

CAN INSURANCE HELP THE UNEMPLOYMENT  
SITUATION?

BY

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I was indeed delighted to receive the invitation of your Committee to speak on this subject, not only for sentimental reasons, because though having abandoned the casualty field to enter an entirely different line of business—if philanthropy be a business, I enjoy again meeting my old associates and seeing the remarkable development of this organization in whose creation I had taken an active part nearly fifteen years ago, but even more because of the nature of the request.

It was always my ambition to see this organization of highly trained experts become not only the center of technical information on insurance matters, but also be a force for extension of the insurance principle into greater social usefulness. Your question is not a selfish one: "Is there anything in unemployment insurance for casualty companies?" nor is it purely a technical one: "How to write insurance business?" You want to know whether insurance can help the employment situation, and the unemployment situation in its social aspects transcends the special interests of insurance companies. On this grave problem, I am indeed glad to speak both as a former insurance expert and as a social worker at present.

Can insurance help? One might suggest that before a group such as this, the question should not be asked except in an oratorical fashion. Is there any problem of economic hazard in which conceivably the insurance principle could not help? It is only necessary to quote the essential article of faith of Lloyd's, "You specify the hazard and we will quote the rate." It is the essential principle of insurance philosophy that whenever there is a risk whose incidents are uncertain and the hazard is great, there the principle properly applied can be of great social value. But it is not necessary to be theoretical only, to reason only from abstract principles, for unemployment insurance is no more a virgin field.

Before, however, we come to the discussion of the insurance aspects, let us pass over the employment situation in a very

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rapid review. There is unemployment in the land; no one who keeps his finger on the pulse of economic life, as actuaries and statisticians must, can possibly question that. It has been with us for some time. It has become particularly acute during the winter which has just passed. There has been some slight improvement during the past month or two but it is no more than the usual seasonal fluctuation which must not be exaggerated.

Conditions of employment are still very much below those of the corresponding months of the year before and the year before that. It is true that we have no accurate measurement of the extent of unemployment. We have never had it. We still lack facilities for making such measurements. With all the tremendous wealth of American statistics, we have failed to develop the necessary machinery for measuring an aspect of economic life which is of much greater importance than such facts properly recorded in our statistical publications as the number of sick hogs or the number of eggs laid and consumed.

Because of absence of continuous data, we are forced to make estimates and guesses and special investigations when the situation becomes critical, and data collected under such hysterical conditions are not likely to be satisfactory. Unemployment becomes a political issue, hysterical over-statements are matched by complacent denials of obvious things.

You will undoubtedly remember the estimate published by the United States Department of Labor when ordered to do so by a senate resolution. The number of unemployed was estimated at the time (March, 1928) by the Secretary of Labor at a little over one and three-quarter millions—1,870,050, and don't forget the 50 as an evidence of assumed accuracy. The estimate, when announced, resulted in a storm of protests. The department was charged with maliciously under-estimating the situation. Much of the discord, however, was largely due to a misunderstanding. Because of the method of computation, the Department of Labor did not really state that there were only 1,870,050 persons unemployed. It simply said that there were in 1928 so many people less employed than there had been in 1925. We can make the obvious correctives to this estimate. No sane man would assume that there was altogether no unemployment in 1925. Such a situation hardly ever exists or existed, except possibly during the feverish industrial activity of the war

period when everyone, who was at all employable and was not drafted into the army, had no difficulty in obtaining a job. 1925 was not the peak of American industry. It was below 1924. An estimate of one million people unemployed in 1925 does not appear excessive.

And then three years have elapsed between 1925 and 1928, that should be obvious, at least to statisticians. The population of this country is increasing by about one million and a half each year, and forty per cent. of the population is employed in gainful occupations, which means that the working population of the country increases each year by some 600,000, and that the potential working population in 1928 was about two million greater than in 1925. Twice a year, in February and June, colleges, high schools and even the public schools throw thousands and thousands of young men and women into the labor market. Normally, the employed population of the country should increase by at least one-half million each year. For three years another million and a half must be added. And so it is obvious that if Secretary Davis's estimate is fairly accurate, the actual total number of unemployed during the winter must have been somewhere between four and five million people—surely a serious enough situation.

I could stand here for hours and discuss the cause and speculation as to causes. It is an axiom of medical science that when many causes are advanced for the disease, a safe presumption is that the real cause remains unknown; even so in economics. For a century or two every prominent economist, from Adam Smith to Wesley Mitchell, and their total number is legion, has been speculating on the causes of financial crises and depressions. Every conceivable factor has been suggested—cosmic, climatic, mental and moral, sun spots, presidential elections, under-consumption and over-production, new machinery and absolute industrial organization, influenza epidemics and the flapper age—anything that social economic philosophers could lay their hands on.

To this most interesting, though hardly profitable discussion, Secretary Davis has made a most valuable contribution in explaining the present unemployment condition as due primarily to two factors—the Mississippi flood and the Florida hurricane. Whether the collapse of the Florida real estate boom is included in the hurricane, is uncertain. When industrial depressions

become a subject matter for political recriminations, for party charges and counter charges, it would seem to be safest to place the responsibility upon an act of God. Surely even the most dyed-in-the-wool Alabama Democrat could not hold the Republican party responsible either for the hurricanes or floods, though there may be some responsibility placed upon the Philadelphia real estate operators for the collapse of the Florida real estate boom.

Undoubtedly, discussion as to causes of crises and depressions in general and each particular economic depression will go on. They make interesting, if not always profitable speculation. There is a field for acute intellectual gymnastics, many doctors' dissertations have been written and will be written about it. One may hope, of course, that some day the real cause, if there be one real cause, will be discovered and isolated like the bug of influenza or of typhoid fever. There will be rejoicing and prophylactic inoculations will be made.

But in the meantime, economic crises of various degrees of intensity continue to occur and recur with almost sickening regularity. What we are going through now in 1928 is not so very much different, though perhaps not quite as intense as what we went through in 1921, in 1914 before that and also in 1907. I don't know why there was no economic depression in 1900—if there was none. Something may have slipped up in the machinery which regulates the destinies of the human race, but we do know that it did work only too well in 1893. There seems to be some dismal mystic power which awakens every seven years. One might have to go back to the dreams of Joseph for an explanation and the story of seven fat years followed by seven lean ones and perhaps learn from him the lesson of necessary preparation during the fat years for the lean ones—a lesson that seems to have been largely wasted upon the human race.

Be it as it may, here we are in the midst of this depression. Unemployment, inability to find work for people who are able-bodied and willing to work is not unknown even during the fatest years. There are hundreds of reasons for that, but presumably adjustments continually take place. A short period of temporary unemployment need not disrupt either the economic structure or the normal life of an individual in this, the richest country of the world in the richest period of its existence, but

when upon this individual unemployment is superimposed mass unemployment, the problem may become a grave one, the results serious and social harm distressing.

Can insurance help the unemployment situation? What particular aspects of the situation require help most? There are, of course, definite business aspects. There is shrinkage of production, of trade, of sales and of profit. There have been some bankruptcies, there even may have been some insurance losses. All that is unfortunate, of course, but is that the most important social aspect of the unemployment situation? Do manufacturers, merchant princes and bankers need our sympathy and our help? Of course, I am speaking at this moment as a social worker rather than a business executive, but let us for a moment forget our business affiliations and speak as American citizens, as average members of society.

As a matter of fact, even before approaching the entire problem from a humanitarian point of view, we might point out that the depression of 1928 in some respects is very much different from the earlier depressions, particularly those of 1893 and 1907. In fact, I hardly believe the annals of American economic history have ever presented the situation of serious mass unemployment at one end and of feverish extravagance, bull market, increased applications to relief agencies and creation of fortunes on the other; shortages in relief society budgets and increased saving bank deposits accompanied by increased sales, primarily in luxuries of life such as automobiles and jewelry. The present economic and social situation is, therefore, a complicated one but this is not a time to go into the analysis of this situation.

What we as social workers do know is that this period of unemployment, as all preceding periods, has resulted in a very great increase of human suffering as measured by application to social agencies for relief. It is, of course, possible to disregard it or not to see it, to remain in total ignorance of it. Broadway, Michigan Avenue and Market Street are busy; the motion picture industries prosper. One has to do a little exploration into the byways of American cities. The only difference between the professional social worker and the successful business man in this regard is that the social worker does not have to look for the antisocial effects of the unemployment situation. Those who suffer seek him out of their own volition.

Some thirty years ago, the famous social worker, Jacob Riis, startled the reading public by his book, "How the Other Half Lives." America has become very prosperous since. I would not want to exaggerate the problem unduly. It is not so much the question now of the other half as far as actual suffering resulting from unemployment is concerned, it is a question perhaps of one-tenth rather than one-half, but that tenth does suffer and even a tenth of the American population makes for goodly numbers. To those who are out of work and vainly searching for it, and out of funds and forced to go without the necessities of life and compelled to appeal to private and public relief agencies, there is little consolation, maybe on the contrary only additional irritation, in the fact that they are in the minority, that they are only ten per cent., that the majority still remains prosperous and happy, for suffering increases by contrast with ease and comfort and plenty.

So here is the important problem created by the unemployment situation. It is not so much a theoretical discussion of the true causes. Scientists may worry about that, and let us hope not altogether unproductively. One cannot, for instance, escape the conviction that to a large extent the difference in the picture of unemployment in 1928 and depression of 1907 is due to the operation of the Federal Reserve System. Other similar discoveries and inventions may help the situation in the future. Nevertheless, there remains the important problem.

It is not the question of profits and dividends and price levels on the stock and bond market. The important unemployment situation must be measured primarily in human not in business values, in the number of people out of work, in the number of homes knocked off at sheriff's sales, in the number of rents unpaid and children under-fed and men and woman breaking down from need, fear and worry. Is it not after all the greatest problem before the American people? We had enough experience as to that not only in this country, but throughout Europe. Mass unemployment always means under-nourishment, increase in disease, increase in crime and increase in mental disorders. Doesn't this situation require interference? Can we do something essential and constructive about it, can the insurance principle be applied?

Well, why not? Is not unemployment essentially a hazard?

It is a measurable hazard. We have had a long experience with it. Its extent fluctuates from day to day, from month to month, from year to year, from one cycle to another. No one who is working for a wage is absolutely guaranteed against it, even though some are necessarily more subject to it than others.

The great social problem is not that a certain number of people remain idle, though there is in idleness a social economic loss not to be disregarded; much more threatening, however, is the fact that remaining idle, so many of them also remain without means, so many of them must become paupers against their will. What objection can there be to a creation of a common fund out of which payments can be made to those who have fallen victims to this risk? It is the application of the same identical principle that has become so common, so necessary in facing the hazards of fire, of death or accident.

I know the objections which will be raised—that comparisons are dangerous, arguments that unemployment is a peculiar hazard, that it may be stimulated or self-induced, that it is difficult to verify or control, that it will stimulate malingering and fraud, so on and so forth, *ad infinitum*. Now these arguments which have been made for at least twenty years, might have had a certain convincing force, though similar arguments have been advanced against every form of insurance. There is arson in fire insurance, suicide and murder in life insurance, and as to burglary and theft policies on pearl necklaces, perhaps the less said the better. Many of those present will still remember similar discussions when compensation insurance was being legislated into existence. All that has been said before and yet the insurance business has been growing tremendously, not only for the benefit of the insurance companies and stockholders but for the benefit of the American people as a whole. Do we lack courage to try out unemployment insurance as we have tried compensation?

But do we have to try it, do we have to enter an uncharted field? Even if we had, the American people have not been afraid to be pioneers. After all, our very national origin must be found in pioneering. We have pioneered in industry, in building as in political organization. We are not afraid to scrap old machinery to try out the new. We do not hesitate to tear down a twenty story building if we believe that a fifty-story one would result

in a more attractive skyline. Has not all Europe admitted that it is this pioneering spirit more than any other factor which is responsible for our national wealth? Do they not all try to emulate us?

For some reason our pioneering spirit which was political one hundred years ago, has been largely technical, industrial and economic during the first quarter of the century. We were the experimental laboratory of new political ideas at the close of the eighteenth century, a laboratory of social experiment in the middle of the nineteenth century and now Europe humbly comes to learn from us the technique of new industrial development. Perhaps at any one particular time each country can only make one contribution to social progress.

But countries and nations all grow by learning from each other. We need be no pioneers today when searching for a better method of handling the problem of want and distress arising out of the irregularity of employment.

Seventeen years ago when Great Britain, staid, conservative, cautious Great Britain, launched upon a policy of compulsory unemployment insurance, the world looked askance. It did appear to be a rather unchartered sea. There were many difficulties in sight—how to determine the bare fact of unemployment, how to differentiate between voluntary and involuntary unemployment, how to avoid the great danger of encouraging unemployment by the promise of assistance. For that reason, Great Britain made the law limited in its scope and experimental in nature.

But after all, seventeen years of experience cannot be disregarded. Great Britain is not the only country with a comprehensive system of compulsory unemployment insurance. The post-war period has resulted in more social insurance legislation than had been adopted for thirty years before that. Germany, Austria, Italy, Poland and Russia have followed Great Britain's example. France is on its way. The Scandinavian countries have voluntary systems which are comprehensive in their nature. Practically all of Europe then has seen the practicability and desirability of unemployment insurance as a method of relieving distress arising out of unemployment.

Great Britain has vastly extended its experiment. It made it almost universal in its application to the wage working class.

Is it not about time that we in this country approached the matter with open minds? Our refusal to see the advantages is just as unreasonable as would be a refusal on the part of Europe to follow our industrial methods.

In its actual application, unemployment insurance has undoubtedly been successful in Europe. That does not mean that many serious problems were not met, that many serious difficulties did not have to be overcome. It is curious that we in this country have been more anxious to learn about these difficulties and point to them as horrible examples rather than to discuss calmly the tremendous advantages that have accrued to Europe.

Mention the subject to the average American business man and sometimes I am afraid even to the average American professor of economics and he will throw up his hands in horror, "The dole system, look what it has done to England." Well, supposing we do look. Immediately after the war, almost immediately after the extension of the unemployment system from two million to twelve million, unemployment was raised to a degree never known in the history of British industry. It is as if a conflagration were to confront an insurance company in the early years of its existence. With all that, the insurance company did not become bankrupt, the system did not break down. It has prevented an enormous amount of human suffering, it has preserved living and health standards of the British nation and if I must add this additional argument, it may have saved Great Britain from a social revolution not unlike the one which took place in Russia, for after all, it is sometimes quite useless to talk sober political theory to hungry stomachs.

It is true that the British unemployment insurance system did not accomplish these results without many difficulties, that it had to draw upon government credits without which a collapse might have been inevitable, but some of these credits have been paid off, others are being paid off and the very fact that these credits were possible is the strongest indication of the advantages the British system possesses. Remember that the hazard rose beyond all limits that could be expected or taken into account when the actuarial basis of the system was prepared. Remember that the benefits granted had to be extended far beyond the original promises. Nevertheless, the system still exists.

Why the "dole system?" Why has this derogatory adjective

been attached to the British system and served as a purpose for discredit in the eyes of the American public? Because, notwithstanding the great liberality, notwithstanding all the credits, it still was unable to meet the entire need arising out of the unemployment situation and, therefore, a system of direct relief had to be tacked on it—the so-called “Doles.” Supposing it be true that the system was only seventy-five per cent. insurance and twenty-five per cent. charity, in the absence of any insurance system in this country, our only way of meeting the distress is through a hundred per cent. dole system, whether it be through charity organization societies or family welfare societies, community chests, public relief departments, almshouses, etc. Obviously, the only other alternative, that of letting the underdog starve would not be quite accepted or should not be acceptable to a Christian nation. Even then the alternative of street begging and panhandling remains. Lest we forget, the same European observers who reported the wonders of American industrial development, also reported the inconsistency of panhandling on the streets of American cities.

Between the various alternatives presented then—utter neglect, individual relief, organized charity, outdoor poor relief or unemployment insurance, which one should the American nation prefer? When presented to a group of insurance actuaries, such a question may only be a rhetorical one.

Unemployment insurance is not a simple problem. It has numerous very complicated problems of actuarial science and insurance administration. Were I to go into this, many hours would be required for their exposition. No matter how complaisant your chairman, I do not want to disturb the entire session for the purpose. This much I can say, however, there is no actuarial problem that the members of this organization cannot be trusted to meet fairly satisfactorily. It is comparatively easy to shoot the whole actuarial basis of the British unemployment system full of holes, but they had the merit of courage, of willingness to try. We can profit by their experience. We can also profit by our better organization of actuarial forces. This may sound somewhat arrogant, but without undue modesty, I may state it as a definite fact that through the organization of the Casualty Actuarial Society—perhaps the greatest achievement to which I and my children on my behalf may lay credit to—we

have achieved in the correlated field of compensation insurance and casualty insurance a much higher degree of scientific development than Great Britain ever had. The fifteen volumes of the *Proceedings* of the Casualty Actuarial Society offer an indication of the fine scientific work the profession is capable of and I do not question that a similar excellent piece of work can and will be done by all of you in the field of unemployment insurance when the time comes. It will be done to make unemployment insurance safe and sound, perhaps also to make it profitable if profit should be necessary. It is unnecessary for me at this time to express any dogmatic opinion on the form of organization.

I want to finish with the hope that in consideration of the technical, actuarial and administrative problems of unemployment insurance, the members of the Casualty Actuarial Society in recognition of their professional obligations, will be duly mindful not only of the mechanical but also of the social aspects of unemployment insurance. If they do, they will have the satisfaction of knowing that not only have they developed a new line of business, but they have made possible a new and tremendously important step in social progress.