the result that scarcely more than 25% of the persons remain deposit contributors. Arrangements are made for their transfer from the deposit contributors' fund to an approved society.

* *National Health Insurance through Approved Societies*, by W. A. Willis, p. 32.

Subsidiary Legal Affiliation

System of subsidiary legal affiliation came to be adopted in countries where there was not any considerable development of voluntary insurance prior to the introduction of the compulsory system. In such cases the process of organisation was twofold. A part in new system was assigned to the existing mutual organisations corresponding to their importance. Secondly, statutory insuring groups were created by means of Government intervention. The basis of organisation adopted generally has been that persons subject to insurance are free to join private funds, but failing to do so in accordance with the legal requirements, they automatically become attached to the appropriate statutory fund. Most of the existing funds were on a trade basis like guild funds, mining funds, employer's provident funds. A number of these—the weaker or the smaller ones—were abolished and new trade funds were subjected to restriction. This was done, because all the institutions created by the State were on territorial lines and it was desired that the work of these funds should not be hampered. These enjoy certain exclusive benefits and the trade funds wherever they exist are generally required to offer advantages at least equivalent to those offered by the statutory territorial funds. Mutual benefit societies other than those based on occupational lines, now have only a precarious existence, since only the pre-statutory funds in sound working order have been allowed and new ones are discouraged by exacting restrictions. Trade funds have received kinder treatment, since they in some cases offer special benefits (e.g., in transport, mining, etc.) and have been recognised as legal insurers side by side with the territorial funds. In fact for such occupations, trade funds have been in some cases made the sole legal insurers. The territorial funds cover corresponding insurance districts into which the country is divided. These funds may be sub-divided to deal more particularly with the insurance of agricultural wage-earners. The territorial funds are independent public corporations, possessing various privileges, generally reserved for public administrative organisations. They are set up by some public authorities, e.g., municipal unions in Germany (or

superior insurance offices), communes in Norway, social insurance institute in Portugal, and subordinate government authorities in Austria and Czechoslovakia. Workers and employers are represented on the deliberative and executive bodies in the proportion of 2 : 1. The membership of such funds is automatic, dating from the day of joining on employment subject to insurance, provided the person concerned does not join a mutual benefit fund or a trade fund. District fund covers all wage-earners whose principal place of employment is situated within that area, or whose habitual residence is in that area.

In Germany 71% of insured persons are covered by territorial funds, 24% by trade funds and 5% by mutual aid societies.

Compulsory Legal Affiliation

In countries where there was practically no voluntary mutual benefit movement, the system of compulsory legal affiliation came into existence. Their legislation had to provide for the fresh creation of collective insurance groups. Insurance institutions of this kind enjoy a virtual monopoly, as no other funds are recognised as such. The funds may be territorial or trade funds. Preference is given generally to territorial funds because of their many sided advantages. They are generally set up by the Ministry of Labour.

Management

The insurance institutions may be managed by three agencies : the State, private companies or self-government. Of these management by private companies is naturally rare, since they work for profit. State management is found in few countries including Bulgaria. Such management, in many cases, exists only by way of exception, as, say, a starting point. The reason for this limitation is the fear of creating a new and vast public service with thousands of officials who may be accused of lack of initiative and of subjection to bureaucratic routine. Also the State is a slow and costly administrator. The generally accepted form of management is that of self-government ; the insured thereby only manage what virtually are their moneys. They are directly interested in the satisfactory working of the organisation

and its financial stability. There can be proper mutual supervision and the needs of the insured can be most fully met. Again this participation of the insured workers promotes knowledge amongst workers of sickness insurance and even hygiene and facilitates prevention of sickness. The right of the employers to participate is also recognised, since they also contribute towards the cost of sickness insurance. As an impartial factor, the authorities also are represented. Management consists of three branches : deliberation, execution and supervision. The deliberative body is a larger one, sometimes consisting of all the members. The executive committee is actually the managing committee. Management is in the hands of the insured alone in Esthonia, Great Britain, Ireland, Portugal and Russia ; whereas it is in the hands of the insured person and employers in the large majority of the laws including those in Austria, Germany, etc., and of the insured persons, employers and the State in Chile, Norway and Rumania.

Organisation in Voluntary Schemes

Under voluntary sickness insurance schemes are found to operate approved sickness insurance funds. These funds may be open funds, being open to all persons, or closed funds, being meant only for particular undertakings.* The mutual benefit societies may conform to them and be approved societies thereby enjoying certain advantages or may just remain subject to common law rules, for associations not carried on for profit. The conditions required to be fulfilled before approval vary. The older laws of France and Belgium provide, in general, that the social aims of the institution should be defined by its constitution and be confined to mutual assistance for illness, that regulations shall be adopted defining the composition of the various organisations of the society and laying down rules for its management. The more recent laws of Sweden, Denmark, Switzerland, etc., are stricter. They may specifically lay down as to whether membership is to be kept open only to nationals or to all ; age limits may be imposed (e.g., as in Denmark where the age limit is

* For details, see *Voluntary Sickness Insurance*, I.L.O., M 7, pp. XXVI-XXVII.

14-40) ; the funds may be required to have a certain minimum of members, only limited freedom may be given to pass from one fund to another ; even a certain minimum for benefits may be prescribed.* Membership of the funds is also purely voluntary. There is freedom both to join any institution and to resign at any time, though the right of the funds to expel members may be restricted.

Federating Insurance Institutions

The problem of federating sickness insurance institutions has, of late, assumed considerable importance. Federation of insurance institutions is specially useful for work that can be done only by funds having large membership and finance rarely available for a single insurance carrier. Federation can perform a number of duties like : supervision of the work of the funds, payment of contributions of the sick person ; payment of part of the benefit ; constituting a joint reserve fund (as in Great Britain) ; establishment and working of hospitals, convalescent homes, etc., as in Germany, Austria and some other countries ; conclusion of agreements with medical practitioners, etc. ; compilation of statistics ; appointment of officials and employees of funds, etc., etc. Several laws provide for the formation of federations or associations. These are, of course, not necessary where there are central insurance institutions acting as the sole insurance carriers, the separate funds being only their local organs, as is the case in Belgium, Bulgaria, Hungary, Russia, etc. The organisation of federations may be compulsory as, for instance, in Czechoslovakia and Poland, or voluntary as in Austria, Esthonia, Germany, Great Britain and many other countries. They are formed generally on regional lines. The method of actual grouping and affiliation of funds to a federation depends upon the type of insurance institutions and system of affiliation of persons to the institutions ; for instance, where a large variety exists, those of the same type may be required to join together. In Poland, regional federations are grouped into one national federation.

* *Sickness Insurance*, I.L.O., M 4, pp. 68-69.

Problem of Supervision

Supervision of the sickness insurance institutions must receive proper attention, if the institutions are to work efficiently. Now, it is the right and the duty of the State to supervise the regular working. It must see that normal effect is given to the obligation of persons to join insurance institutions and that payments are made to the persons eligible to receive them ; and it must supervise the administrative and financial working of the institutions. Administrative supervision consists in seeing that the advisory bodies are regularly constituted and worked according to law and rules and regulations of the institutions. The financial supervision involves the examination of accounts involving income, expenditure, working capital, reserve funds, investment of funds and generally a careful watch over the solvency of the institutions. Methods may have to be prescribed for cases of deficit, like increase of contributions, reduction of benefits, etc.

General supervision is as a rule entrusted to the ministry concerned with labour questions, social welfare, etc., or the Ministry of the Interior. The nature and constitution depend upon whether the State is directly responsible for management of insurance or has entrusted it to autonomous bodies. In the former case, functions of management and supervision may not be clearly differentiated except by the mere difference in the ranks of the officers concerned, as in Bulgaria. In the latter case, supervision is often in the hands of entirely different bodies : central supervision is given to a ministerial department or a federal insurance office, with local offices. The State officials usually are the labour inspectors or specialised insurance officers. In Austria, Great Britain, Ireland and Greece, etc., supervision is in the hands of the ministerial department and State officials. In Esthonia, Germany, Lithuania, Portugal, etc., the general control is with the ministry, but actual supervision is by special insurance offices. Such bodies may be given both administrative and judicial work. Such insurance offices may consist solely of public officials as in Norway, Poland and Switzerland, or may have representatives of workers and employers connected with them. In Czechoslovakia, supervision is in the hands of the

higher officials, central and local insurance institutions.

Settlement of Disputes

One more question that may be very briefly mentioned here is that relating to the settlement of disputes, the commonest among which are those connected with the right of the insured persons to benefit. The nature of disputes in general can be judged by a glance at the parties interested in the operation of sickness insurance, viz., insured persons, their employers, doctors, chemists, dentists and other auxiliaries of the insurance fund. Such disputes as refer to the right to benefit must be solved immediately without any delay. Therefore the judicial bodies should be special tribunals consisting of judges specially cognizant of the purposes of social insurance and the needs of insured persons. The insured person should have a right of appeal at least in disputes concerning his right to benefit.

" Health " Insurance

It may be recalled that in some countries sickness insurance is called, perhaps by way of euphemism, " Health Insurance," in preference to that simple matter-of-fact name " sickness insurance." This is rather misleading, in that it possibly implies that preservation of public health is the main purpose of social insurance. The fact cannot be gainsaid that health improvement is not a fundamental purpose of sickness insurance, though it may be a most desirable by-product of the system. Sickness insurance has indeed become the principal instrument of a health policy for the masses of the population. The improvement of the standard of their health is important also because it reduces the future liabilities of sickness insurance institutions. Further, with the same view preventive measures have attracted the attention of all the countries. Maternity benefit and family benefit come also under prevention of sickness and diseases, the other forms that the preventive measures can take being access to medical advice, propagation of the rules of health and hygiene, health exhibitions, and periodical medical examinations to discover symptoms of serious and avoidable diseases. The efforts of Chile

in this direction are most commendable, where about 250,000 persons are examined by the Chilean sickness insurance fund every year (under the Preventive Medicine Act of 1938) with indeed very useful results.*

* For details, see *Approaches to Social Security*, I.L.O., M 18, p. 47.

CHAPTER IV

OLD AGE, PREMATURE DEATH AND INVALIDITY INSURANCE

(PENSION INSURANCE)

LIKE sickness, invalidity, old age and premature death are dangers to which all human beings are exposed. And these have extremely grave consequences for persons whose livelihood depends wholly or partly on regular occupational activity, whether dependent or independent. Though the importance of removing the constant feeling of insecurity created in the mind of workers by these imminent dangers always staring them in the face, has been recognised on all hands only in recent years, efforts were nevertheless made from very early times, whether from a mere humanitarian view or otherwise, to relieve the persons affected by these.

The problem has been attempted to be solved by numerous methods of a varied nature. Workers on their part have in a number of cases tried to help themselves by individual thrift. But generally their wages have proved too low to allow for the current expenses and saving for the future ; such attempts have, therefore, proved absolutely unsuccessful. The State on its part has tried the method of public relief, supporting the disabled persons at the cost of the community. The poor law legislation is an illustration of such efforts. However, public relief has proved inadequate, because the level of assistance has been low and relief has been given, not as a matter of right, but at the discretion of the authority. The workers themselves have a hatred for such relief.

Especially because of the disrepute into which the poor relief and its administration fell in later years, it was generally felt towards the end of the nineteenth century that a more dignified and substantial provision should be made for the aged persons

in particular. Two methods have been adopted for making such provision. The old persons are given pensions after a particular age. One method is that of non-contributory pensions, first adopted in Denmark ; the other method is the scheme of compulsory subsidised saving against old age, adopted first by Germany, better known as contributory old age pensions. The latter method falls in the category of social insurance. Non-contributory pensions only constitute assistance of a higher standard than that of poor relief. The amount of pensions is more substantial. The claim to pension tends to become a right on fulfilment of the statutory conditions, since a right of appeal is granted to the claimants.

Non-contributory Pensions

The non-contributory pension was first instituted in Denmark in 1891. The pension was to be given not as alms, but was looked upon as a reward for work done before reaching old age. To emphasize this fact, some qualifying conditions were laid down, on fulfilment of which the pension accrued as a right. The non-contributory pensions for old age were then established in a number of countries including New Zealand (1893), France (1905), Great Britain (1908), Uruguay (1919), and South Africa (1928). In the United States, it was only as late as 1935 that the encouragement was officially given to old age pension movement already existing in the States, by the Social Security Act of 1935, which promised a Federal subsidy.*

At the outset only old age was taken into consideration. In course of time the non-contributory pensions were extended to cover invalidity. However, legislation is not uniform in the matter of the risks covered. The aged are granted pensions in all countries which have adopted any legislation in this direction. Most of these countries have also instituted pensions for the blind. However, only a few countries provide pensions for the invalid, viz., France, Australia, Uruguay and New Zealand. The risk of premature death is not covered by any non-contributory pensions scheme.

* I.L.O., Series M, No. 18, op. cit., p. 7.

Before pensions could be granted, some conditions have to be fulfilled. These qualifying conditions are political, moral and economic. The claimant must be a national of the country that provides the pension, and he must have resided in the country a minimum number of years, say, fifteen or twenty ; a shorter period may be fixed in the case of blindness and invalidity. The moral conditions, prominent in the older laws, are now either dropped or are non-existent in the recent laws. An example of moral conditions is the following. The claimants must have led a respectable life without any criminal record. In Great Britain such conditions have been abandoned, while in Canada and South Africa, they have not been imposed at all. The economic condition, the means test, is the most important. Pensions are restricted only to those persons whose means do not exceed a prescribed amount. This amount is generally considerably above the subsistence level.

The rate of the pension, under the non-contributory pensions schemes, depends mainly on the means of the claimant, but it is subjected to a maximum rate which on an average is about one-fourth of the wages of an unskilled labourer. While assessing the pension, part of the means of the claimant may be disregarded, e.g., that amount of the earnings which accrues as benefit from friendly societies, or the annual value of the house owned by the claimant and occupied by him, etc. In the countries of the British Commonwealth exemptions of this nature are quite liberal. The pension is adjusted to the net means, and generally a pension sufficient to bring the total income (i.e., net means plus pension) to the maximum pension itself is granted.

The non-contributory pension schemes are financed solely from taxation. The cost may be borne wholly by the Central Government or be shared with the Local Governments. The schemes are administered by State officials and not, as is generally the rule in social insurance, by elected representatives of the persons concerned. Administration again may be shared by the Central and Local Government.

As has already been stated above, non-contributory pension schemes have been adopted as being an improvement upon the

method of statutory poor relief and most of the schemes like those of Australia, Great Britain, Denmark, etc., offer important advantages, as compared with the typical poor relief conditions : The pensions do not affect any civic rights ; award of pensions does not depend on the absence of relative legally liable and able to support the claimant ; pensions are not confined to the destitute. The pension is payable as of right to persons satisfying the statutory conditions. Appeal to higher authority is also provided.

The non-contributory pension scheme has some advantages over its rival contributory scheme. Its scope is universal ; the scheme meets, when it is instituted, the immediate needs of the existing aged and the invalids ; no machinery need be set up to collect contributions and to keep the accounts of contributors. However, the non-contributory schemes as they exist today, have their drawbacks also ; the risk of invalidity is covered only in four countries, viz., France, Australia, Uruguay and New Zealand and even in these countries only permanent and total incapacity is pensionable. The risk of premature death is not covered or may be said to be covered only incompletely, since the widows have no claim, except in respect of children. These schemes are also generally financially weak.

Contributory Pensions

In fact non-contributory pension schemes have proved themselves to be only transitional schemes. Except in Australia, Canada and South Africa, they have been overshadowed or replaced by contributory schemes introduced later. The most important factor in this connection has been the financial one— it has to be noted that old age pensions are very costly— ; for instance, in Great Britain, the main factor requiring the change-over from a non-contributory to a contributory scheme was the future budgetary problem presented by the actuaries' report on the development of the old scheme. Due to the very great expansion of population and the increase in the prospects of survival, the cost of the Exchequer was estimated to rise from £27 millions in 1925 to £60 millions in 1975 under the old non-

contributory system.* In Great Britain the Contributory Pensions Act was passed in 1925, whereby contributory pensions have been created for widows, orphans and old persons after the age of 65, though actually after 70, the insured persons receive old age pensions under the Old Age Pensions Act of 1908 (non-contributory) by virtue of a provision in the Contributory Pensions Act whereby the contributory pensions are then merged into non-contributory pensions. The non-contributory scheme has thus been overshadowed, though not replaced, by the contributory system. Similar development has taken place in other countries too. In France the introduction of a general scheme of social insurance in 1928 marked the exit of the non-contributory pensions, except for some residual functions. In New Zealand, again, the Social Security Act of 1938,—covering in a single enactment, old age pensions (called the " universal superannuations "), medical, surgical and hospital treatment, sickness, invalidity and maternity benefits, widows' and orphans' pensions, special pensions for disabled miners, unemployment benefit and family benefit—replaced the non-contributory pensions with effect from 1st April 1940, upto which transitional period persons qualified under both schemes were given the higher of the pensions from the two sources. Even in the United States the Federal scheme of old age and survivors' insurance seems destined ultimately to cover the whole occupied population and thus to eliminate the necessity for the non-contributory pensions which at present take care in particular of agricultural and independent workers. It has to be noted that the change-over from a non-contributory to a contributory basis has not, in some countries, radically affected the older schemes in other respects.†

The contributory pension scheme or pension insurance was first introduced in Germany in 1889 by Bismarck, who declared that, " The State must take the matter into its own hands, not as almsgiving but as the right that men have to be taken care of, when, from no fault of their own, they become unfit for work. Why should regular soldiers and officials have old age pensions, and

* Wilson and Mackay, *Old Age Pensions, A Historical and Critical Study* (London), p. 87.

† I.L.O., Series M, No. 18, p. 7.

not the soldier of labour ? This thing will make its own way ; it has a future." Then other countries introduced compulsory pension insurance sooner or later, as described above.

Scope

National Insurance

Compulsory pension insurance laws may, with reference to their scope, be classified into three types, viz., national insurance, popular insurance and compulsory insurance of employed persons only. Under compulsory national insurance, all the inhabitants irrespective of their conditions of work, occupation and amount of earnings are, as a rule, compulsorily insured, subject to conditions of age, residence and nationality. Such national insurance has been advocated on the ground that all persons are exposed to the risks of invalidity, old age and premature death, and their economic consequences. Further, important advantages are claimed for it, e.g., avoidance of class legislation and thereby of class-feeling ; on the side of practical application, availability of regularly collected and published statistics of the general population, its distribution by age and sex, and its mortality ; establishment of insurance institutions having a stable and sufficient membership ; easier administration because of factors like absence of enquiry into occupation or earnings ; insurance reaches rapidly a position of stability, since insurance embraces the population as a whole ; also insurance can then more confidently be worked according to the method of annual assessment, thereby avoiding the necessity of building up actuarial reserves ; even if large reserves should have to be accumulated, they could be quickly and profitably utilised in the interests of national prosperity. However, the notion of national insurance has, until recently, met with strong opposition and extension of compulsory insurance to persons of sufficient means has been regarded as useless and as an abuse of the coercive power of the State. It is further alleged that such a scheme of national insurance is not without some defects of great consequence, e.g. : there is lack of homogeneity in important respects, like mode of life, amount of means, ability

to contribute, need of benefits ; again, if general satisfaction is desired, uniformity in contributions and benefits is impossible and a scale of contributions and benefits has to be drawn up, that involves means investigation, classification, etc., compulsory national insurance has been adopted only in two countries, viz., Sweden and some Swiss Cantons. In Sweden, civil servants, and employees in the postal and telegraph departments, State railways, etc., if entitled to a State pension, are exempted.

Popular Insurance

The other two conceptions of insurance refer to persons of small means only. However, one type of scheme covers employed persons only, while the other covers both employed workers and independent workers of small means (popular insurance). In the latter case, employment is not recognised as a criterion of liability to insurance and all occupied persons of small means are covered. Independent workers of small means are no less exposed to the risks of invalidity, old age and premature death ; but some special difficulties occur in practice in insuring them, for instance, there is no employer to pay part of the contribution ; again, the absence of the employer raises the difficulty of the collection of the insured person's contribution. Such a scheme exists for compulsory pensions only in Denmark covering the risk of invalidity, the insurance being compulsory for all those who are regular members of the voluntary sickness insurance institutions. In some countries attempts have been made to institute a special scheme for independent workers. In 1925, a scheme was prepared in Czechoslovakia, and was made a law, but had not been then, or even till 1933, put into force.

Insurance of Employed persons

Compulsory insurance of employed persons has found widest acceptance. Although the different national laws differ because of the introduction of certain important modifications, this principle has been adopted in a large majority of countries like Great Britain, Austria, Brazil, Chile, Czechoslovakia, France, Germany, Italy, etc., etc. The main reason for this wide development has

been that such insurance can be easily put into practice, since the cost can be partly charged to the employer and the worker's share can be collected by the employer by cutting his wages to that extent. Although the general formula has been almost the same, the modifications introduced by different laws are based mainly on certain exemptions and physiological and economic conditions.

The general formula defining scope in the case of employed persons is the same as in the case of sickness insurance. It involves three conditions : (1) work in a dependent position, (2) work under a contract, and (3) work as the ordinary means of livelihood. Although this general formula has found almost universal acceptance, its adoption in practice has been accompanied by important modifications in various legislations. These have been based on considerations of an economic or social character. The legislator has estimated in a different manner, according to the country, the need for protection of the various classes of the population and has often been led to limit or to extend the scope of the general formula.* The consequence has been a variety of national laws : In some States, there is only a single system of insurance against old age and the other risks, e.g., according to the British system, employed persons in a great variety of occupations are compulsorily insured under a single plan which is applicable equally to all occupations. In certain other States the legislation does not provide for a unitary system covering all employed persons but for a number of schemes applicable to different groups of workers according to their trades or occupations which may be described generally as " miners ", " salaried employees ", " intellectual workers ", etc., but for practical purposes need to be more closely defined. Examples† of this policy are found in Argentina (bank staffs and staffs of private undertakings of public utility), Brazil (staffs of public utility undertakings), Cuba (seamen and harbour workers), Ecuador (bank staffs), Yugoslavia (miners), etc. Most countries

* International Labour Office, Studies and Reports, Series M, No. 1, *General Problems of Social Insurance* (Geneva, 1925), p. 15.

† International Labour Office, Studies and Reports, Series M, No. 10, *Compulsory Pension Insurance* (Geneva, 1933), p. 30.

have established a separate fund for railway workers, and where mining is of importance, for miners. The same is often true of seamen and other similar groups. Compulsory insurance is most firmly established in the two branches of economic activity which employ the great majority of workers, viz., industry and commerce ; because workers therein have been organised since early times in trade unions which have urged the adoption and development of insurance schemes and because they receive, as a rule, their remuneration entirely in cash. Moreover, it is comparatively simpler to supervise the work of collection of contributions from employees in industry and commerce. While there are general schemes for workers in a number of countries, these may be accompanied by special and separate schemes for miners, as in Germany.

Limiting Factors in Scope

Among employed persons, the exemptions are not few. Agricultural workers have been covered by pension insurance only in some countries. In Greece, Hungary, Luxemburg and Rumania, they are not yet covered. Even in the other countries movement to include them has grown only in the last thirty or forty years. This slow progress has been due to much the same reasons as in the case of sickness insurance, although in practice pension insurance is not so difficult to extend to this group as sickness insurance. Similarly, domestic servants have been included only in recent years in some national laws, since it was recognised that the old patriarchal relations had disappeared and that they were now in need of social protection like any other workers. As to home workers, they were covered if their industry was covered ; but difficulty arose in the case of those who were legally independent, although virtually in a dependent position. Another difficulty was that payments made to them as wages often included both remuneration and the cost of the material. Now, in recognition of the fact that their economic position is often much worse than that of the wage-earners properly so called, they are covered in an increasing number of countries. In Great Britain both the home workers and small contractors are covered. Public servants in most cases are exempted from

the general scheme, since they are effectively protected against this risk by special schemes, e.g., in Chile, Bulgaria and Switzerland special schemes cover them. Application of compulsory insurance to apprentices is generally made dependent on their receiving remuneration, perhaps in cash only, as in Germany, Russia, Great Britain, etc., or in kind also as in France, Italy, Hungary, etc. In Australia, Chile, Poland, Hungary, etc., apprentices are included whether they are remunerated or not.

Short-time employments have also proved difficult to be covered in pension insurance. In this category come occasional employment (i.e., employment which is undertaken now and then, but does not constitute the usual means of livelihood of the worker), subsidiary employment (i.e., employment regularly followed concurrently with some other main occupation), temporary employment (i.e., a series of short engagements, for one or different employers, e.g., a porter), and seasonal employment (carried on at certain periods of the year only). As to occasional employment, the provisions in different countries differ. In Czechoslovakia, it is in principle insurable for salaried workers, but not so under the general workers' insurance scheme. In France, those engaging in employment for less than ninety days in a year are excepted. In Germany, the workers' scheme exempts all those who are not normally wage-earners, if they are temporarily employed for negligible remuneration, where occasional employment is that which does not continue for more than three successive months. In Great Britain, workers working casually otherwise than for the purposes of the employer's trade or business are exempted. Chile makes occasional workers of all kinds liable to insurance. In the case of subsidiary employment, if insurance does not apply to that branch of economic activity, no question arises. The question of exemption arises only if this subsidiary employment is also insurable. The fact must then be decided on the estimate of the importance to the worker of the subsidiary occupation. In practice one of the following three methods is followed : (1) Exemption of all subsidiary employments—this has been done in Czechoslovakia, Hungary and Luxemburg. Here liability to insurance depends only on the main occupation. (2) Exemption of specified subsidiary employ-

ments, e.g., in Great Britain certain jobs specified as subsidiary are excepted, provided they do not constitute the principal means of livelihood. In Austria, exception is made with reference to time that the job takes. (3) All subsidiary employments may be covered. The laws omit to make any mention of subsidiary employment, thus covering it automatically, as, for instance, in Germany. Temporary employment is now covered in most countries. In Germany no exemptions are made. While in Rumania certain undertakings are absolutely liable to insurance, in Russia certain temporary workers are absolutely exempt, e.g., washerwomen. Temporary employment is excluded in some countries on the ground of the difficulty of collecting contributions, because of the presence of too many employers. A number of laws leave the question of their inclusion to the discretion of the administrative authorities. In Germany, the method followed has been that, wherever possible, the first employer of the week has to pay his own contribution and deduct the worker's from his wages. Seasonal employment is associated mainly with agriculture and its accessory industries. In Germany, exemption is granted if seasonal employment does not exceed twelve weeks at a time or fifty days in all (in a year), provided the persons concerned maintain themselves by independent work during the rest of the year. In Great Britain certain specified seasonal employments are excluded, e.g., fruit and hop picking.

Besides such modifications in the scope of compulsory pension insurance of employed persons, there are other limitations also. Most of these limitations may exist to a greater or a smaller extent even in the schemes of national insurance or of insurance of persons of small means, whether in a dependent or an independent employment. They arise out of personal qualifications and the relevant conditions may be classified as physiological, political and civil and economic. Physiological conditions concern sex, age and working capacity. Sex is no longer a distinguishing factor except sometimes in the matter of rates of contributions and benefits. The purpose of laying down age limits is to exempt very young persons and persons of an advanced age, or to terminate insurance of persons who have reached pensionable age. The lower age limit is in some schemes based

on the school-leaving age when compulsory school attendance ceases, e.g., 14 years in the Netherlands. In general, the lower age limit varies between fourteen to eighteen years. The upper age limit in the case of workers' insurance varies from sixty to sixty-five years. The condition concerning working capacity lays down that persons who are invalids already cannot be admitted. To be entitled to be admitted to insurance the persons must have full or at least substantial working capacity. In practice there is no regular medical examinations for an entrant ; but in doubtful cases the burden of proof falls on the entrant or the insurance institution may get the person medically examined.

The political condition refers to the nationality of the persons. Most schemes apply to foreigners in the same way as to nationals. A few States (e.g., Bulgaria and France) allow this on the basis of a reciprocal treatment only. So far as the family relationship with the employer is concerned (civil condition), wife and husband are mutually exempted, while children working for their parents are liable to compulsory insurance, if they are paid in cash. In some countries (e.g., Czechoslovakia), a contract of employment between the child and the father is deemed necessary for liability to insurance. The economic condition makes insurance compulsory for those workers only whose earnings do not exceed a prescribed limit. In some States the limit is applicable only to non-manual workers, manual workers as a class being presumed to be in need of the insurance benefit. In Great Britain, Hungary and the Irish Free State, a limit has been laid down on non-manual employed persons. In Germany, it exists only for the salaried employees and miners. In Chile, France and Spain is to be found a limit of earnings for all insured persons. No limit of earnings exists in some countries either in the case of workers (e.g., Austria, Belgium) or for particular groups like bank staffs in Argentina, intellectual workers in Poland, etc.

While discussing the scope of compulsory pension insurance, it is relevant to consider the provisions made for persons for whom insurance ceases to be compulsory by conditions of liability to insurance ceasing to exist ; and for voluntary insurance established as a complement to the compulsory scheme to cover

persons outside the scope of the latter. For persons, for whom insurance ceases to be compulsory, provision is made in most countries for maintenance of conditional rights to benefit. There is, as a general rule, temporary free maintenance of conditional rights. It is only when the free period fixed by the law has elapsed without the insured person's again becoming liable to insurance that he loses his conditional rights and the contribution already paid cease to be valid. However, the length of the period, for which membership of the compulsory insurance scheme is necessary in order to be entitled to these conditional rights, varies. In Bulgaria the condition is that at least twenty-four weekly contributions must be paid in two years after the date of issue as stamped on the insurance card. A period of two years is provided in Great Britain. For the benefit of persons whose temporary free maintenance of conditional rights has lapsed, some provision is made by every country. Four methods are possible : (1) refund of contributions, (2) revival of those lapsed rights under certain conditions, on return to insurable employment, (3) continuance of rights by payment of a continuation fee, or (4) voluntary continued insurance. The various national laws give preference to one or the other of these methods, though one or more may exist side by side in the same country. The method of voluntary continued insurance has been most commonly adopted : in Great Britain and Irish Free State, it is open to all insured persons except married women. In other countries some restrictions exist relating to income (as in Chile), reason of ceasing to be compulsorily insured (Bulgaria), qualifying period (as in Czechoslovakia), etc. There is generally a time limit for entering continued insurance, either specially fixed or concurrent with the period of maintenance of conditional rights to benefit.

In order to mitigate the strictness of the general formula of wage-earners' insurance and to enable independent workers who feel the need for insurance to benefit under the same system as that which covers wage-earners, almost all the laws in force have adopted the method of voluntary insurance to supplement the compulsory system. Voluntary insurance may take the following forms : the renewal of insurance for persons who have ceased

to be insured for a certain time (as referred to above) ; continuation of insurance for compulsorily insured persons who cease to fulfil the conditions laid down by the law ; the development of insurance in order to secure for insured persons additional benefits ; and the institution of voluntary insurance properly so called for persons excluded from compulsory insurance in virtue of the principles which determine its scope. In the last mentioned form, voluntary insurance applies mainly to independent workers who experience a need for protection on account of their economic weakness. The offer of voluntary insurance is in most countries based on a number of conditions. There are physiological conditions : sex—in Great Britain married women are excluded ; age—the upper age limit for entry into insurance varies between 40 to 45 ; working capacity—voluntary insurance is never open for invalids, and some laws (e.g., those of Austria, Chile and France) require a medical certificate ; political condition : in some countries voluntary insurance is open only to nationals, e.g., in Chile, France, Italy, etc. Economic conditions also exist providing a certain maximum of earnings for entry into voluntary insurance.

Risks Covered

Pension insurance covers old age, invalidity and premature death (as is outside the scope of workmen's compensation). In the earlier times pension insurance in general came to be established only for the benefit of the necessitous aged. Still the German Act of 1889 covered both old age and invalidity. Survivors' pensions have been a logical corollary to the establishment of pensions for the insured persons. It has to be noted that although most of the countries have included all these three risks under a single system, some countries have separated the risks, covering only two together ; for instance, in Great Britain invalidity is linked up with sickness insurance, since there is no time limit to the benefits provided under the sickness scheme. There the pension insurance scheme only cover old age and death. Further, although all the three risks may be included under a single plan, yet there may be important distinctions in

the matter of contributions, benefits, etc., as for instance in the method of computing them.

Old Age

The concept of old age has been the subject of two viewpoints. Old age may be regarded as the age at which the worker is no longer fit to work or as that at which he is regarded as having earned a right to rest. The right to rest is a concept more human than scientific. It is deemed to be the return for the efforts made by the individual during the greater part of his life to earn his own living, to support others and to accumulate capital for the general advantage. The worker looks to the old age pension as the escape from a life-time of hard work into a welcome condition of independence and relaxation. Such a right is recognised, but the fixing of an age from which such a right may be regarded as earned is difficult. The problem may be tried to be solved in a number of ways, but the simplest seems to be that of examining statistics of expectation of life and estimating the proportion of the population to which pensions can be granted without an excessive burden on the rest of the community.

From the economic, as also from the medical viewpoint, old age is regarded as an age at which the worker is presumed to be no longer capable of working ; in other words, old age is presumed to be a special case of invalidity, based on the fact that at a certain age weakness due to natural exhaustion of the body combined with the results of various diseases, etc., makes it difficult, if not impossible, for the worker to remain actively engaged in his occupation. Such invalidity is characterised not merely by a normal and probable decline of health and efficiency, but also by the difficulty of finding employment. This is indeed a vague conception, and the determination of the pensionable age is essentially arbitrary, more so, since this old age or invalidity will set in at different ages in different occupations or even among different persons belonging to the same occupation.

If each of these conceptions is given an extreme interpretation, the divergence between the two pensionable ages obtained may be great ; but a similar position may be arrived at, if the right

to rest is placed at an age high enough to coincide with that at which invalidity is in practice the normal condition. The worker desires that the pensionable age should be a fixed one and further that it should be fixed low enough to give him a fair chance of surviving to enjoy his pension for a substantial period. Between the scientific and the human concepts, the latter has been respected merely by the recognition of a definite pensionable age. Such an age has been fixed by all the national laws. It is based on numerous factors, and no definite conclusion can be reached as to the precise conception on which it is based. Actually, it is a compromise between several factors that demand due consideration : e.g., need for rest, nature of work, the sex, length of his career, development of invalidity with age, difficulty experienced by elderly people in finding employment, etc. The general schemes of old age pension insurance fix the pensionable age in fact, at not lower than the age at which the majority of individuals become permanently unemployed. By fixing the beginning of old age at a certain age, a clear distinction is made between the two risks of old age and invalidity—though old age itself can be regarded as a special form of invalidity. Invalidity is covered by term insurance which ceases immediately the worker becomes entitled to old age pension ; i.e., as soon as the invalid reaches the pensionable age, he gets the pension under the old age scheme, the invalidity branch ceasing to operate.

The normal pensionable age has been fixed at 65 in almost all the general schemes and even in a number of special schemes for salaried employees. Lower ages are to be found mainly in schemes for small privileged groups and several occupational schemes. The fact that women become unemployable at an earlier age than men has been generally recognised and the pensionable age for them is found to have been fixed at 60. It has been only during the last few years that this pensionable age for women has been reduced from 65 to 60 in Great Britain and some other European countries. It has, however, to be noted that the pensionable age is not always rigidly fixed. A number of schemes have introduced the option of taking a lower pension at an age below the normal and without proof of invalidity or a higher pension at an age above the normal, notably

in France (1941), Belgium, Brazil (commercial workers, 1940) and in various salaried employers' schemes.* The maximum number of years so provided above or below the normal vary from five to ten. In Chile there are three pensionable ages : 55, 60, 65, any one of which can be taken at the option of the insured person.

Invalidity

The invalidity pension is the link between the sickness benefit and the old age pension and accordingly invalidity embraces a range of states extending from prolonged sickness to premature old age. Invalidity as the risk covered by pension insurance may be explained as the incapacity for work which appears to be permanent, or more clearly as, in countries possessing compulsory sickness insurance schemes, incapacity which persists after sickness benefit is exhausted. The definition of invalidity adopted by Germany in 1889 has become classic and has been adopted by numerous countries thereafter. That definition is as follows. An invalid is a person who is incapable of earning, in an 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 the sum usually earned by physically and mentally sound persons of the same kind with similar training in the same neighbourhood.†

Invalidity, meaning incapacity for work, may be defined in three ways : (1) in terms of the degree of physical infirmity and incapacity, (2) in terms of physical inability to carry on one's previous occupation—occupational incapacity, and (3) in terms of finding fresh employment for the invalid in the labour market—general incapacity for work. All these conceptions have already been discussed in connection with workmen's compensation schemes. The conception of physical invalidity has been rarely used in invalidity insurance schemes. The German definition of invalidity for the general workmen's scheme is based on a sort of compromise between the conceptions of the general incapacity for work and of occupational incapacity. However, the great majority of occupational schemes for miners, seamen and railway-

* I.L.O., Series M, No. 18, op. cit., p. 52. † Ibid., p. 54.

men, and salaried employees' schemes follow the criterion of occupational incapacity—incapacity for one's previous job or any other job which implies a similar social and economic status and is in the same field. It has to be noted that while for the manual workers, invalidity implies almost total incapacity, in the salaried employees' schemes, even partial incapacity—say, reduced by half, entitles the insured persons to pensions.

The establishment of a state of invalidity involves on the medical side that the authority responsible for certifying invalidity (1) must verify the existence of the infirmities, (2) must determine the extent of functional disturbances and the degree of care and special attention required, and (3) must indicate the type of activity which the worker is still capable of performing. On the economic side, it has to be determined whether the type of work considered possible from the medical point of view can in fairness be demanded in the same occupation or any other, according as the risk covered may be occupational or general incapacity. Then an estimate has to be made as to what fraction of normal wage will most probably be earned by the invalid worker from his activity, in view of his physical state and previous experience. It is only when this fraction is sufficiently low that the claim to invalidity pension is entertained.

The invalidity pensions are not graded according to the degree of incapacity in any scheme, except that of the U.S.S.R., wherein three grades of incapacity are recognised, for the purpose of both invalidity insurance and workmen's compensation. In almost all other schemes medical graduation of incapacity is made only for workmen's compensation ; a graduated estimate of incapacity from the medical point of view is not plausible in invalidity insurance which deals with not local injuries, but constitutional diseases. Further, only in cases where incurable disease or injury is obvious from the outset, are life pensions granted immediately on the establishment of a state of invalidity. In all other cases, periodical medical examinations are made either regularly, if so prescribed by the law, or at the option of the parties. Such examinations are, obviously, necessary only till the pensionable age is reached.

One question that arises in invalidity insurance and workmen's

compensation alike is whether in fact, whenever pension is refused to a seriously incapacitated person on the ground that he is fit for work of some kind, work of the kind specified is available. This is indeed a rather disheartening problem—more so in invalidity insurance since cases of serious incapacity are likely to be greater. In Germany this risk of unemployment has been expressly excluded ; but it cannot be forgotten that Germany has a scheme of unemployment insurance in force and its definition of capacity for work is complementary to the definition of invalidity. Even then it has to be noted that unemployment benefits are after all limited in duration. Therefore this factor deserves serious consideration in the award of invalidity pensions, and systematic and organised efforts must be made for the rehabilitation and placement of the partially disabled.

Premature Death

The risk of premature death, as covered by pension insurance, is indicated by the economic effects of the death of the breadwinner, be he merely an insured person, or an invalid or old age pensioner, on his wife, children, who may be too young to support themselves, and other survivors. In principle, the measure of actual loss suffered depends on factors like the earnings of the insured person, his age, his expectation of life, and the number of survivors dependent on him, their ages and needs. Obviously the risk is non-existent, where the family has already been depending on resources other than his wages or pensions.

The risk is therefore defined essentially by the description of the survivors who are entitled to pensions as dependents. No scheme however fixes pensions to cover actual loss ; factors like expectation of life of the breadwinner are quite ignored. The pensions are at fixed rates, payable to certain categories of survivors only. Compensation is granted in accordance with uniform rules : e.g., all survivors of a given category are presumed to have been economically dependent on the insured person to the same degree. This degree is expressed as a percentage of the pension of the insured person or his wages.*

* I.L.O., Series M, No. 18, op. cit., p. 165.

Funeral benefits are rare in pension insurance ; but lump sum payments are often made to permit adaptation to new conditions, when survivors are not, for some reason, entitled to pensions.

Benefits

Conditions of Grant : Qualifying Period

Amongst the conditions necessary to be satisfied by the insured person for the award of pension benefits, that relating to the qualifying period is the most important. For old age pensions, the qualifying period serves to some extent the purpose of establishing a certain ratio between the guaranteed benefits and the contributions, or of only preventing the affiliation of persons who do not exercise an insurable profession as a genuine or more or less permanent means of livelihood. In the case of invalidity and premature death, the qualifying period is important as a means of eliminating bad risks, especially those individuals who enter insurable employment only as a matter of form, actually as early candidates for one or other of the pensions. The qualifying period for invalidity or survivors' pensions varies from two to five years. In Russia it is made dependent on the age at which the invalidity begins : under 20—nil ; 20-25—2 years ; 25-30—3 years ; 30-40—5 years ; 40-50—7 years ; over 50—8 years. In Sweden alone no qualifying period exists, since one part of benefits corresponds to contributions paid, the other being paid only in case of need. The qualifying period for old age pensions is in many cases much longer, being 10 to 15, 20 or even 25 years, since this pension is regarded as a benefit to be earned rather than as an indemnity to be insured for. Obligation to complete the period may therefore be waived without difficulty where the guaranteed benefits correspond exactly to the value acquired by the paid-up contributions.

Further, in all the three types of pensions, sufficient regularity must be maintained in the payment of contributions, not merely as a proof of continuing genuineness of the employed status of the insured person, but also as a factor in keeping up that average level of contribution-income, which is postulated by the benefits promised. The irregularity in payment, if due to proved

sickness, involuntary unemployment or military service, is excused in an increasing number of countries. Although regularity of contributions is an important factor for the retention of the insured status required by the completion of the qualifying period, any sort of penalisation for irregularity in payments is not common. Actual provisions on the point vary a great deal. In some cases the status is retained conditionally on payment of contributions during the period immediately preceding materialisation of the risk. In Germany, maintenance of rights is conditional on payment of at least twenty weekly contributions for each period of two years raised to forty, if the insured person has been in compulsory insurance for less than sixty weeks and contributes under voluntary or continued insurance. Provision is often made for rejoining lost status by the completion of a fresh qualifying period. There is free cover allowed to an insured person after his voluntary retirement from insurable employment, e.g., Czechoslovakia, 18 months ; Germany, a third of the period of paid contributions.

Withdrawal from Employment

In the case of old age pensions, withdrawal from insurable employment may appear to be an implied condition for the award of old age pensions. However, such a provision is typically found only in occupational or salaried employee's schemes, with a view to facilitating the retirement of the aged members, which schemes therefore pay comparatively ample pensions. In the case of schemes for employed persons generally or manual workers, such a condition has been imposed only in the U.S.A. and Czechoslovakia. A much higher pension is awarded in France and Rumania, if the beneficiary gives up his employment. In the majority of schemes retirement is not insisted upon, since the old age pensions are hardly high enough even for subsistence, and the proportion of pensioners able to retain their employment is very small.

Survivors' Conditions

In the case of survivors' pensions, the survivors have to satisfy certain conditions. The widow and the minor children are of

course the main beneficiaries,—numerous laws recognise even the widower as a beneficiary if he has been in fact supported by his deceased wife. Provisions for the inclusion of other survivors like brothers and sisters, parents, etc., in the category of beneficiaries vary. The essential condition is, obviously, that all the survivors must have been dependent on the deceased, while in the case of the widow and children a state of their joint dependency with respect to the insured person is often assumed, proof of such state may have to be tendered in the case of other survivors. The chief differences among the schemes consists in the varying stringency of the condition of dependency to be fulfilled by widows. In most of the schemes for employed persons or manual workers, a widow is pensionable only if she has children to support, or if she is an invalid, or if and when she reaches the age of 65, (50 in New Zealand). It is only in Great Britain and Belgium that a widow is entitled to a pension unconditionally. Conditions relating to date of marriage are often laid down to prevent establishment of pension rights by a marriage that might only be a speculation on the worker's early death—the condition generally is that it must be prior to the date at which the husband reached a particular specified age or at which he was recognised to be invalid or granted an old age pension. The age up to which pensions are paid for children and orphans is in most countries higher than the school leaving age or the minimum age for entering employment and an increasing number of schemes allow prolongation of the period of pensions by two or three years in order to enable the children to complete their education or training.

Provisions are often made for forfeiture, suspension and lapse of right, total or partial, to benefit in events like the following : (1) the event insured against occurring as the result of the person's wilful conduct ; attempt to defraud the insurance institution ; (2) when right to benefit accrues from several insured events occurring ; (3) possession of an income exceeding specified limits—means limit—not very common ; (4) disappearance of circumstances for which the pension was granted, e.g., removal of invalidity, widow's remarriage ; (5) maintenance of beneficiary

at public expense; (6) failure to satisfy conditions as to nationality or residence in the country.

Form and Period of Payment

The cash benefits of invalidity, old age and survivors' insurance are of course essentially pensions. Lump sum payments are rare —awarded, if at all, as funeral benefits, or in commutation of pensions, as dowries to women leaving insurance or marriage, refund of contributions in some cases, etc. As for the duration of the different benefits, the old age pension is a life annuity. The invalidity pension may belong to one of the following three types : (1) it may just be a continuation of the exhaustive sickness benefit, so given in expectation of recovery ; (2) the pension may be awarded subject to periodical review and medical examination to take account of possible improvement ; or (3) the invalidity pension may be given as a life annuity, if from the outset no chance of recovery is to be seen. In the case of survivors' pensions, widows' pensions cease on remarriage, and may also be suspended during the period between the termination of the youngest child's pension and the widow's attainment of the pensionable age, since in many countries widows are entitled to pension only if they have minor children to support. Pensions for orphans and widows' children continue until the orphan or the child reaches the age at which he is deemed to be able to support himself.

Amount of Cash Benefit

The amount of cash benefit depends upon the method of its compensation, which in turn depends upon the purpose that the insurance benefit is desired to serve. The object may be (1) to provide a certain standard of living unconnected with his previous wages, (2) to provide the worker something of his old standard, or (3) merely to pay back as benefit amount depending upon what has been contributed. The first two objects have already been discussed in connection with sickness insurance.* The third object is stressed only in pension insurance, which has in it the " insurance " element predominantly, so that the rate

* See Chap. III.

and duration of the contributions are important factors. Advantages and disadvantages of giving fixed benefits at flat rates, in accordance with the first object of insurance mentioned above, and those of benefits varying with actual wage loss, according to the second object mentioned above, have already been discussed. The system of awarding benefits varying with the length of contribution period (and perhaps its rate), is suited particularly to the old age pensions, since old age is a risk that materializes regularly, the pensionable age being fixed, as contrasted with invalidity and premature death. Old age insurance is then somewhat in the nature of a saving scheme—of course, " insurance " in fact is itself a form of saving.

Both the contribution period and wages may influence to some extent the computation of benefits under pension insurance the extent depending on the method of computation adopted. The wages taken into account may be the final wages of the average wage during the period of insurance, and may be the actual wage or approximate wage from the wage-class. The effect of the " contribution period " factor varies according to the amount of the contribution, and also according to the length of time during which it may accumulate at interest. For example, at the rate allowed by the French National Old Age Pension Fund, the pension produced at the age of 60 by a given contribution is five times as great when the contribution is paid between 20-21, as when it is paid between 49-50. In Germany, in the miners' scheme, less weight is given to the earliest contributions (usually based on low earnings), and most weight to those based on wages at the time of fullest occupational activity. The joint effect of the amount of the contributions and the time of their payment is broadly such that at first it increases then it is stationary for certain time and finally decreases.

The majority of the pension insurance schemes* for wage-earners or employed persons generally provide for a composite pension consisting of two parts : a basic sum, plus a supplement. The basic sum, due to every claimant who has completed the qualifying period, may be uniform for all pensions, as in

* For detailed classification of national schemes in respect of computation of cash benefits, see I.L.O., Series M, No. 10, op. cit., pp. 215–19.

Germany, or be a fraction of the average wage for the individual, as in the U.S.A. The supplement consists of a fraction of the total contributions paid in respect of the individual in the course of his insurance career, the contribution itself being a percentage of his wages. The entire pension is thus a combined result of two modes of thrift : the basic sum being provided by the "insurance" method and the supplement by saving. In spite of the soundness of the idea of such a composite pension, in reality the basic sum is far below the subsistence level and in most countries as many as thirty years' working life brings the pension to a not unsubstantial amount, viz., 40 to 50 per cent. of average earnings.

The conception of the purpose of compulsory insurance that a certain standard of living ought to be provided without any reference to the actual wages earned has predominated in Great Britain, where pensions are awarded at flat rates uniformly, without any connection with the number of contributions paid, while the contributions themselves are fixed and are independent of wages. These benefits too are below subsistence level, but it is interesting to note that they were higher than the average paid by the German scheme, in 1931. Great Britain in 1940, introduced supplementary pensions to bring up the total amount of pension to the minimum subsistence level. Sweden and Finland have a similar structure of benefits. In Denmark and New Zealand, a pension sufficient in itself for existence is provided and is paid in its entirety to persons of limited means ; but is reduced in other cases.

As to the problem of adapting pensions to the changing cost of living, in general no positive provision has been made for such adjustment, except in Denmark. The general tendency has been to effect temporary alterations by temporary ad hoc legislation, if necessary, with the help of subsidies. Nevertheless, the Polish manual workers' scheme of 1933 has provided an adaptation of the basic sum to the changes in the general level of wages. A Bill under consideration by the Chilean Congress in 1941 (perhaps by now made into law) sought to apply the idea of a flexible basic sum even to pension already begun.*

* I.L.O., Series M, No. 18, op., cit. p. 59.

According to the Bill, the minimum pension is to vary in specified manner with the individual wages during the last sixty months of insurance, but is never to be less than a specified proportion of the general average wage of all contributing members during the immediately preceding year.

It has to be noted that the pension rates for the three contingencies are necessarily inter-dependent. The invalidity pension should preferably be less than, or at least not greater than, the old age pension substituted for it when the pensionable age is reached. In some schemes like those of New Zealand, Great Britain, the two pensions are almost equal. The German method, however, has proved a popular precedent and most schemes provide for an invalidity pension which, starting from a minimum substantially lower than the normal old age pension, gradually approximates to the latter in proportion to the time spent in insurance, and becomes exactly equal to the old age pension when the pensionable age is reached. Survivors' pensions are generally calculated with reference to the pension which the deceased was receiving or to which he would have been entitled if he had been an invalid at the date of his death. The maximum for survivors' pensions is so fixed that they cannot exceed the corresponding invalidity or old age pension.

Benefits in kind in the form of medical assistance are important in pension insurance, not merely as curative measures and treatment, but more particularly as preventive measures systematically designed to combat the illness prevalent among the classes of population, whose means of livelihood are only limited. Insurance institutions often assign a specific object to their activities, that of restoring earning capacity and preventing or at least retarding invalidity.

Medical Benefit

The persons that are entitled to medical benefit are of three types : the insured persons, pensioners and the dependants. The insured persons are generally also entitled to medical benefit from the sickness insurance institution but help by the invalidity fund is important especially when sickness benefit is exhausted —of course in Great Britain no such distinction is made. As

for the pensioners there exists in many cases a possibility of removing, or at least mitigating by suitable treatment, the infirmity on account of which pension was originally granted. Even otherwise the benefits in kind can be of great use to any pensioners in case of need whether they draw invalidity, old age or survivors' pensions. Certain laws extended the medical benefits also to the dependants of the insured person.

Provision is made for preventive care and curative treatment in most schemes of invalidity pensions. Periodical medical examinations have been attempted only in Chile. Co-operation, in the work of detection of diseases on a local basis has been found very useful between sickness insurance institutions and invalidity insurance funds, where these two exist separately. The sickness insurance fund because of its close touch with its members, can give a regular account of their state of health. It must in fact notify to the invalidity insurance fund all cases of specific diseases or complaints which if prolonged beyond a certain period may eventually produce invalidity. Invalidity insurance institutions can have their own clinics for diagnosis and treatment or can have them in common with the sickness insurance funds. In Great Britain only the general practitioner's treatment is granted by law. In France insurance covers the cost of general and special medical attendance, pharmaceutical expenses, supply of appliances, treatment in a hospital or on curative establishment, and the expenses of conveyance and, if necessary, surgical treatment. Generally the duration of the medical assistance provided by invalidity insurance institutions is not limited. In Germany and some other countries, the nature of treatment, etc., is left to the discretion of the insurance institutions.

As for the organisation of the medical service, the invalidity fund may either have recourse to the sickness fund or may organise a medical service of its own. Whenever invalidity funds render assistance to persons who have not yet exhausted their sickness insurance rights, the sickness fund has to refund the expenses. In some countries like Germany, the invalidity insurance funds have set up their own medical institutions like nursing homes, clinics, centres for specialist treatment and

convalescent homes. The insurance institutions also pay attention to things like development of medical equipment, education in hygiene, etc., etc.

ORGANISATION

Insurance Institutions

The great variety of insurance institutions which is encountered in the workmen's compensation schemes and more particularly in sickness insurance scheme is not to be found to the same degree in the field of compulsory invalidity, old age and survivors' insurance, for reasons which proceed from the very nature of the risks covered. The private company and the friendly society play an important part only in certain few countries like Great Britain, Irish Free State and some American States. Even in Great Britain and Irish Free State, private companies and friendly societies do not, except in the case of invalidity insurance, play any part in pension insurance as contrasted with sickness insurance. In Germany and Spain private companies are allowed to participate for the purpose of providing additional insurance. The principal type of institution to be found in the majority of the countries is a fund of legal origin, being either an independent public institution or a State insurance fund. In any case, the basis of organisation is either occupational or territorial (and inter-occupational). While in some countries like Rumania and Russia, State funds constitute the sole type of insurer, in some other countries, they may be only, one though predominant, of several institutions.

Before pension insurance was made compulsory, there existed retirement funds for public servants, employers of large and stable undertakings like railways, and for miners and seamen. The ideas of these occupational or establishment funds have influenced largely the general schemes for manual workers or employed persons. Autonomous or democratic government of the insurance institutions is less marked in pension insurance than in sickness insurance, perhaps because of the weak or almost non-existent tradition in this respect for the newly created pension institutions. Still, most general schemes are administered with the participation

of representatives of employers and workers—since the right of being represented corresponds to the duty of contributing. Representative government, though partial, does sure maintain the confidence of the contributing parties in the beneficial nature and financial policy of the institution.

In several European countries, pension insurance in its organisation has a single national institution for the manual workers, one smaller fund each for salaried employees, miners, seamen and railwaymen and a number of establishment funds. Now, pension insurance providing adequate benefits in the case of old age, invalidity and premature death is costly and the general schemes for manual workers offer benefits which represent hardly more than a bare minimum of subsistence. Groups with higher salaries can make better provision for themselves than what a general scheme intended mainly for manual workers could offer. In many cases therefore these groups have their own pension funds which also emphasize the social class, and these have continued to exist side by side with the general scheme. Their members are exempted from insurance under the general scheme, if those funds are of statutory origin or offer benefits that are at least equivalent to those provided by the general scheme. Though in countries with numerous established funds, amalgamations have often taken place recently, a general tendency to concentrate the whole of pension insurance in one scheme is not to be much seen. The State subsidises the general scheme only. In pension insurance elaborate rules have to be made for transfer from one scheme to another, with the person, of the actuarial reserve for his accruing rights, or else the several institutions concerned are required to share in a joint pension when the claim matures.

The formation of the insurance institutions is governed by almost the same considerations, as in sickness insurance. They may be formed by a public authority, by private initiative or by the State. In most countries, pension insurance has been centralised from the outset, the State having created a single national institution to administer it ; and the reason is that the payment of pensions to invalids, the aged and the survivors requires a large body of insured persons in order that the mass

of risks should yield an even " claims " experience and financial security may be ensured with a large accumulation of capital to cover accruing and accrued pension rights. The existence of funds founded on private initiative is precarious, except in a few countries, so far as the general workers' schemes are considered. For formation of institutions on private initiative conditions like a certain minimum membership, absence of the profit element, minimum amount of capital are laid down. Such funds on formation have to get legal approval and legal status. The insurance institutions may belong to any of the three types, viz., an account, an establishment, or a society. An insurance account is administered by the State, but the moneys are separate from the general finances of the State (e.g., " Pension Accounts " of Great Britain). An insurance establishment is an institution created by the State. It has its own administrative machinery, budget and moneys, separate from those of the State (e.g., the regional insurance institutions of Germany). An insurance society is a body, as a rule founded by private initiative and then endowed with the privileged legal status,—administering mainly the salaried employees' schemes.

As for the membership of the institutions, one of the two systems may be followed : system of compulsory affiliation and that of subsidiary compulsory affiliation. According to the first, the persons liable to insurance are obliged to join a particular institution as required by law which either provides a single institution or prescribes definitely the jurisdiction of each in respect of persons insurable. This system is useful inasmuch as it gives greater certainty to actuarial forecasts, secures a proper averaging of the risks covered by each institution and enables administration to be simplified. This system has been adopted in numerous countries including Chile, Australia, Germany, and Russia. According to the second system, the person liable to insurance can choose an insurance institution for his risk, in the case of failure to exercise which right, he becomes automatically affiliated to one institution or the other in accordance with law.

As already stated, State administration is found only in few schemes including those of Chile, Denmark, Great Britain (where

approved societies also play a small part). Most schemes are administered with the participation of representatives of workers and employers. When managed entirely by the State, the administrative body is a public service directed by a civil servant and in the last resort by a Minister. In all other cases, whether the administration is by self-government alone or combined with the State, management is entrusted to a series of bodies like the general body, governing body, directorate, financial or supervisory committee, etc.

Other questions connected with insurance institutions are those of federation and supervision. Apart from all the advantages of a federation, discussed already in connection with sickness insurance, one is most important for pension insurance and that is reinsurance of risks. The question of supervision also need not be considered here in detail again. Supervision may relate to the legality or the expediency of the administrative action of insurance institutions. Action may be taken by the supervisory bodies, where legality is concerned, in accordance with law, where expediency is concerned. Actions of a certain kind may be expressly reserved for the approval of the supervisory bodies. Supervision is exercised by means of calling for information, inspection and review.

Transitional Schemes

The question of transitional schemes may be briefly mentioned here.* At the time of the introduction of compulsory insurance, there are many workers who through no fault on their part, have to be excluded from the scope of the compulsory scheme. These persons, the disabled or those who have passed the age limit for entry into insurance, cannot be blamed for the non-existence of an insurance scheme during their work life. In the transitional schemes for such persons, the risk of invalid is rarely covered ; the cash benefit consists of a fixed sum, not generally dependent on wages or on length of employment.

Some Observations

The public demand for pension insurance and protection is

* For details, see I.L.O., Series M, No. 10, op. cit., Part VI.

generally wider and stronger than for sickness, but pension protection is difficult to furnish because of the very high immediate cost. The State has generally tried to widen the scope of pension insurance as far as possible. Almost all schemes offer voluntary insurance for those outside the scope of compulsory insurance. Agriculture deserves to be included in the scope of pension insurance, because the difficulties that the extension to agriculture of sickness insurance involved are not so important in pension insurance. As to the pensionable age, in recent years, its reduction to 60 from 65 has been generally demanded as a means of relieving labour market especially in the depression periods ; but considerations of cost have resulted into the rejection of the proposal. In fact, in some countries (especially, the Latin American) the mounting pension expenditure has caused the age to be raised from 60 to 65 in the schemes recently introduced. Actually, there is always pressure to vary the pensionable age with the state of employment in the country. The great problem of pension insurance has been securing of benefits adequate for subsistence. The invalidity pensions in schemes for manual workers are generally quite insufficient for maintenance, unless invalidity sets in late in middle life. The old age pensions, after thirty years or more of insurance, just approach the standard of adequacy for maintenance. The root of the problem is, in every country, financial : the great cost of adequate pensions, and the great difficulty, political as well as economic, in meeting that cost. The only solution to this ever-existing problem, apart from improvements in the technique, seems to be the supplementing of the pension benefits by assistance schemes, put systematically on a permanent footing. The provision for dependants' allowances or family allowances in the form of bonuses in an increasing number of countries to relieve the scanty nature of invalidity and old age pensions, is welcome.

CHAPTER V

UNEMPLOYMENT INSURANCE

Unemployment

UNEMPLOYMENT, the outstanding economic and social problem which any industrialised country has had to face during the twentieth century, is the latest addition to the risks covered by compulsory social insurance. It has been, with the significant exception of the years during the war of 1914-18 and the present war, a chronic disease of industry, a running sore in the body politic. It is, perhaps, as William Beveridge prefers to call it,* not a disease, but a symptom of one or more several distinct diseases comparable with a high temperature arising from various causes. But for these periods, never has capitalism been able to offer anything approaching full employment of the labour resources of the nation despite all manner of schemes and devices advocated as remedies for this sovereign ill. Unemployment has been inherent in the industrial process, the inevitable concomitant of the factory system and an acquisitive society. With its paradox of "starvation amidst plenty," it has presented the greatest challenge to the existing social order.

The past two decades have witnessed a radical change in the attitude towards unemployment. Hitherto it was commonly alleged, especially by the better-off classes who were not subject to its miseries, that unemployment was caused either by a reluctance to work or by some moral defect or some vocational incapacity on the part of its victims. The myth that unemployment is only a form of industrial malingering, that all who really wanted work could find it if they tried hard enough, has been exploded. The accepted view today is that unemployment is not a problem of individual character, but one of industrial organisation, a view that has been very ably expounded by Sir William Beveridge in his book significantly entitled, ***Unemployment, A Problem of Industry.***

* *Causes and Cures of Unemployment*, by William Beveridge, p. 50.

Unemployment may be termed the " shadow side of economic progress ",* for an unemployed person is one who, despite his willingness and capacity to work, is unable to do so for reasons inherent in the organisation of commodity production. In other words, unemployment is a condition of the labour market in which the supply of labour power is greater than the number of available openings. The extent of unemployment, especially since the last war, has been serious. For instance, in the pre-war period the margin of unemployment in England varied from 2 per cent., even at the height of industrial prosperity, to 12 per cent. in times of economic depression. Since the conclusion of the war, however, unemployment has assumed much more alarming proportions in many countries of the world. " At the beginning of 1932, there were at least 25,000,000 unemployed in Europe and America, and this total was at least four times as great as the total three years before."† Mass unemployment is a peculiarity of modern capitalist economy with its extreme division of labour, its method of production, distribution and income accumulation, all conditioned by the mechanism of price, profit and the market dominating the productive process.

Unemployment may be distinguished as unemployment in particular trades and that of a more general character affecting many trades and several countries simultaneously. As regards the former, there are certain seasonal trades such as agriculture, building, cotton-ginning and fishing, in which demand for labour is also naturally seasonal. During certain periods of the year the workers in the seasonal trades find themselves out of their regular work. Such seasonal unemployment recurs regularly. Unemployment of a general character affecting several industries in a number of countries simultaneously, known as cyclical unemployment, results from widespread periodic movements of trade depressions which alternate with business prosperity, in almost a rhythm that has in recent years shown a marked tendency to shorten. Various theories have been put forward from time to time by economists. The physical or the " sun-spot "

* *Insurance against Unemployment*, by Joseph Cohen.

† G. D. H. Cole, *The Intelligent Man's Guide Through World Chaos*, p. 331.

theory, worked out by Jevons on the suggestions of the astronomer Sir William Herschel, tries to establish connections between the appearance of sun-spots with climatic conditions affecting meteorological conditions and through them harvests, these in turn affecting ultimately the productivity and purchasing powers of the world. The psychological theory, supported amongst others by Pigou and Marshall, regards industrial prosperity and depressions as little else than reflections of rhythmic movements of elation and dejection of the human mind. According to the monetary theory, ably propounded by Hawtrey, the defective working of the monetary and banking structure in respect of credit puts our system out of gear from time to time. Hobson with his under-consumption (over-saving) theory argues that in our present economic organisation wages lag behind prices, and therefore when trade is expanding and prices are rising, business profits increase faster than wages, resulting in over-saving and over-investment (especially in the basic trades), the demand from the great mass of consumers lagging behind. Of these theories, the psychological one doubtless contains an element of truth, but at the same time one has to go behind these mental phenomena. Money and credit are also important, though not the sole, factors underlying the trade cycles. There is thus no single all-embracing explanation of the trade cycle and the cyclical unemployment following in its wake.

Apart from the cyclical or seasonal unemployment, we have what may be appropriately termed "normal" unemployment. Unemployment is a condition created by, and inherent in, an economic system based on free enterprise. The unemployment problem in its present form is a special product of the industrial revolution. Industry needs a reserve of labour to draw upon at will. Ideally, when business is prosperous, the reserve is small, and should be reduced to little more than workers passing from one job to another. During a depression, however, the reserve mounts up. The normal unemployment is often about 2 per cent. Pigou describes it as "an intractable minimum below which the percentage of unemployment never falls". Beveridge calls it "an irreducible minimum of unemployment". A closer examination of the nature of this normal unemployment shows

that it represents mainly incessant loss of time now by some again by others of a much greater number of men, each of whom on the whole gets a fair amount of employment.* Men out of work on any day are only that day's sample of the labour reserve. This normal unemployment sometimes swells owing to factors, apart from cyclical fluctuations, like loss of foreign markets, or new inventions through technological advance whereby entire branches of industry may be condemned to rapid decay, and workers to chronic idleness.

Its results

The adverse effects—social, economic and political—of unemployment are obvious. To the labourer unemployment is his gravest and most appalling problem. It is the paramount evil in his life. His livelihood, his savings, his belongings, the happiness of his household and all he cherishes are continually threatened by this Damocles' sword, which, at any moment and for reasons over which he has no control, may fall on and reduce him to penury. Homes may be broken up and huge armies of homeless children may arise, resulting in physical and even moral degeneration and decay. Unemployment is not only a barometer of economic well-being but also a measure of the social burden of labour.

Struggle against unemployment

The struggle against unemployment—to reduce unemployment or to mitigate its effects—has taken many forms as indicated by the various causes of unemployment. Employment exchanges have been created to facilitate placement of workers, thereby tending to promote mobility of labour. So far as unemployment is due to cyclical fluctuations, preventive measures are not easy to suggest, although better monetary and credit policies and systems, a better adjustment between production and consumption, etc., should help. In the U.S.A., measures to stabilise industry were promoted in the hope of regularisation of employment. Public works have been timed to provide employment at crucial periods. Unemployment arising from fundamental struc-

* William Beveridge, *Unemployment, A Problem of Industry*, p. 70.

tural changes in industry, and from certain personal limitations, calls for skill in placement, vocational counsel, and trade training or re-education. In all cases, help has been provided by public relief and charity, though it has often proved inadequate.

Unemployment insurance has played and is playing a part of growing importance in giving relief to the unemployed in countries like Great Britain and Germany. Though not a perfect panacea, it has proved a valuable weapon far more useful than public relief or charity. Despite its dominantly ameliorative purpose, unemployment insurance, as operated in many countries now, has certain preventive features : Its usual correlation with a system of public employment exchanges has made for a better organisation of the labour market and has served to cut down preventible unemployment. Less directly a system of regulated benefits has helped to prevent the undercutting of the wage-standards of the employed and has contributed towards the maintenance of purchasing power. One constructive feature is the provision of adequate statistical data as to the nature and incidence of unemployment. In short the supply of labour has been rendered more capable of following and waiting for the demand—of following the demand through the labour market organisation, of waiting for it through insurance.

Growth of Unemployment Insurance

As in other types of social insurance, the origin of unemployment insurance is to be found in the benefits systems established by the trade unions, early in the nineteenth century, along with a correlated system of placement service. However the efforts of the trade unions had only a limited scope, in the earlier stages, because trade unions consisted mainly of skilled workers—while the unorganised mass of working population, commonly the lowest paid and the most insecure, was left to resort to poor relief—in the later stages, even when trade unionism spread to larger sections of factory and other workers, because the trade unions then concentrated more on division of work in slack times than on relief on account of paucity of funds. In the last decade of the nineteenth century, the catastrophic rise in unemployment brought

about governmental participation in unemployment funds on a municipal basis mainly through subsidies to existing trade union funds.

Unemployment insurance was first introduced on a voluntary basis in 1901 in the Belgian city of Ghent. The Ghent plan was in essence a system of public subsidies to trade union funds, with some measure of public control over the administration. Membership was in principle open to all individuals. Employers were not required to contribute. This plan was copied in many European countries, and at the outbreak of the last war, membership of such funds was as follows* :

	Percentage of trade union membership	Percentage of the total wage-earning population
Denmark	86	56.1
Norway	51.4	20.6
Belgium	62.2	7.1
France	22.6	.04

It has to be noted that the last two countries are the more highly industrialised countries, necessarily having a far greater proportion of wage-earners in their population.

Great Britain was the first country to introduce a scheme of compulsory unemployment insurance (1911). The British plan, when it began operating, applied to about 2,500,000 workers, several times as many as were covered by all public voluntary schemes in other countries. In 1933, out of 42,000,000 insured persons covered by all unemployment insurance plans put together, 38,000,000 were in Great Britain. Germany, "the classic land of social insurance," entered this field as late as 1927. This tardiness is attributable to various factors like the following : existence in the pre-war period of well-established trade union benefits often combined with municipal subsidies ; in the post-war period unemployment was comparatively low and afterwards the inflation absorbed the unemployed. After nine years of experimentation it was realised that compulsory unemployment insurance must replace relief. Russia enacted a comprehensive compulsory scheme in 1922, but suspended it in 1930 on the

* *Encyclopaedia of Social Sciences*, Vol. XV.

ground that there was no unemployment in the U.S.S.R. In the U.S.A. adoption of compulsory unemployment insurance was opposed in the beginning, not because unemployment was low, but because both the structure of the Government and the character of public opinion operated against the acceptance of the idea of unemployment insurance. It is only in the last ten or twelve years that this attitude towards unemployment assurance has changed in the U.S.A. By 1941, compulsory insurance was adopted in about a dozen countries, while a somewhat smaller number were still experimenting with a subsidised voluntary insurance using trade unions as their agencies, roughly along the lines of the Ghent plan. Most of the schemes of compulsory unemployment insurance known to be in force at the present time have been established very recently or reformed within the last few years—Canada (1940), Great Britain (1935 and 1940), Italy (1939), New Zealand (1938), Norway (1939), South Africa (1937), United States (1935-40).*

Scope

With regard to the criterion which in practice defines the scope of unemployment insurance, there is a close analogy between unemployment insurance and workmen's compensation, viz., in both cases the scheme by hypothesis can cover only employed persons. Unlike sickness insurance or pension insurance, the question of " popular " insurance or " national " insurance does not arise here. Compulsory unemployment insurance, however, has not attained as wide an application as workmen's compensation has, in the small number of countries that have introduced it. The reasons are obvious : unemployment insurance is only a recent and much later development and has no such imperative principle as that of employers' liability to support it.

Industry and Commerce Only

Compulsory unemployment insurance covers in the countries in which it has been introduced persons employed in *industry*

* I.L.O. *Approaches to Social Security*, M 18 (1942), p. 62.

and commerce. In Great Britain now about 15 million persons are compulsorily covered.* *Agriculture* has been *excluded* everywhere, *except* in Great Britain, which introduced a special scheme for farm labour in 1936. In Germany they were included up to the spring of 1933—their later exclusion was the result of efforts to cut down the liability of unemployment funds under pressure of heavy unemployment.† The exclusion of agriculture is not attributable to the same reasons in all countries. In the American schemes, it is mainly due to political reasons. In general, the exclusion of farm labour appears to be due to three factors : The opinion is widely held that there is little unemployment in agriculture and that employment in it is relatively steady. Much of agricultural employment being normally of a seasonal or casual nature—gives rise to two consequences, viz., agricultural employment is not in many cases perhaps the chief means of livelihood of those who engage in it ; also the administrative difficulties are considerable in the case of seasonal workers hired during the harvest season by a number of perhaps widely diffused employers. Lastly, the number of farm labourers in proportion to the number of employing farmers is often comparatively small. As already stated, Great Britain introduced a special agricultural scheme in 1936. It applies to all persons employed under a contract of service in agriculture, horticulture and forestry. The general list of excepted employments, which are not insurable under the main scheme, applies here also where appropriate, with the addition of the following : employed persons bearing specified relationship to their employers. Employment in certain agricultural operations is not insurable under the scheme in cases where it is not insurable under the health and pensions scheme. Private gardeners are included.‡

There are a number of other excepted employments. *Domestic service* is excluded specifically in Austria, Great Britain, Irish Free State and Italy. Germany joined this group of countries by excluding domestic servants from 1933, for much the same reasons as those underlying the exclusion of farm labour. Factors

* *Social Security*—Ed. Robson, p. 113.

† *Encyclopaedia of Social Sciences*, Vol. XV.

‡ Percy Cohen, *Unemployment Insurance and Assistance in Great Britain.*

for exclusion are political in America and in general, they are the administrative difficulties. There seems to be little unemployment amongst the domestic servants of whom in a number of cases there is a relative scarcity rather than a surplus. On grounds of expediency, the solution should be to exempt domestic service in private households, but to include those employed in commercial establishments such as hotels, restaurants, laundries, etc. *Home or contract workers* are excluded in most countries. The main difficulty concerning them is about the determination of whether those who work in their homes on jobs put out to them are in fact unemployed, as also the determination of the degree to which they are partially employed. Government employees and school-teachers are generally exempted on the assumption that their occupations present a very low hazard of unemployment. Salaried employees getting a salary exceeding a specified maximum are exempted in all countries. In Great Britain, non-manual workers earning more than £420 a year are exempted. In Germany, the limit is placed at 6,000 marks a year.* In Italy, persons drawing over 800 lire a month are exempted.

Seasonal Workers

The covering of seasonal workers presents a tough problem in unemployment insurance. Seasonal trades cannot obviously be ignored. The main objections to their inclusion are two : seasonal workers tend to be compensated for their periodically recurring unemployment by higher wage rates when employed. Further, payment of benefits means in their case their receiving back again each year the money which they previously paid in so that there is little or no redistribution of these sums between individuals, and the system becomes merely a form of compulsory saving. With regard to these weighty points, it may be pointed out that it is doubtful whether such allowances (as higher wages) are adequate for the general class of unskilled or semi-skilled workers. Such allowance has necessarily to be an average one, superfluous for some, inadequate for others. If a system of insurance is adopted such addition is needless, and only the needy persons get the benefits. As to the second objection, it has to

* *Unemployment Insurance in Germany*—M. R. Caroll (1929), p. 50.

be noted that the incidence of seasonal fluctuations is in general not distributed evenly over a group of workers in the form of reduced employment for all, but commonly affects individual workers to a very differing degree, so that payment of benefits is not in all cases merely a return of what has been paid in as contributions. Further, for purposes of exclusion, it is not easy to identify the precise industries which should be included in any category of seasonal occupations, since such a characteristic is more or less a matter of degree. Another fact is that workers in seasonal trades are liable to suffer also from other causes of unemployment, e.g., trade cycles, technological improvements, changes in consumers' demand, etc. Exclusion will, therefore, mean an unsound assumption that the only causes for unemployment in seasonal trades are seasonal fluctuations.

Seasonal workers are thus not generally specifically excluded ; but a restriction, found in all countries, that arises out of the clauses which stipulate a certain previous period of employment in the industry or a definite number of contributions to the fund, in practice usually excludes seasonal workers. In Germany, seasonal workers must have been employed for at least twenty-six weeks in their avowed occupations during the year preceding their registration as unemployed. In Great Britain, the seasonal worker must give proof that within each of the preceding two years he has been employed in some other insurable occupation during the off season or has a reasonable chance of being so employed.* Seasonal workers are generally restricted to benefits during the work season. The best way seems to be to impose a longer waiting period for the pronouncedly seasonal trades, so that, amongst those unemployed due to seasonal factors, only those out of work for more than the average period will be protected as will also those thrown out of work owing to cyclical and technological factors. Such a limitation has been used in Germany† and has much to commend it.

The physiological conditions affecting the scope of unemployment insurance relate to age and ability to work. To be genuinely unemployed, one must necessarily possess the capacity

* *Encyclopaedia of Social Sciences*, Vol. XV.

† M. R. Caroll, *Unemployment Insurance in Germany* (1929), p. 56.

to work. As for the conditions relating to age, Germany and Great Britain relate their minimum age requirement to the age when compulsory schooling ceases—14 years. In Great Britain, if a boy (or girl) continues education after the statutory school-leaving age, he or she can be still credited with contributions to the Unemployment Insurance Fund as follows : ten contributions for 12-18 months at school, fifteen for 18-24 months and twenty for 24 months or more.* In other countries the minimum age varies from 15 in Bulgaria, Finland and Italy to 18 in the case of Denmark and Queensland. In Switzerland it varies between 16 to 20. The upper age limit is often correlated with the year at which old age provision begins (60 or 65).

Risk Covered

The risk covered by unemployment insurance is the risk of involuntary unemployment, the inability of the able-bodied and the willing to find employment. The fact of the insurability of unemployment as a risk took a long time to be accepted ; especially in the United States of America, the controversy raged for a considerable length of time.

Unemployment is a definite economic hazard, resulting in measurable economic losses and human distress. Like all other economic hazards, it may be provided for by means of the mechanism of insurance that distributes the losses in space, times and numbers. Such provision for these losses and suffering, like individual savings, private philanthropy, public relief, etc., have proved inefficient or at least inadequate.

Insurability of the Risk

It is worth while to examine briefly how the unemployment risk is insurable. Insurance is, as has already been remarked, a mechanism for reinforcement of losses sustained by some individuals included in a large group, all of whom are subject to the hazard of such losses but do not suffer such losses at the same time. Our enquiry might be along the following lines.†

* *Social Security*—Ed. Robson, p. 114.

† *Annals of the American Academy of Social Insurance*, p. 43.

What are the basic conditions necessary for successful operation of an insurance scheme ? What difficulties do they find in application to the risk of unemployment ? Is that the only field in which the difficulties arise ?

In order that it may be insurable, a risk must be predictable. It is highly desirable to be able to predict exactly the amount of future hazard or damage. With considerable experience, this condition has been realised to a fair degree in certain lines of insurance. However, the regularity of mortality tables is not an absolute one. Epidemics, wars and the like may almost double the expected mortality. Further, the degree of accuracy applies to mortality tables as a whole ; it cannot apply to each and every one of the thousand insurance companies operating in the field. In fact, individual insurance companies protect themselves by assuming a heavier mortality than one actually expected. The return of the excess, made every year by insurance companies with a generous gesture, is actually only an admission of the inability to predict losses within closer limits. Further, it is common knowledge that the early insurances were based only on crude guesses, and later adjusted as experience accumulated. Certainty as to the probability of occurrence and predictability as to the extent of damage are necessarily found to be greater in the older forms of insurance and less in the newer ones. Relative certainty can be obtained only on the basis of past experience.

The contingency must be one which can be verified with reasonable certainty. This condition again has no special difficulties for unemployment insurance. Difficulties of verification exist also in many forms of insurance : fire, burglary and theft, etc., checking up is necessary in every form of insurance.

The contingency must be one which, when it occurs, may not happen simultaneously to all the insured, or to a relatively large group thereof, but only in any given occurrence, to one or to a limited number of individuals. It is agreed that the contingency must not happen " to all insured persons simultaneously ", but the distinction between a " relatively large group " and " a limited number of individuals " is not easily drawn. How many are a " limited number " and how many are a " relatively large group " ? Again, the danger that a

contingency may strike an excessive number at once exists in all forms of insurance as in unemployment. Obviously, unemployment never can simultaneously affect all the insured ones, unless an entire industrial system breaks down.

Distinction between unemployment insurance and other branches of insurance is one of degree and not of kind. Unemployment at times attained the dimensions of a catastrophe, and in spite of all efforts it may do so again. Unemployment insurance rejects responsibility for the catastrophic sector of the unemployment field and confines itself to unemployment which, averaged over a certain period, does not exceed a moderate volume. It thus obtains a credible basis for its contribution—benefit arrangement. The catastrophic hazard of a contingency striking an excessive number at one and the same time exists in many forms of insurance. It is undoubtedly great in unemployment insurance, where it is not only a hazard, but almost a certainty, bound to occur sooner or later and oftener than in other branches of insurance. This factor is however, in fact, from an actuarial point of view a decided advantage,—not a thing that renders insurance impossible. It must be reckoned with. Knowing this, the actuary can see to it that during normal years as large a reserve as possible is provided for to meet the contingency of an industrial depression. Anyway, unemployment insurance accepts a more limited liability. It covers the greatest part of unemployment, except in periods of severe depression, the rest it leaves to other social services.

It may be argued that unemployment is not insurable, because adjustment of rate of premium to degree of hazard is impossible; further that when a uniform rate is provided, though the degree of hazard is variable, this legislation leaves the domain of true insurance. But it has to be remembered that close adjustment to the degree of hazard is not always possible in other forms of insurance and that it is not always practised. For example, in the case of life insurance the factor of age alone is taken into account, though many other factors influence the death hazard. The unlimited variations in the state of health cannot be measured accurately by the medical examination. There are factors like the profession, married or unmarried state, over-

weight or under-weight, the absent-minded or the short-sighted man, the glutton and the man of moderate tastes, etc., etc.,— all these factors have been neglected. In fact, if all factors of hazard could be determined in advance, there would be no insurance, for each risk would have to pay for its own losses, and the value of the insurance mechanism as an instrument for distribution of unexpected losses would be destroyed. Rate adjustment is valuable in so far as it may be utilised to stimulate efforts at prevention.

Nature of the Risk Covered

Insurance against unemployment does not afford complete coverage. Only limited temporary unemployment is covered. Complete insurance is not to be encouraged, because it very dangerously shades into over insurance and offers an incentive to losses. Full restoration of loss through insurance is, as has already been remarked, bad insurance as well as bad psychology. The British scheme came into difficulties when at one stage it tried to assume practically the entire load of unemployment by giving benefits for an unlimited period.

The risk covered by unemployment insurance is essentially temporary unemployment, not caused or continued by the fault of the worker, or by physical handicaps involving the responsibility of other branches of social insurance. Such covering in practice determines in general the conditions to be fulfilled before the insured persons can be eligible for the receipt of cash benefits. The qualifying conditions imposed for the grant of cash benefits are strict.

Cash Benefits

Conditions of Grant

In the first place, the claimant has to show that he is a person whose normal occupation is the exercise of an insurable employment, because the term "unemployment" can properly be applied only to those who are customarily employed. For that purpose the test is a ***minimum density of contributions*** or ***a minimum period of prior employment.*** This period should be long enough to exclude workers who enter industry for only

one season a year, but who are not primarily members of the permanent labour supply. In Great Britain he must have paid thirty contributions in the last two years (twenty, if he is in the agricultural scheme).* But he need show only ten contributions if his lack of employment was due to war disability. In Germany, the period is twenty-six weeks during a year. This qualification about the requisite number of prior contributions may not be gained through mere payment into the unemployment insurance fund. Employment itself is pre-requisite.† Periods of sickness are taken into account in most countries, also periods of work in some excepted employment may be so taken into account.

The next set of conditions relates to the *manner in which the last job terminated.* A job may be lost in either of the following three ways : (1) he may be dropped from employment, though his services have been satisfactory, because of a decline in business necessitating the employment of fewer men ; (2) by voluntary withdrawal, perhaps on account of a trade dispute, although he can continue, if he so wishes ; (3) by discharge—where the worker is adjudged unsatisfactory by the management for one reason or the other, and is accordingly dropped, though there is still need for a workman in the given position. Of these, the first is a case of genuine unemployment. It is a different matter in the other two cases. Voluntary withdrawal on account of strikes is commonly disallowed for eligibility for cash benefits ; whatever may be the merits of the strikers' action, they cannot be said to be unemployed against their will. Loss of job through a lock-out is also a disqualification ; the reason is this : many lock-outs take place in anticipation of strikes and vice versa. It is difficult for the administrative body to decide which of the two sets of national combatants is guilty of the offensive. Therefore it has been deemed wise to profess neutrality and leave out both the strikes and lock-outs as eligible grounds for unemployment benefit. Incidentally, it may be emphasized that this neutrality must be carried to its logical conclusion by not requiring workers in receipt of benefits to

* *Social Security*,—Ed. Robson (1943), p. 115.

† M. R. Caroll, *Unemployment Insurance in Germany* (1929), pp. 21-52.

take the jobs temporarily vacated by strikers or those locked out. Anyway, some penalty should be applied to those who are justly discharged or who quit without just cause. The English system imposes a maximum disqualification of six weeks and the actual period may be very much less than this. The German maximum is four weeks. In general, it varies from four to eight weeks. Permanent disqualification as provided in the Wisconsin (an American State) Act is certainly not desirable. These disqualifications would not of course apply to those who leave their jobs on adequate moral and hygienic grounds or for grave family reasons, nor to those who were unjustly discharged.

Further, the unemployed person must be *able and willing to perform* some kind of *work* which he has a reasonable expectation of obtaining. It is provided that he must accept suitable employment if and when offered. There are two main sets of criteria which may be used to determine whether or not a proffered job is "suitable", viz., those relating to wages and those relating in a broad sense to working conditions. The job must carry with it the going rate of wages for that trade and locality. The work offered should ordinarily belong to the type of his usual work, yet care has to be taken to prevent undue pools of idle labour in decaying trades and localities. Relevant provisions vary greatly. In Czechoslovakia, the unemployed person is obliged to take any employment which will not hinder his return to his original occupation ; free transportation to a new place of work is provided. In France and Spain, he is not required to depart from his old job. In Spain, he further need not take any job which necessitates a change of residence. In most other countries the rule is that he must accept any work within a reasonable radius of distance and offering wages and working conditions equal to those prevailing in the locality. In certain countries like Germany, he has to accept, after a certain period, any work offered by employment exchanges.

The unemployed person is also required to *attend the local employment exchange* at frequent intervals while in receipt of benefit. This periodical reporting is required in order to ascertain that the claimant is really unemployed and does not have in fact other employment. It is also helpful in placement

work. Commonly the required attendance is three times a week. He is further liable to receive training or perform work of a public nature, if so required.

Disqualifications in addition to those mentioned already relate to the receipt of other benefits, residence abroad and being an inmate of an institution supported wholly or partly out of public funds, e.g., prison.

The imposition of a *waiting period* is very useful in that it lessens administrative difficulties, permits the investigation of the statements of the claimants and prevents the diffusion of funds upon cases where both the loss and the need are comparatively slight. The waiting period is, in almost every law, larger than that imposed in sickness insurance. In Great Britain it consists of three days, in Germany six days. Seven days is the usual figure, but in American laws periods of two to three weeks are usual. The period is in almost all cases cumulative, i.e., spells of unemployment are allowed to be linked together to form a continuous period of unemployment for the purposes of the waiting days and payments of benefit. In Great Britain, where a total of three days is required, the rule works in the following way : Any three days of unemployment during six consecutive days are to be regarded as continuous with one another, provided they are not separated by more than ten weeks, i.e., sixty days.

Amount of Benefit

The amount of cash benefits should be appreciably lower than what they would earn if employed, since an important advantage thereby results that the temptation to shun work is greatly reduced on account of the financial gain to workmen in securing employment. The British law provides a flat rate benefit, as also the Wisconsin Act and its imitators. The rates of benefits, however, vary with the sex of the claimants and with the age of the claimants at a few lower ages. The benefit rates for the agriculturists are lower, as are also the contribution rates.

In sharp contradistinction stand the systems of graduating the benefits in closer correspondence with the difference in earnings. Examination of the benefit structure of most of the insurance

schemes reveals a tendency to weight benefits in favour of the more necessitous claimants, to a degree much more marked than is typical of the comparable benefits of sickness insurance, which is a considerably older branch. This effect has been achieved in two different ways. In some laws, there is prescribed as benefit a percentage of the wage, that decreases as the wage increases. Germany's is a typical example : The German scheme has eleven wage classes. The wage of an individual is based upon the average remuneration he receives for three months prior to being unemployed. For each class a representative wage is set. Benefits range from 75 per cent. of the lowest representative wage to 35 per cent. of the highest representative wage. In Canada, the percentage varies from 60 to 40. The second way is the one adopted in the American laws : prescribing a relatively high minimum while a uniform percentage applies. Thus if the benefit is laid down as a uniform percentage of the wages with a certain high minimum, it practically amounts to laying down broadly a decreasing percentage.

Dependants' Allowances

The granting of dependants' allowances has now become almost a universal practice in unemployment insurance. Supplementary allowances are granted for the dependent members of the insured person's family,—incidentally, indicating that in social insurance, the social objective is stressed more than the insurance method. These allowances are in some schemes substantial, and for large families, may even exceed the principal benefit itself.

As for the duration of unemployment benefit, the maximum is in most cases less than the twenty-six weeks typical of sickness insurance. In Great Britain and South Africa, the maximum duration is twenty-six weeks. In New Zealand unemployment benefit is paid without limit of time. However, in most schemes the maximum duration varies between fifteen and twenty weeks. Another method of limiting the duration of benefits has been frequently adopted in unemployment insurance—in fact this feature is peculiar to unemployment insurance,—that the number of total weeks of benefit should in no case exceed a given fraction of the number of weekly contributions made by the worker, during

the previous base period, i.e., the period, on the contribution history during which, is based the duration of benefits. This fraction may be $\frac{1}{3}$, $\frac{1}{5}$ or $\frac{1}{8}$. In Great Britain this check applies only where it is a question of continuing benefits beyond twenty-six weeks.

Benefits in Kind

Placement and Employment Exchanges

Benefits in kind play an important part in schemes of unemployment insurance. Placement of the unemployed workers has in fact the same relation to unemployment benefits as medical care has to sickness benefit in sickness insurance. Therefore unemployment insurance has to work in very close collaboration with the public employment exchanges, which look after the employment of the persons in receipt of benefit who are required to attend the exchange at short intervals in order to prove that they are available for work. The placement work has become so important that the employment exchanges have become the pivot of the working of unemployment insurance schemes. Not that the employment exchange can itself create openings for work, but it puts those seeking work in touch with those seeking labour with the least possible delay. A well organised placing service plays a part of paramount importance : it is a *sine qua non* of the efficient working of unemployment insurance schemes which every country desirous of ensuring public order and social justice is now obliged to establish. Incidentally, it may be observed that besides being a palliative for the relief of unemployment, placing work should also form an important consideration in any economic planning designed to bring more order and stability into the economic system. The exchanges try to acquaint themselves with all vacancies in their localities ; they classify the unemployed according to their trades and skills, and arrange for suitable candidates to be interviewed by employers. The functions of the employment service often involve the most careful consideration of individual cases. The exchanges require a well-trained staff imbued with the idea of service to its clients and behaving with tact and understanding.

Vocational Guidance and Training

The employment exchanges must also provide facilities for vocational guidance and training. This has been done in most schemes. It is specially valuable to the physically handicapped, the juveniles and also adults, who need to change their trade. The unemployed should be made liable to receive training or perform work of a public nature for two reasons : they can be happier and more contented when they are kept usefully active than when they are idle ; the otherwise idle time of the unemployed can then be turned into the production of socially necessary goods or into the improvement of the capacities of the workers themselves.

ORGANISATION

The Typical Organisation

The typical organisation of compulsory unemployment insurance consists of a central insurance institution, working through the employment exchanges as its local agencies. As a general rule, the institutions of compulsory insurance are administered by the State, while the machinery of voluntary insurance is provided by private organisations, which are generally trade unions. The contrast is, however, not a sharp one, for the public authorities concern themselves with the management of voluntary insurance funds as well, and conversely provision is often made for insured persons to participate in the control of compulsory insurance institutions.

The need for large membership of insurance institutions in the case of pension insurance has been stressed.* But such concentration of large number of members is required by unemployment insurance to even a greater extent than by pension insurance, in order to smooth out as much as possible the occupational and local fluctuations in the risks, though, of course, it still needs to accumulate a large contingency fund.

Where unemployment insurance and the employment service are not subject to the same authority, close co-operation at the centre is necessary between them. The local administration must

* See Chap. IV.

of necessity rest upon the public employment exchanges and cannot be carried on without them, for there must be an agency to test and inspect the claims, to pay the benefits and to look after the placement of the beneficiaries. The number of local offices should, of course, be sufficiently large.

The judicial function of the settlement of disputed claims is performed as a rule by three sets of officials : A local insurance officer attached to each employment exchange first examines the claims. In Great Britain such officer is the manager of the local employment exchange. Next, a local committee generally composed of a worker, an employer and a neutral considers cases appealed to them from the decision of the officer. Finally, a State board of umpires is constituted to take cases appealed from the local committee.

For the collection of contributions, the stamp-book method, being the simplest, has been widely adopted in Europe : The employer has to buy special stamps and affix each week,—in a separate book for each worker, stamps representing his own and the worker's contribution. These stamps are marked with the date of payment. So long as the worker is employed, the card lies with the employer. In the case of loss of service, this card has to be deposited with the nearest employment exchange and this at once serves as evidence of unemployment, and furnishes the data as to the number of weeks during the current year for which the worker was unemployed and the number of weeks during which contributions were paid. A central record office has the cards for the previous years.

Germany

In Germany, administration has been placed in the hands of an autonomous body, the Reichsanstalt fur Arbeitsvermittlung und Arbeitslosenversicherung, ultimate supervision over which is given to the Minister of Labour.* The Reichsanstalt is organised into local, district, and national bodies. Occupational, as well as geographic, divisions receive recognition. The Reichsanstalt is made of three groups having power of administration and control : the governing bodies ; the officials and their staffs who

* M. R. Caroll, *Unemployment Insurance in Germany*, p. 60.

conduct the work of the offices ; and the courts of reference or appeal. These three groups comprise the " enforcement machinery " of each local and district as well as of the national office. In many ways the organisation of the Reichsanstalt is unique. The disregard of political boundaries in the establishment of the local and district offices, and its autonomy as a national body, remove it from the usual types of political control. The balance of power in the governing committees is given to employers and workers.

Great Britain

In Great Britain a prominent feature of the organisation of unemployment insurance is the setting up, under the 1934 Act, of the Unemployment Insurance Statutory Committee.* It consists of a chairman and five other members, three men and two women. Two of the members are appointed after consultation with employers' and workers' organisations respectively. The committee is required to advise the Minister of Labour on the administration of the scheme,—especially the supervision of the finances of the unemployment insurance fund,—and to report on regulations proposed by the Minister, and on the fund's financial situation at least once a year. The committee has to be endowed with the gift of prophecy and to anticipate the future condition of the fund. In fact, the committee has to be concerned more with the future prospects of unemployment than with the situation at the moment of the report. Although the committee has been doing quite useful work in guiding the fund, experience has shown that it is actually exceedingly difficult to foretell the course of employment. The committee itself has realised this nature of its task and in the 1937 report the committee drew attention to this fact : " We draw conclusions as to the course of unemployment in the future only because, without some conclusions of whatever character, we cannot perform our statutory duty of reporting on the prospective relation between the income and expenditure of the unemployment fund and adjusting its finances. We only prophesy because we must." †

* *Social Security*,—Ed. Robson (1943), p. 122.

† Ibid., p. 219.

General Observations

It has been said of unemployment insurance that " No branch of social insurance has witnessed so many changes due very much more to the painful consequences of economic stress than to the second thoughts of legislators."* A situation of comparative stability seems to have been attained only in recent years. The history of the British and German schemes affords ample proof of the above statement. In Germany, unemployment insurance was established in 1927, when the post-war unemployment was at its peak, so that the system had to withstand even greater tests than the British. Under stress of economic factors and heavy unemployment, both the German and the British systems went through numerous changes. Incessant efforts were made to keep the systems working in various ways by reductions, restrictions and still more reductions. In Great Britain, in 1932, the debt contracted by the unemployment insurance fund reached its peak in the sum of £115,000,000. Despite the hardships encountered by the two major schemes of unemployment insurance, there never have been any serious proposals in Great Britain or Germany for their abandonment. The slow development of compulsory unemployment insurance in general has been due in part to the doubt whether unemployment is an insurable risk, since it is difficult to define and is unpredictable in its volume, while a relief system, it was felt, was indispensable to meet prolonged unemployment. The recent accession of the United States and Canada to the ranks of countries with compulsory schemes shows, however, that the advantages of the insurance forms have been judged sufficient to warrant the effort to subject this refractory risk to the insurance technique.

Perhaps the most basic problem in the field of unemployment insurance is that of obtaining pertinent statistics to supply the basis for a sound insurance system. Statistical data, if possible, should cover successive business cycles and should separate by wage and occupational groupings the rate and duration of unemployment, the total number of jobless persons and the average length of unemployment per person, the total number of claims

* Percy Cohen, *Unemployment Insurance and Assistance in Great Britain*, p. 5.

and their annual duration under a number of possible plans. It is true that because of the still all too vague knowledge of trade cycles and the many variables which have not yet been defined and measured, the causes of unemployment are more complex than those of any other single risk. The " catastrophe " hazard also defies analysis. But these difficulties did not furnish insuperable obstacles to plans worked out experimentally. Indeed since the inception of the insurance scheme the necessary correlation of public employment exchanges with compulsory unemployment insurance has in European countries given far more accurate statistics and continuous data with respect to the extent and incidence of unemployment than are available in the United States.

Finally, it must be borne in mind that the argument for unemployment insurance can be readily accepted, provided too much is not claimed for it. It has already been stated that unemployment insurance accepts a limited liability. The risk covered is essentially that of temporary unemployment. Unemployment insurance rejects responsibility for the catastrophic sector of the unemployment field. When the British scheme, at one stage, tried to assume practically the entire load of unemployment, it got, as has already been said, into inevitable difficulties. The experience of the British and the German insurance schemes has shown beyond doubt that unemployment insurance can care for only a part of the unemployment during adverse periods of depression, though in normal times it helps almost all the unemployed to " tide over " their difficulties. The limits of an insurance system for meeting unemployment have to be recognised. It is true that, although supplementary programmes of relief had to be instituted in the face of depression in a number of countries, the countries which had provided for some sort of unemployment insurance, were better able to care for their unemployed than countries like the United States of America where public unemployment insurance schemes had been opposed, criticised and then not adopted. Yet even the most enthusiastic supporter of unemployment insurance as the most dignified, feasible and systematic method of relieving some of the distress caused by lack of work, must face the realities squarely and

admit the need of devising a systematic plan, besides building up reserves in the insurance fund, for emergency relief to be financed from public funds and administered on the basis of need. In Great Britain recognising the need for unemployment assistance as a complement to unemployment insurance there has been established a system of unemployment assistance on a permanent and highly systematic basis. This was done in 1934, when the Unemployment Assistance Board was set up, to assist the long-term unemployed who had exhausted their standard benefit.* The Assistance Board, by which name it is now known, is one of the major social experiments of the century. It is, in plain terms, a nation-wide relief agency administering benefits according to uniform scales on the basis of need. Two underlying principles have been that there should be national rather than local responsibility for the victims of national disasters, and there should be uniformity of treatment for such victims. The Assistance Board is an ad hoc body consisting of chairman and deputy chairman, full-time and appointed for seven and five years respectively, and three salaried part-time members appointed for three years each. The Board was originally formed to assist the long-term unemployed who had exhausted their standard benefits ; since 1937, the Board took over those unemployed who were ineligible for unemployment insurance benefits but had been insured persons under the Widows', Orphans' and Old Age Contributory Pensions Acts. Since the outbreak of the present war when many persons were suddenly impoverished, the Board has been specially empowered to administer the scheme for the prevention and relief of distress arising out of the war ; and from 1940, the Board is also empowered to grant supplementary pensions to persons over 60 years of age already in receipt of old age or widow's pension. The Board has been given some more activities connected with the war. In fact, the Board now deals more with the pensions than with the unemployed ; it has become virtually a national assistance agency, no longer confined to unemployment, doing on a nation-wide scale, what otherwise public assistance committees would have been doing locally. The

* For a detailed information relating to the Assistance Board, refer to *Social Security*,—Ed. Robson (1943), pp. 126-155.

Board also provides for rehabilitation and training on a voluntary basis. This feature of the British social insurance system is indeed unique, worthy of emulation by all countries desirous of ensuring social security.

CHAPTER VI

FINANCIAL RESOURCES OF SOCIAL INSURANCE

SINCE social insurance guarantees the insured persons certain benefits in the event of the materialisation of the risks covered by it, considerable financial resources are required for the system to work. Since it is an "insurance" system, the insured persons generally have to pay for the benefits that they have been promised. However, as already explained in the discussion on "the Concept of Social Insurance" they cannot afford to bear the whole burden of the cost of insurance; this economic problem of social insurance has been stressed by a leading American social worker in the following terms: "The class which needs social insurance cannot afford it, and the class that can afford it does not need it."* In view of the fact that all individuals are not able to provide against the risks which they incur, the modern legislator has found it necessary to transfer all or part of the responsibility for the financial burden of social insurance upon the shoulders of persons or groups not directly threatened by such risks. In its financial aspect, social insurance differs from public relief also, because the insured persons have to pay at least a part of the cost of insurance. Of course, a system of social insurance may exist (and does exist in the Soviet Russia), under which the insured are not required to pay any contribution and the annual costs are borne either by the State or the employers alone; in these extreme cases, it becomes rather difficult to draw a clear line between insurance and relief. Nevertheless, the legal basis of right to benefit remains different in social insurance and relief.

CONTRIBUTING PARTIES

Workers

The contributing parties are as a rule three, the workers, the employers and the State. The theoretical considerations under-

* I. M. Rubinow, *Social Insurance* (New York, 1913), p. 491.

lying the liability of the various parties to contribute are based on the idea that participation in the burden depends either on a responsibility (in the widest sense) for the occurrence of the event insured against or on the advantages received in general and in the shape of the benefits, from the working of insurance. Side by side, of course, there are practical reasons,—often more convincing. In all schemes of social insurance except those of Soviet Russia the workers or the insured persons are found to contribute towards the financing of the schemes. A number of advantages accrue from such contributions. They serve to distinguish social insurance from the unpopular dole or poor relief, giving social insurance some dignity or at least respectability, and also providing the soundest basis for the right to benefit. The workers' contributions further help to ensure adequate benefits, which in all probability would not otherwise be obtained. Their contributions will not be merely transferring sums of money from the pockets of one set of workers to those of another. The added financial protection, which the unemployed will receive, plus the psychic reassurance, which the contributions will occasion, The workers' contributions will also ensure their participation in the administration of the scheme, thereby enabling them to protect their legitimate rights,—the right of participation being obtained according to the rule that he who pays the piper is generally entitled to call the tune. Their contributions will thus ultimately help in preventing malingering and in bringing home to them that they are partners in the scheme. They will definitely be far more zealous in checking possible abuses in the expenditure of the insurance system. Finally the workers' contributions also take the place of individual savings and in fact make them more effective by establishing an association which gives better cover for the risks in question.

One point has to be noted in connection with the contributions from the workers, viz., that while all the above considerations are no doubt important and show conclusively the value of their contributions, yet they definitely postulate the existence of minimum wage legislation providing adequate wages with a margin for savings, unless such a situation exists even without the support of such legislation. Otherwise only those workers

can be expected to contribute who really can afford making such payment.

Employers

The financial participation of employers is based on a theory concerning the responsibility of the industry. The existing economic order requires that every undertaking shall itself bear the whole of the burdens which it imposes on production. The entrepreneur covers by insurance the various risks that threaten his material property ; the same principles should be applied to "human" capital. For industrial accidents and diseases, the employers' liability principle has been legally recognised almost everywhere. The participation of employers in the cost of the risk may be justified also by the advantages which they may be expected to derive from such insurance, e.g., increased efficiency of the workers because of a feeling of security engendered by social insurance. Social insurance also alleviates the anxiety of employers for the welfare of the workers. Finally, the nature and the level of remuneration paid to workers also seems to emphasize the need for the employers' contributions.

Participation of the State

Participation by the public authorities in the cost of social insurance is justified by the inadequacy of the financial resources obtained from joint contributions from the workers and the employers. Further, the State is after all responsible for the health and safety of its people. Also, the community as a whole does benefit from social insurance.

The participation of the State in the cost of social insurance has taken various forms. In some schemes, the State participates by way of direct contributions. This is the case, for example, in sickness insurance schemes of Bulgaria and Chile and unemployment insurance schemes of Great Britain and Poland. These contributions are usually equal to half of the joint contribution of the workers and the employers. In the majority of cases, however, it takes the form of subsidies of various types. The State subsidy to social insurance assumes in the main two typical forms : it may be granted either in aid of the general

revenue of the scheme or in aid of certain benefits (or even administrative expenses). Some schemes may provide for a regular payment by the State of a lump sum, while in some other schemes the State may allocate proceeds of certain taxes. In Great Britain, the State meets the entire deficiency arising in the finances of (sickness and) pension insurance from the fact that contributions are calculated to cover the risk of persons entering insurance at the age of 16, whereas all persons entering at that or any later age up to 60, receive the same benefits; in addition, the State bears for the present almost the entire cost of pensions from the age of 70 upwards. Provision for aid from the State to make up any deficiency in the finances is made also in Spain and Denmark (invalidity insurance). The State in some countries bears the cost of fraction of benefit or the whole of certain benefits. In the sickness and invalidity scheme of Great Britain and Northern Ireland, the State grant is fixed at 2/9th and 1/5th (in the case of males and females respectively) of the expenditure on benefits and their administration, payable on disbursement, i.e., payment of a benefit attracts a grant,* in the Irish Free State, similar provision is made for 2/9th of the whole cost of benefits. In Sweden, the whole of additional benefits are awarded at the cost of the State. In the pension schemes of Austria, Belgium, Czechoslovakia, Germany, Italy and Luxemburg, the State undertakes the payment of supplements to pensions at a uniform rate for all pensions.† In some countries the State grants subsidies towards expenditure on benefits in kind, with a view to improving the standard of such benefits, e.g., Germany earmarks yearly 20 million RM. from the customs-income. The State in some cases grants subsidies towards administrative expenses. These expenses may be in the form of actual subsidies or only free provision of public services. The whole of the expenses are covered in the Netherlands, Greece and Sweden, and a fraction in Czechoslovakia, Denmark, Germany, Hungary and Great Britain (sickness and invalidity). The cost of supervision over administration is generally borne by the

* Vide Ed. Robson, *Social Security* (London, 1943).

† I.L.O., *Compulsory Pension Insurance*, Studies and Reports, Series M, No. 10 (Geneva, 1933), p. 476.

State. Subsidies of a temporary character are made to put new schemes into force and to help them in the early years of their activities, as also in exceptional circumstances. In the national insurance schemes, the State subsidy is of considerable value, partly to make up for the lower rate of contribution and also partly because the universal scope of the scheme justifies a fuller measure of aid from public taxation. Thus the Swedish pension scheme is supported to the extent of two-thirds out of public subsidies.

The principles underlying the participation in the cost of insurance are in fact so ancient that their validity has become almost axiomatic. They have sprung from the general responsibility of the master for the welfare of his servant, the mutual aid practised within occupational and other limited groups, and the broad and vague responsibility of the community for its members. When the earliest legislation on workmen's compensation, sickness insurance and pension insurance came to be drafted, it seemed natural to invoke these principles. However, it is in workmen's compensation that the incidence of responsibility is most firmly established, having been set on a legal basis* ; and in all those schemes, the liability for compensation rests solely with the employer. In Germany, the earlier measure put forward by Bismarck requiring the worker to contribute to accident insurance was rejected, and the cost of insurance was placed entirely on the employers ; but that principle initiated by Bismarck found expression in sickness insurance to which the worker contributes. Though no such juridical principle of employer's liability has been developed for the other three branches of social insurance, yet a broad uniformity of practice has been brought about from considerations of administrative, financial and political feasibility, and the principle of the joint contribution of the worker and the employer has been almost universally adopted. Irrespective of any theoretical arguments, it is evidently much easier to persuade employers and workers to agree to share a charge than it is to impose it wholly on one or the other. In addition to a number of merits including easy collection of the joint contribution, the joint contribution may

* See Chap. II.

suffice—indeed it does so in many schemes of sickness insurance—to cover the entire cost of the scheme, without any help from the tax-payer.

Contributions from either party alone are a rare thing. In workmen's compensation alone it is common to make the employer bear the whole liability for compensation. This practice may perhaps have been due to the most direct, obvious and exclusive connection between the risk covered by workmen's compensation schemes, viz., industrial accidents, and the employment of the workers. So far as the other risks are concerned, it is only in Soviet Russia that the cost of all social insurance is borne by the employers. Free insurance for the worker is a characteristic of the Soviet scheme. If any credits are allocated to social insurance in the State budget, they are paid by the State in its capacity as employer. In the United States an interesting development has taken place in the field of unemployment insurance, the underlying idea being that unemployment, like industrial accidents, is a concern of the employer on the basis perhaps that the prevention of unemployment is largely in the hands of the employer as in respect of occupational accidents. Working on this idea, some States in America have imposed on the employers the full burden of payments in order that they might themselves seek to reduce or abolish unemployment. Of course this process has been carried to its logical conclusion and the rate of contribution is reduced for the employer if employment is stabilized by him. This theory however overlooks the fact that the various undertakings and their managements are responsible for unemployment only in a most limited sense. Unemployment is not the same as industrial accidents. Further, the burden of contribution, if placed entirely on the employers, can be passed on to the consumers and this possibility shows how little the employers will be induced to reduce unemployment with a view to reducing their contributions. Further, there is a greater likelihood of the workers' wages being reduced. Instead of such indirect contribution by the worker, it is evidently better that he pays direct with all the accompanying advantages of direct payment.

About the contributing parties the following generalisations

might be made.* Almost all pension and unemployment insurance schemes are maintained by contributions from workers, employers and the State. Notable exceptions include the American unemployment schemes, financed by employers only, the Netherlands and Spanish pension schemes, financed by the employers and the State, and the Greek pension scheme and Italian unemployment scheme, financed by workers and employers. It will be noticed that an employer's contribution is provided for in every case. The majority of sickness insurance schemes (about eleven) are supported by workers' and employers' contributions alone, while in some fewer ones including those of Germany and Great Britain all the three parties join in financing the insurance schemes.

However, in almost all the special schemes providing pensions for salaried employees or for occupational groups, both the insured persons and employers contribute and there does not appear any rule of tendency for the State to participate also. In Brazil tripartite contributions have been provided for all social insurance schemes, whether occupational or general ; salaried employees' schemes are subsidised by the State only in Belgium and Hungary.

Of the five national insurance schemes, three (viz., those in New Zealand, Norway and Sweden) are financed by contribution of citizens, as prospective beneficiaries, and by subsidies, while two (viz., those in Denmark and Finland) impose in addition certain charges on employers as such.

Shares of Contributing Parties

As regards the proportion in which the several contributing parties share in the cost of social insurance, one broad generalisation may be formulated : that, where both workers and employers contribute, their shares are equal, whether or not the State contributes as well. However, some recently enacted laws seem to suggest a tendency to increase the employer's share and decrease that of the worker. Only the Polish Act of 1933 provides for a larger contribution from the wage-earner, the difference

* I.L.O., *Approaches to Social Security*, Studies and Report, Series M, No. 18 (Montreal, 1942), p. 67.

between his and the employer's contributions being equal to the average accident premium paid by industrial employers.* Employers have to pay contributions at a rate higher than that fixed for the workers in several general schemes of sickness and pension insurance combined (Chile, 1925 ; Greece, 1932 ; Peru, 1936) and in the unemployment schemes of Poland (1933), Norway (1938), South Africa (1937) and save for the highest wage-classes, Canada (1940). Several instances are to be found of a sharing of the contributions that varies with the wage-class ; these represent an extension of a principle frequently applied that the employer should pay the entire contribution in the case of apprentices or workers with exceptionally low wages. In the Canadian unemployment scheme, for example, and in social insurance for non-manual workers in Poland, the employer's proportion of the joint contribution decreases gradually from the lowest to the highest wage-class, while the worker's proportion obeys the reverse rule.

The normal sharing of contributions may be changed in special cases on account of the economic situation of certain groups of insured persons, e.g., those not paid in cash, apprentices, the sick persons, etc. Such persons are either completely exempted from payment or made to pay only a reduced contribution, the deficit being made up by the employers concerned or the State, as the law may be. The employer is in a large number of schemes required to pay for excepted workers, like temporary or occasional workers, normal amount of contributions for them, so that the employers may not be tempted to employ such persons in preference to workers subject to compulsory insurance with a view to saving the amount of contribution.

Relation of Contribution to Wages

The question of the relation of workers' contribution to the rates of wages and to the degree of risk may be briefly considered here. The relations between contributions and wages and those between wages and benefits are generally interdependent. The system of uniform rates of contribution independent of wages is generally adopted by laws which fix uniform rates of benefits,

* I.L.O., Series M, No. 18, op. cit., p. 69.

based on the minimum cost of subsistence. Great Britain provides a typical illustration. This system, simple as it is in administration, requires the same amount of saving from all insured persons though their resources are unequal. Where the contributions have been fixed in relation to wages, the wages considered may be individual wages or only wage-classes, the rate of contribution being related to a representative wage from each class,—the basic wage. The latter system of wage-classes is more common, being less complicated in administration than the system of individual wages. The value of this system depends on the degree to which the classes correspond to the actual distribution of insured persons by wages, and from this point of view the number of the wage-classes is an important factor. Again, the percentage which the rate of contribution bears to the individual wage or the basic wage is uniform for all in some schemes, while in some other it varies with the amount of the wage, the rate increasing as the wage rises. This latter system is obviously more equitable. In the German unemployment insurance scheme the rate of contributions for workers and employers is 3 per cent. of wages.*

In the great majority of social insurance schemes, contributions are proportional to wages. If the contributions and the benefits for the wage-earners are examined in such cases, it is evident that the contributions in respect of low wage-earners are, as a rule, insufficient to cover the cost of their benefits. The deficit is met by a transfer from the contributions in respect of high wage-earners and by the whole or larger share of the State subsidy, where such is provided. Social insurance laws and explanatory memoranda are reticent concerning the manner in which the contributions paid in respect of an individual are appropriated for the benefit of another whose need is greater.† It seems safe to assert, however, that the high wage-earner, in almost every scheme, obtains a full return for his share of the joint contribution. The extent to which the employer's share is used to help the needier beneficiaries—not only low wage-earners, but also elderly entrants (in whose case the risk is high) into pension insurance

* M. R. Carroll, *Unemployment Insurance in Germany* (Washington, 1929), p. 81.

† I.L.O., Series M, No. 18, op. cit., p. 72.

—depends in part on the presence of a State subsidy and on its sufficiency. Thus, under the Belgian pension schemes, the joint contribution is credited almost entirely to the person in respect of whom it is paid, while a special State subsidy takes care of elderly entrants.* Under the Federal pension insurance scheme in the United States, by contrast, the employers' share is heavily drawn upon on behalf of both low wage-earners and elderly entrants in the absence of a Federal subsidy.

Relation of Contribution to Risk

In any system of social insurance, perhaps the most serious technical problem is the adjustment of rates of contribution to the value of the various risks covered. The principle of insurance that the premium and the probable benefit should be equal is tried to be followed as far as is practicable in private insurance. Social insurance, because it is "insurance" must take account of this principle; but because it is "social" (i.e., because its purpose is social) it must also have regard to the social adequacy of its benefits and seek to prevent destitution in the largest possible number of cases. If the contribution is fixed strictly in proportion to the financial risk, some distinction must be made between good and bad risks, leading to increase in the cost of insurance for workers that present bad risks or to their complete exclusion from insurance. Either alternative is opposed to the spirit of social insurance, since it would place the workers at a disadvantage in the labour market, especially those who have the greatest need of the services rendered by social insurance.

The risk that an individual introduces into social insurance varies with his susceptibility to disease, accident and unemployment, and with his expectation of life. Therefore the important factors that might be taken into account as influencing the degree of the risk are age, sex and occupation; if dependants' allowances are provided, then their age, sex and number are also significant. Of these factors, that of occupation is sometimes taken into account, particularly in covering occupational risks, as exemplified in some branches of social insurance in the grouping of workers by occupation, each occupation covering its own risk,

* I.L.O., Series M, No. 18, op. cit., p. 73.

e.g., special pension scheme for salaried employees, miners, railwaymen, etc. ; separate social insurance schemes for industry and agriculture ; grouping by " occupational risk " classes within schemes of workmen's compensation (in all countries except Rumania), and of unemployment insurance (in South Africa). However, except in workmen's compensation, in all general schemes, occupations are generally massed together, the contribution being independent of the specific risk of each occupation.

Within every scheme of social insurance, be it general or occupational in its scope, the contribution rate as a rule is unaffected by the age, sex or family responsibilities of the worker concerned, though these factors largely affect the range of benefits granted. The only sort of selection that is exercised in social insurance is involved in the conditions of eligibility to benefits or of entry into insurance ; persons whose advanced age marks them out as immediate candidates for benefits are barred from entry into insurance by the fixing of a limiting age ; further, the insuring persons are obliged to prove that they possess normal health and employability by completing a qualifying period of insurance before claiming benefit. Selection may be said to be effected to the greatest degree in pension insurance (age and long qualifying period), then to a little less extent in unemployment insurance (age and medium qualifying period), then again to a further less extent in sickness insurance (age and short qualifying period or none), and finally to the least extent in accident insurance. In social insurance the principle of equality between the premium and the probable benefit nevertheless finds a rational, if crude, application, particularly if social insurance is compulsory. The vast majority of insured persons enter insurable employment straight from school and remain there as long as they are able. It is one of the advantages of compulsory insurance that it applies to the whole, or the greater part, of the population and that therefore the law of large numbers holds good to a considerable extent. The statement may be ventured that there is no need to distinguish between good and bad risks and that the amount of contributions can be fixed irrespective of certain factors like age, expectation of life, general state of health, etc., in a scheme of compulsory

insurance, since such individual factors are then safely replaced by the average probability of invalidity, death and unemployment. The entrants into insurance in fact traverse a typical or average history, making smaller demands on benefits at some stages, larger at others, and they pay a level premium throughout their insurance career.

Merit Rating

Another question to be considered regarding the relation between contribution and risk in social insurance is that of merit rating. Merit rating means the setting up of differential rates of taxes, i.e., contributions that are in some degree related to an employer's success in keeping down the intensity of the risk so far as his employees are considered, e.g., in unemployment insurance this success is measured by the benefits paid to unemployed persons formerly on his payroll.* Evidently this theory proceeds from the hypothesis that the employer is able, to some extent, to control the frequency and severity of the losses in respect of which social insurance benefits are payable. Consequently it affects undertakings individually, and not groups of similar undertakings. Merit rating is such a manipulation of the premium as will afford an incentive for the payer thereof to reduce the risk in question. Merit rating is practised extensively in accident insurance, and in the United States by numerous State unemployment funds. So far as sickness insurance is considered, a sort of risk premium is charged for the heads of certain specified undertakings that are considered more dangerous. This is the case, for instance, in Austria, Czechoslovakia, Germany, Norway and Rumania.†

In accident insurance, merit rating takes into account the inequalities in risk among industries that result from differences in the process, machinery, etc., characteristic of each industry. An average premium is established for each class of undertaking, and variations, up or down, are made in the premium charged

* For details see Feldman and Smith, *The Case for Experience Rating in Unemployment Insurance* (1939).

† I.L.O., *General Problems of Social Insurance*, Series M, No. 1 (Geneva, 1925), p. 64.

to each undertaking, either according to the number and severity of the accidents that have occurred in it, or according to an appraisal of its equipment and organisation, special credit being given, for example, for the installation of safety devices. In the calculation of the debits and credits assigned to each employer are employed highly technical methods and the administrative expense involved is considerable. Merit rating can be applied only in a limited range of industries and fairly large undertakings. This device has no doubt encouraged employers to reduce the accident hazard of their undertakings, both by installing better safety devices than the factory legislation requires and by carrying on " safety first " propaganda among their workers. This has been done by them not merely with the object of getting their premium reduced, but also with a view to the other gains accruing from lesser accidents to their employees, e.g., the disorganisation of production that accidents entail is lessened. After all the premium can be reduced only within certain limits and the accidents that can be avoided by preventive measures comprise only a fraction of the whole. Again, American experience shows that of the total savings effected by a lower frequency of accidents, the reduction of premium constitutes only one quarter.

While merit rating is common enough in the workmen's compensation insurance, in unemployment insurance it is to be found only in a number of schemes in the United States alone (by the name experience rating). These schemes being only a few years old may be regarded as still in the experimental stage. In unemployment insurance each undertaking is taken into account individually. It may be recalled that in the United States premiums in unemployment insurance are all paid by the employers alone. The premiums are uniform for the first three years—they are fixed at a uniform percentage of the payroll. Then, on the experience of the undertaking during the period, the premium is varied up or down, between certain limits.

The principle is clear : that each undertaking shall bear a large proportion of the cost of the benefits paid to its discharged workers. In the United States the example of industrial accidents has been decisive ; it has been thought that unemployment like

industrial accident is industrial rather than a social risk, and that the cost of compensation should figure in the operating expenses of the undertaking held responsible and therefore the entire premium is charged to the employer. The question of experience rating in its application to unemployment insurance has been the subject of a vigorous controversy particularly in the United States. The advocates of this theory consider promoting security of the job, as the most essential thing. In this sense any inducement that insurance differentials can give to the employers to introduce improvements in their operations and so reduce the number of dismissals is of utmost desirability. "Sir William Beveridge believes that measures of same kind must be taken to make trades which have excessive unemployment . . . set their homes in order and pay, until they do so, for their own resources of labour."* The most important objection, however, to experience rating in unemployment insurance has been that it will, in effect, reward employers who operate in stable industries rather than those who have stabilized their operations. Employers who take part in the production of goods for a market subject to severe fluctuations have to contribute at high rates, while employers who participate in the production of goods for a relatively stable market are required to pay premiums at lower rates. The reward of rate reduction will go to employers who have done nothing to earn it. The penalty of high rates will be imposed upon employers who are not much inefficient as unlucky. The supporters of the theory point out in defence that such a situation is to be found in all types of insurance, e.g., life and fire, and that all differentiation in insurance rates does favour those who happen to be in a fortunate position with regard to the standard used for the determination of rates. Insurance pursues broad objectives, and only rough justice can be achieved.

The European systems have knowingly disregarded this factor with the view that it is fair and just that less hazardous trades and occupations be made to share in the burden of unemployment which faces other trades and occupations to a much larger degree. In Germany the 3 per cent. rate may be lowered for districts showing a favourable balance after adequate reserves are

* Feldman and Smith, op. cit., p. 13.

assured to the Reichsanstalt.* Reduction in rates is only allowable in districts which have piled up a surplus for three consecutive months. Such more favourable terms are expected to encourage efficiency in the administration of unemployment funds. Reduction of rates is limited to districts and is intentionally not extended to individual employers or special industries. Germany is of the opinion that gradation of contributions according to the risks of industry produces negligible results in controlling unemployment. It is admitted that such a policy might help to regularise certain types of seasonal unemployment or stimulate employers to discover and practise schemes for stabilization within their own establishments. Gains in one plant, however, are thought to be made largely at the expense of increased fluctuations in employment in other establishments, as long as the problems of trade fluctuations remain unchanged. A sliding scale of contributions is considered futile to stem the tide of unemployment arising from technological changes in industry. The attempt to grade contributions in order to induce the employer to eliminate or reduce unemployment is thought to result from fallacious analogy between unemployment and industrial accident. The latter is an exact event the cause of which can be traced with comparative ease and can be subjected to mechanical control. In addition, the accounting and administrative costs incidental to an attempt to grade contributions according to risks are deemed prohibitive.

The aim of the process of experience rating to induce the employers to reduce the number of dismissals is indeed welcome, since amongst industrial labour arbitrary and irresponsible dismissals are quite common. A better way to achieve it, however, would be as follows : uniform rates should be payable by employers, but upon a periodical review of, say three or five years, part refund of the contributions would be allowable in cases of improvements in the operations of the employers and attempts to reduce the number of dismissals. Dismissals should be reviewed and examined.

If contributions are to be graduated according to the relative volume of unemployment, the following considerations may be

* M. R. Carroll, op. cit., pp. 81-3.

borne in mind. A legal minimum and maximum below and above which the rate fixing body cannot go should be fixed by law, leaving at the same time ample room for the stimulus for regularisation to operate. There should be a preliminary period of uniform contribution, during which the necessary data will be collected to permit experience rating. In fixing the relative rating for undertakings, it should not be forgotten that factors outside a given industry may aggravate unemployment, e.g., shifts in demand, rise of new industries, etc.

Incidence of the Cost of Social Insurance

The rational distribution of cost is in itself difficult to achieve but it is rendered all the more so by the operation of the economic law of incidence, to which social insurance costs, like taxes, are subject. The distribution of costs may ultimately be quite different from that intended by the legislator, because of the possible shifting of the costs to other shoulders. So far as the subsidies are provided out of public taxation, their incidence depends on the nature of the tax, according to which they will be borne by either the whole community or a particular group of it. The contributions of the employers and the employees are borne in the first instance by those who actually pay them ; but the ultimate distribution of the burden is uncertain. The insurance contributions will, from the long-term point of view, be regarded by the employers as a factor in the cost of production, while the workers on their part will try to shift their contributions upon employers by demanding higher money wages. The contributions of the employers and the employees may finally be incorporated in the prices of commodities like other costs of production, and will in consequence be paid by the consumers as a whole. Or they may be allowed for implicitly by deductions in the wages paid to labour and be thereby finally paid out of wages the incidence of the cost thereby falling on wage-earners. The incidence of cost does not depend only on the theoretical economic laws, but also on the changing conditions of competition, the state of the market and the bargaining power of the industrial organisations.

CHAPTER VII

ACTUARIAL TECHNIQUE AND FINANCIAL SYSTEMS

NEXT to financial resources, the problem to be considered is that of organising them so as to have the social insurance scheme working on sound lines. The essential function of any financial organisation is the realisation and maintenance of financial equilibrium. The resources of social insurance and its charges have to be balanced. According to the nature of the risk and the benefit, it may be expedient to balance benefit expenditure against contribution income either over a short period or over a long, even an indefinitely long period. In any case, cash must be available to pay benefits as they fall due, and the test of actuarial solvency at any date is the same, namely, the equivalence of the present values of probable revenue and expenditure.

In the search for a suitable technique for social insurance, several systems have grown up. The financial systems used in social insurance schemes belong to two principal types : the actuarial or the accumulation systems and the assessment systems. The former have developed into two separate and distinct forms, namely, individual accumulation, i.e., accumulation in respect of an average individual entrant at each particular age, and collective accumulation, i.e., accumulation in respect of an average entrant at an average age.

Individual Accumulation System

In the individual accumulation system, the idea has been to employ the methods used in private insurance for the provision of life annuities or invalidity pensions. The main principle here is that in the case of a worker entering insurance at a particular age, the probable present value of the income in respect of him and that of the liability incurred for him at that particular age

of entry are equal. In other words, contributions paid on behalf of each person are supposedly entered into an individual account for the purpose of accumulating at compound interest the sum needed for the payment of benefit. Thus there is a very close connection between the contributions paid for each insured person and the amount of the benefits that he may be granted. If the contributions are fixed at a uniform rate for the whole life instead of having the insured person to pay at a rate increasing with age, then such uniform contribution rates are so adjusted that they at first exceed the annual value of the risk and after a certain stage fall below it. This is so in most cases as the risk insured against increases with age. The adjustment is so effected that the earlier excess when accumulated at compound interest at an assumed rate should be sufficient to cover the deficiency in contributions at older ages. There is therefore always an actuarial reserve for every insured person ; which is at any moment the difference between the probable present values of the future liability and of the future income in respect of the insured person at that moment. In this way the actuarial reserve is determined prospectively. It can also be determined retrospectively by taking the difference between the probable present values of liability and income relating to the period between the age of entry into insurance and the point of time at which such valuation is made.

With a financial system of this pattern, a number of operations calling for actuarial technique are required, chief among which are the establishment of benefit schedule, organisation of the technical accounting, calculation of the actuarial liability (i.e., the same as actuarial reserve ; it has to be noted that it appears on the liability side of the balance-sheet unlike the ordinary reserves), valuation of the investments, calculation of the rates of yield, selection of the rate of interest serving as a basis for calculation (the actuarial rate), organisation of the statistical work and comparison of its results with the biometric tables adopted as the basis.*

* I.L.O., *Actuarial Technique and Financial Organization of Social Insurance*, Studies and Reports, Series M, No. 17 (Geneva, 1940), p. 27.

Collective Accumulation System

The second method with an actuarial basis is the collective accumulation system. In this method also the financial equilibrium is defined by the relation between the probable present values of the liabilities and contributions of the scheme ; but here the individual insured person remains out of the picture, and the whole insured group (or certain subdivisions) is considered. All the insured persons are required to pay the same average premium, calculated in such a way that the probable values of the premiums to be collected balance with the probable value of the total future expenditure. It has to be noted that the actual capitalisation is no less collective in the individual accumulation system ; only, the calculation of the premium in that system, depends on the individual characteristics of the insured with respect to the risk, for instance, the age at entry. Moreover it is theoretically possible in that system to isolate from the mass of actuarial reserve, a particular reserve corresponding to each insured person. The individual character of the premium is to some extent transmitted to the reserve fund. The result is that under that system, a member is not indissolubly connected with the fund in which he is first insured, since he may leave it and join another, provided that he brings his reserve with him, and that the new fund works on terms established on the same basis as was used in the old fund.

With the average premium pattern in the collective accumulation system, the principal task of actuarial technique is to calculate the average premium, make the preliminary valuation needed in the preparatory work undertaken before the introduction of a social insurance scheme, and prepare the actuarial balance-sheets (these are prepared at intervals of few years, as a rule—three, four or five).* The insurance institutions usually try to compile statistics of the working of the scheme on the lines indicated by the actuarial services. The actuarial balance-sheets and the necessary technical work are useful in controlling the financial evolution of the scheme and making a critical analysis of the sources of profit and loss. The conclusions drawn

* I.L.O., Studies and Reports, Series M, No. 17, op. cit., p. 32.

from the actuarial balance-sheet have very often played a decisive part in the reforms made in social insurance legislation.

Assessment System

As distinguished from the above group of systems having an actuarial basis, there is another group, as already mentioned, namely, that of the assessment systems or " distribution of costs " systems. The basic idea here is that the total contributions and subsidies received during each year should be sufficient to pay for the benefits to be granted and the expenses of the administration to be incurred during that year. The financial balancing may be aimed at for each financial year as explained above or for a period comprising several consecutive years. These systems rest, like the collective accumulation system, on a collective conception of financial equilibrium. In fact, if equality of two totals is regularly achieved, the obvious result is the equality in the probable present values that would have been established with the average premium pattern. The assessment systems can be divided into two classes : assessment proper, where the contributions paid during a year or some such other specified period balance with the benefits paid and other expenses incurred during that year or period ; and, secondly, assessment of capital cover, where the contributions paid during a year or other specified period balance with the expenses incurred and the capital corresponding to the pensions awarded during the year or the period. In other words, in cases where benefits are paid in the form of a pension, in the former method (assessment proper), only that amount is considered which falls due in that year or period, while in the latter method, the whole amount representing the probable present value of all future payments under premiums (commenced during the year or period) is placed in a reserve and capitalised to ensure the payment of the pensions.

The assessment system, in general, has to be based on a table giving for each financial year an estimate of probable resources against one of probable charges. In addition to this " annual estimates " table, an actuarial balance-sheet (or only a preliminary valuation), may be found necessary in most cases. In an insur-

ance scheme with this " annual estimates " pattern, the actuarial work consists in preparing annual estimates table and a preliminary valuation if necessary. During the working of the scheme, in addition to an accounting balance-sheet, following operations are required : the initial annual estimates table has to be reviewed periodically with reference to the recently compiled statistics, and has to be extended by a certain number of years ; further, periodically drawn actuarial balance-sheets must take the place of the preliminary valuation.

Statistical Data Required

Whatever be the financial system adopted, the regular working of insurance demands the solution of some central problems, though the method of solving them may differ with the financial system used. These problems relate to estimates in connection with, firstly, measurement of the intensity of the risk ; secondly, estimation of the cost of the risk ; and lastly, determination of the rate of contributions. To be able to make correct estimates regarding these questions many technical factors, related to the risk in question and which are not financial in character may be required. To begin with, for the measurement of the intensity of the risk, are required biometric data.

Most of the statistical data required are of a demographic nature, i.e., relating to births, deaths, diseases, etc., in human communities. Of the statistical results deduced from such demographic data such are given the general title of " biometric tables " as have been put into a form that admits of their application to groups other than those from which those statistical results are themselves derived. Of course, these other groups must not be radically different from, but on the other hand must be more or less homogeneous with, the basic group studied. It is common knowledge that whenever a new insurance scheme,—whether in the field of social insurance or otherwise,—covering a new risk or a fresh group of people is started, there is almost always a complete lack of statistical material concerning the group to be insured. Therefore, recourse is inevitably had to observations made under other insurance schemes, if possible, of a similar nature, in the same country or abroad. In social insur-

ance use may be made in the last resort, of the results of general or occupational censuses or special enquiries. However, once a scheme has been put into force, the insurance institution can make statistical returns, from which biometric tables can be compiled for the insured group itself, and these tables can gradually replace the tables that served as a basis for the preparatory work. To be complete, the description of a biometric table should provide exact information on* :

(1) the observations made (definition of the groups under observation, period of observation, definition and number of persons exposed to the risk, definition of the risk, and number of cases in which the risk materialises);
(2) the recording and examination of the observations (bodies responsible for operations, methods employed) ;
(3) the construction of the table (essential formula, adjustments) ;
(4) the use made of the table and the reasons leading to its selection ;
(5) bibliographical references (original publications, reproductions in full or in part).

The biometric data required for old age, invalidity and survivor's pension insurance relate to mortality, invalidity, morbidity (owing to its indirect effects), marital condition and composition of the family. Sickness insurance requires data relating to morbidity and mortality (if an actuarial basis is used for the financial system).

Mortality Table

The mortality table is the instrument by means of which are measured the probabilities of life and the probabilities of death. The mortality table can be compiled for the population as a whole but as a rule it is constructed for each sex separately and such compilation requires data regarding (*a*) census returns giving the number of persons living at the time of the census in each year of age—in some instances this data may be available only for groups of ages ; (*b*) the number of deaths occurring in each year of age in each calendar year comprised within a period

* I.L.O., Series M, No. 17, op. cit., p. 4.

of which the census data is more or less the middle data as shown by the death registers. Mortality tables are also constructed from the experience of assured lives. In social insurance, however, use is made generally of the mortality tables compiled for the population as a whole from the returns of one or more censuses and from the statistics of deaths. In the practical compilation of a mortality table it is often found that the rates of mortality disclosed by the observations are very irregular from age to age and that errors frequently occur in statements of ages. It consequently becomes necessary to review the data very carefully and to adopt a system of graduation of the results in order to secure a more uniform progression of the rates of mortality, while at the same time retaining any outstanding features disclosed by the statistics. This graduation may be described as the endeavour to arrive at the true law of mortality underlying the rough results disclosed by the data.*

It will not be out of place to explain briefly the technical terms and symbols usually employed and to bring out the significance of the figures contained in mortality tables. l_x represents the number of persons who, according to the mortality table, attain precise age x in any year of time in that hypothetical population of which it is postulated that the mortality table is a true picture. The number of births in any year of time is l_0. At the end of a year, the survivors of the group of l_x persons will attain age $x + 1$ and their number will be l_{x+1}. In this way, at the end of t years, the survivors attaining age $x + t$ will number l_{x+t}, and so on, up to an extreme age w, such that for $x = w$, x first vanishes. w varies according to tables and usually lies between 95 and 105 years. Similarly d_x represents the number, out of l_x persons attaining precise age x, who die before reaching age $x+1$, so that $d_x = l_x - l_{x+1}$, L_x represents the number living between ages x and $x + 1$, as disclosed by an enumeration of the assumed population represented in the mortality table at any moment of time. The probability that a person of exact age x will survive one year

* E. F. Spurgeon, *Life Contingencies* (Cambridge, 1941), p. 7.

is represented by p_x. Out of l_x persons of exact age x, l_{x+1} survive to age $x+1$. Therefore, $p_x = \frac{l_{x+1}}{l_x}$. q_x represents the probability that a person of exact age will die within one year following the attainment of that age. Therefore, the rate of mortality, which is denoted by q_x, is $\frac{d_x}{l_x}$, or since a person aged $x+1$ must either survive one year or die within that year, $p_x + q_x = 1$, i.e., $q_x = 1 - p_x$.

Other symbols usually found in a mortality table are μ_x, T_x and $\mathring{e}_x$. μ_x represents what is called the force of mortality, which is the normal annual rate of mortality based on the assumption that the intensity of mortality remains the same at every moment during the year of age x to $x+1$ as it is during the moment, following attainment of age x. A year is taken as the most convenient unit of time for measuring this force. T_x represents the number of persons aged x and upwards living at any moment of time. $\mathring{e}_x$ represents what is known as the complete expectation of life, i.e., the average number of years (not necessarily integral years) lived after age x by each of the l_x persons who attain that age.

Now, the value of a mortality table depends on its ability to supply the necessary ratios representing such probabilities of life and death as may be required. As to the significance of the figures contained in a mortality table, it has therefore to be noted that the actual numbers in the l_x and d_x columns are only of importance in so far as they bear the correct proportion to each other and facilitate the calculation of the probabilities of life and death and of the values of monetary functions dependent on them. The mortality table commences with any convenient radix, say 100,000 births (i.e., l_0)—the radix of a mortality table is the number of persons assumed to be alive at some age convenient for the purpose of constructing the l_x and other columns by means of the ratios derived from actual observations. It is generally most convenient that this age should be the youngest age in the table, though this is not essential; and it is generally zero in tables constructed from vital statistics about the general population.

For any particular calculation, a mortality table (i.e., one mortality table) only is nearly always used ; the assumption is thus that during the whole period covered by the calculation, " mortality at any age remains constant."* Such an assumption is involved only if the particular calculation is made for a number of ages at the beginning. The application of a mortality table to an insured group may in some cases require recourse to be had to hypothesis ; for instance, the groups to be considered may not be composed of persons who at a specified date attain exact ages, so that appropriate averages may have to be obtained by recourse to hypothesis concerning the distribution of dates of birth during the year.

Invalidity Tables

In connection with the tables involving the conception of invalidity, it has to be noted at the very outset that this conception largely varies in its significance, since it depends on legislation, administrative regulations and judicial practice. Tables concerning invalidity may show various aspects of the question of invalidity ; they may show mortality rates for invalids, mortality rates for healthy persons, the probability of becoming invalid and validity rates. In the beginning of a compulsory scheme, the tables used are generally those among the available ones which can be reasonably expected to represent the future experience of the group to be covered by a compulsory insurance scheme to be started, but later they are replaced generally by those based on the statistics derived from the compulsory insurance scheme itself in order that they may be exactly suited to the scope of the insurance scheme.

The mortality rates for invalids may be shown in tables of aggregate values, tables of selected values or in tables of ultimate values. Tables of aggregate values depend only on the age reached by the invalid. In obtaining tables of select values both the duration of invalidity and the age reached by the invalid are taken into account, so that these tables display both rows and columns, the former corresponding invalidity as long as it is less than a certain limit (ordinarily not exceeding ten years).

* I.L.O., Series M, No. 17, op. cit., p. 6.

Tables of ultimate values apply after the period of selection—if the invalidity lasts a longer period. These tables depend only on the age reached by the invalid. There are also tables (compact) showing the cessation of invalidity pensions, in which the figures depend neither on the age of becoming invalid nor on the age reached by the invalid, but only on the duration of invalidity.* It has to be noted that as a rule the mortality rate of invalids is assumed to be identical with their rate of withdrawal from insurance, although the latter may depend on various causes other than death. Yet in certain cases a correction is made to take into account the discrepancy between the two phenomena. Tables of mortality rates for healthy persons have also been compiled on the basis of the deaths of healthy persons, that take place without any previous "invalidity" in the legal sense of the term applicable to a scheme of invalidity insurance. The invalidity tables showing the probability of becoming invalid also give the annual rates of becoming invalid,—invalidity rates.

If, as in the case of mortality, an initial group of l_x persons, attaining precise age x in any year of time, is taken, at the end of a year the survivors from this group are, as already seen, l_{x+1} but these include both healthy persons and invalids, and will therefore be l^{aa}_{x+1} healthy persons and l^{ii}_{x+1} invalids, where $l^{aa}_{x+1} + l^{ii}_{x+1} = l_{x+1}$. This process can be continued and by this process three discontinuous sequences will be obtained, viz. :

$$l_x,\ l_{x+1},\ l_{x+2}, \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ l_w;$$
$$l^{aa}_x,\ l^{aa}_{x+1},\ l^{aa}_{x+2}, \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ l^{aa}_w;$$
$$\text{and}\quad l^{ii}_x,\ l^{ii}_{x+1},\ l^{ii}_{x+2}, \ldots\ldots\ldots\ldots\ldots\ldots\ l^{ii}_w.$$

These three discontinuous sequences form a validity table which represents in schematic form the evaluation of mortality, of invalidity and of the relation between the two.† In short, the

* I.L.O., Series M, No. 17, op. cit., pp. 282-4 and 286-8, for instance for the German experience.

† Ibid., pp. 290-1. The German validity table given on these pages was calculated on the following data: General rates mortality, mortality rates for invalids and invalidity rates.

statistical results are required about four phenomena : (1) general mortality, (2) mortality of invalids, (3) mortality of healthy persons and (4) invalidity rates. A knowledge of any three of them is sufficient to determine the combined evolution of mortality and invalidity.

Morbidity Table

Here the important factors are broadly : age, sex, occupation and environment. From the point of view of the risk of sickness, any wide group of persons for which these factors are identical may be considered practically homogeneous. Here also, as in the case of invalidity, the conception of sickness varies in its significance, since it depends, as a risk covered by insurance, on the legal definition and the interpretation put upon it by the fund, which interpretation again may depend particularly on the financial situation of the fund, since it is likely that richer the fund, the greater the tendency on the part of its authorities to allow a liberal interpretation of the term " sickness ".

The annual morbidity rate is generally expressed as the average number of days of sickness per annum per insured person. Morbidity rate can be calculated in two different ways.* According to one method it is usually considered adequate to calculate the average number of days of sickness per insured person per year, so that the result is that

$$\text{morbidity rate} = \text{frequency of cases} \times \text{average duration of sickness.}$$

If, however, the average duration of a sickness is taken as given by $\frac{\text{number of days of sickness}}{\text{number of cases}}$, then the two formulae give identical results, because the second formula then resolves into

$$\text{morbidity rate} = \frac{\text{number of cases}}{\text{number of insured}} \times \frac{\text{number of days of sickness}}{\text{number of cases.}}$$

The results of observations made for a group of insured persons during a certain period is summarised and presented in the form of

* Vide I.L.O., *Compulsory Sickness Insurance*, Studies and Reports, Series M, No. 6 (Geneva, 1927).

a morbidity table, which gives the morbidity rate at each age or for regular age-groups. Separate table is constructed for each sex. It is important that the observed group included good and bad risks indiscriminately as inevitably happens in compulsory social insurance. For the application of the experience of one group to another, the conditions of the two groups concerned must have fairly close resemblance, the term "sickness" must be taken in the same sense in both the cases and if possible the minimum and maximum periods after and before which the days of sickness are not counted (i.e., waiting period and maximum benefit period) must coincide in both the cases.

For determining the influence of the waiting period and the maximum benefit period on the cost of sickness insurance, statistics of the duration of illness are indispensable.

Morbidity table is of primary importance for sickness insurance. However, it is also required for the pension insurance schemes, because morbidity rates of the insured group do affect the financial situation of such a scheme. When an insured person falls ill, non-receipt of wages on his part leads to non-payment of his contribution to the scheme, unless there is a provision for payment from some other source. Therefore in pension insurance the annual morbidity rate has to be taken into account.

Other Biometric Data

Another type of biometric data relates to marital condition of insured persons and composition of their family. This has involved the introduction of a variety of statistical data, that have been taken from varied sources like general censuses, special enquiries and social insurance statistics proper. These data comprise, for instance, mortality tables for single insured persons and married persons separately (each sex separately) ; probability of marriage among females ; average age of the wife in relation to husband's age ; number and distribution of wives of insured men by class (healthy, invalid, pensioned, not pensioned, insured, not insured), and similarly of widows of insured persons ; mortality rates for children ; average number of children dependent on insured persons (according to the age of the children and the age of the father) and similarly average number of children dependent on

widows of insured persons, etc. To take the example of Germany,* their table showing survivorship factors for widows and dependants gives the probability that an insured man will leave at his death one or more dependants, and the probability that an insured man will leave a widow at his death—the probabilities are given for every age from 16 to 84—; the table concerning probabilities relating to marital status and survivorship of dependants in the case of females gives three probabilities, viz., probability of being single, rate of marriage and probability that an insured woman who dies after having become a widow will leave one or more orphans under age 15—all these probabilities being given for each age from 16 to 69 ; another table gives distribution of wives of insured men by age (20-90) and for different categories like healthy, invalid, insured, not insured, pensioned, not pensioned ; the table relating to widows of insured men gives three probabilities : that the widow of an insured man is herself insured, that the widow of an insured man will never enter into insurance, that the invalid widow of an insured man will be pensioned—for each age from 20 to 79 of the widow ; another table gives the average age of wife from 20 to 83 ; as to the data relating to children of insured men : for mortality of the children upto the age of 16, a table deduced in respect of the total German population is used, then one table gives age distribution of children according to the age of the father—for each age of father from 21 to 70, it gives the number of fathers and the number of children of each age from 0-14,—and one table constructed from the experience of the staff of a section of the Prussian railways gives the probability for each age from 19 to 73 that an insured man is the father of a child aged less than 15.

Demographic Estimates

The demographic estimates (which are not biometric data) required in the calculations for demonstrating financial equilibrium in social insurance relate to the insured population and the number of beneficiaries. The description of the insured population should give not only its total number, but also its distribu-

* I.L.O., *Compulsory Sickness Insurance*, Studies and Reports, Series M, No. 6 (Geneva, 1927), pp. 301-15.

tion by sex and by age. In the beginning recourse has to be had to general or occupational censuses, till exact information on the number of insured persons and their distribution by age and sex is recorded during the actual operation of the scheme. To obtain a table showing the probable evolution of the insured population the number of insured persons at each age has to be estimated over a series of years. Two different methods may be used. According to one method, an estimate is made in advance, based on the results of general censuses, occupation ratio showing the transition from the total population to the occupied population, and insurance ratio showing the transition from the occupied population to the insured population, both the ratios being obtained by means of special enquiries. According to the second method the insured population at a given date is first considered as a " closed group ", assuming that there are no additions to the group and that the only decreases from it are due to causes covered by the biometric tables, e.g., death or invalidity. Therefore by the application of these tables, the evolution of the closed group is easily found. Next the contingent entering into insurance each year has to be considered. As for the age distribution of the entrants, it is assumed by approximation that all of them belong to the lower ages, say 16, 17 and 18 years. Further, the total yearly number of entrants is assumed either to remain constant or to increase regularly in such a way that in any year the number of entrants is obtained simply by multiplying the number in the preceding year by a " coefficient of annual increase " which is higher than unity. Further, as to abnormal entrance, or departure produced by causes not covered by biometric tables, e.g., change in employment, these movements are difficult to determine exactly and still more difficult to forecast. The financial consequences of such movements depend on provisions relating to the qualifying period to be completed by the entrants and maintenance of the rights of insured persons leaving insurance or transferring from one scheme to another. Pension insurance requires estimates of annual contingents of new beneficiaries and of the number of persons in receipt of benefits at a specified date, and these estimates are made with the help of the biometric tables on the

one hand and the data defining the insured population and its evolution on the other.

Evaluation of the Cost of the Risk

The next question is of the evaluation of the cost of risk and the determination of the rate of contribution. The solution of this question depends upon the financial system adopted. The estimates of contribution income are obtained by two methods. The first takes as a starting-point the evolution of the insured population year by year and arrives at an evaluation of the total annual income from contributions. The second involves the calculation of the probable present value of the contributions expected in the future from all the insured persons. Distinction may be made between insured persons belonging to the scheme at a particular date and those entering after date will be required relating to the amount of wages, their variation with the insured person's age, and their fluctuations, with changes in economic and social conditions. Similarly, the estimates of the cost of benefits can be obtained by two methods. Annual estimates of the cost may be made with a preliminary estimate of the number of beneficiaries each year, on the basis of biometric tables and the composition of the insured population, the number so calculated being multiplied by the average value of the benefit. The second method consists in the calculation of the probable present value of the benefits still due to a beneficiary at a given age, and of the probable present value of the benefits to be paid in the event of materialisation of the risk to an insured person at a given age. In the case of pension insurance, the benefits may be considered in their two component parts : components whose amount is fixed (in particular the basic amount) and is consequently uniform for a group of insured persons ; components calculated with reference to the contributions paid or to the insured person's wages, or to the contribution period or to a combination of these data.

Under Individual Accumulation System

The calculation of the cost of the risk under the individual

accumulation system requires data like the mortality table and morbidity table according to ages applicable to the insured persons, and the rate of interest corresponding to the estimated probable yield on investments in future years. If the cash benefits have been proposed to be awarded in relation to wages or wage-classes, then data is required about the distribution of insured persons according to individual wages or basic wages fixed in accordance with the system of wage-classes. The probable present value of the cost of cash benefit in the case of any particular person at a certain rate of benefit per day of sickness (this rate will have to be inclusive of an estimated average expenditure on medical benefits per insured person unless this expenditure is separately taken into account in a similar manner) is obtained by adding the probable present values of the deferred capital sums corresponding to each year of insurance for all ages in the selected morbidity table from his age of admission upto his probable age of retirement. From the description of the system already given, it is clear that because of the principle of equality of the present values of liabilities and expected income, there is a very close connection between the contributions paid for each insured person and the amount of the benefits that he may be granted,—a connection comparable with the one found in individual life insurance policies. Now, it should be noted that social insurance contributions and benefits do not as a rule (rather should not) correspond to each other in the same way as premiums and benefits under individual life insurance policies. The relations between income and expenditure which arise from individual life insurance policies do not constitute a sufficient mechanism to enable social insurance to achieve its proper ends. A social insurance scheme cannot in fact fully carry out its purpose unless it is able to grant in the event of the materialisation of one of the risks it covers, benefits at such a level that they can guarantee the " social security " of the recipients. If this individual accumulation system is used, adequate benefits may require contributions of a level too high for the workers to afford it—particularly so in the case of insured persons during the transitional period (i.e., the period since the starting of the scheme up to the time when the generation of

initial entrants passes away ; and when the number of existing members represents the survivors of entrants at *all* normal ages). Again, the rates of contributions though uniform for all persons that enter insurance at a particular age, necessarily differ with the age at entry. For persons who enter insurance at lower ages they will be smaller, and will be higher and higher as the age at entry advances. However, this position is incompatible with the spirit of social insurance. The rate of contribution should be independent of insured person's age, because social insurance must make no distinctions between workers that might tend to influence their employment. From all these considerations, it can only be concluded that the individual accumulation pattern is not itself sufficient for the financial system of a social insurance scheme.

Collective Accumulation System

Under the collective accumulation system, as already stated, all insured persons have to pay the same average premium, irrespective of their age at entry. The average premiums may be calculated for different groups and for different periods. If all insured persons, present and future, are taken together, a general average premium is obtained. The calculation of average premiums is combined in the preparatory work undertaken before the introduction of the social insurance scheme, with a sort of preliminary spade-work, which consists, in fact, in comparing the financial resources and charges of the scheme. As for the movements of the insured persons for reasons other than those covered by biometric tables, it is considered sufficient to fix a maximum limit for its financial consequences. Now, the calculation of the contributions under this system requires an assumption to be made about the average age-distribution of the entrants into the scheme. The average age of entrants at the inception of the scheme (i.e., initial entrants) is higher than that of the future entrants (i.e., those who enter after the transitional period). So if the assumption about the average age-distribution of entrants into the scheme is based on the age-distribution of the initial entrant the average contribution thus obtained will be too high for the normal working of the scheme. If, on the other

hand, this assumption is based on a combination of the age-distribution of the initial entrants and the probable age-distribution of the future entrants, then the average contribution so obtained will be too low, so far as the initial entrants are concerned. Whenever the financial working of an insurance scheme is based on the actuarial methods involving calculation of probable present values and capitalisation, constitution of a technical reserve becomes an integral and essential part of the system, which reserve is at any date equal to the difference between the probable present values of the future liabilities and expected income of the scheme. Amongst the two cases pointed out above, in the first case the technical reserve in the beginning is zero ; but in the latter case, which considers both present and future insured persons together in virtue of the lasting and compulsory character of insurance, it is in the beginning negative. This uncovered part of the actuarial liability, that results from the higher age-distribution of the initial entrants, is known as the " initial liability ". An insurance scheme at its outset may be regarded as the amalgamation of (1) a scheme limited to the initial membership, and (2) a series of schemes limited respectively to the first, second, etc., annual contingents of entrants. Each of these schemes applies to a closed group. Since, by definition, the general average premium resulting from a suitable combination of age-distributions of the initial and future entrants is higher than the premium corresponding to the contingent entering insurance each year, but lower than that which should be applied to the initial membership (if it were treated as a closed group). The first shows an initial liability, while each of the other begins with an asset, and financial equilibrium is established in such a way that the sum of the present values of the assets balances the initial liability.

Assessment System

Under the assessment or the " distribution of costs " system, estimate has to be made of the annual cost of the benefits proposed to be awarded. The method of calculating such an estimate has already been mentioned above. The cost so arrived at has to be distributed amongst all the insured persons. This

cost may be distributed (1) equally, resulting in flat rates of contributions independent of wages, (2) in proportion to wages in an attempt to adjust the burden to the ability to pay, (3) in proportion to the intensity of the risk (e.g., in proportion to morbidity rates), giving a sort of " risk premium ". If in (2), instead of individual wages, wage-classes are taken into account, then the cost will be distributed in proportion to the basic (representative) wages for different classes. If it is intended to have an equitable distribution of the burden, then there should be a steady increase in the share of contributions coming from the lowest class upwards. The result is that between the wage-classes, for some lower classes contribution is lower than the risk premium, but the same is higher than the risk premium for the upper classes—considered from the direction of the age-groups, contribution is less than the risk premium for all age-groups in the lower wage-classes and for the higher age-groups in the higher wage-classes, while the contribution rates exceed the risk premium in the case of the lower age-groups in the higher wage-classes. The net result of all this is that the younger members of the higher wage-classes bear the largest part of the burden, while the older members of particularly the lower wage-classes receive the greatest support. It may be noted that, in this system, the average annual expenditure per insured person is assumed to remain more or less constant from year to year. It has already been mentioned under what conditions this system becomes the same as the collective accumulation system ; this identity may appear in any branch of social insurance, and not merely in the case of sickness insurance, as has been claimed.*

The distribution of costs system is generally modified in practice by the provision of a provident reserve fund. Such a fund may be accumulated out of chance surpluses of annual revenue, but often a considerable loading of the contributions is made with a view to such a provision and a sum—usually fixed at 1/20th of the contributions—is annually deducted from the contributions and devoted to forming a reserve. The problem of fixing a minimum and a maximum for the amount of the fund then arises. The minimum is generally a sum at least equal to the annual expendi-

* I.L.O., Series M, No. 6, op. cit., p. 436.

ture. In fixing a maximum limit, the considerations are many, the most important one being the desire to avoid immobilising too large sums. The provident reserve may be used to reduce or cancel the effects of chance fluctuations in expenditure from year to year. The reserve may also be used to cope with exceptional increases in the intensity of the risk (e.g., epidemics) ; but it is often thought advisable to build up a separate emergency fund for such cases. An important advantage accruing from a reserve, that may even often prove one of the objects for constituting a reserve, is that interest on the invested fund means a regular source of income. This provident reserve, it has to be noted, is quite distinct from the actuarial reserve formed under the actuarial systems ; this latter reserve forms an inseparable part of those systems and its size is much larger. A provident reserve may be and often is built up even under the actuarial systems.

The Financial Systems in Practice

In actual practice these basic financial systems are used often with numerous modifications and the whole structure of the financial organisation is never built upon on one alone of the above patterns. With reference to the different systems, it may be added that the actuarial basis is comparatively less flexible, and the long-term financial commitments of the actuarial system make necessary the examination, at frequent intervals, of the technical and actuarial data in the light of actual experience. The actuarial system is particularly suited to the insurance schemes providing invalidity, old age, and survivors' pensions. From the purely technical point of view the following may be deemed to be the essential qualities of a financial system* : easy and reliable control of the financial situation and its evolution ; simple financial organisation ; low costs of the administrative operations involved by its working.

Sickness insurance is almost everywhere financed on the assessment system. Only in Great Britain, where health insurance provides incapacity benefits without limit of time, is the accumulation system used.

* I.L.O., Series M, No. 17, op. cit., p. 34.

For pension insurance, the appropriate financial system may be either that of assessment or that of accumulation though often the financial organisation is based mainly on a combination of the principles and methods underlying the three typical patterns. The choice depends on a number of considerations, of which the important are the probable movement of the pension cost and the scope of the insurance scheme. The assessment system may be used if the ultimate pension expenditure will not exceed the income yielded by the maximum contributions that can reasonably be fixed for pension insurance. In the contrary case, the accumulation system must be used. The scope of a pension scheme affects the measure in which it is feasible to apply the accumulation system, because the interest on the reserve, in order that it may relieve the charge on the current contributors, can only be paid by other members of the community with whom the reserve has been invested. In those schemes, in which the claim to a pension is made subject to a comparatively short qualifying period, the number of pensioners becomes constant in a comparatively few years' time, and thenceforth the costs of the scheme may increase only at a moderate rate. It is evidently possible to finance such schemes on the assessment system.

In unemployment insurance, the assessment system must be used, because its financing is necessarily empirical. Despite the restriction on the duration of benefit in proportion to the duration of previous insurance, the movement of expenditure is well-nigh impossible to forecast with precision. A forecast is nevertheless made on most reasonable hypothesis that can be formulated, and the contribution is fixed at a rate which is intended to leave a margin for the accumulation of a reserve. In the estimates of expenditure, statistical data as to the average number of weeks of unemployment per insured person per annum is no doubt valuable.

Workmen's compensation insurance conducted on the lines of a mutual society often used a distinctive form of the assessment system. Here as exact a balance as possible is established at the end of every year between the premiums due from the group of undertakings comprised in a certain risk class and the liabilities incurred by the accident fund in respect of accidents happening

in those undertakings through the year. Where insurance is of a mutual character, a provisional premium is paid at the beginning of the year and an adjustment is made at its end. Statistics may be compiled as to the average amount of claims per annum per policy. The liabilities to be discharged by the premiums include, not only actual disbursements, but also the capital value of pensions awarded ; each year's financial working is independent, except for cases not yet settled.

The Role of the Actuary

Before closing this brief analysis of the actuarial technique and financial systems in social insurance, it is relevant to draw attention to the following extracts from the I.L.O. Report* on Actuarial Technique and Financial Organisation of Social Insurance (1940) regarding the nature and scope of the part played by an actuary in preparing a plan for the introduction or the reform of a social insurance scheme : " The actuary's work may be divided into two stages, though they cannot always be distinguished clearly. In the first place, he examines the conditions to be fulfilled by contributions, subsidies, benefits, and the accumulation of funds, with reference on the one hand to the special aims and characteristics of social insurance and on the other to data that do not belong exclusively to insurance. He must take into account a host of financial, economic, social and even political considerations and, in particular, the conditions in which accumulated funds may be invested, and he must respect the rules adopted in regard to public finance. The numerical values of the basic data are selected as judiciously as possible, but it may also be necessary to consider their stability, for example, as regards the level of wages and the purchasing power of benefits.

" In the second stage of his work, the actuary takes the conditions and data so defined as part of the problem to be solved. With these premises, he tries to discover a mechanism suitable to serve as a basis for the financial organisation. As a rule recourse is had to an appropriate combination of the classic technical methods. Lastly, this combination must be adapted

* P. 35.

to the numerical data peculiar to the insurance scheme which it is proposed to introduce or reform—that is to say, numerical values must be calculated for certain basic factors as a function of the values adopted for the rest.

"This brief outline, though it brings out the complexity of his main function, cannot claim to be a survey of all the many and various tasks to be carried out by the actuary—in particular, the choice of the basic rate of interest, the calculation of the rate of yield on invested funds, the valuation of investments for the balance-sheet and the organisation of statistics raise actuarial problems which are distinguished from the framing of the financial system itself."

CHAPTER VIII

FINANCIAL ADMINISTRATION OF SOCIAL INSURANCE

Collection of Contributions

AMONGST the various problems that arise in the management of social insurance finances, the first one that has to be tackled is the one connected with the collection of contributions. The contributing parties, as already seen, are the employees, the employers and the State. Of these, the last mentioned party is expected to be regular in its payments, and no particular provision seems to have been made in connection with it in any national law. Ordinary methods of enforcing payment by summons or distraint are generally effective only against the employers, but not against the great mass of the insured in the face of general hostility or negligence. Therefore, as a general rule, instead of having anything to do with the worker, the worker has been completely ignored in the matter of the payment of contribution, by the use of the principle of deduction at source. The employer has to pay the contributions of the insured persons working under him and he deducts an equivalent amount from the wages. The employer is made solely liable for both his and the worker's contribution and the insurance institutions are not generally empowered to recover from the worker even in the case of the employer's failure to pay. The method adopted in the majority of the countries for the actual payment is the stamp method* worked through the post office. This system is not without any disadvantages ; for instance, there is lack of any direct contact between the debtor and the creditor until the claim under insurance arises ; further, the stamps are sold often quite in advance of the actual time when the payment is due, whereby at any given moment, a disparity may exist between the amounts

* See Chap. V *ante*, for the working of this method.

actually collected from the sale of stamps and the sums contributed in respect of insurance up to that moment. But such disadvantages are insignificant when they are compared with the usefulness of the system. This method of " insurance stamps " is so convenient for employers, so easily checked, so clear and simple as regards accountancy and so economical to administer that it is a surprise that it has not been more widely adopted.

Investment of Social Insurance Funds

The investment of social insurance funds—not the short-term investment of working capital, but the investment proper made for a medium or a long term—is a very important question not merely from the point of view of the insurance institutions, but from the point of view of the whole country and its economic structure. These investments exercise a large influence on the money market, since they are made on such a vast scale as often to exceed in amount the holdings of the largest trusts or other commercial concerns like banks. The investment of social insurance funds represents, particularly in countries that have only recently adopted social insurance schemes, an important part of the new capital formed each year ; for instance, in Chile the investment of the compulsory insurance funds in the financial year 1938 absorbed about one-tenth of the total new issues and mortgage loans of the year.* This proportion, though comparatively high, is by no means exceptional, and in schemes, where the formation of old age pensions is based on the accumulation of a large proportion of the contributions, the accumulated sums are considerable in amount.

It has already been seen in the discussion on financial systems how accumulation of funds results. Under the actuarial systems, we get the technical reserves, and besides provident reserves which may be accumulated under any system. So the funds may constitute on the one hand the technical reserves, and on the other the contingencies, compensation, temporary and special reserves. The financial system determines the amount that the

* I.L.O., Studies and Reports, Series M, No. 16, *Investment of the Funds of Social Insurance Institutions* (Geneva, 1939), p. 2.

total technical reserve may reach and the rate at which it is accumulated. The size of the other reserves depends partly on legislation, partly on the rules of the institutions and the discretion enjoyed by the management. The technical reserves, owing to the part they play in the financial system, must necessarily bear interest. Of course, all the reserves—the whole mass of accumulated funds—are invested together. The trend of the investment of compulsory insurance funds may, as already pointed out above, have in many cases considerable influence on the capital market and even on the development of the whole national economy.

A certain amount of the funds has to be kept quite liquid for the working necessities of the insurance institution. This working capital has to be kept partly as cash in hand ; the remaining part being deposited with a bank or in postal current accounts and the like. Such funds entail investment for comparatively shorter periods,—although of course the line drawn between short-term and long-term investments can only be arbitrary, and the same investments may be regarded as short-term or long-term, depending on circumstances. So far as surplus income and profits are concerned, purely financial considerations should play only a limited part in the use made of such funds. Such assets should be used in either improving the benefits or in social investments, without much regard to the financial return, for the development of preventive measures, curative treatment, etc. The expediency of a particular investment should be determined according as the investment is to form part of reserves or is to represent an employment of profits.

Whereas the employment of the working capital and profits is often left to the discretion of the insurance institutions, the long-term investments of the funds (i.e., the reserves) of compulsory social insurance institutions are commonly subjected to statutory regulations. The reasons are obvious : the public authorities have a moral responsibility for the administration of funds from compulsory contributions ; further, social insurance absorbs a large part of the national income.

Among all the considerations by which the selection of investments may be determined, the important ones are safety, liquidity

and yield, since the purpose of the funds is to cope with chance increases in the frequency and size of claims or to balance the guaranteed benefits.

Safety

Safety is obviously a factor of fundamental importance. It takes precedence over all other factors and has to be secured as much as possible. Safety is of two kinds : formal and real. Formal safety means safety in terms of fixed currency and its nominal value, without regard to factors like depreciation of currency. From this point of view, there must be certainty as to regularity and promptness in the payment of interest and principal by the borrowers. A public authority, such as the State, the province or a municipality, which is a permanent entity and has power to levy taxes on persons within its jurisdiction for the purpose of meeting its liabilities, is a reliable debtor. In all other cases where the debtor is a corporation or a private person, formal safety may be ensured by the provision of an effective security like a charge on the debtor's property, the degree of safety obtained depending on the comparative value of the charge. Besides, enquiries may be made into the personal solvency of the debtor. Real safety is attempted to be secured in order to guard the risk of depreciation of currency, by investing in variable-yield securities or acquiring real estate; but both of these have their own disadvantages, which must be weighed against the advantages afforded by them.

Liquidity

The liquidity of an investment may be estimated in relation to the possibilities it offers of immediate realisation of the capital, at any moment, or at a date which is fixed in advance. The first kind of liquidity may be obtained by means of a current account in a solvent institution, short-term securities or stock exchange securities, the second by means of a mortgage loan, or a well-secured loan repayable at the end of ten, fifteen or twenty years. The degree of liquidity required differs according as the reserves in question on the actuarial reserves or the con-

tingencies reserves. The actuarial reserves are required to be liquid only to the extent that the financial system calls for their absorption. Under a compulsory scheme, membership of the fund is renewed so that the actuarial reserves go on increasing for a certain time till at a particular level other things being equal, they may be expected to remain stationary indefinitely. The importance of liquidity is relatively small provided that renewal of membership is fairly certain, as is especially the case in a compulsory insurance scheme. The basic principle is that the consumption of the capital of the actuarial reserve can only be exceptional and that when it does occur, it can be foreseen. The degree of liquidity to be required of this class of reserves should be examined with reference to the possibilities which an investment offers of realisation at a fixed and predetermined date, which date should be related to the insurance scheme's financial needs.

In the case of contingencies reserves investments should be capable of more rapid realisation than those in the case of actuarial reserves. The liquidity of the investments must be, in this case, of such a degree that immediate realisation of the investment, at any moment, should be possible. So the funds can be invested, besides being capable of being put in a current account, in securities that can be marketed on the stock exchange. Securities like the Government securities can be readily discounted. Again, money can be raised temporarily on such securities by pledging them with banks. Loans can also be raised on real estates, though this requires more formalities. The insurance institution will of course have to pay interest on these loans, but the rate charged will be low if they are short-term loans, so that the institution can no doubt retain part of the interest earned on the securities it has pledged.

When the risks covered by the insurance schemes are short-period risks, the part played by the actuarial reserves may be smaller and the effective part may be played by the contingencies reserves. In the case of long-term risks both absolute and relative importance of actuarial reserves may be much greater. For these reasons the rules relating to liquidity in the two cases should be different.

Yield

Yield is not of any *fundamental* importance in the case of contingencies reserves, since the interest earned merely supplements the provision which the scheme makes for chance liabilities. The effects of compound interest and the return on investment no doubt lessen the burden of liabilities, whatever the yield, in the case of the contingencies reserves, it will not influence the financial equilibrium to any great extent. These considerations, therefore, show that, looking for a high return at the cost even to a little extent, of liquidity, and above all, safety, is not justifiable in the case of the contingencies reserves.

In the case of actuarial reserves the income from funds invested as actuarial reserves plays an essential and fundamental part in the maintenance of financial equilibrium. Therefore the question of yield is important. In fact it is indispensable that the rate of yield on the total actuarial reserves should not fall below the minimum adopted for fixing the rate of interest which serves as a basis for the calculations. If the average rate of interest on which the actuarial estimates are based cannot be earned by a prudent administration of the accumulated capital, there can be no question of trying to obtain a higher yield at the expense of safety. If the loss of interest seems serious and likely to last for a long time, the remedy lies in either increased revenue or reduced benefits, the choice between the two depending on many factors like the prevailing rate of contribution, the level of benefits, the extent of the loss incurred, the level of wages and the general economic situation.

Social and Economic Utility

Among the various investments that fulfil these fundamental requirements, peference must often be given to those that are most useful economically or socially. Considerations of social and economic utility, however, though of importance, must be subordinated to those of safety, yield, and liquidity, and must be used without prejudice to these three. The social utility may be judged by the benefit to be derived from the investments by the insured community or the whole national community, for instance, effect on the health situation and living conditions of

the insured persons ; and in general campaign against disease, improvement in housing conditions, town planning, establishment of schools, etc. The economic utility is judged by the contribution that the insurance holdings make to a balanced distribution of industrial and agricultural production in different parts of the country, to the development of means of transport, especially roads and waterways in regions least favoured in this respect, and to a better geographical distribution of investments in real estate and of housing activity.

Selection of Investments

The investment of accumulated funds is generally governed by a certain number of legislative provisions and regulations generally enumerated : (1) the classes of investments which are permissible for the insurance institutions without restriction, (2) the classes of investments which are permissible, provided that their total does not exceed a certain proportion, fixed in advance, of the value of the total holding or that their yield is not less than a rate fixed in advance or that a special permit is obtained from the supervisory authority, and (3) the classes of investments which are compulsory for the insurance institution up to a certain proportion of the total value of the holding.

Fixed-yield Securities

Amongst the fixed-yield investments may be mentioned Government securities, loans of regional or local authorities, quoted on the stock exchange, loans of public bodies other than regional or local authorities, loans of land mortgage banks or building societies, mortgages, and commercial or industrial debentures. Investment of a certain proportion of the funds in the Government securities is compulsory in many countries. In Germany and Argentine, for instance, this proportion is 50 per cent.* On the other hand, in Belgium, Great Britain and Italy, for example, social insurance funds may be invested in Government securities, irrespective of any limit or authorisation. In most countries loans of only certain specified types of public bodies are allowed. No

* I.L.O., Studies and Reports, Series M, No. 16, *Investment of the Funds of Social Insurance Institutions* (Geneva, 1939), p. 69.

restriction is generally put as to investment in loans of regional or local authorities, empowered to levy rates or taxes. As for mortgages, the German regulation is that the loan should not exceed two-thirds of market value of the property on a reasonable valuation, and must, as a rule, be made on a first mortgage. In Poland, the loan may not exceed half the actual value of the mortgaged property in the case of dwelling houses, two-thirds of its value in that of rural undertakings, and one-third in that of woodland. In Great Britain, mortgages are allowed only on freehold property.* Investments in commercial and industrial debentures are usually either prohibited or very strictly regulated. In Germany these are allowed only under the authority from the Minister of Labour who can authorise the purchase of classes of securities other than those specified by the law. However at the end of 1937, the total sums invested in classes of securities other than those specified by law did not exceed 0.6 per cent. of the total reserves for the old age, invalidity and survivors' scheme. In Great Britain insurance funds may be invested in the debentures of railways and statutory water companies which have for the previous ten years paid at least 3 per cent. on their ordinary stock in the case of the railways and at least 5 per cent. in that of the water companies. The main cause of the disinclination of the legislative authorities to allow investment of insurance funds in commercial and industrial debentures seems to be that the increased yield, if at all marked, that may be obtained in these cases is offset by a risk of the loss of capital and this risk cannot be underestimated, though the debenture holders are legally in a privileged position—a position safer than that of the stock-holders.

Variable-yield Securities

Investments in the variable-yield securities are generally prohibited or very strictly regulated. As instances of variable-yield securities may be mentioned loans with gold clause or currency option issued by public authorities, preference shares of commercial or industrial companies (which may be distinguished as those enjoying a concession or a monopoly from the remaining ones),

* Ibid., p. 85.

ordinary shares of similar companies, real estate (urban or rural). The insurance laws and regulations generally do not make any distinction between State loans with a gold clause or currency option and loans of the same bodies expressed in terms of the national currency only. As for the stocks of commercial or industrial companies, Great Britain's regulations may be mentioned : investment is allowed in the stock of the Bank of England or the Bank of Ireland and in the preference stock of railways and statutory water companies, provided that during the previous ten years they have paid at least 3 per cent. on their ordinary stock in the case of railways and 5 per cent. in that of water companies. Even investment in real estate is strictly regulated. The acquisition of real estate in Germany requires the consent of the authority responsible for the supervision of the institution in question. In Great Britain insurance funds may be used for the purchase of freehold property. In Chile about 40 per cent. of the total investments on 30th June 1937 were accounted for by real estate ; of the amount invested in real estate, 40 per cent. related to rural property, 40 per cent. to urban property and 20 per cent. to buildings for health and administrative purposes. It may be pointed out that the case for the rejection of all variable-yield investments has not been proved. Some of the preference shares, and even some of the ordinary or common shares or stocks of big companies holding concessions or monopolies might well be accepted as suitable investments for an insurance scheme.

On the whole it appears certain that among the investments which must be included in the holdings of insurance institutions there must figure Government securities, the actual proportion of these depending upon considerations of the high degree of safety offered by Government securities ; what opportunities there are in practice of acquiring other investments offering an equal degree of safety, yield and, if need be, liquidity ; the advisability of supporting the economic or social policy of the State ; and the advisability also of distributing the investments among the various approved kinds and of reserving a more or less considerable place in the holding to investments other than Government funds so as to further the interests of the various elements of the national economy.

Selecting Authority

The selection of the investments, to be made in accordance with the provisions of laws and regulations, may be entrusted to a central body or may be decentralised, being entrusted to the insurance institutions themselves. Apart from the statutory regulations, in the former case the selecting body has almost full freedom in the choice of the various permissible investments, while in the latter case its freedom of choice often becomes almost negligible in view of the part played by the public authorities in the administration of insurance institutions.

Investments are selected by insurance institutions alone, for instance, in Luxemburg. In some countries investments are selected partly by insurance institutions and partly by a body outside the insurance scheme, e.g., as in France and Great Britain in the case of sickness insurance. In France half the amount available for investment is invested by the insurance institution on its own initiative and the other half is invested as required by the Deposit and Trust Fund. In Great Britain half such amount is invested by the approved society or the Central Department on its behalf and the other half by the National Debt Commissioners (whose main duty is to manage the National Debt and who also have been entrusted with the duty of managing several public funds). In Germany, on the other hand, investments for pension insurance funds are selected by insurance official responsible to public authorities, viz., the responsible head of each insurance institution. In some countries investments are selected by a body outside the insurance institution. This system is used in Belgium, the Netherlands and Sweden for pension insurance. In Belgium the selection is entrusted to the General Savings and Pension Fund—this institution works under a State guarantee and is subject to State supervision ; it is managed by a general council, a governing body and a managing director appointed by the Crown. The members of the general council and the governing body are usually chosen from among the administrative officials and members of Parliament. In the Netherlands, this work is done by the State Insurance Bank, for the activities of which the State alone is responsible. In Sweden

the financial administration is entrusted, not to the Pensions Board, the body responsible for the administration of the insurance scheme, but to a special committee. This committee consists of seven members, namely, the head of the Pensions Board as chairman, the deputy chairman, the head of the financial department of Pensions Board, and four members appointed by the Government for a term of three years.

Centralised administration of insurance holdings has a number of advantages ; a national and uniform policy of investment can be followed, large scale financial operations on the money market can be effected and inopportune regional or local influences can be avoided. The central body can moreover easily supply the specialised services necessary to prepare, on investment matters, decisions based on a full consideration of the actual situation of the entire holding. Decentralised selection of investments has a tendency to emphasise regional and local needs and interests and to rouse a spirit of competition among the decentralised bodies, thus necessitating the co-ordination of the policies of investment of the decentralised bodies. The more numerous the insurance institutions are and the less experience they have, the more advisable is it that the investment policy should be co-ordinated on a national basis. Whatever the body that has the ultimate authority to select investments, it is advisable that the representatives of the insured persons and their employers should be allowed to take part in the decisions concerning investments in view of the great importance of such decisions. In order that a coherent financial policy may be followed, the body responsible for selecting investments is often led to draw up in advance an " investment scheme " applicable during a specified period unless unforeseen circumstances intervene.

Each insurance institution must necessarily publish, as a rule, each year a description of its property and, in particular, of its investments, showing the distribution of the funds among the different classes of investments.

Calculation of the Rate of Yield

It may be noted here that the annual return on the assets of an insurance institution is not in itself sufficient to calculate the rate

of yield on investments. Account must also be taken of repayments of capital, of the gradual depreciation of real estate, and in some cases of clauses special to each investment. The rate of yield is calculated for each class of investment, and especially for the different kinds of bonds, according to the rules accepted for long-term financial operations, no modification being made in these rules because the securities in question are held by social insurance funds. An average rate of yield having been determined for the whole holding, it must be ascertained that it is at least equal to the actuarial rate of interest—i.e., the rate of interest serving as a basis for actuarial calculations. The calculation of the rate of yield is bound up with another technical problem, namely, the determination of the value at which the holding is to appear in the balance-sheet. This value may be obtained by reference to one or more of the following figures : nominal value, purchase price, market quotations at a given date, average market quotation during a given period, actuarial quotation—i.e., the present value at that date of all the sums still due to the person holding the security. It is said that a perfectly sound method of valuing the assets is to value them at cost price or market price whichever is the lower.

Financial and Actuarial Control

In the financial administration of social insurance, the next important problem is that of financial and actuarial control. A system of social insurance, as a public service, is bound to render an account of its financial management to the competent authorities. The supervisory authorities have various functions to fulfil. Their authorisation or consent is required to establish validity of the various financial operations carried out by the funds. They are responsible for verifying that the financial management is regular. The supervision includes auditing of accounts, ascertaining whether receipts and expenditure conform to the requirements of the law or the rules, verifying whether the securities constituting the assets belong to the categories specified by laws as appropriate for investment and whether their value is correctly estimated. Financial supervision or control can be exercised in three ways : (1) examining books and accounts, (2) investigations on the spot by agents of supervisory bodies and

(3) obligation of the funds to furnish regular financial and statistical statement of account.

All the available information regarding the working of the insurance system has to be centralised for enabling a general view to be obtained of the whole system and for ensuring that stability is maintained. Whatever the system of management adopted, financial supervision naturally requires as its complement actuarial control. The collected information has to be interpreted and an accurate estimate of the financial position formed. Such investigation shows whether any changes are necessary.

The problem of ensuring financial stability may be briefly examined with reference to the financial systems. In the distribution system, the annual accounts show the financial position ; each year supposedly constitutes a separate and self-sufficing unit, and the only question to be considered is whether each society has succeeded in balancing its budget for the year. In fact, however, the various financial operations of the fund are never actually liquidated at the end of a financial period like a year, nor a completely fresh start is made at the commencement of the subsequent one. So various problems arise, as, for instance, whether there is a surplus of receipts over expenditure ; what estimates as regards the future financial position of the insurance system can be based upon past financial periods, etc., etc. No special financial technique seems to have been evolved for such problems in the distribution system.

In the system of capitalisation, however, a special technical method is used to examine the financial equilibrium, known as the actuarial valuation. The probable present values of the assets and liabilities are calculated and compared. The result depends mainly on how these assets and liabilities are valued. A change of the basis of valuation is sufficient to convert a surplus into a deficit and vice versa. An illustration of such a system of valuation is provided by the insurance schemes in Great Britain and the Irish Free State.

It is advisable that social insurance schemes should compile and organise statistics relating to (1) researches for the purpose of constructing new biometric tables showing mortality rates,

probability of becoming invalid, etc., on the basis of observations made during the working of the scheme itself ; (2) special enquiries undertaken to provide, on any given point, a more precise basis for the actuarial calculations, and especially for the actuarial balance sheets ; (3) special enquiries for studying the expediency and possibility of introducing administrative reforms.

Cost of Administration

The cost of administration, it may be mentioned, consists in the main of the following items : cost of the redemption of the initial installation expenses, and the upkeep and renewal of equipment (exclusive of medical equipment in the shape of dispensaries, sanatoria, etc., which cost is the cost of benefits and not the cost of administration), salaries of administrative staff ; the cost of settling claims, including that of supervising claims ; the legal costs connected with the settlement of disputed claims ; and the cost of administering the supervisory machinery established by law. Insurance institutions, by virtue of their public character, often enjoy certain financial advantages : e.g., for the administrative functions, the persons concerned (generally, the directors or the board) need be paid only their actual expenses by payment of honoraria. Other advantages are the absence of brokerage, of necessity of seeking clients, of necessity of advertising, etc. The cost is relatively less under a unified insurance system.

A brief reference may be made here to the question of setting up separate financial reserves for the various employers individually in the insurance system, instead of pooling them together in a single reserve as has been done under all the European schemes. This idea of the splitting up of the insurance reserves into a multitude of units was first mooted out in the Wisconsin plan of unemployment insurance in the U.S.A.—this plan suggested contributions entirely by the employers and rate differentiation for the employers according to the risk (as already described earlier).* If such a mechanism is followed, the correctness of the very use of the name " insurance " for such a system

* See Chap. VI.

has to be seriously doubted. Such splitting up has obvious and serious disadvantages. The benefits can then be only inadequate. Also it is highly improbable that a system of " separate employer reserve " could survive a depression of any magnitude, since the system as a whole is then very weak. A system of separate reserves in time of stress has to make way for a central pooled reserve in course of time.

PART II

INDIA AND SOCIAL INSURANCE

PART II

INDIA AND SOCIAL INSURANCE

CHAPTER I

THE NEED FOR SOCIAL INSURANCE IN INDIA

THE aim of social insurance is the removal of insecurity and poverty. It constitutes one of the two main approaches towards social security, the other approach being through social assistance. As already seen, social insurance has been introduced in the large majority of the countries of the world, in co-ordination, where necessary, with assistance schemes. Though complete social security has not yet been achieved in any country, these measures have no doubt gone a long way in providing it.

The Beginning of the Problem

In India pauperism and insecurity did not appear as social problems until the disruption of the joint family system and the removal of production from the home to the factory. In the early days the joint family organisation afforded to the individual virtually a social insurance scheme, since the joint family life involved—in fact, family life of any type does so, though to a much smaller extent—sacrifice, being founded on a policy of mutual give and take. It was an association that guaranteed the minimum of subsistence to every member, which supported the old and the infirm, provided for widows and orphans and looked after the physical weaklings and the decrepit. This socialistic organisation in miniature thus dispensed with social insurance and poor relief. Since the contact with the West, India has been changing socially and economically. The old methods of production at home disappeared and factories using

machinery grew up, wherein all the workmen assembled for the purposes of production, the unit of production being owned by a few persons. Along with other old social institutions, the joint family got into the melting pot. The joint family has been disintegrating under modern social and economic forces, such as the rising spirit of individualism, intrusion of Western ideas and ways of life, the increasing struggle for existence in the face of increasing pressure upon the soil and small size of holdings, and the migration of able-bodied members of the family to industrial centres in search of employment.

The modern methods of production have resulted in the accumulation of wealth and its concentration in the hands of the few. Modern industrialisation has come to India with all its evils ; owing to lack of social and economic adjustments involved, insecurity and poverty are on the increase and in the absence of that miniature socialistic organisation, the joint family, they have become social problems, and even where the system does obtain, it has proved hopelessly inadequate owing to the existence of extreme poverty. It is now the responsibility of the society to see that the misery caused by evils like industrial accidents, sickness and invalidity, unemployment, old age and premature death is relieved.

Conditions in India

It is necessary to see what exactly the conditions in our country are relating to the risks in question, what capacity the people possess of facing them and what has been done so far by the society or the State to help the people in difficulties.

Health

Taking into consideration, first, the problem of health, we find that the level of health in India is very low. The resistance of the population to disease is low and the heavy incidence of disease is reflected in the following high mortality figures.*

* *A Plan of Economic Development of India* (Bombay, 1944), p. 11.

TABLE I

COUNTRY	Birth-rate per 1000 population	Death-rate per 1000 population	Infant Mortality, i.e., deaths under 1 year per 1000 live births	Expectation of Life (Years)	
				Male	Female
India ...	33.0	21.8	167	26.9	26.6
U. K. ...	15.3	12.2	53	60.2	64.4
Canada ...	20.3	9.6	61	59.0	60.7
Australia ...	17.7	9.9	38	63.5	67.1
Germany ...	20.3	12.3	60	59.9	62.8
U.S.A. ...	17.3	10.6	48	60.6	64.5
Japan ...	27.0	17.6	114	46.9	49.6

The health of a community depends in the main on three factors : the standard of living, the standard of education, and the standard of public health service. Each of these factors is essential and each supplements the others. In India the standard of living is low. There is no machinery assuring adequate living standards. Even the primary needs of life cannot be satisfactorily met. For instance, a large part of the population does not get enough food to eat, while a still larger proportion fails to get the right kind of food. With a low purchasing capacity of about a couple of annas every day, the average Indian is able to meet his energy requirements only with cheap carbohydrate foods like rice and cannot afford sufficient protective foods. Deficiencies in diet such as animal protein, calcium and vitamins A and C are widespread. The importance of nutrition is emphasized by the Director of the Nutrition Research Laboratories, Coonoor, who records that " Malnutrition is one of the chief causes of the rapid exit of young human beings from the world so soon after their arrival in it ". Similarly the condition of housing, another primary need of life, is far from satisfactory. Bernal in his *Social Functions of Science* rightly observes, " It is probable that an overwhelming majority of diseases that occur

throughout the world are due directly or indirectly to the lack of primary necessities, generally food, and many of the remainder . . . to bad living conditions."

So far as health education is concerned, general education, being what it is, one can hardly expect health education in India to be regarded as of any significance and this defect must be removed, if India's health is to improve.

Coming to the public health organisation in India, we find that the responsibility for local medical and public health administration was transferred to the Provincial Governments by the Government of India Act of 1919. The Central Government is still responsible for a part of the medical services. The central medical and public health administration of the civil population in British India comes under the Department of Education, Health and Lands. In the provinces, the rural health administration is mainly concerned with the control of epidemics, especially smallpox and cholera, with anti-malarial measures and the prevention of adulteration of food. The achievements of this administration cannot be considered satisfactory, when they are compared with the results in other Asiatic countries. In view of the fact that in the beginning of this century the death rates over ten-year periods in Asiatic countries from smallpox and cholera were practically the same, the following table shows a worse state in India when compared to other Asiatic countries.

TABLE II

DEATH RATES FOR SMALLPOX AND CHOLERA IN ASIATIC COUNTRIES*

(Mortality rate per 100,000 population)

	Br. India	Burma	Japan	Philippines	French Indo-China	Netherlands East Indies	Thailand (Siam)
Smallpox							
1933	30.7	10.3	0.08	0.0	4.4	0.0	0.1
1934	24.8	10.9	0.05	0.0	2.7	0.0	0.2
1935	26.5	8.6	0.02	0.0	2.2	0.0	0.03
1936	30.6	9.2	0.04	0.0	1.0	0.0	0.0
1937	16.2	9.3	0.008	0.0	3.0	0.0	0.08
Cholera							
1933	20.2	1.2	0.0	13.4†	0.8	0.0	0.2
1934	59.1	5.6	0.0	4.7	0.4	0.0	0.04
1935	62.2	46.6†	0.0	0.02	0.4	‡	6.3
1936	47.1	6.7	0.0	0.01	0.3	‡	21.6†
1937	29.3	23.7†	0.01	0.01	38.3†	‡	41.1†

The relatively poor result in India cannot be said to have been entirely due to lack of funds or personnel ; for instance, Bengal has 3,018 vaccinators and spent Rs. 4,70,644 in 1940 specifically to control smallpox. The most acute problem in India at present is that of bringing medical protection to the individual villager who has hitherto been utterly neglected. As to its solution two

* John B. Grant, *The Health of India* (Bombay, 1943), p. 17.

† These unusually large figures appear to reflect conditions of an epidemic.

‡ Figures not available.

trends are observable. On the one hand there is the policy inaugurated in Madras (and also in Bombay) in 1925 of subsidizing rural practitioners who after a short course of training would discharge certain public health functions. The other method of solution, seen in the Punjab, is to combine curative and preventive functions at the rural dispensary, and to add public health to the curative responsibilities of the dispensary physician.

As for the urban health administration, municipal councils have been given almost complete responsibility for public health. The Royal Commission on Labour stated that " in many of the areas visited by us we were unfavourably impressed with the standard of health administration and with the manner in which these duties have been performed ".* The commission pointed out a number of defects and ways of improvements. The conclusion reached by the commission may have been amplified, but not modified in the decade that followed. The report of the second meeting of the Central Advisory Board of Health (1939) stated that " according to available information, nearly half the districts and three-quarters of the municipalities in British India still are without qualified health officers ". The activities in connection with urban public health are in general mainly of the impersonal type, relating particularly to registration, sanitation, food adulteration, etc. Exceptions are smallpox vaccination, malaria control and considerable activity in maternity and child welfare. School and industrial health are markedly absent, as is control of venereal disease. Administration, except for malaria control, lacks differentiation into specialised functions. Another defect is the absence of boards of health competent to provide technical advice. The health committees of the corporations are political bodies, changing annually and selected from the councillors.

The mortality statistics show that fevers account for a large number of deaths, as is clear from Table III showing the incidence of death by disease in British India.

* Report of the Royal Commission on Labour in India (1931), p. 254.

TABLE III

RATIO OF DEATHS PER 1000 POPULATION ACCORDING TO CAUSE FOR THE YEAR 1939*

CAUSE	RATIO	CAUSE	RATIO
Cholera ...	0.4	Dysentery and Diarrhoea	0.9
Smallpox ...	0.2	Respiratory diseases ...	1.8
Plague ...	0.1	All other causes ...	5.8
Fevers ...	13.0	Injuries† ...	0.4 (for 1934)

Amongst the fevers, malaria is without doubt the most serious problem both from the point of view of morbidity and that of mortality. Colonel Sinton, of the Indian Medical Service, pointed out recently that at least one hundred million individuals suffer yearly from malaria in British India alone and of these only about a tenth receive treatment in hospitals. It has been calculated that deaths from malaria during 1936, for example, amounted to about 44 per cent. of the total recorded "fever" deaths. Whilst no province can claim to be free from its ravages in some its incidence is extremely high. Malaria is more common in the rural areas than in the towns though bad enough in the latter. Considerable anti-malarial work is being done by the Malaria Institute of India and provincial public health directors, helped by Government grants. Six of the twelve provinces are now developing anti-malarial organisations.

Another peculiar feature of India's health is that maternal and infant mortality is very heavy as is shown by the following figures :

* *Statistical Abstract for British India*, 1942, p. 108.

† Includes suicide, wounds, accidents, snakebites, etc.

TABLE IV

RATIO OF DEATHS PER 1000 POPULATION ACCORDING TO AGE IN 1939*

Age-group	Males	Females	Age-group	Males	Females
Under 1 year...	103.3	147.4	20—30 ...	8.7	11.0
Over 1 and under 5 ...	34.3	31.6	30—40 ...	11.6	12.1
5—10 ...	9.2	9.1	40—50 ...	18.2	15.2
10—15 ...	5.7	5.7	50—60 ...	32.8	27.8
15—20 ...	7.2	8.6	60 upwards...	92.8	87.5

Two things may be noted from the above table : high infant mortality ; higher death ratio for the females between the ages 15 to 40, showing high maternal mortality.

Industrial Health

Industrial health in India is still chiefly a private responsibility and can scarcely be said to have become a major activity. Such statistics of health and mortality as are collected and published in India relate to the whole community and no statistics are compiled separately for industrial workers alone. Besides ignorance and poverty, which prevail in the rural areas as well, there are some special factors contributing to the poor health of the average industrial worker, as, for instance, wretched housing conditions, unsatisfactory working conditions in factories, bad sanitation, lack of family life, etc. It is not necessary to go into any detailed description of the present situation, as there has been no significant improvement since the recommendations of the Royal Commission on Labour in India which dealt in detail with the health and housing of the industrial worker.†

The problem of housing is very important, so far as the health of the worker is concerned. The present situation is marked by

* Statistical Abstract for British India, 1942, p. 105.

† See chapters XIV and XV of the Report.

overcrowding of an extreme type, and by appalling conditions of sanitation. In Bombay, for example, more than 70 per cent. of the working class families live in single rooms, and the average number of persons per room in working class quarters is four. In London only 6 per cent. of the total population live in single rooms with an average of two persons in each. In Bombay most of the workers live in chawls, with usually one-room tenements, built with the object of housing—in fact warehousing—large numbers of workers as cheaply as possible. The number of latrines is often inadequate, they stink horribly, and cleansing and sanitation are sadly ignored. It has not been said without truth that " Good houses mean the possibility of home life, happiness and health ; bad houses spell squalor, drink, disease, immorality, crime, and in the end demand hospitals, prisons and asylums in which we seek to hide away the human derelicts of society that are largely the results of society's own neglect ". One of the greatest evils is the heavy infant mortality, that varies inversely with the number of rooms. In 1936, for instance, the percentage of deaths of infants in one-room tenements was 78.3.* As observed by the Royal Commission, neglect of sanitation is often evidenced by heaps of rotting garbage and pools of sewage, whilst the absence of latrine enhances the general pollution of air and soil.

Disease is widespread in the working classes. Malaria prevails among the workers almost all over the country, while beri-beri and tuberculosis in Bihar and Orissa, Kala-azar among the jute workers in Bengal and Ankylostomiasis in South India are some of the many diseases which are widely prevalent in certain tracts. Epidemics, wherever they break out, take their biggest toll of human life from amongst the working classes. Medical facilities available to the worker are those provided in hospitals and dispensaries by Government, municipalities and religious and charitable bodies. Besides, many of the factories and mills now provide dispensaries and doctors. Though the existing facilities are not adequate, the workers do not appear to make full use of the available facilities. The Bombay Labour Office conducted in 1930-31 an enquiry into the incidence of sickness among cotton

* Report of the Rent Enquiry Committee (Bombay), 1939, par. 26.

mill operatives in the city of Bombay, and the findings of the enquiry afford ample proof of that fact.

TABLE V

MEDICAL TREATMENT RECEIVED BY WORKERS DURING SICKNESS*

KIND OF TREATMENT	MALES		FEMALES		Total Number of cases	Percentage to total
	Number of cases	Percentages	Number of cases	Percentages		
No treatment ...	870	18.80	347	34.77	1,217	21.63
Country Medicines ...	1,848	39.92	401	40.18	2,249	39.97
Western Medicines ...	1,536	33.18	195	19.54	1,731	30.76
Country and Western Medicines ...	44	0.95	3	0.30	47	0.84
Patent Medicines ...	294	6.35	46	4.61	340	6.04
Patent and Western Medicines ...	7	0.15	—	—	7	0.12
Patent and Country Medicines ...	4	0.09	—	—	4	0.07
Patent, Country and Western Medicines	1	0.02	—	—	1	0.02
Other remedies including those imperfectly specified ...	25	0.54	6	0.60	31	0.55
Total ...	4,629	100.00	998	100.00	5,627	100.00

Though the field of enquiry in the above case was limited—it covered three mills in the city—, its results are nevertheless a pointer to the existing situation. Whatever the explanation for the state of affairs revealed by the above table, it is clear that ampler medical facilities are required, together with education and propaganda.

* *Labour Gazette*, Bombay, March 1933, p. 521.

Medical Facilities

In India, as a whole, medical facilities are hopelessly inadequate. So far as the Bombay Province is concerned, the Bombay Economic and Industrial Survey Committee stated* : " We have seen that the supply of medical facilities is woefully inadequate and as far as the mofussil is concerned, . . . the situation is even worse," and concluded that the magnitude of the problem was such as to require it to be tackled urgently. Same conditions obtain in the other provinces. Taking India as a whole, we find that in 1939, there were 7,275 hospitals and dispensaries in British India with provision for 73,563 beds.† The average population served by each hospital and dispensary works out to about 41,000 and the proportion of population per bed is 4,000 ! The figures given by General J. B. Hance, Director-General, Indian Medical Service, in a recent address are staggering and reveal the lamentable state of medical services in this country and the vast distance to be traversed on the road to health. There are 40,000 registered medical practitioners in India today, which means one doctor for more than 9,000 persons. There are about 7,000 trained nurses in India, which means one nurse per 56,000 persons. It may be mentioned in comparison—or contrast—that in the U.K. there is one doctor per 776 persons and one nurse for every 435 persons or approximately two nurses to one practising doctor. According to General Hance, to assure positive health, we require 300,000 medical practitioners and 778,000 nurses. Further, there are approximately 1,000 trained health visitors now and 70,000 are required. There are only 5,000 trained midwives, whereas 90,000 are required. The country at present has 75 pharmacists and 100,000 are required. These figures must suffice to reveal the problem of training the required medical services in all its complexity. The task, says General Hance, is not utopian. Even in Russia which started with comparatively less favourable conditions, a similar measure of progress has been achieved in the space of twenty years.

* Report of the Bombay Economic and Industrial Survey Committee, 1940, pp. 148–149.

† Vide Report of the Public Health Commissioner with the Government of India for 1939.

Industrial Accidents

Coming to the question of industrial accidents, we find that the industrial progress in India has been accompanied as in other countries by an alarming increase in the number of industrial accidents. The number of factories in India and the number of persons employed in them have increased considerably. The following figures, though they relate only to the factories covered by the Factories Act, give some idea about the increase.

TABLE VI*

Year	Number of Factories	AVERAGE DAILY NUMBER OF PERSONS EMPLOYED			
		Men (including adolescents)	Women (including adolescents)	Children	Total
1937	8,930	1,427,103	237,933	10,833	1,675,869
1938	9,743	1,481,914	245,099	10,742	1,737,755
1939	10,466	1,498,278	243,516	9,343	1,751,137
1940†	...	...	...	...	...
1941	11,868	...	265,912	10,376	2,156,377
1942	12,527	...	...	11,804	2,282,237

The above table shows an increase of over 40 per cent. in the number of factories and of over 36 per cent. in the average daily number of persons employed during the period 1937-42. Besides the factories, the persons employed in mines, transport, etc., have also increased, similarly there has been an enormous increase in the number of accidents—almost by 100 per cent.

* Compiled from the Annual Reports on the working of the Factories Act.
† Figures not available.

TABLE VII*

FACTORY ACCIDENTS IN INDIA

YEAR	FATAL	SERIOUS	MINOR	TOTAL	TOTAL PER 1000 WORKERS
1937	215	5,343	22,765	28,323	16.90
1938	210	6,064	27,220	33,494	19.27
1939	221	5,837	29,948	36,006	20.57
1940	235	over 6,800	nearly 34,000	about 41,035	...
1941	271	8,374	40,091	48,736	22.60
1942	323	9,111	44,740	54,174	23.74

The explanation generally offered is that there has been a great improvement in the reporting of accidents. This is of course true, since the factories are required to report any accidents that cause death or disable worker for more than 48 hours. But such enormous increase suggests that this is not the only cause and that the problem is a more serious one. Another fact that may be noted is that the number of operatives in factories has also been increasing. Taking this fact into consideration we find that the incidence of accidents has increased by over 40 per cent. There is no doubt there has been an increase in the risk run by the average operative. It is probable that the advance in recent years in the complexity of machinery and processes has been more rapid than the advance in the mentality of the operative. The operatives too often have only an imperfect realisation of the risks they run. The steady expansion of industry necessarily involves the employment of a large proportion of inexperienced workers. In consequence of these and other influences, workers at times display a seeming apathy to danger. It seems that, in spite of the statutory requirements which factory and mine owners and firms engaged in the loading

* Compiled from the Annual Reports on the working of the Factories Act,

and unloading of ships have to comply with in the matter of the fencing of dangerous machinery, and, organised "safety first" campaign for the better education of the workers in the matter of accident prevention is both necessary and desirable.

Unemployment

In considering the problem of unemployment, it has to be noted that the problem in India is vastly different from that usually found in the West. This is because of the peculiar characteristics of the labour here like migratory nature, close connection between the labourer and his village; there are, besides, other factors also, which arise from the present economic condition of the country.

As is well known ours is mainly an agricultural country. According to the census of 1931, over 65 per cent. of the people are engaged in the agricultural occupation. In recent years there has been enormous growth of a surplus population on the soil, the landless labourers who live a half-starved existence in the villages, finding employment for a few months in the year or sometimes none at all. The growth of this class may be accounted for by the increase of absentee landlords, by the transfer of land from the hands of cultivators to those of their creditors, by the displacement of village crafts and industries due to the spread and use of machine-made products, by the gradual transformation of the old village economy resting on custom and payment in kind into a price economy based on contract. Every circumstance which has weakened the position of the small holder has increased the supply of agricultural labourers. The number of the landless labourers increased from 7½ millions in 1882, to 21.5 millions in 1921 and to 33 millions in 1931. In agriculture there are two types of unemployment. One is the seasonal unemployment lasting for about five to nine months in the year, and the other is the one that results from the periodical occurrence of scarcity or famine, when partial or total failure of the monsoon leads to a partial or complete stoppage of agricultural operations over wide areas, disengaging an enormous mass of agricultural labour and of labour employed in industries subsidiary to agriculture. While seasonal unemploy-

ment is a serious problem because of the very unsatisfactory state of subsidiary industries, the latter form of unemployment is even more serious. Though the famines might have become less fearful due to better and faster means of communications, the actual suffering has not been much reduced perhaps because of the general poverty of the people.

So far as occupations and industries other than agriculture are concerned, two classes of persons may be distinguished in connection with unemployment, the manual workers and the clerical workers coming from the middle class. This middle-class unemployment, affecting those who have attained a certain standard of education and who depend more or less entirely on non-manual or clerical occupations, is of comparatively recent growth, but has been assuming alarming proportions and attracting wide public attention. So far as the industrial workers are concerned the position is not very clear. Unemployment among them, though not unknown, does not as yet exist on the Western scale for the simple reason that our industrial development is not yet of an advanced character. (From this point of view the steady growth of our factory industry implying a continuous increase in the demand for labour is a protection to the worker.) During the depression of 1929-33, there existed a good deal of industrial unemployment. Unemployment is frequent among certain classes of workers, especially seamen and dock workers. Sometimes there have been reductions in the number of workers employed or in the hours of work leading to unemployment or under-employment for large numbers. On the question of unemployment among the factory workers at the present time, there are conflicting statements and in the absence of accurate statistics, it is not possible to gauge precisely the extent to which unemployment exists. The tendency of the factory worker to return to his village when he fails to secure employment prevents the growth of any large reserve of unemployed workers in the city. The distress is in this way not remedied but merely transferred from the industrial to the rural areas, and unemployment disappears from sight so far as the industrial centres are concerned. Thus, unemployment is not unknown amongst the factory workers and it is possible that with an increase in the supply of labour along with further industria-

lisation, unemployment will assume larger dimensions.

Old Age, Invalidity, etc.

The risks of old age and premature death are not peculiar to any particular community. Every human being is exposed to them. It has only to be noted in this connection that while formerly the joint family cared for the aged, the disintegration of this system is creating the problem of the aged people and similarly of survivors of persons who suffer premature death. Such helpless persons have in the large majority of cases to take to begging.

Economic Conditions

The fact of the existence of these risks for the worker prompts us to examine his capacity to face them or in other words to examine whether his earnings warrant the assumption of his saving enough to tide over the unfortunate periods. And here we find that the seeming paradox that " India is a rich country inhabited by poor men " is a poignant fact. The poverty of India is self-evident. According to the latest estimate (by Dr. V. K. R. V. Rao) the annual income per capita was Rs. 654 during the year 1931-32, in other words, the average monthly earnings of an Indian amounted to Rs. 5, i.e., a daily earning of less than three annas. It has to be remembered that with vast differences in scales of income any average is bound to be false and deceptive.

Wages in Agriculture

The agricultural labourers may be classified into three groups : field labourers, ordinary labourers and skilled labourers. The field labourers consist of ploughers, reapers, sowers, weeders and transplanters and represent labour of a seasonal character. The ordinary labourers are engaged on such work as embankment, well digging, canal-silt cleaning and for such other purposes. The skilled labourers include the carpenters, masons, blacksmiths and leatherworkers, and such other workers who though not exclusively agricultural workers, are engaged for important purposes by the former, and the wages paid to them are governed by those paid

to the agricultural labourers in the village. The following figures relate to agricultural and mofussil non-factory wages compiled by the Bombay Labour Office for the province on the basis of monthly returns from the representative talukas in each district in the province.

TABLE VIII

AVERAGE DAILY RATES OF WAGES

(for the rural area)

	1913	1939	1940	1941	1942
	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.
Agricultural (Field) Labour ...	0 4 0	0 4 7	0 4 7	0 4 8	0 5 1
Unskilled (Ordinary) Labour ...	0 4 6	0 5 0	0 4 11	0 5 0	0 5 4
Skilled Labour ...	0 10 9	0 15 3	0 15 0	0 15 0	0 15 9

Generally speaking, the daily wages may be said to range from three to six annas a day for men, two to four annas for women and one and half annas to two annas for children. Besides, the agricultural labour is unemployed over a considerable part of the year.

Wages in Industry

Coming to the industrial labour we find that there is absence of standardisation of wages and of machinery for the fixing of minimum wage. Frequent changes are made in the units of time for which rates are fixed. The basis of the grading of the occupation is arbitrary and varies widely. Vacancies are seldom, if ever, filled on the same rates as those paid to the workers who have left, when advantage is usually taken to lower these rates. In view of these and other diversely varying factors, it is impossible to give any rates of wages which will be found to be generally applicable to any particular centre. Nevertheless the following figures are useful.

TABLE IX

AVERAGE DAILY EARNINGS OF ALL ADULT OPERATIVES IN THE TEXTILE INDUSTRY*

for the year 1937

Centre	Process Operatives			Engineering Operatives			All Operatives		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Bombay ...	1	1	4	1	2	8	1	1	5
Ahmedabad ...	1	3	0	1	2	3	1	2	11
Sholapur ...	0	11	3	0	11	6	0	11	4
Whole Province ...	1	0	10	1	1	2	1	0	10

The following figures give an approximate idea of the predominant rates for fairly efficient workers in certain of the more important occupations in all sections of Indian industry at the beginning of June 1941.†

TABLE X

DAILY WAGES OF WORKERS

Workers	Cities			Towns			Mofussil		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Semi-skilled workers ...	1	4	0	0	12	0	0	8	0
Unskilled workers—men ...	1	0	0	0	10	0	0	6	0
Unskilled workers—women ...	0	10	0	0	8	0	0	5	0

Wages in some industrial centres are very low, e.g., in Cawnpore, as was found by the Cawnpore Labour Enquiry Com-

* Report of the Textile Labour Enquiry Committee, Bombay, Vol. II, pp. 55–57.

† *The Indian Year Book*, 1941-42, p. 577.

mittee. In Cawnpore unskilled male-workers got Rs. 14-8-0 per month whilst unskilled woman worker got Rs. 10-6-7 per month. In the province of Bihar as a whole, the Bihar Labour Enquiry Committee found that the normal rate was between Rs. 9 and Rs. 10.

Standard of Life

The above wages are hardly enough to meet the needs of a working class family made up of the worker, his wife and two children. The standard of living of the workers is very low and over 50 per cent. of their income is spent on food :

TABLE XI

PERCENTAGE DISTRIBUTION OF EXPENDITURE*

Groups	Bombay 1932–33	Ahmed-abad 1933–35	Sholapur 1925	Nagpur 1927	Jubbul-pore 1927	Madras 1938
Food ...	46.60	49.31	49.25	64.10	66.00	52.63
Fuel and Light.	7.11	6.65	9.60	9.62	7.95	6.67
Clothing ...	7.75	9.12	11.86	10.70	10.86	4.50
House rent ...	12.81	10.97	6.27	1.92	1.44	11.14
Miscellaneous†	25.73	23.95	23.02	13.66	13.75	25.06
Total ...	100.00	100.00	100.00	100.00	100.00	100.00

The standard of life is more often than not conditioned by the size of the family and its income. The following figures are of interest in this connection :—

* Ibid., p. 574.

† The "miscellaneous" group includes items like interest on loans and instalments of debts repaid, liquor, travelling to and from villages, etc.

TABLE XII

AVERAGE SIZE OF THE FAMILY AND ITS INCOME IN CONNECTION WITH INDUSTRIAL LABOUR

	Bombay	Ahmed-abad	Sholapur	Nagpur	Jubbul-pore	Madras
Average size of the family (in persons) ...	3.70	4.05	4.57	4.33	3.76	6.03
Average monthly income ...	50-1-7	46-5-0	39-14-10	...	...	37-5-11

Indebtedness

Apart from this low standard of living, there is the existence of indebtedness both in the rural areas and in the industrial centres, that contributes to the lowering of the standard of living. The agricultural labourer's extreme indebtedness has driven him to work as a serf-labourer in the fields of his creditor. These labourers, like the Kamias of Bihar and Orissa, and the Pannaiyals of Madras, offer themselves and their families to work in return for a debt they owe and which they can repay in no other way. In the words of the Agricultural Commission, " Kamias are bound servants of their masters ; in return for a loan received, they bind themselves to perform whatever menial services are required of them in lieu of the interest due on the loan. . . . The Kamia never sees any money, unless it be the occasional few pice he may earn in his spare time. Consequently, he has no chance of ever repaying the principal of his debt and becoming a free man again. A Kamiauti bond, therefore, involves a life sentence."

The majority of the industrial workers are in debt for the greater part of their working lives. Many are born in debt, many come to industry because they are in debt. Often the debts remain and fresh obligations are incurred. The following figures give some idea of the amount of the debt :

TABLE XIII

AVERAGE RATIO OF INDEBTEDNESS TO MONTHLY INCOME* IN TEXTILE INDUSTRY

Centre	For Families in Debt	For All Families
Bombay ...	3.48	...
Ahmedabad ...	6.96	...
Sholapur ...	5.95	4.33
Jalgaon ...	7.04	5.91
Amalner ...	9.42	8.61
Chalisgaon ...	7.61	7.01
Dhulia ...	6.03	5.48
Viramgam ...	6.19	4.57
Nadiad ...	7.30	4.99
Broach ...	4.77	4.32
Surat ...	6.16	5.45
Barsi ...	3.95	3.16
Gadag ...	2.63	2.55
Hubli ...	6.10	5.06
Average for the Province ...	4.99	4.33

This table shows that on an average the debts are nearly five times the monthly earnings of the worker, while in some cases the ratio was as high as 9.42. Taking all the families of industrial workers, whether in debt or not, the average is reduced from 4.99 to 4.33 only. This is significant, because it shows that a great majority of the workers are in debt. Such already heavy burden is aggravated out of all proportion by the rate of interest

* Report of the Textile Labour Enquiry Committee, Bombay, Vol. II, pp. 194-5.

that has to be paid. The common rate is " one anna in the rupee ", i.e., one anna per month on every rupee borrowed, i.e., 75 per cent. per annum. For a man with a debt of about three times his monthly earning, the " anna in the rupee " rate involves a monthly charge of nearly 20 per cent. of the wages, on account of interest, apart from the usual obligation of repaying instalments of the capital.

With these facts, no imagination is needed to see that in general the workers are hardly able to satisfy the bare necessities of life, not to speak of leading a decent life. The worker cannot even dream of putting by enough to cover days or periods of enforced idleness, as well as sickness and old age.

Existing Social and Welfare Measures

Industrial Health

This leads us to the next question, namely, what has been done so far to help the masses who are so helpless in the face of these risks. Taking first the question of sickness, it has already been seen how the medical facilities are woefully inadequate, especially in the rural areas. The efforts of the Provincial Governments in Bombay, Madras and Poona to increase such facilities have not yielded encouraging results. For the industrial workers the Factories Act of 1934 contains some provisions for the maintenance of good health, under which rules are made by the Provincial Governments. The Bombay Factory Rules, for instance, provide for factories to be kept clean by lime-washing, etc., and prohibit the accumulation of rubbish, filth or debris (rules 10 and 11-14). Further, the factories are required to provide latrine and urinal accommodation on a prescribed scale (rule 34) and keep them in a sanitary condition, (35-36). In many cases the employers have taken interest in the welfare of the workers and have provided, among other things, medical facilities in their factories. The cases of such enlightened employers are, however, not many. Besides a dispensary and a doctor, some few employers have got sickness benefit schemes also, some of which are described in Appendix II. The outstanding feature in the employers' efforts has been lack of

uniformity and existence of great contrasts. In the words of the Labour Commission* : " . . . We were impressed by the great contrasts which they (the factories) presented. There are factories which would compare favourably in layout, cleanliness, atmosphere and general well-being with any factories in the world ; there are others in which the welfare of the workers is entirely neglected. Even within the same industry in a single centre there are often marked contrasts ; and the example shown by some employers seems to have little effect on others. Fortunately for the majority of the operatives, the larger factories are on the whole, better than the smaller ones, and there has been a marked general advance in recent years. This has been due partly to a growing realisation by owners and managers, of the importance of promoting the health and comfort of their operatives, and partly to an increasing unwillingness on the part of the operatives to tolerate unpleasant conditions."

Maternity Benefit

As already observed, maternal and infant mortality has been very high in our country. From this point of view the maternity benefit legislation that has been enacted in the various provinces is a step in the right direction. In 1924, a Bill was introduced by Mr. N. M. Joshi, to prohibit the employment, some time before and after confinement, of women in factories and mines and to make provision for the payment of maternity benefits. It provided for the grant of leave six weeks before and after confinement and of maternity allowances by local Governments from a maternity fund subscribed to by employers of labour. The Bill was rejected by the Assembly on the ground that it was too much in advance of public opinion in India ! Similar legislation was however passed for Bombay in the form of the Bombay Maternity Benefit Act, 1929 (subsequently amended in 1934). Since then such Acts have been passed in C.P., Madras, Bengal, Sind, U.P. and some other provinces. Bengal passed in addition a special Act for the Tea Estates in 1941. All these Acts are applicable to women employed in factories. The question of extending the benefits of such legislation to women employed

* Report of the Royal Commission on Labour in India (1931), p. 63.

in mines was discussed at the second conference of Labour Ministers held in January 1941, and as the result of these discussions the Central Legislature passed the Mines Maternity Benefit Act in the same year. The existing legislation may be briefly summarised as follows :—

TABLE XIV

MAIN FEATURES OF THE EXISTING MATERNITY BENEFIT LEGISLATION*

Province	Year of passing the Act	Qualifying period	Maximum period of benefit	Rate of Maternity Benefits (per day)	Penalty for contravention of the Act by employer
			Weeks		
Central (for mines)	1941	6 months	8	8 annas	Rs. 500
Bombay	1929	9 ,,	8	8 as. in Bombay and Ahmedabad; elsewhere, average daily wage for the three months preceding the date of notice or 8 as. whichever is less	,, 500
Sind	...	9 ,,	8	,, ,, ,,	,, 500
C. P. & Berar ...	1930	9 ,,	8	,, ,, ,,	...
Ajmer-Merwara ...	1932	12 ,,	6	,, ,, ,,	,, 250
Madras	1934	240 days	7	8 annas	...
Delhi	1937	9 months	8	,,	,, 500 for first offence Rs. 1000 for subsequent offences
U. P.	1938	6 ,,	8	8 annas or average daily wage for the last three months whichever is greater	
Bengal	1939	9 ,,	8	,, ,, ,,	Rs. 500
Punjab	1943	9 ,,	60 days	12 annas daily	,, 500
Assam	1944	150 days	8 weeks	(1) In plantations Re. 1 per week for the period before confinement and Re. 1-4-0 per week after confinement, provided the total cash payment is Rs. 14 (2) In other employments Rs. 2 per week or average weekly wage or salary, whichever is greater.	,, 500

* Compiled from the *Indian Labour Gazette*, Vol. 1, No. 11, p. 287, and *Indian Year Book*, 1943-44, p. 469.

The Maternity Benefit Acts have been adopted in the following States : Mysore (1937), Indore (1936), Baroda (1940) and Cochin.

The main principles in all maternity benefits legislation are the same : provision for the payment of a cash benefit to women for specified periods before and after child-birth, a compulsory period of rest after delivery and also before delivery, if notice is given. All Acts specify compulsory qualifying period for the right to benefit : this varies from six months to a year. The pregnant woman has to give notice to the employer in writing, accompanied by a medical certificate, that she expects to be confined within the month next following. Women are prohibited under penalty, from accepting employment from another employer during periods for which they are in receipt of cash benefit from the employer with whom this liability rests. In the central Act for women in mines and in the U.P. Act, additional bonuses of Rs. 3 and Rs. 5 respectively are provided for, if the services of a qualified midwife are availed of ; but if such assistance is provided for by or in an institution of the employer, this bonus is not to be paid. It may be noted that some employers give additional benefits besides the minimum required by the Acts. For example, the Sassoon group of mills requires only six months' qualifying service instead of the legal nine and besides the legal cash benefits, provide free milk for five months before and after child-birth to expectant mothers.*

Industrial Accidents

Coming to the industrial accidents, we find that the Indian Factories and Mines Acts and the Indian Dock Labourers' Act of 1934 contain many relevant provisions with a view to securing the safety of the workers (e.g., Sections 21 to 29 of the Indian Factories Act of 1934, which relate to precautions against fire, fencing, restrictions on work near machinery in motion, etc.). The Provincial Governments have framed rules under these provisions (e.g., rules 37 to 56 of the Bombay Factories Rules, 1935). The provisions of the Factories Act, supplemented by fairly elaborate rules in all provinces, appear to be adequate in most directions. Again, the Factory Departments in the

* *Labour Gazette*, Bombay, Nov. 1943, pp. 212-13.

provinces do all they possibly can in improving safety measures in factories. Generally speaking, inspectors have regarded accident prevention as their primary duty. Their efforts to secure adequate fencing and the enforcement of safety regulations have been coupled with an endeavour to educate the workers. The co-operation of employers in this respect is most essential, and some employers have co-operated. All railways in India have undertaken extensive schemes of safety-first propaganda. The Millowners' Association, Bombay, have done a considerable amount of good work of a pioneering character in connection with safety-first. For instance, in conjunction with the Factory Department and the Bombay Millowners' Mutual Insurance Association, it has posted attractive safety-first posters in all cotton mills in the city. In conjunction with the St. John's Ambulance Association it has started safety-first classes for workers. It has, in conjunction with the Safety-First Association, drawn up a safety code for the cotton textile industry, published and put into operation from August 1940. In order to compensate the workers for the accidents they suffer while at work, the Workmen's Compensation Act was passed in 1923. The working of this Act will be discussed in the next chapter.

Old Age Pensions

Provision against old age has been made in either of the three forms : pensions, gratuities and provident funds. In general it is found that such facilities are afforded to the clerical staff only, while in the few cases in which they are open to the working classes, the workers are often permitted to exercise an option.

In the industrial establishments of Governments, all monthly and time rated workmen are entitled to pensions on retirement, provided that a minimum of nine years' service has been put in. The amount of the pensions due is arrived at by multiplying the average monthly pay for three years preceding retirement by the period of actual service less one year and dividing the product by 48. Where permanent monthly paid workers on piece rates are admitted, the average monthly pay is arrived at on the basis of the earning for 72 months and the divisor in the above formula is 72. Commutation upto 70 per cent. of the amount of the

monthly pension is permitted in certain cases.

Pensions on retirement for the workers are almost non-existent outside Government concerns, although many concerns give small pensions to old employers who have put in long periods of trusted and faithful service, but these are mostly ex gratia and cannot be claimed as of right. The Government of Bengal have under contemplation the introduction of a system of pensions for jute mill workers.

Gratuities

So far as gratuities are concerned, all railway employees and the employees of local and public bodies, and of a few of the larger public companies receive gratuities on retirement. Gratuities are also paid to non-pensionable workers who have put in not less than thirty years' service in Government concerns. In all cases, specified periods of qualifying service have to be put in before gratuities can be earned. The rules of the individual administration vary widely, but the most generally accepted principle is half a month's pay for each year service limited to fifteen months' pay in all. Permanent Government servants who have put in less than nine years' active service are entitled to gratuity, if they are compelled to retire on medical certificate.

A few large industrial undertakings in India (such as Messrs. Lever Bros. [India] Ltd.) have started retirement benefit schemes, where an account is opened for every individual worker, to which a fortnight's or thirteen days' pay is credited every year ; interest is allowed and the amount standing to a worker's credit is paid to him on retirement.

Provident Funds

Accurate information about mills and factories in this connection is not available. So far as the textile industry in the province of Bombay is concerned, a few mills are reported to be giving gratuities to some of their employees with long and continuous service,* but the number of workers actually in receipt of such gratuities is negligible. About thirty mills in Bombay city, a

* Vide Report of the Bombay Textile Labour Enquiry Committee, Vol. II, pp. 319–20,

few mills in Ahmedabad and two mills at Kurla give compassionate allowances or gratuities to some of their workers for long and faithful service. There are however hardly any rules regarding the grant of such gratuities or allowances and the decision of the mill management is final in all such cases. In some three mills which have got provident fund systems gratuities for long services are usually sanctioned to those retiring employees who are not members of the provident fund. To form an idea of the amount of gratuities paid, a couple of schemes may be examined. The E. D. Sassoon group of mills in Bombay, under their discretionary scheme of gratuities payable to all workers who have put in twenty or more years' service, have a scale of gratuities that vary according to the pay and length of service. Thus, workers, whose pay at retirement is Rs. 20 per month or less, receive a gratuity of Rs. 60 for a service of twenty complete years, Rs. 75 for a service of twenty-one to twenty-five years, Rs. 90 for twenty-six to thirty years' service and Rs. 100 for over 30 years' service, while the maximum gratuity payable is Rs. 350 for jobbers earning over Rs. 200 per month and retiring after 30 years' service. The most liberal of all superannuation schemes to be found in the cotton textile industry in the province is that of the Gokak Mills where retirement gratuities are paid to workers with long service at the discretion of the management on the basis of two years' pay for 20 years' service, two and a half years' pay for 25 years' service and three years' pay for 30 years' service.

There are two kinds of provident funds : (1) contributory, where both the employer and the employee subscribe to them, and (2) non-contributory, where the employee alone subscribes to them. Taking the case of the Governments first, it is found that the Provident Fund Rules of the different Provincial Governments in India are by no means uniform. The Government of Bombay, by a notification dated 20th March 1941, made it compulsory for all Government servants in receipt of a monthly salary of Rs. 50 who joined Government service before that date or Rs. 25 per month who joined after that date, to subscribe to the Government fund. Pensionable Government servants can join only the non-contributory section of the fund.

State railways and ordnance factories have their own rules. Whereas it is obligatory for most categories of permanent non-workshop railway staff to join the provident fund, workshop employees with monthly and daily rates over specified limits are permitted to exercise an option. Once an option is exercised no withdrawal is permitted. The following statement gives figures relating to the number of employees and the number of subscribers to the State Railway Provident Fund and other Railway Provident Funds on 31st March 1930.*

TABLE XV

Railways	ALL INDIA RAILWAY EMPLOYEES			PROVIDENT FUND SUBSCRIBERS		
	In receipt of less than Rs. 20 p. m.	In receipt of Rs. 20 p. m. or more	Total	In receipt of less than Rs. 20 p. m.	In receipt of Rs. 20 p. m. or more	Total
State Railways	240,011	225,445	465,456	2,109	138,593	140,702
Other Railways	207,054	146,548	353,602	9,308	105,197	114,505
Totals ...	447,065	371,993	819,058	11,417	243,790	255,207

This analysis shows that only 31 per cent. of the railway employees actually subscribe to provident funds and that, while 65 per cent. of the employees in receipt of Rs. 20 or more per month are subscribers, not 3 per cent. of those drawing less than Rs. 20 per month are members. This state of affairs seems to result from two causes : the ineligibility to join of those with a monthly income of Rs. 15 or less and the absence of compulsion to join for those who are eligible.

In the factories owned by certain public bodies compulsory contributory schemes are provided for all permanent workmen ; e.g., the Bombay Port Trust ; while both compulsory and optional, non-contributory and contributory schemes are found

* Report of the Royal Commission on Labour in India, p. 152.

for permanent workmen in the factories owned by most municipalities.

Most of the larger public utility companies such as the Tata Electricity Generating and Distributing Plants, the B.E.S.T. Co., Burmah-Shell Corporation, to mention only a few, provide contributory schemes for the majority of their workers. Several others have schemes for their supervisory and clerical establishments but not for their workmen. The most usual amount of deduction from pay is 1/12th of the monthly pay, but the amount contributed by the employers varies from 15 per cent. to 100 per cent. of the amount put in by the employee. The rate of interest may or may not be fixed.

Again, so far as the province of Bombay is concerned, it is found that very few of the cotton textile mills in Bombay city having provident fund systems for employees have kept the funds open to wage-earners, except in some cases, the jobbers. Those mills which have got provident fund schemes for the workers have kept them on a voluntary basis in some mills for all the wage-earners or in others at least for those earning less than a certain minimum, e.g., Rs. 30 in the Century Mill. The workers are not entitled to the company's accumulated contributions unless they have put in service for a specified period. In the Gokak Mills the worker's contribution is 5 per cent. of his wages. The schemes being voluntary, the number of persons joining is small. In the Swadeshi Mill, the workers having reported to have found it difficult to subscribe at the rate of one anna in the rupee, the subscription was subsequently reduced to half an anna in the rupee, but only 700 out of about 3,000 workers took advantage of the facility. It will be seen that in general the difficulties in the way of development of provident fund systems are obvious : low paid workers cannot afford to make regular contributions out of their scanty earnings ; contributions by employers mean an appreciable addition to the wage bill.

Unemployment

So far as the problem of unemployment is concerned, nothing has been done in India either to reduce unemployment or to relieve it, except in the form of famine insurance (i.e., relief)

grants in the rural areas. There has been also marked absence of employment exchanges, the handful that have been opened since last year having as their primary object, the placing of demobilised servicemen in jobs after the termination of hostilities.

Social Insurance Movement

Thus in India we find that while the masses are living in a state of insecurity, and are helpless because of their very low earnings not much has been done to provide security for them. Poor relief is absolutely non-existent, while the social insurance measures existing are only those that may be said to comprise the Maternity Benefit Acts, some provisions for pensions, gratuities or provident funds in stray cases, the workmen's compensation legislation and a handful of private sickness insurance schemes. In the post-war reconstruction we must solve the problem of social security. Our plea for social security for India is not based on the psychology of imitation, not on the habit of doing what the other countries are doing, though it is but natural to be stirred into similar ways of thinking and doing while all other countries are planning for the elimination of poverty among them. Our plea is based on the full recognition of the pressing needs of our crores of men, women and children, who live from day to day in the paralysing fear of insecurity.

International Labour Conventions, 1927

Social insurance first came to be discussed in India, when in 1927 the question of instituting a sickness insurance scheme came under the consideration of the Government of India in connection with the draft conventions and the recommendations concerning sickness insurance for workers in industry, commerce and agriculture adopted by the International Labour Conference at its Tenth Session in 1927. Although the Government of India then reached the conclusion that the introduction in India of any comprehensive scheme on the lines of the conventions was not practicable in the then existing conditions, they nevertheless recognised that the need of the Indian workers for some such provision was in no way less than in other countries,—it may be

added that, it is in fact, as we have seen, much more urgent.

Royal Commission on Labour, 1931

The subject next came under the consideration of the Royal Commission on Labour in India. Referring to the need of provision for sickness insurance, they reported* : "The question of making provision for workers during sickness, even if it had not been previously raised by Government, would have been forced on us by what we found in every industrial centre. Of the great need of the worker for something of this kind there can be no doubt. By common consent the incidence of sickness is substantially higher than in Western countries ; the medical facilities are much less adequate, and the wages generally paid make it impossible for workers to get through more than a very short period of illness without borrowing. Indeed, sickness is an important contributory cause of indebtedness, with all that debt entails under existing conditions ; for often, at his time of greatest need, the worker may find himself destitute of resources, unable to take proper measures to restore his health and in difficulties regarding even the means of subsistence. The situation calls for the exploration of all methods that may lead to the alleviation of the existing hardships."

The Commission further recognised the need for unemployment insurance and some provision against old age, though they doubted the practicability of introducing such schemes in the then existing circumstances.

Difficulties in the way

According to many, the following circumstances make the introduction of sickness insurance measures impossible in India : (1) the migratory character of labour, (2) the worker's habit of going home, whenever he is seriously ill, instead of submitting to treatment in industrial centres, (3) the lack of a sufficient number of qualified medical practitioners, (4) the existence of indigenous systems of treatment, (5) the absence of self-governing institutions such as trade unions for the administration of insurance, and lastly, (6) the opposition of workers to compulsory deductions

* Report of the Royal Commission on Labour in India, 1931, p. 265.

from pay. For pension insurance, there is the special difficulty of finance involved in applying such a measure in a country where the number of beneficiaries would amount to over forty millions of old and incapacitated people, widows and orphans.

Amongst these factors only the last one relating to the opposition of workers to compulsory deduction from his pay presents some real difficulty, owing to his scanty earnings. Pension insurance also is not easy to introduce on account of financial difficulties. The other factors, however, do not present any insurmountable difficulty at all. As for the medical facilities, our industrial centres do have such a number of medical practitioners as will suffice to work the scheme at least in the beginning. By the time insurance is extended to the countryside, we can by a vigorous drive manage to have better facilities. The existence of indigenous systems of treatment, instead of presenting an obstacle, should really prove indispensable in extending the sickness insurance scheme to the rural area, since they will help to relieve the deficiency of trained medical practitioners at least in the beginning. Again, the absence of self-governing institutions like trade unions should not be very discouraging, since Government can in that case undertake the administration of insurance. The migratory character and the worker's habit of going to his village whenever ill or unemployed, are not real difficulties. To stress them is to mistake the consequence for the cause. This becomes clear on a close study of the reasons behind these characteristics. One reason is the worker's ignorance and backwardness. An equally important reason seems to be that he goes back to his village, because he is unable to support himself here. Although he may receive medical treatment here, the question of loss of earning is there. Similar is the question of unemployment. Therefore this shows that actually sickness insurance and unemployment insurance will supply the corrective—the better so if these measures are accompanied by the measure of holidays with pay—and tend to remove this characteristic of the Indian labour. This of course will have to be accompanied by education and propaganda. This was recognised in Japan where before the sickness insurance measure came into force, the Bureau of Social Affairs organised

lectures in industrial centres to familiarise the workers and employers with the principles of the Act. While sickness and unemployment insurance, by supporting the worker till he got better or got another job, will induce the worker to remain in the town, the provision of holidays with pay will enable him to pay an occasional visit to his village.

The Royal Commission, in recognition of the fact that the statistical material available was inadequate, recommended that special enquiries should be instituted at select centres as soon as possible. These preliminary enquiries were to be conducted by the Government of India, with the assistance of a small informal committee drawn from the Central Legislature. The Committee aided by medical, actuarial and statistical experts would be able to make the necessary statistical enquiries. The Government Actuary's Department in London stated that an elaborate analysis would be required, over a series of at least five years, of the experience as regards sickness and employment of a representative sample of the industrial population,*— the requisite statistics would have to be collected on " experience cards " to be completed, for each worker in the sample, by a large number of employers in the country. The Government of India decided in 1935 that such a statistical enquiry would be too elaborate in character, besides being almost impossible to execute and that, even if it could be carried out, it would yield unreliable results which would therefore not be commensurate with the time, trouble and cost involved. This latter argument of the Government, no doubt, contains considerable truth in view of the backwardness of the workers and the need of education of employers themselves in numerous cases. Government were right when they preferred to introduce empirical schemes and to modify them in the light of the actual experience rather than wait for the introduction of the scheme until what can only be called a " theoretical " experience is collected and investigated. We cannot afford and do not need to have any elaborate enquiries in the near future. Such enquiries, though useful, are not indispensable, and the system can buy experience as it goes on. However, it is a pity that the Government since that date have

* Bulletins of Indian Industries and Labour, No. 63 (1937), p. 7.

not gone beyond the discussion stage.

Coming to the views of the workers and the employers on the subject, it is obvious that the workers, though perhaps aware of the necessity of social insurance, have not been able to press their case, because of factors like their backwardness and lack of organisation. So far as the employers are concerned, from an address* of Sir H. P. Mody, President of the Employers' Federation of India, it appears that the employers have rightly recognised the signs of times and are not hostile to the interests of the workers. At a conference held in Bombay on 8th September 1940, under the joint auspices of the All-India Organisation of Industrial Employers and the Employers' Federation of India, the conference approved of the principle of sickness insurance provided that there was a tripartite contribution, legislation was made on an all-India basis, and made applicable to all important industries and Government undertakings and that similar legislation was passed concurrently in all Indian States.

So far as Government are concerned, while they are still opposed to any schemes for unemployment insurance or for provision against old age, as seen from the debates in the Central Assembly, they have at last agreed that sickness insurance must be introduced in India as early as possible.

Conclusion

We, in India, have so long wasted enough time in debating, discussing and stressing the difficulties involved. It is high time that we give up this fashionable way and try to work some practical way out. The difficulties that have been stressed so far by many as to the introduction of social insurance in India do not in any way show that the need for such introduction is not urgent, nor do they prove conclusively that such schemes are impossible of execution in practice. They only show—and this cannot be emphasized too much—that the introduction of any scheme of social insurance in our country must be accompanied by a vigorous action in many other directions. They can, however, never justify an attitude of inaction and apathy.

* *Indian Textile Journal*, July 1937, p. 356.

One point, however, that cannot be lost sight of, is that relating to the scandalously low earnings of the workers in most of our industries and all over the rural area. And this leads one to conclude that while the need for social insurance in India is doubtless urgent for providing security for the masses, contributory schemes based on the " insurance " principle can be introduced only for the few organised industries where the wages are fairly adequate to enable workers to contribute at least a nominal amount, and for the great majority of the working classes from the industry and agriculture, we shall have to devise free insurance schemes, somewhat on the Soviet model.

[NOTE* : In 1943, the Government of India appointed a special officer to investigate and prepare a scheme of sickness insurance for industrial workers in India. This special officer (Professor B. P. Adarkar) prepared a scheme and submitted it to the Government of India. It will be considered in detail at a later stage (Chapter III). Further, in pursuance of a resolution passed by the Tripartite Labour Conference at its meeting in 1943, the Government of India have appointed a committee of enquiry, to be known as Labour Investigation Committee, consisting of four members. Its terms of reference are : (1) to collect data relating to wages and earnings, employment, housing and social conditions of labour and in particular of industrial labour, and (2) to investigate and report inter alia on the following matters : (*a*) risks which bring about insecurity, (*b*) needs of labour (by various classes) to meet such risks, (*c*) methods most suitable for meeting such risks and (*d*) housing and factory conditions. After this committee has submitted its report and findings, a Planning Committee will be subsequently set up to draw up a programme of social security for labour in India.]

* A Bill has now been introduced in the Central Assembly on the basis of the Adarkar Report as modified by Messrs. Stack and Rao of the I.L.O. The findings of the Labour Investigation Committee covering 38 industries have also been just published.

CHAPTER II

WORKMEN'S COMPENSATION IN INDIA

BEFORE entering upon an examination of the system of workmen's compensation in India as it exists today, it is worthwhile to note the manner in which workers could recover damages from their employers in respect of accidents before the introduction of workmen's compensation in 1923. The progress of the idea of compensation for accident has been slow in India. As far back as 1884—it is interesting to note that in the same year Germany enacted her workmen's compensation insurance law—workers in Bombay made a demand for compensation, when they sent a petition to the Government of India for this purpose. Although a few enlightened employers did pay compensation voluntarily to their workers out of accumulations of unclaimed wages, fines, etc., such payment was by no means systematic or generally adopted. In 1885, an Act was passed, known as the Fatal Accidents Act, which enabled the dependants of a worker to sue his employer, if the worker suffered a fatal accident. The suit had to be filed in a civil court. This meant prolonged delay and a heavy expense, which the dependants of a dead worker could not afford. Further owing to their ignorance and helplessness, they had not the courage to sue the employers, and even if sufficient courage was mustered, there were only slender chances of success against the superior resources of the employers in money, knowledge of their rights, professional skill, not to speak of the bias and hostility displayed by the judges towards working men during the nineteenth century. Further, an employer could not be held responsible for an accident, which was not caused by any wrongful act, neglect or default on his part, or was due to machinery that was obviously dangerous. Because of all these defects, the Act remained a dead letter and was seldom invoked. In 1910 the Bombay workers again set up a demand for compensation and with the growing power of the Indian workers after

the 1914-18 war, the demand became more urgent.

Proposals for a workmen's compensation scheme were first published by the Government of India in 1921 and met with general support. A committee which included persons representing the views of employers and workers met in Simla in 1922 and with the assistance of the replies received to the Government of India's circular letter on the subject, prepared the framework of a measure. With minor modifications their conclusions were embodied in a Bill introduced in the Legislative Assembly in that year. After its consideration by a joint select committee the Bill was subsequently passed with a number of minor amendments in 1923. It came into effect on 1st July 1924. The Act has so far been amended in some important respects in 1926, 1929, 1931, 1933 and 1938.

Scope

The original Act covered about four million workers, which increased to six millions as a result of the Amendment Act of 1933 and as the Act stands today the number of workers covered is about eight millions. Section 2 (1) (*n*) of the Act defines the term "workman", and Schedule II specifies the classes of workmen covered by the Act. Schedule II has been held not to limit the scope of the definition of "workman" given in section 2 (*a*) (*n*), but merely to illustrate it.* Broadly speaking, the Act covers : railways ; factories ; mines ; seamen ; docks ; persons employed in the construction, repair, or demolition of buildings designed to be or which are of more than one storey or of twenty feet in height or of dams and embankments, roads, bridges or tunnels ; or wharves, quays, sea walls or other marine work ; the setting up, repairing, maintaining or taking down any telegraph or telephone line or overhead electric lines or cables, aerials, ropeways, canals, pipelines or sewers ; the fire brigade ; railway mail service ; persons employed in outdoor work in the postal and telegraphic services ; operations for securing natural petroleum or natural gas ; blasting operations and excavations ; ferry-boat services ; cinchona, coffee, rubber or tea plantations ;

* I.L.R. (1937), Nag., 88.

electricity or gas generating stations ; lighthouses ; cinematograph picture producing and exhibiting ; divers ; elephant and wild animal trainers and keepers ; and salaried motor drivers and cleaners. Recently persons employed in warehouses and in markets employing ten or more persons and hundred or more persons respectively, have also been brought within the scope of the Act. Persons employed through sub-contractors by a person fulfilling a contract with a railway are also covered. As far as seamen are concerned, those employed on ships registered in India are covered ; but if accidents take place within the three miles limit of territorial waters, the Act applies even to those employed on ships not registered in British India. It has to be noted that not only workmen employed within the precincts of a factory or a mine, but also men engaged in any kind of work incidental to or connected with a factory or any mining operations are entitled to benefits. As far as factories are concerned, those using mechanical power and employing more than ten persons or those not using mechanical power and employing more than fifty persons are covered. The Provincial Governments are empowered to bring within the scope of the Act other classes of workmen whose occupations are considered to be of a hazardous nature. In pursuance of that power, the Government of Bombay have extended the scope of the Act to cover persons employed on motors or other mechanically propelled vehicles engaged in loading, unloading, handling or transport of goods and to all employees of municipalities and district local boards engaged in occupations ordinarily requiring outdoor work.

Section 2 (1) (*n*) excludes four classes of persons from the definition of " workman " : (1) Persons whose employment is of a casual nature and who are employed otherwise than for the purposes of the employers trade or business ; (2) railway servants who are permanently employed in any administrative, district or sub-divisional office of a railway ; (3) persons working in the capacity of a member of His Majesty's naval, military or air forces ; (4) persons who are employed on monthly wages exceeding three hundred rupees. Upto 1933, this restriction of the amount of wages earned applied only to non-manual workers. The Amendment Act of 1933 removed this distinction between the

manual and non-manual workers, because " there appeared to be no manual labourers in India in receipt of over Rs. 300 a month ".* It has to be noted that the reference to " monthly wages " in section 2(1)(*n*) means an employment at wages which do not exceed an average of Rs. 300 a month, and it does not exclude persons who are employed by the day or by the week or by the year.†

Subject to the above exceptions, workman means any person who is employed in any such capacity as is specified in Schedule II. So far as the railway servant is concerned, the limit of monthly wages does not apply to him provided that he is not engaged in any such capacity as is specified in Schedule II. It is immaterial whether the contract of employment was made before or after the passing of the Act and whether such contract is expressed or implied, oral or in writing. By implication it appears that an actual contractual relationship must exist between the employer and the worker.

Risk Covered

The risk covered under the Act is that of personal injury caused to a workman " by accident arising out of and in the course of his employment ".‡ Such injury may result in death or permanent or temporary, total or partial disablement. The personal injury must (1) be caused by accident, (2) arising out of his employment and (3) arising in the course of his employment.

" Accident "

There has been a great deal of discussion as to the import of the term " accident " above. " The word ' accident ' is used in the Act in the popular and ordinary sense of the word as denoting an unlooked for mishap or an untoward event which is not expected or designed."§ According to Lord M'Laren, "If a workman in

* Vide notes on clauses to the Bill No. 9 of 1932, published in *Gazette of India*, 1932, Part V, p. 61.

† Per Beaumont C.J., in Ellerman's City and Hall Lines *vs.* Assis Thomas, 39, Bom. L.R., 1230.

‡ Section 3, sub-section (1).

§ Per Lord Macnaghten, Fenton *vs.* Thorley & Co. (1903), A.C. 443.

the reasonable performance of his duties sustains a physiological injury as a result of the work he is engaged in, this is accidental injury in the sense of the Statute."* The language of the Act is not " personal injury by *an* accident " but " personal injury by accident ". This means, " personal injury not by design, but by accident, by some mishap unforeseen and unexpected ; ' accidental ' personal injury."† In cases, therefore, where a workman is already suffering from a disease—e.g., heart disease—and subsequently dies or is disabled thereby, if it can be shown that the work he was doing was sufficient, having regard to his condition, to cause death or disablement he may claim compensation as the victim of an accident. What is required to be proved is not the undergoing of any abnormal exertion or strain, but merely that the work upon which the worker was engaged caused the accident. Further, an assault by a fellow workman, or a stranger, or death or injury by lightning or other natural agencies, are " accident ", entitling their victims to compensation, if they arose out of and in the course of employment.

" Arising out of and in the course of employment "

The words " arising out of and in the course or employment " though fairly clear to the layman, have given rise to a vast volume of litigation. Since the same phraseology is used in the much older English law, the decisions arrived at in England are useful in guiding the Indian judges. Lord Wrenbury was right, when he observed‡ : " No recent Act has provoked a larger amount of litigation than the Workmen's Compensation Act. The few and seemingly simple words ' arising out of and in the course of employment ' have been the fruitful (or fruitless) source of a mass of decisions turning upon nice distinctions and supported by refinements so subtle as to leave the mind of the reader in a maze of confusion. From their number, counsel can, in most cases, cite what seems to be an authority for resolving in his favour, on whichever side he may be, the question in dispute. My lords, to my mind this is a labour thrown away. I prefer to go back

* Stewart *vs.* Wilsons and Clyde Coal Co., Ltd. (1902), 5F, 120.

† Per Lord Wrenbury in Glasgow Coal Co., Ltd., *vs.* Welsh (1915), S.C. 1020.

‡ Herbert *vs.* Fox (1916), A.C. 405.

to the words of the statute, and, guided by certain broad principles which must be taken to be established, to seek to apply those words to the particular case before me." Several other eminent judges like Lord Chancellor Haldane, Lord Dunedin and Lord Parmoor came to adopt the same policy.

To arise out of the employment, the accident must be sustained while the injured person is engaged in doing something which it was his duty as part of his employment to do, and to be in the course of his employment it must take place during the time he is engaged in his employment. The English case law on this point has been so voluminous that it seems hardly a case can arise under the Indian Act that is not covered by a similar case in England. Any accident occurring to a worker would arise in the course of his employment, unless it took place during his free time when he was engaged on his own business or pleasure, but it may not necessarily arise out of it. If during the spare moments of the working day he occupies himself with his own concerns and not with something incidental to his employment, and an accident takes place, it will not arise " out of " the employment, and the workman will not be entitled to compensation.* Lord Surner has laid down a test which in his opinion is always at any rate applicable : " Was it part of the injured person's employment to hazard, to suffer or to do that which caused his injury ? If yea, the accident arose out of his employment. If nay, it did not, because what was not part of the employment to hazard, to suffer or to do cannot well be the cause of an accident arising out of the employment."† Another helpful question in this connection is : Was the accident reasonably incidental to the employment ? So far as the course of employment is concerned, it is possible that an accident will entitle its victim to compensation, even though it takes place after he has finished his day's work and is on his way home, or before he has reached his place of employment and is on his way to that place. In such cases compensation will be payable only if the workman was required by the terms of his employment to be in the place where the accident occurred, e.g., if he was coming to his work or leaving

* Gilbert *vs.* Coles (1931), 24B, 481.

† Lancashire and Yorkshire Railway Co. *vs.* Highley (1917), A.C. 352.

it by a train or bus provided by his employer which was the normal method of travelling. The worker who mounts his bicycle to ride home and is knocked down and injured by a motor lorry just outside the factory gates will not be entitled to compensation because his employer did not require him to travel home in this manner, nor to incur this particular risk, although it is perfectly true that but for his work he would not have been injured. The course of employment has been held to continue where a workman availed himself of the liberty of taking his meals on the employer's premises.

Such numerous and subtle distinctions are perplexing enough even for a lawyer and it is not surprising that workmen are confused and it is fairly certain that many perfectly legitimate claims are not pressed, because the claimants are without proper legal advice and are discouraged by a refusal on the part of his employer or the insurance company in the first place.

Occupational Diseases

The Act also covers the risk of occupational disease. Occupational diseases covered by the Act are given in Schedule III to the Act. They are divided into two parts : Part A and Part B. Part A includes anthrax, compressed air illness or its sequelae, poisoning by lead tetra-ethyl and poisoning by nitrous fumes. Part B includes lead poisoning or its sequelae (except poisoning by lead tetra-ethyl), phosphorous poisoning or its sequelae, mercury poisoning or its sequelae, poisoning by benzene and its homologues, or the sequelae of such poisoning, chrome ulceration or its sequelae, arsenical poisoning or its sequelae, pathological manifestations due to radium and other radio active substances or X-rays, and primary epitheliomatous cancer of the skin. Any such disease must have been contracted in an employment specified in the schedule against it. The distinction between the two classes of occupational diseases is that in respect of diseases included in Part B the worker concerned must have been employed in the service of that employer whom he seeks to hold liable, for a continuous period of not less than six months (vide section 3, sub-section 2). Here a period of service is deemed to be continuous which has not included a period of service under any other

employer in the same kind of employment. Section 3 (2) provides that if a workman employed in any employment specified in Schedule III contracts any disease specified therein as an occupational disease peculiar to that employment—in case of Part B, that six months' condition stated above must be fulfilled—the contracting of the disease shall be deemed to be an injury by accident within the meaning of section 3, and the accident shall be deemed to have arisen out of and in the course of the employment, unless the employer proves to the contrary. The Provincial Government has power to add to the list of diseases and employments in Schedule III. In the case of all other diseases as are not specified in Schedule III, the workman has to prove that the disease is directly attributable to a specific injury by accident arising out of and in the course of his employment.

Cash Benefits

Conditions of Grant

Having considered the risks covered by the Act, we come to the benefits made available by the Workman's Compensation Act. Before compensation can be paid, certain conditions must be fulfilled. In the first place the injury must be such that the total or partial disablement of the workman lasts for a period of not less than seven days [section 3(1)(*a*)].

The second condition is that notice of the accident has to be given to the employer as soon as practicable after the happening of the accident [section 10 (1)]. Unless such notice is given, no claim for compensation is entertained by the Commissioner.* Every such notice must contain the name and address of the person injured and must state in ordinary language the cause of the injury and the date on which the accident happened. Whether a notice has been given " as soon as practicable " must depend upon circumstances of each particular case. However, it is provided that the want of or any defect or irregularity in a notice shall not be a bar to the entertainment of a claim, if (1) the claim relates to the death of a workman and the accident from

* The legal status, the responsibilities and the powers of a Commissioner are described later in this chapter.

which the death resulted occurred on the premises of the employer, or at any place where the workman at the time of the accident was working under the control of the employer, and the workman died on such premises or at such place, or died without having left the vicinity of the premises or the place where the accident occurred, or (2) if the employer had knowledge of the accident from any other source at or about the time when it occurred. It is further provided that the Commissioner may entertain and decide any claim to compensation in any case notwithstanding that the notice has not been given in due time, if he is satisfied that the failure so to give notice was due to sufficient cause. It appears that the latitude provided (for the absence of notice to be inoperative) in case of fatal accidents is due to the liability of the employer under section 10B to send reports of fatal accidents.

Similarly the Commissioner cannot entertain any claim, unless the claim is preferred before him within one year of the occurrence of the accident (in case of death, within one year of the date of death), provided that he may entertain and decide a claim, if he is satisfied that the failure to prefer the claim in due time was due to sufficient cause.

Besides these conditions which have to be fulfilled, there exist certain disqualifications which take away the right to compensation of the worker under the Act. In the first place, the worker must not have instituted in a civil court a suit for damages in respect of that injury, against the employer or any other person, for which he could have claimed compensation under the Act [section 3(5)].

Secondly, the injury, except that which results in death, must not be attributable to the workman having been at the time of the accident under the influence of drink or drugs, or to the wilful disobedience of the workman of an order expressly given, or of a rule expressly framed, for the purpose of securing the safety of workmen, or to the wilful removal or disregard by the workman of any safety guard or other device which he knew to have been provided for the purpose of securing the safety of workmen. It has, however, to be noted that mere negligence on the part of the workman is not sufficient to disqualify him from claiming compensation. There must be wilful disobedience.

Finally there is another condition, the non-fulfilment of which disqualifies the worker. Section 11 requires that if the employer before the expiry of three days after the notice of the accident offers to have the worker concerned examined free of charge by a qualified medical practitioner, the worker must submit himself for such examination and if a workman on being required to do so by the employer or by the Commissioner at any time, refuses to submit himself for examination by a qualified medical practitioner, or in any way obstructs the same, his right to compensation is suspended during the continuance of such refusal or obstruction, unless in the case of refusal he was prevented by any sufficient cause from so submitting himself. Further, if a workman before the expiry of the abovementioned period of three days voluntarily leaves without having been so examined the vicinity of the place in which he was employed, his right to compensation is suspended until he returns and offers himself for such medical examination. Where, however, a workman, whose right to compensation has been suspended, dies, the Commissioner may, if he thinks fit, direct the payment of compensation to the dependants of the deceased workman.

Amount of Compensation

Wages

The amount of compensation depends in case of death on the average monthly wages and in other cases on the average monthly wages and the extent of disablement. According to section 2(1)(*m*), the term " wages " includes any privilege or benefit which is capable of being estimated in money, other than a travelling allowance or the value of any travelling concession or a contribution paid by the employer of a workman towards any pension or provident fund or a sum paid in respect of or to a workman to cover any special expenses entailed on or by him by the nature of his employment. Therefore the term " wages ", as defined in the Act, clearly includes the value of any concessions in such matters as house rent, food or clothing given by the employer, and overtime pay. Tips to workmen may be taken into account in estimating the earnings, where the employment is

of such a nature that the habitual giving and receiving of tips is open and is recognised by the employer. The point to be noted is this that a worker's income of any type can be included in the term " wages ", provided that income relates to the employment and service of that worker under the employer in question, subject to exceptions provided by the Act.

Nature of Injury

The injury received may result in death or disablement, which may be partial or total. Partial disablement is the partial reduction of the earning capacity. Total disablement means absolute loss of earning capacity. Both of these may be permanent or temporary. As defined by section 2(1)(*g*), temporary partial disablement means such disablement as reduces the earning capacity of a workman " in any employment in which he was engaged " at the time of the accident resulting in the disablement. It appears that the disablement is considered as temporary, because it is considered that by having recourse to an employment other than the one in which the person was engaged at the time of the disability the partial reduction in the earning capacity due to the disability can be made to disappear. Permanent partial disablement is such disablement as reduces his earning capacity " in every employment which he was capable of undertaking " at the time of the accident. However, every injury specified in Schedule I is deemed to result in permanent partial disablement. In the case of any other injury, proof is required of such reduction of earning capacity. Total disablement, as defined by section 2(1)(*l*), means such disablement as incapacitates a workman for all work which he was capable of performing at the time of the accident resulting in such disablement, and as leads to an absolute loss of earning capacity. This total disablement may be permanent or may be of a temporary nature. The Act, however, expressly states two types of permanent total disablement which are deemed to be so without requiring any proof : (1) total loss of the sight of both the eyes and (2) any combination of injuries specified in Schedule I where the aggregate percentage of the loss of earning capacity, as specified in that schedule against these injuries, amounts to one hundred per cent.

SCHEDULE I (to the Act)

LIST OF INJURIES DEEMED TO RESULT IN PERMANENT PARTIAL DISABLEMENT

INJURY	Percentage of loss of earning capacity
Loss of right arm above or at the elbow ...	70
Loss of left arm above or at the elbow ...	60
Loss of right arm below the elbow ...	60
Loss of leg at or above the knee	60
Loss of left arm below the elbow ...	50
Loss of leg below the knee	50
Permanent total loss of hearing	50
Loss of one eye	30
Loss of thumb	25
Loss of all toes of one foot	20
Loss of one phalanx of thumb	10
Loss of index finger	10
Loss of great toe	10
Loss of any finger other than index finger ...	5

In the above schedule loss of any limb or member means complete and permanent loss of the use of that limb or member. The measuring of actual loss of earning capacity is no easy job. The actual loss can only be guessed, and guessed very roughly. But it is here that the schedule, which is an American idea, comes in. Certain injuries are easily recognisable, and though the loss of earning capacity resulting from such injuries will not be the same in every occupation, an average may be struck and, broadly speaking, only a few cases will show wide variations from the average. In spite of this drawback, this schedule serves one very useful end, namely, that it tends to make the matter simple as far as is possible, saving all the difficulties of endless calculations, and removes a fruitful source of disputes. As, however, it is possible to specify in the schedule only those injuries which cannot

be the subject of any ambiguity, a number of injuries have to be left out, and for these the parties or the Commissioner must make an estimate of the loss of earning capacity in each case.

Amount of Compensation

The amount of compensation depends upon, as already stated, monthly wages and extent of disablement and upon the fact of the worker being an adult or a minor. Where death results from the injury the amount is in the case of an adult in receipt of monthly wages falling within limits shown in the first column of Schedule IV, that shown against such limits in the second column thereof and in the case of a minor (i.e., under the Act, a person who is under the age of fifteen years), two hundred rupees. Where permanent total disablement results from the injury, the amount of compensation is, in the case of a minor, twelve hundred rupees, and in the case of an adult in receipt of monthly wages falling within limits shown in the first column of Schedule IV, the amount shown against such limits in the third column thereof.

SCHEDULE IV (to the Act)

Monthly wages of the workman injured		Amount of compensation for		Half-monthly payment as compensation for temporary disablement of adult
		Death of adult	Permanent total disablement of adult	
More than	But not more than	Rs.	Rs.	Rs. As.
Rs. 0	Rs. 10	500	700	Half his monthly wages
10	15	550	770	5 — 0
15	18	600	840	6 — 0
18	21	630	882	7 — 0
21	24	720	1,008	8 — 0
24	27	810	1,134	8 — 8
27	30	900	1,260	9 — 0
30	35	1,050	1,470	9 — 8
35	40	1,200	1,680	10 — 0
40	45	1,350	1,890	11 — 4
45	50	1,500	2,100	12 — 8
50	60	1,800	2,520	15 — 0
60	70	2,100	2,940	17 — 8
70	80	2,400	3,360	20 — 0
80	100	3,000	4,200	25 — 0
100	200	3,500	4,900	30 — 0
200	—	4,000	5,600	30 — 0

Where temporary disablement results from the injury, no distinction is made as to whether it is partial or total. The payment of compensation is subject to a waiting period of seven days. The payments are made periodically—fortnightly or half-monthly—and the first half-monthly instalment is payable on the sixteenth day after the expiry of the waiting period, and thereafter it becomes payable every half-month. The duration of the benefit is the period of disablement or the period of five years, whichever period is shorter. In the case of a minor, the amount of compensation paid half-monthly is one-half of his monthly wages, subject to a maximum of thirty rupees. In the case of

an adult in receipt of monthly wages falling within limits shown in the first column of Schedule IV shown above, it is the sum shown against such limits in the fourth column thereof. However, it is provided that no half-monthly payment shall, in any case, exceed the difference between half the amount of the monthly wages of the workman before the accident and half the amount of such wages which he is earning after the accident ; in other words, the half-monthly benefit must not exceed the actual loss for that period. When the disablement ceases before the date on which any half-monthly payment falls due, a sum proportionate to the duration of the disablement in that half-month is payable for that half-month. Section 7 provides for the payment of a lump sum in the place of half-monthly payments. Such lump sum may be determined by agreement between the parties or, if the parties do not agree, it may be determined by the Commissioner on the application to him of either party.

In the case of permanent partial disablement resulting from the injury, if the injury is one specified in Schedule I to the Act, then the amount of compensation payable is to be calculated by taking the percentage opposite the injury, and applying the percentage to the amount of compensation that would have been payable in the case of permanent total disablement (as determined by Schedule IV) for a man with the same earnings. For example, suppose that a man drawing Rs. 10 per month loses his right arm above the elbow. The loss of earning capacity for such injury (Schedule I) is 70 per cent. From Schedule IV, we see that if this man had suffered permanent total disablement, he would have received Rs. 700 in a lump sum. Hence for the permanent partial disablement he will receive 70 per cent. of Rs. 700, i.e., Rs. 490. Even if the injury, from which permanent partial disablement results, is not specified in Schedule I, the calculation is to be made in a similar way, the only difference being, as already explained, that the loss of earning capacity is not given in the Act, but has to be estimated. Once the estimate has been expressed as a percentage as in Schedule I, that percentage has to be applied to the corresponding figure of column 3 of Schedule IV.

After the half-monthly payments are started, it is likely that

the condition of the injured workman may change sooner or later. This may necessitate a change in the half-monthly payment. So section 6 of the Act provides for a review of the half-monthly payment by the Commissioner on the application of either the employer or the workman accompanied by the certificate of a qualified medical practitioner that there has been a change in the condition of the workman (subject to the rules made under the Act, such application may be made without such certificate). On such review, the half-monthly payment may be continued, increased, decreased or ended, or if the accident is found to have resulted in permanent disablement, be converted to the lump sum to which the worker is entitled less any amount which he has already received by way of half-monthly payments.

In the case of death of the workman as a result of the injury, his dependants become entitled to compensation under the Act. " Dependants," as defined by section 2(1)(*d*), are certain relatives of the deceased workman and they have been divided into two classes. In one class are included the widow, legitimate son under the age of 15, unmarried legitimate daughter and widowed mother. These persons are ipso facto (conclusively) presumed to have been dependent on the deceased workman and no proof is required of their dependency. In the second category are included the following : widower, a parent other than a widowed mother, an illegitimate son under 15, an unmarried illegitimate daughter, a daughter legitimate or illegitimate if married and a minor or if widowed, a minor brother, an unmarried or widowed sister, a widowed daughter-in-law, a minor child of a deceased son, a minor child of a deceased daughter where no parent of the child is alive, or, where no parent of the workman is alive, a paternal grandparent. The dependants in this category are entitled to compensation, provided they had been wholly or in part dependent on the earnings of the workman at the time of his death ; in other words proof of dependency is required.

While compensation in the case of disablement (of any type) can be paid directly by the employer to the claimant (i.e., the worker), in the case of death such direct payment to the claimants (i.e., dependants) is not legal and is not recognised by the Act. Section 8 of the Act requires that every payment in cases where

the injury results in death (and also where lump sum is to be paid as compensation to a woman or a person under a legal disability, i.e., a person under 18 or of unsound mind) must be made only by depositing the amount with the Commissioner and such deposit amounts to a discharge of his liability to that extent in respect of the compensation due. The employer is, however, allowed to make to any dependant advances on account of compensation, not exceeding an aggregate of one hundred rupees. While in the above cases deposit is compulsory, in all other cases an employer may, if he so desires, deposit money on behalf of the person entitled thereto, provided such sum is not less than ten rupees. Out of the money deposited in case of death funeral expenses are payable to the person who incurred them, up to a maximum of Rs. 25. The work of distribution of compensation to dependants is wholly entrusted to the Commissioners.

ADMINISTRATION

The Act is administered entirely on a provincial basis by Commissioners to be appointed by Provincial Governments. The provinces of Bengal and Madras have one Commissioner each for the whole province. The province of Bombay has one Commissioner for the more important industrial areas, and for the other areas sub-judges have been appointed as ex-officio commissioners for workmen's compensation. In the other provinces, the district magistrates or the district and sessions judge is the Commissioner within his jurisdiction.

After the happening of an accident, the first step to be taken by a workman or his dependants is, as already seen, the service of a written notice on the employer. As soon as the employer is satisfied that the claim for compensation is a valid one, he calculates the amount due. If the accident has proved fatal, he has to hand the sum over to the Commissioner. In other cases, he should offer the compensation he is prepared to pay to the workman. If the workman contests the accuracy of the sum, and no agreement can be reached, the employer can deposit the compensation with the Commissioner, if it is not less than Rs. 10, as seen above. If the workman agrees to the amount offered,

the employer may pay the money.

However, whenever such agreements—oral or written—are arrived at, the employer is required to register the agreements, in some cases, with the Commissioner. As laid down by section 28, in cases where (1) the amount of any lump sum payable as compensation (whether by way of redemption of a half-monthly payment or otherwise), or (2) any compensation payable to a woman or a person under a legal disability (e.g., person under 18 or of unsound mind), has been settled by agreement the employer has to send a memorandum of that agreement to the Commissioner. If the employer fails to register an agreement that is required to be registered, he may incur a heavy penalty under section 29. For he can then claim to set off only half the sum he has already paid to the workman, if the workman then claims the amount of the compensation through the Commissioner. So the maximum amount of the penalty is half the amount paid to the workman by the employer.

The Commissioner, on receiving the memorandum, gives notice to the parties concerned. The notice is to the effect that, in the absence of objections, the memorandum will be recorded after the lapse of not less than seven days, unless, of course, the Commissioner sees any reason for declining on his initiative to record the agreement having been obtained by fraud or undue influence or compensation mentioned in the agreement is adequate ; i.e., he must satisfy himself that it corresponds with the compensation that would be payable under the Act. Where it appears to the Commissioner that an agreement ought not to be registered by reason of the inadequacy of the amount or by reason of the agreement having been obtained by fraud or under influence or other improper means, he may refuse to record the agreement and he may order the payment of the proper sum and may make such order, including an order as to any sum already paid under the agreement, as he thinks just in the circumstances.

Sub-section (2) of section 28 provides that any agreement, which has been duly registered by the Commissioner, is enforceable in spite of any invalidating provisions contained in the Indian Contract Act or any other law. This provision had important implications ; for instance, a person under 18 cannot sue on a contract

to which he is a party, since such a contract is void under section 11 of the Indian Contract Act. However, section 28 of the Act, mentioned above, provides immunity for agreements registered with the Commissioner from this and such other invalidating provisions of law.

If the employer refuses to pay any compensation, or is unwilling to pay the full amount of the compensation claimed, the workman has to make an application to the Commissioner. This procedure is governed by section 22 of the Act, which section governs all applications to the Commissioner for the settlement of disputes. The section requires that an attempt must have been made (except in the case of dependants) to reach agreement out of court, and every application must contain a statement of the points on which agreement has been reached and the points on which the parties cannot agree. An illiterate person or a workman, who for any other reason is unable to furnish a written application, can have his application prepared under the direction of the Commissioner. As already seen, section 10(1) of the Act requires with certain provisos that a claim for compensation must be preferred before the Commissioner within one year of the occurrence of the accident or, in case of death, within one year of the date of death. The procedure in proceedings before the Commissioner is regulated by rules made by the Provincial Governments under section 32(2)(*c*). The procedure, in general, has been made as simple as possible. In certain particulars specific instructions are contained in the Act itself. For instance, section 24 provides that either party can be represented by a legal practitioner or by an official of an insurance company or registered trade union, authorised in writing by the party concerned or, with the permission of the Commissioner, by any other person so authorised.

Provisions for reference, revision and appeal may be briefly mentioned next. Provisions of section 6 for review have already been seen above. Section 27 empowers the Commissioner to refer any question of law for the decision of the High Court whose decision is then binding. Provisions governing appeals from the orders of a Commissioner are contained in section 30 of the Act. Appeal lies to the High Court and only against particular orders

mentioned in clauses (*a*) to (*e*) of sub-section (1) of that section. Moreover there are some conditions which must be satisfied before any order can be appealed against. A substantial question of law should have been involved—not a trivial technicality of course, the authority to decide whether such a question is involved is the appellate court, namely, the High Court. Next, the amount in dispute in the appeal must not be less than Rs. 300, except in the case of an order refusing to allow redemption of a half-monthly payment. Further, no appeal lies in any case in which the parties have agreed to abide by the decision of the Commissioner, or in which the order of the Commissioner gives effect to an agreement come to by the parties. Appeal has to be filed within sixty days of the passing of the order appealed against.

Other Provisions of the Act

Some of the other provisions of the Act that are particularly important from the worker's point of view may be briefly referred to. Section 9 prevents the assignment and attachment of compensation and is of value principally in preventing the workman from selling his right to half-monthly payments to a money-lender. Of course the section cannot apply once the money is actually given to the workman. The purpose of the section is not to restrict the ownership of the workman in respect of money in his hands, but to see that he does not deal in any manner with the money until he receives it. Under the Act, though the employer is made liable for workmen's compensation he is left free to decide the manner of meeting his liability. In cases where the employer does insure, the insurance company has no direct liability towards the workman, so long as the employer is solvent. But if the employer becomes insolvent, section 14 of the Act contains elaborate provisions designed to protect the workman by throwing the liability on the insurers. The insurers are then made to step into the shoes of the employer, and to accept his liabilities to the extent to which he has insured with them. If the employer has been insured only in part and if the worker therefore gets only part of his rights, the latter can prove for the balance of the amount in the insolvency (or liquidation) proceedings. If the employer is not insured at all, the worker

can prove for the whole amount of the claim in the insolvency proceedings, and his compensation gets priority under sub-section (4) to the full amount, though such priority is not granted in case of the balance referred to above. The same section contains another important provision to the effect that when the workman claims compensation from the insurers, the latter cannot take the defence that the employer had not fulfilled the terms of the insurance contract and that therefore they are not liable owing to the breach of their contract with the employer. Further, it is important to notice that, although an employer may be able, in some cases, to recover from other persons what he has given in compensation, he cannot evade the liability by any arrangement with the worker. Section 17 of the Act prevents, in the clearest possible terms, any "contracting-out", i.e., if the employer gets the workman to agree that in the event of an accident, he is not to claim full compensation, or is not to claim any compensation or is to get some different kind of compensation from that specified in the Act, such an agreement is null and void in so far as it purports to remove or reduce the liability of any person to pay compensation under the Act. So such an agreement is of no avail to the employer in case the accident occurs, since the workman is able to assert, in spite of it, his full right under the Act, though the worker might have obtained some advantage—for instance, higher wages—under the agreement.

Defects of the Present System

Having seen the present state of workmen's compensation in India, we may proceed to make an appraisal of the system as a whole. In its main principles the Act follows the British model, though its precision and rigidity and the special machinery set up for its administration are some of the features that distinguish it from the British Act. The attempt to leave as few openings for disputes as possible has resulted in a code which is necessarily arbitrary in its operation in particular cases, but it may be said that so far as the workmen are concerned the advantages gained seem to outweigh the disadvantages.

The German Measure of 1884

For purposes of comparison may be mentioned the principal standards of the original German scheme enacted as far back as 1884. (1) A generous definition of industrial accident as covering all injuries occurring during the course of employment ; (2) provision of medical and other remedial care ; (3) payment of cash benefits both to compensate for wage loss and to cover the funeral costs in the event of fatal accidents ; (4) continuation of cash benefit throughout the whole period of disability, with increase in benefit upto 100 per cent. of the wage loss when the worker is helpless and in need of attendance—particularly in the case of permanent disability ; (5) pensions lasting throughout legal dependency for the family of the worker suffering fatal injury ; (6) security to the worker that compensation would be paid according to law through (*a*) the requirement that employers insure their obligations under the law in industrial mutual insurance associations and (*b*) the acceptance by the Imperial Treasury of responsibility for the obligations of any associations which became insolvent ; (7) strict requirement of accident reporting and provision for accident prevention work through enforced safety devices ; (8) provision for prompt payment of benefits through the postal authorities ; and (9) effective administrative machinery including speedy settlement of disputes with right of appeal to a court of arbitration.

The British Act of 1897

The British Act of 1897, on which has been modelled our scheme, contained unfortunate deviations from the above pattern set in the pioneer German legislation.* (1) Compensation was restricted to accidents not caused by the " gross carelessness of the worker "—an innovation which struck at the very foundation of compensation legislation by throwing open to litigation the question of fault. (2) Medical benefits were omitted altogether. (3) Also, in the case of fatal accidents instead of granting survivors' pensions varying with the number of dependants, the British Act provided only limited death benefits of three years' earnings. (4) The British Act further omitted any requirement of insurance or substitute security that the legal benefits would be paid in the

* *Encyclopædia of the Social Sciences,* Vol. XV.

individual case, it being merely stipulated that the stated compensation benefits were payable in the event of a compensable injury. (5) Lastly, no special administrative machinery was provided for the enforcement of the law, the worker being left entirely to his own devices without advice from a public officer as to his rights.

Scope of the Indian Act and Risk covered

Coming to the state of affairs existing in our country, we find that most of the defects of the British Act exist in our legislation also, and in some cases they have much worse results. The scope of our Act is very narrow, falling far short of even the British Act, the Government of India having preferred a policy of gradualness in the matter. While the limit of maximum earnings is rather low, it has been unnecessarily made applicable to the manual workers also. As to the coverage of the risk, the legal confusions in India have followed those of the British model. The Act thereby has become useless and wasteful. The method of approach itself has been wrong. As Sir William Beveridge has observed* : " If a workman loses his leg in an accident, his needs are the same whether the accident occurred in a factory or in the street ; if he is killed, the needs of his widow and other dependants are the same, however the death occurred. Acceptance of this argument and adoption of a flat rate of compensation for disability, however caused, would avoid the anomaly of treating equal needs differently and the administrative and legal difficulties of defining first what injuries were to be treated as arising out of and in the course of employment. Interpretation of these words has been a fruitful cause of disputes in the past ; whatever words are chosen, difficulties and anomalies are bound to arise. A complete solution is to be found only in a completely unified scheme for disability, without demarcation by the cause of disability." Of course it must be noted in connection with such a completely unified scheme that if " demarcation by the cause of disability " is to be avoided, than the liability for the disability cannot in every case be fixed on the employer. Turning to the

* Sir William Beveridge, *Report on Social Insurance and Allied Services* (London, 1942), pp. 38-39.

occupational diseases covered by the Act, we find that Schedule III is extremely narrow and limited in its scope. In Britain the list now contains no fewer than thirty-seven diseases. Although in our country the Government of India has been empowered to extend the list, few additions have been so far made. This apathy might have been the result of the lack of demand for extension of the schedule or of the observation of the Royal Commission on Labour that " employers may be involved in litigation based on untrustworthy medical evidence, if wide additions are made to the existing schedule before necessary investigations are made into the whole subject."* But surely the untrustworthiness of medical evidence and ignorance of the existence of the diseases are not factors that can justify the non-inclusion of diseases like industrial dermatitis, silicosis, etc., some of which have not been included in the schedule owing to, it seems, the difficulty of deciding whether the disease was due to industrial causes or otherwise. The Royal Commission have themselves admitted that " industrial diseases are probably more common than is generally realised and more varied than Schedule III of the Act would suggest ".

Benefits

The system of benefits is also quite inadequate and not without defects. The rates of compensation for temporary disablement are low ; though the rate is 100 per cent. for the lowest income group (Rs. 0—Rs. 10) for the majority of the wage-classes it is less than 66.2/3 per cent. which is the generally accepted standard. As for death and permanent disablement, the form of payment is that of lump-sum, and this form can be adopted even for the temporary disablement cases. As already pointed out in Chap. II (Pt. I), this form of payment is quite unsatisfactory and payment by way of pensions is definitely preferable. The drawback of the present system is obvious : if a worker received Rs. 10 per month before the injury, then in the case of permanent total disablement he is entitled to a lump sum compensation of Rs. 700 which represents his seventy months' (or little less than six years') wages. So after this period, the poor worker has to shift for himself, become a dependant or a street beggar for the rest of his life.

* Report, p. 307.

The same applies to the case of permanent partial disability. Again, in case of death, compensation is paid in a lump sum. Here is to be found another very serious defect. Our Act provides for a lump sum payment equal to about four years' wages on an average. Such payment is in itself inadvisable, but the more serious defect is this that the Act provides for a uniform treatment in all cases without differentiating between them according to the needs of the parties concerned. The amount of benefit payable is the same, whatever his age and the number of dependants. For instance, in the case of a man earning, say, Rs. 16 per month, the benefit is Rs. 600 ; and this amount is payable without variation whether his age is 20 or 50 years, whether the man has only one dependant, say, his wife or he has a wife, several small children and various other dependants also. The injustice of such a system is too obvious to need any explanation or emphasis.

Further, no medical benefit is offered at all, not to speak of any " rehabilitation " systems such as have proved so useful in Germany and many other European countries.* This is the direct result of the faithful imitation of the none too scientific, satisfactory and successful British model.

Administration.

Coming to the administration of the Act, the departure from the British system in this respect has to be noted. But in practice this has not proved very successful. The reason is that special commissioners have not been appointed in all cases. In most places, the magistrates or district judges have been appointed ex-officio commissioners and this arrangement has not proved so satisfactory from the point of view of the workers as where special commissioners have been appointed, because workmen's compensation—in fact, any piece of social legislation—requires to be handled by a person who is an expert in labour matters, and who is able to bring special knowledge to the subject and to devote special study to it.

Illiteracy and Ignorance

The Workmen's Compensation Act in India has not in practice

* See Chap. II, (Pt. I)

worked satisfactorily and has not proved a real boon to the workers. This may be traced to two factors : illiteracy and ignorance of the workers and particularly dependants and the absence of compulsory insurance. The worker's illiteracy and ignorance of the law constitute a great obstacle in the way of claims being either presented or pressed. Again, his dependants and survivors, mostly women and children, live in the villages hundreds of miles from the industrial areas, and too often they communicate only at long intervals with the workman whose dependants they are ; on occasions they may be ignorant of his whereabouts and they may not hear of his death until some time has elapsed. Being ignorant of the law and utterly helpless in other ways also, they cannot always go through the procedure of claiming and obtaining compensation. These causes alone may be responsible for non-presentation of claims in numerous cases. Again, as already observed, it is fairly certain that a good many perfectly legitimate claims are not presented or pressed, because the claimants are without proper legal advice and are discouraged by a refusal on the part of the employer or his insurance company at the very outset. While the number of trade unions in this country is very low, even those which exist do not take any appreciable part in obtaining compensation for the worker, except a few here and there. When we consider all this we come to recognise the real meaning of the fact that litigation has been, in the words of the Royal Commission,* " confined within most reasonable dimensions." The small amount of litigation does not in any way show that the existing system is satisfactory, but when viewed with its proper background, only exposes the shortcomings of the present system. The astounding figures found in the Bihar Labour Enquiry Committee Report† of 1940 speak for themselves. Commenting on the working of the Act, the Committee observe : " While we are aware that there are employers who are giving to their employees the full benefit of the Act, our enquiries have painfully disclosed to us the fact that it is not enjoyed by the workers in many concerns. Many of the workers are not even aware of the existence of the Act and are content to accept as

* Report, p. 296.

† Quoted in the Health Insurance Report, 1944.

an act of compassion whatever may be offered to them by the employers. The civil surgeon of Singhbhum has given us the following figures. It may be noted, however, that it is not clear how many of these cases were entitled to compensation under the Act, although it will not be far wrong to assume that there may have been evasion of the Act in many of them. In 1937, four persons received compensation from a company, the hospital records of which showed 510 injury cases and 82 deaths from all causes. In another establishment 50 received compensation out of 8,771 injured cases and 65 deaths in the hospital, while 764 injuries and 14 deaths in one and 1,001 injuries and 29 deaths in another resulted in no compensation at all."

Lack of Compulsory Insurance

Perhaps the most serious defect of the Act has been that it does not make insurance compulsory (—and therefore, strictly speaking, workmen's compensation as it exists in our country today cannot be said to form part of social insurance. Of course from one point of view workmen's compensation is in any case not social insurance but social assistance, if it be considered a sine qua non of social insurance that in it the worker must pay some part of the contribution, howsoever small. If, however, the employer is compelled to insure his liability under the Workmen's Compensation Act, then the whole scheme will involve insurance directed to a social purpose and can in that sense be called social insurance. It is doubtful, however, whether this is the usual sense attached to the phrase "social insurance"). The employers are only made liable under the Act, but are left to themselves as to the manner of meeting that liability. While many of the large employers do insure their liability, most of the small employers fail to do so. There is no State carrier of the risk. Whatever insurance is effected has to be placed with private insurance companies. There do not seem to have been formed many mutuals, except the Millowners' Mutual Insurance Association of Bombay. Even in the case of this Mutual, out of about 125 members of the Millowners' Association who are entitled to be members of the Mutual, only 54 have become members of the Mutual. The disadvantages of leaving insurance in the hands of private companies

as opposed to a State insurance carrier have already been discussed in Chap. II (Pt. I). There can be no doubt as to the expensive nature of private insurance. In England, where similar conditions exist, the Holman Gregory Committee reported in 1920, as already seen, that " during the last five or six years the employers had to pay £100 in premium for every £48 paid out in benefits to the injured workmen ". We have no corresponding figures for India.* Further, it cannot be denied that the commercial insurance companies are primarily interested, not in justice to the workman, but in their own profits. In England litigation has been heavy. If this has not been so in India, it has been due to very different reasons, as discussed above, and it cannot be said to reflect on the goodness and kindness of the companies at all. Even in England, according to Miss Rosalind Chambers (in an article on the subject in *Social Security*—edited by William Robson), " On several occasions in the experience of the present writer (i.e., Miss Chambers), insurance companies have made offers of ridiculous amounts to injured workmen. When it became clear that the claimants had adequate legal advisers who were prepared to take up their claims, these offers were substantially increased." If this has been true of a country so educated and advanced as England, how much more marked may such a tendency be in our country where bribery, corruption and exploitation are unfortunately rampant, and lack of discipline and social service so profound ! The system of workmen's compensation as it exists today is imperfect and indefensible and by no means ensures justice to the victims, and such it will remain until the adverse interest of the employer or his insurance company or even of his mutual is removed, and the determination of the claim carried out by an administrative tribunal or commission having regard only to the interest of the injured man or his dependants.

A Common Fallacy

It has been contended in some quarters that the fundamental defect of the present workmen's compensation scheme is that it

* It is estimated in the case of one Insurnce Mutual that about 70% of the premium income is spent in payment of compensation.

places the entire liability of compensation on employers, and this provision is condemned as being quite unfair to the employers. It must be stated that this view painfully betrays lack of appreciation of the spirit of social insurance. It must not be forgotten that social insurance schemes are provided only in view of the fact that workers are not able to face the risks of industrial accidents, sickness, unemployment, etc., single-handed. Further, since the employer is a person who owns the organisation whereby a number of men and machinery come together for work which may and does actually give rise to accidents and injuries, the burden of compensation for them without any question of fault or responsibility must naturally fall on the organisation and the employer, as after all the risks are inherent in the work. In fact these risks are as natural as those of depreciation of machinery, cost of repairs, upkeep of premises, etc. And therefore the cost of compensation for injuries should form one of the liabilities of the undertaking as the above-mentioned expenses do.

Thus there is nothing wrong in putting the whole of the liability for INDUSTRIAL accidents upon the employers.

It must, however, be noted that if the risk covered is not merely that of INDUSTRIAL accidents, but one of ALL accidents that a worker may meet with within the factory or without, in other words, if the risk covered is that of disability caused by accidents " without demarcation by the cause " of such accidents, then the cost of such insurance must be borne on a tripartite basis. Then alone it will be unfair to place the entire liability of compensation on the employers and then alone will it offend against an important canon of the science of social insurance, unless justified on any strong grounds. Finally, it is common knowledge that an employer is often able to shift his burden to other shoulders.

Why Act is Evaded

It has been further maintained that evasion of the Act in this country on a large and general scale can be directly traced to the concentration of the financial responsibility on the employers. This view is not at all correct. And this becomes quite clear on a closer and more scientific analysis of the existing conditions. It

is true that the compensation amount in many cases proves too heavy particularly for the small employer. This fear may lead him to evade the Act. It is not correct to fix the blame for this state of affairs upon the placing of the entire liability on the employer. The real cause of this is the lack of compulsory insurance of the liability.

It is well known that the vast majority of the small employers do not insure their liability. If this liability is insured the burden of the employers is greatly reduced. Insurance costs form a very small percentage of the total production costs. Insurance of the liability definitely removes the tendency of employers to evade the Act ; in fact the employers might then possibly take interest in helping their workers to secure compensation from the insurers !

Mere sharing of the cost on a tripartite basis will not at all help so far as evasion is concerned, particularly since in our country the larger share will have to come from the employer. It has to be further noted that evasion has been rendered very easy in our country by the illiteracy and ignorance of the workers and their dependants.

Position in Britain

It is to be noted that the main factors on the basis of which reform has been advocated by Sir William Beveridge for the British system* are also largely applicable to the situation in Inlia : (1) the present system rests in the last resort upon the threat of litigation ; (2) no machinery is provided for assisting the employee in presenting his claim ; (3) no complete security is afforded for the payment of compensation ; (4) the system fails to secure the maintenance of necessary income and the lump-sum payment fails to provide any permanent source of income ; (5) demarcation disputes are inevitable ; (6) the costs of administration are higher in relation to workmen's compensation than they need be or than they are in compulsory social insurance ; (7) the inclusion of certain industrial diseases, as well as accidents, while necessary in principle, makes the fixing of liability on individual employers particularly inappropriate, because of two difficulties : ascertain-

* Beveridge Report, op. cit., pp. 36-38.

ment of a particular employment out of many successive ones, as the one which caused the disease, and the risk that an employee showing symptoms of industrial disease may be discharged ; (8) the present system has failed to take notice of the most important aspect, viz., the rehabilitation of the disabled employees.

Suggestions for Reform

If we are to achieve real security for the workers from the industrial hazards, the existing workmen's compensation system will have to be reformed, principally, on the following lines :

(1) Insurance of the liability under the Act should be made compulsory. It may be mentioned that this proposal was discussed at the recent Tripartite Labour Conference which met in New Delhi on October 27-28 last.

(2) There must be formed a State Accident Insurance Fund with which all employers would insure their liability under the Act. It is no use gainsaying the fact that mere compulsion to insure is inadequate. It seems this has not been fully realised by the Labour Conference. If private companies are allowed to operate in this field, we shall only be creating new vested interests which it would be difficult to dislodge later. Many advantages of a State Fund have already been considered in Chap. II (Pt. I). With such a fund, even the independent workers who do not work under an employer are enabled to insure against accidents voluntarily. At the recent Labour Conference, according to the press-reports,* employers doubted the need for making insurance compulsory, but would not object if such a proposal was accepted. They would, however, prefer the insurance to be left to commercial companies or employers' mutual societies. The workers and Government representatives considered compulsory insurance necessary and there was a general preference on their part for a State insurance scheme. The State Insurance Fund should preferably be a monopolistic Fund, and at the most only the existing employers' mutuals should be allowed to continue. Indeed the State insurance scheme is not new to the country or to the Government of India. The Government of India did have recently the

* *The Times of India*, 30th October 1944.

War Injuries Compensation Insurance Fund, which was a State Fund with which the employers were obliged to insure the liability of the difference between the relief provided under the War Injuries scheme, and the liability under the Workmen's Compensation Act which did not apply for the duration of the war to some particular industries. The total compensation payable to the workman in such industries was still the same as under the Workmen's Compensation Act, the excess in it over the portion due under the War Injuries scheme being paid out of the fund created by the contributions of the employer. This fund was managed by the Government of India, which had also undertaken to make advances to the fund when resources of the fund were inadequate for the time being. If compulsory insurance with a State Insurance Fund is feasible in the case of war injuries, there is no reason why it should not be equally feasible in that of industrial accidents and diseases. Such a central fund has been proposed by the British Government recently, according to a press report,* and we should also have a State Insurance Fund, if for no other reason, at least to keep the tradition of faithfully following the British model !

(3) Workmen's compensation should remain a charge on industry exclusively and we must not require our workers to contribute to it, as proposed in the British scheme which is to rest on a tripartite basis. If the scope of Workmen's Compensation Act is to be so widened as to include compensation for every disability without " demarcation by the cause of disability " than the liability for the compensation should not rest on the employer alone. It stands to reason in such a case that there should be tripartite contribution. In India, however, the workmen's standard of living is generally so low, that at most only a twopartite contribution—by the employer and the State—is possible, if it is found necessary in view of any widening of the scope of the Workmen's Compensation Act.

(4) Premiums should be merit-rated, not according to the accident record, but according to the safety provisions made in the place of work.

(5) Lump-sum payments should be disallowed and compensa-

* Ibid., 28th September 1944.

tion should be paid in the form of pensions. The pensions should be life pensions in the case of permanent disability, and in the case of death account must be taken of the number of dependants. Compensation rates may be raised.

(6) Provision must be made for medical and surgical aid, the supply of artificial limbs, technical training of the disabled, if necessary and their placement. Of course, it is recognised such provision will be rather difficult to make under the existing circumstances.

(7) The administration should be solely in the hands of the local offices of the central fund who will also look after claims, and appeals should be made to specially appointed commissioners.

(8) Finally, an all-out drive should be made towards propaganda to bring to the worker and his dependant the knowledge of their rights.

The Proposed Reforms

In connection with the health insurance scheme drafted by Prof. Adarkar, the Government of India invited the International Labour Office to send a deputation to examine and advise on the proposed scheme. Messrs. M. Stack and R. Rao, who accordingly visited India, have recommended the incorporation of workmen's compensation system in the health insurance scheme. And it is reported that the Government of India have accepted this recommendation.

The recommendations of the I.L.O. experts, so far as they relate to workmen's compensation, are as follows. The present Act will be repealed and the new social security scheme will cover, along with sickness and maternity, the risk of employment injury. Cash benefits* will be paid in the form of pensions, the workers being divided into five wage-classes, the benefits not being more than 75 per cent. of the basic wage in any class nor less than 50 per cent. of the same. Pensions will be commuted if such commutation is in the interest of the beneficiary. The coverage of employment injury insurance seems to be co-extensive with that of the Factories Act, since the rest of the social insurance scheme is to be based on it. The monies of employment injury insurance are

* For details of rates, see Chap. III "Sickness Insurance "(Pt. I)

to be kept distinct from the rest of the funds, and whenever pensions are awarded, their capital values are to be set aside out of current income. The cost of insurance is to be borne entirely by the employers. A level pure premium of 1 per cent. of the pay roll is to be paid by them. If in the course of some years, say three, the fund's expenditure on account of employment injury exceeds the income, the excess is to be charged by an additional premium on employers whose heavy expenditure is the cause of it. The benefits will be given both in cash and in kind, the latter comprising medical treatment, supply of surgical appliances, etc. Administrative machinery will be the same for all the risks covered.

The suggested incorporation of workmen's compensation in health insurance is in keeping with the modern trend towards unification of social insurance as evidenced first in the New Zealand Social Security Act of 1938 and later in a number of plans like the Beveridge Plan, and it will also promote economy and simplicity. As will be noticed, the recommendations of the I.L.O. experts, Messrs. Stack and Rao go a long way in removing the defects of the present system of compensating employment injuries. For example, compulsory insurance is suggested ; the administration is to be in the hands of a State Mutual Fund wherein all interests are represented ; the employers alone will bear the cost of compensation ; lump-sum payments are discarded and medical and surgical aid is to be provided. However, a number of points are not clear from their note, which is perhaps because it was written rather in a hurry and they just meant to give us an outline, leaving the details to the Government of India. For instance, the coverage of the combined scheme suggested by them is to be on the basis of the present Factories Act. In that case, the scope of the future employment injury scheme will be far shorter than that of the present Workmen's Compensation Act, and all industries and workers falling outside the Factories Act, but covered so long by Workmen's Compensation Act, will be excluded though they had been covered till now, and will no longer be compensated for employment injuries, unless specifically brought in. Again, the scheme is to cover only employment injuries ; that means non-employment injuries or non-industrial accidents

are to be excluded ; that means phrases like " arising out of and in the course of employment " will have their say, giving rise to litigation ; of course, employers being out of the picture, because of compulsory insurance, the position of the workers will not be so bad. It must be noted, however, that this defect will be removed, if " sickness " under the health insurance includes, as it should in the circumstances, injuries and accidents of non-industrial origin. Such problems and anomalies will have to be faced when the actual bill containing the scheme is drafted. It also seems necessary to emphasize the importance of merit-rating, rehabilitation, and propaganda as already explained above.

CHAPTER III

SICKNESS INSURANCE FOR INDIA

FIRST DISCUSSIONS IN INDIA

IT has already been seen that the question of introducing sickness insurance in India came into limelight in 1927 when the Government of India considered the application to India of the conventions adopted by the International Labour Conference at its tenth session.* The Royal Commission on Labour (1929-31), recognising that the situation called for the " exploration of all methods that may lead to the alleviation of the existing hardships ", suggested that preliminary enquiries should be conducted by the Government of India with a view to collection of statistics. However until a final and comprehensive scheme was evolved, the Commission recommended the adoption of an interim tentative scheme on the basis of single establishments. The Government of India, as has already been stated, doubted the value of an elaborate statistical enquiry in the existing circumstances and therefore examined the idea of introducing in single establishments schemes of the type contemplated by the Royal Commission on Labour in order to be able to build on actual experience—, wherever medical facilities could be made available by Government, provided that the employers and workers were willing to contribute. The Provincial Governments were duly consulted, and in May 1937, the Government of India came to the conclusion, which was communicated to the Provincial Governments, that as there was lack of real demand for any experimental schemes on the part of the Provincial Governments and employers and, indeed, from workers also, if the schemes were to involve contributions from them, no further action was necessary.

At the first conference of Labour Ministers held at New Delhi

* See Chap. IX. (Pt. I)

in January 1940, the discussion on the question was again revived. The conference concluded that the problem was not so much the lack of medical facilities as one of enabling the worker to maintain himself and his dependants during periods of loss of earnings due to illness, that sickness benefits would be appropriate for this purpose and that further action should be considered after it had been ascertained how far employers and workers were willing to contribute compulsorily to such funds. Accordingly, the Government of India issued a letter to the Provincial Governments and administrations requesting them to consult important associations of employers and workers on the question of compulsory contributions to sickness insurance funds.

Besides the views expressed in a resolution adopted by the employers at their conference in Bombay in September 1940, as stated in a previous chapter,* they (i.e., employers) also put forward some other considerations, for instance, (1) that all questions of social legislation such as sickness insurance, holidays with pay and other questions of like nature should be handled together so that the interests concerned might be in a position to assess the cumulative effect of the burdens which were likely to be imposed upon them, and (2) that the further consideration of the question should be deferred until the end of the war. The workers also accepted the principle of compulsory contribution but urged that owing to low wages and the absence of minimum wage legislation in India, the worker's contribution should be nominal, the main cost of the schemes being shared between employers and the Government. They also stipulated that the administration of the fund should be under the joint control of the workers, employers and the Government. ' The majority of the Provincial Governments were in favour of a compulsory scheme, but they pointed out a number of difficulties that would arise.

The second conference of Labour Ministers held at New Delhi in January 1941, again considered the question in view of the favourable response generally received from employers and workers. The then Superintendent of Insurance (Mr. J. H. Thomas), on being requested, submitted a note on the question

* See Chap. IX. (Pt. I)

of introducing sickness insurance in India, wherein he pointed out the necessity of carrying out preliminary investigations as was done in New Zealand and Australia. According to the suggestions in that note, the conference decided in favour of a preliminary actuarial examination in certain large industries. Later on however the difficulties in such an examination again became apparent and the Government of India thought it better to start some experimental scheme to apply only to certain well-defined industries with a view partly to making a start and partly to obtaining the statistical material as the scheme worked on. The Superintendent of Insurance also informed the Government that if a start was to be made without detailed statistical investigation, a process of " intelligent guessing ", starting from known facts from other sources, was all that could be done. Therefore it seemed worth considering whether an experimental scheme might be started provided there was enough material for " intelligent guessing " in any industry and in fact the principle of gradualness was regarded as specially advisable in this field. It was considered that any such scheme should, in the first instance, be of an experimental character and should, if possible, be capable of expansion or modification.

The third conference of Labour Ministers held at New Delhi in January 1942 again discussed the matter. Discussions centred round the following points : (i) What industry or industries should be selected for the introduction of a scheme of sickness insurance, (ii) whether there would be any contributions by the State and (iii) whether the scheme could be made partly non-contributory. The Government of India also placed before the conference, in order to have a basis for discussion, a tentative scheme. The draft scheme proposed by the Bombay Textile Labour Enquiry Committee in 1940 was also considered by the conference. There was unanimity of opinion as to the desirability of introducing a scheme of an experimental nature. The conference stuck to the decision arrived at at the second conference that the Governments should not be asked to contribute to the health insurance fund, although the employers and workers would like them to contribute also. It was, however, thought that the alternative of a " guarantee " by the Governments to

ensure the solvency of the fund was worth consideration, but at the conference the Provincial Governments were not prepared to commit themselves even to such a guarantee. On being addressed in the matter by the Government of India later in March in the same year, all Provincial Governments agreed to that proposition and agreed further that the scheme should be applied to the cotton and jute textile and the heavy engineering industry.

Later the Government of India finally decided that the work of evolving a full scheme should be entrusted to an officer on special duty, instead of to a committee of three experts including an actuary from the office of the Superintendent of Insurance. It was also decided that the officer should be assisted by the office of the Superintendent of Insurance and that he should work in consultation with the Provincial Governments and also take advice from a panel of advisers representing workers and employers. This special officer, Professor B. P. Adarkar, submitted on the 15th of August 1944 his report on a scheme of Sickness Insurance for Industrial Workers in India.

Besides the consideration of the subject by the Government of India and the conferences of Labour Ministers, this matter has been discussed by the various tripartite conferences, provincial labour enquiry committees and some individual persons also.

The Scheme of the Royal Commission

We may consider here some of the schemes of sickness insurance, so far proposed, for industrial workers in India. In 1931, the Royal Commission on Labour proposed an interim tentative scheme. The main features of that scheme were : (1) the scheme was to operate on the basis of single establishments where these were large enough, and small establishments might be combined for the purpose ; (2) the responsibility for the medical and cash benefits was to be separated, the former being undertaken by the Government, " possibly on a non-contributory basis," and the latter being administered through employers on the basis of contributions by themselves and the workers ; (3) the employers were to deduct a certain percentage of wages, to credit this to a fund, and to add thereto contributions of an equal amount, or rather more in case of the more poorly paid ; (4) there was a qualifying

period of one year ; (5) the maximum period of sick leave (i.e., period of cash benefit) was fixed at one month in the year ; (6) refund could be made to those workers who left employment after subscribing and before they had been covered by the insurance for a reasonable period ; (7) the amount of cash benefit was to be a proportion of a worker's wages, which would be paid by the employer from the fund ; (8) after providing for suitable reserves, the balance could be devoted to increasing the period of sick leave, or in the case of deficit, the period might be reduced ; (9) the State was to look after supervision and audit of the funds. It is to be noted that the important question raised by the Commission was that of separation, so far as administration was concerned, of the medical benefits from the cash benefits, besides the bearing of the expenses of medical services by the State.

The Scheme of the Government of Bombay

The Government of Bombay also prepared a scheme of sickness insurance which may be stated as follows : Subject to certain qualification regarding the length of service, every industrial worker would have a legal right to three or four weeks' sick leave with pay during each year, of which he might avail himself under certain conditions regarding certification which could be easily satisfied. Any balance of leave left unutilised during the year was to be turned into cash—the calculation being based on certain wage scales—and the amount thus ascertained was to be handed over to a fund to be maintained by Government. The worker would be required to contribute ten days' wages to the fund every year. The amounts thus accumulating in the account of each individual worker would be drawn upon on his retirement from industry or death during the period of service or on his attaining a certain age and will be paid to him either in a lump sum or in instalments. The scheme would thus have some of the characteristics of sickness, retirement, old age and death benefits, and if successful might pave the way for specific schemes of social insurance on the lines of those to be found in the more advanced countries. Now, this scheme is a composite one intended to meet a number of requirements. It does not provide

for medical benefits. It is a queer composition of two different needs. While on the side of sickness, the scheme is inadequate owing to absence of medical benefits, it is even more so as insurance against old age since only healthy lives will, in effect, receive protection in old age. In fact, there is complete absence of the very basic principle of insurance, namely, the distribution of risk and the sharing of losses.

The Scheme of the Labour Department

The Labour Department of the Government of India in 1942 placed a scheme before the third conference of Labour Ministers. The scheme was, briefly, as follows : (1) the scheme was to apply to permanent employees, whose monthly pay did not exceed Rs. 100 ; (2) the qualifying period was of six months ; (3) there was a waiting period of three days ; (4) the workers' contributions were : those drawing less than 13 annas daily—nil ; those drawing over 13 annas daily,—at the rate of 9 pies for each complete Rs. 5 of wages drawn within the month subject to a maximum of 6 annas in the case of those drawing under Rs. 50 ; and of 9 annas in the case of those drawing Rs. 50 ; (5) amount of benefit was half the daily wages subject to a minimum of 8 annas a day or three-fourth of daily salary whichever is less, and a maximum of annas 12 ; (6) duration of benefit—15 days ; (7) sickness had to be certified by the medical officer of the factory ; (8) appointment of medical officers and provision of medical treatment by employers to the satisfaction of the Provincial Government ; (9) the whole cost of benefits paid to the non-contributory employees was to be borne by the employers ; half the cost of the benefit paid to the contributory employees was to be borne by the employers, and the excess of the receipts from their contributions over half the benefits paid to them was to be funded for the purpose of lengthening the duration of benefits ; and (10) maintenance of accurate accounts and statistics by the employer. This scheme was thus to be managed, like that of the Royal Commission, by employers on a single-unit basis, separately for each concern, though there was no separation administratively of cash and medical benefits. Handing over the entire scheme to the employers would have meant in all

probability anomalies and conflicts, in spite of supervision and audit by the State perhaps implicit in the scheme. The important feature of the scheme, however, was the provision of non-contributory benefits for workers getting less than 13 annas daily.

Bombay Textile Labour Enquiry Committee's Scheme

Another important scheme is the one proposed by the Bombay Textile Labour Enquiry Committee (1940). The main features of the scheme may be briefly summarised as follows : (1) only permanent workers in cotton textile factories in the province would be covered in the initial stages ; (2) the scheme would be under the control of a central board of management consisting of representatives of Government, local bodies, employers' and workers' interests and of the medical profession ; (3) expenditure in connection with the board and its establishment should be borne by the Provincial Government ; (4) free medical treatment without any qualifying or waiting period ; (5) waiting period of three days for the cash benefit and duration of cash benefit six months from the fourth day ; (6) cash benefit at a flat rate but not exceeding 75 per cent. of the insured person's average daily wage during the preceding quarter ;

TABLE I

CASH BENEFITS SUGGESTED BY THE BOMBAY COMMITTEE

Period	Daily cash benefit from the fourth day of incapacity	
	Men	Women
(a) During first six months' after entering insurance ...	Nil	Nil
(b) After completing six months' insurance period and payment of six monthly contributions but before completing 24 months' insurance period ...	6 annas	5 annas
(c) After completing 24 months' insurance period and payment of 24 monthly contributions ...	10 annas	8 annas

(7) additional benefits in future depending on availability of surplus funds ; (8) adoption of the panel system of medical attendance under the control of the board ; and (9) tripartite contributions as follows :—

TABLE II

RATES OF CONTRIBUTIONS SUGGESTED BY THE BOMBAY COMMITTEE

Insured Worker	Monthly contribution payable by			Total
	Employer	Worker	Government	
Male ...	As. 10	As. 5	Anna 1	Re. 1
Female ...	As. 10	As. 4	Anna 1	As. 15

The important features of the scheme are the non-separation of cash and medical benefits from each other, setting up of a single and unified fund with centralised management instead of there being as many funds as there are concerns and finally contributions, though very small, from the State.

ADARKAR'S SCHEME

The scheme prepared by Professor B. P. Adarkar is easily the most important, since it is the latest one (August 1944) and has been worked out in the course of a year and a half by an officer, specially appointed by the Government of India for the sole purpose of preparing a scheme for the benefit of the industrial workers in India. This scheme may be therefore considered in greater detail. In the framing of the scheme,* certain principles have been adopted as being fundamental : (1) the scheme must be a compulsory one, if it is to be of any real value to the

* B. P. Adarkar, *Report on Health Insurance for Industrial Workers* (New Delhi, 1944).

working classes ; (2) it must be a contributory one, as far as possible ; (3) it must be simple, clear and straightforward, from the viewpoint of those who will administer it, those who will pay for it and those who will benefit by it ; (4) it must take the existing framework of labour legislation as its formal basis, as far as possible and not attempt any new orientations or be repugnant to such legislation ; (5) it must not be too ambitious and in the beginning at least must stick to certain well-defined objectives ; (6) it must be financially sound, economical in its working, and, as far as possible, actuarially balanced ; (7) it must minimise disputes and litigation and at the same time close all loopholes for malingering, collusion and commission of offences ; (8) it must be workable in the peculiar circumstances of Indian labour and industry ; (9) it must, as far as possible, be in conformity with the International Labour Conventions ; (10) it must not be allowed to be inappropriately burdened with financial responsibilities which properly belong to other measures of social security ; and (11) finally, it must be flexible, leaving sufficient scope for subsequent alterations and extensions.

Scope

Industries

The scheme covers three major groups of industries, namely, (1) all textiles, including cotton (spinning, weaving and other factories), jute mills, silk mills, woollen mills and miscellaneous ; (2) all engineering, including coach building and motor car repairs, electrical engineering, electricity generating and transforming stations, general engineering, kerosene tinning and packing, metal stamping, railway workshops, shipbuilding and engineering, steel-trunk, lock and cutlery, tramway works, and miscellaneous ; (3) all minerals and metals, including foundries, iron and steel smelting and steel rolling mills, lead smelting and lead rolling mills, petroleum refineries, and miscellaneous. Under these industries all such establishments as are covered by the Indian Factories Act of 1934 will be brought under the scheme, except those which are " seasonal factories " within the meaning of the Factories Act. The power of deciding whether a

factory is covered by the scheme or not will be given to the competent authority (which may be the member in charge of health insurance). Moreover, there are some " scheduled exceptions " that will exclude certain establishments and certain types of employment from the operation of the scheme, partly on the lines of the British National Health Insurance Act, 1933, First Schedule, Part II. The following are the principal exceptions : (1) employment in the naval, military or air services of the crown ; (2) employment in public departments and (3) employment in public utility concerns, where the member in charge of the portfolio of Labour certifies that the sick pay and medical facilities are no less favourable than the corresponding benefits conferred under the scheme ; (4) where local circumstances make it difficult to combine an isolated undertaking with others on account of distance or any other reason and where such undertaking employs less than 500 workers, the competent authority may except such undertaking from the scope of the scheme until the difficulty has been overcome ; (5) where, on grounds of equivalent facilities, exemption is granted to an employer on application.

Workers

In deciding the eligibility of the workers to become members of the scheme, the following have been taken as guiding principles : (1) practicability of enforcing payment of contributions, (2) practicability of affording medical care, (3) exclusion of workers who will not receive fair protection in return for their contribution, (4) reasonable safeguards against " adverse selection ", i.e., in particular exclusion of persons who are not ordinarily workers but procure entry to the scheme to obtain immediate benefits, (5) exclusion of persons who on account of their position, economic or otherwise, are able to take care of themselves, e.g., those above a certain income limit, relatives of employer staying with him, etc., (6) exclusion of persons on account of old age or permanent invalidity to avoid an undue financial burden on the scheme, and (7) temporary exclusion on account of special circumstances such as unemployment for a period longer than a certain maximum specified period, etc.

The workers have been classified, for the purposes of the scheme, as permanent worker, i.e., one who has put in three months' continuous service, temporary worker, i.e., one who has put in three months' service intermittently in the aggregate in a calendar year, and casual worker, i.e., one who has not completed three months' service either in the aggregate in a calendar year or continuously. It may be mentioned that under the scheme unemployment continuously for twelve months or more removes the " permanent " status of the worker and unemployment for a period of six months or more, the " temporary " status. The Report states : " It will be seen that any worker can qualify himself for any of the three types mentioned in the text, as soon as he has fulfilled the necessary conditions. Thus a worker may be ' casual ' today, but ' temporary ' or ' permanent ' later on as the case may be. Similarly a ' temporary ' worker may become ' permanent ', if at any time he works for three months in a continuous manner " (p. 33). The Report does not speak of a " permanent " worker being reduced to the " temporary " or " casual " status or of a " temporary " worker becoming a " casual " worker. It appears that once the higher status is obtained, it persists so long as the worker continues to remain a " worker ", except on account of unemployment as stated above.

All " workers " as defined under the Factories Act and working in insurable industries will be covered. Principally industrial but subsidiarily agricultural workers will be covered in such a way that when the worker goes to his village for agricultural operations, he will be treated as unemployed for the purposes of the scheme. The same applies to seasonally industrial workers. The " badli " (i.e., substitute) worker will be covered to the extent that he fulfils conditions regarding qualifying period, service, etc. The unemployed worker will not be covered as such, but for certain " protective periods " his benefits will continue. If a worker is absent on leave, then if such leave is with pay, he will continue to make contributions and receive benefits ; if it is without pay, he will be treated as unemployed. Among persons entitled to claim exemption may be mentioned relatives (husband or wife, sons and daughters, father and mother, and

brothers and sisters) of the employer. The upper income limit is of Rs. 200 per month. There are also age limits, 12 years being the lower limit and 60, the upper. The position of foreign workers will be subject to special rules, implying reciprocity and retaliation.

CONTRIBUTIONS

As regards contributions, the employer's share will be the same for all categories of workers (like permanent, temporary and casual). There is no non-contributory class of workers. There will be three classes of workers according to the daily basic wage. Class A—earning one rupee or more per day; class B—earning eight annas or more but less than one rupee; class C—earning less than eight annas. While the employer will contribute for all workers, only the permanent and temporary workers will have to pay their contributions. Whatever be the wage-period current in any particular area or industry, the period of contribution is a month.

TABLE III

THE STRUCTURE OF CONTRIBUTIONS RATES (monthly) UNDER THE SCHEME*

Contributing Party	Class A			Class B			Class C		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Employers ...	1	4	0	1	4	0	1	4	0
Workers ...	0	12	0	0	8	0	0	4	0
Total ...	2	0	0	1	12	0	1	8	0

If the Governments agree to contribute (6 annas Provincial Governments and 2 annas Government of India), the tripartite contributions will be as follows† :—

* B. P. Adarkar, *Report on Health Insurance for Industrial Workers* (New Delhi, 1944), p. 41.

† Ibid., p. 109.

TABLE IV

Contributing Party	Class A			Class B			Class C		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
State ...	0	8	0	0	8	0	0	8	0
Employer ...	0	14	0	0	14	0	0	14	0
Workers ...	0	10	0	0	6	0	0	2	0
Total ...	2	0	0	1	12	0	1	8	0

Contributions will be collected by the stamp method through the agency of the employer. The calculation of the basic daily wage rate for different classes of workers will be determined by the local committees along the lines suggested in the Factories Act, section 47, sub-section 3 in the case of piece rates. As seen from the tables above, the flat rate principle, but with three wage-classes, has been adopted.

Benefits

Under the scheme, certain types of sickness will be excluded for the purpose of cash benefit but not for that of medical benefit : (1) Certain chronic diseases of an infectious character, such as tuberculosis, leprosy, venereal diseases, etc. (2) If the sickness is the direct result of drunkenness or of culpable participation in a brawl. (3) If the sickness is self-inflicted. (4) If it is attributable to the misconduct of the insured person (the term " misconduct " including poisoning, foolhardiness or wilful mutilation).

In fixing the benefits under the scheme, the following principles have been adopted : (1) as far as possible the benefits obtainable by the worker must be related to the contributions paid by him in the past, (2) provisions regarding medical benefits should be more liberal than those of cash benefits in the beginning, and (3) there should be linking-up of adjacent illnesses for cash benefit purposes, on the broad principle that if the

second illness for which the cash benefit was payable, occurs within one year of the last day of the first illness for which also cash benefit was payable, there will be linking-up. The qualifying period consists of six monthly contributions, either continuous or intermittent. The casual worker, since he has to pay no contribution, gets no cash (but only medical) benefit and the question of a qualifying period does not arise in his case. The waiting period is of three days and the cash benefit commences from the fourth day. The permanent worker is entitled to a maximum of ninety days' cash benefit, provided he has paid not less than six monthly contributions within the previous twelve calendar months and a temporary worker forty-five days' cash benefit for one continuously treated illness, provided he has paid not less than three monthly contributions in the previous six months.

TABLE V

THE SCALE FOR CASH BENEFITS (daily) UNDER THE SCHEME*

Period	Class A	Class B	Class C
Until the first six contributions are paid ...	Nil	Nil	Nil
After six contributions and up to the twenty-fourth contribution (partial cash benefit) ...	0 6 0	0 4 0	0 2 0
After payment of the twenty-fourth contribution (full cash benefit)...	0 12 0	0 8 0	0 4 0

No conditions are laid down for the grant of medical benefit, which will be given from the first day of illness and up to final recovery, subject to the provision that a worker in respect of whom no contribution has been paid within twelve consecutive months (three months in the case of a casual worker) previous to the month in which he is sick will cease to receive medical

* Ibid., p. 50.

treatment from the fund. This, in effect, means that the medical benefit is limited to a maximum period of one year for a continuously ill person. In the initial stages of the scheme the worker will receive an adequate measure of skilled medical attendance, while special treatment (e.g., dental, optical, etc.) and hospital treatment will be provided generally at a later stage, funds permitting. Only allopathic treatment will be provided under the scheme.

There are residential restrictions as to receipt of cash and medical benefits. The insured worker foregoes his benefits, if he resides outside the limits of the centre or sub-centre to which he belongs, such limits being determined by the Regional Board, though he can go from one centre to another with the permission of the competent authority. These residential restrictions have been suggested in view of the migratory habits of our workers.

Administration

The administrative machinery under the scheme has a territorial basis ; there is appropriate representation of the contributing parties, beneficiaries and the medical profession ; it is further characterised by unification and centralisation. Under the Government of India Act of 1935, " health insurance " falls in item 25 of the concurrent List, Part II. The scheme therefore contemplates getting the Government of India Act suitably amended so as to permit Federal administration of this as well as of other social insurance measures. A Statutory Corporation, with a body at its top to be styled as the Central Board of Health Insurance, will be set up under a Federal Act on which adequate representation will be given to both Federal and Provincial Governments, as well as to the other parties interested in health insurance. The structure of the Statutory Corporation will be pyramidal, with the Central Board at the apex and advisory Regional Boards and Local Committees below. The country is divided into regions which will be the same as provinces in the case of major provinces, while in others combinations of provinces. The Central Board will consist of twenty-four members.

The Labour Member will be the chairman of the Board. The Board will constitute itself into two main committees—executive and medical. The Regional Boards will consist of fifteen members each, will have no executive authority, but as advisory bodies will assist the executive officer of health insurance for the region. There will be a local committee for each health insurance centre or sub-centre, along similar lines, to advise and assist the local officer of the fund. The industrial areas will be classified under four classes : class I areas, having a large and compact industrial population, class II areas of an intermediate type, class III of a small size and class IV areas,—sparse areas. For the first three, there will be respectively health centres, dispensary centres and panel centres. The last class will be excluded from the scheme.* The administrative machinery will have a propaganda branch and an actuarial branch.

Administration of medical benefit is not separated from that of cash benefits. Salaried medical service and panel service will both be used in combination though the former will be used to a greater extent. In addition to medical officers concerned with medical treatment, there will be medical supervisors and sick visitors. The latter will verify sickness, in sampled cases, in the case of claimants for cash benefit. Medical supervisors will be appointed for the different divisions or groups of centres, whose functions will be mainly to maintain uniform standards, inspect drugs and other stores, hear complaints relating to medical matters, control sick visitors, and supervise medical facilities in " sparse areas ". Preventive activities should be carried out by the health insurance medical service in collaboration with the other medical authorities. As to the existing medical facilities provided by the employers, some of the first-class schemes may be excepted under the scheme, subject to certain conditions. In some other cases, it may be desirable to take over by purchase dispensaries and hospitals, if the employer is agreeable. But in

* Since such exclusion gives employers in such areas an undue advantage over those in others and might even tend to encourage establishment of new factories in such areas, the Report recommends compulsory provision of equivalent facilities by individual employers for the workers and strict supervision of them by the State through inspectors (for sick pay) and medical supervisors (for medical facilities).

most cases the medical facilities for intra-factory purposes are hopelessly inadequate, and it may be necessary to prescribe better standards of medical treatment of the first aid and emergency variety under the Factories Act, than are available at present.

Financial Aspects

As to the financial aspects of the scheme, the assessment system has been used. On the total collections that can be made, 42.5 per cent. seems likely to be spent on medical benefits, and 12.5 per cent. on administration ; on the advice of the Actuarial Advisory Committee, 40 per cent. is allocated to cash benefit, and 5 per cent. to reserves. According to this committee, 40 per cent. will support a cash benefit corresponding to 12.4 days in the case of class A workers, 16.1 days in the case of class B workers and 26.7 days in the case of class C workers. The morbidity rate assumed under the scheme is 14.6 days per year. The resources of the Health Insurance Fund will consist of contributions from workers, employers and presumably from Governments, donations and gifts, interest on investments, fines and penalties, loan resources arising from the Government guarantee, other loans raised in the open market, etc. There will be two main reserves, viz., the Contingencies Reserve Fund and the Epidemic Reserve Fund. The former will be supported by certain resources belonging to the Health Insurance Fund itself, but the latter will be a special liability of the Governments. The promised Government guarantee will enable the scheme to remain balanced during periods of deficits. The guarantee amounts to loan facilities from the Governments concerned, repayable later automatically out of surpluses arising or after adjustments in contributions and benefits deliberately made. Accounting and auditing will be done by Government auditors. There will be an actuarial enquiry at the end of the first two years and at the end of every five years thereafter. Apart from these, the actuarial branch of the fund will keep itself fully acquainted with the trend of events. The financial branch of the central office of the fund will be in charge of investments and of management of the reserve as well as of all floating funds. The function of

investment of the funds will be entrusted to the Central Board. In the light of the limits imposed by the Act, the Central Board shall lay down the regulations regarding investments.

The judicial machinery for dealing with disputes and offences will consist of two parts : (1) bodies internal to the scheme, viz., the local committees, the regional boards and the Central Board, according to the relevance of the matter and (2) bodies external to the scheme, consisting of special courts created by the Government of India for hearing appeals. Punishments have been suggested for offences in regard to payment of contributions, false certification, carrying out by the employers of their various statutory obligations, etc.

Finally, mention may be made of certain assumptions that have been made as being necessary and implicit in the successful operation of the scheme in the future. The assumptions are : (1) the early adoption of a scheme of unemployment insurance, on a restricted basis so as to cover the factory industries which are also subject to this scheme, and the creation of new employment in the post-war period, through a drive for national planning and development ; (2) the establishment of a scheme of old age pensions ; (3) the adoption and enforcement of certain " pre-medical " measures, such as regulations of wages, rigorous enforcement of factory laws, housing, nutrition, education in health and improvement of environment hygiene ; and (4) a national health drive.

Some Suggestions

It is indeed gratifying to have, after seventeen years of wasteful discussion and procrastination, a detailed scheme of sickness insurance, along modern lines, prepared after intensive scrutiny. There is nothing much novel or original about the scheme, which is based on uptodate foreign experience in sickness insurance technique. Broadly speaking, however, the scheme displays substantial limitations in all its aspects. In the matter of scope, only three major groups of industries are covered. Even in these groups, factories in " sparse areas " are excluded. The clerical staff is not covered by the scheme. It is a plan for

only about twelve lakhs of our country's population. In the matter of coverage again, cases of prolonged illness are not covered (beyond one year so far as the medical benefit is concerned) while persons after the age of sixty are excluded. Benefits during the rehabilitation period are considered for the present impracticable and maternity is not covered as an integral part of the scheme immediately. The duration of cash benefits is only three months (ninety days) in the case of the permanent worker and one and half month (forty-five days) in the case of the temporary worker. Sick workers who prefer to leave their place of work are denied both cash and medical benefits. The cash benefits are clearly inadequate for the barest needs and therefore certainly incapable of enabling particularly the better paid workers to maintain their standard of living. As the *Eastern Economist* has observed, such limitations of the scheme are many and obvious. However, allowance has to be made here for the need for gradualness, particularly since the scheme is based on intelligent guessing instead of statistical investigations. The fact cannot be gainsaid that with the given set of facts and well-known difficulties of the situation, the plan is perhaps the most acceptable that could be presented. We at present need some sort of a scheme to make a start with, and the scheme prepared by Professor Adarkar should prove sufficiently satisfactory from this point of view.

Scope

Yet it does appear that the scheme could have been made more liberal in more directions than one, even making allowance for the difficulties as pointed out above. So far as the scope of the scheme is concerned, the scheme could and should have been made applicable to all the perennial factories covered by the Indian Factories Act, and also to mines and plantations. The Indian Factories Act defines " factory ", as " any premises including the precincts thereof whereon twenty or more workers are working, and in any part of which a manufacturing process is being carried on with the aid of power, or is ordinarily so carried on,—except a mine ". So the Factories Act covers, besides textiles, engineering, and minerals and metal, industries

like chemicals and dyes, food, drink and tobacco, paper and printing, wood, stone and glass, gins and presses, hides and skins, etc. From the " statistics of factories for 1939," we find that in the group of perennial factories (excluding Government and local fund factories), textiles, engineering, and mineral and metals employ about 1,021,000 workers daily while the rest employ 309,000 workers daily. The scheme adopts, as one of its fundamentals, the principle that it must take the existing framework of labour legislation as its formal basis. Accordingly the application can be based on the Factories Act. Legal enforceability is perhaps a more relevant and material factor than organisation, and the scheme could have been applied without difficulty to all perennial factories covered by the Factories Act. In fact the coverage can be extended to factories employing ten or more persons, as in the case of Workmen's Compensation Act. Further, there should have been no difficulty in including workers in mines and plantations under the scheme since they do have compactness in the administrative sense. Of course the following principle adopted as fundamental in the scheme, viz., that the scheme must not be too ambitious in the beginning, is elastic and can be used to silence all critics who might want the scheme to be wider in certain respects.

The Upper Age Limit

Again the scheme excludes workers after they reach the age of sixty. The reasons given for the fixing of such a limit are various : that it is in conformity with the International Labour Convention ; that the incidence of sickness among the older strata of the working class population is much higher than in the younger ones, and that the scheme must not be allowed to be burdened with financial liabilities which properly belong to the other measures of social security. This exclusion of persons over sixty is indeed unjust in the absence of a scheme of old age pensions. That it is in conformity with the International Labour Convention is no sound reason, because we have not adopted many other important conventions relating to social insurance and the stray adoption of one without taking into consideration existing conditions in the country is not in the interest of the workers.

As to the higher incidence of sickness among old workers, it is admitted in the Report that the Indian statistics—vide Appendix VI to the Report—no doubt do not corroborate this universal tendency. Further, it has to be remembered that as workers advance in age, their chances of employment grow fewer and fewer beyond a certain stage, so that old workers in employment are not many. Therefore, if the upper age limit is removed, there need be no fear that the scheme would be unduly burdened by the higher sickness incidence among the old workers. It may be pointed out that the scheme does make an assumption that a scheme of old age pension would be established early. But surely it is no use making assumptions that have no chance of being fulfilled early. It certainly appears desirable that until an " old age pensions " system is introduced in this country, there must be no upper age limit for the workers in the insurable industry. If an upper age limit is to be there, then there should be a rule that no person whose age exceeds the upper age limit can be employed in an insurable industry ; otherwise the imposition of the upper age limit for inclusion under the scheme and not for employment will encourage the tendency among the employers to employ persons of age over the upper age limit, particularly if the employment of such persons were not to involve any responsibility on them to pay their share of contributions under the scheme. As a sufficient deterrent against such a tendency the Report, however, rightly suggests that in such cases the employers should be compelled to pay their share of contributions (p. 38).

Non-manual Workers

The scheme should, further, cover clerical staff on the premises of the factory. The reason for their exclusion, as given in the Report, is that there is the possibility of evasion by removing them from the factory premises. This does not seem to be an adequate ground for their exclusion as rules can be framed to make such evasion impossible. The upper income limit also, it seems desirable, should be raised to Rs. 300 (as in workmen's compensation) from Rs. 200.

Worker's contributions

As for the contributions payable by the worker, the non-contributory class of workers is conspicuous by its absence. Such a class does exist in some countries like Japan, Norway, Esthonia, Latvia, etc.,* where the employer is required to pay his own contributions as well as that of his worker in that class. Such a provision is all the more needed in our country, without prejudice to the contributory principle, because of the very low wages of some workers here which are hardly adequate for the bare necessities of life. Of course, any such demarcation is bound to be arbitrary to a certain extent, but that certainly cannot be made a ground for its non-existence when it is so badly required in the existing circumstances.

Medical Benefits

The medical benefits have been unnecessarily restricted in respect of their duration by the condition that a worker in respect of whom no contribution has been paid within twelve consecutive months previous to the months in which he is sick will cease to receive medical treatment from the Fund.† Professor Adarkar has tried to make out a case for having only allopathic treatment under the scheme, though, wisely, he has not ventured to pass "any value-judgment upon the efficacy or virtue of non-allopathic systems such as the Ayurvedic, Unani, Naturopathic, Homœopathic and others, some of which (he admits) are undoubtedly popular in this country,"—we may add,—"undoubtedly popular even among the educated people in cities and towns". After all, such popularity cannot be groundless. The main reasons are their simplicity, efficacy and finally (most important) cheapness. The average daily cost of treatment under Ayurvedic and Unani systems is understood, from reliable sources, to be very little. The only point on which the allopathic system scores over the non-allopathic is that of organisation, since it is better organised and better regulated particularly in the cities and towns. Lack of organisation and regulation has, in the case of the Indian

* It may be mentioned that even the Beveridge Scheme for a country much richer than our own makes a similar provision. (See Chap. IV, Part II)

† Report, op. cit., pp. 51 and 52.

systems of medicine, given rise to malpractices and deceit, and quacks abound especially on the rural side. But even in connection with this point, it must be noted that sincere efforts rather than just idle talk or condemnation do achieve a great deal. In the province of Bombay, under the aegis of the Congress Government, was established a Board of Indian Systems of Medicine, established and constituted under section 3 of the Bombay Medical Practitioners' Act of 1938. The objects of the Act are to regulate the qualifications and to provide for the registration of practitioners of the Indian systems of medicine, with a view to encouraging the study and spread of such systems. The systems controlled by the Board under the Act are Ayurvedic and Unani. The Act has (1) established the Board of control, (2) provided for registration of qualified persons, (3) prescribed the course of training and qualifying examinations in medicine, surgery and midwifery, and (4) made provisions to secure the maintenance of an adequate standard of proficiency. A code of medical ethics has also been prescribed for the guidance of the practitioners. Mr. Adarkar feels that " it is very difficult to visualise any method of coordinating the various systems of medicine and harmonising them into the system of certification which is the crux of health insurance ". He then goes on to remark, " Proverbially even doctors are known to differ, but if Vaids, Hakims, Naturopaths, Homœopaths and quacks of all description are thrown in, then there will be a veritable pandemonium." It is indeed difficult to see why Mr. Adarkar should be so perplexed about the problem of certification and imagine a pandemonium. After all a sick worker is not expected to go (nor is to be sent) for certification to a Vaid, then a Hakim, then a Naturopath and also to a Homœopath, just as he is not expected to go nor is to be sent to half a dozen doctors for certification, since such a practice will be foolish and will " open door to controversies, into which even communalism and faddism might be imported, while the insured person might play one system against another (or one doctor against another in the latter case) in trying to obtain cash benefit ". This plea for the use of Indian systems of medicine is based, not on nationalistic or patriotic motives, but on rational grounds of efficacy, simplicity, cheapness and economy. If these

systems of medicine are used under the scheme, the scheme will be much less expensive and any limits on the duration of the benefit necessary only on account of the cost factor can be removed. Also the treatment can be continued when the worker goes to his rural native place, since there is no shortage of such practitioners there, though of course he should not be allowed to draw cash benefits in case of migration. In co-operation with bodies like the Board of Indian Systems of Medicine it should not be difficult to provide medical facilities even in the rural areas. The registered practitioners in the Bombay province are 11,540 (Ayurvedic) and 1,477 (Unani). It must be noted that many of them are from smaller towns and villages.

Maternity Benefit

The provisions regarding maternity benefit have already been described in Chap. I (Pt. II). In almost all the countries the world over, maternity insurance has been treated as an integral part of sickness insurance since maternity is a " natural " sickness. The present scheme does not contemplate the incorporation of maternity benfits at the commencement of its operation. The present state of medical benefits in respect of maternity is far from satisfactory. The main defects of the existing legislation, as the Report itself points out, are as follows : (1) There is no all-India legislation on maternity benefits, but only a series of measures adopted by provinces and States in some cases. The legislation has been neither quite uniform nor universal, so that there are gaps here and there, which are not fair to the workers. (2) Only cash benefits are given at present, and there is no provision for medical benefit, except of a very superficial kind in one or two places. (3) Evasion is doubtless still widely prevalent, either owing to loopholes in the law or other causes. There is ample proof of attempts at evasion—and those too, successful—from the different provinces. To mention only one instance, as reported by the Bombay Textile Committee, the condition of qualifying period has been held by some employers to have been broken when there was a break in the service on account of absence without leave. Evasion has been rendered easy also by the ignorance and weakness of women workers. (4) Further, the

employment of women has been probably discouraged owing to the maternity legislation.

There are indeed many advantages to be secured from including maternity under a scheme of sickness insurance. Then uniformity and universality in respect of treatment of maternity will be automatically secured. It will put an end to some of the malpractices prevailing in the administration of maternity benefits. Medical benefits will also be available. The proper control and supervision of maternity will help to keep down the sickness rate of women workers. The additional finance required for covering maternity can be secured by raising the employers' contributions a little. The employers would not grudge that, since they would be then relieved of the responsibility of providing cash benefits and observing legal formalities prescribed by the Acts, and in a single payment they will be able to deal with both matters. So there is no reason why the present scheme should not include maternity benefits, instead of their being left over to be introduced at a later stage.

Holidays with Pay

To the four assumptions made by Professor Adarkar for the greater success of the operation of the scheme, a fifth may be added, viz., the early introduction of a scheme of holidays with pay. In the absence of holidays with pay, there will be a general tendency on the part of the workers to utilise health insurance for obtaining surreptitious holidays, and the sickness insurance scheme will suffer on account of the absenteeism which should be remedied by holidays with pay. Holidays with pay may also help to keep down the rate of morbidity. It may be mentioned that a Bill for the provision of holidays with pay was discussed in the last session of the Central Assembly and it was decided to refer the Bill to a Select Committee.*

Some Notable Features of the Scheme

The scheme is not, however, without some noteworthy features. For instance, the administration of cash and medical benefits has

* This Bill has now become law.

been rightly placed under the same control. In the existing condition we cannot separate one from the other. A separation of the two functions should be made only when we have a national medical service such as the one existing in the Soviet and contemplated in Britain under the Beveridge Scheme. Mention may be made here of the Health Survey and Development Committee* under the chairmanship of Sir Joseph Bhore appointed last year to make a survey of health conditions in India and to make recommendations for future development. Six medical experts from Australia, the U.K. and the U.S.A. accepted the invitation of the Government of India to visit India and to assist the committee, all of whom are now touring India. Another notable feature of the scheme that may be mentioned, for example, is the medical machinery proposed under the scheme. An amalgam of the two main systems, the salaried service system and the panel system, is suggested. The medical side of the scheme will have a triple basis: (1) Health centres, providing group practice and poly-clinical work for industrial centres, which have a very large number of workers living in " compact areas ", e.g., Bombay, Calcutta, Cawnpore, etc. (2) Dispensaries for smaller centres catering for a sufficient number of workers working in places somewhat remote from " compact areas " mentioned above. Such dispensaries may conveniently be established in the suburbs of big industrial towns as also in the smaller industrial towns. For specialist treatment or diagnosis, patients may be sent up to the health centre under certain conditions. (3) Panel centres for still smaller industrial areas, where presumably, non-industrial population is large enough to facilitate the obtaining of private practitioners for this purpose. In the concluding chapter,† Professor Adarkar has ably made out a strong case for contributions from the State, which point thus needs no further emphasis.

The Visit of the I.L.O. Experts

After Professor B. P. Adarkar had submitted his Report to the Government of India, the latter decided to take expert opinion before taking final action on the Report. Accordingly they

* Their Report has now been published.

† Professor B. P. Adarkar's Report, pp. 105-9.

requested the International Labour Office to send a deputation to examine and advise on the scheme prepared by Professor Adarkar. So the I.L.O. deputed Messrs. M. Stack and R. Rao to India early this year (1945). The task of Messrs. Stack and Rao was "confined to an examination of the proposed scheme in its technical aspects, in the light of the practices developed by other countries in the working of social insurance, but with due regard to the special character of the Indian problem as revealed by the Report and to be demonstrated to us in the course of a tour of industrial centres". They spent about four weeks discussing main issues with all parties concerned, visiting factories and labour areas in the country and seeing things for themselves. They finally gave, in a note prepared in the original Report, a modified version of the Adarkar Plan, as a nearer approach to the "compromise between the desirable and the practicable".

Stack and Rao Scheme

As already said this is a modified version of the scheme drawn up by Adarkar, the chief modifications being separate organisation of medical service and the integration of maternity benefit and employment injury in the health insurance scheme. Some of the principles on which their scheme is based are as follows :—

(1) Non-manual workers are to be included on the same terms as the manual workers without regard to income.

(2) All those branches of social insurance which require a medical service are to be grouped together : sickness, child-birth and employment injury.

(3) All the risks are to be covered by a single all-inclusive contribution. The workers will be divided in wage-classes, and lower the wage-class, the larger will be the employer's share in the contribution.

(4) A grant should be given from taxation, its form and amount depending on, amongst other things, the influence of the public authority on benefit expenditure and administration.

(5) The family is to be treated as a unit for the purposes of health insurance.

(6) Cash benefits should be sufficient for subsistence in all

cases and proportioned to the normal standard of living of the lower and middle grades.

(7) Rules and administration should be simplified for the sake of easy intelligibility and economy, elimination of litigation between employers and workers ; and facilities should be provided for ventilation of complaints and redress of abuses.

Scope

They have suggested the broadening of the scope of the scheme. According to them, the scheme should provide compulsory insurance for all persons employed for remuneration in or about registered perennial factories by or on behalf of the owner for the purpose of his trade or business, including workers detached on temporary jobs outside the factory premises. Provision is also to be made for voluntary group insurance for certain other classes of workers at the discretion of the insurance fund in agreement with the provincial health authority. This provision seems to be intended for workers falling outside the scope of the Factories Act but wanting to be covered.

Risks Covered

The risks covered are those of sickness, maternity and employment injury. They have regretfully excluded tuberculosis from coverage on account of lack of sanatoria and present state of housing conditions. They further point out that tuberculosis is preeminently a purely public responsibility. Medical benefits are to be extended to the wife and children of insured persons if living with him, as and when development of facilities permits.

Benefits

The scale of cash benefits is to be fixed at the same percentage of the basic earnings of the beneficiary, being neither less than 50 per cent. nor more than 75 per cent. of his actual earnings. " Earnings " are to include all those elements of remuneration which are of a regular character and which the worker accordingly relies on in planning his normal expenditure. Having regard to the present wage trends, they have suggested the following scale of wage-classes and benefits :

Class	Range of daily earnings	Basic earnings	Benefit six days a week
I	As. 8 to Re. 1	As. 12	As. 8
II	Re. 1 to Re. 1-8	Re. 1-4	As. 13
III	Re. 1-8 to Rs. 2-4	Rs. 2	Re. 1-4
IV	Rs. 2-4 to Rs. 3-8	Rs. 3	Re. 1-13
V	Rs. 3-8 and over	Rs. 4	Rs. 2-7

The above rates of cash benefits would be cut down by 50 per cent. in the case of hospitalization. A funeral benefit equal to one month's earnings is also to be given.

In the case of permanent total incapacity and death due to employment injury, full pensions at those rates will be granted. For permanent partial incapacity, pension should be such portion of the full pension as corresponds to the nature of the injury as indicated in the schedule. In the case of death, the widow will be entitled to two-fifths of the full pension, one-fifth going to each child upto three in number. The pensions can be commuted into lump sum payments, if that is proved to be in the interest of the beneficiary.

A qualifying period has been recommended for sickness, maternity and medical benefit, viz., seventeen weekly or four monthly contributions in the course of a prescribed period of six months. The same conditions will have to be fulfilled in subsequent six-monthly periods, with the difference that weeks of sickness, maternity leave, temporary incapacity giving rise to benefits are to be counted as contribution weeks. The qualifying period will winnow out casual workers. The application of the qualifying period renders superfluous any distinction between badli, temporary and permanent workers. There will be a waiting period of three working days of incapacity, benefits being granted from the fourth day. The sickness benefit is to be awarded for a maximum period of thirteen weeks, to be extended to twenty-six weeks, if and when experience justifies. Temporary incapacity benefit is to last till medical care is completed. The period of eligibility

for maternity benefit will be six weeks before and six weeks after childbirth.

Messrs. Stack and Rao have suggested the granting of convalescence benefit in view of the fact that housing conditions in our industrial areas are far from healthy and preclude the possibility of the restoration of health after serious illness. This convalescence benefit (for cases of illness other than tuberculosis, which is not covered) is to take the form of maintenance in a convalescence camp, or for persons connected with a village in the district, a cash benefit to cover a limited period of absence.

Medical care

Medical care is to be provided by provincial health authorities. The experts have thus advocated the separation of medical side of the scheme from other administration. According to them, " the appointment of the Bhore Committee the whole question of the organisation of medical benefit seems to call for a new approach in the light of the terms of reference of that committee." The expectation is that as a result of the recommendations it would most probably make greatly increased facilities for medical care and public health activities will be provided in all parts of the country. According to them, if the provincial medical services are expanded and co-ordinated to the scheme, there would be no justification for a separate and independent medical service under the control of a health insurance fund. Medical care would comprise medical, surgical, obstetrical and simple dental treatment, at dispensary, home or hospital, and supply of proper and sufficient medicines and surgical appliances, would be made available by the provincial health authorities. It should be made available whenever required in the course of any prescribed six-monthly period for which the worker has fulfilled the qualifying conditions. There would be no limit on the duration of medical care for employment injury.

Financial Resources

Besides contributions from the workers and the employers, the I.L.O. experts support the plea for State participation in the

scheme. Thus according to their recommendations, the costs are to be charged to three sources :

(1) *Contributions* : They should bear (*a*) the entire burden of cash benefit, within reasonable actuarial limits ; (*b*) a major share (say, two-thirds) of the cost of medical care of standard quality (including supply of surgical appliances) for insured persons, a minor share (one-third) of the cost of medical care of a standard quality though less comprehensive for family, or alternatively a major share of the cost of obstetrical care and hospitalization for surgical treatment ; but in no case may the cost to be charged to contribution exceed the difference between the cost per head of the medical care provided out of taxation for non-insured population in industrial towns and cost of medical care of the prescribed standard quality ; (*c*) a proportion (one-third) of the cost of administration.

(2) *Provincial Governments* are to bear (*a*) that part of the cost of medical care not covered by contributions, (*b*) that cost of sickness (cash) benefit which exceeds the actuarial limits (which of course will be revised from time to time from experience).

(3) *Central Government* is to bear two-thirds of the cost of administration.

As regards the sharing of contributions, the employer is wholly liable for cash benefits, so far as employment injury is concerned, and will have to pay a uniform contribution estimated to cover this cost, at least for the great majority of factories. If in the course of some years (say, three), the fund's expenditure on this account exceeds the income, the excess is to be charged as a levy on employers whose heavy expenditure is the cause of it. The remainder of contributions are to be shared between employer and worker, equally in the highest wage-class, but in lower wage-classes the employer's share being larger.

According to the experts, there is no need for any epidemic reserves or financial guarantee, since the excess is to be charged to Provincial Governments. The cost per head of medical care should have an upper limit. Sums allotted in estimates for benefits to be given to wives and children would accumulate till Provincial Governments build up their medical services. The

monies of employment injury insurance are to be kept distinct.

Almost the only important change suggested in administration relates to the separate organisation of medical benefits, which has already been noted.

The level premium for employment injury insurance (cash benefits) is to be 1 per cent. of the payroll. The health insurance part of the scheme should cost about 6 per cent. of the payroll. Rates actually to be charged will be determined by a series of adjustments between what further statistical and actuarial study shows will be the probable cost of the proposed benefits and what price the contributors and Governments are prepared to pay for them. Messrs. Stack and Rao have given an illustrative schedule as follows :—

MONTHLY CONTRIBUTION AND MONTHLY VALUE OF GOVERNMENT GRANTS

Class	Basic Monthly Earning		IN STAMPS								IN CASH		IN SERVICES		TOTAL	
			Employer				Worker		Total		Centre		Provinces			
			Health Insurance		Employment Injury											
	Rs.	a.	Rs.	a.	Rs.	a.	Rs.	a.	Rs.	a.	Rs.	a.	Rs.	a.	Rs.	a.
I	19	8	1	1	0	3	—		1	4	0	3½	0	4½	1	12
II	32	8	1	8	0	5	0	5	2	2	0	3½	0	4½	2	10
III	52	0	1	13	0	9	1	0	3	6	0	3½	0	4½	3	14
IV	78	0	2	6	0	12	2	0	5	2	0	3½	0	4½	5	10
V	104	0	2	13	1	1	2	13	6	11	0	3½	0	4½	7	3

Notes to the Illustrative Schedule : (1) Average annual basic earnings of factory workers are taken to be Rs. 500.

(2) The average number of contribution days per worker is assumed to be 240.

(3) The joint contribution of employer and workers paid in the form of a simple monthly or weekly stamp is 6½ per cent. of the basic monthly earnings of each class. It is shared as follows :

	Employers	Workers
I	6½	-
II	5½	1
III	4½	2
IV	4	2½
V	3¾	2¾

(4) The joint contribution allocated to cost factors is as follows :

	% of basic earning
Medical care	2
Sickness Benefit	3
Maternity „	¼
Administration	¼
	5½
Employment injury	1
	6½

(5) The cost of adequate medical care is taken to be 4 per cent. of the basic earnings, i.e., Rs. 20 per family on an average. Of this, 2 per cent. is found from contributions (1⅓ per cent. for insured persons and ⅔ per cent. for dependants). The provinces furnish the complement of ⅔ per cent. for insured persons and 1⅓ per cent. for dependants by adapting and extending its medical services to meet the insurance standard.

(6) The basis is 14.6 days of sickness per person per year. The three days' waiting period reduces 14.6 days of sickness to 12½-13 days of benefit.

(7) Allowance of $\frac{1}{4}$ per cent. of the basic earnings for maternity cash benefit is based on the assumption that (*a*) women are 10 per cent. of the insured population and that (*b*) 12 per cent. of insured women claim benefits each year.

(8) Cost of administration is $12\frac{1}{2}$ per cent. of benefit cost, i.e., $\frac{3}{4}$ per cent. of basic earnings, of which $\frac{1}{4}$ per cent. is borne by the fund.

(9) The grant from the Centre is the balance of the cost of administration, i.e., $\frac{1}{2}$ per cent. of the assumed average earnings of Rs. 500 a year, which comes to Rs. 2-8-0 per person per year or $3\frac{1}{2}$ annas per month.

(10) The share of each province in the cost of medical care (vide Note 5 above) for insured persons is $\frac{1}{3}$ of the total cost borne by it, so that each province must bring its expense to at least Rs. 3-5-0 per person per year, or $4\frac{1}{2}$ as. per month. For the dependants the cost borne is $\frac{2}{3}$ of its full share.

Reflections on the Experts' Recommendations

The modifications suggested by Messrs. Stack and Rao have doubtless increased the utility and the soundness of the scheme first prepared by Adarkar, by liberalising the scheme and by demonstrating the correct preparing of a sickness insurance *scheme* (in its strict and correct sense) as seen from the illustrative schedule and its notes. The Adarkar plan was too unambitious, diffident and modest. So the experts' suggestion to increase the coverage on the basis of the Factories Act is quite welcome, as is also the inclusion of non-manuals. Adarkar had suggested the inclusion of maternity benefit in the scheme and compulsory insurance with a State fund against industrial accidents. However, the former change was to take place later. The experts have done well to incorporate both of these risks in the health insurance scheme at its very start. It is also gratifying to find that they have recommended a non-contributory class. The experts have further suggested the separate organisation of medical benefits on the strict assumption of increased medical facilities to be provided by the Provincial Governments in view of the likely recommendations of

the Bhore Committee. The expectation is obviously that India will shortly have a sort of national medical service. This recommendation has been, it seems, inspired by a somewhat similar provision in the Beveridge scheme. In any case, on that particular assumption, the separation suggested is welcome. All these improvements were suggested above in the review of the Adarkar scheme.

It is, however, unfortunate that the other modifications pointed out as necessary by the present writer do not find a place in the experts' note. However, it seems desirable to emphasize them here. In the absence of a scheme of old age pensions and in view of the impossibility of such a scheme being instituted for a considerable length of time, the upper age should not have been fixed for the present. Again, in view of their cheapness, equal efficacy, and availability on the rural side, Indian systems of medicine should have been utilised under the health insurance scheme. Obviously, the foreign experts cannot quite be expected to appreciate this point, not being familiar with the conditions obtaining in this country.

However, the experts have made some other important changes in the original scheme. They have rejected the superfluous distinction between " permanent ", " temporary " and " casual " workers. Again, they have recommended five wage-classes instead of the original three, and have suggested slightly increased rates of benefit. They have also suggested extension of medical benefits to the family of the insured persons when development of facilities permits, but for which provision is made in the cost estimates from the very start of operation of the scheme.

The illustrative schedule given by the experts is not quite satisfactory from one point of view. The workers' contributions in the various wage-classes should have been graduated in a smoother way. The graduation should have been on somewhat following lines :

	Employer		*Worker*	
	Rs.	As.	Rs.	As
I	1	1	...	
II	1	8	0	5
III	1	14	0	15
IV	2	8	1	14
V	2	13	2	13

(The graduation in the case of the worker now is 5, 10, 15 and 15 instead of the original 5, 11, 16, and 13.)

It is strange that the I.L.O. experts have recommended the application of the qualifying period even in the grant of medical benefit. This is quite unwarranted and is against the true spirit of sickness insurance. Moreover, in the peculiar conditions obtaining in India, this will to a large extent impede the building up of a stable labour force for the industry to be expected from the operation of the scheme of health insurance as also of the recent provision for holidays with pay.

The sharing of the cost which the experts have suggested is not quite satisfactory, particularly that between the Central and the Provincial Governments. The latter will be bearing a considerable burden on account of medical services. The suggestion to charge any excess cost (over the estimated one) to the provinces so much so as to reject any provision for epidemic reserves is rather ill-advised. In comparison the Central Government has escaped with a light burden.

Nothing has been said about the definition of the term, " sickness ". However, it must be emphasized that, in view of the one part of the scheme covering *employment* injury, " sickness " under the scheme must include non-employment injury by accident, so that in the case of *any* accident, benefits both cash and medical should be promptly granted, the question of liability for the cost thereof being decided between the two parts of the fund, viz., employment injury and sickness. The important advantage to be gained from this procedure will be the elimination of litigation.

A Supplementary Scheme

It cannot be stressed too strongly or too often that any scheme of sickness insurance to be successful in this country must be accompanied by vigorous action in directions like national health drive, better sanitation, housing and nutrition and intensive propaganda in order to help workers to understand the scheme of sickness insurance. Finally, it seems necessary to suggest that in those industries, which will not be covered by the scheme of sickness insurance, employers should be compulsorily required to make a provision for sick leave with pay. The period of such leave may depend on the period of service. Such a scheme will give us some idea of the morbidity in those industries, besides promoting social justice. A scheme may be formulated along the following lines :—

Period of Service	*Period of Leave*
(1) Not less than three years, but less than five years.	(1) One week on full pay and one week on half pay.
(2) Not less than five years, but less than ten years.	(2) Ten days on full pay and Ten days on half pay.
(3) Over ten.	(3) Fifteen days on full pay and fifteen days on half pay.

Mainly because of two formidable factors, the poverty of the people and absence of medical facilities, whatever the schemes of sickness insurance that are prepared, they can be applied, under the existing circumstances, unfortunately, only to the industrial workers of our country and even in their case not to all the workers in all the industries.

CHAPTER IV

GENERAL OBSERVATIONS AND CONCLUSIONS

FROM the discussion of the various social insurance systems in the earlier chapters, certain tendencies might have been noticed in all the branches of social insurance. In the matter of scope there is a broad and well-marked tendency to bring all persons employed in manual work and the lower ranks of salaried employers within the scope of compulsory insurance, particularly in industry and commerce. The permeation into agriculture of social insurance has been more slow, and so far social insurance (excepting unemployment insurance) has been applied to agriculture in only about a dozen countries. Though the tendency to exclude workers earning more than a prescribed amount is still common, the problem of covering independent workers has been receiving greater attention in recent years, particularly in the case of pension insurance. In the organisation of social insurance, the predominant tendency has been towards centralisation and improved co-ordination, as evidenced by the spreading of responsibility for common risks over an ever larger group and the tendency to reduce the number of institutions.

The evolution of the benefit provisions of social insurance is characterised by a deeper and more widespread understanding of the potentialities of social insurance as a means of raising, surely and continuously, the average level of the well-being and efficiency of the mass of the population. Besides greater liberalisation of the benefit provisions, here one finds the more important tendency in the evolution of social insurance, namely, change of emphasis first from compensation to restoration and now to prevention at the one end and rehabilitation at the other. This has also been accompanied by more extensive contribution by social insurance to family welfare, particularly in the field of medical care.

Recent Trends

Social Security

" Social security " has been the most talked of term recently. Both the phrase and the idea have run round the world of late at a great pace. The idea of social security is that the State shall make itself responsible for ensuring a minimum standard of material welfare to all its citizens on a basis wide enough to cover all the main contingencies of life.

The two important means of providing social security, as already described, are social insurance and social assistance. Taking the modern insurance and assistance schemes into consideration, one can say that a social insurance scheme provides benefits for persons of small earnings granted as of right " in amounts which combine the contributive effort of the insured with subsidies from the employer and the State ", and that a social assistance scheme provides benefits for persons of small means granted as of right " in amounts sufficient to meet a minimum standard of need and financed from taxation ". The progress of social insurance consists in extending its protection to an ever larger circle of the population, in widening the range of the risks that it covers, and, as regards the quality and quantity of its benefits, caring more for social adequacy than for actuarial equity. The progress of social assistance consists in the improvement of its benefits, in the enlargement of its notion of need, and in the dissociation of the moral stigma from recourse to its benefits.

Although all the social risks can be covered either by social insurance or social assistance, we find that so far the practice has been that certain risks are usually covered by insurance, while others are generally regarded as the special province of assistance. It may be observed that cash benefits and general medical services are more often provided by the insurance method, and that assistance is preferred for certain forms of benefits in kind. Social assistance has, in the main, confined itself to spheres of service in which the public interest is pre-eminent, and which at the same time offer little occasion for abuse, for instance, hospitals, sanatoria, etc.

Social assistance is said to be a progression from poor relief

in the direction of social insurance, while social insurance is a progression from private insurance in the direction of social assistance. From the present-day developments it is clear that social insurance and social assistance are moving ever closer to one another. As the culmination of a long evolution they have shown promise of meeting in the case of some countries, so that now one could no longer say whether social insurance or social assistance predominates, but only that these countries possess a national system of social security. The proposals for such a national system have sprung up from the recognition of the essential unity of the risk, namely, loss of earnings, and from the recognition of the advantages of unification of not only various insurance schemes but also of insurance and assistance. The numerous advantages of unification like cheap administration, simplicity, elimination of gaps and overlappings, etc., are easy to perceive. So far the social security systems of almost all the countries had been built up piece by piece ; but now attempts are being made in many countries to base their social security systems on a very comprehensive plan, typified by universality of coverage—of presons and of risks, all-inclusive contributions and benefits and the merging of the insurance and the assistance methods. Examples of these tendencies are to be found in Great Britain (Beveridge Plan), the U.S.A. (Wagner-Murray Plan), Canada (Marsh Plan), South Africa and Australia.

New Zealand's Progress

The first scheme to come into force embodying the modern principles and ideas of social security was that of New Zealand, when the Social Security Act was passed in 1938. The idea behind the scheme is that in so far as a person is unable to care for himself or herself, the community accepts responsibility. The Act was in part a consolidation and extension of previous measures, and in part new provisions for contingencies and misfortunes which had never previously been covered. The Act provides* for superannuation and other monetary benefits† to safeguard the people against disability arising from old age,

* Walter Nash : *New Zealand, A Working Democracy* (London, 1944).
† See Appendix II.

invalidity, widowhood, orphanhood, unemployment, sickness and occupational disease. Secondly, the Act brought into force a system of medical, hospital, maternity and other benefits* aimed at safeguarding and improving the nation's health. The principle of universality has been widely adopted. There is no "means test" of any kind. There is universal superannuation at the age of 65 without income or property restrictions. The Act also provides for children's allowances. One further type of monetary benefit, representing an entirely new principle, is the emergency benefit. This provision enables financial assistance to be given to any person, male or female, young or old, who is in need of help but who, for one reason or another, is not able to qualify under any of the other provisions of the Act. Comprehensive and adequate health and hospital services are provided for everybody. The cost of the scheme is financed by a special social security charge of 5 per cent. (1sh. in the pound) on all salaries, wages, and other income, including income of companies. The revenue is put into the Social Security Fund, wherein is also paid each year a subsidy from general taxation revenue sufficient to meet the fund's annual requirements beyond the revenue from the social security charge. Other social services include milk and apples distributed free of charge to school children, who also receive free dental treatment at special clinics.

The Beveridge Plan

The Beveridge Plan† is a massive reconstruction and unification of the social insurance services, the purpose of which is to bring every man and woman in the country into a comprehensive scheme which would provide them, when unemployed, ill, aged or widowed, with incomes at a rate adequate for maintenance, and which would provide special grants on occasions of marriage, maternity and burial. The outstanding object of the Beveridge Plan is to provide as far as possible a unified system of income-maintenance to cover needs arising from a variety of causes.

* See Appendix II.

† It may be mentioned that except for small reduction in some of the payments and a lengthening of the period during which its provisions will attain their full effect, the British Government scheme for post-war social security as announced in a recent White Paper faithfully follows the main outline of the Beveridge Plan.

Accordingly, instead of setting out to lay down a number of different rates of benefit, Sir William has based his plan on a uniform rate, which can then be supplemented or varied to meet special cases.

The population is divided into six classes : (I) employees working under contracts of service,—this includes salaried as well as wage-earning employees without any income limit ; (II) other gainfully occupied persons—this includes all employers, as distinct from salaried managers, and also all persons working on their own ; (III) housewives, i.e., married women of working age, not gainfully employed ; (IV) others of working age not gainfully occupied, i.e., this includes persons living without work on independent incomes, and persons disabled from working from any cause ; (V) persons below working age, i.e., below the school-leaving age, and (VI) retired persons above working age—not including persons of pensionable age who continue to work. Thus the plan extends far beyond the existing range of the social insurance and assistance services, and touches every man, woman and child in Great Britain at one point or another. These six classes cover between them the entire population. No one, however wealthy, is left out, and the exemptions provided for in the existing social insurance schemes are swept away.

Sir William has laid down eight factors as primary causes of need for social security, and all the needs are proposed to be met by distinct insurance benefits : (1) Unemployment, i.e., inability to obtain employment by a person dependent on it and physically fit for it—met by unemployment benefit. (2) Disability, i.e., inability of a person of working age, through illness or accident, to pursue a gainful occupation—met by disability benefit and industrial pensions. (3) Loss of livelihood by persons not dependent on paid employment—met by training benefit. (4) Retirement from occupation, paid or unpaid, through age—met by retirement pension. (5) Marriage needs of a woman—met by marriage grant; maternity grant and benefit; temporary widow's benefit for readjustment ; guardian benefit (for a widow) while caring for children and training benefit if and when there are no children in need of care; in case of separation from husband, adaptation of widowhood provisions, including separation

benefit, guardian benefit and training benefit ; and in case of incapacity for household duties, provision of paid help. (6) Funeral expenses—met by funeral grant. (7) Childhood, provided for by children's allowances if in full-time education, till sixteen. (8) Physical disease or incapacity—met by medical treatment, domiciliary and institutional, for self and dependants by comprehensive health service and post-medical rehabilitation.

The following table* shows the scheme of cash benefits for each of the six classes under the Beveridge Plan :

TABLE I

CASH BENEFITS UNDER THE BEVERIDGE PLAN

Funeral Benefit (all classes)	£ 20 for adult; £ 15 between 10 and 21; £ 10 between 3 and 10; £ 6 under 3.
Disability Benefit per week (classes I and II)	24 shs. for single adult, plus 16/- for wife or adult dependant; 40/- for married couple; 16/- for gainfully occupied woman; 20/- for single person between 18 and 21; 15/- for boys and girls between 16 and 18. Waiting period of five days, unless disability lasts for at least four weeks, in which case the benefit for the three provisionally considered waiting days is to be paid retrospectively.
Industrial Disability Pension (class I)	Varying rates, subject to maximum of 60/- a week.
Unemployment Benefit (class I) ...	Same as Disability Benefit.
Training Benefit (class II, III and IV)	Same as Disability Benefit, but limited to 26 weeks, and subject to satisfactory attendance at a training centre.
Maternity Benefit (class I and II)	36/- a week for 13 weeks.
Maternity Grant (class I and IV)	£ 4/-.

* G. D. H. Cole, *Beveridge Explained*, p. 26.

Marriage Grant (class I and II) ...	£ 1 for each 40 contributions paid, up to a maximum of £ 10.
Widows' Benefit (for those under 60)	36/- a week for 13 weeks (followed by guardian benefit and—or training benefit).
Guardian Benefit (for widows, etc., under 60 with dependent children)	24/- a week subject to deduction for earning.
Children's Allowances ...	8/- a week for every dependant child after the first; for first child only when parent is unable to earn.
Retirement Pensions per week (after 20 years, in 1965) ...	(For men at 65, women at 60) single persons 24/-, married couple 40/- provided the wife is not gainfully occupied; rates to be increased by 1/- and 2/- respectively for every year for which retirement is postponed beyond the statutory age.
Retirement Pensions (transitional)	(A) Persons already insured for pension: Rates rising from 14/- (single) and 25/- (joint) in first year to full rates over 20 years by two-yearly increments of 1/- and 1/6d.
	(B) Persons not at present insured: No pensions till 1954. Then at 14/- and 25/- as above, but rising to full rate only after payment of 20 years' contributions.
National Assistance	As required to fill gaps, subject to test of needs.

As for blind persons who are at present eligible for non-contributory pensions at 40, under the " means test " conditions, and who can also be given cash allowances by local authorities under the Blind Persons Act of 1938, again subject to a means test, Sir William Beveridge recommends that the entire responsibility for maintenance of the blind should be transferred to the proposed Ministry of Social Security, but he does not put for-

ward any definite scheme, merely advising that a new scheme could be worked out between the new Ministry, the local authorities, and the voluntary agencies which concern themselves with the welfare of the blind. It is a curious omission that he makes no parallel recommendation in the case of the deaf.

The gross cost of the Plan is estimated at £697 millions in 1945, and £858 millions in 1965, when the new Pensions Plan will have come fully into force. These estimates are based on the assumption of price-level 25 per cent. above that of 1938. If the actual price-level is higher or lower, they will need scaling up or down. These totals compare with an actual expenditure of £342 millions on social security under State schemes in 1938-39 and estimated expenditure of £432 millions in 1945. It is interesting to note further that under the Beveridge Plan insured persons will be called upon to contribute £194 millions in 1945 and £192 millions in 1965 (when they will be fewer owing to population changes), as against £55 millions in 1938-39 and £69 millions in 1945 under existing schemes.

So far as medical treatment is concerned it is entirely segregated from the administration of cash benefits ; it is in fact taken clean out of the insurance field. The Plan proposes the establishment of a comprehensive public medical service for the entire population, including specialist services, hospital and other institutional treatment, and through rehabilitation whenever it is needed. This is in fact " Assumption B " of the Report.* Sir William, however, has kept himself aloof from saying as to how it ought to be organised, regarding this as falling outside his province.

The contributions that will have to be paid under the Plan may be stated as follows :

* Assumption A refers to Children's Allowances and Assumption C to maintenance of employment.

TABLE II

CONTRIBUTIONS UNDER THE BEVERIDGE PLAN

	MALE						FEMALE					
	Insured person		Employer		Joint		Insured person		Employer		Joint	
	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.
Class I:												
Aged 21 and upwards ...	4	3	3	3	7	6	3	6	2	6	6	0
Between 18 and 20 ...	3	6	2	9	6	3	3	0	2	0	5	0
,, 16 and 17 ...	2	6	2	6	5	0	2	0	2	0	4	0
Class II:												
21 and upwards ...	4	3	—		4	3	3	9	—		3	9
18-20	3	6	—		3	6	3	0	—		3	0
16-17	2	0	—		2	0	2	0	—		2	0
Class IV:												
21 and upwards ...	3	9	—		3	9	3	0	—		3	0
18-20	3	0	—		3	0	2	6	—		2	6
16-17	1	6	—		1	6	1	6	—		1	6

In class I consisting of ordinary wage and salary earners, it may be noted that single and married men pay the same, though the married man's contribution qualifies his wife also for benefits. Men and women in this class are covered for all benefits. Class II consisting of other gainfully occupied persons is not eligible for ordinary unemployment benefit and for sick pay during the first thirteen weeks of disability. Class IV including persons of working age not gainfully occupied has also to contribute, but gets only medical treatment, pension and grants, but no unemployment or sickness benefit. There are three classes of non-contributors : Housewives, married and under 65, comprising class III, pay no actual contributions ; they are covered by their husband's payments. The other two non-contributing classes are class V, those below working age, and class VI, those retired who are above working age. Contributions will, of course, be excused during the periods of unemployment and sickness which are qualified for benefits. There are also certain important grounds of exemption from liability to pay contributions, notably where persons in classes II and IV possess a very small income, e.g., below £75 a year. This will exempt some street sellers and others from the very poor class, from paying the contributions for a period, fixed or indefinite, during the continuance of the grounds for exemption.

In order to be entitled to full benefit for unemployment, sickness or widowhood or to any of the grants other than industrial or funeral grant, not less than forty-eight contributions must have been paid (or officially excused) in the preceding contribution year. In order to be entitled to full pension, an average of forty-eight contributions a year must have been paid (or excused) by the claimant throughout his working life since the beginning of the scheme. In general any person dependent on earnings will remain entitled to full benefit, by certifying unemployment or disability when not earning. Only those who do not depend on their earnings are likely to be out of full benefit, e.g., seasonal workers or others taking work occasionally only and not continuously available for work.

For the limited number of cases of need not covered by social insurance, national assistance subject to a uniform means test will

be available. The administration of the scheme will be unified. The old institutions like friendly societies, etc., will be scrapped and a Ministry of Social Security will be established, responsible for social insurance, national assistance, and will take over, so far as necessary for these purposes, the present work of other Government departments and of local authorities in these fields.

The Beveridge Scheme thus embodies six principles : (1) flat rate of subsistence benefit, (2) flat rate of contribution, (3) unification of administrative responsibility, (4) adequacy of benefit, (5) comprehensiveness and (6) classification. These six principles, and all that is implied in them, are fundamental to the plan, the rest of the scheme can be adjusted without changing its character. Based on these principles and in combination with national assistance and voluntary insurance as subsidiary methods, the aim of the Beveridge Plan for Social Security is to make want under any circumstances non-existent. " Want," writes Sir William Beveridge at the beginning of his Report, " is only one of the five giants on the road of reconstruction, and in some ways the easiest to attack. The others are Disease, Ignorance, Squalor and Idleness." The Beveridge Plan is primarily an attack on Giant Want ; but it is also in a large measure an attack on Giant Disease, and indirectly on Giant Squalor. Giant Ignorance remains to be dealt with by educational and political reforms, and also by giving the children of the people such freedom from want, disease and squalor as will make them better able and more eager to learn. Giant Idleness needs a different method of attack, namely, policy of full employment, and Sir William seems to be well aware that the success of the onslaught on the other four giants must depend largely on the valour with which Giant Idleness is combated and overcome.

India and Social Insurance

Owing to obvious difficulties, that are almost fundamental in their nature, like poverty of the country, incomplete development of the country's resources, problems of cost, administration, etc., one cannot even dream of introducing any such comprehensive and full-fledged social security scheme as Beveridge's in our country under existing conditions. Introduction of any such

ambitious scheme must remain for long a distant vision. All that can be done now is only to make a start in cases where conditions are favourable. Our workmen's compensation system should also be improved. The question of sickness insurance has already been considered in the previous chapter.

Pension Insurance

As to pension insurance covering old age, invalidity and premature death, it has been already seen that while the latter two risks have never received any attention in our country, the necessity for making some provision against old age has been recognised, and a few enlightened employers, railway administrations and Government departments have made provision for some of their workers, either by means of a provident fund, retirement gratuity or in some cases even by instituting a system of pensions. Almost all the existing schemes are voluntary in character and discretionary. The workers cannot claim gratuity as of right. The progress made so far in the institution of contributory provident funds is not at all encouraging, because of obvious difficulties like scanty earnings of workers and unwillingness of the employers to contribute. Now, it is admitted that the introduction of a general pensions scheme is almost impossible for the time being, particularly because of the prohibitive cost. However, in the meantime it would be desirable to have the gratuity system introduced in all concerns. But the qualifying period of service must be shorter than is now common, i.e., it must be of about fifteen years. The systems should be more regularised and run according to model rules. The element of discretion should be removed. Provident fund systems (preferably pensions) must be instituted in financially strong concerns. Such measures will be of definite value in building up a stable labour force, which will render easy the later introduction of a general scheme of pensions. Government can very well encourage, wherever possible, employers by financial grants or other means to inaugurate schemes of this nature for their employees.

The Problem of Unemployment

Unemployment insurance, again, is conspicuous by its absence in this country. Although so far the problem of industrial un-

employment has not been so very pressing, we must bear in mind that our industrialisation is expected to proceed at a considerable pace in future ; and there is no reason why a start in unemployment insurance should not be made with the non-industrial middle class population. As for the seasonal unemployment in our country, particularly in the rural areas, the measure of primary importance would be that of starting proper seasonal industries, pursued with a will and determination to succeed.

Employment Exchanges

At any rate we must have scheme of public employment exchanges introduced in our country. Employment exchanges will prove invaluable during the post-war unemployment, they will help to build an organised labour market, and, most important of all, they will form the basis on which can be later introduced a scheme of insurance. It has been pointed out earlier that the success—indeed, the very possibility—of unemployment insurance on a large scale depends on the existence of a comprehensive, centralised and well-organised network of public employment exchanges.

The question of employment exchanges was considered by the Royal Commission on Labour. The Commission was against such employment exchanges because they could not offer relief or prospects of increased employment and it was not " practicable under present circumstances " to compel employers in general to recruit through them, nor would it be " wise to start them at a time when most factory owners can find sufficient labour at the gates ".* However, it may be stated that conditions have changed† since these findings of the Labour Commission. Not only has the war created problems of exceptional vastness and complexity in regard to post-war demobilization, but the pace of industrialisation has also quickened, and judging by all visible signs will probably be still accelerated after the war. If there is any acceleration of the rate of industrialisation, the supply of skilled labour will form a stiff bottleneck, and factory owners would be unlikely to " find sufficient labour at the gates ", particularly skilled

* Whitley Report, op. cit., p. 35.

† *The Eastern Economist*, Vol. 2, No. 3.

labour. Consequently both employers and employees would welcome employment exchanges. Until unemployment insurance is introduced, employment exchanges may be restricted only to skilled technical labour. Besides being useful in the manner stated above, employment exchanges at this point of time will prove valuable not only to smoothen the transition to peace economy, but also to increase labour mobility to suit a period of heightened tempo of industrial progress.

It may be mentioned that employment exchanges have recently been opened under the auspices of the Department of Labour, Government of India, the primary purpose being the placing of demobilised servicemen in jobs after the termination of hostilities. These exchanges are designed to serve as clearing houses of skilled technical labour and trained workers returning from the war. These employment exchanges will be helped by an advisory committee consisting of representatives of employers, labour, Provincial Governments and Demobilization Directorate of the General Headquarters. The scope of these employment exchanges is thus limited to helping men from war services and smoothen the process of demobilisation. Nevertheless it must be emphasized that the question of general employment exchanges deserves serious consideration with a view to their immediate introduction. Further, the possibilities of employment exchanges in relation to the non-industrial middle class appear to invite careful attention of the authorities.

What About Our Rural Masses ?

It is indeed very curious and unfortunate that there is a tendency to confine the problem of social security to the industrial population only. India has no doubt considerable industrial population badly needing social security services. But the condition of the agriculturist masses is no better. Restricting social security to less than 10 per cent. of the population very seriously limits its value. India supports an agricultural population of about 72 per cent. of the whole. The agriculturist in India is the man who carries the burden of an empire on his back. The importance of making the life of the ryot secure can hardly be exaggerated. We cannot afford to side-track this vastly more

important issue.

Crop Insurance

One of the ways—and probably not the least important among them—of providing income security for the cultivators is that of crop insurance. Crop insurance is insurance against the risk of loss or deficiency in respect of periodical crops raised by the cultivator. It is a means by which systematic contributions by farmers, made in proportion to the risk to their crops, create a reserve from which to finance relief in periods of crop failure. Crop insurance deals with the problem of deficits,—individual deficits which may exist even in years when there is a general surplus of production in the country as a whole.

The function of crop insurance is to supplement rather than to supplant the various other means of stabilizing income, such as diversifying sources of income, planting of several crops, etc. Crop insurance for farmers is the counterpart of the unemployment insurance for industrial workers, because just as the industrial worker is dependent on his job for the continuity of his income, the farmer is dependent on the production of his crops for his income. Crops can, of course, be protected from hazard but protective measures can never provide complete security and, in fact, if carried beyond a certain point, are often more expensive than insurance.

How it works

The crops may be brought under coverage, in a scheme of crop insurance, gradually one by one. Normal crop yields for a year have to be fixed. These need not be fixed for each individual farm—it will unduly complicate matters in the conditions of this country—, but may be fixed for groups of similar tracts of land, which would in most cases be identical with the administrative districts. In bumper years the farmer will be required to deliver to the Government insurance institution (assuming that the scheme will be administered by the Government), as premium, a certain percentage of his surplus crops, i.e., of the amount in excess of the normal yield or its cash equivalent. The price used in determining cash equivalent is one that tends to

reflect the local market price, and is obtained by using central market prices with deductions for freight and handling charges. The surplus contributed as premium will be stored by the Government in warehouses to be specially constructed for the purpose. In years of crop failure, i.e., of yield below the normal, through no fault of the farmer, Government will redeliver to him enough of the crop, or its equivalent in cash, so as to give him either the whole or a fixed percentage, say 75 per cent., of his normal yield. The premium as well as the indemnities payable under the scheme will be assessed in kind, but will be payable either in kind or in cash. It is necessary that the cash premiums are invested by the Government in that particular insured commodity, in order that the scheme should work unperturbed by price fluctuations. The insurance of price would be desirable, if it were feasible, but prices are to a considerable extent determined by human actions and are not predictable. On the other hand, factors affecting production are largely physical and, in considerable measure, can be predicted.

Its Advantages

Such a system of crop insurance will have many-sided advantages. It will provide security of income and prosperity for the cultivator by protecting him against the vagaries and vicissitudes of the seasons and other adverse factors and thus help him to maintain his standard of living. It will ensure a normal and steady food supply in the country through an " ever-normal granary ". It will also protect the consumer from wide and violent fluctuations in prices due to occasional shortage or failure of crops by stabilising prices. It will help the prosperity of the cultivator also by eliminating or reducing indebtedness often contracted in years of crop failure. The removal of the element of uncertainty from agriculture will enable the cultivator to plan better and to reorganise the farm on more economic and business like methods. Agriculture will then become to him an attractive business rather than a mere way of life that it is now. Even the public treasury will benefit in that it will be relieved of a considerable amount of burden on account of the cultivators. As a national programme crop insurance will bring security to

the individual farmer and, as a consequence, will bring more stability to agriculture as an industry.

American Experience

Crop insurance was introduced in the U.S.A. under the Federal Crop Insurance Act of 1938 which provided for all-risk crop insurance for wheat. Such insurance was made available for the first time on the crop seeded for harvest in 1939. The Federal Crop Insurance Corporation, established by that Act, is an agency of and within the United States Department of Agriculture, and subject to the supervision of the Secretary of Agriculture. Local administration is through county committees. The committeemen are elected from amongst the farmers. There are two plans of insurance, viz., 75 per cent. plan and 50 per cent. plan, i.e., plans providing that if the yield is less than 75 per cent. or 50 per cent. of the " normal " yield, as the case may be, the shortage is made up. The insurance takes effect upon the seeding of the crop and payment of the premium. It terminates upon the threshing of the wheat or on September 30, whichever occurs first. Insurance is in kind and is voluntary. In June 1941, cotton was added to the venture, the first crop insured being the 1942 crop. However, the 1944 Agricultural Appropriation Bill, passed in July 1943, withdrew financial support for continuing the programme and provided only sufficient funds for completing insurance on the 1943 crops. The arguments advanced for such action were that participation in the programme was too small, and the expenses too large to justify its continuance. This recent action of the Congress may not mean that the idea of crop insurance has been definitely and permanently abandoned. The basic legislation to provide for crop insurance remains on the statutes. It has to be noted that the attempt has not quite succeeded because participation was purely voluntary which resulted in " adverse selection ".

Its Possibilities in India

It has been suggested* that since Indian agriculture is largely dependent on rainfall, a simple scheme of rain insurance, i.e.,

* By J. S. Chakravarty in *Agricultural Insurance* (Bangalore, 1920).

insurance against the risk of deficiency of rainfall, would be identical in its results, for all practical purposes, with a scheme of crop insurance. This proposition does not appear very convincing. Agricultural production may suffer equally from over-abundance of rain or from ill-timed rainfall as from its deficiency. Again, there are other factors that affect crops, like unfavourable weather conditions, floods, insects and disease. Therefore it appears that a mere scheme of insurance against deficiency of rainfall will not serve a very useful purpose. We must have a scheme of " all-risk " crop insurance.

The introduction of a system of crop-insurance in India is not, however, without its difficulties. Fixing the normal yield figures is a difficult proposition particularly in India, where most of the cultivators are illiterate, keep no accounts and have no idea of running the farm as a business. Crop yields depend on numerous factors like facilities of communications and opportunities of scientific agriculture. Again, our crop records are inadequate. Our statistics relating to crop yields are neither satisfactory nor complete for a large part of the country. These factors will also render the calculation of premium rates difficult. However, such difficulties have to be encountered in the introduction of any novel scheme of insurance—in fact, only the existence of an insurance scheme helps accurate statistics to be collected. Such difficulties exist also in the introduction of social insurance for industrial workers, and yet in spite of them a scheme of sickness insurance has been deemed—and rightly—possible of introduction. Therefore there is no reason why these difficulties should stand in the way of introducing a scheme of crop insurance. Another difficulty that may present itself is the probable attitude of the cultivators themselves, because of the immediate sacrifice involved in premium payment. The size of the premiums may frighten and repel them. This difficulty should prove easy to surmount, if and when a determined effort is made to train and educate them. Also, the scheme must be made compulsory, if it is to prove of any practical use and value. This will also eliminate all possibility of adverse selection. Further, there is the problem of storage of grain. Local warehouses will have to be constructed all over the country and the storage will have to be guarded

against theft, damp, insects, etc. This will bring in the question of initial cost. In America it was estimated at £50 millions for the first ten years in a scheme covering all staple crops of America, and it was calculated that if this cost were met by Government, the scheme could be after that period self-supporting. In our country, the cost of storage with all the overhead costs of administration will, of course, have to be borne by the Government.

And finally comes the real difficulty, namely, that the cultivators are poor, their surplus in a good year is limited and often already mortgaged in advance owing to indebtedness. How can such people who can hardly make a bare living afford to pay for insurance ? It is precisely for this reason that crop insurance in our country can and has to be socialised ; in other words, it must become social insurance. For this purpose, the cultivators shall have to be classified according to their incomes, and the major share of the premiums in the case of certain lower income groups will have to be borne by the State. The Provincial Governments and the Government of India should have no objection to bear part of the cost of the scheme, since, to use their own argument, such a scheme will not apply like the scheme of sickness insurance to just a fraction of the total population. Thus, by applying the principle of social insurance, this most important difficulty will be removed, and it will be feasible to introduce a scheme of crop insurance in our country.

It is very essential that the question of introducing crop insurance in this predominantly agricultural country of ours is given close and serious attention by all those concerned.

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Our Fundamental Difficulties

It was pointed out earlier* that the introduction of social insurance in India is not impossible, but must be accompanied by an all-out and vigorous action in many directions. We may very briefly discuss here these directions. These are, principally, health, housing, education and adult literacy, national minimum wage, legislation for matters like collection of statistics, holidays with pay, uniformity of labour laws, etc., and, most important

* See Chap. I (p. 197).

of all, balanced economic development of the country.

Health Drive

A drive to improve health conditions must necessarily be in the forefront of any programme directed towards improving the standard of living. If dissipation of financial resources and administrative effort is to be avoided, plans for the improvement of health problem as a whole which will take account of, and place in their proper perspective, all the various factors affecting the health of the community with which health administration is concerned. The health committee of twenty-four members under Sir Joseph Bhore, unfettered by any narrow terms of reference, is expected to cover the entire range of public health problems. The news is welcome that one of its sub-committees is to deal specifically with the question of industrial health. The training of the health services, just like the training of the teachers in a national plan of education or the training of the technical personnel in a national plan of industrialisation, is likely to prove formidable and complex. It is to be hoped that the health committee will devote themselves fully to this aspect, so that we can have in their report a practicable and satisfactory character for the nation's health. Let us not forget General Hance's confident opinion that the task is not utopian, since even in Russia which started with comparatively less favourable conditions, brilliant progress was made in such a short period as of twenty years.

Housing

Housing presents another problem and is important, since it is closely connected with that of health. For housing the masses, we shall have to build houses literally by the millions, and from this point of view, the new methods of mass construction of houses such as prefabrication requires to be specially studied in our country. In Russia many factories are busy turning out on a mass scale prefabricated houses. Even in such a rich and advanced country like the U.S.A. this technique has been generally appreciated and has made rapid progress. Great Britain is also deeply absorbed in this new building technique.

Literacy and Education

The question of education and literacy is not less important. According to the 1931 census, the number of people having the qualification of literacy (meaning ability to read a letter and write a reply) was 9.5 per cent. of the population. The census of 1941, with its classified meaning of the term " literacy " to provide for the record of partial literacy, viz., ability to read only, returned the figure of 12 per cent. as being literate in the partial sense. This state of affairs, if allowed to continue, will prove a real obstacle to the success not only of social insurance but also of any measure of social or economic reform. This problem also, therefore, requires to be dealt with immediately and in a thorough fashion. Of the general problem of education, adult literacy and education is a major and tougher part. The main emphasis in the beginning will have to be placed on the liquidation of illiteracy, while adult education in the full sense is being provided for those already literate. The comprehensive Sargent scheme brought out last year makes important recommendations in the field of education.

Miscellaneous

Other matters which also deserve attention and action are those relating to national minimum wage, legislation for matters like collection of statistics, holidays with pay, uniformity of labour legislation in the various provinces, etc. Mention may be made of the Industrial Statistics Act passed none too early in the year of grace 1942. The principal drawback of the Act is that it is permissive, that is to say, the decision to apply it to any particular province rests with the Government of that province. The Act has so far been brought into force only in the provinces of Bombay and Bengal. Such a state of affairs is unfortunate, when labour legislation in this country has already been suffering sorely from lack of uniformity in the various provinces.

The Beggar Problem

While thinking of social insurance and social security one cannot but be reminded of the beggar problem of the country.

Amongst beggars that infest the busy parts of most Indian towns and cities are to be found on the one hand victims of the most hideous diseases that might well be called the " rendezvous of flies " rather than human beings, and on the other, able bodied and healthy persons who flock into this degrading profession either through lack of employment or sheer inertia and absence of self-respect. Both these classes pose a problem. This problem has been well discussed in a recent issue of *The Eastern Economist*. " The one claims sympathy and mercy, and it is a matter of disgrace to any society that it should let its unfortunate members go uncared for. The other represents a waste of resources, and it is surely uneconomic for any society to allow part of its efficient human resources to waste its energies in pursuits that not only make no addition to the national wealth but also are morally degrading."

But howsoever important and worthy of very serious consideration these matters have been, so far no sustained and concentrated effort has been made on an all-India basis to tackle the beggar problem. Sporadic efforts have been made in some cities and towns born perhaps out of an intensification of the nuisance caused by these beggars ; Lucknow, Calcutta, Madras and Bombay afford a case in point. A more determined effort, however, seems to be contemplated by the Mysore State where a Bill in connection with this matter is under consideration now.* Prior to the enforcement of the Bill, the Mysore Government propose taking measures to establish relief centres in order to be able to prohibit beggary in the entire State simultaneously. In Delhi† also a scheme to establish a poor house is under the consideration of the Chief Commissioner. A sum of Rs. 8 lakhs for the purpose has already been promised and two areas have been demarcated for an infirmary, workhouse, lepers' home and a vegetable farm. In these, free board and lodging will be provided to those who are incapable of work ; but the able-bodied will be made to work and earn an honest living. The end to be achieved is to see the rehabilitation of the beggars, socially and economically.

But the problem is an all-India one and while Delhi's attempt

* Ibid. The same issue of the journal.

† Ibid.

to rehabilitate this degenerated mass of humanity is laudable, it is far more desirable that an Act is passed for the entire country to help the tackling of this problem on a uniform basis. It is also clear that the problem is truly an " interim " problem, existing only until a really ambitious national economic plan gets into stride and absorbs all our able-bodied man-power to further the country's wealth and happiness.*

The Real Problem : Our Poverty

Finally we have again to refer to the most basic and real problem and the greatest difficulty in the way of provision of social insurance and social security, namely, the poverty of the nation,†—a difficulty that threatens to be unsurmountable. This is in fact the central economic problem of our country and the explorers of solution for the many economic ills of the country inevitably arrive in the end at this point. This factor accounts to a considerable extent for the existing nature of our public expenditure, as brought out by the following figures‡:—

* Ibid.

† It is pertinent to note that Sir William Beveridge writes in his Report: " Want can be abolished after the war, unless the British people are and remain very much poorer than they were before, that is to say, unless they remain less productive than they and their fathers were."

‡ C. N. Vakil and M. H. Patel, *Finance under Provincial Autonomy*, (Bombay, 1940), p. 43. (It may be noted that in this table, " defence " includes " law and order ").

TABLE III

STATE EXPENDITURE FOR THE YEAR 1933-34

Country	Total expenditure in millions	Expenditure on defence in millions	Percentage of total expenditure	Per head expenditure on defence			Expenditure on social services in millions	Percentages of total expenditure	Per head expenditure on social services		
				Rs.	As.	Ps.			Rs.	As.	Ps.
U.K. (£)	778	107	13.8	30	12	6	201.8	25.9	57	15	10
France (Francs)	49,881	10,192	20.4	26	2	1	6620	13.3	16	14	11
Germany (Rur)	6189	749	12	7	5	4	1372	22.2	13	9	7
Australia (£)	64.7	22.6	34.9	45	1	0	11.3	17.5	22	8	6
Canada ($)	448.5	13.4	3	3	9	7	49.7	11.1	15	3	2
India (Rs.)	2053	442	21.5	1	10	1	17.5	8.5	0	10	5

The remarkable feature of India's expenditure borne out by this table is that the security services (law and order, defence) absorb revenues as high in proportion to her wealth, if not higher, as in the case of the Western nations. On the other hand her expenditure on social services lags far behind Western standards and in fact is non-existent in some direction (e.g., social insurance). It may be pointed out that this does not convey the whole picture, for in many countries large amounts are spent on social services by local bodies, and if we compare the expenditure of local bodies in this connection in our country, we find it to be hopelessly inadequate. For example, in 1933-34, the expenditure of local bodies in England amounted to Rs. 435 crores against Rs. 53 crores in India.*

The main reason for this state of affairs is obvious : the poverty of the nation and of the people. This fact is clearly borne out, when the above table is read together with the following figures :

TABLE IV

COMPARATIVE FIGURES OF ANNUAL PER CAPITA INCOME FOR 1931

	(in rupees)		(in rupees)
U. K. ...	980	Canada ...	1,038
France ...	621	India ...	65
Germany ...	603	U.S.A. ...	1,406
Australia ...	792	Japan ...	218

It is the enormous increase of national wealth and national income in Germany and Great Britain that has rendered the increase in State revenues possible in these countries. The huge expenses on " social services " point therefore to the tremendous enrichment of the British and the German peoples. This leads one to describe social insurance as almost a luxury, so to say, in which only rich nations can indulge. This is indeed a hard statement to make, but it nevertheless is largely true in actual practice.

* Ibid., p. 44.

Beveridge Plan for India ?

" Nothing short of a Beveridge Plan will solve the problem of social insecurity in India." This was the emphatic view expressed by the Indian Medical Association recently. This view is also shared by numerous other persons in this country. The recent press report that the Government of India have sent an invitation to Sir William Beveridge to visit India to formulate a scheme of social security for this country is also significant.

If we examine the conditions existing in this country, it soon becomes obvious that our country is in urgent need of a super-Beveridge Plan to provide real social security. The health of the masses particularly of industrial workers is as degenerated as could be ; the existing system of compensating industrial accidents is highly defective ; no provision exists for old age ; and unemployment also takes its toll heavily, particularly in the rural areas. So there can be no doubt that a comprehensive plan is urgently needed.

Essence of Social Insurance

However, the question is : can we have it in the *existing* economic conditions? Can we afford it *now*? To understand fully these questions and their implications, we must first see what social insurance really is. Social insurance is a system whereby the needy and helpless persons in the society are helped to protect themselves from certain contingencies. For this protection, they have to contribute a little in money, while some other parties in the society like the State and the employers bear part of the cost. So it is obvious that to be able to pay towards the cost of social insurance there must be a surplus of income for the insured, the State and the employers. Now, looking at it from another point of view, it is obvious that social insurance is in effect only a redistribution of part of national income in a particular way, since the State and the employers pay for something from which they do not receive any direct return or benefit, since part of their surplus is used for the benefit of some other persons. From this also it follows that the amount of good that social insurance can do depends upon the surplus of income available for redistribution. To be more precise, a country can have schemes of social insur-

ance, only if she has available such a surplus of national income.

Now in the case of our own country unfortunately, we find that our national income is extremely low. It is at a level that does not admit of even a bare living standard for the masses, not to speak of leaving any surplus for redistribution Of course, with the existence of inequalities of income even in these circumstances, a certain amount of redistribution can be effected ; but that is quite insignificant compared with the great magnitude of the actual requirement. This means that a beginning can be made towards the goal of achieving social security, but that it can only be a beginning and can progress no further, unless the root of the trouble is removed, unless the national income is increased. Thus it boils down to this that poverty, India's central problem, must be eliminated.

Therefore it is clear that our country has yet to achieve the economic development which alone can assure minimum social standards. A continuance of the present planless drift, with sporadic attempts at halting reforms, will not help. We must plan the reconstruction of our social and economic organisation and the development of our country's resources, the end in view being the raising of our national income to a maximum through a balanced economy. The fundamental objective of the plan must be to develop the national economy and to raise the economic, social and cultural level of the country. It must guarantee social and economic security to every one. The plan must aim at securing a general standard of living which would leave a reasonable margin over the minimum requirements of human life. The plan must be comprehensive, touching all the aspects of life, and must fix an irreducible national minimum for every person. One point that needs to be stressed is that finance must not prove the bottleneck of any plan, for the country's resources in men and material themselves constitute the factors required for economic development. Money is not the master of a country's economy, but its servant and instrument, as Germany and Russia have proved it. It is only when our country and our people become richer that we can afford comprehensive schemes of social insurance and allied services for ensuring social security. It is significant that this point was agreed upon during the discussions

broadcast by the B.B.C. sometime in 1944, in which Sir William Beveridge had participated. During these discussions, Sir William said, " when people ask, can Britain afford the Beveridge Scheme ? It's like asking if a housewife can afford to buy bread for her family before she buys a radio. Of course she can and should. There's a real question and the real question to ask is this : If the housewife does spend money on bread first, will she have enough money to buy enough bread ? That's a question of standard of living. Now, the answer to that question for England before the war, and I am sure it's going to be the same after the war, is that we have far more than enough to buy all the bread that is necessary, and have some cake as well. But I am not sure that it is so in India, where the level of productivity is less." So the more important question for our country is to become richer first.

However, in the meantime we must make a beginning in India by applying social insurance to sickness. From this point of view the Government of India's scheme, however limited in its scope, is welcome.

So far as the question of introducing a Beveridge (or a super-Beveridge) Plan for this country is concerned, the only conclusion that is inevitable under the circumstances is that the question of social insurance cannot be considered in isolation, but that it has to be part of the distribution aspect of a comprehensive programme of planning which is urgently needed for our country. A social insurance policy aiming to provide real social security can only be planned as part of a larger programme which includes measures for increasing the national dividend and sharing it more equitably, for improving nutrition and housing, for multiplying facilities for medical care, for widening opportunities of general and vocational education, and for promoting employment and maintaining it at a high level. Of course, it is outside the limits of the subject of this thesis to consider what sort of planning should be adopted ; however it seems necessary to emphasize that while planning on the production side, we must not neglect or postpone the distribution aspect of it.

Are not the following words of Hugh Dalton, though uttered in a different context, equally applicable in connection with condi-

tions in India ? " Today we are all like sleep-walkers, who walk near the sheer edge of a cliff. That edge may not be quite so near as some think. But it is not far off. We must wake soon, or crash. If we let slip the next few years, as we have let slip these last years, then, I fear, our feet may slip too, and we shall fall into horrors too complete and too hideous to imagine."

APPENDIX I

SOCIAL INSURANCE FOR SEAMEN

A SCHEME of social insurance for seamen has been under preparation for some time past. Seamen's occupation involves great risk to life, equalled perhaps only by mining. In most of the countries where social insurance has developed, seamen have almost always been the first to be covered, though often separately. With the end of the war in Europe and with the announcement of the coming discussion of the International Seafarers' Charter at the Labour Maritime session of the I.L.O. in January next, the subject of providing a scheme of social security for Indian seamen assumed importance once again. In India also when we have the beginnings of social insurance in contemplation, the seamen's problem, it is gratifying to note, has engaged the attention of the Government of India.

In the actual conditions of life and work, the Indian seamen, or *lascars* as they are called, are the worst off. The important problems which concern the welfare of seamen are those of methods of recruitment, conditions of life and work on board ship, conditions in ports during the period of waiting and protection against risks of sickness, unemployment and old age.

Under the Indian Merchant Shipping Act, every seaman has to sign articles before he is actually engaged.* The articles are of six months or a year. Thus every seaman employed is discharged at least once a year. Recruitment is through authorised agents who secure persons through serangs and butlers. This sytem of recruitment allows ample scope for bribery and corruption. Since the supply of serangs and butlers as also of the seamen exceeds the demand, bribery on an extensive and systematic scale has become its regular and normal feature. It seems only the esta-

* Dinkar Desai, *Maritime Labour in India* (Bombay, 1940), p. 29. This is almost the only comprehensive book dealing with the conditions of life and work of Indian seamen.

blishment of a public employment bureau in each port as contemplated by the Genoa Conference (1920) and as recommended by the Clow Committee (1921) (to be established a joint board by shipowners and seamen, or by the State) can solve the problem.

Allied closely with that of recruitment is the problem of their unemployment. According to official figures, those employed in 1935 were 59,000 and unemployed 1,13,000* ; in other words, nearly 66 per cent. of maritime labour in India were out of work. Non-official figures put unemployment at 75 per cent. Further, the duration of unemployment is also severely long, lasting for years together, often ranging between even four to eight years. One of the off-springs of unemployment has been severe and chronic indebtedness, made worse by exhorbitant rates of interest (ranging, for instance in Calcutta, from 75 to 150 per cent.).

On board ship the conditions are no better. Long hours of work are common, varying from twelve to eighteen and nineteen hours a day†, the I.L.O. Convention (1936) being an 8-hour day and 56-hour week at sea and a 48-hour week in port. The Indian seamen also do not enjoy any holidays with pay, that are so common in other countries. With regard to wages and other conditions of work, marked difference and distinction is to be seen among the Indian and the foreign seamen. According to present rates, a large number of categories of seamen receive wages of less than 20 and 30 rupees per month. And it must not be forgotten that a year of employment is often followed by a couple of years' unemployment. There is racial discrimination in the payment of wages, the wages of white seamen being much higher.

Conditions of accommodation, food, medical treatment, etc., on board ship are miserable. The accommodation minimum laid down by the Indian law is very inadequate and the law is silent or imperfect on many other points like lighting, ventilation, etc. Food on board ship for any maritime labour has always to be provided by employers. The minimum scale laid down for food, its quality and quantity are similarly defective in a number of aspects. The state of medical attendance and treatment tells the same sorry tale. Ships carrying less than 100 unberthed passengers

* Desai, op. cit., p. 40.

† Ibid., p. 67.

on board need not have on board a medical officer. The sick person has no separate accommodation, drugs, instruments and appliances are often antiquated and not in good working condition. On board ship it is always the shipowner that is responsible for the care of the sick and the injured, and as a general rule has to give full wages during sickness on board. Their housing conditions are far from satisfactory and have been neglected both by the shipowners and the State.

Not much has been done about the welfare work for seamen either. Recreation and other social activities sponsored by the Sailors' Home for Indian Seamen in Bombay are meagre, in contrast to the ample facilities provided by the Royal Bombay Seamen's Society, used by European seamen*. In Calcutta, the Seamen's Welfare Association caters to the needs of only the European seamen, though its constitution covers all classes of seamen and though the Asscication receives grants from the Governments of India and Bengal. Illiteracy prevails amongst seamen to a great extent, and the modest efforts so far made to remove it have not been successful. Medical facilities for seamen in ports are meagre, and no public hospital admits them as indoor patients for venereal disease which is common among seamen. The St. George Hospital admits only European seamen†. In Calcutta also there is discrimination on the basis of colour. The venereal clinic started by the Seamen's Welfare Association in 1937 gives outdoor treatment only.

The question of introducing social insurance for seamen came up for consideration first in 1920, when the International Labour Conference adopted a recommendation suggesting the establishment of an effective system of insurance against unemployment. In 1936, a convention was adopted by the Conference recommending adoption of a sickness insurance scheme. The Government of India, however, did not think it suitable to take action in both the cases. In respect of unemployment insurance, the Government of India tried to justify their decision by saying that most of the Indian seamen were also agriculturists and that in times of unemployment they revert to agriculture. This was in fact a gross distortion of facts, since the seamen take to the

* Ibid., p. 143. † Ibid., p. 156.

sea as a hereditary occupation handed down from father to son and have long severed their connection with the land. Even assuming the Government's view to be correct, it must be admitted that because of the extreme poverty in the village they are no better off there. As for sickness insurance, the Government considered its separate introduction for seamen alone inadvisable and looked upon their illiteracy as an obstacle in the way of compulsory insurance, though of course they never seriously tried to remove that obstacle.

So far as industrial accidents are concerned, the Workmen's Compensation Act, 1923, applied only to those seamen who were engaged on ships registered in India. Thus a vast majority of them, who are on ships registered outside India, are excluded while at sea. Of course, they are entitled to compensation under the British and other foreign legislation. However, it is extremely difficult for them (much more so for their dependants) to avail themselves of that protection. To some extent this difficulty has been overcome by an arrangement in which practically all the shipping companies employing Indian lascars have co-operated. The shipowners agree under a signed agreement to accept as arbitrators, the Commissioners under the Act, in case disputes arise about claims. The Royal Commission on Labour observes, " On the whole, this arrangement appears to have worked smoothly, but it cannot be regarded as entirely satisfactory. In the first place, it is apparently within the option of the shipowner to refuse to enter into the agreement. In the second place, according to our information the agreement does not give the dependants a legal claim, although employers have not taken advantage of this loophole."* The Commission recommended that (1) steps should be taken to ensure that the dependants are capable of enforcing the agreement, (2) that the Government should see that all shipowners engaging Indian seamen enter into the agreement, (3) that the principle of international law that, on a ship belonging to a particular country, the law applicable while on the high seas is the law of that country, should be modified by reciprocal arrangements between the countries concerned and (4) that the possibilities of giving Indian seamen the right to compensation while

* Quoted in Desai, op. cit., p. 178.

serving on ships registered in the U.K. should be further explored by the Government of India. No action has been taken on any of these recommendations.

Among the suggestions for improvement that Mr. Desai has made, the following are important : (1) Whenever a seaman is discharged in a foreign port, with the liability on the shipowner to repatriate him, his " employment " terminates at the moment of discharge. So accident during repatriation shuld be made specially compensable. (2) Similarly accidents arising in connection with rescue and salvage of human beings or goods should in all cases be compensable. (3) At present, in the case of seamen meeting with accidents in the course of their employment in a foreign port and undergoing treatment in hospitals abroad, compensation is only payable as from the date of the injured seaman's return to India, irrespective of the period he has been laid up abroad as a result of the accident. This provision should be removed and the injured seaman entitled to receive wages in whole or at least in part from the time he is landed until his return to a proper return post. The wages thus paid can be set off against the amount of compensation subsequently established in respect of the injury. In cases of seamen disappearing at sea, their dependants have to prove that the disappearance was due to an accident arising out of and in the course of employment. The burden of proof should be laid on the shipowner.

It is reported that Professor Adarkar has now drafted a special scheme of social insurance for Indian seamen. The scheme is not yet published, though some brief reports often appear in the press. It seems that the scheme is to cover sickness, employment injury, unemployment, old age and death.* The number of Indian seamen employed on ships is reported to be about 65,000, of which 85 per cent. are on non-Indian registered ships, and about three lakhs are available for intermittent employment who otherwise work on agricultural land or fishing craft. The scheme can be implemented either (1) by entering into a reciprocal agreement with the British Government, or (2) by unilateral action—the Government of India acting on its own on the basis of a separate and comprehensive legislation. The ad hoc Advisory Committee

* *Commerce*, 17th November 1945.

favoured the second method, while Adarkar is reported to have preferred the first.

The benefits under the scheme consist of medical care, maintenance and full wages or cash benefits equal to wages last earned, till a seaman is cured, dies or is put ashore. Those put ashore outside India will be granted similar benefits. Even after he is cured, the maintenance and cash benefits are to continue till he is either repatriated or offered suitable employment on board a ship bound for India. A seaman put ashore in British India is entitled to cash benefit of 60 per cent. of his last earned wages from the fourth day of his illness. A lump sum or an invalidity pension will be given for permanent disablement. After his 55th year he will be entitled to a pension at 50 per cent. of wages last earned, provided he gives up this occupation and has paid in the required number of contributions. Contributions will be paid, it is reported, according to the I.L.O. recommendation, viz., in cases where costs are now borne by the shipowner alone, the costs are to be shared half by the shipowner, one-quarter each by the seaman and the Government ; the costs of other benefits paid on the share will be shared equally between the shipowner, the seaman and the State.

In connection with the seamen's social insurance, the Government of India invited Dr. (Miss) Laura Bodmer, the I.L.O. expert on seamen's insurance. She made a tour of some important Indian ports such as Bombay and Calcutta. The scheme of social insurance for seamen, as finally prepared will naturally have been influenced by her recommendations.

We have already seen briefly the conditions of life and work of Indian seamen. They clearly indicate that the mere launching of a social insurance scheme is inadequate and will remove only the symptom, not the disease. To have a stable system of social insurance for them, we must remove the fundamental causes of their present condition. That means we must deal decisively with the problem of recruitment, unemployment, improvement of conditions of life and work on board ship and of housing in ports. Unless these problems are effectively and successfully tackled, the stable and economic working of a scheme of social insurance will be well-nigh impossible.

APPENDIX II

MONETARY BENEFITS UNDER SOCIAL SECURITY IN NEW ZEALAND

(The Social Security Act came into operation from 1st April, 1939)

CLASS OF BENEFIT	WEEKLY RATE AT		NUMBER OF BENEFICIARIES AT		TOTAL EXPENDITURE FOR 12 MONTHS ENDED	
	31-3-1936	1-7-1943	31-3-1936	31-3-1944	31-3-1936	31-3-1944
	s. *d.*	*s.* *d.*		*(estimated)*	£	£
Universal Superannuation...	No provision	6 10	—	48,000	—	820,000
Age Benefit	17 6	32 6				
Wife	—	10 6	43,309	101,000	1,718,601	8,100,000
Each Child	5*s.* for two or more children	10 6				
Widows' Benefit:						
Widow with one child ...	20 0	40 6				
Each further child ...	10 0	10 6	4,369	10,400	311,864	965,000
Widow without child ...	No provision	25 0				
Orphan's Benefit ...	„	15 9	—	410	—	22,000
Maori War	19 0	32 6	43	2	2,577	100

Miners' Benefit:					
Miner	25 0	32 6	851	800	67,834	80,000
Wife	10 0	10 6				
Each child	10 0	10 6				
Invalids' Benefit:						
Invalid	17 6 (Blind)	32 6	507	11,800	22,991	1,030,000
Wife	No provision	10 6				
Each child	,,	10 6				
Family Benefit	2s. for each child in excess of two	7 6 for each child	11,691	14,500	149,043	920,000
Unemployment Benefit ...	20 0	20 0	24,471	400	807,095	60,000
Wife	15 0	15 0				
Each child	4 0	10 6				
Sickness Benefit ...	No provision	20 0	—	3,800	—	420,000
Wife	,,	15 6				
Each child	,,	10 6				
Emergency Benefit ...	,,	Variable	—	1,950	—	130,000
		TOTALS ...	85,241	193,062	3,080,005	12,547,100

APPENDIX II—Continued

EXPENDITURE ON SOCIAL SERVICES IN NEW ZEALAND

Year ended 31st March	HEALTH	MENTAL HOSPITALS	EDUCATION	PENSIONS AND BENEFITS	Social Security Hospital and Medical Benefits	NAT. PROVIDENT	RELIEF OF UNEMPLOY-MENT	TOTALS
1938	1,231,880	544,000	4,613,013	6,312,530	—	123,718	4,990,642	17,815,783
1939	1,451,815	568,108	5,089,406	6,870,344	—	133,959	7,231,664	21,345,296
1940*	1,591,282	503,065	5,556,608	11,270,588	1,505,973	119,618	4,038,491	24,585,625
1941*	1,473,384	576,471	5,339,964	12,301,944	2,218,824	103,513	3,164,061	25,178,161
1942	2,013,730	536,127	5,217,635	12,737,492	2,827,400	100,845	1,492,114	24,925,443
1943	2,018,170	514,721	5,043,711	14,009,878	4,239,209	103,829	440,938	26,370,456

* From this year, the figures are under the new Act.

APPENDIX III

ACTUARIAL FORMULAE FOR THE CALCULATION OF CONTRIBUTION RATES

OF all the risks susceptible of actuarial calculations, some of the most important are those for sickness and pension insurance. The actuarial formulae involved in typical schemes of sickness insurance and pension insurance may be briefly stated here.

SICKNESS INSURANCE

The scheme considered below, for males, provides the following benefits :—

(1) Sickness benefit—both cash and medical.
(2) Dependants' allowances, to supplement the sickness benefit.
(3) Maternity allowance in lump sum for wives of insured men.

The scheme covers persons aged 16 to 65. For such a scheme, the rate of contribution is given by the following formula :—

$$C\frac{\sum_{0}^{48} D_{16+t+\frac{1}{2}}\,(K-S_{16+t})}{D_{16}}$$

$$= \frac{1}{D_{16}}\left[\lambda \sum_{0}^{48} D_{16+t+\frac{1}{2}}\left(S_{16+t}\left\{1+f_{16+t+\frac{1}{2}}+m_{16+t+\frac{1}{2}}\right\}\right)\right.$$

$$\left.+\mu \sum_{0}^{48} D_{16+t+\frac{1}{2}}\, i_{16+t+\frac{1}{2}}\right]$$

Where, C = Weekly rate of contribution.

S_{16+t} = Central rate of sickness in weeks at age $16+t$.

K = 52.8 the average number of weeks per year per worker for which contribution is not paid for reasons other than illness.

λ = Average weekly cash benefit during sickness.

$f_{16+t+\frac{1}{2}}$ = Weekly dependants' allowances per unit of the weekly cash benefit during illness of the insured man aged $16+t$ last birth date (l.b.d.)

$m_{16+t+\frac{1}{2}}$ = Average weekly cost of the medical benefit per unit of the weekly cash benefit during illness of the insured man age $16+t$ l.b.d.

μ = Lump sum maternity allowance.

$i_{16+t+\frac{1}{2}}$ = Issue rate to a man aged $16+t$ l.b.d.

It has, however, to be noted that this formula has left out of consideration points like qualifying period, continuation of medical and maternity benefits beyond age 65 and expenses of administration. The formula has to be suitably altered to provide for these factors.

Pension Insurance

The typical scheme considered below, for males, covers the risk of old age, and also provides survivors' pensions for widows, children and orphans. The pensionable age is taken to be 65. For such a scheme the rate of contribution is given by the following formula :—

$$C\frac{\sum_{0}^{48} D_{16+t+\frac{1}{2}}\,(K-S_{16+t})}{D_{16}}$$

$$= \frac{1}{D_{16}}\left[\lambda\,\bar{a}_{65}\,D_{65} + \sum_{0}^{48} v^{16+t+\frac{1}{2}}\,d_{16+t}\left(h_{16+t+\frac{1}{2}}\right.\right.$$

$$\left.\left.\lambda\bar{a}y_{(16+t+\frac{1}{2})} + C'_{16+t+\frac{1}{2}}\right)\right]$$

Where, C = Weekly rate of contribution.

S_{16+t} = Central rate of sickness in weeks at age $16+t$.

K = 52.18—the average number of weeks per year per worker for which contribution is not paid for reasons other than illness.

$y_{(16+t+\frac{1}{2})}$ = Average age of the wife of a husband aged $16+t$ l.b.d.

$A_{y_{(16+t+\frac{1}{2})}}$ = Capitalised value of the annuity for the widow allowing for two decrements, remarriage and mortality, and providing for the additional contingency of orphans' benefits on the death of the widow.

$H_{16+t+\frac{1}{2}}$ = Proportion of the married among the insured aged $16+t$ l.b.d.

λ = Annual amount of pensions for both males after age 65 and widows.

$C'_{16+t+\frac{1}{2}}$ = Capitalised value of children's allowances per insured man dying aged $16+t$ l.b.d.

APPENDIX IV

A NOTE ON THE STATEMENT ISSUED BY THE CALCUTTA CLAIMS BUREAU RE WORKMEN'S COMPENSATION ACT

AN attempt has been made in this statement to defend the present Workmen's Compensation Act. The arguments put forward in defence of the Act are inadequate, unconvincing and rather lacking in logic.

In support of a *separate* scheme for industrial accidents like the present Act, the reason pointed out is, funnily enough, merely that such a course of action is to be followed in Great Britain. That, it must be said, betrays complete lack of logic and reason. If a particular scheme of things is desired, its advantages and the opposite side's disadvantages must be stated in its support. The idea of separation is, they say, supported by " influential authorities ". Who they are is not stated—perhaps they are none else than the Government of the U.K.

The Royal Commission's remarks regarding the " successful and smooth " working of the Act, quoted in the statement, have already been seen to be misguided and groundless.

The successful operation of the Act referred to in the reports of the various Commissioners is obviously in regard to the *practical* working of the Act *as drafted*. The Commissioners as such were never expected to sit in judgment upon the Act *as a social measure* and they never did.

The statement further says, " The reason the cost to employers has been kept at a low level is because of the economic rates charged by insurers made possible by efficient methods of administration." This is a claim quite unsupported by facts. It should be remembered that rates under the workmen's compensation tariff were arbitrarily fixed at a very high level, as compared to those in England, owing perhaps to lack of statistics. Except

in the rates for mill workers where insurers had to face competition from the Millowners' Mutual, most of the rates were never revised in the light of experience gained nor was an attempt ever made to adjust them by experience. Large profits have thus been pocketed by insurers.

The statement then speaks of the "*successful and equitable* manner in which the Calcutta Claims Bureau has settled many thousands of cases *on behalf of its members*" (i.e., insurance companies). Here the question must be asked : equitable to whom, the workers or the insurance companies ?

All the other points raised in the statement are already dealt with. The only point on which the statement is correct is about the *comparatively* low cost of claiming compensation. The present writer is not concerned with the alleged "mischievous" nature of Adarkar's attack on the Act and with his not having made a "comprehensive study of the actual provisions of the Act". It is however felt that the present Act can be admired and its praise sung only by the insurance companies with one eye (or should we say, both eyes) on the large profits to be reaped.

POSTSCRIPT

THE Workmen's State Insurance Bill introduced in the Indian Legislature in November 1946 may be very briefly discussed here.* The Bill provides for compulsory state insurance against sickness, maternity and employment injury (industrial accident) covering workmen employed in factories other than seasonal factories. The scheme will be administered by the Workmen's State Insurance Corporation functioning through its Board which will actually work through its Standing Committee. The Board and the Committee will include representatives of all the parties concerned. Employers and workmen will contribute to the insurance fund. Workmen earning less than 10 annas a day are exempt from payment. Provincial Governments will bear the cost of medical care and treatment. Sickness Cash Benefit will be paid for a maximum of eight weeks in a year, the amount being equal approximately to half his average daily wages during previous six months. Maternity Benefit of 12 annas per day will be paid for a maximum of 12 weeks. Disablement and Dependants' Benefits will also be granted.

The Select Committee to which the Bill was referred in November 1947 submitted their report to the Legislature on 11th February 1948. A number of changes have been made in the Bill. To mention first the important few that have improved the Bill, the scope has been extended to cover all *employees* instead of merely *workmen*, so that the Bill is now called the *Employees' State Insurance Bill*. Provision is made for a grant by the Central Government to the Corporation towards two-thirds of the administrative expenses. The Board has been converted into Corporation. The exemption limit has been raised from 10 annas to one rupee. Provision has been made to extend the medical benefits to families of insured persons, if and when funds permit. The definition of "sickness" has been improved,—now it appears to include non-employment injuries also. Schedule I has also been improved by inclusion of additional wage groups.

* For details, see the author's *Notes and Comments on the Workmen's State Insurance Bill* (Bombay, 1947).

Some other changes made by the Select Committee, however, seem unnecessary. For instance, the definition of the word "factory" has been incorporated in the Bill, whereby the scheme loses the benefit of automatic extension of scope with the change of the definition under the Factories Act. The scheme of the original Bill in regard to the qualification for benefits based on the *previous* six-monthly contribution period has been unnecessarily changed to the basis of *corresponding* contribution period. The definition of "insured person" is not made quite clear, and the provision relating to medical benefits seems to have been made more restrictive and more unsatisfactory.

However, the main defect of the Bill that it is not "self-sufficient" in that it still relies on some provisions of the old Workmen's Compensation Act† still remains. Provision should also have been made for later inclusion at least of the Indian systems of medicine in the medical benefits scheme.‡ The power given to Government for exempting factories and persons, which appears unwarranted, has been retained. It also seems necessary for the sake of easier working of the scheme to calculate the average daily wages on the monthly basis rather than on the weekly basis.

† *Ibid.*, pp. 15-16.
‡ *Ibid.*, p. 23.

BACKGROUND

to

Social Insurance in India

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