SOCIAL INSURANCE

WITH SPECIAL REFERENCE TO AMERICAN CONDITIONS

BY

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PREFACE

THIS study of Social Insurance grew out of a course of fifteen lectures given at the New York School of Philanthropy in the spring of 1912; but the material has been considerably extended, rewritten, and brought up to date. It is believed (though perhaps erroneously) that at the time the course was the first American University course to be devoted entirely to the subject of Social Insurance, though the subject has been treated recently in a general way in connection with courses on "Labor Problems" or "Social Reform." Since then courses under this specific title have been announced at several of the more important American universities, and the academic interest in these problems is rapidly growing side by side with the popular movements for accident compensation, widows' pensions, retirement annuities, state life insurance, and so on.

The neglect of this most important branch of social legislation by the American economists, which was very forcibly brought to my attention some ten or twelve years ago, when, as a student in Professor Seligman's seminar, I first became interested in the subject, is fortunately a thing of the past. In all the movements which I have just mentioned, many university professors of economics and social science are most active, and the list of doctoral dissertations in preparation in the various departments of Economics and Social Science, as recently published, for the first time shows many titles devoted to this fruitful field.

It is hoped that this work will be found useful not only to college professors and college students as a convenient introduction to further more profound studies, but that it may prove of interest to the public at large, whose opinions and wishes must in the final analysis influence all coming legislation.

In regard to one problem—that of accident compensation—a good deal of educational work has been done within recent years by the numerous state commissions, and by the still more

numerous writers who popularized the results of their work. But outside of this one branch of social insurance, the general level of popular information is still very low. Quite recently some demand has arisen in many states for the creation of governmental commissions for the investigation of the whole field, and in my opinion the demand is a justifiable one. But as yet even this demand is limited to social workers, or to those who know enough of social insurance to want to know more. To judge from the history of the compensation movement, a certain amount of educational and propaganda writing must precede the creation of commissions.

It is true that several books and official investigations on this subject have appeared within recent years. Not only has the very rapid advance of social insurance measures both in Europe and in the United States within the last three years made most of the publications obsolete to that extent but most of the literature has taken one of two forms: either detailed and painstaking presentation of facts (such as the voluminous Twenty-fourth Report of the United States Commissioner of Labor, extending over 3,000 pages), or popular arguments which try to make a case but fail to convey any substantial information as to methods in use or results already accomplished. It has been my object to steer a middle course, and to give within the compass of one book,—not too large for general use,—both the main facts as to the development of various forms of social insurance up to date, and also the social theories underlying it and the main problems arising out of the movement. Many inquiries from students, social workers, public men, and popular writers convinced me that this was the type of book most needed just at this time.

In addition, I may perhaps venture to claim for my effort some originality of treatment. The traditional way of presenting this subject, in privately published studies as well as in official investigations, in American as well as European books, is by geographic divisions. The laws and institutions of each country are separately treated. While this facilitates the handling of the available descriptive and statistical material, it forces upon the reader a great mass of uninteresting details, and fails to result in—what, from the point of view of the beginner, is the most important feature—a critical comparison of various institutions and methods.

A praiseworthy effort to break away from this stereotyped method of studying international movements, has already been made by Frankel and Dawson in *Workingmen's Insurance in Europe*. While the larger part of the book is still devoted to separate statements of conditions in individual countries, the most interesting chapters are those which handle general problems. In this study the treatment is entirely by topics instead of countries, and because of this method of treatment a great many questions seem to find a spontaneous answer.

It goes without saying that the book is primarily a summary, not an original investigation. The field is so tremendously large that there are hundreds of problems, investigation of which would require books of equal size. Nevertheless, it is not altogether a compilation of secondary material collected by others. Outside of a deep uninterrupted interest in the subject for over ten years, I was fortunate enough to have had the exceptional opportunity of devoting my entire time for three years to the preparation of the Report of the United States Commissioner of Labor, already referred to, on Workmen's Insurance and Compensation Systems in Europe. Of the eleven chapters of that report (devoted to eleven countries), all of the three chapters on Italy, Russia, and Spain, and about one-half of that on France were prepared by me; and those on Belgium and the three Scandinavian countries were prepared under my direction and editorial revision. While the remaining three chapters on the most important countries, Austria, Germany, and Great Britain, were prepared by my colleagues and good friends, Dr. H. J. Harris and Mr. L. D. Clark—the problems and materials of the entire report were so fully discussed by all the three co-workers, that each one may claim first-hand knowledge of them. I felt at liberty, therefore, to draw freely from the voluminous report, without repeatedly quoting the source, and without the fear of being accused of literary plagiarism.

This may also explain the paucity of references to original sources which were carefully studied and digested in connection with the preparation of the larger report.

The exacting student will perhaps object to this absence of footnotes and a bibliography. It was my intention to prepare such a bibliography, but it had to be given up for

considerations of both time and space. The literature on the subject, especially in foreign languages, is enormous, and in view of the rapid additions to existing legislation in all industrial countries, calling forth a good deal of argumentative, controversial, and explanatory writing, is growing at a tremendous rate. Under the circumstances a careful and fairly comprehensive bibliography would require a volume. On the other hand, small bibliographies may be obtained without any great difficulties. It seemed preferable, therefore, to give up the effort to prepare a bibliography, instead of which a very brief bibliographical note has been appended, where the most important sources for further study are briefly enumerated for the benefit of those who might desire to pursue the subject. In fact, I believe that in dealing with any large subject within the compass of one book, a bibliography of bibliographies is perhaps all that should be attempted.

And finally, while the book is admittedly a brief summary of things as they are, I felt no obligation to refrain from stating my own preferences in the premises. It is futile to try for absolute impartiality in dealing with matters of social policy. It cannot be achieved without paying the heavy price of colorlessness and dullness. On many problems connected with the subject of social insurance I plead guilty to very definite views. I would not miss the opportunity of doing this bit of propaganda, which I consider no less important than the effort to impart accurate information.

I am under great obligations to Professor Henry R. Seager and Professor Samuel McCune Lindsay for furnishing me the opportunity to deliver the course of lectures at the New York School of Philanthropy, without which stimulus I doubt whether I would have commanded sufficient energy to snatch from a busy New York existence the time necessary for the preparation of this work.

I. M. Rubinow.

New York City,
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CONTENTS

PART I

INTRODUCTORY

PART II

INSURANCE AGAINST INDUSTRIAL ACCIDENTS

PART III

INSURANCE AGAINST SICKNESS

PART IV

INSURANCE AGAINST OLD AGE, INVALIDITY, AND DEATH

PART V

INSURANCE AGAINST UNEMPLOYMENT

PART I

INTRODUCTORY

CHAPTER I

THE CONCEPT OF SOCIAL INSURANCE

INSURANCE, the *Encyclopedia Britannica* says, " is a provision made by a group of persons, each singly in danger of some loss, the incidence of which cannot be foreseen, that when such loss shall occur to any of them, it shall be distributed over the whole group."

All insurance, therefore, is essentially a social function. Why, then, this emphasis upon " social insurance " and what features are necessary to distinguish it from other forms? The historical origin of the term within rather recent times from the older one " workingmen's insurance," is sufficiently significant. It emphasizes the fact that social insurance is the policy of organized society to furnish that protection to one part of the population, which some other part may need less, or, if needing, is able to purchase voluntarily through private insurance. That originally only the wage-workers were considered entitled to the protection of this policy, and that within recent times the sphere of this policy in several European countries was extended to include other social classes, and " Arbeiterversicherung " thus became " Soziale Versicherung," is a matter of detail and not of principle. Moreover, it still remains true that Soziale Versicherung is primarily, even overwhelmingly, Arbeiterversicherung.

The term " social insurance " is as yet very little understood by the vast majority of English-speaking nations. The first necessary step, therefore, is not so much a technical definition, as a description, or rather circumscription of the term, and the distinction between social and ordinary commercial insurance may be best emphasized by first indicating the characteristics common to both.

All insurance is a substitution of social, co-operative provision for individual provision. Technically, this substitution of social effort for individual effort, is known as the theory of distribution of losses and the subsequent elimination of risk.

Highly technical as is the organization of this function of distribution in practice, its theory is singularly lucid and simple.

Perhaps it is best to illustrate this principle of distribution of loss from the practice of some form of property insurance, such as fire insurance. Let us assume that we all live in houses of uniform construction, in a uniform locality, and, therefore, equally subject to loss by fire. Of course, none of us thinks that his house is the next to go up in flames and smoke. Experience has shown that a certain number of such houses will be lost through fire year in, year out, the number varying from year to year, but averaging, say, about ten houses out of ten thousand each year. With a value of $10,000 for each house, or $100,000,000 for ten thousand houses, according to our assumption, the loss on all the houses will average about $100,000 per year, or $10 per house. It will cost, therefore, only $10 for each of us to be insured against the possibility of losing the entire value of the house by fire (not counting the expenses of administration of the insurance), and ordinary foresight will prefer the sure loss of $10 to a possible loss of $10,000, even if the chance is one in a thousand. As a matter of fact, whoever owns property is usually willing to pay a great deal more than his exact proportionate share of the common loss,—for in obtaining insurance he pays not only that share,—what in technical language of insurance is known as the pure premium,—but also enough to cover the cost of the conduct of the insurance business, and a fair profit to the insurance undertaking.

This elementary principle must necessarily underlie all existing forms of insurance. There is an individual advantage in substituting a small definite money loss for the possibility of a very large financial loss, there is an evident gain in the freedom from anxiety concerning the possibility of the larger loss, which is purchased for that price of the premium. It has sometimes been argued, however, that while there is the individual gain, socially insurance brings no such gain, for the amount of total loss is not decreased, and that inasmuch as in actual practice the cost of combined insurance is much higher than the actual loss, socially insurance represents a waste; furthermore, that inasmuch as insurance gives the much desired sense of security, it actually decreases the amount of per-

sonal watchfulness, and in the long analysis is a factor increasing the total loss from fire.

Admitting for argument's sake, both these factors, is the final result of an insurance system a loss or a gain to society? The question is readily answered by the simple fact that only the most careless, most shiftless landowner is willing to remain without insurance. But a deeper insight in the theory furnishes a ready corroboration of this practice. In dollars and cents, insurance must actually cost more than the total loss amounts to. But can human happiness or misery be measured so easily by the simple addition of dollars and cents? From a business point of view, the greatest advantage of insurance is in destroying the sense of personal insecurity and thus increasing the worth of individual wealth. Thus the value of a $10,000 house would be a good deal less than $10,000, if, for some reason, insurance companies would refuse to insure it. But from a broad social point of view, the advantages of a system of distribution of loss must be reckoned in an entirely different way. On one hand, the sudden destruction of property insured must cause a great deal of human suffering and distress. On the other, the payment of a small insurance premium may cause at most a small amount of discomfort, the effect of which in each individual case is hardly perceptible; and which, even if multiplied ten thousand times, still weighs very much less on the scale of human happiness than ten cases of actual distress. It is in this consideration that lies the true distinction between the purely financial and the social basis of the theory of distribution of loss.

What is true of fire insurance is equally true of other forms of property insurance with which the modern world is familiar. And just as evidently dangers to the person are equally pregnant of possibility of financial loss, and these may be guarded against by proper systems of insurance, of which life insurance is the most popular example. The distress that might follow the death or disability of the family's provider may be prevented by a payment of a corresponding premium, and in the United States at least, in the vast majority of the middle-class families, this premium is cheerfully paid.

Thus, the social advantages of distribution of loss are equally applicable to all forms of insurance, to commercial insurance as well as social insurance; and having learned the underlying

basis common to both, we are better prepared to study the essential differences, to define, as least in a general way, the proper domain of social insurance, and to justify the study of the latter, not at all as a branch of the insurance business, but as an essential part of social policy. For the property-owning classes the payment of the small insurance premium is at worst a matter of slight discomfort only, or perhaps not noticed at all; as a result this slight premium is cheerfully paid. It may have occurred to many of the readers, especially those who have some personal knowledge of the life of the vast army of wage-workers and people in similar economic conditions,—that to them the payment of an insurance premium, no matter how small, is not a matter of slight discomfort, but a very serious financial problem. The situation is evidently quite different as between insurance of property, when a certain very small loss guarantees the possession of a very large amount of property, and insurance of the continuity of earning capacity which may be the only possession of the individual. It will be readily admitted that our standard of wages does not in the majority of cases yield a continuous surplus. In fact, investigations of the earnings and expenditures of wage-workers in all countries have proven beyond doubt that an annual surplus is a very unusual phenomenon in the life of the working class; the earnings at best are only large enough to cover the current expenditures. Under such conditions, every expenditure is a matter of serious financial importance for a wage-worker's family, as the satisfaction of every new want may be obtained only at the sacrifice of another want, perhaps equally important and pressing.

In the workingman's psychology, therefore, insurance of any kind is never a matter of choice between a danger and a slight discomfort, when the arguments for insurance are so overwhelming that they can be trusted of themselves to produce the necessary results. Rather is it a selection between a possible deprivation in the future and a certain serious loss in the present which the payment of the premium requires. While this represents a serious difficulty on one hand, another still more serious is the large variety of economic risks to which the modern wage-earners are exposed, thus multiplying the number of insurance premiums which they would have to pay to obtain the full benefit of the advantages of loss distribution.

It is often stated as a truism that the measure of security of life is the measure of the progress of civilization. That might be true in a certain physical sense. Epidemics are less frequent. Wild animals have been destroyed and robber barons do not infest our highways. But, economically speaking, there has not been such increase in the security of obtaining means of livelihood as far as our working population is concerned.

Modern society is based upon a system of free labor. Under such system, the working ability of the wage-worker is his only means to support, and then only if it finds a ready market. Many wage-workers may have some property, but of capital, in the sense of revenue-bearing property, they have very little or none. The amount of property saved, if readily convertible into units of universal value—money (which is an exception rather than the rule), may influence the period of waiting time between stoppage of earning and actual distress; but in the vast majority of cases, interruption of the wage-worker's income soon leads to serious economical distress.

This leads up to the question—what are the usual causes of interruption of income in a wage-worker's family? A full discussion of these causes of poverty in a wage-earning community, may lead beyond the proper limits of the subject-matter of this study. But a brief statement of the situation is quite necessary at this point for the purpose of a logical presentation of the case for social insurance. There have been many classifications of the causes of poverty, but while they often differ in form and perhaps in distribution of the emphasis, substantially they all are in agreement. Poverty, in its narrowest definition, meaning the absence of the bare necessities of life, may be due either to the unwillingness or inability to perform remunerative labor. We may omit for the present the problem of the unwillingness to perform work, the problem of the hobo and tramp. Whether it is primarily a psychological, ethical, or sociological problem, whether it must be met by educational influences, or such social changes as will modify character through outside influences, is a question which may be answered in many different ways. But in any case it would require an exceedingly optimistic frame of mind to consider this psychological phenomenon of laziness the essential cause of misery and economic want.

In the vast majority of cases, the cause of absence of in-

come is the inability to perform remunerative work. This factor again may be further analyzed. It is the result usually of one of the following three conditions:

1. Absence of a worker in the family.
2. Physical inability to perform labor, either because of illness or accidental injury or chronic invalidity, or the physical deterioration accompanying old age; or,
3. Finally, inability to find employment because of lack of adjustment between demand and supply in the labor market.

Sickness, accidents, invalidity, premature or normal old age, premature death, and finally unemployment,—such are the economic risks which stare in the face each and every workingman. Their economic consequences are very much more serious in his case, than in the middle classes deriving their income from property, business, or profession, where the continuity of income is not so closely dependent upon continuity of effort.

Not only are the various risks more numerous and more serious, but they are also more frequent in the case of the workman. Clearly, then, the premiums to protect against such possible losses upon the now familiar theory of distribution of loss must be very much higher, while the source from which such premiums must be paid is very much more limited. Thus remaining upon the strict basis of actuarial (or insurance business) principles, the premium necessary to protect all these emergencies is so high that the working class as a whole are either unable or unwilling to meet it. A point is arrived at where the certainty of the economic cost of insurance overbalances the fear of the danger of possible loss, and insurance is not effected.

But why necessarily insurance? the question may arise. To assume that insurance is the only proper method of meeting these possible emergencies, when one discusses the problem in America, would be to beg the entire question. It is often argued that, inasmuch as all these emergencies are quite common and frequent, each individual family must take the necessary steps to be prepared for them through the instrumentality of savings.

No student of economics would deny the educational, character-building value of thrift, meaning elimination of waste

and respect for the proper value of property, which in the last analysis means respect for the results of human effort. But the assertion that, in the case of the wage-earning class, individual saving may solve the problem of poverty, necessarily presupposes the existence of a surplus in the budget of the average wage-earner's family. There was a time when that assertion could be glibly made for lack of accurate scientific material to contradict it. That time is fortunately gone. A series of able and painstaking investigations both of the actual and normal standards of living, has conclusively shown that, even in the United States, a very large proportion of the wage-earners have an income which is insufficient for the maintenance of a normal standard, and surely have no surplus. Under such conditions saving for all possible future emergencies must necessarily mean a very substantial reduction of a standard already sub-normal. In so far as there is a material waste in the wage-earner's expenditures, whether due to ignorance or extravagance, the necessary thing is evidently to direct the current of expenditures into more advantageous channels. As Mr. J. A. Hobson has succinctly stated, in reply to the assertion that wage-earners could save if they would spend less on drink or on other useless or injurious objects, " if such improvements in expenditures were made, other elements in a progressive standard of comfort have a prior claim which would easily absorb the savings."[1] But the fact remains—that excessive thrift may do positive harm in reducing the standard of life, not only below the desirable social standard, but even below the physiological standard. Under such conditions thrift may become a positive vice.

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, social provision through distribution of loss is necessary but costly, often much too costly.

If we have grasped the substance of these principles, we are prepared to draw the line between commercial and social insurance, and we understand the main purpose and functions of social insurance. Both forms of insurance are social institutions. But there is also a vast difference, easily explained

[1] *The Sociological Review*, Vol. I, 1908, p. 296.

by the differences in the economic status, and, therefore, in the psychological attitude towards the insurance of the two social groups concerned.

There is the comparatively small class of large and small property-owners, who are able not only to appreciate all the economic advantages of insurance, but to pay for them. The full cost of insurance, including the proper share of the distributed loss (or the so-called pure premium), and the cost of administration, solicitation, and the insurer's profit (or the so-called loading)—the cost of all these elements constitutes a premium, the burden of which is not excessive. It does not follow that society has no interest at all in regulating this form of insurance, but the importance of this regulation is not decisive and does not concern us here.

But there is the very much larger class of wage-earners or persons in similar economic conditions, whose need of insurance is very much greater, because the hazards are many and grave, but who nevertheless are unable to meet the true cost of insurance conducted as a business. To provide them with such insurance or some equivalent form of protection has become the concern of the modern progressive state, and this is properly the field of social insurance. There are many different ways, or perhaps more accurately, different degrees of assistance, which society or the state can furnish, and they may be all considered as efforts to reduce the amount of premium or cost of insurance and to extend its application. Thus the state may begin by simply providing a safe insurance organization, devoid of the elements of profit. This alone reduces the premium, for profits are a necessary element of the premium of commercial insurance. It may take the next step and assume part or the entire cost of administration of the insurance institutions, and thus further reduce the cost, for this cost is a very important fact in " loading " or increasing the premium. It may take still one more step and directly subsidize insurance, thus assuming a part of the true cost, or it may impose such assumption of cost upon other elements of society, such as the employing class, or it may further assume or shift the entire cost of the premium, thus virtually granting an insurance without payment of premium by the insured, as is the case with the insurance against accidents in most countries and with old-age pensions in some. And it may finally counteract

the unwillingness of the working class to pay even a small subsidized premium by making insurance compulsory. All this the modern state may and does do to develop social insurance, to furnish protection to those who need and are unable to purchase it in the open market.

Of course, every one of the steps enumerated is a step away from the true scientific principles of business insurance, which is based upon distribution of loss among all those subject to the possibility of loss. And, of course, from the point of view of actuarial science, all these steps are subject to severe criticism. But social insurance might almost be defined as a form of insurance which cannot live up to the exacting laws of insurance science. Then again it may and has been decried as rank paternalism, and this indictment must be readily admitted. For social insurance, when properly developed, is nothing if not a well-defined effort of the organized state to come to the assistance of the wage-earner and furnish him something he individually is quite unable to obtain for himself. One who is at all familiar with the attitude of American economic and social thought of all but very recent times, toward such active state interference on behalf of the wage-working class, will readily see what a vast variety of objections and criticisms it must raise. The reader will be much better prepared to meet these criticisms or admit them, to form his own conclusions concerning the merits and demerits of social insurance, after a detailed study of the various branches of social insurance, and must avoid the temptation to grapple with them at this time.

In this brief exposition of the general aims of the movement known as " social insurance," the needs of the working class were primarily emphasized. Undoubtedly it is the wage-working class which has mostly felt the new economic dangers of the social system based upon purchase of labor, the insecurity of means of existence, and the pressure of the cost of living upon the earnings. But poverty is not altogether limited to this class. The lower middle class has felt the same conditions quite acutely, both because there is a constant influx from the middle class to the wage-working class, and because its own means of existence are often insecure. Thus the very large and rapidly growing group of salaried employees, and even the groups of small independent artisans, small property-

owners, a very large proportion of the farmers, and even the small employers of labor are not at all free from the dangers of discontinuance of income and consequent poverty or even pauperism. Thus modern social insurance has gradually taken in many of these economic groups. And in so far the term social insurance is rather more extensive than the more modest and limited term "workmen's insurance."

On the other hand, in some respects workmen's insurance is more extensive even than social insurance. For there are many forms of insurance of workmen which are not the result of state activity, or of a definite social policy, but commercial or private, and though these forms are undoubtedly more primitive and less effective, their study is very important both for comparative purposes, and in order to understand the growth of the social policy of insurance. In the following chapters, therefore, the subject will be considered in its widest scope, so as to include the most comprehensive definitions of both social insurance and workmen's insurance. Especially will it be necessary in treating of conditions in the United States, which has many significant beginnings of workman's insurance, though social insurance as a result of a definite social policy is as yet scarcely known.

CHAPTER II

DEVELOPMENT OF SOCIAL INSURANCE IN EUROPE

It is quite customary, especially among popular writers on the subject, to credit the brilliant mind of the Iron Chancellor of the German Empire, Bismarck, with the origin of the whole magnificent structure of social insurance; and in a certain superficial, matter-of-fact sort of way, some arguments may be brought forward in support of this view. But even a hasty study of the earlier efforts at social and workingmen's insurance in Germany and France and other countries shows how very little historical insight such a view conveys. There is no doubt that the modern conception of social insurance—as a system carrying with it compulsion, state subsidies, and strict state supervision and control—has reached its highest development in modern Germany, so that any system embodying, to any large degree, all these three elements, may be described as the German system. But even preceding the German bills of 1881 and acts of 1883 and 1884, numerous acts were passed by many German, as well as many other European states, which embodied some or all of the three leading principles of this German system. No one human brain was ever big enough to create out of itself a social institution of such tremendous import. Modern historical science has long ceased to seek the explanation of growth of any social institution in the secrets of the workings of any one individual mind. It may be admitted that it was Bismarck who contributed to the history of Social Insurance the first application of State Compulsion on a large national scale. But he did not "invent" the principle of workmen's insurance, nor that of state insurance, nor that of compulsion. In the decade prior to the introduction of the compulsory insurance system, there existed in Germany a multitude of organizations, part of them very old and part new, some compulsory, some voluntary, some local, some national, some mutual and based on other plans; some of them were connected with especial establishments, such as special mines, rail-

ways, etc., some were connected with trade unions; many of them were connected with guilds. In other words, there were already existing all the elements out of which, with the unifying power of a large state, the system of national compulsory insurance could easily be built.

It would require very painstaking scientific investigation to determine the origin of the idea of workman's or social insurance, for the beginnings may be traced to the hoary antiquity of the twelfth century. Manifestly, this historical phase of the subject, important as it is from an academic point of view, can hardly be touched upon here.

But it may be pointed out that these origins are to be found almost simultaneously with the origin of the wage-working class, or even preceding it, with the union of medieval artisans; that they are to be found in efforts at mutual aid, which, after all, is only an ethical expression of the great insurance principle of distribution of loss. Out of these early efforts arose the many well-organized sick-benefit societies, which Bismarck found ready to include in his state insurance scheme, for the danger of sickness was felt by the workmen long before the technical development of industry made the danger of industrial accidents a serious one.

In such industries which were inherently dangerous, as in mining and shipping, relief in case of accident early became a function of these benefit societies, and many laws in Germany, as well as in other countries, were enacted which tended to shift part of this burden upon the employer or industry. Again in such industries where the exhausting nature of the work made premature old age (or invalidity) a common feature, old-age benefits were frequently assumed—as, for instance, in many miners' brotherhoods or funds. And on the other hand, during the seventies of the last century, several of the German states evolved out of their system of poor relief, primitive systems of compulsory insurance against sickness.

In short, the working class showed in many ways its appreciation of the necessity for organized relief, and its willingness to contribute to it, while the state was making the first steps in the direction of participating in such relief. In a large measure the same conditions obtained in other industrial countries of Europe as well.

For the reasons why Germany was the first to undertake social insurance as a broad national program, one must look to the entire history of Germany during the nineteenth century. As was pointed out by John Graham Brooks in his profound study of the German system, at least three separate reasons may be given to explain the fast development in Germany, three reasons closely connected. One was that on the continent, Germany, during the second half of the nineteenth century, was the country of the greatest industrial growth; the second was the German conception of the state as developed by German philosophers like Fichte, who wrote a hundred years ago, and the German economists like Wagner and Schaeffle, who never fell under the influence of the *laissez-faire* policy of the classical English economists: and last but not least, there was the rapid development of the labor movement under Socialist banners of various shadings. Dr. Schaeffle, the state socialist, elaborated a program of social insurance as early as 1867. Lassalle openly advocated that the state come to the assistance of the working class. The great Karl Marx had no patience with the negative attitude of French socialists and anarchists to the state.

The direct history of social insurance, as it is understood, begins at about 1878, when the preliminary steps preparatory to the introduction of bills into the Reichstag were taken. Sickness and accidents were the two problems with which it was decided to deal at the beginning, and of these two the problem of accidents was considered as the more pressing, because sickness was, to a great extent, provided for by private voluntary institutions. In January, 1881, the first accident insurance bill was introduced but failed of passage.

The famous message of the Emperor to the Reichstag reconvened on November 17, 1881, announced that accident and sickness insurance bills would be introduced, but that other problems such as that of old age and invalidity would also be considered later. It was for considerations of minor importance that the sickness bill became a law first, in 1883, and the accident bill in the following year. The era of real state social insurance had come into existence.

A chronology of social insurance acts in Europe would show how rapid was the spread of the principle in parts or in its entirety to other countries. But what a bare chronology

could not disclose is the opposition that was created in other countries to the German thought. At the first international congress for the consideration of the problem of industrial accidents which was held in Paris in 1889, that is five or six years after the German system was established, the predominating tone was that of opposition to the German idea. And yet this congress, which soon acquired permanent organization and has met since every two or three years, eventually became one of the strongest factors in support not only of accident, but also all other forms of social insurance; and a study of the voluminous proceedings of the nine or ten congresses held, gives one almost a kinematographic picture of the gradual change of the collective European mind on the subject, until at present, practically since the Rome Congress of 1908, there is almost a unanimous consensus of opinion, not only in favor of the most extensive development of all these forms, but also along the German type of state compulsion and control.

There have been many different efforts at a logical classification of the various branches of social insurance. One of the most recent, and perhaps the most comprehensive, is that given by Professor Alfred Manes,[1] and is based upon the economic nature of the emergency provided for, rather than the physical or physiological cause of the disability.

Social insurance—and this is in the widest sense of the word, including even optional insurance—has to serve as protection for the following cases of exigency:

1. When there is temporary impairment of the capacity for work, and, with this, of the earning power, whether this comes about through causes relating to the individual (subjective causes) or through material conditions, namely:
   - (*a*) Through sickness (sickness insurance).
   - (*b*) Through accident (accident insurance).
   - (*c*) Through child-bearing and what follows it (maternity insurance).
   - (*d*) Through poor conditions of the labor market (unemployment insurance).
2. When there is permanent impairment of this working and earning power, which may have its causes:
   - (*a*) In the after effects of sickness or accidents (invalidity insurance).

[1] "The Boundaries Between Private and Social Insurance," *The Market World and Chronicle*, May 25th, 1912. (Translated from *Zeitschrift für die Gesammte Versicherungswissenschaft.*)

(*b*) In advanced age (old-age insurance).

This permanent incapacity for earning may be either partial or total.

3. When there is complete destruction of the personality—that is, when death comes, in so far as there is by reason of death a financial loss suffered:

(*a*) As a result of the expenditures for the burial (burial money insurance).

(*b*) For the surviving (widow's insurance).

(*c*) For the surviving children (insurance of orphans).

Comprehensive as is this classification, it illustrates well the difficulty of all classifications. Not only are important forms of insurable financial loss omitted (such as, for instance, the loss sustained, in case of death, by the dependents other than widow and children, namely by parents or brothers and sisters), but branches of insurance closely connected in actual life are here found separated. For many historical reasons, the organizational basis of insurance has been rather that of cause than of condition, though this basis has not been carried out very consistently. Thus the essential subdivision of social insurance has been mainly into the following branches: Insurance against—

1. Industrial accidents.
2. Sickness.
3. Old age and Invalidity } combined.
4.
5. Insurance of widows and orphans.
6. Unemployment insurance.

Several newer forms of insurance are not mentioned in this briefer classification, because they are usually (though not always) combined with one of the standard branches. Thus, non-industrial accidents, which the workingman may suffer in the same degree as other classes of society, are usually handled by the organization of sickness insurance, though there is now at least one example of special provision for this emergency under the Swiss law of 1911. Industrial diseases, which bear an equally close relation to the problems of accidents and of diseases, are treated in most countries with the latter, but in some with the former, and the tendency to bring them into closer connection with accident insurance is quite pronounced at present. Invalidity and death, when due to in-

dustrial accidents, are taken care of in a different way than when resulting from ordinary disease. Maternity insurance is, for purposes of administrative convenience, usually treated as a part of the problem of sickness, though one country—Italy—presents an interesting exception. Funeral insurance is universally treated in all social insurance systems with either accident or sickness insurance, according to its causation.

The reasons for these combinations and variations will be discussed in the respective chapters. But the analysis given above will convey at the very beginning the necessary general idea of the comprehensive nature of the social insurance movement.

The greatest results were achieved in the domain of accident provision. The principles of industrial accident insurance are somewhat different from other branches of social insurance. With very few minor exceptions, all countries agree that the entire cost of compensation for industrial accidents must fall upon the employer. The financial responsibility for losses occasioned by industrial accidents is, therefore, transferred from the wage-workers to the employers, and this transfer—known as the compensation principle—is the essential feature of accident insurance. The method of organization of insurance, therefore, becomes a matter of secondary importance, as far as the workingmen are concerned. It is a problem primarily for the employer. Compulsory accident insurance means compulsion of the employer and not of the employee. In a good many countries, therefore, so-called accident compensation laws instead of accident insurance laws were adopted. But in one of the two forms most industrial countries following the German example have within the thirty years adopted laws providing for wage-workers injured in the course of their employment, until early in 1910 the United States remained the only country of industrial importance without such legislation. The order in which the various countries have fallen in line is as follows:

First Decade (1880-1890): Germany, 1884; Austria, 1887.

Second Decade (1891-1900): Hungary, 1891; Norway, 1894; Finland, 1895; Great Britain, 1897; Denmark, 1898; Italy, 1898; France, 1898; Spain, 1900; New Zealand, 1900; South Australia, 1900.

Third Decade (1901-1910): Netherlands, 1901; Greece,

1901; Sweden, 1901; West Australia, 1902; Luxemburg, 1902; British Columbia, 1902; Russia, 1903; Belgium, 1903; Cape of Good Hope, 1905; Queensland, 1905; Nuevo Leon (Mexico), 1906; Transvaal, 1907; Alberta, 1908; Bulgaria, 1908; Newfoundland, 1908; United States (for federal employees only), 1908; Quebec, 1909; Servia, 1910; Nova Scotia, 1910; Manitoba, 1910.

Fourth Decade (1911—): Switzerland, 1911; Peru, 1911; Roumania, 1912; about twenty-five states of the American Union, 1911-1913.

In many of these countries, perhaps in all even, the influence of the German experience was particularly strong, as Germany was the only country with a system in well-working order when the earlier of these laws were passed. And in later years, while one country after another was falling into line, Germany not only remained the country with the longest experience as the pioneer in the movement, but with characteristic German thoroughness, it soon was best equipped with the necessary statistical material for a scientific discussion of the problem. The effect of German example is also seen in the order in which the other countries followed.

And yet when summed up in just that way, quite an erroneous impression may be conveyed, as if it were nothing but the German influence that created the world movement. A close investigation of the history of these enactments does more justice to these countries. In France, for instance, the subject was agitated continually since 1880, and as early as 1888 an accident compensation law passed one house of the Parliament, but it took ten more years before the law was enacted. Similarly in Italy, where the law passed in the same year as in France, it was preceded by twenty years of almost continuous agitation; the first bills having been introduced in the Chamber of Deputies in 1879. In Sweden, where the law was not enacted until 1901, a compensation bill to that effect was introduced as early as 1884. In Norway, where compulsory accident insurance was effected in 1894, obligations to furnish certain relief in case of accidents were placed upon the employer in 1881. In highly industrialized Belgium, which, because of a decidedly reactionary political atmosphere, was very late in joining the international movement (1905), bills were introduced as early as 1890. Even in Imperial Russia,

the problem was discussed as early as 1881, and an official bill was presented to the higher authorities in 1893.

And thus the story runs throughout industrial Europe. For the problem of accident compensation was bound to arise in each and every country almost simultaneously with the introduction of a highly capitalized industry. In each and every country there was a long waiting period, which was a period of obstinate struggle between the various elements variously affected by the proposal to transfer the burden of industrial accidents from employee to employer. And in all countries the growing labor movement, often assisted by radical reform movements, soon was drawn into the controversy. In each country industry pleaded special national reasons which made the proposal inequitable if not impossible. It introduces quite a humorous element into the study of its history to trace in all countries the same arguments in favor as well as against the proposal.

In most countries the original acts were soon followed by later enactments amending the law. In these amendments the evolution of European thought may be traced. There was very little of practical experience to go by when the earlier bills were passed, and many changes in administrative details were necessary. Again, most countries, not even excluding Germany, undertook this step in the field of social legislation with a good deal of fear, as a dangerous experiment, and tried to limit it to certain portions of the industrial population. Therefore subsequent acts were necessary to extend the application of the law to a wider and wider field. Thus the industrial (manufacturing) population was the first to benefit because of the greater urgency of the need, and agricultural, commercial, and other employees were included later. But in no country (except Switzerland) was there ever a step backward. And even there it was eventually rectified.

In the domain of sickness insurance the history of victories achieved is perhaps a somewhat more modest one. Not that the problem of sickness is any less acute than that of industrial accidents. But perhaps the very generality of the risk of sickness has created a great many relief institutions among the wage-earners, and, therefore, made a state interference seem to be less imperative. As yet the German example of a state-wide, universal, and compulsory system of sickness insurance

has been followed by few countries. Austria in 1888 and Hungary in 1891 were the earliest to fall into line. In the other countries the force of the movement for social legislation centralized itself upon the accident problem. Sickness was not entirely neglected, but there was stronger objection to any compulsory system, as compulsion in this case would include the workmen. The hope for the possibility of voluntary insurance was given, and is still being given, a much longer trial in this field of sickness relief. Of course, here too the modern progressive state did not remain altogether inert. From an attitude of utter neglect and even antagonism towards workmen's sick-benefit associations, most of the states gradually went over to that of encouragement and control, and then took the next step to financial assistance of these voluntary organizations from the state treasury, as do now France, Denmark, Sweden, Belgium, Switzerland, and others. But it is quite significant that another twenty years' experimentation with regulation, encouragement, and subsidy has convinced even the most obstinate opponents of compulsion that without it the problem of sickness in a workman's family cannot be solved. Norway in 1909 introduced a compulsory sick-insurance system, as did little Servia in 1910; and Lloyd George's great English National Insurance System of 1911 presents the latest important achievement of the compulsory principle. In Italy the introduction of a similar scheme has been considered for a long time and its final success is assured by the fact that in 1911 Italy—the first of all European countries—introduced a centralized national compulsory system of insurance of wage-earning women in case of maternity. Even in Russia a governmental proposal of a complete sick-insurance system has passed the Duma during the past year and become law. In other words, having more or less satisfactorily settled the problem of accidents, Europe is now devoting its energy and attention to the kindred subject of sick-insurance.

In a similar status the equally important problem of old-age provision may be said to be at present. When the first proposals for social insurance were carried through the German Parliament in the early eighties, it was announced that the question of old-age provision constitutes an essential part of the new social policy. But even in Germany another five years elapsed before the old-age pension law passed. The technical

aspects of any old-age insurance are so complex that time was needed for the preparation of the necessary data. Besides, each one of the three systems imposed new burdens upon the employers and naturally the latter resisted it violently and had to be broken in gradually, as it were.

Here perhaps still more than in the field of sick-insurance the opposition to compulsion was strong. It was argued that old age was not an emergency as are accidents and sickness, but a perfectly natural stage of development; that there was sufficient time for each individual to make the necessary provisions for that stage. Much eloquence was spent in describing the glorious results of saving habits, and a good deal of hope was placed in savings institutions and similar methods of encouraging thrift.

And yet what was the inexorable trend of events? Educational influences proved insufficient. Material assistance was then resorted to. France and Belgium since the early fifties experimented with national institutions for voluntary old-age insurance, and so long as the assistance was limited to providing a safe place and assuming the administrative costs, the undertaking was a perfect failure. More direct and substantial subsidies were next tried. In 1895 France first began to grant such subsidies. When Italy, in 1898, organized its National Voluntary Old-Age Insurance Institution, substantial subsidies were from the first made a part of the system, and in that country such subsidies were advocated for about twenty years previous to the final adoption of the law. In Belgium after forty years of unsubsidized insurance, subsidies were granted in a small way from 1891, and later the policy of subsidies was broadened out by the special act of 1900. Spain, trailing behind the more progressive countries, has within recent years (1908) started its new National Old-Age Insurance with a similar subsidy plan.

But in vain were all such hopes of voluntary, even if subsidized insurance, and the progressive world has recently come flatly to recognize its insufficiency. This was no mere theoretical conclusion. For almost each and every country had evidences of the advantage of the compulsory method in its own midst. In industries where the hazard was great, where the strenuous work made premature old age a matter of common occurence, and finally where the permanency of

service made for a closer permanent relationship between industry and labor, compulsory old-age pension insurance had long developed. Thus in navigation, mining, and railroading, three branches of industry possessing all the characteristics above mentioned, well-organized old-age pension funds had existed in many countries long before any universal system of old-age insurance was established. In almost all of them the principle of supplementary contributions from employers, and in some of them also that of state subsidies, the two essential principles of modern social old-age insurance, had already been applied, and thus an object lesson given of the advantages of such a system.

Simultaneously, however, with this movement for subsidized old-age insurance, a movement of a somewhat different nature grew up, which had its most important manifestation in the British old-age pension act of 1908. The truth is, that the movement for old-age insurance proceeded from several different directions. One moving force was the necessity of meeting the problem of superannuation in modern industry—and that led up to private pension funds, and old-age insurance with compulsory contributions from employers. But there was another tremendous moving force in the desire to improve the conditions of poor relief in these countries, where such relief for the aged was admitted as a right. Denmark was the pioneer in this development of national old-age pensions with its laws of 1891, " providing old-age support for the worthy poor aside from poor relief," and there were many good reasons why Great Britain selected this path rather than that of compulsory old-age insurance, when it finally passed a measure in 1908. Quite naturally the same preference for straight old-age pensions is found in the Australasian Colonies, which, in point of accomplishment, actually got ahead of Great Britain by some eight years. But a very curious combination of both forms of old-age provision may be found in France, where in 1905, or three years earlier than in England, an old-age pension law for worthy poor was passed, and nevertheless was five years later followed by a compulsory old-age insurance system, which exists side by side with the older one.

While, theoretically at least, the proper measures for meeting the economic problems of accident, disease, and old age, have

been discovered and to a great extent applied, the situation is very complex in one branch of social insurance, which, as the most learned theorists of social insurance admit, is the pivotal point by which the entire structure of social insurance is to be judged—and that is unemployment insurance. For many years the problem of unemployment insurance baffled the best efforts, and was by many considered insolvable. Not only the vastness of the problem, but also the difficulty of differentiating between voluntary and involuntary unemployment, the very great danger of simulation, and finally the very close connection of the question of unemployment with the entire matter of the struggle between the employer and labor, and the grave problems raised by state intervention in the struggle—all this made the possibility of state insurance of unemployment a very doubtful one. Many experiments failed. Others, while successful, were altogether insignificant in the extent of their application. But in 1900, in a very small way, the Belgian city of Ghent began the experiment of subsidizing labor unions in this work. The experiment was watched very carefully, and very soon was admitted to be a very effective way of meeting the problem, if the problem is ever to be met. The experiment was, therefore, soon tried in other countries; in Italy by the large Milan foundation for social welfare in 1905. In Germany a number of cities in 1907, and many more since 1909, have developed this plan. In France, Norway, and Denmark, the very interesting, and from the ordinary American point of view almost incredible, situation is found of the Central Government subsidizing labor unions or other organizations of wage-workers in their function of paying unemployment benefits and a similar measure is earnestly agitated for in Italy. And finally, Great Britain, towards the close of 1911, passed its compulsory unemployment insurance system, the first national system in this field, covering nearly two and a half million workmen. It may finally be said that a theoretical answer to the question "Is unemployment insurance possible?" has been given, and the answer is in the affirmative.

With accident, sickness, old age, and unemployment, the list of the existing social insurance institutions practically closes. But in the future another branch, as yet very little spoken of, is bound to achieve a good deal of prominence. This is

the insurance of widows and orphans, or ordinary life insurance.

It may seem peculiar that while this form of insurance, providing financial relief in case of death from ordinary causes, is the most popular form of private insurance, it is least taken care of by any existing system of social insurance, though for obvious reasons the necessity for it is greatest among the wage-earning class. The reason for this seemingly inexplainable exception is found not in the lack of need, but of the ways and means. Ordinary life insurance is of necessity costly. It is cheaper for younger age groups, when the risk of death is small, but then the need of it is not very great. With increasing age the cost, on actuarial principles, rises with the need. In so far as efforts have been made to provide the wage-earner with life insurance, they have only succeeded in proving the frightfully high cost, and one is justified in doubting whether the advantages of our entire system of so-called industrial life insurance justify the cost.

But it becomes quite evident that the structure of social insurance is not complete until at least the widows and orphans are taken care of by the system. For here appears again the central principle upon which social insurance is based—the inability of the wage-earning class to meet the cost of insurance based upon ordinary commercial principles.

Already the first steps in the right direction have been made in a few isolated instances. What was true of old-age and invalidity insurance is also true of widows' and orphans' insurance. The more compact and better paid groups of wage-earners in navigation, mining, and railroads, are already provided with such form of insurance in many countries. We already find such pension systems in the mining industry of Austria, Belgium, France, Germany, and Great Britain; in the railroad industry of Belgium, France, Germany, Russia, and Spain; in the navigation industry of France, Germany, and others.

Outside of these definite wage groups several states have made an effort to meet the need by providing cheap voluntary insurance. Such efforts either in connection with the Postal Savings Bank System, or old-age insurance institutions, have been made in England, in France, in Italy, and even in Russia. But needless to say they have been invariably complete

failures. France was the pioneer in this problem, by providing for a small death benefit continuing only for six months, as a part of its new old-age insurance system. But Germany was again the first to provide a comprehensive widows' and orphans' pension system for its entire wage-earning population, through the new insurance act of 1911, revising all its existing social insurance legislation. Thus a new path has been opened for other civilized countries to follow. Finally, the United States, within the last two or three years, by the somewhat sudden development of the mothers' pension movement, has indicated at least the possibility of a different solution of the same problem.

This, very briefly, has been the rapid development of the complex body of legislation towards social insurance in Europe. Enough has been said to indicate, in the very beginning of our study, that the movement towards social insurance is not a local or temporary movement. From the frozen shores of Norway down to the sunny clime of Italy, from the furthest East and up to Spain, all Europe, whether Germanic, Saxon, Latin, or Slav, follows the same path. Some countries have made greater advance than others, but none have remained outside of the procession, unless it be a few of the more insignificant principalities of the Balkan peninsula. The movement for social insurance is one of the most important world movements of our times. From a historical point of view, this brief account alone is, therefore, a sufficient argument for its extension to our country. However, no country has joined the procession out of the unreasoning desire for imitation. And before the American people will be ready to follow, it will know a great deal more of the positive results for social good which the system of social insurance has accomplished than it knows now. But an intelligent appreciation of these results can only be had after a more or less thorough study of the various laws, systems, and institutions included under the comprehensive title of social insurance, for only then may the results achieved be weighed in the light of the many important limitations upon the systems existing.

Meanwhile it will be well for the reader to remember that:

1. Accident compensation or accident insurance has been established practically throughout Europe and in many British colonies.

2. Compulsory sickness insurance has been introduced in about one-half of the large countries of Europe, namely, Germany, Austria, Hungary, Norway, Great Britain, Servia, and Russia, and voluntary subsidized sickness insurance in France, Belgium, Denmark, Sweden, and Switzerland.

3. Compulsory old-age insurance exists in Germany, Luxemburg, and France, and old-age pensions in Denmark, Iceland, Great Britain, France, Australia, and New Zealand, and voluntary subsidized state systems of old-age insurance in Italy, Belgium, Servia, and Spain.

4. Unemployment insurance by means of subsidies to workingmen's voluntary organizations is rapidly spreading in large European cities, exists by national law in Norway and Denmark, and the first compulsory unemployment insurance system has been established in Great Britain; and

5. The first beginnings of a national system of widows' and orphans' pensions have been made in Germany.

The order of reform has apparently been in inverse proportion to liberty. and indicates the democracies of Norway (the normal disintegration)

CHAPTER III

THE NEED OF SOCIAL INSURANCE IN THE UNITED STATES

Is there any urgent need for a policy of social insurance in the United States? To some the question may appear trite. The economic development of America proceeds along lines very much similar to those of the development in Europe, and as a result the same problems arise and the same remedies suggest themselves. Modern development of industry is not limited by national boundaries. The relation between capital and labor, the growth of the labor movement, the growth of socialism—all these phenomena proceed in all industrial countries, perhaps at different rates of speed, but otherwise with comparatively little difference between one country and another. The preceding chapter has shown, it is hoped quite conclusively, that social insurance is not a specific feature of economic development of any one country, but of all industrial countries. For some students, therefore, the answer to the query we have put is quite self-evident.

But it would be futile to assume that this attitude is one generally held in the United States. Indeed, the opinion is still held by a large majority among American economists, business men, and even wage-workers, that the conditions in the United States are essentially different, so as to make the organization of social insurance institutions both superfluous and impossible. This view is not based, and could not be based, upon the consideration that the physical dangers against which social insurance aims to grant protection, do not exist, or exist to a smaller extent in the United States. Indeed, it is unfortunately but too true that there are more accidents, more sickness, more premature old age and invalidity, and more unemployment in the United States than in most European countries. But the objection to a policy of social insur-

ance in the United States is based primarily upon the plausible arguments that the economic condition of the working class is such as to enable it to meet the financial dangers without systematic assistance or state interference, and that the degree of active interference of the state with the personal freedom of both employer and employee, and with the relations of capital and labor which a social insurance policy presupposes, is contrary to the spirit of American life and government. The basis of these arguments must, therefore, be carefully considered.

It would scarcely seem necessary to marshal much statistical evidence in support of the thesis, that the American people is rapidly becoming a wage-working people, though, unfortunately, there is no reliable way to measure the velocity of this process accurately. The American decennial censuses, which publish such enormous volumes of statistical information, have never undertaken to furnish a reply to the question: What proportion of the productive population are wage-workers, what employers of labor, what independent producers? The latest census, of 1910, has included this question in its schedule, and some very important results may be expected, but these will probably not be forthcoming for some years. In absence of official information, the very ingenious statistician, Dr. I. A. Hourwich of the United States Census office, has undertaken to elaborate a plausible estimate on the basis of available material.[1] While his methods are extremely conservative, he arrives, for 1900, at the following conclusions. The class of industrial wage-earners "has increased from 27.4 of all persons gainfully employed in 1870, to 34.8% in 1900." But in addition there are other large wage-earning classes, and in 1900 they were approximately as follows:

		Per cent.
Farm Laborers (not members of the family)	2,093,033	7.1
Salaried Employees	1,189,079	3.9
Selling Force	622,295	2.1
Domestic Service	1,458,010	5.0
Industrial Wage-earners	9,977,118	34.1
	15,339,535	52.2

[1] *Journal of Political Economy*, 1911, p. 205.

Thus, a majority of the 29,000,000 gainfully employed, were broadly, wage-earners. Considering the further development of a decade of industrial growth, and the extreme conservatism of Dr. Hourwich's computations, it is a far assumption that in 1910 some two-thirds of the population were earning wages or moderate salaries, about one-fifth were independent farmers, and the three classes of employers, independent producers, and strictly professional people combined, did not exceed one-seventh of the entire productive population.

What of it? the man in the street may flippantly ask. Are not the American wages the highest in the world? Isn't the necessity for keeping up this American standard of wages and of life for the wage-workers recognized in our entire protective policy? Do not millions of European immigrants arrive at our shores annually to take advantage of this very standard of American wages? No one will deny a certain amount of truth in this contention. Only a certain amount, however. It is quite true that the American level of wages is higher than that for most European countries, and this, especially from the point of view of the recent immigrant from a rural European community, while he is willing to keep up his European standard of life, or is willing to stand the greatest privations in order to permit accumulation, is sufficient argument for immigration.

But, obviously, the American standard of wages must be considered and judged in conjunction with the American cost of living and American standard of life.

In his book, *Organized Labor,* John Mitchell draws an ideal picture of what the American standard of living ought to be. The picture drawn is not a description of the ordinary standard of life as actually found in the majority of cases, but it is the standard as it exists for some wage-workers, which a workingman quite naturally aspires to, and which few will consider an exaggerated one. A sort of a practical ideal, it might be called. What is it?

"The American standard of living should mean, to the ordinary unskilled workman with an average family, a comfortable house of at least six rooms. It should mean a bathroom, good sanitary plumbing, a parlor, dining room, kitchen, and sufficient sleeping room that decency may be preserved and a reasonable degree of comfort maintained. The American standard of living should mean

to the unskilled workman carpets, pictures, books, and furniture with which to make home bright, comfortable, and attractive for himself and his family, an ample supply of clothing suitable for winter and summer, and above all a sufficient quantity of good, wholesome, nourishing food at all times of the year. The American standard of living, moreover, should mean to the unskilled workman that his children be kept in school until they have attained to the age of sixteen at least, and that he be enabled to lay by sufficient to maintain himself and his family in times of illness, or at the close of his industrial life, when age and weakness render further work impossible, and to make provision for his family against his premature death from accident or otherwise."

For such a standard John Mitchell thought at least $600 necessary for an average family. But this estimate, quite lacking in statistical evidence, was made some ten years ago, and referred to semi-rural communities. As a result of more careful study, a Special Committee on Standard of Living of the New York State Conference of Charities and Corrections, reporting in November, 1907, made the following statements, emphasized by italics:

"It requires no citation of elaborate statistics to bring convincing proof that $600 to $700 is wholly inadequate to maintain a proper standard of living, and no self-respecting family should be asked or expected to live on such an income.[2]

"The Committee believes that with an income of between $700 and $800 a family can barely support itself, provided that it is subject to no extraordinary expenditures by reason of sickness, death, or other untoward circumstances. Such a family can live without charitable assistance through exceptional management and in the absence of emergencies,"[3] and finally:

"The Committee is of the opinion that it is fairly conservative in its estimate that $825 is sufficient for the average family of five individuals, comprising the father, mother, and three children under fourteen years of age, to maintain a fairly proper standard of living in the Borough of Manhattan."

It may be argued that these exceptionally high estimates are applicable only to the high cost of living in the City of New York. But the Committee meets this criticism in the following significant statement:

"The extent to which this amount would be changed in the other boroughs of Greater New York would be measured largely by the item

[2] *The Standard of Living Among Workingmen's Families in New York City*, by R. C. Chapin, p. 278.
[3] *Ibid.*, p. 279.

of rent, and not by the other items in the budget. The item may vary from $15 to $30 per annum in the borough of Brooklyn, probably a similar amount in the Borough of Bronx."

And as outside the level of house rents the standard of prices is not higher, and in many instances lower in New York than in many other cities, the normal standards indicated are on the whole applicable to all cities of some size throughout the United States.

On the basis of a more thorough and critical study of the data collected for this Committee, Professor Robert Coit Chapin concludes:[4]

"An income of $900 or over probably permits the maintenance of a normal standard, at least as far as the physical man is concerned. Families having from $900 to $1,000 a year are able, in general, to get food enough to keep body and soul together, and clothing and shelter enough to meet the most urgent demands of decency."

In weighing the significance of these conclusions it must be remembered that they are based upon the price level of 1907, when the information for the investigation was gathered, since which time the prices have continued to rise; and the recent investigation of the U. S. Bureau of Labor has shown that, taking the average level of prices between 1890 and 1899 as 100, the level of retail prices of food in 1907 was 128, and by the middle of 1912 150; an increase of 22% in five years.

This being the case, how large a proportion of the American working class could boast of such income? In reply to this question it is only necessary to quote the conclusions arrived at by Professor Scott Nearing as a result of his short but painstaking and very important investigation of all available American sources of wage statistics.[5]

"It is fair to say that the adult male wage-workers in the industries of that section of the United States lying east of the Rockies and north of the Mason and Dixon Line, receive a total average annual wage of about $600; that this falls to $500 in some of the industries employing the largest number of persons, but rises to $700, or even to $750, in a few highly skilled industries. That the average annual earnings of adult females in the same area

[4] *Ibid.*, p. 246.
[5] *Wages in the United States*, 1908-1910, by Scott Nearing.

is about $350, with a very slight range, in the industries employing large numbers of adult females." [6]

"On the other hand, a study of classified wage statistics shows that half of the adult males working in the industrial sections of the United States, receive less than $600 per year; three-quarters are paid less than $750 annually; and less than one-tenth earn $1,000 a year. Half of the women fall below $400 a year, while nearly nine-tenths receive less than $750. These figures are not accurate, however, since they are all gross figures, including unemployment. They should be reduced by, perhaps 20%, varying with the year, the location, and the industry. Making, therefore, a reduction of one-fifth, it appears that half of the adult males of the United States are earning less than $500 a year; that three-quarters of them are earning less than $600 annually; that nine-tenths are receiving less than $800 a year; while less than 10% receive more than that figure. A corresponding computation of the wages of women shows that a fifth earn less than $200 annually; that three-fifths are receiving less than $325; that nine-tenths are earning less than $500 a year; while only one-twentieth are paid more than $600 a year.

"Here, then, in brief is an answer to the vital question—What are wages? For the available sources of statistics, and by inference for neighboring localities, the annual earnings (unemployment of 20% deducted) of adult males and females east of the Rockies and north of the Mason and Dixon Line, are distributed over the wage scale thus:—

Annual earnings	Adult males	Adult females
Under $200	——	1/5
" 325	1/10	3/5
" 500	1/2	9/10
" 600	3/4	19/20
" 800	9/10	——

"Three-quarters of the adult males and nineteen-twentieths of the adult females actually earn less than $600 per year."

The conclusions of Professor Nearing, expressed as they are in unemotional figures and percentages, produce a violent shock to the satisfaction and complacency of the man in the street. He will be loath to admit the fact that three-quarters of the male workers and 95% of the female workers earn less than two-thirds of the amount necessary for physical efficiency and decent existence. He will insist that a large proportion of American workmen's families do, of his own certain knowledge, live in a condition of a normal standard. What he forgets is, that this standard can in the majority of cases be achieved only in one way, by the presence of more than one

[6] *Ibid.*, p. 208.

worker in the family. Of the 416 families whose budget was studied by Professor Chapin, only 149, or less than half, were able to get along with the father's earnings alone. Of 167 families with incomes of $800 to $1,000 only 63, or 37%, were depending upon the earnings of the father alone.

In the more extensive but less detailed investigation of 25,440 families by the U. S. Bureau of Labor, while the average income per family was $749.50, the average earnings of the father were only $621.12, and for the "normal" families with only the father at work the average income was $659.68.

It is true that the presence of two or more workers in the family materially improves its economic status. But it is usually forgotten that such a condition must be exceptional, and for every family temporary. An additional worker may be found in the wife or in the children, but the necessity for the wage-worker's wife who is a mother, to look for additional income, is, of itself, a symptom of economic distress. It is pregnant of serious influences upon the hygienic and moral standard of family life. That the revenue obtained from the work of the children is temporary only, needs no proof. And with increased stringency of child-labor laws, and the growing recognition of the necessity of industrial education, it must come later in the history of the family, and last a shorter time. Evidently a theory of the economic status of the worker's family, of the necessary standard, of the probability of a surplus, and the possibility of savings, must be based upon the earnings of the head of the family exclusively.

One loophole remains for the optimism of the man in the street. While the wages may be small, maybe too small, they show a tendency to increase, so that there seems to be an automatic corrective of the serious problems described. Thus Professor Thomas C. Adams states quite positively:

> "Statistical data prove with substantial certainty that the wage-earner has made a marked and reasonably steady advance since the settlement of America. The year 1866 ushered in a new epoch during which it is no exaggeration to say, the American workingman advanced in a manner unprecedented in this country." [7]

Professor Adams bases this conclusion upon a comparison of wage statistics derived from these different sources, and which,

[7] *Labor Problems*, by T. C. Adams and Helen Sumner, p. 503.

he himself is forced to admit, are far from being strictly comparable. The result obtained is encouraging. The relative standard of true wages as measured by its purchasing power has risen, Professor Adams thinks, from 47.9 in 1866, to 104.5 in 1900, or more than doubled.

These conclusions, and the statistical data upon which they are based, have been given a good deal of confidence and wide publicity in recent American economic literature.

Unfortunately more careful inspection of these figures as quoted shows clearly that this optimistic conclusion is altogether unwarranted, that if there was such an increase it took place primarily during the earlier portion of the epoch under consideration. Here are the figures:

FLUCTUATION OF STANDARD OF TRUE WAGES IN THE UNITED STATES
(WAGES IN 1890—100.0)

1866	47.9	1885	98.2
1870	60.7	1890	100.0
1875	72.5	1895	102.0
1880	82.8	1900	104.5

If the data were dependable, as they are assumed to be by many writers, it would follow that within the first decade 1866-1875, the wages have increased over 50%; in 1875-1885 from 72.5 to 98.2, or 35%; and in 1885-1900 only 6.4%, so that it would require a good deal of optimism to grow enthusiastic over the present tendency towards a higher wage level.

All these optimistic deductions are based upon the flimsiest statistical evidence imaginable. Professor Adams has brought together three statistical sources: for 1866-1869 unweighted averages in twenty-one industries from the thoroughly discredited Aldrich Report on Wholesale Prices and Transportation; for 1870-1879 statistics of only twenty-five occupations in twelve cities, as published by the U. S. Department of Labor,[8] and so little trusted by the statisticians of that Department (now Bureau) that they are never used in the official publications for comparison with later data; and finally, the much

[8] Bulletin of the U. S. Department of Labor, No. 18; September, 1898; pp. 665-93.

more accurate and trustworthy data of the Bureau of Labor for 1890-1900.

How thoroughly misleading these comparisons are, is easily seen when it is pointed out that the greatest increase in wages is noticeable only when the jump is made from one statistical source into the other. Thus, according to the first source, the comparative wage in 1869 is shown by Professor Adams to be 52.7. But for 1870, i.e., only one year later, the wage is shown to be 68.7 (from a different source, of course). How many students would be willing to admit an increase of 30% in the average wage level in one year? In 1883, the wages, according to Professor Adams, were 85.9; in 1884, 90%, and in 1885, 98.2%. An increase of 14% in two years! Again, when the jump is made for the second set of figures in the third, the wage level increases suddenly from 94.8 in 1889, to 100.0 in 1890, an increase of 5.5% in one year. And only 6% within the last fifteen years!

It is still more difficult to accept this optimistic reasoning after a very careful examination of the more scientific evidence available. The statements of the increase of wages are usually based at present upon the results of the annual investigations of the U. S. Bureau of Labor as to changes in the retail prices and wages and hours of labor. These investigations embrace the period since 1890 until 1912, but, unfortunately, for the last five years only the retail prices and the fluctuations in wages are available, though a continuation of the data as to wages and hours of labor is promised for the near future. Thus the information available covers a sufficiently long period of time for the study of present-day tendencies. For, after all, a comparison of the true wages of fifty years ago and of to-day, though of great scientific interest, is of very little importance in the discussion of the problems of the day.

An enormous literature, especially of the optimistic, spread-eagle variety, has grown around these figures. They have always furnished valuable material for the sort of economic reasoning which is popularized by the Republican Campaign Text-books of Presidential and Congressional elections. Most readers have probably seen these statistical figures; nevertheless, in order to preserve the continuity of the argument, it will be best to present them here.

RELATIVE HOURS PER WEEK, WAGES PER HOUR, FULL TIME WEEKLY EARNINGS PER EMPLOYEE, RETAIL PRICES OF FOOD, AND PURCHASING POWER OF HOURLY WAGES AND OF FULL TIME WEEKLY EARNINGS PER EMPLOYEE, MEASURED BY RETAIL PRICES OF FOOD, 1890 TO 1907

Year	Hours per week	Wages per hour	Full time weekly earnings per employee	Retail prices of food	Purchasing power measured by retail prices of food of: Hourly wages	Purchasing power measured by retail prices of food of: Full time weekly earnings
1890....	100.7	100.3	101.0	102.4	97.9	98.6
1891....	100.5	100.3	100.8	103.8	96.6	97.1
1892....	100.5	100.8	101.3	101.9	98.9	99.4
1893....	100.3	100.9	101.2	104.4	96.6	96.9
1894....	99.8	97.9	97.7	99.7	98.2	98.0
1895....	100.1	98.3	98.4	97.8	100.5	100.6
1896....	99.8	99.7	99.5	95.5	104.4	104.2
1897....	99.6	99.6	99.2	96.3	103.4	103.0
1898....	99.7	100.2	99.9	98.7	101.5	101.2
1899....	99.2	102.0	101.2	99.5	102.5	101.7
1900....	98.7	105.5	104.1	101.1	104.4	103.0
1901....	98.1	108.0	105.9	105.2	102.7	100.7
1902....	97.3	112.2	109.2	110.9	101.2	98.5
1903....	96.9	116.3	112.3	110.3	105.4	101.8
1904....	95.9	117.0	112.2	111.7	104.7	100.4
1905....	95.9	118.9	114.0	112.4	105.8	101.4
1906....	95.4	124.2	118.5	115.7	107.3	102.4
1907....	95.0	128.8	122.4	120.6	106.8	101.8

The accuracy of these data has been severely assailed by some economists and statisticians, and warmly supported by others. But no one has ever suspected the institution collecting them of an intention to underrate the progress of the workmen's prosperity. On the contrary, criticism has been rather based upon a possible tendency towards unjustified optimism.

It may be useful to remember that the wages were primarily gathered from large establishments, and include a larger proportion of union workmen than the entire working class of the United States can boast of—that on the other hand, the cost of food may not be a sufficient measure of the increased cost of living.

But, accepting these figures at their face value, as the best available material on the subject, the trend of wages per hour

is fairly encouraging, showing a rise of some 28 to 30% within seventeen to eighteen years. But this increase is mitigated by two powerful factors. One is the slight decline in the average hours of labor—entirely too slight to meet the increased productivity and intensification of labor—but real nevertheless, so that the increase in the weekly wages is only 21%. The other still more powerful factor is the increased cost of food. A comparison of columns 3 and 4 of the table at once demonstrates the close harmony between the fluctuations of wages and cost of living. When modified by this factor, the real increase of the purchasing power of hourly wages declines to only 8 to 9% during the seventeen years, and the increase of real weekly wages—the only thing of consequence to the wage-worker's family—becomes so small that it can hardly be noticed with the naked eye. The obvious conclusion is that wages have been practically stationary within the two decades on the boundary line of the twentieth century.

But the figures in the last column show many strong fluctuations. Rises alternate with declines, and the tendency one way or the other is not very noticeable. To get at that tendency, the well-known statistical method of "smoothing the curve" may be utilized. That is, instead of annual figures the five years' averages for consecutive years' periods (1890-1894, 1891-1895, 1892-1896, etc.) may be taken. In this way the following information is obtained:

Five years' period	Relative average wage for the five years	Five years' period	Relative average wage for the five years
1890—1894	98.0	1897—1901	101.9
1891—1895	98.4	1898—1902	101.0
1892—1896	99.8	1899—1903	101.1
1893—1897	100.5	1900—1904	100.8
1894—1898	101.4	1901—1905	100.8
1895—1899	102.1	1902—1906	100.7
1896—1900	102.6	1903—1907	100.8

If the columns of figures given above were plotted as a curve, one would immediately recognize that since the five-annual period of 1896-1900, the average has been steadily, though slowly, declining. Were it possible to extend this analysis up to the present time, there can scarcely be any doubt that the terrible results of the crisis during 1908 and the general trade depression of 1911 would not improve matters, for prices of

food have risen some 25% in these five years, and it is doubtful whether wages have even adjusted themselves to this rise in prices. Surely there is nothing in these official figures to justify the complacent conviction that the economic condition of the working class is improving all the time. Even if the period 1903-07 be compared with the terrible crisis period of 1893-1897, the total results of a decade of unexampled trade expansion for the wage-workers amount to the magnificent amount of three-tenths of one per cent.

And these are the facts in the face of an inevitable tendency of the working class to lead a better life. Perhaps one of the most antisocial tendencies that have crept into modern American economic writing, is the tendency, not even original with scientific economists, but initiated by an American " captain of industry," J. J. Hill, to explain the modern economic difficulties, not by the " high cost of living " but by the " cost of high living." One may question the good taste of our multimillionaires in accusing the American wage-worker of a tendency towards high living in face of the wage statistics quoted above. Of course it would be quite inconceivable that all the material progress, of which the American people is so proud, should not have created in the millions of wage-workers a desire to lead a better and cleaner life, for some share in the fruits of our technical progress.

As a result, we are face to face with the significant fact, that a surplus in the workingman's budget is becoming a very rare phenomenon. According to the investigation of the U. S. Bureau of Labor, carried on over ten years ago, and embracing 25,440 families, 12,816 families, or a little over one-half, had a surplus at the end of the year. The average surplus was quite high—$120.84. But the fact that among the 11,156 normal families with only one worker the wage surplus was only $33.18 is significant as explaining the origin of the surplus. Then again, we find that a substantial surplus in these families was only possible in the absence of more than two children. Thus the average surplus of

2124	families	with	0	children	was	.....	$60.72
2579	"	"	1	child	"	.....	42.03
2700	"	"	2	children	"	.....	30.20
1973	"	"	3	"	"	.....	9.86
1248	"	"	4	"	"	.....	2.39
532	"	"	5	"	"	.....	6.40

Later, smaller but more detailed investigations have given much less satisfactory results. An investigation of 200 families by Miss L. B. Moore in 1907, showed that of these only 47, or 23.5% had any surplus, 98 families, or nearly one-half, closed their budget even, and 55 had a deficit to show for their year's work. According to the data collected by Miss Moore, a substantial surplus in a workingman's family appears only when the income exceeds $1,000.

Moreover, the surplus depends as much upon the small number of children as upon a larger income. Thus, of the 200 families studied, only 29 had a surplus of $50 or over during the year. Of these 29, 17 had an income of over $1,000, and 5 families with incomes of $700 to $1,000 had only 2 children, leaving only 7 families with 4 children or over and an income of less than $1,000 who were able to save $50.

Professor Chapin arrives at similar results: out of 391 families only 143, or about 36%, show a surplus.

Income	Number of families	Families showing a surplus	Percentage
Less than $600	25	5	20
$600— 700	72	20	28
700— 800	79	26	33
800— 900	73	35	48
900—1000	63	22	35
1000—1100	31	13	42
1100—1200	18	7	39
1200 and over	30	15	50
	391	143	36

It was thought desirable to pile up these dry and dreary figures to demonstrate the fact, that a substantial surplus of some $50 per annum, or $1 per week, is not at all a common occurrence among the wage-workers, that it presupposes a level of income such as only a small proportion of the wage-working class possesses. Of course this pessimistic conclusion will be disputed. There remains the last old reliable argument of universal prosperity in this country, an argument often tried and never found wanting—that of the increasing savings bank deposits. It is a source of great satisfaction to many to point with pride at the large number of millions of these deposits rolling up from year to year,—only 50

millions in 1851, 100 millions in 1857, 1,000 millions in 1883, 2,000 millions in 1898, nearly 3,000 millions in 1905, 4,070 millions in 1910, and 4,212 millions in 1911. In absence of any evidence to the contrary, it is easy to assume that they represent accumulated wealth of the working class, and the average deposit of $1,445.20 in 1910 appears very satisfactory.

This statement looks so imposing that the claim demands some consideration. Of course we do not at all know to whom these millions really belong, how much of it really represents savings of workingmen. Unfortunately, very few states have ever undertaken to study this problem, and our Federal Banking reports are satisfied with the presentation of imposing or staggering totals. But at least one state, Connecticut, has published some interesting information bearing on this question. While the depositors are not classified according to their economic status, but only according to the size of their deposits, even such a classification is extremely illuminating; and the information, especially valuable because it is available for a continuous period of thirty years, is presented in the following two tables. For an expert statistician they tell the whole story eloquently enough, but for the advantage of the lay reader, who does not take kindly to statistical tables, the interesting information is summarized.

Now let us see what story these dry tables are telling us. Within thirty years, the number of depositors has increased nearly 200%. The deposits have increased nearly 300%. The average deposit has grown from $360 to $486. Can a picture be made more optimistic? But how rapidly the picture changes when the same figures are scrutinized a little more carefully. We find that of all the depositors, 85.3% had less than $1,000 each. It cannot be doubted that almost all workingmen's deposits belong to this class. 9.7% had from $1,000 to $2,000, and 5% more than $2,000; (1/10% even more than $10,000). The majority of depositors may be workmen, for all we know. But of the total deposits only a little over one-third belonged to the small deposit group; over one-fourth to those having from $1,000 to $2,000, and nearly two-fifths to depositors having over $2,000 each, so that, at best, the workingmen's deposits may represent only one-third of the total deposits.

Thus the general average of $485 means very little, because it is due to thousands of middle-class depositors who have

SAVINGS BANKS DEPOSITS AND DEPOSITORS IN THE STATE OF CONNECTICUT, 1880-1910

	DEPOSITORS				DEPOSITS				AVERAGE DEPOSITS	
	1880		1910		1880		1910		1880	1910
	No.	P. C.	No.	P. C.	Amount	P. C.	Amount	P. C.		
Depositors having:										
Less than $500	156,753	77.4	505,876	85.3	$18,415,192	25.3	$103,392,409	35.9	$ 117.48	$ 202.44
$500 —$1000	22,825	11.3			15,462,948	21.2			677.45	
$1000—$2000	17,924	8.9	57,408	9.7	24,470,650	33.6	76,520,766	26.6	1365.27	1332.93
$2000—$10000	4,883	2.4	29,222	4.9	14,493,653	19.9	101,865,968	35.3	2966.18	3485.90
$10000 and over			482	.1			6,378,184	2.2		13232.74
	202,385	100.0	592,988	100.0	$72,842,443	100.0	$288,157,327	100.0	$360.09	$485.94

INCREASE IN SAVINGS BANK DEPOSITS IN 1880—1910

	INCREASE IN DEPOSITORS			INCREASE IN DEPOSITS			INCREASE OF AVERAGE	
	No.	Per cent.	Per cent. of increase	Amount	Per cent.	Per cent. of increase	Amount	Per cent. of increase
Depositors having:								
Less than $1000	326,298	83.8	181.1	$69,514,269	32.3	250.2	$ 13.79	7.3
$1000—$2000	39,484	10.1	220.3	52 050,116	24.2	212.7	32.34	2.4
Over $2000	24,821	6.1	508.4	93,750,499	43.5	649.1	677.91	22.9
Total	390,603	100.0	193.0	$215,314,884	100.0	295.6	$125.85	34.9

from $2,000 to $10,000, and to hundreds having over $10,000 each.

But the statistical data become especially interesting when comparisons between 1880 and 1910 are made. While the number of depositors has nearly trebled, those with deposits of over $2,000 have increased over 500%. $215,000,000 additional have been deposited with savings banks in these thirty years, but of this, 43.5%, or nearly $94,000,000, was deposited by the richest group, among whom there were very few, if any, workingmen. Fifty-two millions were contributed by the middle classes. The workingmen could at most add seventy millions, and not two hundred and fifteen millions. For this group the average deposit has increased from $190 to $202, or some 7%, while for the rich class the average deposit has increased 22.9%. As a result of all this, the lower classes' share in savings banks deposits has decreased from 46.5% to 35.9%, that of the richest class increased from 19.9% to 37.5%. In short, the exhilarating effect of savings deposits figures upon our optimism becomes considerably subdued.

Of course the fact remains that even in the group of depositors with less than $1,000 apiece, the increase of depositors and deposits has been remarkable. In estimating the import of this statement, a few other facts and factors must be considered. To begin with, population in Connecticut has within the same thirty years increased from 622,700 to 1,114,756, or nearly 80%. Proportionately, the increase in depositors has not been so very great—from 325 per thousand in 1880 to 532, or only 64%, and the total amount of deposits in about the same proportions. And inasmuch as the average savings of the wage-working class have not increased, while the increased price level has reduced the purchasing value of money by 40 or 50% at least, the actual savings have evidently decreased materially. Moreover, there can be no doubt, that among the middle classes using the savings banks for their fortunes, there must be a large amount of duplication of accounts, while, in a wage-worker's family, more than one account would be the exception. The long and the short of it is that the increased savings of the wage-workers are a myth without much foundation in fact even to justify it.

To sum up:

(1) From two-thirds to three-fourths of all productive

workers in the United States depend upon wages or small salaries for their existence.

(2) From four-fifths to nine-tenths of the wage-workers receive wages which are insufficient to meet the cost of a normal standard of health and efficiency for a family, and about one-half receive very much less than that.

(3) If a certain proportion of wage-workers' families succeed in attaining such a standard, it is made possible only by the presence of more than one worker in the family.

(4) This condition, however, can only be temporary in the history of any workingman's family.

(5) The increase in the standard of wages is barely sufficient to meet the increased cost of living.

(6) An annual surplus in the workingman's budget is a very rare thing, and is very small.

(7) The growth of savings bank deposits in the United States is not sufficient evidence of the ability of the American workingmen to make substantial savings. A large proportion of these savings belong to other classes of population, and in so far as information is available, the average workingman's deposit is very small.

(8) The analysis of the economic status of the American wage-worker does not disclose his ability to cope with the various economic emergencies without outside assistance.

It may be argued that all this evidence of the unsatisfactory economic condition of the working class, if correct, proves rather the necessity of a higher wage level than of a policy of social insurance. And it is surely not the intention of the writer to deny the necessity for higher wages. But this objection, often made, is based upon a misconception of the direct aims of social insurance. It does not deal with the normal standard of workingmen's life, except indirectly, and in so far as the normal standard of wages, and the standard of living depending upon wages, are unsatisfactory, the corrective measures are much broader than anything social insurance can offer.

It is the direct object of social insurance to protect this standard from the onslaught upon it by various physical and economic dangers, though it goes without saying that by this amount of protection the general standard is upheld and its improvement facilitated. But the economic and statistical

evidence produced seems to force the conclusion, that if the general status of the wage-worker's life is much below the standard of physiological necessity and economic efficiency, surely the wage-worker is seldom in condition to withstand the attack of any cause which produces an interruption of income. In other words, the condition exists which has been responsible for the growth of the social insurance movement in all industrial countries.

PART II

INSURANCE AGAINST INDUSTRIAL ACCIDENTS

CHAPTER IV

INDUSTRIAL ACCIDENTS

CONSIDERING the present attitude of American public opinion, it may be best to begin the systematic study of social insurance with the problem of industrial accidents, though the danger of industrial accidents may not be the most serious of the economic dangers confronting the wage-earners, and though historically various forms of sick-insurance and old-age relief preceded accident insurance.

The problem has a direct bearing upon American social and economic life because of its timeliness in view of the unprecedented, phenomenal growth of the compensation movement in the United States, while other problems, such as sick-insurance, may remain largely academic for some time to come.

Before we are ready to consider the various remedial measures, we must learn of the nature, symptoms, and causation of the disease. It will be necessary, therefore, to devote some pages to the study of industrial accidents themselves.

What is an industrial accident? The temptation is great to answer this query in a somewhat flippant way: "An industrial accident is not an accident at all." Indeed, there is nothing fortuitous or unexpected about them, at least, when taken as a whole. Rather is it a definite and constant characteristic of modern industry, subject to well-recognized rules and laws. It is in unconscious recognition of this, that in several European acts, and also in some American acts, the word "injury" is gradually beginning to supplant the word "accident."

For the number of industrial accidents is both tremendously large and constant, showing definite conditions responsible for them. In many industries, at least, the danger of a violent injury is so great that only the inherent optimism of the wage-worker may accustom him to that danger; and thousands of wives of coal-miners, railroad employees, structural

iron-workers, and the like must have a constant fear when seeing the husband go to work in the morning, that they will see him dead or maimed in the evening.

Few people in the United States have any conception how enormous is the annual number of accidental injuries to the wage-working population. American information on the subject is as yet scant and unsatisfactory. Only within the last few years—when the interest has grown—have a few states undertaken to investigate the problem and demand reports of accidents occurring. In Europe, accident statistics is, and has been for many years, a definite and important branch of statistical and social science. It will be necessary, therefore, to rely primarily upon these European data in the following pages:

ANNUAL NUMBER OF INDUSTRIAL ACCIDENTS IN THE MAIN EUROPEAN COUNTRIES [1]

Country	Year	Accidents— Total number	Fatal
Austria	1909	129,186	1252
Belgium	1908	159,499	510
Denmark	1911	3,869	207
France	1909	434,450	3101
Germany	1910	672,961	8857
Great Britain	1910	167,653	4704
Italy	1910	227,768	759
Norway	1909	5,909	136
Russia	1906	212,167	1834
Spain	1909	28,944	210
Sweden	1906	15,041	249

The imposing fact of this table is that in eleven European countries annually some 2,000,000 industrial accidents occur, and of these over 22,000 are fatal.

One must not assume that these figures alone offer a sufficient basis for comparison between one country and another. Each one of the figures shown in this table is subject to a great many qualifications. They are given mainly for purposes of suggestion and illustration. But for a careful study, each country's statistics must be independently analyzed. There is a vast difference in the methods of accident statistics

[1] Compiled partly from original sources, partly from information given in the 24th Annual Report of the United States Commissioner of Labor.

of various countries. Statistical reports of various countries will differ as to the groups of industries included, often depending upon the extent of the compensation law in connection with which statistics are gathered. Thus, for instance, the agricultural industry is included in German data, but not in that of any other country.

Secondly, the comparison between one country and another is not altogether fair, because of the very great difference in the character of industries. Where metal-working industries or mining predominate, as in Germany, the accidents will be more numerous and of greater severity, than where textiles and fancy articles are the leading branches of industry.

In the third place, countries will differ in the care with which accidents are reported. It is a commonplace among experts on accident statistics that the accuracy of accident reports depends upon the degree of thoroughness of accident compensation laws, and that where accidents are not compensated, it is almost impossible to obtain satisfactory accident reports.

And finally the statistical reports of various countries will remain uncomparable for the reason that the definition of what may be classified as an accident or accidental injury vastly differs in various reports. In industrial life, as in every-day life, thousands of mishaps may occur which may be technically classified as injuries, and yet may leave no injurious effects worth mentioning. Some may and some may not require attention of a physician, but this evidently is not a sufficient basis for judgment. A particle of dust has lodged itself in the workman's eye. It may be immediately removed and be as readily forgotten, or it may cause discomfort for an afternoon and work its way out. But, on the other hand, it may cause a violent inflammation and a subsequent loss of vision. An ordinary abrasion of the skin in the vast majority of cases leads to no consequences, but it may cause general blood poisoning. Shall, therefore, all foreign bodies in the eye and all skin abrasions be counted as accidents? Evidently some objective basis for judgment must be agreed upon, and it is usually found in a certain minimum duration of disability caused by accidental injury. Under the French accident reporting system, only such disabilities as have

caused loss of time for at least four days are counted. In Russia the mimimum is three days. Under the United States Government Employees' Compensation Act of May 30, 1908, only such injuries were reported as have laid off the injured employee for at least twenty-four hours.

But when all these qualifications have been taken into consideration, it remains true that the number of accidental injuries is enormous, and runs into the millions. Only in that sense are they accidental in which it is an accident for a soldier on a firing line of a desperate battle to be wounded or killed. No one could tell in advance which one of the brave boys who marched down to Gettysburg would return and who would remain on the battlefield. But whoever understood the desperate conflict between the opposing forces knew full well that the God of War would have a plentiful harvest on that field. Even thus, no one of the workingmen can tell whether he or his neighbor will be the next victim, but it is quite certain that year in and year out the number of killed or injured will be large.

More than that: we can foretell with a much greater degree of certainty the number of victims of industrial life than of military life; for one thing, statistics of industrial accidents are in a much better condition. We know what proportion of the army of the wage-workers must be fatally or otherwise injured, for the rate varies but slightly from year to year, if statistics are properly kept.

As compared with this comprehensive development accident statistics in the United States is in its infancy. We do not know the number of industrial accidents occurring in this country which might be compared with the European figures. As yet only fragmentary information and more or less arbitrary estimates are available for the United States. We know enough, however, to be convinced that the number of accidents and the accident frequency are vastly greater than in any European country.

In absence of such reliable statistics as most European countries possess, it is worth while to review some of the most important data obtainable, so as to draw deductions and formulate estimates which will not appear as vague guesses.

The Census Report of Mortality Statistics for 1908 gives the total number of deaths due to violence as 52,421. When

suicides, homicides, injuries at birth, and similar classes altogether outside of the field of industrial accidents are deducted, this leaves 37,942 accidents, distributed according to cause as follows:

CAUSES OF FATAL ACCIDENTS IN THE REGISTRATION AREA OF THE UNITED STATES, 1908

Fractures	722	Injuries by machinery	901
Dislocations	12	Injuries in mills and quarries	1917
Burns and scalds	3688	Railroad accidents	6080
Burning by corrosive substances	16	Street car injuries	1696
Heat and sunstroke	829	Injuries by vehicles or horses	1924
Cold and freezing	227	Automobile accidents	393
Lightning	161	Other accidental	8804
Drowning	4677	Suffocation	708
Inhalation of poisonous gases	1688	Other external violence	861
Other accidental poisonings	1652		
Accidental gunshot wounds	986		37,942

This is quite a formidable list. As the total number of deaths reported was 691,574, it follows that considerably over 5% died from the violent causes enumerated, and if suicides, homicides, etc., are included, the proportion is near 7 1-2%, or about one in thirteen.

This, however, is by far not a complete list. The figures quoted refer only to the so-called "Registration Area," i.e., that part of the United States where reasonably accurate records of death are kept. In 1908 the total population of this "Registration Area" (which included 17 states and cities in additional 21 states), was a little over 45,000,000, or just one-half of the population of the United States. The total number of fatal accidents from causes enumerated above in the United States must be about 75,000.

Not all these 75,000 fatal accidents are due to industrial causes. Turning to statistics of mortality among persons engaged in gainful occupations, altogether 222,412 deaths were reported among these persons, and of this number 22,407, or over 10%, were due to accidental causes. Applying the same rule, there were some 45,000 accidental deaths among occupied persons in the United States in 1910. Yet this is rather an underestimate than an overestimate. A vast army of

women working in their homes and on the farms is not counted among persons gainfully employed, when they work in their own homes or on their husband's farms. And yet if there were 416 fatal accidents among servants (or about 900 for the whole of the United States), the number of similar accidents among housewives, who are perhaps fifteen times as numerous as the servants, must have equaled ten or fifteen times as many, or from 9,000 to 13,000.

But waving that aside, how many of these 45,000 fatal accidents may properly be classified as industrial accidents? The large number of fatalities due to railroad or street-car accidents, if the victims are the passengers or outsiders, are not classified as industrial accidents—and yet they are the direct result of modern transportation industry. Yet the definition of an industrial accident is usually a narrower one, meaning an accident occurring while the injured person is at work, and due to that work. Following the same line of reasoning, the well-known statistician, F. L. Hoffman, concludes:

"It is probably safe to estimate that half of the accidents are more or less the immediate result of dangerous industries and trades." [2]

This estimate appears to the writer as unnecessarily conservative. Comparatively few fatal accidents occur while the victim is asleep. It follows, then, that of the sixteen active hours throughout the day, at least one-half and often up to five-eighths or three-fourths of the time of the productive worker is spent at his trade; and as the hazard must necessarily be greater at this time than when at home, it is safe to assume that a much larger share than one-half, probably no less than two-thirds of all accidents, or about 30,000, are due to industrial causes, or considerably more (over 30%) than throughout industrial Europe. The conclusion is surely staggering.

Still more difficult is any estimate concerning non-fatal accidents. One way of arriving at the total number of industrial accidents is to assume a certain relation between fatal and non-fatal accidents. One is loath to assume the same pro-

[2] "Industrial Accidents," by F. L. Hoffman. Bulletin of the U. S. Bureau of Labor, No. 78; Sept., 1908; p. 418.

portion as is found in Europe (2,000,000 accidents for 22,000 fatal ones, or 90 accidents for each fatal one), for that would presuppose literally millions (about 2,700,000) industrial accidents occurring annually in the United States. Yet this estimate cannot be very far from the truth. Mr. Hoffman makes a guess at two millions. In Minnesota, when a painstaking investigation was made covering the twelve months ending July 31, 1910, there were recorded 10,463 accidents, and 342 fatal ones, or 30 accidents for each fatality. But no accident statistics can expect to be complete within the first year. In Wisconsin out of 7,186 accidents reported for 1905-1906, there were 204 fatal ones, or 36 accidents for each fatality. Somewhere between one and two millions lies the total number of industrial accidents in this country.

In only one line of industrial activity are the accidents at present very carefully reported—that of railroading. Until July, 1910, only accidents directly due to train movement were reported, and they reached, for the fiscal year 1910, some 90,000. During the next year, however (1910-1911), all accidents in the railroad industry (including the shop workmen) were required to be reported, and for that year the total reached 10,396 fatal and 150,159 non-fatal ones, a total of 160,555. Even after the passengers and the many trespassers are eliminated, we obtain a total of 3,602 employees killed and 126,039 injured in one year. The number of persons employed by the railroads reached 1,648,033, which gives an injured employee for every 13 persons employed. And yet, contrary to popular impression, railroading is not the most hazardous of industries known. In a great many branches of the steel industry, in mining, in heavy construction such as tunneling and shaft-driving, the accidents are still more frequent.

This brings us to the next consideration in support of the statement that industrial accidents are not accidents at all, but normal results of modern industry—the definite variation in accident frequency, or the accident rate, as it is technically known, between one industry and another. While it may differ slightly from year to year, this variation is insignificant as compared with the variation between industries. Here again we must turn to European statistics for careful reports. Comparisons between different countries are again difficult

for the reasons given above, as well as because of the difference in classification of industries, but a few illustrations may be quoted here.

ACCIDENT RATE PER THOUSAND EMPLOYEES IN AUSTRIA IN 1907. (ACCIDENTS CAUSING AT LEAST FOUR WEEKS' DISABILITY OR DEATH)

Smelting	45.1	Firearms	15.6
Stone quarries	40.5	Food products	15.5
Wood-working	35.7	Chemical industry	15.0
Machinery	35.0	Heating, lighting, and steel	14.8
Land transportation (not railroads)	33.5	Metals other than iron	13.7
Vehicles, manufacture of	32.7	Colors, dyes, etc.	13.0
Building trades	30.0	Cleaning of buildings	12.3
Oils, manufacture of	29.4	Rubber	12.2
Storage establishments	27.2	Musical instruments	11.9
Water transportation	26.6	Earthenware	10.9
Tar and rosin manufacture	25.5	Paper products	10.4
Pits, digging of	25.3	Bleaching, dyeing	9.7
Construction	23.9	Glass-working	8.7
Iron and steel	23.9	Baskets, brushes, etc.	8.0
Scientific instruments	20.7	Flax, hemp, etc., textiles	7.9
Beverages	20.6	Horn products	7.5
Railways	20.4	Wool	7.4
Agricultural establishments using power	20.2	Watches	7.4
Flour mills	19.2	Cleaning	7.3
Manures and fertilizers	18.7	Printing and publishing	6.2
Stone-working	18.6	Cotton manufacture	5.8
Leather	16.2	Precious metals	4.9
Paper	16.2	Clothing	3.8
Heating and lighting materials	16.2	Leather products	3.4
Subsidiary building trade	16.1	Silk	2.5
		Theatrical establishments.	2.5
		Knitting, embroidery	2.3
		Tobacco	1.1

Taking another year, or an average of many years, the order may vary. The average for all industries was 18.4 per thousand because only accidents causing injuries of over four weeks' duration are included. To give a more comprehensive picture, similar statements will be quoted from France, where all accidents causing absence from work for over three days are included. While the classification of industries is here very much different, the order will be found pretty much the same.

ACCIDENT RATE BY INDUSTRIES IN FRANCE (1908) PER THOUSAND EMPLOYEES

Metallurgy	267	Wood-working	73
Iron mines	212	Stone cutting and polishing	61
Coal mines	205	Food products	58
Building and construction	154	Hides and leather	34
Chemical industries	147	Printing and publishing	33
Metal-working	144	Straw, feather, and hair	25
Earthen- and stoneware	83	Metal working, precious	22
Miscellaneous mines (underground)	79	Lapidary work	16
Quarries	79	Textiles	34
Rubber and paper	74	Clothing	8

The industries presenting the greatest danger of accidental injury are well known. Mining, metallurgy, metal-working, building and construction, and transportation in France claimed about two-thirds of all industrial accidents. These are exactly the industries which have specially developed in the United States. These are the industries which are either the result of the industrial development of the nineteenth century or have been largely influenced by it. In France these industrial activities claimed about one and one-half million out of a total of ten million wage-earners. In the United States these industries claimed from four and a half to five million out of the eighteen to twenty million wage-workers.

The statistical data quoted in regard to some of the European countries and the estimates in regard to the United States are truly staggering in their magnitude.

The figures are bad enough, but to people having little familiarity with accident statistics, these statements sound much worse than they really are, and the cause of proper social provision for victims of industrial accidents is too just to have need of any exaggerations, which do not help the cause by obscuring the truth. It is necessary to remember, therefore, that the technical definition of an industrial accident and that of an accidental injury are much broader than the common interpretation, and that the vast majority consist of either altogether trivial or very small injuries which produce very slight pathological or economic effects.

There are two bases of classification of the results of injuries—the medical and the economic basis. Only in one detail do these two classifications agree, viz., in the distinction be-

tween fatal and non-fatal accidents. But even though the distinction seems obvious enough, several technical difficulties may arise. When is an accident to be defined as a fatal one? when the workman is found dead under the machine which has crushed him? But suppose he has lived a day and then succumbed to his injuries? Was he killed or injured? And suppose the intervening period was a week, or a month, or a year? For the fracture of a thigh may never heal, and death may ensue after many months of lingering illness from bedsores. That the difficulty is a real one is evidenced by the fact that, under some compensation laws, the injury may be adjudged a fatal one if the victim dies within two years as a result of the injuries. For this reason alone the statistics of different countries are not always comparable. In the latest German statistical report the accidents of 1904 are studied as to their results as evidenced by 1908, i.e., four years later. And the percentage of fatal accidents was, in 1905, 7.36%; in 1906, 7.81%; in 1907, 7.96%; and in 1908, 8.06%. This, be it understood, refers to the accidents occuring in 1904. In other words, of 62,205 cases occurring in 1904, 4,975 had died as the result of the injuries by the end of 1905, 5,092 by the end of 1906, 5,190 by the end of 1907, and 5,256 by the end of 1908. Compare it with the statistical method employed by the United States Interstate Commerce Commission in regard to the American railroads, where only "accidents to persons resulting in immediate death or death within twenty-four hours from the time the accident occurred" are reported in the column headed "fatally injured"—and one gets the two possible extremes of statistical accuracy. There is no doubt that were the accident statistics of American railroads compiled with the degree of accuracy characterizing German statistics, the result would be a material increase and perhaps a doubling of the number of fatal accidents.

Beyond this question of fatalities, the two methods of classifying results of injuries are vastly different though mutually complementary. The surgical classification considers the part of the human body injured and the nature of the injury, while the economic classification considers the effect of the injury upon the earning capacity of the worker. Of course, in a general way, the severity of the economic loss depends upon the surgical nature of the injury, but in a general way

only. A loss of an index finger may be surgically insignificant in comparison with the loss of a leg, but to an engraver it may be a much more serious matter from the point of view of earning capacity. On the other hand, one can hardly imagine a more revolting injury than the entire loss of a scalp, yet from a point of view of earning power the effect may be negligible. There is here a vast field for practical study and investigation—a field which is entirely virgin to the American physicians—not only of the normal earning value of various injuries, but also of the special relations between injury and occupation.

As the main causes of accidents are either physical violence (traumatism) or chemical contact, the injuries may be classified roughly into two groups, namely:

(1) Wounds, contusions, fractures; and,

(2) Burns, scalds, etc., the latter being numerically a very much less important factor. A further classification of wounds, contusions, and fractures proceeds usually on the basis of the part of the body, and it is found that the arms and especially the hands are the most frequently suffering parts, injuries to these constituting from one-third to two-fifths of all accidents; that the second place is occupied by injuries to lower extremities, being about 25%, the other parts of the body claiming the other 25%, as may be seen by comparing the statistics of several countries.

PERCENTAGE OF ACCIDENTAL INJURIES ACCORDING TO SURGICAL NATURE OF INJURY

	Germany	Italy	Norway	Russia
Burns and scalds	3.56	7.14	(*a*)	8.83
Wounds, etc., arms and fingers	37.92	43.76	40.33	44.24
Wounds, etc., legs	25.21	25.39	26.6	14.01
Wounds, etc., neck	10.46	8.91	10.0	12.47
Wounds, etc., trunk	11.93	11.85	11.3	3.69
All other injuries	10.92	4.75	11.8	(*b*) 18.78

(*a*) Probably included with "all other injuries."

(*b*) Includes 18.48 per cent. of accidents described as traumatism without laceration without designation of part of body.

Thus, the majority of accidents are such as to interfere with the working capacity of the workman, even if not serious from a surgical point of view. The classification given above

is rather broad and diffuse, and does not convey any definite idea as to the nature of the industrial accidents. For this purpose the results of a special investigation made in Austria and covering 95,269 compensated accidents for the years 1897-1901 are of great value.

RESULTS OF INJURIES FROM ACCIDENTS IN AUSTRIA, 1897-1901

Result of injury	No.	Per cent.
Loss of left arm...	248	.26
Loss of right arm..	360	.38
Fracture of arm...	527	.55
Fracture of forearm	2,214	2.32
Other injuries to arm	3,539	3.72
All injuries to arm	6,888	7.23
Loss of left hand..	186	.20
Loss of right hand.	231	.24
Fractures of bone of hand	352	.37
Other injuries of hand	5,286	5.55
All injuries to hand	6,055	6.36
Loss of one finger, right hand	675	.71
Loss of one finger, left hand	593	.62
Loss of two or more fingers, right hand	947	.99
Loss of two or more fingers, left hand	922	.97
Loss of part of one finger, right hand	899	.94
Loss of part of one finger, left hand.	859	.90
Stiffness of fingers.	742	.78
Other injuries to fingers	25,721	27.00
Total injuries to fingers	31,358	32.91
Total injuries to upper extremity	44,301	46.50
Loss of one leg...	537	.56
Loss of both legs..	24	.03
Fracture of upper leg	857	.90
Fracture of lower leg	3,772	3.96
Injuries of arch of foot	1,808	1.90
Other injuries of leg or foot.....	15,170	15.92
All injuries to leg or foot....	22,168	23.27
Loss of toes	210	.22
Injuries to toes ...	3,054	3.20
Total injuries to toes	3,264	3.42
Total injuries to lower extremity	25,432	26.69
Loss or injury to arm and leg	580	.61
Total injuries to upper or lower extremity	70,313	73.80
Loss of one eye ...	1,718	1.80
Loss of one eye and injury to the other	228	.24
Loss of both eyes..	51	.05
Injury to eye.....	3,191	3.35
Injury to both eyes	224	.24
Total injuries to eyes	5,412	5.68

Result of injury	No.	Per cent.
Injury to head....	3,365	3.53
Injury to shoulder	1,514	1.59
Fracture of collar bone	742	.78
Fracture of ribs...	1,415	1.49
Injuries to trunk..	4,355	4.57
Ruptured	860	.90
Injuries to several parts of body...	4,537	4.76
Internal injuries ..	1,155	1.21
Concussion of brain	502	.53
Miscellaneous	510	.55
Traumatic neurosis	204	.21
Suffocation	219	.23
Drowning	166	.17
Injuries to head and trunk	19,544	20.52
	95,269	100.00

SUMMARY OF SERIOUS ACCIDENTS

Loss of	No.	Per cent.
Arm	608	.64
Hand	417	.44
Fingers	4,895	5.14
Leg	561	.59
Toes	210	.22
Eyes	1,997	2.10
Total loss of parts	8,688	9.13
Fractures:		
Arm and forearm	2,741	2.87
Hand	352	.37
Leg	4,629	4.86
Collar bone	742	.78
Ribs	1,415	1.49
Total fractures..	9,879	10.37

Rather a gruesome picture. 8,688 arms, hands, fingers, legs, toes, and eyes—what an army of human cripples does our industry produce! True, it is the result of five years' work of the Juggernaut in Austria, but then Austria is but a small country industrially considered. Even though 109 of these cripples died as a result of their injuries, 8,579 remained to live, and over 1,700 a year are added to this army.

How big is this army in the United States? No one knows, but perhaps some estimate may be ventured. During the same five years there were in Austria 3,871 fatal accidents. There are, therefore, over two cripples produced for each and every fatal injury. If there are 30,000 fatal industrial accidents in the United States, there must be some 60,000 crippling injuries each year. There is a problem of preservation of human resources in comparison with which even the coal fields of Alaska shrink into insignificance. Sixty thousand cripples added annually to our army of 18,000,000 wage-earners! Assuming only thirty active years, it would mean that about 10% of our productive population must sooner or later suffer not only bodily injury but even mutilation.

From the point of view of economic results, the injuries and their results may be classified in two different ways, according to the duration of the disability induced by the accident and according to the degree of disability thus induced. Simple as this division is, it is remarkable that in the early period of the compensation movement in the United States, many of

the concepts, especially as to the degree of disability, were absolutely unknown to the American writers and legislators on the subject; and many of the grossest mistakes in early acts, and even in the more recent enactments, were due to the lack of understanding of the difference between a slight but permanent injury and a temporary one. It is quite evident that the economic results of the loss of one finger which the workman, not being a crustacean, can never regain, are entirely different from those of a fracture of a leg, which may lead to complete recovery after three months' confinement to bed. In popular opinion, as evidenced by jury verdicts, often the picturesque but surgically and economically unimportant fracture looms forth much more gravely than a contraction of one finger-joint, which may absolutely disqualify a workman from his profession. It is quite important, therefore, to define very clearly these new concepts upon which much of compensation legislation is based.

First, duration:—The results of an injury, as far as working ability is concerned, may last a very short time or they may last forever. As an example of the latter, are the losses of limbs or any part of the limb. But outside of such loss of living substance, there are many other permanent injuries, such as absolute loss of function. In other cases, however, it may be impossible to be absolutely certain that recovery cannot take place, but the prospective duration appears so long as to be classified among the permanent injuries. Such are partial paralyses, showing a very slight tendency to recovery, weak joints, neurotic symptoms, etc. In each individual case the determination may not be at all a simple matter, and it is the practice to classify as permanent injuries those that are likely to remain so. Thus the temporary injuries shade gradually into permanent ones. In a good many cases of minor injuries, the period of disability coincides with the period of medical treatment, but in the graver cases, after-effects of injuries extending a long time beyond the period of treatment are not uncommon, especially where bones and joints have been affected.

Eloquent illustrations of this may be drawn from the same Austrian statistics, which were so profusely quoted above. Thus, of the 95,269 accidents analyzed there were 3,871 fatal ones and 91,398 non-fatal ones. Of these 36,911 resulted

in permanent disability, and yet we found only 8,579 cases of actual loss of substance.

It may be worth while to present a few figures which will indicate what kind of injuries other than loss of some part of the body may lead to permanent injury.

INJURIES OTHER THAN LOSS OF PART OF BODY LEADING TO PERMANENT DISABILITY IN AUSTRIA (1897-1901)

	Total number of cases	Cases resulting in permanent disabilty	Per cent.
Fracture of arm	527	290	55
Fracture of forearm	2,114	1,094	51
Other injuries of arm	3,539	1,189	34
Fracture of bones of hand	352	152	43
Other injuries of hands	5,286	1,306	24
Stiffness of fingers	742	709	96
Other injuries of fingers	25,721	7,143	28
Fracture of leg	4,629	2,910	63
Injury of arch of foot	1,808	792	44
Other injuries of leg or foot	15,170	3,384	22
Injury to eyes	3,415	2,174	64
Injuries to head	3,365	1,183	35
Injuries to shoulder	1,514	819	54
Fracture of collar bone	742	372	50
Fracture of ribs	1,415	460	33
Injuries to trunk	4,355	1,502	34
Ruptures, etc.	860	599	70
Injuries to several parts	4,537	1,507	33
Internal injuries	1,155	232	20
Concussion of brain	502	186	37
Miscellaneous	527	184	35
Traumatic neurosis	204	173	85
	82,479	28,360	34

Thirty-four per cent. of all injuries without loss of parts are permanent.

That is the result not of surgical, but of economic judgment, or rather of both judgments combined. The ten fingers are the " capital " which the workman possesses, and they are worth something—worth a living—only when they are in perfect condition. This explains why a stiff finger,—surgically a comparatively small matter,—is economically more serious in its results than a fracture of a leg or a concussion of a brain. On the other hand, there were at least 72 cases of complete loss of finger, and 620 cases of loss of phalanx, which were declared temporary injuries only. Here is evidence that

the decision as to the permanency of the injury is much more than a surgical question, that it cannot well be presented in ironclad rules, that it must be made in each individual case and with due regard to the occupation of the injured person.

An entirely different line of division is that between total and partial disability and between various degrees of the latter. The terms are really self-explanatory. A victim of an accident who is absolutely disabled from obtaining any remunerative employment is evidently suffering from total disability. Those whose earning capacity is not altogether destroyed but materially reduced, are suffering from partial disability, and the question of the degree of such disability becomes important.

One must not confuse total disability with total helplessness. A man may suffer from both, as for instance, in case of loss of both arms, or when his spine is broken. But the injury need not be so severe in order to make his case one of total disability. Total loss of sight may not lead to total helplessness, but for an adult it means absolute inability to obtain remunerative employment, at least in the open market, though an opportunity may be offered in special institutions of a philanthropic character. In fact, there are many injuries less severe, which do not altogether destroy the working capacity of the man, but yet may for all practical purposes close all doors for remunerative employment, for the principles of scientific management hardly encourage the employment of cripples.

The range of injuries leading to partial disability is extremely wide. Any loss of a member reduces the earning capacity either immediately or potentially by forcing a change of occupation or making the matter of finding a new position more difficult. When mechanical dexterity is essential, a loss of any finger (or loss of function) may be a very essential matter. An injury of the lower limbs may force a change from an outdoor to a sedentary occupation. For carrying heavy weights any weakness of the body muscles or a hernia is a very serious disqualification.

The preceding discussion was necessary for an intelligent consideration of the statistical data which follow. For a number of countries information is available concerning the distribution of accidents among these four classes: fatalities,

total and permanent disability, partial permanent disability, and temporary disability.

DISTRIBUTION OF ACCIDENTS ACCORDING TO THE KIND AND DEGREE OF DISABILITY

Country and year	Total number accidents	Fatal accidents	Per cent.	Permanent disability				Temporary disability	
				Total	Per cent.	Partial	Per cent.	Total	Per cent.
Austria, '06 (*a*).	26,639	885	3.32	403	1.51	9,793	36.76	15,558	58.41
Belgium, '08...	156,499	510	.33	(*b*)	(*b*)	2,523	1.61	153,466	98.06
France, '08....	404,318	1,997	.49	(*b*)	(*b*)	5,619	1.39	391,319	98.12
Germany, '08 (*a*)	142,965	9,856	6.26	1,160	.81	57,410	40.11	74,539	52.77
Italy, '02	57,617	430	.70	32	.06	2,716	4.71	54,439	94.53
Russia, '06.....	136,049	995	.73	114	.08	16,525	12.14	115,403	87.05
Spain, '07.....	30,472	207	.68	19	.06	80	.27	30,164	98.25
Sweden, '06....	15,041	249	1.66	(*b*)	(*b*)	1,228	8.16	13,444	89.38

(*a*) Accidents compensated only.
(*b*) Not separately stated: included with partial disability.

The warning cannot be made too emphatic, that no comparative statements between countries should be made on the basis of this table. Rather may it be used as an excellent illustration of the difficulty of making such comparisons unless one is thoroughly familiar with the nature of the statistical material. It is for this reason partly, that so much comparative statistical material is given here, because the point cannot be emphasized too strongly, that without some familiarity with the methods of accident statistics, the problem will never be satisfactorily solved in the United States.

The vastly greater proportion of permanent injuries in Germany and in Austria than in France and Russia immediately forces itself upon our notice. Can it be that accidents in Germany are so very much more destructive? But it also appears that these countries show a very much smaller number of accidents. The truth is that the data for Germany and France are altogether incomparable, for German statistics include only

accidents which throw the victims out of work for over thirteen weeks, i.e., practically all serious accidents, while French statistics include all injuries of over three days' duration. Austria occupies a middle ground, as there all accidents of over four weeks' duration are included. Another difference is that Austrian and German statistics are based upon a careful study of accidents compensated, while the statistics of France are based upon reports sent in a few days after the occurrence of the accident, when the final result is in many cases uncertain. For the present purpose perhaps the Russian figures are best, because they are fairly reliable and cover all accidents of over three days' duration. They show that about 12% of all accidents lead to permanent results. However, the statistics show that in an industrially important country their number is not so small. If Germany shows nearly 60,000 maimed and 10,000 fatally injured, the number in the United States must be vastly greater, perhaps several times as great.

Cases of total permanent disability are few—that the statistics of all countries conclusively show. The experience of 1897-1901 in Austria showed that of 33,568 accidents leading to permanent disability, in 9.8% of the cases the degree of disability was less than 10%; in 31.7%, from 10% to 19%; in 19.3%, from 20% to less than 33 1-3%, or one-third; in 15.6%, one-third or over, but less than one-half; in 9.5%, one-half and over, but less than two-thirds; in 11.10%, two-thirds or over, but less than five-sixths, and in 3% it was total. Presenting the same data in a slightly different way, in 85.9%, the degree of disability was less than two-thirds; in 76.4%, less than one-half; in 60%, less than one-third; in 41.7%, less than 20%.

Recently Germany investigated the results of 65,205 cases occurring in 1904 and their results by the end of 1908. It was found that by the end of that period about one-fourth of all cases (24.17%) showed a permanent disability of under 25%, about 10% (9.27) from 25% to 50% and only 5% (4.77) over 50%, and that 53.73% were temporary cases, though about 10% were still somewhat disabled at the end of five years. In Italy a special investigation has shown that of all cases of permanent disability, in 94% the disability was not over 60%; in 80%, not over one-half; in 65%, not over 20%.

On the other hand, of the cases of temporary disability the

vast majority represents very small injuries indeed. Oddly enough, the best statistics on the subject are found in Italy and Russia.

DURATION OF INJURIES RESULTING IN TEMPORARY DISABILITY IN ITALY (1902). (ONLY INJURIES OF OVER FIVE DAYS' DURATION INCLUDED)

Total number of accidents .	57,617	100.00
Accidents resulting in death	430	.75
Permanent disability	2,748	4.78
Temporary disability	54,439	94.43
Lasting 6-10 days	14,588	25.32
11-15 "	13,078	22.70
16-20 "	8,442	14.65
21-30 "	8,707	15.11
31-60 "	7,356	12.77
over 60 "	2,268	3.93

Nearly one-half of all the accidents are evidently either altogether trivial or comparatively slight, as 48% of injuries do not last over 15 days, even after all injuries of less than five days have been omitted from consideration. Another 30% do not extend beyond the 30th day, and it is only the remaining 20% that present serious economic problems.

If from sunny Italy we go to frozen Russia, we find very much the same condition of affairs, showing a remarkable regularity in the phenomena which accident statistics is dealing with.

DURATION OF ACCIDENTAL INJURIES IN RUSSIA (1906). (MANUFACTURES ONLY. ACCIDENTS OF LESS THAN THREE DAYS' DURATION OMITTED)

	Number	Per cent.
Total number of accidents in industry	57,196	100.00
Accidents resulting in:		
Death	367	.64
Permanent disability	10,098	17.66
Temporary disability	46,731	82.70
Lasting 7 days and under	13,481	23.57
8-14 days	14,127	24.70
15-21 "	6,922	12.10
21-28 "	3,919	6.85
29-63 "	6,492	11.35
64-91 "	1,060	1.85
over 91 "	730	1.28

There again a greater proportion falls in the class of injuries under 28 days—namely, 67%, and the total number of accidents over 13 weeks (91 days), permanent disabilities and fatalities does not exceed one-fifth (19.58%) of all accidents.

It was necessary to make this tedious journey into the land of accident statistics so as to get the proper perspective. The problem is so important and the situation so serious that its dimensions could not be neglected. An estimate of 2,000,000 cases of accidental injuries in one year in this country would appear utterly preposterous and impossible if it were read to mean 2,000,000 workingmen maimed each year, and would be discarded because of this lack of verisimilitude. When properly explained, the statement appears quite likely to be true. Surely no desire has here been shown to minimize the problem. Even if only 20% of the accidents are more or less serious, that on an estimate of 2,000,000 accidents would mean 400,000 serious cases. On the basis of that estimate, we may assume—until proper accident statistics make all such assumptions unnecessary—that there occur in the United States annually some 30,000 fatal industrial accidents, about 200,000 accidents leading to permanent disability, of which nearly 60,000 are cases of actual loss of part of body, and about 100,000 resulting in disability of under 25% and another 50,000 in disability of 25 to 50%, and the remainder cause disability of over 50%. In addition, some 170,000 accidents are serious in that the disability lasts over three months, but eventually they result in complete recovery, especially if economic conditions favor it.

What amount of distress and mental anguish for the victims and their dependents, what amount of economic waste these gruesome figures represent, the reader need not be told. Here surely is a case where " no further comment is necessary."

All this may be true, but when life was supported by the chase the proportion was probably greater (Fishing not being included even now)

We have passed from individualism providing when the risk was taken individually and are now thinking

CHAPTER V

THE CAUSES OF INDUSTRIAL ACCIDENTS

WHAT is the cause of this awful slaughter? What factors in our present organization of industrial activity are responsible for it?

There is no dearth of positive and sweeping replies to this query. "Modern industry," says one; "this thing is sad, but inevitable." "Carelessness and ignorance of the wage-worker," insists the other. When this question was placed upon the examination papers of a post-graduate class, an enthusiastic student who had imbibed freely of the Marxian philosophy, was quite sure of the proper answer: "Private ownership of the means of production and greed of the capitalists is the only cause." A large element of truth may freely be admitted in each and every one of these explanations. Nevertheless, it is not a problem which can be satisfactorily solved by broad and bold generalities only.

Moreover, there is absolutely no need to indulge in speculation and vain theorizing, for a vast amount of material on this subject has been accumulated. In each accident after it has occurred, the specific cause is usually discernible, meaning by the cause the definite condition without which the accident would not have occurred, the condition which perhaps might have been eliminated in advance, or provided for, and thus the accident prevented. One can readily see what a vast amount of information may be obtained after millions of accidents have been analyzed in this way. As a matter of fact, when all statistics available on this subject have been taken into consideration, literally millions of accidents have been classified as to their causation. Surely the results of this study are worth considering before a proper answer to our question can be formulated. Fortunately almost all statisticians in European countries have adopted nearly the same classification of

causes, so that in this respect at least some interesting comparisons between different countries can be made.

PERCENTAGE DISTRIBUTION OF INDUSTRIAL ACCIDENTS ACCORDING TO CAUSES. FRANCE, GERMANY, ITALY, RUSSIA

	France Per cent.	Germany Per cent.	Italy Per cent.	Russia Per cent.
Motors	.24	.64	.42	.39
Transmission of power	.74	1.20	.68	1.90
Machinery and implements	8.07	17.50	9.35	27.78
Elevators, cranes, etc.	.88	5.03	.38	2.03
Steam boilers, etc.	.12	.18	.11	.62
Explosives	.16	.64	.14	.04
Burning material, etc.	5.76	3.53	6.09	5.04
Falling objects	16.76	15.08	17.95	7.70
Falls from ladders, etc.	17.64	11.30	14.64	3.38
Handling heavy objects	19.08	14.02	——	17.11
Driving animals, etc.	7.42	8.27	——	1.55
Hand tools	7.80	4.10	7.52	15.07
Miscellaneous	15.33	18.51	42.72	17.39
Total	100.00	100.00	100.00	100.00

Many variations are observed between one country and another, due partly to difference in statistical methods, partly to real existing differences. Certain causes produce very light injuries and others mainly serious ones. When we take only accidents which lasted over thirteen weeks in Germany, we find a much smaller proportion of accidents due to hand tools than in Russia, where all accidents of over three days' duration are accounted. Other differences indicate existing conditions of industry. In Germany, where industry is more highly developed, a larger proportion of accidents is naturally due to machinery. But notwithstanding all these minor variations, a certain unity may be observed.

The following inferences may safely be ventured: A certain proportion of these accidents (from one-fourth to one-third) is palpably due to modern instruments of production: machinery, engines, hoists, cranes, etc. Tools there always were, for man is a tool-making animal. But only few accidents are due to hand tools, and only the less serious accidents are caused in this way, while the serious life- or limb-destroying injuries are produced by the powerful and ingenious instruments of production which were entirely unknown one hundred

years ago. In regard to the first five or six groups in this classification there can be no dispute. But at a superficial glance, it may appear that only a minority of the accidents may thus be explained—and that the majority are due to such fortuitous circumstances as falling objects or falls of workmen, or the handling of heavy objects, etc.

But a close acquaintance with the actual conditions of modern production will throw much light even upon these accidents. Falls have become a very serious and frequent cause of grave accidents because work is often done at dizzy heights. One has only to think of the peculiar dangers which a structural iron-worker must face daily in the construction of modern skyscrapers. Falling objects may always be dangerous, but become especially so in mining, when walls of excavations collapse. Handling heavy objects is a cause that stands in direct connection with the objects of great weight that are used in modern construction, in the metal- and stone-working industry. And so it is all along the line. Modern industry has either created new dangers or aggravated old ones, so that the rare accidents of older centuries have become every-day occurrences of the present time.

Perhaps the best illustration of this can be gleaned from an Italian statistical study which (with the ingeniousness characterizing most of Italian statistical work) has separated two special causes of accidents not found in other statistical reports: "Striking against fixed or immovable objects" and "sudden movements of the body." Nothing is more natural for any human being than a sudden movement of the body or striking against a fixed object. But it is only when it occurs in a modern industrial establishment that it becomes a source of serious bodily injury. Out of 124,543 accidents studied in one year, 35,652, or 28.63%, were due to the first of these two causes and 12,525, or 10.06% to the second, altogether 38.69%, or nearly two-fifths to these two causes alone. The explanation must necessarily be looked for in the economy of space which, because of the high land values, is observed in all industrial establishments.

This analysis could be continued *ad infinitum*. But enough has been said to substantiate the conclusion that the explanation of the hundreds of thousands of industrial accidents must be looked for not so much in the failings of human nature as

in the material conditions of industrial activity as conducted to-day.

This conclusion is especially true when the graver injuries are studied. Thus, according to German statistics, railroads operations are responsible for 9.71% of all accidents, but this proportion rises to 16.59% when fatal accidents are studied. In the case of explosives, the proportion of all accidents is only 0.64%; of fatal accidents, 2.20%. Inflammable substances, of all accidents, 3.53%; of fatal accidents, 9.04%. On the other hand, tools cause 4.10% of all accidents, and only 1.52% of the fatal ones.

The problem of responsibility for industrial accidents is much more complicated than the problem of definite causation. Even after the definite mechanical cause of each accident has been established, the problem of responsibility may still remain a subject open to difference of opinion, and often dependent upon our views of economic life and even our social sympathies and antipathies. A request for an explanation as to the responsibility from the employer and the injured employee is very likely or rather certain to bring forth directly contradictory replies, as may well be illustrated by any of the thousands of liability suits which are tried each year in American courts. Naturally, when a statistical investigation of this point is made, the results will depend greatly upon whoever is asked to give the information. For this reason, most statistical reports avoid this problem of responsibility because of the very great difficulty of obtaining trustworthy and reliable information.

A few special investigations of this important problem have been made, and their results are very instructive. The most important investigations are those which were made in Germany in 1887, 1897, and in 1907, thus giving in addition the valuable opportunity of drawing conclusions as to the effect of industrial development upon causation of industrial accidents.

The following are the three main factors upon which the responsibility is usually shifted. First, the workman himself who, by his carelessness (or negligence, to use the legal terminology), may evidently cause an injury to himself. This is a conception which is familiar to every one in every-day life, and in reality has been bodily carried over from every-

day life into industrial activity. It is usually the careless man who is run over by an automobile or rocks the boat, or is caught by an undercurrent or takes the wrong medicine, or cuts his finger in sharpening his pencil, and so forth.

Secondly, it is the employer who is responsible for a rotten board used for scaffolding, or a machine which is out of order, for a boiler which explodes, or a steam-pipe which bursts because not properly inspected. In modern industry, the actual employer, often a corporation, may not have any actual knowledge of the conditions of the place and machinery of production, but the conception of " employer " naturally includes his responsible agents.

And then, there is a large class of accidents which are described as due to the " general hazard of the industry." To be sure, this is but a negative explanation, or rather no explanation at all. It simply means either our ignorance as to the real final cause of the accident, or our admission that we do not know how to prevent it. Thus the entire number of industrial accidents may be divided into two large classes, the preventable and unpreventable accidents. At any particular moment our classification of an accident as due to the general hazard of the industry may be a correct one, being an indication of the existing state of knowledge as to accident prevention, compared with the general development of the productive arts. And it is characteristic of our age, which has put a greater value upon the production of wealth than the conservation of human resources, that the science and art of accident prevention is still in its infancy and the hazard of industry is still a very vicious factor in the killing and maiming of human machines.

In addition to these three main factors there are a few minor ones, or rather there is a certain number of accidents which cannot be classified under any of these heads; such as accidents to the causation of which the faults of both employer and employee have contributed much, as when a flagrantly deficient machine is provided and the workman, though conscious of the danger, out of sheer foolhardiness fails to call attention to the fact. Or again, one workman may be injured because of the carelessness of another workman. With the aid of these explanations the following figures will become intelligent.

RESPONSIBILITY FOR INDUSTRIAL ACCIDENTS IN GERMANY

Cause	Percentage of all accidents due to cause specified in :— 1887	1897	1907
Fault of employer	20.47	17.30	12.06
Fault of injured employee	26.56	29.74	41.26
Fault of both employer and employee	4.61	4.83	0.91
Fault of fellow-employee	3.40	5.31	5.94
General hazard of industry	44.96	41.55	37.65
Other causes (chance, etc.)	——	1.27	2.18

Thus German data seem to indicate that: (1) the most frequent cause of accidents is at present the fault of the employee, over two-fifths of the accidents being due to that cause; (2) nearly as many are still due to the general hazard of the industry; (3) about one-eighth are due to the fault of the employer; and (4) only 6% are due to the acts of a fellow-worker. A comparison of the data for the three consecutive investigations seems to indicate that an increasing proportion of accidents is due to the injured employee's own fault, that the proportionate number of accidents due to general hazard of industry, which we have interpreted to mean unpreventable accidents, is declining, as also is the proportion of accidents due to the employer's carelessness, or, in other words, that the employer is gradually learning to provide a safe place and instruments and appliances of production.

Of course, such figures must not be taken as possessing absolute accuracy or universal application.

Thus, in some American investigations vastly different results were obtained. In Minnesota, for instance, when the opinion of the employer was asked as to the cause of the accidents, out of 4,084 accidents only four, i.e., less than 1-10 of 1% were admitted to be due to the fault of the employer; 2,917 accidents, or 71.5%, to the hazard of the industry, and of the remaining 1,163 nearly all (1,036) to the negligence of the injured worker.[1] This seems to indicate, first, that the art of accident prevention is but little understood in the State of Minnesota, and, secondly, that the employer never admits his fault. On the other hand, after a very careful individual investigation of each of the 410 fatal accidents occurring in Pittsburgh, Miss Crystal Eastman found the fol-

[1] Twelfth Biennial Report of the Bureau of Labor, Industries, and Commerce of the State of Minnesota, 1909-1910; pp. 135-88.

lowing causes.[2] (More than one cause being given in some cases, the total number of causes given exceeds the number of accidents.)

Accidents in which—	Number	Per cent.
Victim's fault was indicated	132 times	or 26.3
Fellow-workman's fault "	56 "	" 11.2
Foreman's fault "	49 "	" 9.8
Employer's fault "	147 "	" 29.3
None of these "	117 "	" 23.4
	501	100.0

Here the number of unavoidable accidents is reduced to less than one-fourth, while the employer together with the foreman is the largest factor in the causation, nearly two-fifths being due to this factor, and the injured workman's share is a little over one-fourth.

Keeping these limitations in mind, let us turn once more to the German figures above quoted, and analyze, in some detail, the meaning of the employer's fault and the employee's fault.

ACCIDENTS DUE TO THE EMPLOYER'S FAULT

Accidents due to—	1887 Per cent.	1897 Per cent.	1907 Per cent.
Defective apparatus	7.28	7.15	5.40
Absence of safety appliances	11.03	7.82	4.69
Absence of proper regulations	2.16	1.84	1.97
	20.47	16.81	12.06

These are evidently faults of the organization of the business whether due to the employer personally or his representatives. There is no hurry or pressure about the method of selecting machines or providing them with necessary safety guards, and if a machine or a safety appliance get out of order, it is an evident duty of the management to correct it. The same is true of necessary regulations in a shop, which must take the existing dangers into consideration. But it is quite encouraging to note that, in Germany at least, the improved system of factory inspection and the pressure of the government directly and through the mutual insurance institutions indirectly has largely done away with defective machinery, and still more with the absence of safeguards. In twenty

[2] Crystal Eastman: *Work Accidents and the Law*, p. 86.

years the change was perceptible indeed, as these causes in 1887 claimed 18.31% of all accidents; in 1897, 14.97%; and in 1907, 10.09%, a decrease of nearly 50% in twenty years.

But quite a different picture is obtained if the causes of the employee's negligence or fault are analyzed in greater detail.

PERCENTAGE OF INDUSTRIAL ACCIDENTS DUE TO CAUSES CLASSIFIED AS FAULT OF EMPLOYEE, BY NATURE OF FAULT

Accidents due to—	1887 Per cent.	1897 Per cent.	1907 Per cent.
1. Lack of skill, inattention, etc.	17.09	20.85	28.96
2. Failure to use existing protective appliances	1.82	1.92	2.22
3. Actions contrary to existing regulations	5.35	5.44	9.48
4. Actions of horseplay, mischief, intoxication	2.05	1.19	0.55
5. Unsuitable clothing (aprons, neckties, etc.)	.25	.49	.05
	26.56	29.89	41.26

A great deal has been said of the almost criminal negligence which the German workman has developed under the influence of the too liberal compensation system.

But what do we find? Actions of horseplay, mischief, intoxication have materially decreased within the twenty years; from 2% they have decreased to scarcely more than 1-2%. Unsuitable clothing—a sign of ignorance or carelessness—has almost disappeared as a cause. Failure to use existing protective appliances has increased but little, and that may possibly be explained by the increased speed which is often obstructed by safety appliances.

But there are two well-defined groups of causes which have become considerably aggravated during this period. These are: first, "lack of skill, inattention, or carelessness," and, second, "acts contrary to rules, regulations, etc." As against 22.35% in 1887, these two causes were responsible for 38.44% of all accidents in 1907, a proportionate increase of nearly three-fourths within the twenty years. Are we really dealing here with an increasing factor of human carelessness, a phenomenon of human degeneracy, or is it a result of certain material conditions over which the workman may have little control?

Lack of skill? There can be no charge that the German workman is losing his skill, for the dominating position of German industry in the international trade sufficiently disproves it.

There remain inattention, carelessness, disregard of regulations. To any one familiar with modern industrial conditions all this spells one word "speed." Careful attention to all possible dangers, care in execution of all rules and regulations,—all this requires time, and time is the most precious thing in a modern factory.

The increase of speed in the shops and factories has been the most prominent feature of the industrial development during the last twenty years, so that *a priori* the number of accidents due to this cause would naturally be expected to increase. The figures but corroborate this conclusion. But inasmuch as speed is the condition of production over which the industrial worker has very little control, we are dealing here with a factor which evidently belongs to the hazard of industry. In each individual case it may be easy to point to a definite motion or to a definite act of commission or omission which brought about the injury, but collectively the responsibility falls either upon the condition of industry or upon that party to the industrial contract who orders the degree of speed or at least who profits by it.

Connected with the factor of speed is the factor of fatigue. That fatigue, like speed, of itself induces lack of attention and carelessness has been established beyond any dispute by physiological science. For attention and care means ability of quick reaction to stimulus and fatigue diminishes our sensitiveness to stimulus. And as speed induces fatigue, speed is doubly responsible for the accidents due to inattention.

Because the function of fatigue in increasing the frequency of industrial accidents is so little understood, because the majority of the American people is always ready to explain the accidental injury by the carelessness of the workman, it may be worth while to dwell a little longer on this point. An enormous amount of very valuable material concerning this problem is presented by Dr. Emory L. Bogardus of the University of Chicago, in his admirable study on *The Relation of Fatigue to Industrial Accidents.*[3]

[3] *American Journal of Sociology,* 1911-1912.

As Dr. Bogardus shows by numerous references to medical literature, there are two important physiological effects of excessive effort. First, prolonged muscular activity is accompanied by an actual exhaustion of the energy-yielding material in the muscles, and secondly, various fatigue substances are formed. These exert a poisonous and paralyzing effect upon the whole organism. Because of this using up of muscular material, and because of the accumulation in the muscle of the fatigue toxins, a given group of working muscles gradually becomes less able to respond to the demands made upon it. Other things being equal, the rate at which the working muscle becomes less responsive to stimulation depends (a) upon the rapidity, and (b) upon the difficulty of the given piece of work. The nerve apparatus also becomes less efficient in guiding the working muscles because of the structural changes going on in the nerve cells. Another factor which affects the efficiency of the nerve apparatus in guiding the active muscles, is the poisoning and paralyzing effect of the fatigue substances upon the nerve tissue, because these substances circulate through the blood and affect the brain and other centers of nerve control. Thus the effect of fatigue becomes a double one. Not only do the muscles become less responsive to stimulation, but they receive less and less efficient stimulation from the nerve centers.

The combined effects of these forces result in increasing muscular inaccuracy. A delay in promptness of reaction and a greater number of faults of memory and attention are noticeable after fatigue. It is almost impossible to be attentive when the brain is fatigued. The length of time that ordinarily elapses before one responds with the hand, for example, to a touch on the foot, may be doubled as a result of the effect of fatigue on attention.

It is not difficult to see the important connection between these truths of physiological science and the causation of industrial accidents. " The chief industrial conditions leading up to and culminating in accidents," says Dr. Bogardus, " are those of monotony and speed and unrelaxed tension kept up for a long time." This process seems to result in increasing numbers and extent of muscular inaccuracies, which in turn appear to be the phenomena immediately preceding accidents. To the extent that the stupefying effect of monotony and the

confusion attendant upon " speeding up " are added to the regular development of the fatigue process, loss of muscular control and danger of accidents are increased. The strain is materially aggravated by long hours. And when men and women, kept in a continuous state of fatigue because of long hours, are operating dangerous machinery, the situation becomes doubly vicious. But long hours are not essential. What the modern worker gains in the shortening of hours, he may more than lose in the increased intensity of labor. For under normal conditions, fatigue may be overcome by adequate periods of rest, but in modern industry the workman is often denied the satisfaction of the physiological demands of fatigue. Thus the tendency to recoup the shortening of the working day by reducing the lunch period may have serious effects.

Important corroboration as to the effect of fatigue is found in the study of the accidents by the day of the week and the hour of the day. In this respect a remarkable similarity obtains in the statistical reports of all countries where the problem was studied. It has been established that Monday shows a high accident rate. It is usually explained by the use of alcohol on Sunday and the fatigue following the Sunday celebration. The suggestion has never been offered that changes of occupation occur usually at the end of the week and the new work is begun on Monday, and the lack of familiarity with the new machine or with the new place of work is a fruitful cause of accidental injuries.

But much more significant than the Monday rate is the fact that beginning with Thursday, the accident rate is continuously rising, until it reaches the highest level on Saturday.

RELATIVE FREQUENCY OF ACCIDENTS BY DAY OF WEEK
(The average number of accidents per day is taken as 100.)

	Germany 1907	Italy 1904
Sunday	17.6	32.6
Monday	118.6	112.0
Tuesday	110.3	109.1
Wednesday	109.6	109.7
Thursday	112.3	106.9
Friday	114.0	113.9
Saturday	117.6	115.7

The small number of accidents on Sunday is easily explained by conditions of Sunday rest and needs no further comment.

The difference between the two countries may be explained by greater percentage of Sunday work in Italy. No further explanation suggests itself. But the essential similarity is the comparatively higher rate on Monday and the ascending scale beginning with Thursday.

The effect of fatigue is demonstrated by another interesting phenomenon brought out by accident statistics; namely, the concentration of accidents into the late hours of the forenoon and again in the late hours of the afternoon. For purposes of accident statistics the day is usually divided in the statistical reports of most countries, into eight three-hour periods. Naturally, comparatively few accidents occur between 6 P.M. and 6 A.M. But it is significant that about twice as many accidents occur between 9 A.M. and 12 M. as between 6 A.M. and 9 A.M., and again twice as many between 3 P.M. and 6 P.M. as between 12 M. and 3 P.M.

Now, to some extent this is due to the fact that not as many persons are at work between 6 and 9 in the morning as between 9 and 12, because all workmen do not begin their work at 6 A.M., and again, the lunch hour falling between 12 and 1, not as much work is done between 12 and 3 as between 3 and 6 in the afternoon, but evidently the difference is not sufficiently great to explain the difference in accident frequency.

PERCENTAGE OF ACCIDENTS OCCURRING ACCORDING TO THE TIME OF THE DAY

	Germany	Italy		Germany	Italy
12— 3 A.M...	1.93	1.09	12— 3 P.M...	13.81	14.55
3— 6 A.M...	2.55	2.47	3— 6 P.M...	26.32	26.48
6— 9 A.M...	13.87	15.40	6— 9 P.M...	9.25	7.83
9—12 A.M...	28.42	29.20	9—12 P.M...	3.85	2.54

Even more convincing results have been found in a large number of special investigations in the United States and abroad. Such investigations in Illinois, Wisconsin, Minnesota, and Indiana; in France, Germany, Belgium, England, and Denmark, all establish the facts of:

(1) A marked increase of accidents during the forenoon,

(2) A decided fall after the noon period, and

(3) Another marked rise in the afternoon period,

and the conclusion which Dr. Bogardus[4] draws from these

[4] *American Journal of Sociology*, January, 1912.

figures is one of the well-established maxims of accident statistics. "Continuous work, other things being equal, is accompanied, hour by hour, by an increasing number of accidents, which amply justifies the broader thesis—that fatigue is a cause of industrial accidents."

Perhaps the final results of Dr. Bogardus' investigation may be quoted here. Combining the data of accidents, according to hour, of twelve independent investigations, he obtained the following remarkable series:

DISTRIBUTION OF ACCIDENTS ACCORDING TO TIME
(Between 7 A.M. and 6 P.M.)
Combined result of twelve investigations in different countries.

	No.	Relative No. (*a*)		No.	Relative No. (*a*)
7— 8 A.M.	3732	68	1—2 P.M.	3914	72
8— 9 A.M.	4993	92	2—3 P.M.	5646	104
9—10 A.M.	6326	116	3—4 P.M.	7184	132
10—11 A.M.	7566	139	4—5 P.M.	6533	120
11—12 A.M.	7068	130	5—6 P.M.	4834	89
12— 1 P.M.	2289	42			
				60,085	

(*a*) Average per hour is taken as 100.

The increase from 8 to 11 and from 1 to 4 is striking, unmistakable. To make all the figures strictly comparable, the assurance would be necessary that on an average the same number of people were at work all the time, which is not the fact. All workers do not begin at 7, nor do all stop for lunch at the same hour of 12; and some are through at 5, while others work on to 6. But with all that, the number of persons working between 8 and 11 and between 1 and 4 must be fairly uniform. Combining these two periods, the forenoon and the afternoon, Dr. Bogardus obtains the following results:

Accidents during the first hour (8—9 A.M. and 1—2 P.M.)	9,113
Second hour (9—10 A.M. and 2—3 P.M.)	12,230
Third hour (10—11 A.M. and 3—4 P.M.)	15,064

For every 100 accidents during the first hour there were 135 accidents during the second hour and 165 during the third hour. Thus, out of 400 accidents at least 100, or one-fourth, may be ascribed to this one factor of fatigue.

But perhaps the most interesting corroboration of the fatigue

theory is found in a very interesting analysis that has been made by Italian statisticians. If the increase of the accidents towards the end of the week and likewise towards the end of the day is due to fatigue, then the women, being physically weaker and having less endurance, should show a higher rate of increase both towards the end of the day and the end of the week. This analysis by sex was made by the Italian statisticians, and the results have fully corroborated this hypothesis.

PROPORTIONATE NUMBER OF ACCIDENTS BY HOURS OF THE DAY FOR MALES AND FEMALES IN ITALY

	Males	Females		Males	Females
12— 3 A.M.	8.87	6.78	12— 3 P.M.	117.14	105.16
3— 6 A.M.	21.54	11.93	3— 6 P.M.	206.80	224.12
6— 9 A.M.	123.34	118.97	6— 9 P.M.	62.03	72.82
9—12 A.M.	238.46	250.67	9—12 P.M.	21.21	6.78

PROPORTIONATE NUMBER OF ACCIDENTS BY DAY OF THE WEEK FOR MALES AND FEMALES IN ITALY

	Males	Females
Sunday	30.02	10.84
Monday	112.21	109.67
Tuesday	109.20	108.49
Wednesday	109.83	113.00
Thursday	106.65	110.85
Friday	113.59	118.16
Saturday	114.46	129.24

We may sum up here the conclusions we have arrived at from the study of the causation of industrial accidents. It was found:

1. That industrial injuries are a serious and important characteristic of modern industry.

2. That the accidental nature of these injuries is denied by the definite accident rate of various branches of industry.

3. That three accident classes are recognized; those due to the general hazard of the industry, to the fault of the injured, and the fault of the employer, whose comparative importance is in the order named.

4. That the general hazard of the injury is simply another term for unpreventable accidents, for which under a definite status of knowledge and practice no sure methods of prevention are as yet available, and therefore the responsibility cannot be located.

5. That the accidents due to the employer's negligence are

accidents due to the faults of appliances or methods of production.

6. That the accidents due to the fault of the injured are mainly caused by inattention and inobservance of rules, which may be easily explained by two important conditions: speed and fatigue, and

7. That the study of the time of occurrence of accidents corroborates the theory of fatigue, so that

8. While large numbers of industrial accidents are practically bound to occur, and therefore may in a certain sense all be ascribed to the hazard of the industry, yet this unpreventableness of the accidents is only a manifestation of the conditions of the mechanical and economic organization of industry at the particular time.

Inevitably serious misgivings arise as to the future. How far shall this increase of fatalities and injuries go? The reader must, therefore, be warned at the outset that only one tendency has been studied, and that side by side with it works another towards accident prevention—though with a different intensity in every country, and perhaps with very indifferent results in some. The whole subject of accident prevention is so complex and requires so much technical knowledge that it cannot be treated in this study except incidentally, in so far as it may affect or be affected by the problem of compensation insurance. The final results, however, of the struggle between these two influences, are of grave importance to our problem. It is often charged against the system of accident compensation that it has failed, because under it the number of accidents has increased. Many explanations are offered for this: increased carelessness on the part of the workman who is sure of his compensation, malingery, and even self-infliction of injuries. It is evident that industrial development in itself contains the explanation for the increase of accidents, and when this influence is not counteracted, the number of accidents actually shows a rapid increase. But for a scientific answer to the inquiry the more thorough European statistics must be carefully studied, as was done by Dr. H. J. Harris [5] for Germany,

[5] *The Increase in Industrial Accidents*, by H. J. Harris. Quarterly Publications of the American Statistical Association, March, 1912 (Vol. XIII, 1-28).

Austria, and Great Britain. By means of an elaborate presentation of statistical data, he is able to arrive at the following conclusion:

"In Germany, Austria, and Great Britain, the serious accidents, namely those causing death or permanent disablement, show a tendency to decrease. The progress in the movement for reducing the risk of industry, therefore, has resulted in distinctly reducing the risk of death or permanent disablement, but has not yet diminished the risk of temporary disablement."

It is hoped that the preceding pages have furnished sufficient evidence of the great importance of accident statistics. Not only for the proper scientific understanding of the nature of industrial accidents, but at least for two practical reasons are accident statistics absolutely necessary. An efficient campaign for prevention of industrial accidents, or at least for the reduction of their number, is impossible without a thoroughly statistical study of its causes. And a proper organization of accident insurance, is equally dependent upon accident statistics. A glimpse of a few of the more important results of accident statistics in many European countries indicates the wealth of information there collected. The United States have almost nothing to show that would at all approach this.

Very few states collect any accident statistics at all, in still fewer of them are they properly analyzed and studied, in none of them is the number of accidents reported at all near the actual number occurring, and in each of them they are gathered and elaborated in a different way.

For this reason the movement which has grown within the last year or two among American statisticians, economists, and representatives of Labor Bureaus for a uniform system of accident statistics deserves mention here. The movement originated within the American Association for Labor Legislation, and was made the subject of two conferences, as a result of which a very detailed standard schedule was prepared for accident reporting. Even a glance at this schedule will demonstrate what a complex event an industrial accident is. It contains altogether nearly sixty distinct queries, as to the employer, industry, time, and place of accident; as to the social, economic, and industrial status of the injured employee; the cause of the accident and manner in which it occurred, the re-

sulting injury, the nature of medical aid, subsequent effect upon earning capacity, and final effect. The importance of a universal adoption of this schedule by all the states of this country is very great. But perhaps no less is the uniform elaboration and presentation of the results obtained from these uniform reports to be desired.

CHAPTER VI

THE INDICTMENT OF EMPLOYER'S LIABILITY

In the preceding pages we were piling up gruesome figures but said nothing of the enormous amount of physical suffering which these figures bore witness to. We will waive this aspect of industrial accidents entirely and devote ourselves to their economic effects, which must be enormous, unless they are instantly met. As they have been met in almost all European countries for many years, European experience at present may offer little for the study of economic misery resulting from industrial accidents. But in the United States, where, until a very few years ago, almost the whole burden fell upon the workmen and their families, industrial accidents were admitted by all students to be one of the most important causes of poverty.

No large, comprehensive investigation of this problem has ever been undertaken, nor does it seem to be necessary, as the situation is quite obvious except for its quantitative measurement. A few investigations on a very small scale give an indication of the effects of grave accidents upon the economic status. Thus, the New York Commission on Employer's Liability investigated 186 families of married men killed by accidents.[1] Ninety-three of the widows had gone to work to support their families; in nine families children under sixteen had gone to work; in thirty-seven families the rent was reduced; thirty-three families had received aid from fellow-workmen of the deceased, from relatives and friends, or from charity. Ten families were found destitute. Here we have the economic results in a nutshell. If multiplied by the necessary factor, to account for the 30,000 fatal and at least 400,000 grave accidents occurring each year, they would mean thou-

[1] Report to the Legislature of the State of New York by the Commission appointed under chapter 518 of the laws of 1909 to inquire into the question of employer's liability and other matters. First Report, p. 27.

sands of widows and children annually sent to work, thousands of families thrown upon private and public charity, thousands of families reduced to destitution, and tens of thousands with a material reduction of the standard of living. That evidently is the inevitable result, unless a system of compensation exists, or any other effective method of shifting the burden of the economic loss from the injured employee or his family to some one else.

In Europe, as in the United States, when the problem of compensation first presented itself, many objections were raised against it. Perhaps the most persistent, most tenacious, was the legal argument, which reduced itself to this: that for an industrial accident either the employee or employer was responsible: that in the former case he was himself to blame for his carelessness, and it was just that he should suffer for it, and that if the employer was to blame, the injured employee had ordinary legal redress in court, as has every human being when damage was caused to him by another. As this argument is still very much alive, it is necessary to examine, in as simple and untechnical a way as possible, the legal rights which the workman has to force from his employer payment of damages in case of industrial accidents.

In most European countries, the principle of the so-called Code Civil (the Napoleonic Code) was applicable to this situation. In England and in the United States, the English Common Law regulates these relations, as modified by special enactments. While both legal systems were decidedly insufficient to reach the economic problems arising out of industrial accidents, there nevertheless is a very serious difference between the two, a difference very much against the Anglo-American system of common law.

The principles of the Code Civil applicable to industrial accidents and fairly uniform in the codes of France, Belgium, Italy, Holland, Switzerland, and other countries, do not refer to industrial accidents specifically. They are simply the fundamental principles of legal responsibility for damage caused by one person to another. In other words, they establish the responsibility for fault. Specifically they provide:

(1) That any damage done by one person to another must be repaired by the one who is at fault;

(2) That he is not only responsible for damages which he

has done by his act, but also by his negligence and imprudence, and

(3) That he is likewise responsible for injuries caused by the act of persons for whom he is responsible, or by things which are in his charge, this contingent liability covering the acts of agents, wards, and servants.

On the basis of these legal principles, an injured employee may prosecute in court, in a manner similar to all civil lawsuits, a claim against his employer, if he can establish that the accident causing his injury was due to the employer's fault, a fault either of omission or commission. In the light of the general results of accident statistics, the law as pronounced in these articles is applicable only to a portion of them—as to how big a portion individual opinions will differ. An impartial investigation by outside experts seems to point to about one-fourth of all accidents due to the employer's fault. But such an expert opinion is very different from a judicial proof, and the burden of proof under the Code Civil lies upon the claimant, the injured, as it does in all other civil suits. The liability as established by the Code Civil does not in any way differentiate between an employee and an outside person who may be injured. It does not apply to the accidents due to the injured person's own fault or negligence or to the vast majority of accidents due to the ordinary hazards of industry. It has been stated in France, officially, that under this law about one in ten accidents resulted in compensation.

Similar to the Code Civil, our English Common Law of Employer's Liability for personal injuries to the employee, is based exclusively upon what the lawyers define as "tort," a wrong, a fault of either commission or omission. But in distinction to the Code Civil, Common Law, under the influence of certain early decisions of British judges, puts further limitations upon the rights of the employee as compared with the rights of an outsider, by creating special defenses, i.e., special conditions under which an employer can waive his responsibility to the employee, which he could not apply in case of injury to an outsider. During the last few years, because of the agitation for accident compensation in the United States, so much has been written in explanation of our Common Law of Employer's Liability that perhaps it is not necessary to go into great detail in this place. It

is sufficient to quote one of the best brief statements of the doctrine we are able to find.[2]

"The Common Law of employer's liability for personal injuries to employees is based exclusively upon the idea of tort or wrong. Roughly outlined, its general rules (with minor variations in particular states) are as follows: The employer is liable to an employee for full damages for any personal injury proximately due to the employer's negligence or wrongful act. It is the employer's due to exercise ordinary care in his operations, in his relations with his employees, and in the selection of co-employees and to provide ordinarily safe working places and conditions and ordinarily safe tools, machinery, etc., allowing, however, for the nature of the employment. The risks of employment, unavoidable by such means, the employee is deemed to have assumed and for injuries resulting therefrom there is no liability (rule of assumption of ordinary risks). But even if the employer fails in his duty, yet if the employee with knowledge of such faults nevertheless continues in the employment, he is deemed to have assumed the risks therefrom, and if injured thereby, the employer is relieved from liability (defense of assumption of risks). If an injury results from the wrong or fault of a co-employee, unless the employer has failed to exercise due care in his selection, or such co-employee is in fact the employer's *alter ego* and charged with his duties as such, the employer, being without fault, is not liable (fellow-servant rule, generally called the defense of fellow-servants or co-employee's fault). If the injury results in part from the employer's fault, but the injured employee's fault contributes thereto so that the injury would not have occurred without it, the employer is relieved from all liability (defense of contributory negligence). If the injury is fatal the employer escapes liability, because although he has done a wrong, it is deemed personal to the injured employee, so that no cause of action therefore survives his death. (This rule, however, has been so long and generally changed by statute, that it is now the common rule that the cause of action survives in favor of next of kin, etc.) Finally the burden of proof as to all points is upon the injured party, and in some states he has the additional burden of proving absence of contributory negligence."

It is difficult to find a more eloquent example of an essential contradiction between the principles of common law and ordinary conceptions of justice. Not only is the abstract principle of individual responsibility carried to its utmost extreme without any consideration as to its social results, but this logic is decidedly one-sided. For under the doctrines of assumption of risk and contributory negligence, one side, the stronger

[2] By Professor E. Freund, of Chicago University: *American Labor Legislation Review*, October, 1911, pp. 89-90.

side, entirely escapes its responsibility for its acts, because the entire responsibility is placed upon the other side.

It is no exaggeration to say that under the common law, in its pure form, as stated above, only in very exceptional cases could an injured workman expect to obtain damages from his employer. Even when there is employer's fault, the three defenses, and especially those of assumption of risk and contributory negligence, would apply in the majority of cases, and in the remaining the difficulty of establishing proof of employer's fault would be enormous.

It is quite natural, therefore, that the improvement of the legal status of the employee suffering from an industrial injury was one of the first concerns of a rising labor movement. It expressed itself in England and in the United States in efforts to limit these three so-called "defenses."

Scarcely a year has passed in the United States for the last twenty-five years, without some legislation on this topic of employer's liability. In each of the fifty states separate acts were and are passed concerning each one of the separate "defenses," often changing the legal rules in a few or only one industry at a time. It would be quite impossible to give here even a brief outline of the present status of employer's liability as affected by these legislative enactments. Only the general tendencies may be commented upon here.

In abolishing or limiting the so-called defenses, new legislation was only attacking the weakest points in the old system of employer's liability. It was improving the chances of the injured workman to recover in some cases, but left the majority of cases undisturbed.

Thus, there was the famous or perhaps infamous defense of the fellow-servant. From the standpoint of purely formal justice it was argued that in no way could or should the employer be held responsible for the injury caused by one employee to another. If one workman did so injure his fellow, how was the employer to be blamed? And if blameless, why should he be mulcted in damages? But in a modern corporation, when all living beings are employees, and the employer a soulless corporation, that doctrine alone was enough to make recovery of damages impossible in any case. Even if the engineers and firemen of railroad trains were killed by a head-on collision because of the mistake of a telegrapher, their

families could not recover damages because of the fellow-servant doctrine. And so the fellow-servant defense was gradually limited by excepting the employees acting in an administrative capacity, so that they ceased to be fellow-servants for the purpose of defense; or again employees of different departments of the same establishment were pronounced not to be fellow-servants, or the doctrine was abolished altogether, either for certain industries or for all employments.

Still more unjust is the doctrine of assumption of risk, which is based upon a purely hypothetical consideration, that the wage-worker is a free individual, who is at liberty to throw up any employment containing special elements of danger; while, as a matter of fact, no sane man can claim that the average workman is in a position to refuse employment just because it is dangerous, or because his employer is not as careful as some other employer. As applied in some states, even a criminal disregard by the employer of laws regarding certain precautions or safety devices did not make him liable for damages as long as he could prove that the workman knew of the danger implied and, therefore, assumed the risk. Nor can there be any difference of opinion as to the essential injustice of the rule of contributory negligence, which declares that when both employer and employee were at fault, the employer is not liable at all, so that the entire loss of accident falls upon the injured employee.

But even if all the three defenses had been abolished altogether in all the states, which they were not,[3] and even if none of the acts had been declared unconstitutional, which was the fate of many of them, all this legislation could not have solved the question of industrial accidents, if the proper solution were admitted to be the guarantee of compensation in all accidental injuries, for the principle of fault was left intact.

What were the economic effects of this system of employer's liability? While many large volumes have been written devoted to the minutest description of the legal differences between one state and another, the economic results were scarcely studied until very recently, and when studied were found to be substantially uniform throughout the United

[3] The condition before the adoption of the compensation acts by any state is discussed here.

States, except as to quantitative differences between one state and another.

The first important result naturally was that a vast majority of the accidents remained altogether uncompensated. In the nature of things no statistics on this point are available. For even if all lawsuits arising from employer's liability were studied, that would not give any reliable relation of the accidents compensated. Naturally only those cases reach the courts where the injured employee, or rather his attorney, see any reasonable chance of establishing the liability before the law. On the other hands, many cases, where the employer's attorneys recognize the existence of liability, are settled out of court, because they may be settled cheaper. Thus the New York State Employers' Liability Commission has endeavored to ascertain this point from data accumulated by liability insurance companies, with the following results covering the three years 1906-1908:[4]

	Number of injuries reported	Number of injuries for which payment was made	Percentage of injuries paid for	Number of injuries reported for one paid for
9 companies reporting employer's liability separately	414,681	52,427	12.64	7.99
5 companies (*a*)	279,531	36,414	13.02	7.67
14 companies reporting	694,212	88,841	12.78	7.81

(*a*) For these companies all forms of liability insurance, i.e., in addition to employer's liability, also the liability of an employer to outsiders injured (so-called public liability), real estate owners' liability, automobile liability, etc., are included. For this reason these companies show a slightly higher percentage of injuries paid for. But as the employer's liability constitutes for all companies very much the larger part of all liability insurance, there is no objection to using their data.

It is true that the use of these figures has been objected to by some representatives of liability insurance companies, on the ground that the injuries reported include a large proportion of very trivial ones, which have caused no perceptible economic loss to the insured, and every one who is familiar with the business of liability insurance will admit the justice of this contention. But after all, even if some 25% of such injuries were in that class, or even 50%—which is highly improbable—the essential fact would still remain that the vast majority of injuries are not paid for at all.

[4] Report, etc., p. 87.

Because of these and similar figures it has often been assumed in the United States that the liability companies are primarily responsible for the low percentage of accidents paid for. As a matter of fact it is extremely likely that the percentage is very much less for injuries outside the practice of liability companies. For one thing, the employer is often much more favorably inclined to the claimant because his premiums to the liability company have been paid and he has nothing more to lose. The injured employee is much less afraid to sue his employer when a liability company stands behind him, and is often encouraged by his benevolent employer to press his claim. The juries are much more inclined to be liberal with the plaintiff when the real defendant is an insurance company. It is for these reasons that liability companies usually, though seldom successfully, stipulate that their relations with the employer remain a confidential matter. Finally, the liability company is more anxious to settle a suit or prevent a suit by compromising a claim because it is solvent, while a small employer derives strength from his financial weakness.

2. The amount of compensation when obtained is usually small and seldom bears any proper relation to the gravity of injury or need.

Occasionally we are startled by the very large and undoubtedly sometimes even excessive amounts of damages awarded. Not many of these verdicts survive when they reach our Court of Appeals, but some do. They are in the nature of punitive damages, and there is no doubt that in many cases the punishment for carelessness of the employer is well deserved. But punishment is evidently not the object of social legislation.

Yet such high verdicts are rare, and the majority are very much lower; and unable to meet the high cost of litigation with a delay of several years and the uncertainty of a verdict, the injured or his dependents usually accept ridiculously small amounts for the injury sustained. This generally known fact is at present supported by several investigations.

Out of 227 fatal cases for which information was obtained by the New York State Liability Commission, 93, or 41%, received no compensation, and 23, or 10%, less than $100; 72, or 33%, received $100 to $500; 16, or 7%, from $500 to $1,000; 11, from $1,000 to $2,000; 9 from $2,000 to $5,000, and 3 over

$5,000. The three cases with a considerable compensation, or even the twelve with compensation over $2,000, present no remedy for the 40% of cases not compensated, and 43% compensated with a very small amount. The average compensation for fatal accidents as computed by the New York Commission, taking only compensated cases into consideration, was $922, and if all the cases are considered, it was only $551, but even such a pitiful average would have been better than the uneven distribution of compensation paid. Of course, when legal liability existed, and when the workman had both the necessary means and character to prosecute his claim, the compensation was considerable, but such cases were few. When there was a settlement without suit the average amount was about $700. Under a settlement out of court after suit has begun, the average amount was nearly $1,500, and when damages were recovered the average amount was over $5,000. But there were 81 cases of the former, 23 of the second, and only 7 cases of the last group. A good deal to a very few and nothing or very little to most, seems to be the principle upon which the liability system worked itself out. Similar results have been recorded wherever the same problem has been studied. Miss Crystal Eastman found that out of 323 fatal cases, in the Pittsburg districts, in 89, or 28%, the families received no compensation at all; in 113, or 35%, less than $100; in 61, or 19%, from $100 to $500; and in 41, or 13%, from $500 to $1,000, and only in 19, or 6%, over $1,000. The situation was even worse as far as non-fatal but permanently disabling injuries were concerned.

There is no doubt that the situation in Pennsylvania is rather worse than that in many other states. But essentially the situation is the same everywhere where a liability system persists. In Wisconsin, for instance,[5] according to an investigation of the local Bureau of Labor and Industrial Statistics, out of 51 cases of fatal accidents, 16 received less than $100, 18 from $100 to $500, 9 from $500 to $1,000, and 8 from $1,000 to $3,000. In two-thirds of the cases the amount received was too small to have any perceptible economic effect. Naturally the situation was not much better in non-fatal injuries. In 434 cases the compensation granted by the em-

[5] Thirteenth Annual Report of the Wisconsin Bureau of Labor and Industrial Statistics, 1908, p. 54.

ployer was as follows: Nothing in 100 cases, or 23%; doctor's bill only 170 cases, or 39%; something but not doctor's bill, 63 cases, or 15%; something in addition to doctor's bill, 101 cases, or 23%.

In Michigan the results of 68 trials of liability suits in non-fatal cases were studied, showing a total recovery of $45,745, or $675 per case. This showing seems rather satisfactory until it is further analyzed, when it is found that 32, or nearly one-half, of the cases received nothing, while in 8 cases the amount was $3,000, and in 4 of these $5,000 or over.[6]

In Minnesota, out of 54 cases of fatal injuries, 14 were not compensated at all, 7 received $100 or less, 13 from $100 to $500, 6 from $500 to $1,000, 10 from $1,000 to $3,000, and 4 over $3,000, the amount rising in one case to $6,352. The total amount of $45,170, giving an average of $836, while low enough, does not convey the real amount of destitution left unprotected.

On the other hand, the amounts received occasionally are quite heavy, unjustifiably so if we remember that the physical pain cannot be compensated but only the economic loss. Thus the Minnesota Report quotes the records of 13 recoveries in case of partial permanent disability. In these 13 cases the total amount received was $71,977, or $5,536 per case, and the awards varied from $1,000 for two fingers off to $10,500 for the loss of an arm, and $16,000 for the loss of a leg.[7] Perhaps the reader might argue that *he* would not think even $16,000 an adequate exchange value of a leg, but the fact of the matter is that $16,000 is a much larger sum than the capitalized value of the loss of earning power because of loss of a leg.

3. The compensation is obtained through the courts only after a long lapse of time, and not when it is acutely needed, so that it fails to meet the destitution caused by the injury speedily.

This is so well known that it scarcely needs much statistical proof. The mills of justice grind slowly, though they do not even, as was shown above, grind exceedingly well.

[6] Report of the Employers' Liability and Workmen's Compensation Commission of the State of Michigan, Lansing, 1911, p. 17.

[7] Twelfth Biennial Report of the Bureau of Labor, Industries, and Commerce of the State of Minnesota, 1909-1910, pp. 159, 167.

The Insurance Year Book for 1911 conveys the startling information that on December 31, 1910, fourteen liability insurance companies reported 13,043 suits outstanding. And yet these fourteen companies do not by any means cover the largest share of American industry. These 13,043 suits were distributed according to the year when the accident occurred as follows:

Prior to 1901	42 suits	1906	743 suits
1901	23 "	1907	1356 "
1902	52 "	1908	2450 "
1903	106 "	1909	4783 "
1904	167 "	1910	2950 "
1905	371 "		
			13043

Thus there are thousands of claimants who must wait from one to five years, and many hundreds waiting from five to ten years for the final decision on their claims. There are many courts of different importance, and the defendant can and does resist the claim unless he can obtain a satisfactory settlement. He is the more justified in doing so, that in the upper courts where the cases are decided on appeal on points of law rather than on evidence, the verdict is much more favorable to the employer. The Wisconsin Bureau of Labor [8] reports that in the lower courts 64.5% of all cases were decided in favor of the workingman, and in the upper court only 38.4%. The dragging of the cases through the various jurisdictions takes time—a long time measured in years. And often the hope of exhausting the plaintiff, so as to force a settlement for a more modest sum, is the only reason for dragging the suit. As a result, a vast majority of claims are settled privately out of court, and usually for a smaller amount. Thus, the investigations of the U. S. Employers' Liability and Workmen's Liability Commission show that of 5,948 fatal cases paid for, 5,672 were closed by settlements, and only 276, or 4.5%, by court judgments. For the former the average payment was $1,157, and for the latter $2,536. The price paid for avoiding this harmful delay is, therefore, a very heavy one.

4. A large share of the amounts received is socially wasted in that it goes to pay the attorney's fees, and so the actual amount which reaches the injured or his dependents is usually

[8] Thirteenth Annual Report, p. 85.

smaller than the amounts stated above appear to be. The New York Commission compiled a few interesting data illustrating this situation.

In 14 out of 51 cases investigated, the fee was less than 25% of the receivable amount, in 16 from 25% to 34.9%, in 7 from 35% to 49.9%, and in 14 50% or over. Altogether in 46 cases $72,817 was paid. Of this amount $19,194, or 26.3%, was expended on lawyers' fees. In settlement without suit the proportion was 17%, in settlement after suit 30%, and in cases of damages recovered as much as 37%. That alone tends to influence the beneficiary to receive a smaller amount in private settlement.

5. Finally, whether the injured employee recover any damage or not, as soon as he begins to press his claim to the point of suit, he loses his position, even if his disability is not permanent, or if permanent not a total one. According to the Michigan report so often quoted, in the case of one court reporting twelve cases, every one of the claimants lost his position on account of his claim. The danger of this is so well understood that the fear of this alone undoubtedly keeps many from pressing their claims.

Thus the case against the system of employer's liability from the workman's point of view is quite strong and simple. As a result of this method of recovery in case of an injury (1) a majority of cases remain altogether uncompensated; (2) the amount of compensation when recovered is usually small when it is not erratically large; (3) it is slow in coming; (4) a large part of it is lost in attorney's fees, and (5) the workingman is often kept from asserting his rights because of fear of losing his position.

Perhaps somewhat more paradoxical is the fact that the existing system of employer's liability has been found unsatisfactory from the point of view of the employer as well. Most of the objections which have been enumerated above are such as to sacrifice the interests of the wage-workers in the interests of the employing class. Why, then, is the condition found unsatisfactory from the employer's point of view?

1. The system of employer's liability, while intended to limit the responsibility of capital for damage done to the human machine, does not appear as cheap as it seems. The danger of lawsuits and adverse verdicts is a serious one. The

amount is uncertain. For this reason the expense incurred is larger than the number of compensated accidents would indicate. And if a claim for damages goes to suit, then even a successful resistance costs, and costs heavily. Naturally, all these expenses, and they are heavy, are pure waste as far as the injured employee is concerned. The humane employer readily agrees that it would be better if this amount would be used for actual relief.

2. Another objection to the liability system from the point of view of the employer, is the friction and irritation in relation between himself and employee which the prosecution of claims, the appearance of his employees as witnesses, either against the employer, which is unlikely, or against their old associate, which is demoralizing, must produce. This constant irritation and friction interferes with the efficiency of an industrial organization. For this reason employers are forced to contribute voluntarily (paradoxical as this may sound) large amounts in payment of medical and surgical fees, hospital charges, funeral expenses, and payment of wages for time lost and contributions to employees' benefit associations.

But besides the injured workman and the employer, there are also the general interests of the social organism, which are seriously affected by the existing liability system.

1. The cost to society. A large amount of economic dependency and destitution is caused by industrial accidents uncompensated or insufficiently compensated. Modern society has reached a certain level of civilization at which it is manifestly impossible to leave cripples or innocent widows and orphans without any means of support. Charitable relief, either private or public, must step in to render some assistance. That this relief is usually very meager and barely sufficient to keep body and soul together goes without saying. But even then, it creates a claim upon charitable relief which is utterly unjustifiable, as large industry is fully able to bear the cost of its wreckage. This, a burden which properly belongs to industry, is transferred to society at large.

2. Still more important than the economic cost is the moral effect of this enforced pauperization of thousands of workingmen's families, which from a social point of view is a very serious problem indeed.

3. The destitution of the cripple or his relatives has a very injurious effect upon the general standard of life of the working class. Much more frequently than organized charity are relatives of the same economic class called upon to render financial aid, thus either decreasing the meager reserve fund, or reducing the standard of life of another workingman's family.

4. Perhaps of less importance, though quite conspicuous and, therefore, often mentioned is the very large cost to society of the litigation arising out of employer's liability, which represents perhaps the largest part of the activity of our higher courts. To the waste of attorney's fees on both sides must be added the cost of trial to society. How large this cost must be may be surmised from the fact, that within the period of ten years fourteen liability insurance companies were called upon to meet 84,908 suits on behalf of the employers insured with them.[9]

5. And perhaps greater than the financial cost is the cost in demoralization to which these liability suits invariably lead. For the amount of misrepresentation and perjury on the part of claimant, defendant, witnesses, and experts, which develops in these suits, though not easily measured, must be appalling.

[9] Insurance Year Book, 1911, p. A 101.

CHAPTER VII

CASE FOR COMPENSATION

One is inclined to become very impatient with the slow progress of social changes, when one remembers that the whole discussion of the drawbacks of the liability system which goes on in the United States at the present time, is but a repetition, with slight variations of detail only, of similar discussions in Continental Europe, out of which grew the modern conception of accident compensation with entire disregard of the legal concept of negligence or fault.

Of course it took time even in Europe before the justice of such a solution was admitted. Not only was the legal principle of fault defended as a principle of abstract justice but also from a broader point of view of social utility. It was argued in defense of the doctrine of assumption of the entire risk by the employee, that the comparative risk of employment was taken care of by the wages; that the wages for the more dangerous work were higher because of this risk, thus providing a fund out of which provision could be made in case of injury either by saving or by private insurance.

It is a plausible argument, which, like many plausible arguments in the field of practical economics, meets the serious difficulty of lacking support in facts. It has never been statistically established that there is any correspondence between the comparative risk of an occupation and its remuneration, such as there undoubtedly is between remuneration and skill. And if in a few dangerous occupations fairly high wages are given, it is usually found to be dependent rather upon the skill than the risk incurred (such as in structural iron-working). On the contrary, there are a very large number of occupations of extremely high risk and extremely low pay—such as coal-mining, unskilled labor in the iron and steel industry, loading and unloading.

The few efforts to investigate this problem which have been made seem to give substantial evidence in support of this con-

tention. For 224 workmen fatally injured in New York during 1907-1908, and investigated by the New York State Employers' Liability Commission, the average wage was $15.64 per week, and in 60% the wages were less than $11 and in 25% less than $12.[1] Among 1,399 injured persons studied by the New York Labor Department, 928, or 62%, earned less than $15, and 643, or nearly 50%, less than $12.[2] Moreover, the theory, even if true, would offer a very poor remedy for the situation that exists. Perhaps no one could better demonstrate the total absurdity of this argument than did Mr. M. M. Dawson before the first Conference on Workmen's Compensation Acts held in Atlantic City in the summer of 1909.[3]

Said Mr. Dawson:

"Let us assume for a moment that it is the case. Now, if all the employees of the United States Steel Company, we will say, are receiving in their wages in the aggregate a financial equivalent of all the accidents causing the death of men in that employment and injury of others, it means that, in the aggregate wages paid by the company, compensation at least equal to the amount that would be paid under a proper workingmen's compensation is already being paid by the employer. And it means something else. If this is true, I think you will all agree with me, that the following would be a very proper thing to do: First, determine what the wages ought to be without that extra compensation; then wait until the end of the year, calculate what the cost of all industrial accidents in that enterprise has been during the year, and send each man his proportionate amount. I wonder how many of you would be willing to see that done? I wonder how many employers throughout the United States would be willing to see the money that should go to widows and orphans on the deaths of husbands and fathers, divided up in that manner among those who are still living. If that condition should exist, it would be the most monstrous waste in the whole proposition."

The only proper thing left to the workman would be to use that extra amount in purchasing accident insurance in a private insurance institution, paying any amount that institution would care to charge, and thus putting the well-being of the workman's family, who are sufferers with the workman himself in case of injury, upon the mercy of the workman's good judgment.

That, too, is no more an idle theory. It has been tried,

[1] Report, p. 91.
[2] Report, p. 213.
[3] Report of Atlantic City Conference, p. 20.

and repeatedly, in Europe by various means stimulated to encourage workmen to obtain private accident insurance. Perhaps the best known experiment is the one made in France, where, in 1866, a National Accident Insurance Fund for industrial workmen was established. For over thirty years, until a compensation law was adopted, the results of the operation of this institution were ridiculously insignificant.

Under the influence of the energetic solicitation of private insurance companies, and thanks to the development of fraternal and similar organizations, private voluntary insurance among workmen of the United States is more popular perhaps, than it ever was in any country. But even then only a small proportion carry any insurance, the amount provided for is very small, the cost is very high, and the more dangerous is his occupation, the harder it becomes for the workman to obtain any accident insurance at all.

The other argument for preserving the basis of fault which was still more persistent, based itself upon those accidents which are due to the workman's fault. It was argued that to make the employer responsible for such accidents was not only unjust, but even socially harmful, because it would only increase the carelessness of the employee and increase the number of accidents.

In Europe the battle with these legal and social defenses of principle of fault as the proper basis for employer's liability was fought many years ago. When following the German movement, which started about 1879, the legislative bodies of other countries began to study the question of industrial accidents, at first the tendency was to preserve the causation of the accident as the basis for remedial legislation.

First there were the accidents due to the employer's fault. It was felt that even in these cases it was not always easy for the workman to establish his claim, because it was difficult to bring proofs satisfactory from a strictly legal point of view, and so the earliest proposals in Germany, Italy, and France were for a reform in that particular—a change in the burden of proof, as the legal phrase goes, so that instead of the injured workman being required to show the employer's fault, it would be necessary for the employer to prove that the accident had occurred without any negligence on his part.

The next step was the announcement of the principle of "trade risk," "risque professionelle" as the French have termed it. The clearest expression of this is found in the Swiss Employer's Liability Law of 1881, which established the liability of the employer not only for accidents caused by his own negligence or that of his agent or representatives, but also made the employer liable "when an employee or workman is killed or injured on the premises of his factory and through the operations of the same without such negligence on his part, unless he can prove that the accident was caused by a superior force, or by the crime or misdemeanor of other persons, or that it occurred through the fault of the persons killed or injured."

This last provision covers the field of "trade risk."

The recognition of this conception of trade risk, as distinct from any fault, in the legislation of some countries and in the literature of many others, was a very important step in the right direction. The conception included not only the recognition that a large number of accidents may happen without any one's fault, simply as a consequence of certain industrial processes, but that because of this the industry and not the employee was responsible for this, and was to bear the financial burden of it.

The employer as the representative of the industry, as the one who assumed all the economic risks of the undertaking, and who also claimed all the residual profits, was, therefore, to be responsible not only for accidents due to his fault, but also for the other large class due to the trade risk.

When social and legal thought got so far, the way was paved for further progress of the compensation idea. For the shortcomings even of such a system did not fail to show themselves. The greatest of them was the stimulus to constant prolonged litigation in each individual case, necessary to determine the question of fault, which was still left open.

But the backbone of the principle of fault was broken, once it was admitted that the employer should be held responsible for other accidents than those for whose causation he was in any way responsible. Such an extension of the employer's liability could evidently be defended only on an entirely different assumption—an assumption that industrial accidents presented not so much a legal as an economic and social prob-

lem, that the wear and tear of the human machine, like the wear and tear of the inanimate machinery, should, therefore, be considered a necessary part of the cost of production, to be provided for out of the price, before profits may be computed.

That is the underlying principle of the theory of accident compensation. To be consistent, this theory must entirely disregard the question of causation, leaving that to the field of accident prevention through factory legislation and inspection. In addition to all the other arguments, this theory was obstinately opposed by many employers on the ground that it created an excessive burden upon industry. But the argument is easily met by the consideration that the cost of support of persons disabled must fall upon somebody, for society cannot quietly stand by and see them go into destitution, often without any fault of their own. Now, if the burden of industrial accidents must be borne, by whom shall it be borne? By the wage-workers entirely, the weakest economically, who in addition must bear the physical pain, mutilation, and death—or by the charitably inclined, who may give out of the goodness of their heart but may not give enough? Or by various branches of industry in proportion to the injury done to human lives and health? Why not the State?

The general acceptance of compensation laws was the answer that European thought gave to the question. This acceptance presupposed that to the accidents due to the employer's fault and to trade risk, were added finally also those which are due to the injured employee's own fault.

This general development of the compensation idea out of the liability idea was independently gone through by all countries having compensation acts. In all of them, many years of discussion, agitation, and parliamentary struggle preceded the enactment of the law, and in this development the following stages have usually been observed:

1. Suggestions for change in the burden of proof.
2. The growth of the concept of trade risk and efforts to place liability for it upon the employer.
3. Efforts to divide industrial accidents into three groups, those due to the employer, trade risk, and employee, strengthening the liability legislation in favor of the first, creating a compensation scheme for the second, and leaving the last unprovided for.

4. The gradual growth of the compensation idea, with exceptions in case of fault of employee.

5. Further extension of the compensation idea so as to except only accidents due to gross negligence or wilful misconduct, and,

6. The final extension of the compensation scheme over all industrial accidents without any exceptions.

It must be understood, however, that this development of the compensation method was not entirely at the cost of the employer, and that indirectly the workmen had to sacrifice a good deal. Together with the principle of fault went also the principle of full damages, to be determined in open court by a sympathetic jury. Compensation was not a free gift to the workman, for it was purchased at a cost of a limited scale of compensation. If, on one hand, the industry was to assume responsibility for the cost of all accidents, on the other hand the injured workman, in return for this advantage of not going to expensive lawsuits, was to be satisfied with a limited amount adjusted to his needs, but not representing the entire economic loss sustained. Even under the best compensation system existing, the injured employee shares a part of the economic loss as well as the entire cost in physical pain.

Is the compensation system worth while? It may be admitted that it represents a higher cost to the industry even under a limitation of compensation. It may be admitted, on the other hand, that even the best compensation system does not fully compensate the injured workman for the loss sustained. But under these two conditions, is the compensation system worth while? What are the arguments to be made in its favor?

The defense of the compensation system must be made on the same lines on which the indictment of the liability system was drawn. But it will do no harm to summarize the arguments briefly again.

1. The first and foremost argument is evidently the relief of human suffering and distress, which the liability system has failed to accomplish. The compensation system relieves all injuries, and relieves them swiftly, automatically, without unnecessary delay and litigation.

2. It puts the burden of cost at least partly where it belongs, upon the industry, and not upon the wage-worker him-

self, his dependents, relatives, or private or public charity. It saves the thousands of injured the degradation and demoralization of becoming paupers without any moral fault of their own, and prevents them from depressing the general standard of life of the wage-working class.

3. It saves the enormous waste of litigation, not only to the injured employee, but also to the employer.

4. It prevents an enormous amount of unnecessary friction between employer and employee, which otherwise results in serious conflicts.

The first three of the arguments quoted above have been discussed quite fully in earlier pages. But the last one may raise many criticisms, and from the most opposite quarters.

It is well known that in a very much broader interpretation this was the argument which moved Bismarck to agitate in favor of accident compensation as well as other forms of social insurance. For the same reason, the socialists of Germany, representing the rising labor movement of Germany, for many years were not only indifferent, but actually antagonistic to the whole structure of social insurance. But as the particular object of Bismarck failed, and as the socialist and labor movements have continued to grow simultaneously with the growth of the insurance institutions, the socialists in Germany and elsewhere have not only ceased to be antagonistic to social insurance, but have included its extension in their program. On the other hand, this very fact is often mentioned by antagonists of accident compensation in support of their contention that compensation is a useless waste of money, since it is powerless to bring about social peace.

The argument is evidently based upon a serious misunderstanding. A calm observer of our economic life is bound to conclude that serious conflicts between the social groups known as capital and labor have become an important feature of our economic life, and that often the relations between the two are successfully regulated by such conflicts.

But it is just as evident, that such disturbances of the usual course of events must be serious affairs; they are serious weapons to be used when other more peaceful methods fail; but a constant petty bickering and quarreling and the breeding of personal ill-will, on account of conflicts which can be quickly and justly settled, is not desirable from any sensible

point of view. Yet this is just the situation which must grow out of every liability suit. A compensation system with a definite compensation scale does away with most of that unnecessary friction, which may be entirely eliminated by a proper system of insurance.

But all these beneficent results are only accomplished under a satisfactory compensation system. As there are vast differences in the status of employer's liability in various countries and states, so there are differences equally important in the provisions of compensation legislation. In so far as a good compensation law is vastly superior to a bad liability system, the difference may be materially reduced, not only by improvements in the liability legislation, but also by such provisions as will limit the justice and efficiency of the compensation system. A thorough study of the details of a good compensation law will, therefore, next claim our attention.

CHAPTER VIII

THE ELEMENTS OF A NORMAL COMPENSATION LAW

It is convenient to speak of compensation in the abstract, in order to contrast it with the system of liability. As a matter of fact, there are as many different systems of compensation as countries which have passed compensation acts, and the differences are more or less essential. It is necessary, therefore, to make a comparative and critical analysis of at least the most important European compensation acts, and especially of their compensation scales, so as to come to some conclusion as to what the normal standard of compensation for accidents should be.

It has already been pointed out that the elimination of the question of negligence or fault was the central thought of an effective compensation system. But old concepts die hard; and the concept of fault has not yet altogether been eliminated from some of the European acts. That injuries inflicted by the injured employees upon themselves intentionally for the purpose of getting the compensation should be put beyond the scope of the compensation system is reasonable enough. But such cases must be very rare and the exception has no economic significance. This provision is found in the acts of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Luxemburg, Netherlands, Norway, Quebec, Russia, and Sweden—fourteen out of some thirty acts, outside of the United States. By inference the same limitation obtains in most of the other countries, because most of the acts deal with injuries arising out of accidents, and an injury intentionally self-inflicted could hardly come under the broadest definition of an accident. But even here there is a rare possibility of injustice being done to the family (if not to the injured employee himself), whose destitution would no less be a problem because the fatal injury was self-inflicted. It is worthy of notice that in at least one country, Hungary, the act specially provides

for this possibility. Though the person injured by an " accident intentionally caused forfeits all claims to compensation " but " should the injured person die, his dependents are entitled to the legal benefits and pensions even in such a case." (Art. 75.) That is a splendid illustration of the substitution of the new principle of economic need for that of formal legal tort.

Very much less defensible is the formula of " serious and wilful misconduct " which is found in many acts, especially that of Great Britain and those of the British colonies, following the example of the mother country. That is an elastic formula whose exact meaning would depend upon judicial interpretation—just the thing the compensation system endeavors to eliminate. Serious and wilful misconduct may be a statutory offense, to be penalized in the usual way by fines or short-term imprisonments. Infringement of factory rules may even be punished by instantaneous dismissal. But surely the loss of right to compensation, being equivalent in many cases to destitution and misery, is too cruel a punishment for as slight a crime as would be covered by the word " misconduct," no matter how serious or wilful. The British act appreciates the injustice, for it modifies and softens the exclusion by the following words: " Unless the injury results in death or serious and permanent disablement." Thus modified, the restriction amounts to penalizing misconduct by comparatively slight fines and is perhaps comparatively unobjectionable. But in the other acts mentioned this limitation is not to be found.

But more important is the limitation of " gross negligence " which is found in a number of acts (in Denmark, Finland, Sweden, Russia), for this represents a distinct compromise with the legal notion of tort or fault underlying the liability system, a compromise that, with an unsympathetic attitude on the part of the courts, may do serious harm. The list of countries above given, shows that it has not survived in any industrially important country, nor in any country where a compulsory insurance system exists. And the reason for this is self-evident. Under a system which simply places the duty of compensation upon the individual employer, it may still be argued that it is unfair to force him to compensate a loss due to another man's gross negligence, but under a compulsory

insurance system which means a collective responsibility of the industry rather than of the individual employer—the amount of possible loss due to " gross negligence " becomes dissolved, as it were, in the general cost of all industrial accidents.

Even when there are no such definite exceptions, the question which accidents do give rise to the right for compensation, and which do not, presents many difficulties. The definition of an " occupational accident " unless it is sufficiently broad, may and does lead to a good deal of litigation, to that extent nullifying the main purpose of a compensation system. The narrowest interpretation is that an industrial accident is one arising out of the employment, and in the course of it. This formula is found in many acts, especially in those countries where there is no compulsory insurance system. But in regard to many accidental injuries occurring at the place of employment it is not always easy to determine whether they arise out of the employment.

If the purpose is to do away with all litigation, there is only one satisfactory way to meet the difficulty, and that is to extend the compensation system over all accidental injuries occurring *during the time of employment.* For if the question of the responsibility is to be eliminated, the equally difficult problem of the exact cause must be eliminated also. And as a matter of fact, this broad formula may be found in the acts of Austria, Finland, France, Germany, Hungary, Italy, Luxemburg, Netherlands—in most of which there is compulsory insurance in addition to compensation.

In very few countries has the compensation principle entirely forced the older system of employer's liability out of existence. In this respect the British act—in many other ways quite deficient—sets an example to follow. The act applies to any employment. No other European country has as yet followed this comprehensive formula. The limitations of the application of the many acts present a bewildering kaleidoscope of variety, and perhaps no two present exactly the same limitations, so that a proper classification becomes a very complicated matter. Only a few of the most important limitations must here be studied.

We may divide the entire army of wage-workers into the following eight main divisions: manufactures, building and construction, mining, transportation, agriculture, commercial

undertakings, office work, and domestic labor. There is no effort to defend this classification on any theoretical lines, but it will serve our purposes at present. Of these eight groups the first two are the most commonly protected by European laws, and the last least protected. Of all the acts in Europe and in the British Colonies, the United Kingdom remains the only one to cover domestic service in its scheme. The problem has been discussed in other countries, and bills have been introduced in France for such extension. The main reason for such exception may probably be found in the patriarchal relations regulating domestic service, under which a slight injury followed by disability does not lead to loss of earnings, and also the fear of imposing the danger of paying damages upon householders of small means who do not derive any profit from their domestic servants.

The last consideration, however, only underscores the shortcomings of a pure compensation system as compared with a system of compulsory insurance. It is true that the danger of being liable for a large amount of money in case of a fatal or grave accident to a domestic servant would be a serious one for many a family of moderate means, though to a limited extent this danger exists even under a liability system. But the cost of insuring a domestic servant against the accidents would be so slight that no family able to hire domestic help would feel such cost as any burden at all.

The need for including domestic servants in the compensation system is quite real, because there evidently are many elements productive of accidents in housework—surely more than in office work. The handling of fire and of boiling water, working on step-ladders, and the carrying of heavy weights are alone sufficient to give a perceptible accident rate. If in reading every now and then of a housewife perishing from flames, we do not classify it as an industrial accident, it is only because we do not think of work in the kitchen, when performed by the housewife for the benefit of her own family, as industrial work. But there is good statistical evidence in favor of the contention that the home is by far a more dangerous place than store or office. The French accident reports registered 1,893 accidents among personal servants during 1906-1908. As these reports do not pretend to be complete, it is impossible to obtain an accident rate. But it is

significant that 28% of these accidents were due to falls from ladders, etc., 21% were caused by driving or caring for animals, 10% by falling objects, 8% by handling heavy objects, 8% by hand tools, and 7% by hot or corrosive material.

Less serious is the omission of office-workers from most compensation acts. Two groups of office-workers must be recognized: Those that work in direct proximity to industrial plants and represent part of the industrial establishments, and the vastly greater army of office employees of banks, insurance companies, and similar enterprises. The former are often subject, in a degree, to the ordinary industrial hazard and many laws include them, though they are excepted in most Continental acts (Austria, Denmark, Italy, Luxemburg, Netherlands, Russia, Spain, Sweden). In some acts the distinction is drawn between technical employees and others; again in other acts a salary limit is established and only those whose remuneration falls below these limits are protected by the compensation act. There is really very little to be said in favor of thes exceptions, distinctions, and qualifications, from the point of view of either theory or practice. As to the cost of such extension, the very fact that accidents are rare in such occupations makes the additional cost very light. The same is true of the very much larger army of general office employees who are protected by very few acts as yet. These are, as far as we are able to ascertain, Great Britain and the Cape of Good Hope. Undoubtedly it is only the lack of hazard that explains the absence of any effort for extension in that direction.

Half-way between office and industrial employees are those employed in commercial establishments. Most of them are forced to do a certain amount of physical labor, such as climbing high ladders, handling tools in unpacking and packing cases, etc. As a matter of fact, French statistics (the French law covering commercial establishments) show a rather high accident rate for this group of employees—sixty per thousand —which is more than the rate in such branches of industry as hides and leather, printing, textiles, and several others. Accidents due to machinery are naturally rare, but for eight years altogether 145,133 accidents were reported, of which 23% were due to handling heavy objects, 22% to falls from ladders, etc., 17% to driving or tending animals, 13% to falling objects.

In addition to Great Britain only Belgium (when employing three or more persons), France (by a special act of 1906), and three or four British colonies include the commercial employee. In several other countries the question is seriously agitated. In the United States the very large number of commercial employees, their comparatively low wage level, the high development of mechanical appliances in commercial establishments making for a higher accident rate, make such discrimination especially undesirable.

But the most important class of wage-earners discriminated against in many countries is the class of agricultural laborers. The problem of their compensation is at present the most important of all problems in connection with the entire subject of accident insurance. Agricultural wage-labor is more common in some European countries than it is in the United States, but even in the latter country out of some ten million employed in agricultural pursuits, about four and one-half million are classified as laborers, and only about one-half of these are members of the farmer's family, while the other half are agricultural wage-earners. Several reasons are usually brought forth against the extension of the compensation laws to agricultural pursuits:

First, that agriculture is not a hazardous occupation. This argument was thoroughly discarded by the wealth of statistics accumulated in Germany where agricultural pursuits were covered by a special act. Though German statistics cover only the serious accidents resulting in disability of over three months' duration, from 60,000 to 70,000 accidents annually are reported for the agricultural wage-workers, of which nearly 3,000 are fatal. Nor do these figures represent anything unusual when the recent development of agriculture and the rapid increase in application of agricultural machinery and utilization of mechanical power in agriculture are considered. In addition to that there are a vast variety of hazardous processes in ordinary agricultural labor, such as the use of cutting instruments, draft and working animals, dynamite, and so forth.

Second, an argument very popular in Europe is the very low rate of profits from the agricultural utilization of land, which makes the imposition of additional burden on the farm of the cost of compensation ruinous to the land-owning interest.

Third, it is further argued that the majority of employers of agricultural labor are themselves not very much better off than the laborers whom they hire, that they are but petty farmers employing one or two hands to help them, and that it is absolutely impossible for one of these employers to meet the cost of one serious accident. This argument is entirely met by the method of insurance.

The grain of truth that is contained in many of these arguments is greatly exaggerated. The fact of the existence of a large agricultural proletariat is disregarded. The objections advanced may be sufficient for certain limitations and modifications of the law as applied to the agricultural laborer, but surely do not justify his complete exclusion from the benefits of a compensation act.

The simple truth is that the influence of the large class of agricultural land-owners was strong enough in most European countries to exclude the agricultural laborers altogether or by a very large measure. Agriculture as a whole is covered as yet by very few countries. Germany is practically the only country, outside of Great Britain and some of her colonies, which included the entire agricultural labor class in her system of accident insurance.

In addition, Belgium has extended her act over such agricultural establishments as habitually employ three or more hands, thus limiting the law to a smaller part of the land-owners. And in five countries (Austria, France, Italy, South Australia, and Spain) the special dangers connected with the operation of agricultural machinery of the heavier type driven by mechanical power have been recognized. In these countries the compensation laws apply to those agricultural establishments on which mechanical power is used—in some of them being further limited to such employees as are in direct danger of being injured by such mechanically driven machinery. Evidently this distinction is one that is still based upon the old conception of tort, fault, personal negligence, or any other form of responsibility, rather than economic need.

Thus, the main fields to which compensation laws apply are the following: Manufacture and mining, building and construction, and transportation, both on land and water. In addition there are many minor branches of industrial activity which cannot well be classified under any of these three great

classes. Nearly all the laws include these three. There are a few acts which are made to apply to mining and metallurgical industry only (Greece, New South Wales), and these are evidently special acts only. Of the more important countries, Russia is perhaps the only one which excludes both transportation and the building industry. For the first, however, a special system exists which is nearly as satisfactory, and the exclusion of the building and engineering trades is one of the strikingly indefensible defects of the Russian law.

But when the statement is made that nearly all the laws include these three large branches of economic activity, it does not follow that all the workmen in these fields are included. Nothing better illustrates the obstinate struggle of various employing interests, both large and small, against the imposition of this socially necessary charge for the waste of human material, than the thousand and one restrictions and limitations with which the application of the compensation principle is hedged in.

Most of the restrictions are based upon one of two principles: existence of hazard, and the size of the establishment. The effort to limit the act only to such industries as might be considered dangerous is evident in many acts—the enumeration of establishments to which the law applies often takes pages, thus creating a complexity that is hardly justified. In some countries in addition to the specified industries, all other establishments utilizing mechanical power, or handling explosives, are included. One can see in these provisions the recrudescence of the theory of " trade risk " which recognizes the justice of compensating accidents due to the " general hazard " but has not risen to the point of recognizing the right of compensation in all accidents, no matter what their cause.

Often other restrictions are found which are based upon the number of persons employed. The minimum number is five in Italy, fifteen in Russia. Artisan establishments are excluded in some countries, work on buildings under thirty or forty feet in others. All such provisions are efforts to protect small industry, which is assumed to be too weak to be able to stand the cost of the compensation. All such exceptions are absolutely antisocial; they are not based upon any logical considerations, and no industry or industrial organization deserves the support of society, which can only exist as a

parasite, by shifting upon some one else the cost of human wreckage.

All the features above discussed are problems of extension of the law. They are not so much faults of the compensation system as of the insufficiency of its application. They are faults which, as experience has shown, are very likely to be temporary only. The first introduction of the compensation system in many countries, coming after an obstinate struggle, is likely to be experimental. It may be applied to a limited sphere only, but is certain to be gradually extended, because the groups of wage-earners left unprotected will clamor for such extension. But there are other differences which might be termed organic, which are extremely important, and these refer to the scale of compensation.

Under a liability system the amount of damages is determined by a jury. If the fact of liability is established, the damages theoretically must at least equal the loss sustained; and in the determination of the loss sustained, which is never done scientifically, such elements as disfiguration, mental anguish, and similar non-economic elements are often taken cognizance of. As compensation is a measure of economic justice only, it cannot take such extraneous factors into consideration. The financial value of pain sustained cannot be measured any more than the financial value of a life of a beloved husband or child; but the economic loss is a thing easily determined. The limits of compensation, therefore, are the full loss sustained. In no compensation act, however, is this full limit provided for.

The main classification of accidents according to results into fatalities, permanent total disability, permanent partial disability, and temporary disability has already been explained.

The cases of temporary disability are by far the most numerous ones. They are of greater importance collectively than individually. The loss sustained through such injury is evidently twofold: the temporary loss of earnings and the extraordinary expenditures due to need of medical and surgical help. The law which meets only the first and not the second part of the situation created goes only half-way, for it is extremely important that every injury be treated thoroughly and thus the recovery expedited and complications prevented.

Moreover, an efficient and thoroughgoing system of medical relief must reduce the duration of disability and, therefore, the cost of compensation. European legislation has fully recognized the value of full medical treatment. In most countries full medical and surgical treatment is granted. Of the more important countries on the Continent the only exception is Italy, where only first aid is provided. No medical aid is provided by the law in Denmark, Finland, and Sweden, and in the United Kingdom. The rule in the last country was particularly injurious in its results because of the influence it exercised in other English-speaking countries. Seven of the eight British possessions having compensation laws have followed their mother country in this particular, and the same influence is felt in the United States as well.

Equal in importance is the financial assistance. In order to be effective this assistance must come promptly and periodically—not only in satisfaction of a claim for expenses incurred, but actually to provide a substitute for the missing Saturday pay-envelope. The usual amounts are either 50% or 60% of the earnings. The smaller amount is granted in Great Britain and in all the British possessions, Belgium, France, Greece, Italy, Hungary (the first ten weeks), Luxemburg (the first four weeks), Russia, Spain. 60% is granted in Austria, Denmark, Finland, Hungary (beginning with the eleventh week), Luxemburg (five to thirteen weeks), and Norway. Germany has made the compensation 66 2-3%, beginning with the fifth week, also Luxemburg (beginning with the fourteenth week), and Netherlands has made it 70%. Finally, Switzerland has reached the climax by raising the limit to 80%. The universal practice seems to be to adjust the compensation in proportion to the normal earnings of the family. This is as it should be, for no other rule granting a flat amount could satisfy the demands either of justice or of economic necessity. The differences in the wage levels of wage-earners are great. The flat level compensation would be either too great in some cases, and thus offer a distinct premium upon malingery, or much more likely such as to be cruelly insufficient in many cases.

But granting the adjustment of compensation to the wage level, what proportion shall it be? The prevailing proportions we found to be either one-half or two-thirds of the wages, with the tendency towards the latter. With the low level of

wages in Europe, the 50% rate must be adjudged quite insufficient to meet the economic problem. At best it may, and in many cases may not even provide the bare necessities of food, and it is questionable whether such a rate, which leaves half of the economic loss uncompensated, is at all a fair realization of the compensation principle.

The point of view is widely prevalent among the progressive wage-workers of Europe, that a compensation system, to be perfectly satisfactory, must grant full compensation. That would mean 100% of wages. Undoubtedly such a system, besides the question of justice, would present serious administrative difficulties, for it would offer no incentive at all to recover and return to work; on the contrary, would offer a strong inducement for malingery. It is against the best principles of insurance to permit over-insurance. Thus a reduction below the full wages is necessary. But the reduction of the compensation to 50% or even 66%, is called for by other considerations, primarily those of making the compensation system as cheap as possible. The example of the Netherlands and especially that of Switzerland are, therefore, exceedingly important. It is a recognition of the essential justice of the claim for full compensation, for the reduction to 80% may be fully justified on administrative grounds. Besides, when the expenses of the workman for transportation, for lunch, etc., and the possibility of unemployment are considered, 80% comes very near to being full compensation.

The problem of compensation for the very large number of petty accidents has received a great deal of attention in European discussions. A very large proportion of accidents are quite petty, leading to a disability of a very few days only. Evidently it is a great advantage, from an administrative point of view especially, if these accidents are kept out of the compensation system, at least as far as the granting of financial aid is considered. Fewer accidents need to be investigated and adjudicated. On the other hand, even a short disability means some loss to the wage-worker, which he must rightfully resent. It is unfair to him to saddle upon him a loss which may have a perceptible influence upon his comfort. The problem is met in a very effective way in Germany, Austria and Hungary, and Russia, four countries having compulsory sickness insurance in addition to the accident compensation sys-

tem. In these countries only accidents of a certain degree of gravity are handled by the compensation system—fatal accidents, all cases of permanent disability, and of temporary disability over a certain fairly long period—thirteen weeks in Germany, ten weeks in Hungary, and four weeks in Austria, the minor accidents being taken care of by the sickness-insurance organizations.

In other countries this problem is met in a very much less satisfactory way. Arbitrarily all accidents below a certain duration are eliminated, and no definite rule can be established for all countries. In Scandinavian countries, where even in absence of compulsory sickness insurance, nearly every workman belongs to a sick-benefit fund—this so-called " waiting period " is long. (Thirteen weeks in Denmark; sixty days in Sweden; four weeks in Norway.) In England, where participation in a friendly society is quite common, there is a long waiting period of two weeks, and its example is followed by several British colonies. In Belgium and also in several British colonies the period is one week. It becomes six days in Finland, four days in France, three days for Austria, Hungary, Russia; only two days in the Netherlands, and there is no " waiting time " in Italy or Spain.

With such a variety of facts, it is difficult to establish a logical basis for a normal waiting period. There can be but little doubt, however, that when we get beyond one week, we are dealing with a financial loss, which may represent a serious problem in the life of many a worker's family, and possibly the limit should be placed at half a week. In many countries, the shortening of the waiting time became an issue, earnestly attacked by the workingmen, and successfully—as in Italy and France. Moreover, experience has proved that these exceptions made for economy's sake often had the opposite effect, as they served as a stimulus for the prolongation of the disability.

Cases of total permanent disability are comparatively rare, at least as far as the physical condition is concerned, though general economic conditions of employment may be such as to transform partial disability into total, by depriving a man of the opportunity to find employment. Thus the chances of a man who has lost his right arm, to get a position, must be rather slim.

Where the results of the disability are permanent, the loss lasts evidently as long as life lasts, and so does the economic need. Full justice requires that the support last equally long. Otherwise the problem is not met.

The general practice is to grant in total permanent disability the same weekly compensation as in cases of temporary disability, and so the statements given above apply in a general way. But there is a number of exceptions to this general rule. Thus both France and Russia give only 50% in case of temporary disability, but increase it to 66 2-3% in cases of permanent disability, thus adding their weight to the view that at least two-thirds of the wages are necessary to make a fair compensation. And perhaps the most notable exception is that of Germany, which provides for an increase of the permanent compensation to 100% in case the injury is so serious as not only to incapacitate the injured from work, but make him helpless and in need of constant attention.

In a few countries, however, the difference in treating temporary and permanent disability is much less favorable to the latter. The discriminations against persons permanently injured are of two kinds—first, by granting them a periodical payment of a limited duration and, secondly, by substituting lump-sum payments for periodical payments or amounts.

It is rather difficult to say which of these two plans is the more vicious one, though the preponderance of arguments is against the first one.

The temporary granting of periodical payments, i.e., so that these weekly payments last only for a time, is not found in any European country, but in several of the colonies of the British Empire. The length of these payments is not definitely stated, but there is a maximum limit ($1,500 to $2,000) to the total amount of payments, and after this amount is reached the weekly payments stop. With the maximum weekly payments the limit is reached in six or eight years, and if the person totally disabled survives, he may then be left in very much the same position as he was at the time of the accident. It is difficult to produce any arguments in favor of this scheme, except that it makes the total cost of compensation somewhat lower to the employers.

In a number of European countries an entirely different method of compensating permanent injuries is prevalent. In-

stead of a continuous weekly payment, a definite lump sum is prescribed. The amount varies greatly. Thus in Denmark the amount for total permanent disability is six times the annual wages, and in Spain only two years' earnings. The question of lump-sum payments has received a thorough discussion in European literature. The arguments in its favor are more palpable in absence of compulsory insurance, for in case of many small employers of slight financial strength, the security of prolonged weekly payments is somewhat doubtful.

Again, a lump sum may enable the injured person or his dependents to start in a small line of business and thus gain a permanent footing. But, on the other hand, the chances of business success for a wage-worker, or even the chances of wise investment in absence of the necessary business knowledge and experience, are very slight, and an unwise investment with subsequent financial ruin is much more probable. As the loss of earning power is the loss of a continuous income, so the compensation should take the form of a pension. The wasting of large amounts in inexperienced hands is one of the grave shortcomings of our liability system, and its perpetuation in a compensation system is extremely unwise.

The argument is still greater against the provision found in many acts which permits the capitalization of the pension, that is the conversion of the pension provided by law into a lump sum by mutual agreement, unless this is hedged in by strict governmental control. Such capitalization, when permitted by mutual agreement alone, is likely to play havoc with the pension of the insured. To a wage-worker a comparatively small amount temptingly displayed in cash is likely to look very large, and the injured person may be induced to accept a very much smaller amount than the value of this pension. In Great Britain and most of her colonies the situation is further aggravated by giving the employer the right to force a lump sum upon the employee, though there is a slight effort made to protect the workman by requiring that such a conversion of a pension to a lump sum be approved by a court if not voluntarily agreed upon.

In cases of partial permanent disability the rule is fairly uniform that a proportionate amount must be given, as compared with the amount granted for total permanent disability. By this the following is meant:

The degree of partial disability must be determined as a percentage of the loss of earning capacity. If a man's earning capacity is presumably reduced from $20 a week to $8, then his loss is $12 a week, or 60%. The compensation due for this injury, therefore, bears the same proportion to the compensation for total permanent injury, whether the latter be a pension or a lump sum.

Against the essential equity of this relationship nothing may be said. A matter of tremendous practical importance, however, is the machinery for determining the exact degree of disability. This is not an easy problem, requiring expert knowledge which must be both medical and economic. Several American acts in the inexperience of the authors have sought to establish fixed degrees of disability in the text of the law itself, and here again they have unnecessarily blundered. Hardly any European acts undertake to do that. No general rule will be applicable to all industries and occupations except possibly as to such grave injuries as complete blindness or loss of an arm. A contraction of one finger to an engraver or jeweler may be as serious as the loss of a leg to a laborer. European accumulated medical experience has produced a set of standards which are extremely useful to be guided by, but discretion is left in all acts to arbitration as to the degree of disability by voluntary agreement, arbitration committees, or by courts. Evidently a proper system of arbitration, in which the interests of the injured persons are properly represented and protected, an arbitration by a combination of medical experts with experts in the particular trade to which the injured workman belonged, represents a very important feature of the law, and such arbitration courts are even more important than the right of appeal to ordinary courts.

The conversion of pensions into lump sums is of particular importance in the case of partial disabilities of a mild character. Where the degree of disability is very small, the machinery for weekly payments appears too cumbersome for the payment of a small live pension, and the conversion of small pensions is permitted in almost all countries (Germany excepted). Often a maximum limit to the pension for which conversion is allowed may be found in the law. Under these provisions most small pensions are actually converted. Yet there is a grave objection to all such makeshifts. If an acci-

dent results in the reduction of earnings and, therefore, of the standard, a lump sum, unless wisely invested, cannot at all compensate for such loss and leads to temporary extravagance only.

Compensation for fatal accidents is perhaps the most important feature of any compensation scale. While an injury leading to total permanent disability is more serious in its economic results than a fatal injury, leaving a greater need, yet such total disability is rather exceptional, and the usual permanent injury does not absolutely destroy the earning capacity. But a fatal injury in the majority of cases leaves several dependent persons without any means of support.

The two methods of compensation—by pensions and lump sums—which were discussed in connection with permanent injuries, present a still greater contrast in connection with fatal injuries. In the majority of important European countries pensions are given to the dependents.

On the other hand, the lump-sum method is established by the British law and followed by most British colonies, and in addition by a few other European countries, namely, Belgium, Italy, Denmark, and Spain.

The advantages of pensions over lump-sum payments are even greater in fatal accidents than in case of permanent injuries:

1. The surviving dependents of the killed workman, either widow or orphans, or minor brothers or aged parents, are usually less able to make a safe investment than the wage-earner himself would be.

2. The pension method is a much more elastic one than the lump-sum method, and may be much more carefully adjusted to the needs created by the accident. It is, therefore, a much more scientific method, as it aims to meet the need rather than to establish a definite fine for the accident.

3. The pension system gives proportionately more than the lump-sum system, so that the latter may be considered a shrewd method of disguising the inadequacy of compensation by a display of cash.

Where the pensions are granted the total amount of pensions depends upon the number or relationship of surviving dependents; the pension is expressed in percentages of

the wages, and definite percentages are granted to certain relatives, but there is a maximum, and the rights of the surviving relatives follow in a certain rotation. The usual maximum is 60% of the wages (France, Germany, Hungary, Luxemburg, Netherlands). Russia was the only country with a higher maximum,—66 2-3%,—until the Swiss law established a new record at 70%. Only 50% are allowed in Austria, Greece, and Norway; only 40% in Finland; while Sweden and New South Wales offer specific pensions.

As the object of compensation is the removal of need rather than payment of damages, compensation laws establish their own classes of beneficiaries, different from the rules of inheritance. Not the fact of relationship but of dependence is of decisive value,—but in case of direct relatives this dependence is assumed and does not need any proofs. This includes the widow (in some countries also the dependent widower) and children. After their rights are satisfied or in absence of such relatives, the parents or grandparents, brothers and sisters and grandchildren may become the beneficiaries under the law. Beyond such ties the acts are seldom extended.

Practically in all countries giving pensions to the survivors, the widow receives, of her own right, 20% of the deceased husband's average earnings. In the Netherlands and Switzerland the amount is 30%, and in Russia 33 1-3%. In the latter country this high amount is discounted by the extremely low wages, which are often insufficient for the support of the entire family. If the normal workingman's family be taken at 4 1-2 or 5 persons, 25% would seem to represent an equitable proportion if she alone survives. The widow's pension is paid until death or remarriage, in which latter case a lump sum, amounting to three times the annual pension, is usually granted to provide for the expenses of a new household.

The wisdom of this provision has occasionally been questioned. But a very practical advantage may be cited. If remarriage is to be penalized by a sudden and final discontinuance of the pension, encouragement is given to the establishment of illicit households, where the pension may continue though, as a matter of fact, a new family has been actually established. The grant of the dowry encourages the legalization of such

remarriages and thus relieves the compensation system of the further burden of supporting the remarried person.

Next in importance are the rights of children. A limit is usually placed upon the age of children entitled to compensation, because at a certain age, which is very much lower for the working class than for other social groups, the child usually becomes self-supporting. No objection can be raised against the justice of this argument, provided the age is not placed too low. It is fifteen in Austria, Norway, Russia, Finland, Germany, Luxemburg, France; sixteen in Hungary, Netherlands, and Switzerland. It is perhaps worthy of notice that in Italy children up to eighteen preserve the right to compensation. While it may be true that a wage-worker's children at the age of fifteen usually go to work, they are not altogether self-supporting in the beginning, remaining within the family group; besides, children under sixteen are frequently prohibited employment in many occupations, and the modern tendency for industrial education tends to prolong the age of dependence up to eighteen years at least. It is unjust that a fatal injury to the father or mother should force the children into unskilled, poorly-paid trades. Whatever the situation was in Europe from ten to twenty years ago, when most of the acts were passed, at the present time any curtailment of the rights of children under eighteen is manifestly unjust and socially harmful. The usual amount of pension is 15% or 20% for each child; one or two countries reduce it below this amount. A larger pension is granted when the surviving child is an orphan. But there is an iron-clad limit to the total amount of the pension, and the respective pensions are proportionately reduced when the combined pensions exceed the limit.

Parents seldom have any rights for compensation unless there is a residue after the rights of widow and children are satisfied. This, however, is no small proportion of cases, as it includes all fatal accidents to unmarried wage-workers.

German and French statistics show that nearly one-third of workmen fatally injured are unmarried. In most countries only dependent parents and grandparents have any right for compensation, i.e., the fact of dependency must be established at the time of death. In the nature of things, however, the aged parents, while not dependent at the time, might expect to

become dependent in the future, especially in countries having no national old-age insurance or pension system. In many countries, therefore, the wage-workers have clamored that the rights of aged parents be recognized, whether they were actually dependent upon the killed workman at the time of his injury or not.

Another matter which has a much greater practical importance than would appear at first glance is the compensation right of brothers and sisters. Singularly enough their rights are quite universally disregarded. Only in Italy and Russia are their rights provided for, of course following those of immediate family and dependent parents. Yet it is quite usual for a younger person to contribute to the family budget, and a more direct support of younger brothers and sisters is a matter of common occurrence in the wage-worker's life. Since over one-third of the fatal accidents occur to unmarried workmen, and since parents are only entitled to compensation when their dependency is established, many minor brothers and sisters are unjustly deprived of their means of support. These facts go to show with what care a compensation act must be drawn if it is to accomplish its object of social justice.

Lump sums are paid for death in some countries. The general drawbacks of this system have already been indicated. These appear very much more serious when the amounts granted are studied.

The highest amount in proportion to earnings is granted in Italy—five years' pay. Denmark follows with four, and Great Britain, with most of its colonies, with three years' compensation. Spain, with perhaps the least satisfactory compensation law in Europe, grants two years' only, and Belgium has a singular way of determining the amount of compensation, it being the present value of an annuity of 30% of the earnings of the killed employee at the age at death. This is evidently an effort to adjust the amount of compensation to the amount of loss rather than the need created. But the adjustment is far from being a satisfactory one.

When a lump sum is given, the law usually furnishes certain rules for distribution. But in Great Britain and most of her colonies, these provisions of the law are rather crude—the same amount is given irrespective of the number of dependent survivors, so that a young widow, perhaps remarrying

in a few years, might get as much as a large family, consisting of widow, parents, and several small children! Half of the normal amount is given if the survivors are only partly dependent upon the deceased; the distribution of the amounts is not definitely established and recourse must be had to arbitration or to courts, so that even from an administrative point of view the British plan, followed by her colonies, and unfortunately by some of the American states, is highly unsatisfactory.

In discussing the scale of compensation the various amounts were stated in terms of weekly or annual wages. But these rules need many qualifications. In most countries there are both maximum and minimum limits beyond which the compensation cannot rise or fall. This is true of weekly disability benefits as well as pensions and lump-sum payments for permanent disability and fatal accidents. The necessity for minimum limits is quite evident. The margin between actual wages and the minimum necessary for existence is equally small in the wage-worker's budget, and often there is none. The minimum provisions are, therefore, an indirect admission that one-half to two-thirds of the wages may not be sufficient, in many cases, to keep up even the minimum of existence. For the poorly paid groups of labor a more liberal provision must be made. On the other hand, maxima are still more frequently provided for; practically all the acts have such maximum limits of compensation. Their purpose is evident—to reduce " excessive " compensation in the case of the higher paid workman. Their justice may be questioned, for a one-half-the-wages level, or even a two-thirds-the-wages level, places upon the workingman a sufficient share of the economic loss. But provided the maximum limit is placed high enough, only a small proportion of the workmen is affected materially thereby. Here various methods are used. In some countries an absolute limit of weekly compensation is provided for. It is highest in some British colonies: £2 in Cape of Good Hope, in Australia, New Zealand; $10 in Alberta and in British Columbia; only £1 in Great Britain, in Queensland, in South Australia. It is much smaller in some countries of continental Europe—from 45 to 50 cents a day in Denmark, Finland, Netherlands. In other countries a maximum or daily wage is assumed. It is 1,200 florins, or

$487.20, in Austria and Hungary; 2,400 francs, or $463.20, in Belgium; 200 crowns ($321.60) in Norway. Somewhat more complicated and representing an effort at greater justice, is the method of recognizing a portion of the wages above a certain limit rather than disregarding the excess at all. Thus, in Germany, when the annual earnings exceed 1,500 Marks ($357), one-third of the excess is taken into consideration in computing the compensation; a 2,000-Marks wage becomes 1,666.66 Marks, a 2,500-Marks wage, 1,833.33 Marks, etc. In France there is a similar rule, though the proportion is one-quarter over 2,400 francs. These rules are primarily interesting as indicating the complexity of results of a clash between two contradictory principles: justice to the injured worker and protection of the employer's interests by reducing the cost of compensation. The wisdom of these minute regulations is subject to some doubt. If the maximum is placed so low that a considerable proportion of workmen is affected thereby, then we are facing a rather objectionable method of reducing the level of compensation in a stealthy way. If, on the other hand, the maximum is placed so high as to affect few injured workmen—the savings are slight, and the result scarcely justifies the complexity of the regulations.

Still more objectionable are the limits for death benefits which are found in the laws of those countries where lump sums instead of pensions are provided. There arises out of the contemplation of these limits a conception of the value of human life which is quite distressing when the modern cost of living is considered. In twelve countries these limits may be found—three countries in Europe and nine British colonies.

MINIMUM AND MAXIMUM LIMITS OF COMPENSATION FOR FATAL ACCIDENTS

Denmark	$ 321.60	$ 857.60
Great Britain	729.98	1459.95
Italy	579.00	1930.00
Alberta	1000.00	1800.00
British Columbia	1000.00	1500.00
Quebec	1000.00	2000.00
New Zealand and Queensland	973.30	1946.60
S. Australia	729.98	1459.95
W. Australia	973.30	1946.60
Cape of Good Hope	———	1946.60
Transvaal	———	2433.25

Thus, in the British colonies, with their higher wage level and their high cost of living, the limits are between $1,000 and $2,000. In the European countries mentioned they are very much lower. It is absurd to consider such levels satisfactory. It is evident, therefore, that in these limits we are dealing with a " detail " which is often hidden away in a corner of a law, but which nullifies the main purpose of the act,—the prevention of destitution. This eloquent table of limits emphatically underscores the conclusion expressed above, that the lump-sum method is doubly objectionable—not only because it is unwise, but because it is dishonest, in that under a deceiving cloak of glittering cash, it offers compensation which utterly fails to compensate.

As the funeral expenses are the natural result of the fatal accidents, some provision for this extraordinary and unexpected expenditure must be made by the compensation laws. Most compensation acts which grant pensions for death contain such provisions, while they are usually absent from laws granting lump sums. The average amounts granted are not large, amounting from $10 to $25. The granting of lump sums among other things encourages extravagance of funeral, perhaps the most wasteful form of extravagance imaginable. While the amounts granted by Continental laws are small, they are probably sufficient in establishing a modest definite standard of funerals.

A very interesting question likely to be asked by the American reader, in view of recent American discussions, is: Who bears the cost of this compensation? Is it all at the cost of the employer, or does the employed class also contribute its share?

But though contributions from both employer and employee are almost the universal rule in all other forms of social insurance against sickness, invalidity, old age, and unemployment, this question could hardly occur to a European student as far as accident insurance is concerned. For, as compensation grew out of employer's liability, it naturally and justly remained a charge upon industry, for the employer to assume and to distribute further if necessary.

Curiously enough, a very serious misconception as regards this feature of compensation in Europe has found its way into American popular literature, because of a very hasty study of

European legislation by some rather superficial investigators. In the pretentious volume of Messrs. Fred C. Schwedtman and James E. Emery, representing a first-hand study of compensation in Europe, there is a diagram[1] entitled, "Contributing Principle in Europe." A statement under the diagram reads, "workmen or state contribute in Austria, Denmark, France, Germany, Luxemburg, Norway, Sweden." The diagram itself aims to illustrate the same statement graphically. It is not altogether certain just what is meant by this somewhat ambiguous statement, nor where the information was obtained. But to say that it is inaccurate and misleading is to treat it in quite a charitable spirit. For if the authors had in mind the indirect state contributions that come from state insurance, they should have included Italy. And if they really had in mind workers' contributions, the only country where these are exacted is Austria, where the employers are permitted to deduct 10% of the cost of accident insurance and compensation from the wages of the employees. In this respect Austria occupies a unique position in Europe, one that has been severely criticised, and the demand for the abolition of this feature in Austria is loud, and in the plans for the reform of the Austrian system the abolition of this charge is included.

The explanation of this misconception, in regard to Germany and other countries, is found in the fact of the waiting time which was discussed above. The accident compensation system in Germany, for instance, does not take charge of any accident until thirteen weeks have elapsed, because until that period is over, the accident is taken care of by the sickness-insurance system. The same is true of Austria for four weeks, and because this period is shorter than that in Germany, the Austrian system, which was organized very shortly after the German one, tried to recoup itself by charging the employer one-tenth.

But is the inference justified that because the accidental injuries for the first thirteen weeks are taken care of by the sickness-insurance system—the workman contributes to the cost of compensation? It is true that the employees bear the

[1] *Accident Prevention and Relief*, by Fred C. Schwedtman and James E. Emery, published by the National Association of Manufacturers of the United States of America, 1911, p. 14.

greatest share of the cost of the sickness-insurance system—two-thirds, while the employer contributes one-third. But the contribution by the employer of one-third of the total cost of sickness insurance finds one of its justifications in this very fact that the sickness-insurance system handles the minor accidents. There are no comprehensive data by which it could be ascertained how much the compensating of these minor accidents costs. But the very wide experience of the famous Leipsic sick-insurance fund shows that industrial accidents claimed 7.7% of the total amount of sickness cared for by the fund. As the employers contributed 33.3% of the cost, industrial accidents claimed less than one-fourth of the employers' contribution. If that cost is discounted, the employers still contribute over one-fourth to the total sick-insurance budget. And this arrangement, primarily explained by very material administrative considerations, is all there is to the statement that Germany has a contributing system of accident compensation. The same situation obtains in Luxemburg and Hungary (which Schedtman and Emery place in the contributing class), in Austria (for four weeks), and in Norway.

It is true that in Denmark and Sweden there are long waiting periods (thirteen weeks and sixty days respectively), without a system of compulsory sickness insurance, the justification being found in the prevalence of voluntary sickness insurance among workmen. But it would seem to be much more in accordance with facts to state that the minor accidents are not compensated in these countries, than to label their systems "contributory." And, finally, as far as France is concerned, there is no justification at all for including it among contributing countries, for each accident after four days is compensated.

And so the almost unanimous verdict of Europe is that the wage-worker should not contribute to the cost of accident compensation. He contributes in a different way, in physical pain, mental anguish, and in loss of compensation in certain cases, but to dub these conditions a contributing system is an unjustifiable juggling with words.

It is to be regretted, therefore, that this plan to burden the workingman with part of the cost of accident compensation should have for some time found so many adherents in the country as it did, and among vastly different circles. A

few students of accident causation and prevention thought that herein lay an additional factor of prevention. An eloquent pleader for social insurance, Mr. Frank W. Lewis, demands it because of general theories of incidence of the insurance cost.

"The cost of workman's insurance should fall upon workmen, and should distinctly come out of their wages; . . . there could be no gain through any disguise or indirection; . . . it would necessarily lead to a readjustment of wages wherever inadequate to conform to the requirements of a real living wage, a living wage based upon the whole life and not upon a fraction, to include the waste as well as the productive portion." [2]

That this is a beautiful sentiment no one will deny. But withholding a more thorough discussion of the problems of incidence of social insurance as a whole for a later chapter, it is sufficient, in answer, to quote here the equally brilliant statement by the same author in the same book, which he uses as a motto:

"It happens as though through some inadvertence that in making a contract of the greatest possible moment, both parties seem to ignore absolutely, certain very important elements. The contract is made as though sickness, accidents, invalidity, and old age had been permanently banished from the earth. The daily wage is sufficient only for daily necessities. A man entitled to support for a lifetime unwittingly consents to a wage based upon a portion of that lifetime."

There is the satisfactory explanation for the workman's objection to the cost of compensation being charged to him. Whatever the theory of wages may be, the workman instinctively feels what an economic student should know—that an upward adjustment of wages, no matter how much justified by conditions, is slow and difficult work.

In the above discussion, the main essential features of a normal compensation act were analyzed. There are a good many other features which are important. There is the question of insurance and of security of payments which will be considered in the following chapter. There is, furthermore, the vast field of problems arising in connection with the administration of the law which we must of necessity pass over, such as the matter of proper organization of medical relief,

[2] *State Insurance, a Social and Industrial Need*, p.p. 145-47.

of arbitration, settlement of disputes, prevention of malingery, etc. But enough has been said to indicate the normal provisions of a satisfactory compensation act if it is to accomplish its essential purpose. *It must include all employment, as no logical discrimination can be defended. It must entirely do away with any vestige of the old principles of fault. It must grant sufficient compensation, and it must do so at the cost of the employer.*

The last demand requires at least two-thirds and possibly three-quarters of the wages and sufficient medical and surgical aid. From the standpoint of society at large no provision for medical aid can be made too liberal. It must clearly recognize permanent disability, total as well as partial. It need not embody in the law any definite scale of injuries, but must provide for proper administrative organs, with medical and technical expert knowledge, for making a determination of partial disability that will be equitable not only surgically but economically. And, above all, the demand for continuous compensation must be enforced and lump sums must be condemned.

In case of fatal accidents specific pensions must be determined. In this the right of parents and brothers and sisters must be recognized. Funeral benefits must be specifically provided for. Minimum standards of pensions irrespective of wages must be established, and on the average wage level a maximum pension of two-thirds with the rights of children recognized until eighteen years of age. Only when these requirements are met, does the compensation system accomplish its purpose, that of preventing industrial accidents from depressing the normal standard of life of the victims and their dependents, directly, and indirectly, by forced competition, of the working class as a whole.

CHAPTER IX

ORGANIZATION OF ACCIDENT INSURANCE

THE treatment of the subject thus far may be criticised in that so little was said about accident insurance. This criticism would in a measure be based upon too narrow an interpretation of the term "insurance." As insurance is a method of guarantee against the economic loss due to an exceptional occurrence, and as the purpose of all compensation is to protect the wage-worker against such loss in case of industrial accidents, all compensation legislation may be considered as a form of insurance. It is true that it lacks the one essential feature of insurance—the distribution of the loss among many. Compensation pure and simple only shifts the loss from the wage-worker to his employer.

As a matter of fact, a further shifting of this burden from the employer to some form of insurance institution usually takes place. It is manifestly dangerous for the average employer (with the exception of the very large ones) to assume the entire risk of compensation. One serious accident may lead to a very heavy expenditure for compensation. If the accident should injure several workmen, as, for instance, the explosion of a boiler, or the collapse of a building or a conflagration is likely to do, the accident may spell instantaneous ruin to even a fairly safe industrial undertaking. It is evident, therefore, that the question of insurance is of primary importance to the employer rather than to the employee. But there are several good reasons why the workingmen may not remain perfectly indifferent to this question.

First, is the question of security of payment. Under a purely individualistic form of compensation, such as, for instance, exists in Great Britain, all her colonies and a few other countries, the law simply establishes a new claim, but makes no special provision for its satisfaction. If the employer is willing and able to pay the amounts due under the law—well and good. If not, the claim must take the ordinary method

of procedure—a complaint in court, judgment, etc. When that point is reached, the question of solvency of the employer arises. Manifestly the state cannot guarantee the solvency of all employers of labor. Most countries meet the difficulty by giving the claims under the compensation law a preferred standing among the claims under the bankruptcy law. This may not be sufficient to satisfy the claim. The employer may die, or go out of business, or sell out, and the effort to collect the amount of claim from the estate or the retired employer or from the business successor may all present various difficulties. It may be argued that in this case the position of the claimant is not different from any other creditor, and that it is the business of the state to establish and define the various property rights and not to protect all the creditors against the possibility of failure of all debtors. This argument, while eminently right from the legal point of view, will not feed the hungry or clothe the naked. Moreover, it misses the fact that the claimant under the compensation law is not a man who has voluntarily extended his credit to his employer, and who, therefore, should suffer for his credulity. In view of the very large number of insolvencies, even in normal years, and especially in years of business depression, the danger of the best compensation law being thus nullified in many cases is not an imaginary one. A transfer of the risk from the employer to the insurance company does away with that uncertainty. While insurance companies will occasionally fail, the state, by exercising careful supervision over their finances and by exacting sufficiently large guarantee deposits, can usually protect the interests of the insured so that the stockholders are the only sufferers from the failure.

There are, in addition, other methods for guaranteeing the interests of the insured employees. It is in some of the countries without compulsory insurance that the other method of guaranteeing the payments due under the compensation act is found. It is known as the French method, as it was put in force first in 1898 in France, though it also obtains in Italy and in Belgium. It is the method of a state guarantee fund.

The principle of this is extremely simple. Where the employer fails to pay the compensation, after it has been granted by the proper judicial authority, either because of insolvency

or for any other reason, the state satisfies the claim. For this purpose the state has a special fund at its disposal, which it gathers by means of a very small special tax upon all employers subject to the law. There has been a good deal of criticism because all employers,—those who do not insure as well as those who do,—have to contribute to this special guarantee fund, but the amount of the tax is so slight that the objections to this burden cannot be very urgent. The total income has averaged about 2,000,000 francs and even proved excessive, so that this special tax is being reduced.

In Belgium the tax is levied only upon the uninsured employers, and is likewise very small—less than 10 cents per annum for each employee. In Italy, the guarantee fund is constituted by fines, and also the compensation in fatal accidents where the victims leave no dependents—instead of a special tax. But the possibility of funds unnecessarily accumulating is foreseen, and the special guarantee fund is permitted to utilize its moneys for other purposes related to compensation. In other words, the problem of guaranteeing the payment of compensation admits of an easy solution even outside of the system of compulsory insurance, and other arguments must be furnished in favor of such a system.

There is another reason why the wage-worker may prefer an insurance condition to that of simple compensation. When a claim arises out of an injury, it is, under an insurance system, treated by an insurance institution in a somewhat impersonal way. It does not, therefore, lead to any personal acute antagonism between employer and employee, and, therefore, does not lead to discontinuance of employment. For these reasons a proper organization of insurance is desirable from the employee's point of view.

Nevertheless it is true that the question is primarily the employer's question, and as such it has been treated in most countries.

Like a great many other forms of insurance, accident insurance traces its origin to Great Britain, and the earliest form—a form which has within the last twenty-five years achieved a great development in the United States, is the individual accident insurance, known in the United States as commercial accident insurance.

This form of insurance mainly developed among the classes

of higher economic standing, and covered ordinary accidents of life rather than industrial accidents. For one thing, private accident insurance companies in order to make their business profitable, have often declined to accept the risk of industrial wage-workers, especially in hazardous occupations, and a great many of them still do so. As far back as 1868, France made the effort to meet this need of the workman for accident insurance by organizing a national institution, where the workingman could individually insure at cost, because of the absence of any element of profit or any cost of soliciting business, but the results were ridiculously small and underscored the inability or unwillingness of the French workingman to pay the premium out of his own earnings.

Out of this individual accident insurance, another form of private insurance of greater importance to wage-workers grew up, which is known as workmen's collective insurance. While unwilling to accept the risk of an individual workman in a hazardous trade, because of the fear that only those in most dangerous occupations would insure, private insurance companies were ready to accept a collective contract. This usually embraced all or most employees of an establishment—those least subject to danger as well as those in dangerous places. Moreover, it created for the insurance companies, at once, a large volume of business, which made the expense of obtaining the business less and, therefore, the business more profitable, and, finally, it usually contained a very modest scale of insurance as compared with individual accident insurance. In many cases the insured employees themselves paid for this form of insurance, but it was quite common for the employer to meet half or even the whole cost of this insurance. The moving forces were either a certain benevolent intent of the employer, or more frequently sound business policy, because when provided with some form of relief the injured workman was less likely to sue for damages in case of an accident. In some cases the workmen insisted upon such insurance as a part of their wage-contract.

The data available for some countries indicate considerable development of this form of insurance. Thus, in France, more than 3,000,000 workingmen were insured by 1899. In Russia the number of workingmen insured under this collective policy in 1900 reached 936,000. In Italy a national Accident In-

surance Institution was established in 1883, primarily for this form of insurance, and the number of workingmen insured reached 200,000 in 1898, when the compensation act was passed. In Switzerland 450,000 workmen were thus insured in 1910, while the employers who cared to protect themselves only with employer's liability insurance did not employ over 40,000 persons. Similar developments took place in other countries which had no compensation laws.

This development was not able to meet the entire problem. Only the best among the employers were willing voluntarily to contribute to the cost of this accident insurance, and, moreover, the amount of the insurance carried under this system was very small. One thousand days' pay, i.e., less than three years' remuneration, was usually the highest amount written, and it often dropped to 800, 700, or even 500 days' pay.

An entirely different line of development is that of employer's liability insurance, which has grown to very large dimensions, especially in England and in the United States. A good deal of the criticism of the activity of liability insurance companies as to their high legal expenses and low proportion of the premiums which reaches the injured workman, is evidently based upon an entire misconception of the nature of liability insurance. Not only the public at large, but many employees and insured employers, labor under the misapprehension that the employee is in some way protected by the liability insurance contract, which is manifestly incorrect. Liability insurance, as practised under liability laws, establishes no legal relations between workman and insurance company and confers no additional rights upon the former. It simply establishes a contractual relationship between employer and insurance company in virtue of which the company reimburses the employer only in case the latter pays a judgment of a court in favor of the injured employee. It is undoubtedly true that the insurance company has better legal means of fighting the suit of the injured person. But, on the other hand, the injured person sues more frequently because he knows that he is dealing, though indirectly, with the insurance company, and that the employer will not make any very obstinate fight against the claim, since he will not be a loser thereby. The severe criticism often directed against liability

insurance companies should really be addressed to the liability system which has created the liability insurance company.

Thus, these two systems of private insurance—liability and workingmen's collective—though often conducted by the same companies are based upon entirely different principles. But they had one feature in common—in both the expense of conducting the business was extremely heavy, which inevitably adds to the cost of insurance.

Various efforts were therefore made, both by the state and by the employers, to make the insurance cheaper. The efforts of many states were directed mainly towards encouraging the workmen's collective form, and in that line the early Italian efforts are most interesting. As early as 1883, a national workingmen's accident insurance institution was organized by ten savings banks under encouragement and supervision of the state, with the result that the cost of administering the business was materially reduced, as compared with private insurance companies.

The same results were obtained by employers' mutual insurance associations, though some of them formed for insurance against liability and not for the collective form. Thus, when the movement for compensation began, all types of insurance institutions were already known to exist—the state institutions, private insurance companies, and employers' mutual insurance institutions. Comparatively new was only the principle of compulsion.

But, quite naturally, the compensation principle has affected accident insurance extremely. Even when no effort was made to enforce insurance it increased the amount of insurance enormously by extending the responsibility of the employer. It stimulated both state insurance and mutual insurance, because of the natural desire of the employer to make insurance cheaper. There is no reason at all why any employer should object to compulsory accident insurance (though, for many reasons, he may object to a compensation system) unless he hopes to avoid compensation in some way, and, therefore, does not wish to pay the insurance premium; or he is an exceedingly careful employer, and may reasonably hope to comply with the law at a lower cost than the insurance premium. As a matter of historical fact, once the compensa-

tion principle was agreed upon, very little opposition to state insurance came from the employer.

In regard to the organization of insurance, there are two lines of cleavage; one is the distinction between countries having compulsory insurance and countries where insurance is optional, and the other line of cleavage is between state and private insurance. These lines naturally do not coincide. State insurance may be optional, as in Sweden, and compulsory insurance may be limited entirely to private institutions, as in Finland. Keeping this in mind, the following classification of countries may be found useful: [1]

1. *Compulsory Insurance.*
   Two forms of compulsory insurance are differentiated—compulsory insurance and compulsion to insure (Zwangversicherung and Versicherungszwang), one enforcing insurance in prescribed institutions, the other enforcing the obligation to insure, but leaving free the choice of insurance institutions.
   A. Compulsory insurance in prescribed institutions.
      1. In government institutions with a monopoly of insurance. Norway, Switzerland.
      2. In employers' compulsory mutual associations controlled by the state. Austria, Germany, Hungary, Luxemburg, Russia (Greece and New South Wales—mining only).
   B. Compulsory insurance with choice of insurance institution.
      1. Private companies or mutual associations with state institutions competing. Italy, Netherlands.
      2. Private companies or mutual associations without state institutions competing. Finland.
2. *Voluntary Insurance.*
      1. Private companies or mutual associations with state institutions competing. Sweden and France.
      2. Private companies or mutual associations without state institutions competing. Belgium, Denmark, Great Britain and her colonies, Spain.

This analysis will be useful as a reminder, but needs further elucidation before the comparative advantages of various insurance forms may be discussed.

Altogether compulsory insurance is to be found in ten countries (exclusive of Greece and New South Wales, where the law is a special one, applying to mining industry only), while insurance is voluntary in six European countries and all Brit-

[1] Quoted with abridgments from Bulletin of Bureau of Labor 90, for which it was prepared by the author.

ish possessions. The Germanic countries are in the majority in the compulsory list, but so is Latin Italy and Slavic Russia, and while voluntary insurance predominates among the Roman countries, it is also the principle in Anglo-Saxon Great Britain, Sweden, and Spain. It is idle, therefore, to base any distinction upon racial characteristics. It so happens that the countries having legislated earliest on compensation have introduced compulsory insurance (Germany in 1884, Austria in 1887, Norway in 1894, Finland 1895, and Italy in 1898), while the laws which have been passed during the last fifteen years are mainly for optional insurance, as, for instance, Great Britain in 1897, France in 1898, Spain in 1900, Sweden in 1901, Russia in 1903, Belgium in 1905, and also all the British colonies.

It has frequently been argued by the opponents of compulsion that the historical development proved a certain disappointment with this principle. But as a matter of fact, Netherlands in 1901, Luxemburg in 1902, Hungary in 1907, Switzerland in 1911, and Russia in 1912 have adopted the compulsory principle, while the Belgian system is almost compulsory. In addition, compulsory insurance is seriously discussed in France; so that not only is the disappointment not proven, but the tendency is clearly towards compulsion.

What are the advantages of compulsory insurance? The main advantage to the injured employee, that of security of payments, was already mentioned, as well as the other method of meeting this problem—through a national guarantee fund. As the problem of insurance concerns the employer mainly, the advantages of compulsory insurance must be demonstrated to him. The question of cost evidently does not come in here, because that depends upon the method of insurance, and not upon the question of compulsion. When private insurance companies continue to operate under a compulsory principle, as in Italy, there is no reason why the rate should be affected by compulsion as such. The main advantages are evidently the same which accrue to the workman from compulsory sick-insurance—by forcing the careless employer to insure, who would otherwise be likely to remain uninsured and to suffer a calamity from one industrial accident. Especially is this important in case of very small employers. And in England, for instance, where the law covers " any employ-

ment," the principle of compulsory insurance would be very useful, for instance, to employers of domestic help.

Inversely it follows that, with very large establishments, the advantages of compulsory principles are considerably reduced. Any one of our large industrial corporations or railroads employs such a large number of men that they may safely rely upon their own average experience, and there is no advantage in forcing compulsory insurance with its additional cost of administration upon them. As a matter of fact, such exceptions are made in several countries having a system of compulsion, as, for instance, in Italy or the Netherlands, where private " establishment funds," i.e., funds existing for employees of one employer, or co-operative establishment funds are permitted to take the place of insurance.

Another important problem is that of comparative advantages of various insurance institutions. As was shown from the preceding analysis, there are three types of insurance institutions: the state insurance fund, the employers' mutual institution, and the private insurance company. The economic organization of these three types must be essentially different. Perhaps it is best to begin with the private stock insurance company, as the insurance institution with which the average American is most familiar.

In the introductory pages social insurance was described as a form of insurance which did not aim at profit. Private or stock accident insurance companies (known in the United States as casualty insurance companies) do operate for profit. As accident insurance of this form grows out of compensation, and compensation out of employer's liability, the profits are derived from the employer and not the insured employee. In this case, it is not the form or organization of insurance but its object that entitled it to a place in the field of social insurance.

The essential feature of private insurance is not only that it operates for profit. All insurance, as was explained, represents an effort at distribution of loss. But private insurance must necessarily be a fixed premium insurance, i.e., besides the distribution of loss it furnishes a complete guarantee against the risk by assuming it itself. But as the total loss is subject to fluctuations, the individual share cannot be definitely known in advance. The private insurance company

in closing an insurance contract, at a definite fixed premium, assumes the entire risk of these fluctuations. If the actual losses should exceed the expected ratio, itself, and not the insurer, suffers therefrom. By thus furnishing this absolute guarantee, the private insurance company is performing a definite economic service, for which it may endeavor to charge as much as competitive conditions will allow.

Contrary to the popular impression, there is a good deal more similarity between private stock company insurance and straight state insurance than between state insurance and mutual insurance. This similarity is found in the fixed premium and the absolute guarantee against losses sold for a definite price. There is this large difference, however: the state assumes the function of the insurance company, and in doing so does not contemplate the possibility of profits. It can, therefore (theoretically, anyway), offer a lower insurance rate. Contrary to the popular impression, such state insurance against industrial accidents is not as widespread in Europe as is sometimes assumed. The countries having state accident insurance institutions are: Norway, Italy, Netherlands, Sweden, and France, and they are placed somewhat in the order of importance of the respective state insurance institutions.

Only in Norway the state has the monopoly of this line of insurance. In Italy and Netherlands it competes with private insurance companies and mutual employers' associations under a system which demands insurance, but leaves the choice of the insurance carrier free. Finally, in Sweden and France, the same competitive condition obtains in absence of any compulsion to insure.

From the point of view of technical insurance, the organization of a mutual association is very much different. A preliminary rate of premium may be quoted by the association to the individual employer, but no guarantee is furnished that this will constitute the entire charge. The distribution of the loss to be incurred is here the essential feature. Beyond this the association does not assume the risk of losses larger than were expected, and, on the other hand, it does not intend to claim the profit from the losses being lower than expected. The member of the association does not purchase complete security at a definite price; this may be a disadvantage, but

the advantage is that the industry as a whole does not pay the price for this security, while the risk remaining, because of the collective responsibility, is not great.

To be quite exact, in a mutual association, the individual member does not pay the premium in advance—though he may contribute a certain amount of cash for the current expenses. Losses are distributed after they occur. It would seem, therefore, that while a "fixed premium" insurance institution, whether a private stock concern or a state insurance department, must face the possibility of a loss and deficit, a mutual association is safeguarded from this in the very nature of things, for the losses are distributed after they occur. In actual practice the situation is not at all as simple as that, however. For in very many cases of accidental injuries the exact amount of loss cannot be ascertained until a long time after the accident has occurred.

The results of the accident may not be certain for a long time. One injured may recover from an injury seemingly fatal, while another man's injury may seem light in the beginning and finally terminate fatally. In cases of permanent injury it is often impossible to render final judgment as to the result for years; and changes may occur in the degree of disability both for the better or for the worse. And in addition, where the pension system of compensation rather than the lump-sum system prevails, the cost of an injury may be a doubtful quantity, even after the nature and gravity of the injury have been definitely determined.

The essential feature of the mutual insurance method, therefore, must be the preservation of this collective responsibility for a long period of time. There are two methods of mutual insurance—the compulsory and the voluntary. In all countries where there is no compulsory system of insurance, voluntary mutual associations may be found (Belgium, Denmark, Great Britain, Russia,[1a] France, Spain, and Sweden). But in addition voluntary mutual associations are also found in competition with the other two forms of accident insurance, where there is compulsory insurance with choice of insurance institutions, as in Italy, Finland, Netherlands.

The same problems confront the organization of mutual employers' associations in all these countries. Not only must

[1a] Before the introduction of the compulsory system under the law of 1912.

the interests of the injured workmen be safeguarded against the possible insolvency of the mutual association by exacting the collective responsibility of the members of the association, but the association itself must be protected against its dishonest, delinquent, or insolvent members. When one of them decides to step out of the association, the latter must not be unjustly saddled by his liabilities, and there must be an equitable method of determining his share of the liabilities incurred during his membership. Equally, a new member must be assured that in joining an existing association, he does not assume any responsibility for losses sustained during the preceding existence of the association. The achievement of these objects does not present any unsurmountable difficulties. The account of each year's losses is kept separately and a member's responsibility does not expire until the affairs of that year are altogether wound up. To facilitate and expedite such winding up of the affairs, the law regulating these employers' associations in France, for instance, requires that when a life-pension is granted by the employers' association to an injured workman or his dependents, corresponding annuities are purchased for the benefit of the claimant, so that, as far as the association is concerned, the pensions are converted into lump sums, though the beneficiary continues to receive a pension.

The situation is very much different when the employers' association itself is compulsory. The employer cannot leave the association at will, and his joining it is not a matter of free choice, but of obligation. There is, therefore, less need to keep track of the proper balance between the cost of losses sustained during a certain period and premiums collected for the same period.

Herein lies the very important difference between voluntary mutual employers' associations and compulsory associations such as exist in Austria, Germany, Hungary, Luxemburg, Russia, and Switzerland. The German and Austrian accident insurance systems have often been spoken of in this country as systems of state insurance. This is not altogether accurate, for the state does not assume directly any financial responsibility, does not collect the premiums nor pay the losses, nor guarantee the deficit. But the degree of control and supervision in addition to the compulsion is such as to distinguish

it from the voluntary mutual associations. Nevertheless the direct administration of the affairs of these associations lies in the hands of the employers themselves.

There is a material difference in the methods of organization of the German and Austrian systems: the first having the so-called industrial and the latter the territorial organization. That means that in Germany employers are joined together according to the branch of industry, and in Austria according to location.

It is still an open question which of these two systems is the preferable one. In neither country is the system carried out absolutely. While most associations in Germany cover a certain branch of industry for the whole country, yet in the larger industries, such as iron and steel, textiles, building trades, there are several territorial organizations. Altogether there are in Germany 66 industrial and 48 agricultural associations. In Austria, on the other hand, there are seven territorial institutions, and special industrial ones for the railways and mines. In Hungary there are only two large employers' associations, one for Hungary proper and one for Croatia, Slavonia, these approaching nearer a system of state insurance. Luxemburg and also Switzerland have only one institution each, while Russia through its recent act has adopted the Austrian territorial system.

The advantages of either of the two systems are obvious; somewhat less so the disadvantages. An industrial system combining employers in the same or related lines of industry, has the advantage of a certain uniformity of risks; and the employers administering such an association are better able to adjust rates and also—a very important consideration—to suggest methods for accident prevention. On the other hand, the difficulties of control and adjustment of claims at great distances must be a disadvantage.

There is also another very important difference in the organization of the German and Austrian systems.

We have already mentioned all the difficulties of computing a proper premium rate which a mutual association must face. The German system has solved this difficulty by waiving it aside and declining to determine the actual cost of all accidents. Instead, it assesses upon the insured employers only the amount of payments made during the year. As the larger

share of the expense is represented by cases of permanent disability and death, for which payments must be made for a long period of years, this results in very low charges in the beginning, which rapidly increase as time goes on. During the first year only that year's accidents are paid for. During the second year the payments on the first year's accidents are continued, and the second year's accidents are added. The system is continued, and for some years the number of cases to be compensated is growing. Gradually, however, payments on the older cases will cease, because of deaths or other reasons. Thus the number will grow until a stationary point must be reached, when about as many old cases will be annually taken off the lists as there will be new ones added. To prevent a possibility of violent fluctuations, a small reserve is accumulated in addition to be used for emergency payments. But the system intentionally leaves the association insolvent if at any moment its affairs were to be wound up, i.e., at that moment its reserves would not be sufficient to cover the cost of payments to be made in the future for injuries sustained in the past.

This condition is sometimes mentioned as a criticism of the German system, when the fact is disregarded that the condition is intentional. It simply means that in the past, especially in the earlier years, the employers have not paid to the association as much as would be required to keep it solvent. A sufficient reserve was not provided, but the membership in the association being compulsory, such a reserve is not necessary, for compulsory membership carries with it compulsory collective responsibility. By this method, the increase in cost of compensation was gradual at the time the system was introduced, and thus industry was saved from a financial shock, while the interests of the injured were not in the least sacrificed. And when one hears in the United States such strong objections to the " saddling of the high cost of compensation " upon industry, the advantages of the German system become apparent.

It is often argued that while this method gave a financial advantage to the existing establishments, it was unfair to the undertakings started subsequently, for in joining an association an employer is at once saddled with the sins of his predecessors—the cost of accumulated injuries drawing pen-

sions now. This argument is evidently due to a misunderstanding of the actuarial conditions, for under this system of assessment, the cost never rises above what it would be under a system of full premiums.

The Austrian system, on the contrary, was built or supposed to be built upon the system of full premiums, i.e., that the premiums for any one year should cover the entire cost of injuries occurring during that year. But in the end the difference between the Austrian and German systems was materially obliterated. Either intentionally or otherwise, the premiums of the Austrian association were never high enough to meet this demand. A deficit, therefore, gradually accumulated when all the outstanding obligations of the association are considered. To cover up this deficit would require excessively high premiums at present, and as the employers themselves administer the fund, they are loath to tax themselves to cover up this deficit. But as there is no prospect of any one of these associations winding up its affairs, the existence of this deficit does not present any danger.

With so many types of accident insurance institutions in the field, the natural question arises, which is the most preferable type? Many arguments for and against each one of these types have been mentioned. But before these are analyzed, it is worth while making an effort to determine which represents the predominating tendency in Europe.

Naturally, where one type of insurance institution is recognized and enforced, there is no opportunity for different types to work out their own salvation. But in a number of countries, different types work side by side, and the experience of these countries must be instructive.

In Italy, Netherlands, France, and Sweden, state insurance institutions compete with private and mutual institutions. The Italian state insurance institution has operated since 1883, i.e., for fifteen years before the compensation law went into effect, and has tremendous popularity. In 1898 160,000 workingmen were insured in that institution, and in 1906 over 400,000. Nevertheless private insurance companies still do a very large volume of business, and mutual associations are growing. In 1899 the national institution compensated 20.8% of all accidents, the private companies 71.2%, and the mutual 8%. In 1905 the proportions were 36.8%, 43.9%, and 19.3%.

In Netherlands the Royal Insurance Bank has a double function: it conducts accident insurance and also supervises all other accident insurance companies. At present it claims about one-third of the total business without any pronounced tendency to increase its share. In Sweden the state insurance institute covered about 24% of all insured workmen, and of the remainder, private companies some 43%, and the mutuals 33%. In France the share of the state institution is an extremely small one because of a peculiar provision of the law which permits it to insure only against fatal and permanent disability injuries, but not those of temporary disability. This incomplete protection is naturally very inconvenient to the employer, requiring double insurance. Therefore, the institution in 1901 insured only 0.4%. But in a decade the amount has increased five-fold, and proportionately increased to over 1%. Thus, everywhere the activity of the state insurance institution is growing, though at a rate that is not at all staggering. On the contrary, the increase in the activity of the mutual employers' associations is very noticeable in all countries where they are freely competing with private companies. In France the mutuals (known as guarantee syndicates) have increased their share from 3.2% in 1901 to 7.9% in 1907. In Belgium the mutuals, though the act is a very recent one, claimed over 35% of the business. In Denmark the proportion in 1907 was some 28%. In Russia mutuals have well-nigh driven private insurance companies out of the field. The conclusion seems to be justified that everywhere where the three forms of insurance institutions compete, both the state institutions and the mutual associations grow at the expense of private insurance companies, but the rate of such growth is not especially fast, and private accident insurance is still important in almost all countries in which it is permitted.

These being the facts, what are the arguments in favor of the various insurance institutions?

Assuming that all insurance institutions must abide by the compensation scales, the comparative advantages of different insurance institutions must express themselves:

(1) From the point of view of the employer in the comparative cost of insurance.

(2) From the point of view of the insured employee in comparative speed and fairness of adjustment of claims.

(3) From a general point of view in the comparative success of eliminating unnecessary litigation, and in the secondary effect of accident prevention.

A state institution evidently eliminates the loading for profits and for the procuring of business—the agent's commission. There is perhaps no sound reason to assume that the cost of administration, as such, must be very much lower under a state insurance system. Salaries for high administrative work would possibly be lower in a state insurance system. As against it is often quoted the general costliness of, and lack of efficiency of, governmental work—an argument of greater convincing power, perhaps, in the United States than in Europe.

Another argument in favor of a state institution which greatly appeals to the employers,—who ordinarily do not grow enthusiastic in favor of extension of the economic functions of the government,—is the possibility of shifting part of the actual cost from the employers upon the general state treasury, for under state insurance either part or the whole of the cost of administration may fall upon the general treasury—such as the rent, the stationery, the postage, and even the salaries. Very seldom, indeed, in any industrial or commercial undertaking of the government are these expenditures taken careful account of in determining the cost of the governmental service. Moreover, most state insurance institutions derive an open subsidy from the state, especially as far as the cost of administration is concerned. Thus, the Italian fund may cover its administrative expenses by means of the interest on a fairly large guarantee fund. In Sweden, and also in France, the entire expenses of administration are borne by the state. The State Insurance Bank of Holland has half of its administrative expenses paid by the state. In addition, the state subsidy may take the more serious form of a deficit, the rates of insurance not being sufficient to cover the cost or the amount of the losses. But while these two possibilities are classified with arguments in favor of state insurance from the point of view of the insured employers, they are also often quoted against state insurance by its opponents.

It is an open question whether in equity the state should or should not thus assume a part of the cost of accident compensation. On one hand, it may be reasoned that having

asserted the social value of accident compensation, the state may properly contribute its share to the cost as it contributes its share to the cost of many other socially important services. It is further argued that the state can well afford to bear a share of this burden, because a compensation system relieves a considerable portion of the cost of liability litigation. On the other hand, if the principle is accepted that the cost of compensation is a necessary part of the cost of production of goods, the state must not extend such veiled subsidies to various producing interests, and thus breed parasitic industries.

In any case it is quite certain that if the state is willing to grant a general subsidy it should be a definite one, and not subject to the uncertainties of unsatisfactory rate-making. However, there is no theoretical reason why the state cannot enforce a proper rate. The experience of the Norwegian institution is usually quoted, when the state was forced to meet a heavy deficit. But this is easily explained by the peculiar fact that in Norway the rates are established by law, by complex parliamentary action, and cannot be changed in any other way—the revision having taken place once in three years. All such effort to establish a specific rate by law must prove a failure. The statistics of accidents may be unsatisfactory, the very frequency of accidents is subject to important changes, and the differences between individual establishments are so great, that any law-bound, iron-clad rates must prove unsatisfactory.

Granted a lower cost of administration, and absence of the elements of commission and profit, the state insurance should be able to quote a cheaper rate.

But a cheaper rate does not decide the problem, except as far as the employer is concerned. There is also the other side,—that of the injured workman or his dependents. Under which system are his chances best for getting justice? Evidently that system will be best from his point of view which does not put the decision into the hands of persons interested in reducing the compensation to a minimum. In all systems of insurance or compensation, the proper safeguards must necessarily be provided in the nature of arbitration committees, the right of appeal to higher jurisdiction, and governmental supervision generally. The private insurance com-

pany existing for profits and profiting directly through reducing compensation, would naturally have to face this objection from the injured workman's point of view, while a state insurance institution might be supposed to be entirely free from this motive, and, therefore, be more favorable to the claimant.

But how much this argument may depend upon a point of view is well illustrated by the fact that when the Belgian law permitted the manager of an Old Age Pension Fund (a national institution) to write accident insurance, the manager of the Fund declined to undertake this line of business on the ground that the settlement of accident claims will naturally cause a good deal of friction between the workmen and the state institution, and jeopardize its popularity so necessary to successful activity in other lines.

In refutation of both these arguments, which seem to favor state insurance from the point of view of both employer and employee, "graft" is often mentioned. It is claimed that dishonest administration may either favor one side at the expense of the other, or possibly both sides at the expense of society at large; that undue considerations, whether political or those of individual corruption, may influence the conscious undervaluation of premium so as to create a deficit by favoring certain employers; and that by similar political considerations or corrupt influences, the claimants may be unduly favored, and thus the cost of compensation to society is increased.

It is difficult to measure the strength of such an argument further than to say that a proper system of civil service would seem to offer a satisfactory remedy in this, as in other cases of threatening corruption of public officials.

As the central aim of accident insurance is the distribution of loss of one employer over the entire industry, the employers' mutual association appears to be the logical form of organization. Not only are profits eliminated, but the cost of administration must necessarily be low because a good share of the work is done gratuitously by co-operative effort.

From the point of view of the claimant, however, the fact that these mutual associations are entirely managed by the employers may be found objectionable. Not only very strict state supervision is required, but also some representation of the workmen's interest. Thus, we find that in the new Swiss

institution, which stands half-way between an employers' and a state institution, the workmen have sixteen out of the fifty members of the administrative council, while the employers have an equal number, and eighteen represent the state. Nevertheless, in view of the admitted advantages of both the state institutions and the mutual associations over private insurance companies in the matter of the insurance rates and premiums, the interesting question remains why neither of them has developed faster than they did in those countries where all forms of institution operate in competition with each other, and why do private insurance companies still continue to claim the lion's share of accident insurance in most countries?

One reason as against the mutual association may be found in the greater liability which the organization of mutual companies presupposes. What a compulsory mutual employers' association meets without any difficulty, presents a rather complicated problem for a voluntary mutual association. And the average employer, especially in the lighter industries, where the entire cost of accident compensation does not represent a very important element of the cost of production, often prefers a contract with a private insurance company, under which he is certain of the cost of accident insurance, and is guaranteed against possible additional assessments, even if, on the whole, he is forced to pay a little more for this security.

But in addition, there is another reason which operates with special strength against state institutions. A private insurance concern can be managed a great deal less rigidly than a state institution, especially in the matter of rates. The premiums or rates of state institutions are usually rigid, strictly defined, and published. In some cases they can be changed only by legislative action, and they are uniform for all establishments producing a certain article.

Now, while the accident rate does depend upon the branch of industry, nevertheless the accident rate or the physical hazard (i.e., the probability of accidents occurring) varies greatly from one establishment to another. By skilful underwriting, an experienced accident insurance company may select the "best risks," as the saying goes, by underbidding the state insurance institution, leaving to the latter the worst risks. As a matter of fact, this actually happens in all coun-

tries where private and state institutions compete, and the state institution is usually prohibited from refusing any risk.

This selection of risk against the state institution has been advanced as an argument against permitting private companies to operate in competition with public insurance institutions. It was claimed that the latter cannot be successful unless such selection of risks was stopped. But this seems to be an admission that good risks must be forced into a form of insurance which will be more costly to them than their hazard makes necessary. The remedy would seem to be rather in another direction—that state or mutual institutions should be managed less rigidly, with a certain degree of underwriting skill, which would permit an adjustment of premiums to the actual conditions, in a way in which premiums are adjusted in fire insurance, when every detail of construction, the presence or absence of every fire preventive, influences the rate upward or downward.

To sum up: Compulsory insurance is an important principle, unless some other method of state guarantee is provided. Even then undertakings of a certain size and a certain degree of financial stability may be freed from the insurance obligation. The form of insurance institution is much less important. State and mutual institutions have certain advantages, and there is no reason why they cannot be efficiently managed. But provided a proper system of social control over claim adjustments is maintained, there is no danger in leaving the solution of this problem to competition. Compulsory mutual associations of the German type have a certain advantage, primarily in the possibility of smoothing the transitory stage. But it must always be borne in mind that not the form of insurance, but its substance—the amount of insurance granted—that is essential from the point of view of the wage-worker.

CHAPTER X

THE AMERICAN COMPENSATION MOVEMENT

Until four or five years ago, the study of social insurance, in the proper meaning of the word (that is, insurance of workingmen as influenced by social or governmental action), could well afford entirely to disregard conditions in the United States.

Within the last four years, however, the situation has materially changed, at least as far as one branch, that of accident compensation and insurance, is concerned. The results accomplished during 1910-1913 were very material. About twenty-five states have already legislated on the subject in some way or other, and in many others state legislative action is seriously contemplated.

The movement has been so unexpectedly rapid, even for its most urgent supporters, that it interfered with the critical attitude towards the channels it had taken. Its study is made exceedingly difficult by our political organization. In any other large industrial country we have only one historical path to follow, and the logical sequence of legislative projects, actual laws, and their results may be studied with comparative ease. As against such a study in Great Britain or Germany, we are immediately confronted in the United States by fifty different historical currents, influencing each other, but yet largely independent of one another; and the technical difficulties of a comparative study are enormous.

A comparative analysis of the situation in Europe required the study of only fifteen acts. We have already nearly twice as many in the United States, yet we are only in the beginning of the movement. Another difficulty is that we are in the very midst of it, and historical perspective is impossible. The most recent sources of information are out of date before they leave the pressroom, and an independent effort to follow all that is going on in fifty legislative chambers is practically beyond the possibility of any individual. There will, there-

fore, be no guarantee of absolute accuracy in the discussions which follow as far as the development of the last two or three months is concerned.

Before the results can be subjected to a critical analysis, the historical development of the movement must be briefly traced, so as to understand both the reasons for the long delay and for the sudden legislative activity of the last few years.

For a good many years it was tacitly assumed, both by students of economics and the workingmen themselves, that the strengthening of liability conditions was the only way in which an American solution to the problem could be found, and all suggestions for a radical change along lines tried in Europe were impatiently discarded, either because of ignorance of European conditions, or because of a childish conviction that there was nothing we could learn from Europe.

Curiously enough, the first feeble efforts to profit by European experience came from those students of economics who were connected in some capacity with government institutions, and not the academic economists, who were deep in economic theory, and were then out of touch with the practical problems of industrial life.

In 1893, the U. S. Bureau of Labor published a comprehensive study of workingmen's insurance in Germany, by Dr. John Graham Brooks. The study was naturally limited to that one country, because the movement beyond its boundaries was very limited, even in Europe. The study failed to attract very much attention from the public at large, or even from students of economics. Five years later the first general study of workingmen's insurance was made by Dr. W. F. Willoughby, also connected with the Bureau of Labor, and notwithstanding its very elementary nature, it long remained the only authoritative work on the subject in English. The fact that there was never a demand for a second edition of that book indicates the degree of interest displayed by the American students toward the subject.

In 1899 the New York State Bureau of Labor published a more comprehensive study, devoted entirely to the problem of accident compensation and insurance in Europe. Numerous articles in magazines began to appear in the earlier years of the last decade, but until 1909 or 1910 the literature on the subject in English was very limited indeed, as compared with

the veritable flood of both official documents, private studies, and popular articles during the last few years.

When Roosevelt was governor of New York, an effort was made in the New York Legislature to introduce a compensation law similar to the British act of 1897. But the representatives of labor rejected it, preferring to work for a more stringent liability law.[1] This attitude of the labor organizations was quite characteristic for the time.

Oddly enough, the first successful effort was made in a Southern state—Maryland—where, by the act of 1902, an employers' and employees' co-operative insurance fund was created for workingmen employed in mines, quarries, and steam and electric roads, with equal contributions from both employer and employee, to be administered by a state official, and for the purpose of granting the sum of $1,000 in each fatal accident. Thus, with one bold stroke, a system of state accident insurance was introduced. But it was a very poor substitute, even for a system of liability. For in depriving the injured workman of all his rights under liability laws, it granted the right of compensation only for fatal accidents, established an amount of compensation which was a miserable pittance only, and that at a considerable cost to the workmen, who were charged one-half of the contributions to the fund.

The law did not exist very long. It was in force from July 1, 1902, to April 28, 1904, when it was declared unconstitutional on the ground that it deprived both parties of the right of trial by jury, and conferred on an executive officer judicial functions, for the law was administered in all its details by the state insurance commissioner. It was so faulty in its details, and showed such misunderstanding of European experience, on which it claimed to have been based, that it died an unregretted death, except for the fact that it might have been taken as a dark omen to future legislation on the same lines in other states.

Outside of this peculiar experiment, the first state to take a more decisive step was Massachusetts. In 1903 a committee of five was appointed to study the relations between employer

[1] Charles R. Henderson: "Workingmen's Insurance in Illinois." American Association for Labor Legislation: Proceedings of the First Annual Meeting, 1908.

and employee, and the question of liability for industrial injuries was specially recommended to its consideration. The committee prepared and recommended a fairly comprehensive bill on the lines of the British act of 1897, but the bill was rejected by the legislature on the ground that such a law would place an exceptional burden on the manufactures of the state, and would cripple them in competition—an argument which, for many years, exercised a powerful influence in retarding compensation legislation as well as many other necessary laws for the protection of labor.

Nevertheless, the movement was not altogether killed in Massachusetts. In 1907 another joint committee was appointed in response to a concurrent resolution of the legislature. The committee this time did not dare to go as far as their predecessors, pleading by a small majority that the step was premature. They did, however, recommend an act which was passed by the legislature in 1908, authorizing employers to establish, of their free will, compensation schemes, which, if approved by the State Board of Conciliation and Arbitration, might serve as substitutes for the existing employer's liability. It is significant that the law remained practically a dead letter, thus emphasizing the futility of counting upon the good will of employers as a force to accomplish the necessary reform.

A similar movement took place about the same time in Illinois, largely under the influence of Professor Charles R. Henderson, one of the best students of the problem of social insurance in the United States. A commission containing representatives of capital, labor, law, and economics, was appointed in May, 1905, to study the entire matter of workingmen's insurance and old-age pensions. The commission presented a draft of an accident insurance bill, the shortcomings of which it frankly recognized, but thought them justified by considerations of timeliness.[2]

The plan provided for a voluntary compensation scheme, through a mutual insurance institution, with equal contributions from both employers and employees, and a very limited compensation scale. Little wonder that the bill met with almost unanimous disapproval of organized labor, which destroyed all its chances for success; moreover, the manufacturers also resisted any extension of their liability. In ex-

[2] See Ch. R. Henderson, *loc. cit.*, p. 76.

plaining the failure of this act, Professor Henderson brings forth many interesting considerations why American workingmen show so little enthusiasm for compensation and insurance: such as that they are utterly unfamiliar with European methods of handling this problem, that they have been trained to look to stringent liability legislation for relief, and that they have had the gambling spirit developed in them and look forward to large speculative awards. But perhaps the best and most weighty reason was the feeling that " the particular measure came short of the best European laws," i.e., in other words, the workingman instinctively felt that a so-called compensation system should really accomplish its avowed aim by granting sufficient compensation, and should do so at the expense of the employer.

In Connecticut also a committee was appointed by the governor upon demand of the legislature in 1907, to investigate the problem of employer's liability, though it was not specifically ordered to recommend compensation legislation. The committee made a brief though fairly clear study of some compensation laws, admitted willingly all the virtues of the system, but could not agree to recommend a bill to that effect, mainly because of fear of interstate competition.

The modern compensation movement may be said to date from 1908. At least, during that year it received a considerable impetus from the Federal Government. A compensation law for the employees of the Federal Government (who were in a peculiarly unfortunate condition, in that they were not even protected by any liability laws) became the earnest effort of the Roosevelt administration. Many references to it were made in the presidential messages, and in reports of cabinet officers. Finally, after very picturesque wieldings of the omnipotent presidential club, the conservative lawyers of the Congress were forced to pass a compensation act for the protection of some government employees, the act of May 30, 1908, very limited in its application, but famous for being the first real Compensation Act in the United States.

Viewed in the light of modern accomplishments even in the United States, it is a very poor piece of legislative work indeed, unduly limited in its extent, miserly in its grants, and preposterously crude in its technical construction. Nevertheless

it had its salutary effect at the time as an encouraging example of results accomplished.

Under the influence of these first steps, a large interest in the problem grew up. By the appointment of legislative commissions in Minnesota, New York, and Wisconsin in 1909, the stage of commissions and investigations was inaugurated. In New York the local branch of the American Association for Labor Legislation was largely instrumental in obtaining a commission. In Minnesota the movement for a commission was started by conferences between representatives of organized labor and employers' organizations, in which the State Commissioner of Labor was active. In Wisconsin, too, an investigation by the State Bureau of Labor largely influenced public interest in the matter.

Since the appointment of these three commissions the movement grew by leaps and bounds. Other states followed. In 1910 commissions were appointed in Illinois, Massachusetts, New Jersey, Ohio, and by the United States Government. In 1911, in Colorado, Connecticut, Delaware, Iowa, Michigan, North Dakota, Pennsylvania, Texas, and West Virginia. In some states, as California and Washington, commissions were appointed by the governors without legislative authority.

The period of commissions is not yet over, and more appointments of this nature were made in some other states with the opening of state legislatures in 1913. Nevertheless their importance is rapidly declining, and they have fulfilled their function by increasing the knowledge of the problem among the American public and legislators. The exhaustive report of the U. S. Bureau of Labor published in 1911, has furnished all the facts in connection with European conditions, and the reports of some of the commissions, especially those of New York, Wisconsin, Minnesota, Ohio, Washington, and Michigan, have supplied a general picture as to the state of the problem in various sections of the country, a wealth of arguments against employer's liability and in favor of compensation, and have popularized some knowledge of European institutions. Further local investigations by state committees can add but little to this.

It is gratifying to see what a vast amount of educational work was done within the very short period of three years by these commissions. Soon after the appointment of the first

commissions, their members, feeling their lack of knowledge with regard to compensation, met in a joint conference in Atlantic City (July, 1909), upon the initiative of the Minnesota Commission. A permanent "National Conference on Workmen's Compensation" was organized, which met for the second time in Washington, in January, 1910, for the third time in Chicago in June, 1910, and again in Chicago in November, 1910. Three commissions were represented at the first meeting, seven at the third, and ten at the fourth.

The reports [3] of the conference may not represent any valuable contributions to the theory of compensation or accident insurance, but they will be a perfect mine of information for the future historian of social legislation in the United States. The lack of knowledge of the whole field of social politics, even among trained and experienced men called upon to suggest legislation, was almost painful. In 1909, twenty-five years after Germany had established the compensation system on a national scale, and long after nearly all Europe had followed, the three subjects selected for discussion were, (1) the Desirability, (2) Possibility, and (3) Practicability of Accident Compensation. But the anxiety for enlightenment displayed was admirable, and the progress made within less than eighteen months may be gauged from the fact that at the November, 1910, conference in Chicago, the main subject of discussion comprised the detailed provisions of a model draft of a uniform compensation act.

In addition to these governmental authorities, various private agencies showed a growing interest in the matter. Most active for its size was the American Association for Labor Legislation, which, after many years of somnolent existence as an appendage to the International Association for Labor Legislation, has suddenly grown to take an active and influential interest in all matters of labor legislation, and rushed into the fight for accident compensation. Not only has every annual meeting of this association devoted most of its time to problems of compensation, but in many states local branches were formed which were very active in drafting bills and

[3] Report of Atlantic City Conference on Workmen's Compensation Acts, July, 1909; Proceedings Third National Conference Workmen's Compensation for Industrial Accidents (including report of the Second National Conference), Chicago, June, 1910; Compensation for Industrial Accidents Conference of Commissions, Chicago, November, 1910.

conducting popular agitation in their favor. Within four years seventeen special papers on this subject were published by this association.

Other organizations of economic students, though somewhat late in the day, also woke up to the importance of the problem. The Philadelphian American Academy of Political and Social Science called together a conference on this problem in April, 1911, and roused a great deal of enthusiasm by a brilliant series of addresses, subsequently published in a valuable volume.[4] A similar meeting was held by the New York Academy of Political Science in November, 1911.[5] But such activity on the part of organizations established for the specific purpose of labor legislation or social reform was to be expected. More significant is the interest taken on one hand by the National Civic Federation, the well-known organization which preaches identity of interest of capital and labor, and on the other, the still more active interest on the part of the National Manufacturers' Association, the most militant organization of American capital in its struggle against labor unions and against demands of labor in general.

The National Civic Federation appointed a special Department on Compensation for Industrial Accidents, has since helped to keep the subject before the public by featuring it at all its subsequent meetings and conferences, and has gone so far as to prepare a " model " draft of a uniform compensation act. Still more significant is the favorable attitude of all parties concerned in the matter—the employers, employees, attorneys, and insurance companies. The attitude of the National Association of Manufacturers towards the efforts of wage-workers to improve their economic and legal conditions is too well known to need any extensive comment here. Nevertheless, this Association has also appointed a special committee for the study of accident compensation and made it a permanent feature of its annual meetings. Perhaps the explanation may be found in the statement made by its president, that " the spirit of the times is leading toward visionary conceptions of life and duty, and that the atmosphere is charged with

[4] *Risks in Modern Industry* (The Annals of American Academy of Political and Social Science, July, 1911).

[5] See Third Annual Report of the New York Association for Labor Legislation for papers read at this meeting.

the murmurings of discontent, upon which the agitator fattens and the political demagogue thrives."[6] It thus became necessary for the Association to thwart these dangerous movements by its own compensation scheme. Under the direction of the Association, an investigation of European conditions was undertaken by Messrs. F. C. Schwedtman and J. E. Emery, the results of which were given recently in a magnificently published report, which makes a strenuous plea for contributions from employees, for "they provide a justly proportionate distribution of the pecuniary burden."[7]

On the other hand, American labor has also changed its opinion, and whereas in 1899 in New York, and in 1905 in Illinois, organized labor strenuously fought against compensation, since 1909 the American Federation of Labor stands committed in its favor. Its president has repeatedly appeared in its defense, and various state branches have prepared and fought for their own drafts of bills. The legal profession, through the American Bar Association, were soon moved to appoint a special committee to prepare a plan for uniform compensation legislation, though, perhaps, there is no other class in the community which derives so much profit out of the existing liability system, and whose economic interest is so seriously threatened by the substitution of a compensation insurance system, as is the legal fraternity.

But, perhaps, most significant of the new order of things were the several private compensation schemes or voluntary accident relief systems by various large corporations, employing perhaps larger numbers of wage-workers than many of the states of the Union can boast of. This feature of the compensation movement attracted a great deal of attention in 1910, on the eve of the era of compensation legislation, and was made a good deal of by some sentimental reformers, who wanted to look to such schemes for a possible solution of the problem.

The two most conspicuous systems, of the United States Steel Corporation and of the International Harvester Company, the first with an army of over 200,000 employees, and

[6] National Association of Manufacturers' Fifteenth Annual Convention, New York, 1910, p. 85.

[7] *Accident Prevention and Relief*, by F. C. Schwedtman and J. E. Emery, New York, 1911.

the latter with some 30,000, were hailed as eloquent examples of the new spirit of social welfare permeating American industry.

Perhaps the recent strikes in various plants of both these corporations have somewhat darkened the halo of benevolence which for a time these plans had acquired. In the light of even the American laws passed since, the scale of compensation which these plans provided were so ridiculously low, that there could hardly be any doubt as to the real intent of those systems, namely, that of substituting cheap compensation schemes for expensive liability suits, and this intent is underscored by the provision that the bringing of a suit at law bars all benefits under the scheme.

To characterize the peculiar conception of compensation for loss sustained, embodied in the scheme of the Steel Corporation, it is sufficient to say that the value placed upon the hand or leg of the workingman was twelve months' wages, and that of an eye only six months'. With the standard of wages among the vast majority of employees in the American steel industry between $9 and $12 a week, this was placing a value of $300 upon an eye and $600 upon an arm or leg.

Another characteristic feature of this plan is its dependence upon length of service, so that compensation for injuries sustained partakes of the nature of a reward for faithful service rendered—an incongruous combination which no compensation law would permit. The death benefit provided is ridiculously insufficient—eighteen months' earnings for married men living with their families. This exclusion from all benefits of surviving relatives in case of unmarried men, or of married men not living with their families, was a very convenient way of excluding from compensation the families of most immigrant laborers, who constitute perhaps the majority of the employees of the United States Steel Corporation.

The International Harvester Company's scheme, which went into effect on May 1, 1910, was somewhat more favorable. Under this scheme the compensation for a fatal accident was placed at three times the annual wages, the loss of a foot or arm one and a half year's wages, and the loss of one eye nine months' wages. In cases of total disability half wages for two years was provided, and after that a pension of $10 per month. The employees were given the privilege of

providing for themselves a higher level of compensation in case of accident by making small contributions.

But though the intrinsic worth of these private or industrial schemes is slight, they are significant of the remarkable change which occurred in the country on the subject of liability and compensation. In fact, though an occasional protest against this new charge upon American industry, and a defense of the old liability system on the ground of pure justice, are still met with in the daily press, particularly in commercial publications, it is almost impossible to put one's finger upon any organized body of men who would at present, in the open, dare to take the stand against compensation.

Truly, a remarkable change of heart has evidently been experienced within a very short time, and the practical results of it are already enormous. In this respect the history of the movement in this country is very much different from what it was in Europe. For fully fifteen to twenty years parliamentary debates and public discussions have preceded the enactment of laws in France, Italy, Russia, Spain, or the Scandinavian countries.

What is responsible for this rather sudden and sweeping change? There is no doubt that, judging from the rapid rate of advance, we are dealing here with a historic movement of prime importance. Of course the general causes of the compensation movement throughout the world are well understood, and they are the same in the United States as in any other industrial country. Nevertheless, there must have been some specific moving forces which created this movement throughout the United States, when only a few years ago not only the principle of personal liability, but even all the limitations upon it, were considered sacred and unassailable. And especially does some explanation seem necessary, when the demand for protection of the rights of labor proceeds not only from workingmen's organizations (one is almost tempted to say not so much from these organizations), but also from the other side of the line dividing economic interests.

It might be argued that the change is due to the formation of an enlightened public opinion on the subject of compensation as practised in Europe. It is undoubtedly true that five years ago the state of ignorance in the United States on the entire subject of workmen's insurance was quite shocking, and

that is a serious indictment against American economic science which cannot easily be dismissed. For, during the last quarter of a century, the economists of all countries were carefully studying the social legislation of their neighbors, while our students held aloof from these problems, and either spent all their energies upon doubtful points in various theories of value, or if they ventured into practical economics, saw nothing but problems of trusts or corporation finance; so that it was left largely to the popular magazine writers to create a sentiment for compensation or insurance.

Nevertheless, even this cannot serve as a full explanation, for there has been a veritable hunger for information, where five or ten years ago an article on Workmen's Insurance was a drug on the market. There must have been material forces back of this movement. One of them is what is often termed the growth of new democracy, that is, the growing social unrest, the demand for social justice, the growth of radical tendencies in American political and social life, undoubtedly due to such economic conditions as the enormous development of industry within the last fifteen years, and the general accentuation of all economic and social problems created by the monopolistic tendencies in industry and the rise of the cost of living. That, however, might explain the favorable attitude of the workers to compensation, but not that of the employers' associations.

But while the principle of workingmen's compensation is directly opposed to the principle of liability, nevertheless a close connection between them in practice cannot be denied. Both represent efforts to protect the injured workman at the expense of the employer or industry. Knowing nothing of compensation, American workmen were fighting for stronger liability laws for years. It is true that this could not solve the problem as far as the majority of the injured workmen were concerned, but it nevertheless had its strong effect upon the employer's purse. Not only abstract laws, but living juries and even judges could not escape the pressure of this movement, for where verdicts against injured workmen in damage suits had been considered quite the natural thing, they became objects of severe criticism.

As a result of this tendency, which has often been described by conservative writers and speakers as one of "enmity to

capital," verdicts in favor of the injured workingmen became very much more common, and the amounts of verdicts have rapidly risen. Verdicts of $5,000, $10,000, or even $25,000, became more frequent. Ten years ago courts of appeals could almost be depended upon to reverse any large verdict in favor of an injured workman on some technical ground, but this situation gradually gave way. The statistics of liability insurance companies showed a constant increase not only in the percentage of accidents for which claims were made by the injured, but also in the percentage of claims which the injured were willing to press for trial and further for appeal, while the percentage of cases reversed in appeal rapidly decreased.

Under these influences, the cost of liability for accidents, instead of being a remote contingency, as ten or twenty years ago, became a perceptible factor in the cost of production. As a result, liability insurance was becoming daily more popular, and from a luxury it grew into a necessity, as the rapid development of liability insurance companies within the last decade eloquently shows. Necessarily, rates for employer's liability were forced upwards in consequence. Moreover, liability insurance companies refused to take exceptional risks, and were willing to insure ordinarily only up to a limit of $5,000, charging heavy rates for additional coverage, and thus the possible cost of industrial accidents became a threatening factor in all computation of cost of production.

Thus, the employers gradually learned to appreciate the advantages of insurance, and also the advantages of a limited scale of compensation. And it is often the limited compensation scale much more than the certainty that all injuries will be compensated, which appeals to the employer.

It is undoubtedly under the pressure of this " dollars and cents " argument, that the manufacturers' associations became very much more alive to the humanitarian point of view and to the shortcomings of the liability system, to the waste of trials for accident liability, and to the general advantages of a compensation system with its limited scale of compensation. This may be considered a grossly material explanation of nobly humanitarian motives. It is necessary to point out, therefore, that the effort to make compensation cheap rather than just was very prominent in all the plans

proposed by these associations, and even that of the National Civic Federation, where there was for a time an outspoken tendency to force a part of the cost of compensation upon the employee. Many leading workers for compensation who represented the employing class, flatly stated their preference for compensation *provided it did not cost any more than the present wasteful liability system.* The argument of the wastefulness of the liability system, and especially of liability insurance, was emphasized over all other arguments, though as a matter of fact, ten years ago, when liability insurance was very much cheaper, it was also very much more wasteful, in that a smaller proportion of the premiums was used in actual payments to claimants; but *because liability insurance was cheap* its wastefulness did not disturb the employers.

CHAPTER XI

AMERICAN COMPENSATION LEGISLATION

1908-1913

ALTOGETHER, twenty-four American jurisdictions have enacted laws which may be described as compensation or accident insurance laws. A list of the acts in their chronological order is given in the following table. Of the thirty-three acts passed, three were declared unconstitutional, and three are purely optional and for all practical purposes a dead letter, and five were substituted by more recent acts, while seven have not yet gone into effect at this writing (July, 1913),[1] leaving only fifteen in active operation.

LIST OF COMPENSATION ACTS ENACTED BY VARIOUS STATES

Year of enactment	State	Date effective
1902	Maryland (*a*)	July 1st, 1902
1908	United States	August 1st, 1908
1909	Massachusetts (*c*)	July 1st, 1910
1909	Montana (*a*)	Oct. 1st, 1910
1910	Maryland (*c*)	May 1st, 1910
1910	New York (*c*)	Sept. 1st, 1910
1910	New York (*a*)	Sept. 1st, 1910
1911	Nevada	July 1st, 1911
1911	New Jersey	July 4th, 1911
1911	California	Sept. 1st, 1911
1911	Wisconsin	Sept. 1st, 1911
1911	Washington	Oct. 1st, 1911
1911	New Hampshire	Jan. 1st, 1912
1911	Ohio	Jan. 1st, 1912
1911	Kansas	Jan. 1st, 1912
1911	Maryland (*b*)	April 15th, 1912

(*a*) Since declared unconstitutional.

(*b*) Purely local law, applying only to coal and clay mining in two counties.

(*c*) Purely optional law—a dead letter.

[1] Of these, two (those of Oregon and Nebraska) have been delayed from going into effect at the date provided in the law, because of the initiation of referendum while these pages were going through the press. In several states minor changes were recently made which are not recorded in the above table.

Year of enactment	State	Date effective
1911	Illinois	May 1st, 1912
1911	Massachusetts	July 1st, 1912
1912	Michigan	Sept. 1st, 1912
1912	Arizona	Sept. 1st, 1912
1912	Rhode Island	Oct. 1st, 1912
1913	Kansas (*d*)	March 29th, 1913
1913	New Jersey (*d*)	April 9th, 1913
1913	Oregon	July 1st, 1913
1913	Nevada (*d*)	July 1st, 1913
1913	Nebraska	July 17th, 1913
1913	Minnesota	Oct. 1st, 1913
1913	Texas	Sept. 1st, 1913
1913	West Virginia	Oct. 1st, 1913
1913	Ohio (*d*)	Jan. 1st, 1914
1913	Connecticut	Jan. 1st, 1914
1913	California (*d*)	Jan. 1st, 1914
1913	Iowa	July 1st, 1914

(*d*) Revision of earlier acts.

Excepting the Maryland act of 1902, the Federal Government was the first in the lead with the act of May 30, 1908, which has already been referred to.

Far-off Montana followed suit in 1909 with an act establishing compulsory insurance, but limited even more than the Maryland act—to one industry only, namely coal mining. The Montana act was conceived in a very praiseworthy spirit. It was intended to embody at once the three main principles which European experience has developed, compensation, compulsion of insurance, and state insurance. Unfortunately, the technical knowledge was lacking to make it an efficient law. It provided a state accident fund to be supported by definite taxes, both upon employer and employee. From this fund death benefits of $3,000 were payable to dependents, but not if they were foreigners, and only widow and children were considered. Of the non-fatal accidents only permanent disability was recognized, and a benefit of one dollar per day was established, in addition to a compensation of $1,000 for loss of limb or eye. Though payment of the taxes was compulsory for both employer and employee, the injured or his dependents could ignore the provisions of the act and sue the employer at common law. Only acceptance of benefits barred action. The act was extremely crude in its details, though praiseworthy in its intent. It went into force on October 1, 1910, but very soon was declared unconstitutional on the ground

that in permitting employees to waive their rights under the insurance act and sue the employer who had made the required contributions to the insurance fund, there was not given to the employer that equal protection of the law which was his constitutional right.

Thus, the second effort at compensation legislation also fell a victim to the constitutional ax, though the decision was made on a comparatively unimportant technicality.

The purely permissive acts of Maryland and Massachusetts, which remained a dead letter, need not be further discussed. Much more important was the next act passed, that of the Empire State of New York. The third act to be passed and to be declared unconstitutional, like the acts of Maryland and Montana, was the so-called Wainwright act of 1910.

Of the three commissions appointed in 1909, that of New York was most energetic and successful. Early in 1910 it introduced two bills, one strengthening the liability legislation, and also permitting employers and employees to agree to a compensation scheme in lieu of employer's liability, and the other prescribing compulsory compensation for certain specified dangerous employments. Both bills became laws—the first on May 24, 1910, and the latter on June 25, 1910. Experience in Massachusetts has already shown the ineffectiveness of permissive compensation laws, and it is, therefore, the act of June 25, 1910, introducing compulsory compensation for a few trades, that is usually looked upon as ushering in the modern era of compensation acts in American states.

The act was drafted with a great deal of care and even timidity, with full consciousness of the many obstacles in its way, and melancholy forebodings as to its future. These naturally influenced its provisions, especially as far as the extent of its application was concerned. It was broader than its two unfortunate predecessors, which were limited to one or two industries only. But it was far from a general act, as it was limited to eight industries or occupations: iron or steel building erection, operation of elevators, etc., work on scaffolds with over twenty feet elevation, electric wire work, work with or near explosives, railroad operation or construction, construction of tunnels or subways, and compressed air work, or, briefly, building, construction, railroad, and explosives.

There were several reasons for this selection. These were all especially dangerous trades, where accident compensation was most needed. Second, all these trades are such as cannot be shifted from one place to another. In this way the Commission hoped to overcome the objection based upon the argument of interstate competition. Obviously, if a factory might be removed for such reasons, the building to be erected or the subway to be constructed in New York City could not be moved to Hoboken to avoid this charge.

The third argument was undoubtedly the constitutional one. It was hoped that the selection of specially hazardous trades might remove or minimize the constitutional difficulties which were very much feared, on the ground that the extra-hazardous nature of the work justified the exercise of the police power of the state in the enactment of a compensation law.

That serious constitutional objections against compensation legislation might be advanced by the courts was the fear of all workers in the field. The New York Commission devoted a good deal of consideration to this problem. It was the most carefully discussed problem at the Atlantic City Conference. And within the brief period of three or four years, an enormous literature on this one problem of constitutionality has appeared.

It would be idle to undertake to add anything of value to this exhaustive discussion of a highly technical legal problem. The reader who is inclined that way and has the necessary legal training may be referred to the special studies published, to the reports of the various state commissions, all of whom were forced to face this problem, to the proceedings of the National Compensation Conference, and of many other public meetings where this problem was discussed, and especially to the five volumes of hearings before the U. S. Employers' Liability and Workmen's Compensation Commission. Of course, to the non-legal mind, the whole problem was bewildering. But students of American constitutional law, who viewed the problem from a technical point of view, saw grave dangers. Of the many constitutional difficulties two were admitted to be most serious. The very basis of the compensation system, that of making the employer responsible for an accident occurring admittedly without any fault of

his,—occurring possibly because of fault of the injured himself,—was opposed to the foundations of common law, was an inroad upon the employers' constitutional rights; in fact, was no less than "taking property without due process of law," or confiscation.

Second, the compensation system, making for automatic determination of damages instead of by injuries, was depriving the employee of his right of trial. The first objection centered about the construction of the sentence "due process of law." It is not a conception easily grasped by the lay mind, which cannot understand how any law properly enacted by the legislative power of the government may be accused of doing anything without "due process of law." However, we are dealing here with the double meaning of the word law, which may be indicated by the two German equivalents, "Recht," and "Gesetz." As the New York Court of Appeals has subsequently stated very clearly, "Law as used in this sense means the basic law, and not the very act of legislation which deprives the citizen of his rights, privileges, or property. Any other view would lead to the absurdity that the constitutions protect only those rights which the legislatures do not take away."

The New York Commission itself, the majority of whose membership were reared in the old legal and economic concepts, admitted unequivocally the validity of both these objections. In its report it stated: "We are advised by nearly all the lawyers who have aided us with their advice, that a general compensation act, modeled, for instance, on the German system or the English act of 1906, would be unconstitutional in this state."

The Commission tried to avoid the "trial by jury" difficulty by leaving open to the injured the right to sue his employer in the old way, if he so desired. And it met the "due process of law" objection by the narrow limits of the law, arguing that the very dangerous nature of the trades enumerated justified the state in passing the compensation law, a proper exercise of the police power, for the right to regulate dangerous trades has been definitely admitted.

This attitude of the New York Commission was somewhat discouraging to the progress of the compensation movement,

for it admitted the impossibility of a general compensation law.

That the industries and occupations enumerated in the New York act of 1910 were highly dangerous could not be disputed. But this fact did not help its fate any. By the now famous decision in the case of Ives *v.* the South Buffalo Railroad Co., rendered on March 24, 1911, the New York Court of Appeals, while admitting that accident compensation may be desirable, held that "the liability sought to be imposed upon the employers is a taking of property without due process of law, and the statute is therefore void." The court held that "the statute, judged by our common law standards, is plainly revolutionary"; that "'process of law' in its broad sense means law in its regular course of administration, through courts of justice, and that is but another way of saying that every man's right to life, liberty, and property is to be disposed of in accordance with these ancient and fundamental principles, which were in existence when our Constitution was adjusted." With equal emphasis the New York Court of Appeals dismissed the plea that the act was a proper exercise of the police power. "In order to sustain legislation under the police power," the court said, "the courts must be able to see that its operation tends in some degree . . . to preserve public health, morals, safety, and welfare. . . . The new addition to the labor law does nothing to conserve the health, safety, or morals of the employees."

It is characteristic of the changed attitude of all classes of the American people on this problem, that this decision of the Court of Appeals was severely criticised, as, perhaps, no decision of a higher court has ever been criticised before, by most conservative lawyers and writers.

Professor Ernest Freund of Chicago University states that "the New York decision is not generally accepted as finally settling the question, the expressions of dissent and criticism have been numerous and strong," and he further expresses his "hope that the decision will, in course of time, yield to views which are sounder legally as well as socially more satisfactory." This is rather strong language when coming from a professor of law and applied to one of the highest courts in the country. Professor H. R. Seager termed it a

"narrow and non-progressive interpretation." Notwithstanding the ruling of the New York Court of Appeals that compensation is opposed to the Federal Constitution, the U. S. Employers' Liability and Workmen's Compensation Commission proceeded to draw a bill embodying this principle of compulsory compensation, and the Supreme Court of the State of Washington, in passing upon the Washington state act (of which more later) said:

"In the foregoing discussion we have not referred to the decision of the Court of Appeals of the State of New York. We shall offer no criticism of the opinion; we will only say that, notwithstanding the decision comes from the highest court of the first State of the Union, and is supported by a most persuasive argument, we have not been able to yield our consent to the view there taken."

But whether the decision is good law or bad law, it is law nevertheless. And not only did it settle matters for New York but influenced many other states. Ten states passed compensation acts during the legislative term of 1911, and only two of these—Washington and Nevada—dared to make the law compulsory in face of the New York decision.

Of the fifteen states legislating on the subject in 1912 and 1913, only two more, Ohio and California, succeeded in adopting compulsory acts.

A method to avoid these constitutional difficulties was found in the so-called "elective plan," or New Jersey plan, because it seems to have been first suggested by the New Jersey Commission, though, as a matter of fact, Kansas was three weeks ahead of New Jersey in passing an act of the same type. This plan was adopted, in one form or another, by twenty states.

Now, what is an elective compensation act?

Under an elective system, the election by both parties to abide by the law must be made before the accident occurs, as a part of the wage contract. It has already been mentioned that in Massachusetts in 1909, in Maryland and in New York in 1910, acts were passed permitting employer and employee to agree upon a compensation scheme as a substitute for liability, but these three acts have remained, and were probably expected to remain, a dead letter.

Why should an employer elect to come under a compensation system? Either out of a recognition of social justice, or because compensation with a definite scale might be cheaper than the possible high losses under liability. It is questionable whether the workmen have much faith in the power of the first argument upon the employer, and the second consideration may very likely keep the employees back from agreeing.

The new elective compensation method, as embodied already in over twenty state acts, introduces a new factor. Perhaps we might be permitted to style it "the club of gentle but efficient persuasion."

In simple English, devoid of all legal technicalities, the law says to the employer: "Here is a compensation system with a limited scale of compensation for all injuries irrespective of the cause or any one's fault. You may select to abide by this system or not, as you choose. But if you do not choose to compensate all injuries according to this scale, we will destroy the old defenses of fellow-servant, of contributory negligence, and of assumption of risk altogether, and you know what is going to happen. Your lawsuits for damages will immediately increase, and, with the three defenses abolished, you will have a pretty hard time waiving liability, and while you may not have to compensate all injuries, the heavy verdicts in future will cost you as much or more. Now you are warned, and you are at liberty to make your free choice, and, of course, this being the free choice of your own will, you are not deprived of any rights guaranteed to you by the constitution, you are not deprived of property without due process of law, because you consent to the arrangement, therefore, the act cannot be unconstitutional."

In this way the legislature of the state wields the club over the unwilling employer. The problem remains: how to apply this gentle persuasive power to the employee as well? It is significant that it was considered necessary to use such persuasive power at least in a few states, that some dissatisfaction with the compensation plan on the side of the workingman was expected. For to permit the workingman the selection from the two methods, that of employer's liability strengthened through the abolition of the three defenses with the possibility of unlimited damages from a sympathetic jury,

and the limited, sometimes very much limited, compensation scale, might have tempted many a workingman and proved rather dangerous to the employer's interests.

This is usually met by limiting the abolition of defenses only to those cases where the employer refuses the compensation scale; and as to the employee, he has only his choice left between the compensation system and the older liability provisions. To make this complicated situation somewhat more lucid, the following schematic presentation may perhaps be found useful. There are three possible situations in the relations between employer and employee in case of an injury.

1. Old employer's liability.
2. New strengthened employer's liability (defenses abolished).
3. A compensation plan.

The employer is permitted to select between situations 2 and 3. The employee, however, is only permitted to select between 1 and 3. If both agree upon 3,—well and good. If employer agrees to accept 3, but employee declines, then situation 1 remains in force. It is assumed, and correctly, that situation 3 is more advantageous to the worker than 1, and so his choice is practically decided for him. It is also assumed that employer will select 3 because it is more advantageous than 2. The choice between 2 and 3 is not offered to the workman for fear he might decide against compensation. Perhaps the only exception was in California, under the older act, where the employee's selection was also between 2 and 3, i.e., increased liability has substituted the old liability conditions, and the selection for both was between that increased liability and compensation.

But in actual practice the difference is of little importance.

The employer who decides to select either one of the two plans, can simply enforce it as a condition of employment upon all workers and settle the matter therewith. For this reason the employee's right of election is largely fictitious. In short, the choice with the employer is so far as there is free choice.

The entire structure of this elective system is, in Professor Freund's opinion, " conceded to be a piece of legislative trickery; it must confuse the common sense of right and

wrong; and it makes a mischievous precedent which, in time to come, will give trouble to those who invented it."[2]

The avowed object was to force compensation; and at the same time to avoid constitutional difficulties. To accomplish this object, to force into compensation not only those employers who consciously, and after deliberation, decide to elect compensation rather than increased liability, but also those employers (the vast majority necessarily) who are neither able nor willing to form their own independent judgment in this complicated problem, the additional method of presumption in favor of compensation is used in most states, and a formal written statement to be filed with proper authority is required in case the employer elects not to come under the compensation law, while, in a few states, the method is just the opposite, and a written notice of selection of the compensation plan required. As far as the employee is concerned the presumption of acceptance holds in all cases.

In view of the fact that this complex and somewhat undignified method was forced by constitutional considerations, it is interesting to note that such a high constitutional authority as Professor Freund finds many constitutional flaws in this plan. But since the law of Wisconsin was declared constitutional in November, 1911, there is a general consensus of opinion that no further difficulties need to be expected on that ground.

While constituting an ingenious and, perhaps, inevitable makeshift, the elective plan has had very unsatisfactory results, and the question will never be settled permanently until it shall vanish, giving place to compulsory compensation.

The first serious objection to the elective system is that it often fails to accomplish the necessary results, i.e., to substitute compensation for liability. While detailed statistical information for most states is as yet unavailable, it is nevertheless known in a general way that the compensation plan has been agreed to by a larger majority of employers in New Jersey, Illinois, Massachusetts, and Michigan, but much less so in California, in Wisconsin, Kansas, New Hampshire, and Ohio. Especially in the latter state, industrially one of the most important states in the Union, the results of the elective

[2] Ernest Freund, in *American Labor Legislation Review*, Vol. II, No. 1, p. 53.

law were insignificant under the old act of 1911. It was stated that only about 150 employers had decided to join that state fund, and in this way accepted compensation.

What is the explanation for this marked difference in the results of the elective system between state and state? It is pointed out that in New Jersey the presumption is that the compensation law has been accepted unless there is a specific statement to the contrary. As a large number of employers are not sufficiently interested in the matter, or not familiar enough with its various aspects, to make an independent deliberate choice, that action which has the advantage of presumption will be the popular one. Undoubtedly that is a valid argument, but it does not furnish the complete reply to the query.

And for this reason: comparatively few employers at present are willing to carry their own risk. They are forced to carry insurance to protect them against the risk of accidents. When a choice between two forms of liability offers itself, the insurance company is forced to quote rates on both. The probable cost of liability and compensation being different, the rates must necessarily be different. Thus the necessity of making a decision is forced upon the employer.

If the insurance company quotes a lower rate for compensation than for employer's liability, the average employer is inclined to be charitable, fully agrees to the advantages of compensation, and elects it. If, on the other hand, the liability rate is lower than the compensation rate, why—then charitable instinct yields to "sound business policy."

That is all there is to it. It may sound like a very severe arraignment of the American employer, but that is exactly what happened. In New Jersey and Illinois the insurance companies quoted the same rates in liability and compensation. Considering that the liability rates usually protect the employers only up to $5,000 on any one injured, and up to $10,000 for all the possible results of any one accident, that material increases of the rates are made for additional coverage, and that liability awards, not infrequently, are higher than that, this equality of rates really means that *compensation is cheaper than liability*. For this reason compensation in these two states was a success. In Wisconsin and New Hampshire the liability companies quoted very much higher rates for

compensation than for liability, and compensation was, comparatively, a failure.

Thus, the very serious situation has developed that the degree of success of the elective compensation law depends largely upon the judgment of the insurance companies. It is not at all necessary to assume that the liability companies have purposely raised the compensation rates in order to "kill compensation." Their action in New Jersey and Illinois would disprove such an accusation. Whatever the attitude may have been in the beginning, better understanding of the advantages of the compensation system, from an insurance point of view, has influenced the casualty companies to go unequivocally on record as in favor of compensation.

Nevertheless, the situation should not have been such as to place the fate of compensation in their hands. Their judgment as to comparative cost of both systems in the future is, at best, an estimate only, an intelligent estimate though it be, for no thorough investigation as to probable cost of compensation has ever been undertaken in the United States, and the natural fear of an unknown, untried situation may be responsible for an increase of compensation insurance rates, this nullifying the intent of an elective act.

Furthermore, the elective system of compensation has had a very serious and detrimental influence upon the quality of the compensation legislation. If compensation is to be realized only by the free choice of the employer, as the lesser of two evils, it necessarily follows that compensation must be made cheaper than liability. That purpose, however, can be accomplished in one way only. Cheap compensation is poor, insufficient compensation. If compensation is becoming successful in New Jersey, Illinois, or Massachusetts it is only because it is a very poor sort of compensation. Many influences are at force, to be sure, to make the American standard of compensation a very unsatisfactory one, and the timidity of the wage-workers in fighting for a better standard is one of the causes. But to these normal causes which were present everywhere has been added a very powerful one—the necessity of making the compensation system sufficiently attractive to the individual employer so that he will be willing of his free choice to abandon the liability situation.

Several of the states enumerated, California and Wisconsin

among the earliest, have embodied in their elective acts compulsory provisions where the state itself or any of its political subdivisions is the employer. As the Wisconsin commission stated, as to the right of the legislature to make an act compulsory as to the state and its subdivisions, there is little doubt; that it should be done, is recognized by all. It is rather surprising that not all the states should have felt the obligation. Outside of these provisions, the only acts providing compulsory compensation outside of state insurance, of which more will be said presently, are: that of Nevada passed, by a curious coincidence, the same day the New York decision was rendered, and the later act of California passed after a constitutional amendment.

In order that compulsory compensation may be substituted for the present prevailing elective plan, the constitutional difficulties must be overcome in one of the following three ways:

1. By disregarding them, or what amounts to the same thing, by a more liberal interpretation of the state constitution by the state court, since there was such a general dissatisfaction with the New York decision. As yet, however, Nevada is the only state which has dared to take the step, and even Nevada returned to the elective system through its later act of 1913.

2. The road is, after all, open to constitutional amendment, which, for states, is by far not as difficult as it is for the Union. California and Ohio have already had constitutional amendments passed dealing with the compensation problem, and in New York the amendment, having twice passed the legislature, awaits at this writing the popular sanction at the 1913 election. In fact, in the latter state, those who advocated the constitutional amendment have at the same time used their influence rather in opposition to an elective law, in fear that such an act might delay the success of the constitutional amendment, and a more satisfactory act.

It is true that, from the point of view of the Ives decision, an amendment to the state constitution does not quite settle the matter, since, in the opinion of the New York Court of Appeals, compulsory compensation is incompatible with the Federal Constitution as well. However, it is not generally feared that the United States Supreme Court is likely to share in that view, in the face of the almost universal demand for

compensation legislation. And it is highly significant that a Compensation Bill for Interstate Commerce Employees, compulsory in character, was introduced by the Federal Compensation Commission, has passed both houses of Congress, though in somewhat different form, and is generally expected to become a law in the dim future.

3. Finally, the third alternative is open to the states to follow the Washington, or some similar plan of straight state insurance, as a method of avoiding the constitutional pitfalls.

For as far back as 1910, when the problem of possible constitutional difficulties had just arisen, Mr. M. M. Dawson (at the Atlantic City Conference) argued that "the thing which is to most minds most radical and most revolutionary would be the least objectionable from a constitutional standpoint, and that is state insurance, improbable as it is that any such system will be introduced." He based this argument upon the consideration that "there are no restrictions upon the taxing powers of our states." The state of Washington was the first to apply this principle, by establishing compulsory compensation through a state accident insurance fund, and since then Ohio has followed, in 1913.

If the year 1910 was marked primarily by propaganda of the basic concept of accident compensation, and in 1911 the constitutional questions loomed in the foreground, resulting in the evolution of the elective plan, the last two years were primarily devoted to the discussion of the insurance features of the compensation system. A very strong emphasis, perhaps out of proportion to its actual social significance, was given to the question of insurance organization, to the disregard of other more important aspects of the laws. An explanation of this may be found in the tremendous development of liability insurance in this country, representing a business with a volume of hundreds of millions of dollars annually. While there is not very much uniformity in the twenty-four acts passed, the variety is perhaps greatest in regard to the organization of the insurance. Practically all the plans known in Europe have already been introduced here, and many new plans evolved. Here, as in Europe, two different lines may be found, namely, between compulsory and optional insurance, and between state and private insurance. The various combinations have given rise to the following types:

1. The New Jersey type—insurance altogether optional and private (as in England). This plan has been followed in Kansas, California (under the act of 1911), New Hampshire, Wisconsin, Illinois, Arizona, Rhode Island, Minnesota, Nebraska, Connecticut. This is, therefore, the most popular plan as yet. But it is rapidly becoming obsolete, as the necessity of creating a satisfactory guarantee is rapidly becoming evident. Under the recent act of California insurance still remains voluntary, but a state fund is created to compete with private casualty companies.

2. Compulsory insurance is fast gaining in popularity, notwithstanding the tremendous difficulty that the compensation acts themselves are not compulsory. With this qualification in mind, compulsory insurance simply means that the obligation to insure follows the election of the compensation plan. An employer may prefer liability and remain uninsured, but must insure if he elects to come under the compensation act. This is known in Europe as Versicherungszwang—obligation to insure, with freedom of choice as to the insurance institution. The selection may be exclusively between casualty companies, voluntary or mutual associations, as in Iowa, between these and one large mutual employers' association specially organized under the supervision and protection of the state (the Massachusetts plan, also followed by Texas), or between private or mutual companies, and a special state insurance fund directly managed by the state (as in Michigan, and as provided in the New York bill, passed by the legislature, but vetoed by Governor Sulzer in May, 1913). In all these types "self-insurance" (a euphonious designation for non-insurance), may be permitted upon sufficient evidence of financial responsibility presented to the state authorities.

Thus, we see vestiges of state insurance in Michigan, and in a modified form in Massachusetts and Texas. But it is not in these states that the problem of state insurance loomed largely to the foreground, since freedom of choice is permitted.

3. In several states, though the compensation law is elective, there is within the limits of the act, not only Versicherungszwang, but true Zwangversicherung, i.e., the election of the act carries with it the obligation to insure in a definite state insurance fund. That is the so-called Ohio plan (under the old law), followed by the recent acts in West Virginia,

Oregon, and Nevada. The only way the employer can stay out of state insurance is by staying out of the compensation system.

4. And, finally, there is the straight compulsory state insurance under a compulsory compensation law—the so-called Washington plan (1911), followed by Ohio (1913).

Thus, a bewildering array of different plans is presented, as there are practically six different systems already, with the possibility of different combinations in the future, as the application of the German system, advocated by some, still awaits its chance.

The phenomenally rapid growth of the state insurance systems is the distinctive feature of this development. Within less than two years Washington, Ohio, Nevada, Michigan, West Virginia, and California have adopted it, and Massachusetts and Texas in a modified form. It is often represented as the imitation of European precedents, though as a matter of fact, there is already more straight state insurance against industrial accidents in the United States than in the whole of Europe, where the predominating type is the compulsory employers' association, and not the bureaucratic state insurance fund.

The tremendous development of liability insurance in the United States (with its annual premium income of nearly $100,000,000) naturally made the question of state insurance, especially of compulsory and exclusive state insurance, one of bitter controversy, which waged primarily about the results of the Washington system.

The old Ohio plan of 1911, with its peculiar combination of elective compensation with compulsory state insurance (followed by the acts of Oregon and West Virginia not yet in effect), was doomed to hopeless failure. A choice was left to the employers as between compensation with state insurance, and liability with the defenses taken away. The employer could insure with private liability companies as before. The results were very unfortunate. Liability companies were by the very act prevented from accepting compensation, and were forced to fight it with a large army of insurance agents and brokers, with the result that the state insurance fund remained a dismal failure, and with it the elective compensation law, until substituted by compulsory compensation with

compulsory state insurance, made possible by a constitutional amendment.

The Washington plan was the boldest step towards state insurance, the boldest overthrow of traditional precedents, and it was made the subject of the most bitter attacks.

The act is limited to hazardous occupations, and in this limitation was found the justification for this radical exercise of police powers. The state has undertaken the whole administration of the compensation system. It pays the compensation out of a fund which is built up by collection of contributions, premiums, or taxes from the employer covered by the law, according to a schedule contained in the law, from which variations downwards are permitted. The system might be described as a hybrid between the Norwegian State Insurance System and the German Mutual Employers' System; for, on one hand, the state administers the fund through an Industrial Insurance Commission, without any direct participation of the insured, and on the other, it is an assessment system pure and simple, the state treasury not assuming any responsibility for any deficits. The resemblance to the German system is increased by the division of the fund into forty-seven subsidiary funds according to industrial groups, each being financially independent.

In this last feature was found the most sensitive point of attack upon the Washington system. With the limited extent of industrial development in Washington, this division into forty-seven groups left some of them extremely small, certainly too small for a fair display of the principle of loss distribution. Fate was unkind to the Washington plan, in causing a tremendous disaster (an explosion with many fatalities) in one of the weakest of these funds, that of powder factories. The difficulties following the insolvency of that one small fund were made a good deal of by the critics of the Washington law, who refused to admit that a slight defect in detail, and not the basis of the system, was really at fault.

It is very significant that the more recent acts of the Washington type (Ohio, Oregon, etc.) have already discovered a method of meeting this difficulty by providing one general reserve or reinsurance fund, from which all other funds may be subsidized.

The sudden growth of the sentiment in favor of state insur-

ance since 1911, surpassed the hopes of its most enthusiastic adherents. In many states the battle during the legislative period of 1913 was mainly between state insurance and the casualty companies. Nowhere was the battle so sharp as in New York, and the influence of the state insurance principle was so strong that it was admitted by its opponents as one of the methods of insurance (as in Michigan), while the other side, mainly represented by the State Federation of Labor, refused to accept anything less than an exclusive system of compulsory state insurance. The act passed by the legislature was of the Michigan type, but was promptly vetoed by the governor, with the intimation that only a state insurance plan would be acceptable.

Naturally, the question arises, what is responsible for this sudden popularity of state insurance, which three or four years ago would have been rejected by the majority of employers and employees alike, as rank state socialism? On the one hand is the very bitter feeling of the workingman against the results of the old liability system, and the methods of the old liability adjuster. But among employers, too, a good deal of enthusiasm, or at least, tolerance for state insurance may be found. Theirs was the growing hope that state insurance presented a method of reducing the cost of compensation insurance. It is quite characteristic that this feeling did not develop in many cases until some compensation laws went into effect and the new rates of compensation insurance were published. The same consideration explains the enthusiasm for the Massachusetts plan, also often spoken of as a state insurance system. There the Mutual Employers' Association is state controlled, and has the stamp of government approval, but no financial subsidy. Liability companies are permitted to write compensation insurance, but under state control of rates. As yet the control seems to be used so as to keep the rates up and prevent competition disastrous to the Mutual, rather than to cheapen insurance, while the Mutual faithfully imitates the rates of private casualty companies.

It is decidedly unfortunate that as yet the comparatively unimportant question of comparative advantages of various forms of insurance has obscured all other problems of compensation. As yet the accumulated experience with state insurance in the United States is too slight to permit of a

definite judgment as to the practical advantages on American soil. The experience in Washington is as yet the only one from which some conclusions may be deducted. Preposterous charges are made against the Washington system by opponents of state insurance. The fact must be admitted that its commission went through its first year's work with a praiseworthy efficiency and economy, its accounts showing an expense ratio of less than ten per cent. of the premiums received. The greatest element of economy in a state insurance fund seems to be the elimination of the middleman's commissions. On the other hand, it is somewhat difficult to disregard entirely the wasteful character of a state enterprise under the present character of state service but seldom protected by any guarantees of civil service. And it seems plausible that a freedom of choice between stock casualty companies, mutual associations, and state insurance funds might, within the next few years, prove the comparative advantages of each form. European experience has conclusively shown that when such competition is permitted, mutual associations slowly but inevitably grow at the expense of all other insurance institutions.

In any case, while the exaggerated charges against the dangers of state insurance clearly disclose their biased origin, the claims of the advantages of a bureaucratic state insurance system are no less misleading.

After all, the organization of the insurance system only influences the mode of paying compensation. From the workingman's point of view, and that is the only social point of view from which compensation can be considered, the essential question is—How much compensation shall be paid? If the various systems of insurance are to be compared because of the comparative cost (as influenced primarily by the expense of administration), that is a problem for the employer and not the employee.

The argument for state insurance would be much more convincing if its effect were to make the treatment of the wage-worker more liberal, but as to that the administration of the state insurance system offers no support as yet, for the scale of reward in Washington is as unsatisfactory as in other states.

CHAPTER XII

A CRITICISM OF AMERICAN COMPENSATION LAWS

The average reader, without legal training, has very little patience for details of legislation. Public opinion pronounces laws "good" or "bad," according to their general intent, and not after a painstaking study of sections and articles, or a careful scrutiny for jokers. Evidently no other course is open to "public opinion," which is called upon to express itself upon such a multitude of issues and in such rapid succession.

But it is equally obvious how easily public opinion may be misled, just for these reasons; and, perhaps, there is no other field of legislation in which a careful scrutiny is more necessary, in which the general intent of the law is so often handicapped or altogether nullified, as in the field of labor legislation. For this is the special field in which a desire to do as little as possible has always been combined with the necessity of seeming to do as much as possible.

There is no intention here to insinuate that this desire prompted all who favored compensation in this country. There is absolutely no doubt of the very effective presence of many sincere workers who aimed for the best social results only. But it is doubtful whether they alone could have accomplished all that was accomplished, whether they dared to ask for all they hoped for, whether they really dared to hope for what is just and socially necessary in every compensation act.

The very elective character of the acts, as already explained, was a very strong influence to make compensation cheap, and, therefore, insufficient. But even outside of this factor, the pressure of the employers upon legislation was always in the same direction. An additional factor was a deplorable lack of familiarity with the problems of compensation and the well-recognized methods of meeting them, such as

Europe's twenty-five years of experience have elaborated, and a somewhat childish preference for home-made plans to imitations of European systems.

During the last two or three years the education of legislators has been progressing very favorably. In the later acts a good deal more study of European legislation is noticeable, very much to the advantage of these acts. But even in the latest acts, grossest errors of careless legislative drafting may be found. As there are still some thirty states without any compensation acts, and as even in the more fortunate states a careful revision of the acts passed may be expected (in fact, in three or four has already taken place), and as the matter of compensation laws must agitate public opinion for some years to come, it seems worth while to go into the details of the acts as passed, and the errors of omission or commission found in these acts.

In regard to the extent of the application of the law, the situation is rather favorable, perhaps, because the American acts were passed at a late day, when there was nothing of the nature of the experiment about them. Besides, the unfortunate fate of the New York act seems to have exercised a beneficent effect upon this aspect of the problem. For, as the extremely narrow limit of that act did not save it from being declared unconstitutional, nothing was to be gained by such limitation. Of the twenty acts passed, more than one-half include all employments, except domestic service, farm labor, and casual labor, and, in view of constitutional difficulties, interstate railroad labor (Connecticut, Massachusetts, California, Michigan, Iowa, Nebraska, Nevada, Minnesota, West Virginia, and Texas), and in one or two (New Jersey) even agriculture and domestic labor are covered.

In many other states (Arizona, Illinois, Kansas, Oregon, New Hampshire, and Washington) the concept of special hazard has been incorporated, and the extent of application of the law is definitely prescribed, though perhaps not within very narrow limits for most of these states. Transportation, building and construction, mining and factories and mills are covered in most of these acts. The least satisfactory is the list of occupations enumerated in the New Hampshire act, where work in factories is included only in so far as it is in proximity to hoisting apparatus or power-driven machin-

ery. Though the Washington act, and following it, those of Oregon and West Virginia, are ostensibly limited to extra-hazardous occupations only (plainly for constitutional reasons, as all these acts provide for state insurance), yet the definition of the extra hazard is rather liberal, inasmuch as all mills and factories are included.

It is almost astonishing to find that labor organizations fight for bills containing such restrictions, as the New York State Federation of Labor has recently done, in advocating a bill which does not apply to all wage-workers. Perhaps the only explanation which suggests itself—and that is not a very charitable one—is that many conservative American trade unions are utterly indifferent to the interests of the unskilled and unorganized workingmen.

In several states limitations based upon the number of employees in the establishment have been incorporated in the acts. This is a feature more objectionable than distinctions based upon hazard. The original act of Kansas excepted establishments with less than fifteen persons regularly employed; Connecticut, Nebraska, Texas, Ohio, and New Hampshire as well as Kansas, under the new law, those with less than five; Wisconsin, less than four, and Nevada less than two. Of course, it is difficult to speak definitely of such limitations where the acts are elective, when no employer is compelled to adopt the compensation system, and no employer prohibited from adopting it if he wishes. The limitation simply means that (with the exception of two states, Washington and Ohio) the coercive features, such as the denial of the defenses, are not made applicable to these small employers. These limitations sacrifice the workman to the misguided social ideal of protecting petty industry—an ideal perhaps more hopeless in this country than in any other. Of course, these limitations are not very serious, because they cannot remain permanent. After the industrial population has once adapted itself to these compensation systems, further extension is reasonably sure to come. Opposition may probably be expected only in two lines of remunerative employment—agriculture and domestic service—where the concept of liability has not become familiar. In New Jersey, for instance, after a very short experience with the compensation act, a movement has developed for exclusion of these two wage-groups

upon the plea that neither the small farmer nor the ordinary employer of a domestic servant is in a position to suffer the possible cost of compensation. But even though this argument discloses the vulnerable point of a system of voluntary insurance, the cost of insuring one or two employees is so slight that any argument of financial danger to the employer falls to the ground.

Nor has the negligence concept been entirely eliminated. Perhaps the most pernicious example of this is found in the earliest compensation act, that passed by the United States Congress for some employees of the federal service in 1908. The law excludes all accidents "due to the negligence or misconduct of the employee." It is somewhat doubtful whether, with strict adherence to scientific accuracy, an act excluding all such accidents can properly come under the designation of a compensation act.

In the New York act the limitation was not so severe but extremely hazy, and would have caused a good deal of litigation. In several states the English formula of "serious and wilful misconduct," or simply "wilful misconduct," has appeared (California, Massachusetts, Michigan, New Hampshire, Wisconsin). The vicious doctrine of penalizing intoxication to the point of denying compensation has become a characteristic feature of American acts; it is to be found in the acts of Connecticut, Iowa, Minnesota, New Hampshire, New Jersey, Nevada, and West Virginia—in many of which states prohibition never was nor is likely in the near future to become popular. And only in Illinois, Ohio, Texas, and Washington are all injuries except those intentionally self-inflicted compensated. Even in the proposed constitutional amendment in New York this vicious concept of intoxication as a bar to compensation has forced its way.

But the most serious criticism must be directed against the scale of compensation which these acts establish. It is particularly unfortunate that the comparatively unimportant question of the organization of insurance has so far monopolized the attention of all parties concerned that the vastly more important question of a proper compensation scale has been almost neglected. It is even still more regrettable that even the labor organizations have frequently asked for a scale of compensation which is utterly inadequate.

We have shown in a previous chapter that the scale of compensation in cases of temporary disability in Europe was either 50% or 66 2-3% of the wages, with the larger share predominating. It will be remembered that the Netherlands have made it 70%, and the Swiss act, the latest to be enacted, has raised it to 80%. The consensus of opinion of all students in Europe is that the allowance of half the wages is not sufficient to really compensate, yet of the 20 states, about 15 have adopted the 50% standard. Washington, which is quite proud of its system of state insurance, does not do very much better by establishing an arbitrary amount of $20 for single wage-workers, and $25 to $35 if married, especially in view of the higher standard of wages and higher cost of living on the Pacific Coast. On the other hand, Nevada and Texas grant 60%, California and Wisconsin 65%, and Ohio even 66 2-3%. Oregon followed Washington in establishing specific benefits but on a somewhat more liberal scale with 60% of the wages as a maximum.

The weekly benefit payments are further limited by both minima and maxima. No special criticism may be made of this, provided the maximum is not too small to do great injustice to the better paid employee, and the minimum not too small to guarantee any sort of a decent standard. The prevailing minimum is $5 per week in New Jersey, Ohio, Illinois, Iowa; $6 in Kansas and Minnesota, and $4 in Michigan, Massachusetts, and Rhode Island—rather a sorry comment upon the social conscience of states so proud of their culture. No one has yet been able to prove that $4 a week will help to keep up any decent standard for a family, even in Massachusetts. The maximum is $10 in most states; $9.38 in Wisconsin, $12 in Illinois, and $15 in Kansas and Texas.

But, after all, the maximum limitation does not affect the majority of workers, as the proportion of wage-workers receiving wages over $20 or $30 a week is very small. There is another limitation, however, due to the same effort of reducing the cost to the employer, which is very much more vicious —so vicious, in fact, that it throws a deep shadow upon the good faith of those who are responsible for this kind of compensation legislation, and amply explains the opposition to compensation laws among many groups of workingmen. That

is the limitation of compensation in time to victims of permanent injuries. That is a principle practically unknown on the European continent, but it has been adopted by nearly all states which have passed compensation laws, though the limitation is not so clear in some states as in others. In at least ten states a flat time limit is put upon these weekly benefits—fifteen years in California and Wisconsin; ten years in Kansas, Michigan, Massachusetts, and Rhode Island; eight years in Illinois, Iowa, and New Jersey; six years in Ohio and New Hampshire. In Washington and Oregon the principle of permanent life pensions for permanent disability has been announced triumphantly, but as a matter of fact, this has been limited to permanent total disability—a very rare condition, as we have seen, while for partial permanent disability, very skimpy lump-sum payments have been provided.

Moreover, in some states both a time limit and an amount limit have been provided, working in wonderful harmony, except that each limit competes with the other as to which can sooner stop the payment of benefits. Thus, Massachusetts undertakes to pay indemnity for five hundred weeks—nearly ten years (9 7-8 years, to be exact), but there is the $3,000 limit. Now, the weekly amount is 50% of the wages, and not less than $4 nor more than $10. He who draws the minimum of $4 per week will receive, during five hundred weeks, $2,000 only, and then his time limit expires. But the fortunate cripple, who, because of his higher wages before the injury and presumably higher standard of life, gets the full $10 a week, will exhaust the $3,000 maximum within three hundred weeks (5 years, 40 weeks), and to him the promise of a 500-week pension means nothing but a hope unrealized. The same situation obtained in California (under the older law of 1911), where 3 years' wages limits the promise of 15 years of compensation, and also in Wisconsin, where a fifteen years' pension is limited by $3,000. Not only is the payment of compensation limited in time, but that time is shorter the greater the weekly amount, which may be due to two causes: either a larger wage basis, or a more serious injury and greater degree of disability. If the injured suffers a reduction of his earning capacity from $20 to $4, or by 80%, and gets, say, $10 a week, he is entitled to

that pension for three hundred weeks, or less than six years. But if his injury is comparatively unimportant and has resulted in reducing his earning capacity from $20 to $15, or only 25%, he will get his $3.75 per week for the full fifteen years, though he evidently does not need his $5 half as badly as the man who is left dependent upon his $4 or $5 a week. A more absurd and more vicious situation could hardly be imagined.

That does not exhaust the list of absurdities in our American compensation scales. As was pointed out repeatedly, total permanent disability is a very rare phenomenon. In the vast majority of cases the injured person recovers eventually and has some earning capacity left in him. The predominating European method of compensating these injuries is to give them a proportionate amount of that loss, i.e., if total disability is compensated for by half the wages, partial disability, or reduction of earning capacity, is compensated by half the difference between the earning power before and after the injury. If the basis is two-thirds of the wages, the same is applied to the reduction of earning capacity. This reasonable rule has been adopted in some states. But on the other hand, New Jersey has introduced a new and ingenious method of compensating partial disability cases, which is original, if nothing else. Briefly, this "New Jersey idea" is as follows: Instead of making an effort to adjust the amount of compensation to the degree of disability, the adjustment is made in time: the weekly compensation is always 50%, but for a severe injury the payments last longer, for a lighter injury a shorter time. The value is thus put upon various parts of human anatomy: 200 weeks for an arm; 150 weeks for a hand, and down to 35 weeks for an index finger, and 15 weeks for a little finger. A leg is valued at 175 weeks' compensation, and a toe only at 10 weeks. One hundred weeks pay for the loss of an eye. This schedule must be read in connection with the limits of weekly compensation, $5 to $10. The New Jersey scale was followed verbatim in the Michigan and Rhode Island laws, and with modification as to details in a number of other states, thus demonstrating that no precedent is ever too vicious to be followed by somebody. Thus, in these states, the present price list for certain irreplaceable parts of the human machine is as follows:

One arm	$1,000—$2,000	One little finger ..	$ 75—$ 150
One hand	750— 1,500	One leg	875— 1,750
One thumb	300— 600	One foot	625— 1,250
One index finger	175— 350	One great toe	150— 300
One second "	150— 300	Any other toe	50— 100
One third "	100— 200	One eye	500— 1,000

But even these amounts are granted in driblets too small to make any use of the capital value, but at the same time lasting only a few years.

It would seem useless to look for a social justification of this peculiar method of compensation, but this has been found by the United States Employers' Liability and Workmen's Compensation Commission, which has embodied this feature of the New Jersey law in its bill for compensation of employees in interstate commerce.

The Commission says, " In dealing with this class of injuries the law should be so framed as to say to the injured man, ' True, you have lost an arm, and for a considerable period of time (!) it will be difficult for you to engage in the labor to which you have been accustomed, or to acquire the ability to do other work; but one-armed men are not necessarily drones, and it is your duty to again become a self-supporting member of society as soon as you can do so. In the meantime you are to be taken care of.' " It is difficult to characterize this sort of argument when addressed to a manual laborer. Need the honorable Commission be told that a one-armed man can never engage in the labor he has been accustomed to do, and that while one-armed men are not necessarily drones, they are never able (as wage-workers) to earn anything like the amount they had been earning as able-bodied men, and surely not to support a family?

The same severe criticism must be made in regard to the treatment of fatal accidents. To begin with, in six states the lump-sum principle of compensation has been recognized, to the entire exclusion of pension payments, namely, in California, Illinois, Kansas, Nevada, New Hampshire, and Wisconsin, and the amount of the lump sum is a very modest one; namely, three years' wages in California, Kansas, Nevada, and New Hampshire; four years' wages in Illinois and Wisconsin, but a maximum of $3,000 in four states, $3,500 in Illinois, and $3,600 in Kansas. Too much attention must not

be paid to the maximum, as only few will reach it. The minima are $1,000 in California, $1,200 in Kansas, $1,500 in Wisconsin and Illinois, and $2,000 in Nevada.

It goes without saying that three years' wages presents no equitable compensation for the loss of a bread-winner. It can do no more than tide over the first few bad years, but does not at all solve the destitution created by the accident. Moreover, a very serious limitation even upon these modest amounts is the provision found in all the laws enumerated, that all payments made between accident and death be discounted from the death benefit, and in many cases of lingering illness preceding death, these deductions are likely to be very serious indeed. Moreover, when only partial dependents survive the victim, only a part of this amount is to be granted.

The other states have recognized the advantage of the pension system over the lump sum, but, in doing this, introduced the same vicious system of limitation of the length of pensions, and it is just as difficult to defend it.

New Jersey grants from 25% to 60% of wages as a pension, according to the number of dependents; Michigan, Massachusetts, Rhode Island, and Iowa, 50% of the wages; Ohio, 66 2-3%—but in all cases for six years only. The Washington state insurance system has discarded any adherence to the wage level, and gives an even $20 per month to the widow, with $5 more for each child up to $35, but as the maximum must not exceed $4,000, that extends it to anywhere from ten to sixteen or seventeen years. Even the latter period may not work full justice, as the widow may be in greater need in her declining days than ever before, but the time limit is not so preposterous as it is in the other states mentioned. To delay the period of destitution of a widow with several small children for six years, is not to compensate the family for the economic loss sustained, and the problem of charitable relief of the families is not solved thereby—only postponed.

Perhaps the worst feature of all these time limitations is that their harmful result will not be felt at once. The actual situation as it must necessarily develop will be that the pensions will stop at a time when disability from advancing age is added to the disability resulting from injury, or in case of fatal injuries, when widows or parents will be older and weaker. These evils will not manifest themselves until eight or

ten years from the time the laws have been enacted. By 1920 or thereabouts, it may reasonably be assumed that when these restrictions become effective there will be an outburst of indignation; but no remedial measures then advanced will have any retroactive force.

Another crudity of most of the acts, one that has been kept out of most European laws, is the absence of proportion between need and compensation in case of fatal injuries. Only in very few acts is the obvious condition foreseen that a larger number of dependent survivors need a larger pension. The Washington act has clearly foreseen that, by providing an additional five dollars for each child. But under most other acts, one young surviving widow will receive no less than another with a houseful of minor children.

The effort to reduce the cost of compensation also expressed itself in a rather long waiting time, during which no compensation is paid. In analyzing European acts, we found that notwithstanding the popularity of mutual benefit societies, the tendency was to reduce the waiting time. But while such membership in a relief association is very much less frequent among American workingmen, the rather long waiting time was introduced. Two weeks is the usual period. In fact, it is found in all the acts except that of Illinois, California, Texas, West Virginia, Wisconsin, and Ohio, where it is limited to one week, and Oregon seems to hold the unique distinction of having abolished the waiting period entirely. Under these conditions, with only a 50% compensation basis and the first two weeks altogether lost, a comparatively unimportant injury, lasting a month or two, may do serious damage to many a workingman's family, and necessitate appeals to charity, which it is the object of compensation to prevent.[1]

From a hygienic point of view the proper organization of medical and surgical aid is a matter of very great importance, especially in view of the very high cost of medical advice and surgical treatment in the United States. Unfortunately, in three states, Kansas, New Hampshire, and Nevada, it is practically absent, as it is limited to fatal cases without dependents. In New Jersey, Massachusetts, and Iowa it is limited to two weeks, and in Michigan to three weeks. Only in

[1] In the case of an average laborer earning some $12 a week, the entire compensation for a month of disability would be about $12.

a few states is it provided for a reasonably long period (56 days in Illinois, 90 in California, Minnesota, and Wisconsin, not to exceed $200 in Ohio).

These, in brief, are the compensation provisions of the compensation laws passed until now. Among the bills and drafts discussed in various states, and entirely too numerous to analyze in full, there are a few which deserve special mention. These are: the draft of the American Federation of Labor, of the National Civic Federation, of the Chicago Conference, and the bill for interstate railways, proposed by the U. S. Commission and already adopted by the Senate.

Perhaps the Federal bill, nearest to enactment into law, is the most important one. This is naturally an act limited to one industry, but this is so tremendous that the bill is, perhaps, more important than any one as yet enacted. The waiting time, as in most laws, has been placed at the unjustifiably long period of two weeks. Death compensation is limited to one-half the wages (less for a small number of survivors) for eight years only, or four times the annual wages, with a maximum of $4,800.

The bill makes a praiseworthy effort to adjust compensation needs to the number of surviving dependents, but the results of this effort are vitiated by the eight-year limit. The adjustment of wages to the number of dependents seems to have in view the saving of the employer's money rather than the protection of the workman's family. For non-fatal injuries the compensation is to be 50% of the wages (maximum $50 per month), and in case of total permanent disability—for life. As an admission of the necessity of life pensions for permanent injuries, this is very important, but the practical use of this provision is very slight, for " total permanent disability " is a very rare condition, especially as defined in the law—such gruesome and unusual injuries as total blindness, loss of both arms or both legs, etc. For partial permanent injuries the New Jersey plan is adopted—the compensation in various injuries differing in time rather than in amount. The provisions are somewhat more liberal than those of the New Jersey act.

Then, there are the two drafts which have been simultaneously pushed in many states, those of the National Civic Federation, and of the American Federation of Labor. Curi-

ously enough, in their provisions they are very much alike, and this is not at all because the Civic Federation has been particularly liberal in the provisions of its bill, but rather that the American Federation of Labor bill is entirely too timid, especially as a formulated demand of organized labor. To be sure this bill was published in 1909, and since, in many states, labor organizations have presented more ambitious demands. Both bills are limited to hazardous occupations, and a limitation like this is especially ill-advised when coming from organized labor. Both adopt the 50% as basis of compensation, only ten years' duration of the pension payments, and three years' wages for fatal accidents. The American Federation of Labor bill insists upon a maximum of $5,000, and the Civic Federation thinks a maximum of $3,000 sufficient. But, after all, the higher maximum would only be of interest to those earning over $1,000 a year, and the percentage of workingmen in that class is not very large. Perhaps the most preposterous feature of both of these drafts is that neither of them makes any provision for satisfactory medical and surgical aid. The labor draft asks for "first aid only," and the Civic Federation's draft is willing to grant it only in cases of fatal accidents without dependents, when the payment of the medical bill might benefit the physician, but no one else. The recognition of the tremendous social value of a properly organized medical service is altogether lacking.

The conception of a proper compensation bill as formulated by the Chicago Conference in November, 1910, must also be mentioned. It will be remembered that a large number of representatives from eight or nine state commissions participated in the Conference, and while no draft was formally agreed upon, the main features of a compensation system were taken up one by one, and some agreement reached in most of them. The conclusions are important, as being those of people who have given more than casual attention to the problem. And it is highly significant that while this thorough study of the problem has helped them to avoid some of the errors into which some acts have fallen—yet when the question of a proper scale of compensation is reached, the standards proposed are of the same unsatisfactory type with which we have become familiar.

Thirteen distinct questions were submitted to the conference,

and on nearly all of them specific conclusions were reached. According to the answers to these thirteen questions, a compensation act must cover all employments, and all persons in such employments, compensate all injuries irrespective of negligence of employer or employee. Installments are very wisely ruled to be preferable to lump-sum payments. Contributions from employees were voted down as undesirable; the conference went on record in favor of compulsory insurance, and of arbitration boards for settlement of disputes. With all these conclusions no fault is to be found.

But as against all this, there stands out the same unsatisfactory compensation scheme: Two weeks' waiting time, medical aid limited to two weeks only, for temporary disability 50% of wages only, the limits five to ten dollars; the time limit of three hundred weeks to payments for permanent disability, and also in case of fatal accidents. There is a pretense of adjusting compensation to need in providing a sliding scale of the pension in accordance with the number of surviving dependents (from 25% for a lone widow, to 60% if she has more than five children), but that can be characterized as a pretense only, in face of the three hundred weeks' limitation. And, finally, the most preposterous provisions are those excluding from all benefits dependent aliens (and thus establishing the inherent right of American industry to slaughter immigrants), and also illegitimate children. This combination of patriotism with sexual morality, both based upon "sound business considerations," is highly illuminating.

In this criticism of the American acts and bills, only the most essential features have been considered. There are many other features which would have deserved equally careful study, were it not for the fear of trying the patience of the reader.

But the essentials are as we have stated them. They are unsatisfactory—that is quite evident. It is not enough that the acts are an improvement upon the older liability situation. That goes without saying. But that does not justify American law-givers in providing a system inferior to the best and tried European systems.

What is responsible for these shortcomings? The answer has already been indicated. The class directly interested in better laws did not display either the knowledge or the en-

thusiasm necessary to place an effective piece of social legislation upon the statute-books. For this reason the argument that the cost of compensation must be kept down played a tremendous rôle in the whole movement. And the plea that something is better than nothing was rather overworked.

The question of cost of compensation is not a simple one. It cannot be answered offhand for any industry, let alone all industry. But this much may be said: The burden European industry can carry cannot be excessive for the highly protected and highly profitable American industries. It is argued that American wages being higher, the cost of compensation would also be higher. But that is evidently a misconception, for almost every compensation scale is expressed in terms of wages, and the cost is also treated as "proportion of the wage expense."

In any case the American people must be warned against some very much exaggerated estimates as to the probable cost of a just and satisfactory compensation scale. It is true that in some very hazardous undertakings the cost of compensation insurance may be as much as 10% of the pay-roll. But if it be true that the cost of compensation must eventually be shifted from the employer to the consumer, the latter (meaning the whole American people) has no interest in this or that specific rate of any one industry but only in the average cost of industry as a whole. The average cost in Germany is said to have risen to 1.75% of the pay-roll, after thirty years of gradual increase, when it may be considered as fairly permanent. The average cost for Russia was computed by the writer at some 1.5%. The average cost of California's new compensation scale was computed by Professor A. W. Whitney, an insurance expert and mathematician, at 1.26%. But all these figures do not represent an additional charge, for liability insurance (which compensation is a substitute for) costs on an average about 1% of the wages. The difference in the cost of a good and of a bad compensation scale must, therefore, be measured in fractions of 1% of the pay-roll. Will any one seriously contend that American industry is in such a precarious condition that it may be materially affected by a change of less than 1% in the rate of wages? If that were true, all hope for a social insurance policy should be abandoned, for of all its branches

that dealing with compensation for industrial accidents is the least expensive one.

The twenty acts in three years are a good start. But even in these twenty states, or most of them, the compensation movement is only in its beginning. All the acts will have to be rewritten, at least as far as their scales are concerned. "Compensation that sufficiently compensates" will be the slogan of this movement in the near future.

For this reason, recent efforts towards a higher compensation scale deserve to be mentioned. In the fight between two bills in the New York legislature of 1913, the labor bill, deficient in many respects, had the moral virtue of demanding a two-thirds basis of compensation instead of one-half. The American Association for Labor Legislation, through its Social Insurance Committee, recently announced that the American scales are unsatisfactory, and that the least a proper compensation law should grant is a scale based upon two-thirds of wages, with the extension of the compensation over the entire period of disability, or in case of fatal accidents, over the entire period of dependency of the surviving heirs.

These and many other important principles of sound and sufficient compensation are embodied in a bill prepared by the Association, and introduced in the United States Congress by Senator Kern, which covers only the civil employees of the government, but is intended to serve the larger purpose of establishing a model standard of compensation for the wage-workers in the richest country in the world.[2]

[2] See I. M. Rubinow, "Accident Compensation for Federal Employees," *The Survey*, Aug. 16, 1913.

PART III

INSURANCE AGAINST SICKNESS

CHAPTER XIII

ECONOMIC AND INDUSTRIAL ASPECTS OF DISEASE

NOTWITHSTANDING the rapid development of interest in problems of social insurance in this country during the last five years, very little attention has as yet been paid to insurance against sickness. This lack of interest cannot be justified on the ground of absence of the problem. It is no exaggeration to say that, in its economic effects, illness is a very much more destructive factor than industrial accidents. Every experienced charity worker knows that illness is one of the most frequent causes of poverty and destitution which all relief institutions are called upon to meet and remedy.

The reports of the New York State Board of Charities show that of 328,059 persons receiving relief in some form from the public charitable institutions in 1910, 102,428, or nearly one-third, were driven to it by sickness. Nor is this condition peculiar to any one locality or country. "We are apt to forget," as Mr. and Mrs. Webb have tersely put in one of their latest works, "that in all countries, at all ages, it is sickness to which the greatest bulk of destitution is immediately due."[1]

But as Professor Seager has well said, "In the United States we are still so far from considering illness as anything beyond a private misfortune against which each individual and each family should protect itself, as best it may, that Germany's heroic method of attacking it as a national evil through governmental machinery, seems to us to belong almost to another planet."

In other words, our extreme individualistic philosophy has interfered not only with the elaboration of the necessary remedial measures, but even with a proper appreciation of the problems. Thus, for instance, one of the deepest students of the problems of poverty in the United States, Professor E. T. Devine, wrote a few years ago: "Prevalence of ill health

[1] *Prevention of Destitution*, p. 17.

is due, in large part, of course, to ignorance and the continuous neglect of the elementary rules of personal hygiene. The health department and the public schools, physicians and social workers, cry aloud from the housetops the value of fresh air, of simple, inexpensive nourishing food, of exercise in the open air, of the practice of thorough mastication, of temperance in diet, and of abstinence from drugs and strong drinks. But people—people in all classes—are slow to act upon these counsels, and they destroy foolishly and recklessly their most valuable personal asset next to good character; viz., their health. Economic necessity excuses some, but only a very little of the improvidence." [2]

But modern sociological thought is not satisfied to reduce the problem of national health to the individual only. It has admitted that social hygiene is a very much more important factor than individual hygiene, and that the latter may only then become effective when the prerequisite conditions of social hygiene exist. Even the strictest adherence to personal hygiene may not save one from cholera in eastern Russia, and no precautions against the disease are necessary where the disease itself has been stamped out.

It is impossible to go here, at any great length, into the question of causation of specific diseases—a well-defined field of scientific inquiry properly belonging to the domain of medicine —but the general causes, which are of tremendous social importance, must at least be referred to. The effects of heredity, though important, are often unnecessarily exaggerated, and it is a well-established fact that the vast majority of children are born healthy. Most diseases are naturally due to the environment. To be sure, the results of the misdoings of the individual need not be entirely disregarded, for the individual may create part of his own environment. It simply means that diseases are a result of the conditions of life and work of man, and that, after all, even conduct of the individual may have its explanations in these conditions of life and work.

Of course, it may be claimed that illness does not represent a specific problem of labor—that all sorts and conditions of men take sick. It is true that no class of society is free from the ills to which human flesh is subject, for certain conditions of life are universal in a certain social group, and not selective

[2] *Misery and Its Causes*, p. 74.

as to definite classes. Such are the conditions of a general epidemic, of climate, of defective sanitation. But, after all, at a certain stage of civilization these conditions cause the minor portion of ailments. As the conditions of life and of work of different social classes are vastly different, so are the diseases resulting from such conditions, or at least the frequency and intensity of the same diseases. The conditions of high living, vice, and idleness which characterize certain social strata, may cause certain pathological results. Gout is the disease of the rich, even as tuberculosis is the disease of the poor. In fact, so conspicuous are these aristocratic diseases, that one often hears the deep conviction eloquently expressed that frugality bordering on poverty is more conducive to health and longevity than wealth. This, however, is a sad exaggeration of actual conditions. All investigations have demonstrated a higher mortality rate and, consequently, a higher sickness rate among the poorer classes.

It is quite true that the same causal connection cannot always be established between all sickness and occupation as between the trade and industrial accident. It was often sought to draw a radical distinction between the problem of accident and sickness on these lines. But the distinction is not one of kind but of degree only. There are non-industrial accidents as there are non-industrial diseases. There are specific occupational diseases directly traceable to certain industrial processes, no less than certain classes of accidents are traceable to certain machinery. But as most accidents are due to the general conditions of the industry, rather than specific mechanical appliances, so most ailments are due to the general conditions under which the workingmen live and work as wage-workers. In a very interesting paper on "How to Attain Good Health and Longevity,"[3] a physician enumerates the following decalogue of a normal life: (1) Plenty of good food; (2) abundance of fresh air; (3) physical exercise in the open air; (4) a substantial annual vacation; (5) peace of mind; (6) intellectual work; (7) proper distribution between city and country life; (8) congenial occupation; (9) normal sexual life; (10) good medical care.

In application to the wealthy, or even upper middle class, this is eminently sound advice, and thousands of prosperous

[3] Dr. William J. Robinson in *Critic and Guide*, November, 1911.

Americans have preserved their health and vigor by just such rules of conduct, while others are paying a heavy penalty for neglecting them. But when a mental effort is made to apply these ten commandments to the life of the modern wage-working class, the eminently sound advice suddenly acquires a rather humoristic flavor, so far are some of the suggestions from the domain of reality.

For the vast and growing majority of the workingmen and workingwomen, not a single one of these conditions can be realized. In fact, these ten conditions are lacking in such a marked degree, that only by a high degree of resistance of the human body, and by its essential inherited healthfulness, can the fair degree of health of our wage-workers be explained. But the effect of the absence of all these conditions is often invidious, and manifests itself more in premature superannuation and various chronic ailments than in acute attacks of illness.

The modern workman, even in the richest of all countries, and with the highest standard of wages and with an abundant food supply, does not get the necessary food. If cases of actual underfeeding are comparatively few as far as quantity is concerned, the quality is poor, and is becoming poorer very rapidly under pressure of high prices. Fresh wholesome food is too expensive. The charge of unsatisfactory feeding of the wage-working class may shock many an American conscience. Nevertheless, the charge will be substantiated by every one who has first-hand knowledge of the life of the American workingman.

A good deal has been said of the lower standard of life of the immigrant from eastern or southern Europe. Nevertheless, most students of the life of immigrants will agree that he usually consumes more and healthier food than the American workman. The very fact of a higher standard of life, paradoxical as it may seem, forces a poorer food supply, for better clothing and better housing accommodations and all the other efforts for a higher standard leave a smaller share for food, and economy in food is the sort of economy that can be practised without much loss of social caste.

On the other hand, the constantly rising level of food prices is a force constantly working for food deterioration and substitution. The agitation of the last few years concern-

ing pure food legislation and its enforcement or lack of enforcement, has at least thrown some light on the subject, even if it has failed to furnish a satisfactory remedy as yet. It may be easy to eliminate a definitely poisonous preservative, though even this step has often met a powerful and victorious opposition. But the general deterioration of the food supply through substitution of cheap canned goods for fresh vegetables, and old frozen meats for fresh meats, is more difficult to measure.

Another factor which must seriously affect the food supply of the working class is the disappearing art of cooking among the women of the working class, due to the increased employment of young women in factories, shops, and stores during a period of life when, in the past, some preparation for housework was usually obtained. One need not be suspected of antagonizing the economic independence of women to recognize this hard fact, that until a perfect adjustment of home life to these new conditions is accomplished, women's work in factories and shops means a deteriorated food supply for the wage-worker and his family.

Finally, the cheap lunchroom, or eating-place, is contributing its share to the attack upon the workingman's stomach. Partly because of this new industrial activity of women, and also because of the nomadic character of many trades, and the delay in marriage in all strata of society, the workingman is more and more forced to buy his food prepared in these institutions. And if recent disclosures of the conditions in the kitchens of the best hotels were such as to revolt many a sensitive digestion, the quality of food may be estimated when dinners are served for fifteen or twenty cents.

Modern hygiene has sufficiently demonstrated the importance of a supply of fresh air as a condition of good health. It is largely true that, as Dr. Devine says, " the health department and the public schools, physicians and social workers cry aloud from the housetops the value of fresh air," but it must be remembered that " fresh air " has become (in large cities at least) a marketable article. The " fresh air " of the slum district may not be all that is desired. The housing conditions of the working class are surely far from satisfactory. Tenement-house legislation is far from ideal, and in the factories, too, the conditions are but seldom satisfactory.

Thus, the backwardness of industrial hygiene and municipal hygiene both together, go far to deprive the modern wage-worker of the needed supply of fresh air, no matter what his personal standard of hygiene.

Physical exercise in the open air is rapidly becoming the gospel of the intelligent and well-to-do American. Even the worst excesses of our " national ball game " have been defended as conducive to this ideal. Tennis and golf have preserved many a statesman in excellent health. But as far as the wage-worker is concerned, physical exercise in the open air is possible for a few trades only, and then it must be performed in all sorts of weather conditions leading to diseases of exposure, catarrhal and rheumatic conditions.

The indoor worker has neither the time nor the strength for it, for a full day's work is not calculated to develop the desire for more physical exercise. The sort of physical exercise the factory workman gets is monotonous, limited often to a few muscles, too fast to be healthy, and produces muscle fatigue rather than harmonious bodily development. And the whole tendency of modern industry is to make this muscular exercise faster, more uniform, and more monotonous. This may spell efficiency, but it is the sort of efficiency that sacrifices the employee to the interest of the establishment. If the mental and physical effects of such monotonous physical exercise are understood, they will furnish an explanation of the seemingly senseless opposition of the workman to the much advertised systems of " scientific management."

Perhaps little need be said of such " Utopian " requirements of good health as a substantial vacation, peace of mind, intellectual work, congenial occupation, and distribution between city and country life. Modern machinery gradually displaces skilled handicraft by unskilled labor; the growing division of labor is fatal to the intellectual pride and interest in the work, and no amount of zeal can make coal mining, or even weaving, a congenial occupation. The rapid growth of our cities is producing a generation to which country life is absolutely unknown, for even the brief vacation of clerical employments is altogether unknown to the industrial wage-workers. Interruption of work occurs only during periods of unemployment, whether because of dull times or labor conflicts, when extreme anxiety destroys all advantages of the enforced

rest. Besides, the effort of looking for work is often more strenuous than work itself, and peace of mind must be a rare luxury in view of the precarious economic conditions.

It may at least be claimed that the very poverty of the wage-worker by preventing sexual excesses grants the one necessary factor of normal sexual life, but for a good many reasons even this is not true. On one hand, the growing inadequacy of the wages, both because of the rising cost of living and of the demand for a rising standard of life, make for excessive delay of marriage. On the other, a good many trades are wanderer's trades (as railroading, construction), and prevent a normal sexual life. Factors which cause the well-known, alarmingly high rate of so-called social diseases among our military also affect many trades of our industrial army. As yet we have been trying to counteract the evil effects of these diseases through sermons and preachings rather than hospitals and sanatoria. And, finally, the cost of medical advice and all that medical and surgical attention presupposes is high, and as an individual, the workman cannot afford it, especially in case of chronic ailments.

If such are the negative factors preventing a high standard of health among all wage-workers, there are other positive ones which directly lay the responsibility of the workingman's illness upon the industry.

First, there is the large class of occupational diseases, a phrase to which we as yet give a very narrow, limited interpretation, i.e., such diseases as only occur as a result of a definite occupation. As yet the study of this problem in this country is in its infancy. There are the many forms of industrial poisonings as a result of handling hundreds of poisonous substances—as a list of them published by the United States Government shows. The most frequent and the most familiar are phosphorus, arsenic, lead, and mercurial poisoning. But there are a large number of less familiar poisons, whose action is no less deadly. The list published by the International Association of Labor Legislation and prepared by its Permanent Advisory Council of Hygiene, consisting of six eminent specialists, contains 53 classes or groups of poisons,[4] and hundreds of branches of industry in which these are an ever-present danger. Among these poisons, in addition to those

[4] Bulletin of the Bureau of Labor, Nos. 86 and 100.

mentioned, are ammonia, aniline dyestuffs, benzine, carbon deoxide and carbon monoxide, chloride of lime, wood alcohol, oxalic acid, petroleum, carbolic acid, sulphur, turpentine oil, and so forth, while the list of dangerous industries is entirely too long to be quoted. There is hardly any one line of modern manufacture which is free from the dangers of industrial poisoning. But industrial poisonings do not complete the whole list of industrial diseases. In a " memorial on occupational diseases " prepared by a committee of experts and presented to the President of the United States on September 29, 1910,[5] industrial diseases were defined as " morbid results of occupational activity traceable to specific causes and labor conditions, and followed by more or less extended incapacity for work." Under this definition a great many ailments may properly be included in addition to the industrial poisonings due directly to harmful substances.

It is sufficient to mention tuberculosis in dusty trades to convey this idea. A disease is no less occupational because it occurs outside the occupation as well, as long as a close causal connection between the occupation and disease exists, and while tuberculosis is the gravest and most widespread form of occupational disease, it is not the only one. There are the many ruptures of persons required to carry heavy weights. There is the forced exposure to unfavorable climatic and weather conditions, as in railroading or in building trades. There is the overexertion of certain muscles of organs of sense, as in drafting, in railroading, for the eye; as in boiler-shops for the ears; there is the harmful result of improper postures upon lungs or digestive organs, as in the sedentary occupations of the clerical force, or upon the female organs because of excessive standing of the salesgirls, and there are the harmful results of night work for a large and growing army of workers who have been forced to reverse the normal conditions of life and work; and, finally, there is the vastly more universal phenomenon of excessive fatigue due either to excessive hours or excessive speed, or both. In short, though it is difficult to measure it in individual cases, there is no doubt that modern industry is responsible for a large proportion of the workingman's illness, as it is responsible for the majority of industrial accidents.

[5] See *American Labor Legislation Review*, Vol. I, No. 1, p. 125.

Of course, other factors may be easily discovered as well. A part of the responsibility may be placed upon unwise living, and a certain share undoubtedly lies in the general sanitary conditions of the community of which the wage-worker is a member. Thus, if instead of finding causes we were anxious to apportion the blame, we would be forced to apportion it between the workshops, the worker himself, and society at large. The water supply, the milk supply, the presence of mosquitoes, the unsatisfactory measures against contagious diseases, bad housing legislation, insufficient school and factory inspection, all these are factors for which society at large is clearly responsible. As against these social causes of disease, one may emphasize the individual causes—unwise dressing, unwise eating, consumption of alcohol, and sexual vice. But even as far as these so-called factors of ill health are concerned, one cannot fail to see in them, or at least in most of them, the evil results of ignorance—results of an unsatisfactory system of public education, as to the laws of physical and moral health; and education is quite evidently a social and not an individual function. It is true that all these observations may be considered rather trite; but it seemed worth while to make them, if only for purposes of emphasis, because while recognizing these social and industrial causes of disease, we are quite prone to insist that personal virtue or wisdom is, after all, the most important factor. How else can it be explained that we teach personal hygiene (baths, toothbrushes, etc.) so vociferously, and industrial hygiene not at all!

It would be extremely valuable to measure the economic problem of disease in the United States, but, unfortunately, American data on the subject are almost altogether absent. So long as the vital statistics of the United States is in such a deplorable condition that the number of deaths or even births in the country is largely a matter of guesswork, or at best of scientific estimating, it is idle to expect any accurate information as to the rate of sickness in general or especially in dependence upon certain occupations. Even more than in the study of accidents will we be forced to rely upon European sources of information.

Even in Europe, however, satisfactory data for sickness statistics are available for a few countries only. Only when a systematic method of sickness relief exists can such statistics

be had, and then they refer only to those classes protected by the relief or insurance systems. In Austria, for instance, with nearly 3,000,000 persons included in that system, there occurred, in 1907, 1,623,000 cases of sickness causing loss of time equivalent to 28,000,000 days. This gives 53% of sickness for the body of workingmen, and nearly 10 days of sickness for each person, and 17 days for each case of sickness.

In Germany, where over 13,000,000 persons were insured against sickness, there were over 5,200,000 cases of sickness in 1908, or 40 per hundred, and the number of days lost was 104,000,000, or 8 per person insured, and 20 days per case. In Germany alone, therefore, industry lost about 350,000 productive years of work in one year—that is the measure of the loss from the point of view of national wealth. It is only because we have always accepted sickness as natural and inevitable, but look upon accidents as something fortuitous, sudden, unnecessary, that we are shocked at the accident loss and pass by the sickness loss quite complacently. In absence of similar data for the United States, one must fall back upon scientific estimating. In the "Memorial of Industrial Diseases" quoted above, the following interesting estimate is made:

ESTIMATE OF SICKNESS AND ITS COST AMONG OCCUPIED MALES AND FEMALES IN THE UNITED STATES. (1910, 33,500,000.)

(*a*) Estimated number of cases of sickness on the German basis of 40% of the number of persons exposed to risk	13,400,000
(*b*) Estimated number of days of sickness on the German basis of 8.5 days per person per annum	284,750,000
(*c*) Estimated loss in wages at an average of $1.50 a day for 6/7 of the 284,750,000 days	$366,107,145
(*d*) Estimated medical cost of sickness at $1 a day for 248,750,000 days	284,750,000
(*e*) Estimated economic loss at 50 cents a day for 6/7 of the $284,750,000	112,035,715
(*f*) Total social and economic cost of sickness per annum	792,892,860

But the general average does not teach very much, except to indicate that sickness is a much more serious economic risk, since it affects annually 40% to 50% rather than 5% or 6%, as do industrial accidents. A somewhat more detailed analysis is necessary to bring out the various factors responsible for

the sickness rate, and its comparative dangers to various industrial groups. For such analyses several European investigations, primarily two undertaken in Austria, one covering the famous Leipsic sick-fund in Germany, and other similar studies, furnish valuable material.

One important non-industrial factor is that of age and sex. The dependence of the sick-rate upon sex and age is self-evident. The following data derived from the Austrian investigation covering a five-year period (1891-1895) and over six million persons, demonstrate the influence of these factors.

AVERAGE PROPORTION OF CASES OF SICKNESS AND OF SICK DAYS ACCORDING TO SEX AND AGE (AUSTRIA 1891-1895)

Age	Cases of sickness per 100 persons per annum		Days of disability (per person) per annum	
	Male	Female	Male	Female
15	42.9	42.2	5.5	6.4
20	43.8	38.0	6.1	6.4
25	44.0	38.0	6.3	6.9
30	45.6	41.3	6.8	7.9
35	47.4	44.3	7.6	9.0
40	49.2	46.3	8.4	9.7
45	52.9	49.5	9.6	10.7
50	56.2	50.7	11.0	11.5
55	58.0	51.6	12.3	12.0
60	63.6	52.6	15.1	13.9
65	67.7	56.3	19.4	16.3
70	70.8	61.6	23.9	21.5
75	77.7	65.3	31.8	24.5
80	75.3	67.6	37.7	44.7
All ages	47.4	41.9	7.8	7.9

For all age groups the female sex shows a smaller number of cases of illness, but because of a longer duration of sickness when it does occur, the average time lost is greater for women than for men. The smaller rate of sickness for women is a common fact. It may be partly due to the fact that less women are employed in the injurious occupations, and possibly to somewhat more regular personal habits.

But sex as a factor, therefore, appears much less important than age. The average time lost rises with age, so that while the general average may be less than eight days, it rises to nine and ten for the middle-aged groups, i.e., the groups of married men with family responsibilities.

When we come to study the sick-rate of different industries, the influence of the industrial factor is disclosed at once. We will avail ourselves for this purpose of the experience of the Leipsic sick-fund, which extends over twenty-eight years, and embraces altogether over a million and a quarter years of exposure. Of course, the statistical data must be read carefully, or misinterpretation is possible.

We have shown above that the sick-rate, as measured by the average number of sick-days per year, largely depends upon age and sex as well as occupation. It is evident, therefore, that taking two occupations of an entirely different age composition, such as, for instance, hotel employees, over one-half of whom are under twenty-five years of age, and the building trades, in which persons of this age group are only a little over 25%, we will obtain a variation in the sick-rate which will seemingly be due to occupation, but in reality may be to the differences in average age. Thus, for the hotel workers the average loss is 6.5 days, and for the building trades 10.5 days, or 4 days more. But when the same age group, say 25-34, is studied, then the average loss is 6.3 for the hotel workers and 8.8 for the building trades, a difference of 2.5 days. Thus, the difference of the sick-rate between building trades and hotel workers (4 days), is really due to two factors, of which the difference in age groupings is one, amounting to about three-eighths of the entire difference, and the actual industrial conditions are another of some five-eighths strength.

We have selected for our comparisons, therefore, one age group, that of maturity between youth and middle age, as perhaps the most important economically.

The data all refer to one compact locality, so that variations in climatic conditions are excluded. Presumably, they deal with a fairly uniform labor force. German statistics are but little complicated by influences of race variation. Sex and age variations have also been excluded. We thus have isolated the industrial factor, and it proves to be a very strong one; though the variations between industry and industry are not as marked as in case of accidents, they are exceedingly important. In fact, all excess in the sick-rate above the minimum found in office work may partly be placed at the door of industrial conditions. If the chance of taking sick is only 21.6% for the office employee and 58.2% for the stone-

worker, if the average time lost during the year is only 5.8 days for the former and 17.5 days for the latter, then the extra 36.6% of sickness, the extra loss of 11.7 days per annum, may rightfully be charged to the stone-working industry, even as all cases of phosphorus poisoning may be charged to the match industry. And only when the conception of occupational disease is interpreted in this broad way, is justice done to the wage-worker, and will industrial hygiene be fruitful of results.

CASES OF SICKNESS PER 100 PERSONS AND NUMBER OF SICK DAYS PER PERSON IN CERTAIN INDUSTRIES (AMONG PERSONS 35-44) ACCORDING TO DATA OF THE LEIPSIC SICK INSURANCE FUND

Industries	Cases of sickness per 100 persons per annum	Sick days per one person per annum
MALES		
Stone-working	58.2	17.5
Cement and lime	65.8	13.6
Building trades	51.7	11.7
Metal-working	49.6	11.1
Printing, publishing, etc.	32.4	11.1
Glass, porcelain, and pottery	44.5	10.8
Paper	39.4	10.9
Chemical industry	49.4	10.7
Leather and similar products	37.7	10.7
Agriculture and forestry	46.9	10.2
Transportation	44.8	9.8
Food and drink	43.4	9.6
Wood and cut materials	38.8	9.2
Fats, oils, varnishes, etc.	41.5	9.1
Gas works	59.9	9.0
Textiles	40.5	8.9
Hotels and restaurants	32.5	8.8
Clothing and cleaning	32.2	8.6
Musical and scientific instruments	31.7	8.1
Hides, leather, etc.	36.0	7.7
Engineers and firemen	35.3	7.4
Office employees	21.6	5.8
FEMALES		
Textiles	69.9	19.3
Paper	55.2	16.3
Printing and publishing	50.4	15.8
Agriculture and forestry	60.8	14.2
Clothing and cleaning	41.0	12.4
Hotels and restaurants	40.9	12.2
Office employees	21.4	7.0

Needless to say, the variations become even more pronounced when, instead of large industrial groups, definite occupations are compared. Lack of space forbids a more detailed analysis of such data in these pages. A few characteristic illustrations may, however, be given here.

Thus the average rate of sickness per 100 male persons, 35-44 years of age, which shows the maximum of 65.8 in the cement and lime industry in the preceding table, reaches 72.8 for asphalt workers and 84.1 for construction workers. The average loss of time reaches 18 days for asphalt workers, 18.6 for construction workers, and 19.9 days for stone and marble cutters, and drops to 4.7 for butchers and 6.7 for bookkeepers. Saleswomen and female clerks show 19 cases of sickness per 100, laundresses 40.2, cooks 40.8, and wool-combers 69.1, while the number of days of sickness for these four trades selected at random is 6.5, 11.2, 15.2, and 18.5. Such illustrations might be continued *ad infinitum.*

A medical classification of diseases is a very complex affair. The Leipsic Fund, of whose statistics such extensive use has been made, lists 334 diseases. The Austrian classification is almost as voluminous. The United States Census recognizes over 200 causes of death. It would be both difficult and useless to go fully into such a classification. But besides its medical significance, there is also a social aspect to the distribution of ailments by main groups of organs. The influence of occupation upon the sick-rate, which we have established by statistical illustrations, is exercised primarily in one of two ways: either in a general lowering of vitality and resistance power, or by creating specific dangers to certain organs, specific predispositions to certain diseases. It is difficult to tell which is the more important factor. The general unsatisfactory conditions of life of the working class as far as food, clothing, unsanitary housing, overwork, etc., are concerned, will express themselves in a general increase of the sick-rate, but the special dangers may show themselves in an increased frequency of certain diseases.

According to the experience of the Leipsic Fund, sickness of wage-workers is mainly due to the following conditions: Diseases of the organs of respiration (exclusive of tuberculosis and pneumonia, classified as infectious diseases), over one-fifth; infectious diseases, another fifth; organs of locomotion,

mostly rheumatic affections, nearly one-sixth, and organs of digestion about one-eighth, and skin diseases, one fifteenth; these five groups claiming nearly 80% of all illness for males.

Among women the distribution is somewhat different. The first place belongs to general diseases, such as anemia, which are followed by diseases of digestion, infectious diseases, and respiration. Diseases of general organs are more frequent and rheumatic diseases very much less so, the first four classes claiming about two-thirds of all diseases.

It is quite interesting to follow up these various groups of diseases through various occupational groups. There is, for instance, the most frequent group of diseases of the organs of respiration (exclusive of tuberculosis and pneumonia). Taking the male workmen between 35 and 44, this group of diseases claimed 1,310 sick days for each 1,000 persons. Now, let us see how this average was affected. We find that it fluctuated between 3,504 for marble and stone cutters and 427 for butchers. Under these circumstances, how productive is any theory which will throw upon the workingman the responsibility for the diseases of the respiratory organs? Is it his unwise living, his neglect of laws of hygiene, or was his gravest error in becoming a stone-cutter rather than a butcher? And then there is tuberculosis—the white plague of the workingman. Between the ages of 25 and 34 stone and marble cutters show 2,070 sick days per 1,000 persons, and between 35 and 54, 5,482 days. Upholsterers show 4,704 days—almost as bad—but asphalt workers only 330 days for both age groups.

Digestive disturbances are frequent—15% of all cases of sickness. They are not so severe as other diseases, and, therefore, only claimed less than 11% of the time lost. Surely, here is an influence of life rather than of work, possibly an economic, but not an industrial or occupational disease. Yet there must be some reason why the gas-workers lost 1,414 days per 1,000 employees from this cause alone, and paper manufacturers 1,243 days, and hotel employees only 561 days. And among the females, the textile employees had 2,210 days of sickness per 1,000 persons from digestive organs, and the hotel workers only 1,075 days, and bookkeepers only 696 days.

Again, there is the large group of "diseases of organs of locomotion," rheumatic and bone and joint diseases claiming

about 995 days per 1,000 male persons per annum. These are primarily diseases of exposure and of hard muscular effort. The average, therefore, rises to 1,564 among building trades, 1,439 in agriculture and forestry, 1,973 among gas-works employees, and 2,128 among cement and lime workers, but it is only 358 among office employees, and 701 in the clothing industry. Here, therefore, the industrial influence is in some cases six or seven times stronger than personal habits are in producing the diseases. The nervous diseases are less frequent, though, perhaps, more serious when they occur. Their frequency is expressed in a loss of 457 days per 1,000 employees. But this average rises to 1,469 for office employees, 1,772 for engravers, and 2,173 for tailors.

And if these influences are so strong as between one occupation and another, one industry and another, they must appear still stronger when the wage-workers are compared with the more prosperous classes of the community. Unfortunately, the statistical material available for this purpose is rather meager. In Professor Irving Fisher's Report on National Vitality, a great many interesting illustrations are given of the variations of the death-rate. Thus, for instance, in the United States, the death-rate for the mercantile class was determined to be about 12 per 1,000, for the clerical employments, 13 1-2; for the professional classes, about 15 1-3; and for the working class and servant class, 20.2. Industrial insurance companies show a very much higher mortality rate than ordinary insurance companies; " wealthy " blocks in cities have been found to have a lower mortality rate than " slum " blocks, etc. It may safely be assumed that the degrees of sickness bear some proportion to the mortality rate. It is sufficient to refer to the " white plague," which in the United States, according to the census data, causes a mortality of 165.8 per 100,000 in the mercantile class, 147.2 in agriculture and outdoor occupations, and 376 in the laboring and servant class. Beginning with 540.5 per 100,000 among marble and stone cutters, the list gradually descends through cigar-makers, 476.9; compositors (453.9), servants (430.3), and through fifty other groups with a declining mortality, until from the wage-working class we are gradually transferred to professional and business classes, and finally reach the culminating group of " bankers and brokers, and officials of

companies,'' with a rate of mortality from tuberculosis which is only 92.1 per 100,000, or about one-sixth of that for stone-cutters.

An illness, like an accidental injury, results in immediate disability unless it is quite localized in its nature. Any case of illness may lead either to temporary disability of shorter or longer duration, when the disease results in a complete cure, or to permanent disability in case of incurable disease, either total or partial—a condition known better as invalidism, and finally in death. As almost all cases of death are preceded by illness of longer or shorter duration, the fatal result is more frequent in case of sickness than in case of accident. In fact, according to the much quoted statistics of the Leipsic Fund, nearly 2% of all cases of illness end fatally, constituting about 8 per 1,000 of the membership. Naturally, the frequency of fatal results is influenced greatly by age—thus becoming a factor of age as much as of illness. As to the frequency of invalidity, data are very unsatisfactory, though in cases of pulmonary diseases, heart diseases, and similar conditions, the proportions must be very high. In fact, both these conditions: premature death from '' natural '' conditions, i.e., from illness, and invalidity or premature old age are such important problems in themselves as to constitute separate chapters in the program of social insurance. As a matter of practical expediency, the problem of sickness insurance, perhaps without good logical reasons, in most countries is made to cover only the temporary conditions of sickness, though the recent British National Insurance System is a notable exception to this rule.

That this appalling amount of sickness represents a very serious economic problem for the workingman, does not require any elaborate demonstration. There is a strong element of tragedy in all human illness, in the pain of the sufferer, and in the anxiety of those surrounding him. But this is purely a sentimental consideration as compared with the stern economic necessity that arises when the bread-winner himself falls victim to disease. Whatever has been said concerning the problem in connection with accidents applies equally well to sickness, though with much greater strength. As yet neither law nor public opinion in the United States has recognized either the individual responsibility of the employer, nor the collective responsibility of the industry, nor even the

social responsibility of society for the illness of the workingman. Even in the absence of workingmen's compensation, and outside of all legal liability on the part of the employer, it is quite usual for a fairly humane employer to continue payment of wages for some time after the accident has occurred. But it is just as customary to make deductions for absence on account of illness. Thus, the entire weight of the cost, both the loss of earnings and the additional expense, falls upon the wage-earner, the average sick-rate of 10 to 14 days per annum representing a loss of 4% of wages. The average duration of a case of illness, however, is greater—20 to 24 days—thus representing a loss of 6% to 8% of wages.

It may be argued that the sickness frequency is so high that some sickness must be accepted as a normal feature of life, and, therefore, it is not at all an exceptional emergency such as calls for the complex mechanism of protection by insurance. Furthermore, it is quite true that, as the Webbs have stated, " the most obvious and the most effective method of preventing the destitution that sickness causes is to prevent the sickness itself. Now, without for a moment dreaming that all sickness can be prevented, it is demonstrable that a great deal of it can be."

This opens a fascinating vista of the future possibilities of preventive medicine, social, municipal, industrial, and personal hygiene and education. But just as evidently, this does not at all solve the problem of that amount of sickness and resulting distress which, whether theoretically inevitable or not, is with us and will be for some time to come at least.

Meanwhile, sickness is one of the most active forces which interrupt the workingman's income, and, therefore, must be one of the most active causes of poverty and pauperism.

We have quoted above the estimate of the Commission on Industrial Diseases that the total loss to the American working class, due to illness, amounts to $366,000,000 of lost wages and $285,000,000 for medical aid, etc., making a total of over $650,000,000 for the 33,500,000 wage-earners. This would mean an average loss of some $20 for each wage-worker, or some 3% of his earnings. But these averages, like all other averages, are formed by a combination of many cases of variable duration. An interruption of a few days may not radically upset the economic equilibrium of the wage-worker's

family. But at the other end are the serious cases of illness, less frequent but more destructive in their results. For this reason, the following data, derived from the U. S. Bureau of Labor Report on Cost of Living, are quite significant.

NUMBER OF HEADS OF FAMILIES IDLE BECAUSE OF SICKNESS, ALONE AND IN COMBINATION WITH OTHER CAUSES (ACCORDING TO THE NUMBER OF WEEKS IDLE). EIGHTEENTH ANNUAL REPORT BUREAU OF LABOR, p. 290.

Less than 2 weeks	863	15 or 16 weeks	108
3 or 4 weeks	813	17 or 18 "	83
5 or 6 "	446	19 or 20 "	104
7 or 8 "	355	21—30 "	235
9 or 10 "	248	31—40 "	97
11 or 12 "	219	41—51 "	37
13 or 14 "	156		
			3764

And there is something besides the money loss only. It is the serious loss in health due both to working while in poor health and the absence of proper medical attention. The investigation of the U. S. Bureau of Labor, which was dealing with fairly prosperous workingmen's families, showed that out of 2,167 families, 1,969 had expenditures for sickness or death, and that the average expenditure for these families was $26.78. Probably a large proportion of it represented funeral expenses, and in any case it included all sickness expenses, physicians, drugs, etc., for the entire normal family of 4 to 5 persons. This certainly does not indicate a proper supply of medical help.

A serious illness, therefore, being a calamity, it is quite evident that a purely individual method of meeting the problem on the basis of individual savings, individual provision, would be ruinous to the workingmen's budget.

Instinctively, without any technical knowledge of the fundamental principles of actuarial science, but with a subconscious appreciation of the advantages of the distribution of loss, the wage-working class has developed its own method of meeting the problem of sickness through organization of voluntary mutual sick benefit funds, which from very small beginnings have grown into a structure of tremendous size and importance, and upon these a still greater, still more imposing structure of national compulsory sick-insurance was eventually built.

CHAPTER XIV

VOLUNTARY SICKNESS INSURANCE IN EUROPE

THE beginnings of systematic sickness insurance are to be looked for in co-operative efforts of the workers themselves. They have rapidly grown, mainly within the last fifty years, as a quite natural result of the rapid development of modern industry. And while not at all limited to wage-workers, they have been developed mainly by them. The middle classes and the agricultural population were very much less in need of them. In some countries they have achieved a very great growth and accomplished results of importance to the welfare of the working class.

Originally they were primarily charitable organizations—a certain number of workers, usually in one trade, were united to help out the needy ones among themselves. But this co-operative charity, this mutual relief gradually assumed more definite forms—money contributions substituted relief in kind, amounts of both relief and contributions became semi-contractual obligations, and thus a system of insurance grew up out of a system of mutual help. With a slowly accumulated empirical experience instead of scientific actuarial computation, the workmen realized for themselves the advantages of the essential principle of insurance—the principle of distribution of loss. The absence of strict actuarial basis is often quoted as evidence against them, and it is forgotten that all other forms of insurance,—life, fire, marine,—have grown up in the same experimental way, and that even to-day, the entire field of casualty insurance is still very largely in the same unscientific position.

The beginnings and the early stages of this development owed everything to the spirit of self-help of the workman and nothing to any constructive policies of the state. They were altogether spontaneous and voluntary in many cases, and that still holds true of many countries. These societies for mutual help are known in different countries under various names.

They are the " friendly societies " of Great Britain, the " sociétés de secours mutuels " of France and Belgium, the " Krankenkassen " of the Germanic countries, the " Società di Mutuo Soccorso " of Italy, the " Sygekassen " of Denmark, etc. Only in a few of these designations is their importance in the field of sickness conveyed, for they are not limited to this field alone. They undertake various functions, sometimes separately and sometimes one society combining various functions of diverse kinds. Funeral aid was, perhaps, the earliest form of mutual aid—given in care and work and personal attention oftener, perhaps, than in money. Societies for making small loans to the needy, for providing instruments of trade are not infrequent, and often educational activity is combined with financial aid. But in all countries without any exception, sick-benefits have become the prominent feature of these mutual aid societies, often combining them with relief of accidents when no system of compensation exists.

Within the last fifty years the membership in these mutual benefits has shown a very rapid increase. Perhaps their greatest development may be found in Great Britain. There were in that country, before the National Insurance Act went into effect, nearly 6,000,000 members of the so-called Registered Friendly Societies in a population of some 45,000,000, or nearly 13%. In France the total number of members is nearly 5,000,000, including pupils' societies. The adult members number nearly 4,000,000 persons in a population of 40,000,000, or about 10%. In Belgium there were, in 1908, 388,000 members of sick-benefit societies in a population of 7,500,000, or less than 5%.

This system of mutual aid has achieved a very high degree of development in the Scandinavian countries, where the spirit of voluntary co-operation is extensive, and where not only the wage-workers but the farming community have become accustomed to this organization. In 1907 the recognized societies of Denmark numbered over 550,000 members in a population of 2,000,000, or over 27%. In Sweden there were, in 1907, 544,000 in a population of 5,400,000, or 10%. In Latin countries outside of France the development of mutual benefit societies was very much less important. Thus, in Italy they numbered, in 1904, only 926,000 in a population of 33,000,000, or less than 3%. In Spain there were in the same year only

85,000 in a population of 18,000,000, or less than one-half of 1%. The development of the voluntary mutual benefit societies and their membership may be considered a fair index of the economic and social development of the country.

This important development is the result of growth mainly during three or four decades. Thus, in France the number of active members of adult societies was only 250,000 in 1850, less than one-half a million in 1860, 917,000 in 1880, 1,200,000 in 1890, 1,742,000 in 1900, and 2,545,000 in 1905, increasing tenfold in 55 years, and more than doubling within the fifteen years. In Denmark their membership increased from 116,000 in 1893, to 553,000 in 1907, or nearly fivefold within a decade and a half. In Italy, where the development was very much less important, there were in 1873, 219,000 members; in 1885, 730,000; in 1894, 936,000. In Great Britain the membership of friendly societies has grown within the brief period of six years (1899-1905) from 5,217,000 to 5,900,000, or over 13%.

Sickness insurance is the essential function of these societies as unemployment benefits are an important feature of trade unions. But, in addition, many other forms of relief are granted. In Great Britain, for instance, the law regulating the friendly societies permits the following operations: Relief in case of sickness or other infirmity and in old age, and the care of widows and orphans; birth and death benefits; travel benefits while in search of employment, and benefits when in distress and in case of shipwreck, etc.; endowments; insurance against loss of tools by fire.

Thus the law authorizes for the friendly societies (keeping in mind the older conditions before the advent of the National Sick Insurance System, of which more anon) all forms of workmen's insurance: sickness, accidents, invalidity, funeral, maternity, widows' and orphans', and unemployment. But, as a matter of fact, the granting of relief in sickness is the main function, to which many of the societies, especially the smaller ones, limit themselves to the exclusion of all others. Thus, out of a total expenditure of some $28,000,000 for relief in 1905, sickness and medical aid claimed some $20,000,000.

Because a good many of these societies in France provide for old-age pensions, the erroneous impression has gained ground that that is their main function. As a matter of fact,

nearly all of the 20,000 mutual benefit societies provide sick benefits, and only some 1,200, or 6%, old-age pensions, while some 7,000 societies grant funeral benefits, and some 2,000 give pensions to widows and orphans. The figures quoted emphasize the point that sick-insurance was felt by the workingmen of all countries to be both the most necessary and the most feasible form of mutual insurance.

Quite naturally, as long as these mutual societies remain free vehicles of voluntary insurance, there is a field for the widest difference in every feature of their existence, their administrative and financial organization, their achievements, their benefits, their premiums, and so forth—and also in their success and their financial soundness. The problem is altogether different in those countries where these mutual benefit societies have been embodied in a more or less unified system of sickness insurance, and for this reason these countries will be treated separately. At present we have in mind largely the situation in Great Britain before the National Act went into effect and in France, Italy, Belgium, and Spain. The essential function is the granting of a money subsidy during the duration of sickness. Another function equally important, perhaps, is the granting of medical aid through a systematic organization of medical aid given by physicians regularly employed for this purpose. The amount of the financial subsidy known as a sick-benefit is subject to wide fluctuations, but seldom in the voluntary societies is it made dependable upon the amount of wages. Usually it is a flat amount per diem, though differing for the male and female members in case of a mixed organization. In so far as there is a certain uniformity in the rate of sick-benefits, it is a natural growth influenced by the standard of wages, and the local conception of what constitutes an "existenz minimum." In France these daily benefits amount to 1 or 2 francs, with an average of about 1 1-2 francs (some 30 cents). In Italy the level is even lower—some seven-tenths of all societies grant one lira or less per day (19 cents). The sick-benefits were considerably higher in Great Britain, at least as far as the large societies are concerned. Thus, the benefits for the Hearts of Oak Benefit Society (one of the largest in England) were 18s. ($4.38) per week, for the first twenty-six weeks, and 9s. ($2.19) for the subsequent twenty-six weeks. Evidently

there must be a natural minimum to the sick-benefit, below which it cannot descend without making the sick-insurance worthless to its members. But the differences in strength of various societies express themselves in more subtle ways; namely, in various time limits. Perhaps the greatest diversity is found in the length of time during which such benefits are given. There usually is one limit for each case of illness. Some societies may grant support for four weeks, others for eight, thirteen, or twenty-six, or even a year. When a society dares to go beyond that it enters the much less safe, though perhaps even more necessary, field of invalidity insurance.

These limitations affect a comparatively small proportion of cases of sickness, as only a few last over thirteen or twenty-six weeks. But these are just the cases in which aid is most necessary. Another limit is often established for the total amount of assistance to be rendered to any one member during one year. The purposes of these limitations are obvious—they are necessary to prevent excessive depletion of the funds. All cases of illness may be subsidized, or only such as extend over a certain period—say three days, one week, or so. In addition there may be a waiting time between admission and the right of subsidy, so as to prevent the admission of new members who may be influenced by the feeling or knowledge of approaching illness.

Similarly, there are variations in the financial organization. Perhaps the most primitive is the assessment system, where the actual expenses incurred are distributed among the membership. The advantage of an assessment society is that it cannot develop any deficits. But it is a system that is not likely to prove attractive in the long run in competition with societies running on definite dues, as they create the fear of excessive cost.

When regular dues are collected, either on a monthly or weekly (rarely an annual) plan, the very important problem arises: are the dues on a flat even rate, or is any effort made to adjust them to the sick-risk, i.e., to construct them on an actuarial basis? Men and women differ as to their sick-rate, and it is the usual custom to establish different rates for them. But still greater is the difference in the sick-rate at different ages, and yet an adjustment of the dues to age is exceedingly

rare, especially among the smaller organizations. For one thing, the necessary knowledge of fact is totally lacking, so that a flat rate for all ages is the usual procedure. We shall see presently what serious difficulties this one problem raises in the entire domain of voluntary sick-insurance.

Another actuarial fact, already emphasized, is the difference in sick-rate of different trades and occupations. The dues are but seldom adjusted to the differences of occupation, where members of several occupations are found in the sick-benefit society. But this difficulty is to some extent obviated by the organization of societies on occupational lines.

In fact, while the forms of organization of these societies are many, the occupational or industrial organizations are, at least in some countries, predominant. This, besides the actuarial advantages of a fairly uniform sick-rate, is also the natural result of usual associations. Sick-benefit societies may be organized by employees of a single establishment, when they are known as establishment funds, or of several establishments of similar nature in the same locality, or by persons of the same trade, such as carpenters or machinists. All these forms follow the lines of usual selection in ordinary human intercourse. And since all or most mutual aid societies are not purely business organizations, where financial considerations are uppermost, but have many social activities as well, and since they must draw upon this fountain of social solidarity for the large amount of unpaid administrative work necessary in such organization, it is quite important that they should follow such natural lines of division. The strongest and largest sick-benefit societies in almost all industrial countries are to be found among the miners and railroad employees, organized on industrial if not occupational lines.

The "shop club" of England, known in the United States as an establishment fund, is an organization on trade lines which has features of its own, primarily that it is either openly, or in a somewhat disguised form, compulsory, and because of this very feature, is often objectionable to the workman, who may prefer an affiliation of his own choice. Outside of this, the development of large organizations on national lines in England has discouraged this differentiation by occupations or trades. Such organization on trade lines is not always possible in small localities or localities with largely

diversified industries, and there the local organization is the natural result.

In size the widest margin of variation is found, from a few score to hundreds of thousands constituting a society. In most cases the origin is small, but among many societies that perish, a few, perhaps because of better management, will survive and grow rapidly. The underlying principle being that of distribution of loss, an insufficient membership will destroy the usefulness of the organization, especially in case of a local epidemic. As a remedy against this situation, affiliations have arisen. They are especially popular in England and also in the United States, under the name of fraternal orders. In many of them the co-operative and social spirit is gradually vanishing, and the financial spirit predominates, transforming a mutual aid society into a large mutual insurance society, though in other cases, by various more or less artificial means the fraternal spirit is successfully preserved.

This very brief and, of necessity, superficial description of the general features of insurance as conducted by mutual aid societies, is nevertheless sufficient to emphasize the fact that it is impossible to draw accurate conclusions from figures of membership only. It is impossible to extend one judgment as to sufficiency and insufficiency of the work of mutual aid societies over all of them. The statistics of membership show a rapid growth, and, therefore, are evidence of the necessity of this form of insurance. It has often been argued that they also prove that the workingmen are able to solve the entire problem for themselves collectively if not individually. If the mutual aid or friendly societies were looked down upon with suspicion some twenty-five years ago, as possible carriers of the revolutionary spirit, they have in recent years been given an equally imposing task of solving the entire problem of the workmen's destitution. The sermon of voluntary individual thrift has been modified so as to become mutual or collective thrift. The enormous advantage of these friendly or mutual benefit societies was claimed to be that they built up character at the same time that they yielded necessary financial assistance. Most of these claims are eminently sound. There is no doubt that the average intelligence, moral and economic strength of members of these organizations in all countries is very much higher than of the workingmen outside these or-

ganizations. And from a practical point of view their activity was of great economic importance. Eloquent evidence of this may readily be obtained from the data concerning the membership, the accumulated assets, the number of persons helped and the amount of disbursements for mutual aid.

It is no small matter that in Great Britain, for instance, the registered friendly societies have accumulated funds of over $200,000,000 and that they spent over $32,000,000 a year, of which nearly $28,000,000 went for actual benefit payments, while the receipts have reached $40,000,000, and that through these accumulations 6,000,000 families, primarily wage-workers' families, were protected against the ravages of sickness.

In France, too, the figures though smaller, are quite imposing. The assets had reached $82,000,000 by the end of 1905, and have probably increased to $100,000,000 by this time. The revenues amount to some $12,000,000 to $15,000,000, and the expenditures some $10,000,000. Annually in France about half a million members receive sick-benefits, and some quarter of a million in addition only medical aid. The subsidiary lines of activity also loomed up in significant figures. Thus, in 1905, 23,780 funeral benefits were paid, 12,855 widows and orphans, 9,068 aged members, and 4,454 incurables were assisted.

There can, therefore, be no question as to the useful nature of the activity of the friendly societies. Nevertheless, the question remains: Are the mutual societies sufficient to meet the problem of sick-insurance for the working classes? And in an effort to answer this, the first question that arises is—do they meet the requirements of the entire industrial class? We have seen that the percentage of the population insured in such societies varies in the various countries. In Germany, under a system of compulsory insurance, over 21% were covered in 1908, even though the entire industrial population was not included in the law at that time. Surely, when the members constitute only 10%, 5%, or less, all those who need it are not protected. Moreover, as the membership is conditioned upon voluntary financial contributions, only those who are both willing and able to meet the expense are members of such societies, i.e., the workmen who perhaps are least in need of it. It is a matter of common observation that the lowest

groups of workingmen do not enjoy the advantages of sick-benefit societies.

Though friendly societies have achieved their greatest development in Great Britain, even there less than one-half of the persons needing sickness insurance have provided themselves with it. No better statement of the situation could be made than the simple words used by Hon. Lloyd George in his famous speech in the British House of Commons on May 4, 1911:

"What is the explanation that only a portion of the working classes have made provision against sickness? Is it they consider it not necessary? Quite the reverse. In fact those who stand most in need of it make up the bulk of the uninsured. Why? Because very few can afford to pay the premiums continuously which enable a man to provide against these contingencies. . . . There are a multitude of the working classes who cannot spare that, and who ought not to be asked to spare it, because it involves the deprivation of children of the necessities of life." [1]

The financial difficulties in the way of voluntary membership in friendly societies find their strongest expression in the large number of lapses. In the same speech Mr. Lloyd George makes the estimate that there are some 250,000 lapses a year. The official reports for 1905 show that 338,000 memberships were discontinued for other reasons than death in one year—so that Lloyd George's estimate is not excessive. It is about 4% of the entire membership, and the Italian reports indicate that in that country also about 4% are annually dropped for non-payment of dues. "It means," says Mr. Lloyd George, "that in twenty years' time there are 5,000,000 lapses; that is, people who supported and formed friendly societies, and who have gone on paying premiums for weeks, months, and even years, struggling along, until at last, when a very bad time of unemployment comes, they drop out and the premium lapses."

Another serious difficulty with the mutual benefit societies is their financial instability or the danger of such instability. This arises from many causes.

The simplest cause, perhaps, is the danger of dishonest management. This has ruined many of the smaller societies

[1] *The People's Insurance.* Explained by the Right Hon. David Lloyd George, London, 1911.

where the financial affairs must be intrusted to inefficient hands, and where the possibility of temptation to the fiscal officers intrusted with the funds is very great. The example of such defalcations naturally acts as a deterrent to many a careful workman.

No less dangerous is inefficient management. Many of the smaller societies have started with very little knowledge of the sick-risk and the inevitable losses. Optimism begotten of ignorance, often leads the smallest and youngest of organizations to promise a good deal more than is justified by the dues collected. In the case of assessment societies, the unexpected and rapid increase of losses may force the assessments rapidly upwards and discourage the members.

But a more serious, because less evident and, therefore, more frequent, drawback of many voluntary sick-benefit societies, from a technical insurance point of view, is the lack of adjustment of dues (or premiums) to age. Such adjustment is desirable from the point of view of individual justice. But we are concerned here rather with its social results. A scientific adjustment between age and dues is out of the question for small societies, because of lack of knowledge of actuarial theory. On the other hand, a level premium or uniform dues for members notwithstanding the age, often tends to make the younger membership dissatisfied to pay for the support of the older members, and expresses itself either on one hand in the unwillingness of the younger members to join, or in the unwillingness of the society to admit as new members persons of advanced age.

Thus, an ideal mutual benefit society would be a society having a membership of more or less uniform age group. But even such a society is not guaranteed against financial difficulties. Starting as a body of young and healthy men with a low rate of sickness, it naturally has small expenditures in the beginning, and establishes low rates of dues. Automatically, however, as such a society grows older, its sick-rate is bound to increase and the necessary expenses and dues with it. But a constantly increasing rate of dues has often led to financial ruin and dissolution. A scientific solution of such a situation is a scientifically computed level premium, i.e., a premium equal throughout the existence of the insurance, too high in the beginning and too low in the end, but equalized through the

accumulation of reserves to meet the increasing obligations of insurance. In practice, however, the establishment of such level premium and reserves was found to be very difficult, partly because of optimism based upon ignorance, and partly because with a wandering working class, membership in a mutual aid society was considered temporary and not a permanent arrangement.

As a matter of fact, even the youngest and largest friendly societies in England were mostly insolvent from this point of view, that is, had not sufficient reserves to meet all future obligations towards a membership of advancing age without an increase of dues. These friendly societies endeavored to meet the situation by stimulating a constant influx of younger blood, and as long as they were successful in these efforts, need not fear any financial difficulties. But such a course is not always open to the smaller societies. On the contrary, as soon as the advance in the average age of the membership becomes noticeable, so as to increase dues, a spirit of restlessness often spreads among the younger members, and still more so among the prospective members; a new society is organized, and, left without new members, the older society must eventually break down, when its older membership, just because of the advancing age, feels the greatest need of sick-benefit. In other words, the absence of a true actuarial basis serves as a great stumbling block to the career of a sick-benefit society, and has led to the destruction of thousands of them, and has kept away from sick-insurance large numbers of workmen.

Furthermore, while the difficulties enumerated, or at least some of them, are of a more or less technical nature, another objection will be more readily understood—that under a voluntary system, the entire burden of sick-insurance falls upon the workmen themselves. From the brief analysis of causes of disease, as we have given it, it is quite clear that such "incidence" of the cost of insurance is not socially just—and the economic condition of the workmen is not such as to make the carrying of this burden an easy one.

Even under this voluntary form of sickness insurance, the necessity for outside assistance has been recognized, but the form it takes is rather pathetic, and smacks of private benevolence. This expresses itself in different ways. Very commonly shop clubs or establishment funds receive voluntary contribu-

tions from the employer, the amount depending entirely upon his good will. Another way of obtaining such outside financial aid, is the large number of honorary members who pay dues without claiming any benefits. Thus, in France in 1905, out of a total membership of 4,085,000 there were 450,000 such honorary members contributing $830,000 against $7,172,000 contributed by the ordinary members. And there were also $922,000 contributed as subsidies, donations, and legacies, making a total subsidy of $1,752,000. Similar situations are found in all other countries, where voluntary sickness insurance has developed.

Finally, in admiration of the large figures of membership, reserves, and surpluses, it is often forgotten that the results of the mutual benefit societies cannot be judged only by these numbers, unless we know that sufficient protection against sickness is given, and that means primarily the following three things:

A daily or weekly sick-benefit which is large enough to meet the reasonable needs; sufficient financial strength in the friendly society or mutual benefit society to continue this benefit for a sufficiently long period of time, and, finally, a proper and efficient organization of the medical service, so that the sick workman should not be left without necessary medical aid. In fact, the efficiency of the friendly society may be measured by the extent to which it succeeds in preventing the worthy self-respecting sick from applying to private or public relief. And from this point of view, many of the smaller organizations are found wanting.

Once the great usefulness of this form of mutual insurance is admitted, and at the same time the obstacles to its proper and sufficient development are recognized, the question of the proper attitude of the state towards it becomes a matter of serious concern.

Not so very long ago, historically speaking, the attitude of the state towards these societies was a suspicious or even antagonistic one, as it was towards all organizations of workmen. And in countries like Russia, they were absolutely prohibited until very recently.

Passing over these earlier stages, the first efforts of the modern state were directed towards regulation, so as to prevent some of the evils which we have indicated. Many

acts for the regulation or control of the mutual benefit societies were passed in Europe during the nineteenth century. In England, for instance, as early as 1793 a special act concerning these societies was adopted, and many subsequent acts passed during the nineteenth century, while the law which governed the friendly societies up to the National Insurance Act was passed in 1876 and amended in 1896. In France, the first special act concerning mutual benefit societies dates back to 1850, but a more comprehensive act, passed in 1898, is still in force at present. In Italy the act of 1886 has controlled the mutual benefit societies without any changes for over twenty-five years; in Sweden, an act of 1891; in Belgium an act was passed in 1851, i.e., about the same time as in France, and a later act, still in force, in 1894; in Denmark, in 1892, and so on.

Granted that society, through its governmental authority, has a right and a duty towards these mutual benefit societies, what should be the proper sphere of regulation and control exercised? Legislation may endeavor to accomplish the following results through its control:

1. To protect the members against direct fraud in the financial affairs.
2. To protect the members against incompetency.
3. To protect the society against possible insolvency by requiring compliance with actuarial requirements.
4. To direct the activity of societies into certain channels and, finally,
5. To stimulate the growth of these voluntary organizations by suitable means, such as privileges, or even financial subsidies.

In the evolution of legislation on the subject, two tendencies were competing for ascendency—depending upon the general point of view, one considering them primarily as insurance institutions, and the other as organizations for mutual aid. From an insurance point of view the protection of the future rights of the members was the paramount aim. An insurance company is not solvent unless at any time its assets are sufficient to cover all the obligations assumed without dependence upon new members. And it was often asserted that requirements equally rigid should be put before mutual benefit societies. But very few mutual benefit societies have

succeeded in achieving such a degree of financial strength. And yet collectively the social usefulness of the work of these societies was enormous. Moreover, such a degree of control would require a degree of state interference with the voluntary organizations, which the latter have always resented. And it gradually dawned upon students of this problem that a strict control of this nature, while protecting the interests of some, would probably discourage rather than stimulate the further development of these societies. Under the influence of these arguments the control exercised is usually more moderate and is limited to the general integrity of administration and to certain correspondence between income and expenditures, and the prevention of obligations which are obviously impossible. And the further fear of interfering with the spontaneous growth of the institutions has in many countries made even this control an optional one. Any degree of compulsory governmental control, it was argued, might interfere with the development of the small village or neighborhood sick-benefit society, which naturally arises out of local needs and may be the seed of a stronger institution. Thus in many countries the distinction arose between controlled and uncontrolled societies, the terminology being different in various countries.

Thus, the British act of 1875 speaks of " registered " societies; the French act of 1852 of " approved " societies (sociétés approuvées); the Belgian act of 1890 of " recognized mutual benefit societies "; the Italian law of 1886 of " authorized " societies.

To use a term of greater familiarity to the American ear, we might speak of incorporated and non-incorporated societies. Besides the essential fact of greater financial security, other privileges are usually offered to the incorporated societies, so as to make the act of incorporation a desirable one.

Practically all countries which have adopted special laws concerning the mutual benefit societies grant recognition or registration only upon condition of a certain amount of publicity. The constitution must be presented to the authorities and annual financial reports given. This alone is extremely important as establishing financial soundness of the organizations.

Scarcely any law prescribes a definite constitution for all

societies, but certain requirements concerning the rights of members as to admission, resignation, reinstatement, or transfer, the duties of the administrative officers, the proper guaranties of representative government, the bonding of the fiscal officers, the proper methods of dissolution of mutual societies, and similar features of the activity of these societies may be required. Where the regulations are not compulsory, removal of the name of the society from the list of "recognized" societies and withdrawal of the various privileges is the penalty for non-compliance with the demands of the law.

Most of the laws discussed apply not only to the sick-benefit societies but organizations for other purposes. The range of these purposes is prescribed in the law of England, Belgium, France, Italy, etc. Formation of societies for one specific purpose is encouraged, for instance in the Belgian act, and the combination of many different objects, on the contrary, is discouraged, experience showing that singleness of purpose is conducive to financial soundness. When such serious obligations as annuities or pensions are assumed, the English act requires that the statutes be certified by some actuary. Other requirements are that the books be kept open to government inspections. In some countries (Denmark) government officials make regular inspections of their books. In others a governmental examination of the financial status may be demanded by a minority of membership.

The benefits conferred in return for such voluntary submission to regulations are, usually, the official stamp of approval, the advantage of fiscal control, and certain indirect political and economic advantages. Almost universally reductions or entire omissions of certain court fees, stamp duties, and similar charges are granted, which may be equivalent to financial subsidy; in some countries even free postage privileges are granted (e.g., Belgium), or the right to deposit sums of money with certain governmental agencies guaranteeing a higher rate of earnings (France), so that regulation gradually shades into subsidy. Yet as far as the subsidies are indirect or insignificant, Great Britain (before the later act), Finland, Netherlands, Italy, and Spain may be classified in this group, which is in the stage of government regulation only.

As far as available statistical data seem to indicate, even simple incorporation or registration has had a certain bene-

ficial effect. An increasing number of societies prefer to receive official recognition. Usually the stronger, the larger, the older societies are those more readily asking for recognition. In any case, the policy of absolute indifference to these extremely useful efforts of the working class to build up by its own efforts a system of mutual insurance, has been abandoned in all but the most backward of European countries.

CHAPTER XV

SUBSIDIZED SYSTEMS OF SICKNESS INSURANCE

Government regulation is but the first preliminary step towards a system of social insurance. In the domain of sickness insurance it has been tried out, perhaps, more thoroughly than in any other branch. But many years of experience with various systems of regulation have very clearly established that the great hopes placed upon them were very much exaggerated. Though regulation has undoubtedly improved the financial condition of a certain number of societies, it did not prove a sufficient stimulus to extend the benefits of mutual aid to all or a majority of the wage-workers. A more effective method in accomplishing this aim was sought in direct government subsidies.

This system is found primarily in five countries: Sweden (1891), Denmark (1892), Belgium (1904), France (1910), and Switzerland (1912). The system of subsidy in all these countries is closely interwoven with the system of regulation. In all of them there is a clear-cut division between recognized and non-recognized societies, and subsidies are granted only to the former. The principle has a rather common application. Nevertheless, it is somewhat curious that with the exception of France, where the system of subsidy is rather limited, all the countries mentioned are the minor countries of Europe.

Of the five countries enumerated the system of state subsidies, at least in two, is rather ephemeral, namely, in France and in Belgium. On the other hand, in Denmark and Sweden, since 1892 the subsidies were part of a comprehensive system, and the Swiss act, passed in February, 1912, by a national referendum, also endeavors to establish such system.

The American reader who has been accustomed to the granting of public moneys to private charitable institutions, such as asylums and hospitals, may perhaps misunderstand the nature of these subsidies, for they are neither given nor

received in the spirit of charity. Charity presupposes destitution and pauperism, while these government subsidies are intended to prevent either. Their purpose is to popularize and facilitate insurance—a dignified method of self-protection. In no case, as we shall see, do these subsidies reach a level high enough to furnish sick-relief and medical care in themselves. Their aim is twofold: On one hand to meet part of the cost of a service which a large part of the wage-working class is unable to purchase for itself unaided, and on the other hand, it is to serve as a stimulus to the working class to organize and foster such institutions of self-help. In several cases the subsidy is so small that only the educational effect, and not the financial aid, is of importance.

The first state subsidy system to sickness was adopted in Sweden by two acts passed in 1891 on the same day, one for regulation of recognized sick-benefit societies, and the other granting direct subsidies to such societies on their application.

By the original act the amounts of subsidies were fixed on the following scale according to the membership of the societies:

For each member up to 50	1	Crown (26.8¢)
" " " over 50 up to 250	½	Crown (13.4¢)
" " " " 250	¼	Crown (6.7¢)

Moreover, the maximum subsidy was placed at 300 crowns ($80.40). According to this rule, a society would not profit by any membership above 850, while the subsidy was greatest for the very smallest societies. The amount even in these cases was so small that the practial value of the subsidy could not be very great. The purpose evidently was to help start the organization and then trust to its own strength. The amounts of subsidies were materially increased in 1898—from 50% to 100%, as the following schedule shows:

For each member up to 100	1.50	Crowns	(40.2¢)
For each additional member up to 300	1.00	"	(26.8¢)
" " " " " " 2600	.50	"	(13.4¢)
" " " " above 2600	.25	"	(6.7¢)

provided the society's own revenue at least equals that amount. This subsidy may not appear staggering in the light of Amer-

ican wage levels. It is not expected to meet the cost of sick-insurance, but to stimulate voluntary membership and contributions, yet in its direct financial effect, the subsidy of 400 or 500 crowns to a society of 500 members is a material factor not to be despised.

The Danish act, passed in 1892, is decidedly more liberal. It gives a flat subsidy of one-fifth of the revenue of the society from dues, but not to exceed two crowns (53.6 cents), independently of the number of membership. This subsidy is granted to recognized societies only. In the case of a society of 2,500 members, for instance, the subsidy in Sweden would amount to $388.60, and in Denmark to $1,340. As compared with these, however, the subsidy established by the new Swiss law is really large.

The Swiss schedules of subsidies is interesting because it is adjusted to the extent of the society's activity—3.50 francs (67.5 cents) for children under 14, and 3.50 francs (67.5 cents) for each male adult, and 4 francs (77.2 cents) for each female adult, if only one of the two main functions—sick-benefits or medical aid—is provided for; 5 francs (96.5 cents) if both features are furnished, and an additional 50 centimes (making $1.06 in all), if sick-benefits are furnished for 310 consecutive days. In mountainous districts where medical help is dear and difficult to get, the subsidy may be increased to 7 francs ($1.35). There is an additional subsidy of from 20 to 40 francs in case of confinement. Not only is the rate of subsidy very much higher (for 2,500 members at the rate of 5 francs, e.g., the subsidy would amount to $2,412), but the very principle underlying it is important. The law not only aims to stimulate the formation of sick-benefit societies, but to improve the nature of their service.

As compared with these liberal subsidies, those furnished in Belgium and France are rather insignificant. They are interesting mainly as an indication of the extension of the principle rather than important factors in the development of sickness insurance. In Belgium the only provision of the law entitling that country to a place in this study is that of 1904, by which an amount of 115,000 francs (some $23,000) is appropriated annually for distribution among special funds, which aim to provide sick-benefits for the period subsequent to the first six months. These are known as " caisses de re-

assurance ''—they are really reinsurance funds maintained by confederation of local funds for this purpose, and the state subsidy limited to them aims to improve rather than extend sick-insurance though the numerical strength of the mutual aid societies' membership in Belgium is far from imposing.

In France, various minor methods of assisting mutual aid societies exist, but they can scarcely be dignified by the name of a national subsidized system of sick-insurance.

A direct subsidy to the latter was first introduced only by the act of 1910, establishing a national compulsory old-age insurance system. It was argued that this additional burden upon the pockets of the workmen might harm the voluntary sick-benefit societies, and direct subsidy to the latter was embodied in the old-age insurance act. It is very small, amounting to 1.50 francs (29 cents) for each adult, and one-half this amount for each insured person under 18. The subsidy is granted not only to the mutual benefit societies, but also to the trade unions granting sick-aid. Even this measure —destined to protect the existing sick-insurance institutions rather than stimulate its development, and forced into the law so as to mollify somewhat the mutual benefit societies, which were inclined to be antagonistic to the old-age insurance plan —means an expenditure of from seven to ten million francs annually.

The importance of these governmental subsidies lies not only in the financial assistance rendered, and in the stimulus given to the increase of membership and formation of new societies, but also in the greater degree of supervision and control of the activity of these societies which becomes possible, and which is accepted with greater readiness by the societies themselves in view of the assistance rendered. This high degree of effective control is very noticeable in all the three countries having a comprehensive system of subsidized sick-insurance, namely, Denmark, Sweden, and Switzerland.

The laws regulate membership. Every workman in fair health must have the opportunity of joining a sick-benefit society. Of course, the qualification of fair health in itself is a serious limitation. But obviously, it is impossible to force chronic invalids upon self-sustaining sick-benefit societies without endangering their solvency beyond any compensation which the state subsidy offers. There may be societies which

are based upon religious or political qualifications. An optional law, to be successful, cannot disregard these. The Swiss law, e.g., frankly recognizes them, but only in case there are other societies which the applicant may join. Otherwise they must open the doors to any one.

Then there is the possibility of a speculative membership in several societies which would give a benefit in excess of earning. That is prohibited. The question of transfer from one society because of dissolution of some societies or removal of the wage-workers from one locality to another is an important one, especially with advancing age, when the member becomes less and less desirable. And that right is guaranteed in all laws.

The Swiss law, the latest and best of the voluntary subsidized sick-insurance systems, goes further than any on the regulation of societies applying for subsidies, especially as far as benefits are concerned. The subsidy fluctuates according to the subsidy granted, so as to encourage satisfactory benefit scales. It is stipulated that the sick-benefit shall not be less than one franc per diem. The probationary time which must expire after entrance before the new member qualifies for benefits, must not be less than three months. The waiting time after falling sick must not be more than three days. The benefits must be given for at least 180 days in any period of 360 days. Confinement benefits must be granted for at least six weeks. The societies must be financially sound. And, furthermore, the Swiss law prescribes a definite system of organization of medical and pharmaceutical help, so as to prevent excessive cost of services, and yet leave to the sick member a certain selection of physician.

The subsidy system was productive of material results as demonstrated by increase of membership. In Denmark 457 societies were recognized in the first year of the operation of the law, and now their number exceeds 1,500. The membership of recognized societies increased from less than 120,000 to 300,000 in 1900, 550,000 in 1907, and by this time may reach three-quarters of a million. Not only has the membership increased, but their work became more uniform and more efficient, because the governmental control exercised was not at all perfunctory. It was a system of efficient expert guidance and supervision realized through a policy of education.

Similar results obtained in Sweden, where the number of registered societies increased from 221 in 1892, to 2,318 in 1907, and their membership from less than 25,000 to 550,000. Curiously enough, the effect of the original law of 1891 was slight, and it required the increase of the scale of subsidies in 1898 to accomplish these results.

And the cost of these subsidies has not been staggering. In Sweden it amounted, in 1907, to some $116,000 in a total budget of these societies of $1,750,000, or less than 7%. In Denmark, where the subsidies are greater, the cost to the state was about half a million dollars in a budget of about a million and a half, or about one-third.

These, in brief, are the main facts in regard to the development of this stage of social insurance. Not only from the financial point of view, but in principle, it represents an advance over the period of platonic regulation. The important principle is admitted that the problem of sickness relief and of sickness is a national and not an individual problem, and also that the working population is unable to cope with this problem singly. All arguments against such paternalistic legislation are cast aside, as they are cast aside in the appropriation for free public hospitals and dispensaries.

In view of these results accomplished, why shall not a system of government subsidy to voluntary insurance be considered an effective solution of the problem of sick-relief?

Around this central problem a vast amount of literature has accumulated in Europe. Surely, the "onus probandi" lies upon the compulsory system. It goes without saying that compulsion always needs to be justified, and its justification may only be found in the shortcomings of the voluntary system.

The following criticisms, then, have at various times been made and can be fairly substantiated by the statistical data available.

The voluntary system, even in connection with subsidy, accomplishes the desired result slowly if at all. This result is to provide sick-insurance for all who need it. At best the increase of membership is gradual and rather slow, while compulsion may at one stroke extend the benefits to the precise limits designated.

Secondly, even after many years of growth, a subsidy sys-

tem still fails to achieve these results. Twenty years of experience in Denmark have given that country some five or six hundred thousand insured, and about the same number in Sweden. Perhaps equally good results might not be possible in a country with a lesser developed sense of mutual co-operation and personal thrift. But, after all, this number, about equally divided among men and women, does not cover more than some 20% of the population of Denmark, and only about 10% of the population of Sweden. Even in Denmark it is stated that only about three-fifths of the workmen were found to hold membership in sickness-insurance societies, and in Sweden the proportion cannot be much more than about half of that, or three-tenths.

Thirdly, the nature of the aid rendered is still far from being uniformly good, and often is altogether unsatisfactory. Thus it was found that in Denmark nearly 60% of all societies discontinued their sick-benefits at the expiration of 13 weeks, and only 17% extended it beyond 26 weeks. In Sweden the situation was even more unsatisfactory. Of 2,316 societies, only 33, or 1.4%, extended it beyond 26 weeks, 588, or 25%, from 13 to 26 weeks; 591, or 25%, just 13 weeks, and nearly one-half of the societies had a limit of less than 13 weeks, over 200 societies, 8 weeks or less. Equally variable and often unsatisfactory are the amounts of benefits granted. In Denmark, for instance, over one-half the societies granted even to men a daily benefit of only .40 to .50 Krone (or 11 to 13 cents), and only one-eighth gave one Krone (26.8), or a little over that.

It is quite obvious why the scales of benefits have been gaged so very low. The finances of the sick-benefit societies do not permit any greater benefits, and higher dues cannot be paid by the wage-working membership. That, however, is one of the crucial problems of the whole field of social insurance. Except for the state subsidy, the whole burden of payment falls upon the insured themselves. That is the greatest obstacle to the development of voluntary insurance, and, moreover, this incidence of the cost is socially unjust if the principles of the industrial causation of most illness be recognized. Industry must in all justice bear a portion of the cost of sick-insurance, if not the entire cost as in the case of accident insurance.

This criticism of the results of subsidized systems naturally applies with greater force to all voluntary systems without subsidy. It may be summarized thus:

The voluntary system is slow in extending.

It never extends far enough.

It is not satisfactory as to services furnished.

It places too big a share of the burden upon the wage-working class.

These shortcomings, or at least some of them, the compulsory system aims to correct.

CHAPTER XVI

COMPULSORY SICK-INSURANCE

THE education of the American public in matters of social insurance has gone so far that it has learned of the existence of compulsory sickness insurance in Germany. But the fallacious opinion still commonly prevails that it is an institution peculiar to the German Empire, to be explained by such considerations as the iron will of Bismarck, the respect of the German for governmental authority, the strength of the German Polizei-Staat, and so forth. Even the success of the British National Insurance Act in 1911, has failed to open the eyes of the vast majority of the American people to the fact that compulsory insurance against sickness is even more widespread than compulsory insurance against accidents. It exists in Germany, Austria, Hungary, Luxemburg, Norway, Great Britain, Russia, Roumania, and Servia—nine countries in all—and for certain groups of labor in many other countries; such as, for instance, in France for miners, seamen, and railroad employees; in Italy for railroad employees, and in other countries for these special groups. These facts alone would give this compulsory method the predominant position among all other methods of organized provision against sickness. This method of social insurance, therefore, deserves the most serious consideration.

Voluntary insurance, as applied to the problem of sickness, has reached its highest development in the governmental subsidized systems. It was shown how far the modern progressive state was forced to go to stimulate and encourage this voluntary insurance so as to be able to accomplish all that it has accomplished in the Scandinavian countries.

But the voluntary principle was found wanting, primarily for two reasons; first, because it failed to make insurance universal, and left without protection those most in need of it; second, because it failed to lift the burden of the working class as such, as long as the state remained aloof, satisfying

itself with the policeman's function of control and regulation. The rapid growth of this voluntary form of sick-insurance, under the influence of direct state subsidies, proved not only the great need of this form of social protection, but also the inability of the workingman to provide it by his own means.

Germany had seen the limitations of the voluntary system earlier than other nations. It was first to make a radical break with the past and adapt the principle of state compultion to this problem in 1883. While Austria soon followed suit in 1888 and Hungary in 1891, this principle met with obstinate resistance outside of the Germanic world, or at least the part of the civilized world not under direct Germanic influence. But the inevitable logic of economic conditions forced the compulsory principle to the foreground. The compulsory sickness-insurance acts passed in Norway in 1909, in Servia in 1910, in Great Britain in 1911, and in Russia and Roumania in 1912 are conclusive proofs that after twenty-five years of experience history has finally rendered its decision in favor of the compulsory principle. If further evidence were necessary, it may be found in the fact that in Italy, Netherlands, Belgium, and Sweden plans for compulsory sickness insurance are earnestly discussed, and, in some of these, the plans are very near their final realization.

There is no doubt that in sickness insurance the influence of the German was very great. The Austrian and Hungarian systems were directly inspired by it; Luxemburg followed the German pattern closely. While the later acts of Norway and Great Britain possess many distinctive features, yet many points of similarity to the German system may be found, and especially in the case of the British Sick Insurance law was it frankly recognized that the German system was the starting point from which the British system developed. The same is true of the Russian system, which was enacted in 1912, after nearly ten years of consideration, with the German system as an object lesson. It will be necessary, therefore, to emphasize the German system prominently in the following pages, and treat of the other systems mainly in so far as they deviate from the German standards.

The German system of social insurance is often referred to as a system of state insurance. This is true in a measure. But technically, this is correct only as regards old-age and

invalidity insurance. In all the three important branches of insurance, the element of state compulsion and state regulation and control is present, but except for old-age insurance, the state does not directly assume the business of insurance. As accidents are dealt with by special insurance institutions, the so-called "mutual associations of employers," similarly in sickness insurance, mutual associations of workmen are the vehicles of insurance. Only when no such associations exist do the general governmental authorities undertake this function. In other words, the German state did not destroy anything in carrying its national plan of insurance through. It left the existing mutual institutions, recognizing their tremendous educational as well as administrative value, and compelled the organization of many similar new ones. Furthermore, it did not prescribe uniform conditions as it did in dealing with the problem of accidents, for it was dealing here with an institution for mutual aid rather than with the obligations of one class towards another.

The existence of voluntary mutual sick-benefit societies, organized in many different ways, and many of them enjoying the confidence of the membership, was the one patent fact that the organization of a national compulsory system had to meet. And it was good politics in the best sense of the word, not to create unnecessarily a strong opposition to the national scheme among the very class whose interests it was to serve, by appearing to wish to destroy the existing institutions. All types of existing sick-benefit organizations were, therefore, preserved, and where none existed, new ones were to be organized. As a result the following types of societies were recognized by the German Sick-Insurance Law:

1. Local sick-funds (Ortskrankenkassen).
2. Establishment funds (Betriebskrankenkassen).
3. Building trades funds (Baukrankenkassen).
4. Miners' funds (Knappschaftskassen).
5. Guild funds (Innungskrankenkassen).
6. Mutual aid funds (Hilfskassen).
7. Communal sick-insurance (Gemeinde-Krankenversicherung).

Rather a formidable array of technical terms, which makes the list look very much more complicated than it really is when its historical causes are understood.

1. The Local Sick-funds, the most important of all, are organizations combining workmen along the most natural lines —workmen of one locality and also of one occupation, or of one industry or of correlated occupations and industries, depending upon the exigencies of a local situation. The desire to build up an organization on occupational lines is emphasized because of the advantages of a certain uniformity of the sick-rate. Nevertheless, there was a notable tendency to consolidate occupational "local funds" into one large fund for the locality, thus sacrificing the advantages of occupational division to the advantages of higher efficiency which can be obtained from a very large organization. The minimum membership for a local fund is 100.

2. The Establishment Funds are what their name conveys, organizations uniting employees of one establishment into a mutual sick-benefit organization. The organization is a logical and normal one, provided the establishment is large enough. The German law permits establishment funds with as few as fifty members. This was a type of organization quite common before the compulsory system was introduced. New ones have been organized in many instances, and sometimes such an organization may be made compulsory, when a certain establishment for any reason shows a heavy sick-rate and, therefore, would prove a heavy burden to a general organization.

3. A modification of the principle of establishment funds is found in the Building Trades Funds. In the building and construction industry large bodies of men are usually brought together for a short time only, and they also often show a heavy sickness rate, and for these two reasons it is advantageous to unite them into a separate temporary sick-insurance fund. These organizations may be brought into existence voluntarily, or they may be forced upon the building contractor.

4. Miners' Funds represent the oldest form of sick aid organization in Germany. They have a peculiar character of their own, primarily in that, for historical reasons, these funds are not limited to sick-insurance only, but combine it with invalidity, old-age insurance, and pensions to survivors. They are often establishment funds, being limited to one large mine; at other times several mines may be united for this purpose, creating a type which may be designated as an "industry fund."

5. The Guild Sick Funds are another survival of precompulsory days. As the guild organization has survived in a few industries in Germany, these old sick-benefit funds were not disturbed, though they have been put under strict supervision and made part of the compulsory system. Originally provided only for journeymen and apprentices, they are made to include all employees of the guild members.

6. The so-called Aid Funds (Hilfskassen) are rather similar to the British friendly societies. They were often organized on lines different from any of the prescribed forms and perhaps not limited to wage-workers only. They often had an individuality of their own, and membership in them was treasured. They enjoyed a high degree of self-government. Membership in these "benefit funds" was accepted in lieu of that in any other form of sick-benefit societies, though at a penalty of forfeiting certain financial advantages, primarily the employers' contribution.

7. Communal Sick-Insurance.—Evidently the effort was a double one,—on one hand to preserve existing institutions for those who valued them, and organize the remaining workmen for purposes of sick-benefits as much as possible on trade or industrial lines. It was impossible, or at least extremely difficult, to provide for all of the workmen in this way; some might naturally, for various reasons, remain outside of the organization. For the benefit of these, the commune itself as such must take upon itself the duties of an insurance organization. This, strictly speaking, was the only approach to actual state insurance in the German sick-insurance system, so that no one required by the law to be insured should be deprived of an insurance medium.

While, for purposes of accuracy, all the different forms of organization were mentioned, they are not all of equal importance in the whole scheme. The guild funds have always been of slight importance, their membership not exceeding a per cent. or two. The building funds are quite insignificant. The number insured in the "private aid funds" has not increased in view of the sacrifice required, and proportionately their rate has decreased from 20% to only 8%. The important forms of insurance organizations, therefore, were the (1) local funds organized on occupational or in-

dustrial lines; (2) establishment funds, and, (3) the communal insurance; and the characteristic feature of thirty years of development was the growth of the local sick-fund as the most predominating type

This simply means the victory of the process of consolidation in the domain of sick-insurance, the yielding of the factional pride before the palpable advantages of large institutions. It is rather significant that the only direct governmental institution—the communal insurance—was abolished by the new Insurance Code of 1911, and in its place a new type introduced under the name Landkrankenkasse—Rural Sick-Fund—for the benefit not only of the agricultural workers, but various miscellaneous wage-earning groups in the cities, so that at present local funds and establishment funds may be said to constitute the two types of sick-insurance in Germany.

Very similar is the organization in Austria, where practically all the types enumerated may be found; the establishment funds, the building trades funds, the guild funds, miners' funds, and voluntary mutual aid societies. The new institutions created by the compulsory system are the local or " district sick-funds " (Bezirkskrankenkassen) similar to the German " Ortskrankenkassen "—in which membership is compulsory in absence of membership in any other society. In Austria, as well, these funds on geographical limits are becoming the predominating type.

In Norway, too, while the law of 1909 demands the organization of public local sick-benefit societies in every community, membership in other recognized societies, satisfying certain requirements as to membership, dues, and benefits, may be substituted.

In the two new and recent compulsory sickness acts of Roumania and Servia workingmen's organizations are provided for and in addition a national union of such organizations in each country.

This system, which has stood the test of experience in Europe for some decades, is adhered to also in the British compulsory sick-insurance law which recently went into effect—but with several serious modifications.

On one hand, the British plan was greatly influenced by the popularity of the large friendly societies. In the majority

of European systems they are tolerated, while in England they are made the main vehicles of the newly organized sickness insurance. That was practically inevitable, for no law could hope of success which aimed to destroy or disregard these time-honored institutions with their millions of membership. They have a large advantage in their stability, the financial strength, and actuarial soundness of many of them. But there is also another side to this. The friendly societies, especially the stronger of them, in order to secure themselves financial success, or at least financial stability, were forced to adopt certain methods of commercial insurance—primarily the principle of selection of risks. For private insurance such selection is imperative, but in a system of national insurance it may leave a very large surplus of uninsurable. The British act specifically leaves to so-called " approved societies " which are to administer the new insurance system, the right of rejection undisturbed. That is a situation which does not exist in any other compulsory system, and is also absent in several of the subsidized voluntary systems, yet it is very doubtful whether the British friendly societies would have agreed to any limitation of that right.

Moreover, the organization of new local sick-insurance funds, which is the basis of the Continental compulsory systems, is not at all encouraged in the British system. Originally, Lloyd George's plan demanded a minimum membership of 10,000. That was modified in the act as passed, to 5,000, with the right of smaller societies to join together within certain geographical limits for purposes of valuation only, until a theoretical unit of 5,000 is obtained. But clearly, the small independent fund is almost unthinkable under such conditions. The result of this is that there necessarily will be a large number of wage-workers entitled to insurance, but either unwilling or unable to form an approved society.

We saw that Germany had inaugurated a special organization for the worker who might be termed the " residual uninsured." Some provision is made for them in the British act, but this is far from being satisfactory, has been severely criticised, and, in fact, represents perhaps the weakest feature of the new British National Insurance System. That is the system of so-called " Deposit Insurance " which, strictly speaking, is not insurance at all, but a system of assisted and

compulsory saving for a limited purpose. The so-called deposit contributors, who are not members of an approved society, make their contributions into the post office, and become owners of individual accounts which they may not overdraw. As these "contributors" will presumably be the "poorer risks," mostly in need of insurance, this system will not offer them too much. And it is not impossible that discrimination against poor health, against unfavorable occupations, against advanced age may leave a very large residuum.

It must be admitted that this is recognized in the act itself to be a temporary makeshift, undertaken because of the fear of forcing these subnormal risks upon existing friendly societies. In the act itself, this system is introduced provisionally until January 1, 1915. The results of the experience of the first two years with these risks may make a special, more satisfactory insurance organization possible. Surely, it would seem that some local insurance organization for these lives, while it might produce an unforeseen deficit, would not have been ruinous to the national finances, and would have spared the act a good deal of acrid and, on the whole, justified criticism.

Finally, in the Russian system, in view of the very insignificant development of mutual aid societies, the organizational problem was very much simpler. A new type of institution had to be formulated, and the establishment fund was taken as the starting point. Where the number of employees is too small, combinations of establishments were permitted. This organization (in view of German experience showing the growth of local funds at the expense of establishment funds) is explained partially by the fact that the Russian law applies almost exclusively to manufacturing establishments, and also by the consideration that for many decades, the duty of furnishing medical and hospital aid was placed upon the employer, and the new system of sick-benefit insurance was adjusted to the existing conditions.

The first question which naturally arises is: whom does the law cover? Compulsory insurance was forced upon the state mainly because voluntary insurance did not protect all those who needed protection. Evidently a law is to be judged by the degree of meeting this difficulty. An ideal law would be one which would contain the broad formula of the British

Compensation Act: "any employment." But, for various reasons, some of which are administrative, and some may be traced to the resistance of the employers, perhaps no law is as comprehensive as that. Up to 1911 the German law included industry and transportation and building trades, but not navigation, agriculture, or domestic service. Very large groups were excluded, some of them until very recently, as, for instance, in navigation or domestic service, because other provision in case of sickness was supposed to exist, others because an additional burden upon employers was objected to (agriculture), or because the need was not thought so great. Thus, the entire number of insured was some twelve or thirteen million as against twenty-seven million insured against accidents, or some 20% of the entire population as against 45%.

During the revision of the Insurance Code in 1911, the extent of the application of the sick-insurance systems was materially increased by the inclusion of agriculture, navigation, domestic service, teachers, and a few minor groups of wage-labor or salaried employment, so that the number of insured was increased by some four or five million persons.

In view of the horrible tales of dissatisfaction created among the British housewives by the inclusion of domestic servants under the National Insurance System, their noisy threats to resist the law, their refusal to "lick stamps," i.e., to contribute a few pennies a week for the benefit of their domestic help, it is rather interesting to point out that the identical extension of the sick-insurance system to domestic servants in Germany was accepted without a ripple. Whether it was a difference in national character or a question of comparative familiarity with the methods and advantages of social insurance, is a question which will probably be answered differently by the German and English housewife.

In Austria the sick-insurance act covers the same industries as the accident law, and is quite extensive, including manufacturing, mining, building and construction, land and water transportation—practically all commercial establishments, but not domestic service or agriculture, or domestic industries. Similarly, in Hungary, according to the revised law of 1907, almost all important wage-groups are covered with the exception of agriculture and domestic service.

It is characteristic that the more recent laws were more

comprehensive from the very beginning. The Norwegian act includes all industries and groups of wage-workers and salaried employees of lower levels, not excepting either domestic service or agricultural wage-labor. The British act is almost equally comprehensive, applying to all employed persons with the exception of persons in military or naval service, teachers, agents working on commission, and a few other groups, for some of whom, however, similar provision has already been made or is considered unnecessary. An exception to this general tendency is the Russian law, which is limited to the factory and mine employees, and has been severely criticised for it by most Russian students.

Besides the limitation as to the industry, there are others as to the economic status.

Thus, the German law excludes administrative employees earning 6 2-3 Marks ($1.59) a day, or 2,000 Marks ($476) per annum, which amount in Germany, puts the person in the middle class, though all workmen regardless of their earnings are covered. Approximately the same rule obtains in Austria and Hungary, where the salary limit for administrative employees is 2,400 crowns ($487).

In Norway the limit is still narrower, as all employees are excluded who earn 1,200 crowns ($321.60) in the rural districts and 1,400 crowns ($375.20) in the urban districts. In the United Kingdom there is a similar qualification of a maximum salary of £160 (less than $800) for non-manual workers. Thus, the limits established are rather narrow, and in these lower limits of the middle class, the problem of illness must also be a serious one, and though optional insurance is open to them, the arguments in favor of compulsion, applicable to the workmen, also hold good for these.

Almost all of these compulsory systems permit optional insurance to certain groups to whom the compulsory feature does not apply. It is not necessary to go into the details of the qualifications for these voluntary members of the insurance organization. As a rule they are intended to embrace groups economically in similar conditions to those covered by the compulsory system.

In the case of these voluntary members, no burden is placed upon the employer. But they derive all other advantages of a well-organized system of sick-insurance. While no data as

to the total number of voluntary members in Germany is available, the statistics of the Leipsic Fund show that they constituted over 5% of the total membership, so that their total number for Germany may be estimated at some 600,000. For the British system Lloyd George made an estimate of some 800,000, which seems reasonable. But an important difference in this regard is that the British law does not permit "married women who are not workers" (meaning wage-workers, of course—as the wives of wage-earners could hardly be accused of being idlers), to become insured under the law. Mr. George in his speech [1] stated that it would not be advisable to admit them, as "it would be very difficult to check malingering—almost impossible." It may be admitted that illness of the housewife does not usually lead to loss of income, and yet there is the inevitable cost of medical attendance and pharmaceutical supplies, which represents a distinct and real financial loss, and may be insured against.

Though considerable variety is found in the financial basis of the different compulsory systems, both as to the distribution of the burden and as to the basis of actual contributions, nevertheless a participation by the employer in the cost is an essential feature of all compulsory systems, whether because of the theoretical recognition that industry as such is a factor in causing disease, or simply as a convenient method of relieving the wage-worker's burden. Besides, such contributions appear as the main justification of the application of compulsion from the point of view of the unwilling employee.

In Germany the employee (or insured) pays two-thirds of the cost and the employer adds one-third (or one-half as much as the employee). Recent energetic efforts to change the proportion during the revision of the insurance laws, so as to make the contribution equal, have not been successful. This contribution must not entirely be charged to the cost of sick-insurance, for it meets also the cost of compensating the accidental injuries during the first thirteen weeks. Various estimates seem to show that about one-fourth to one-third of the employer's contribution (8% to 11% of the total cost) is needed to cover this cost of accidents. Substantially the same situation obtains in Austria, except that the burden of accident insurance carried by the sick-benefit funds is smaller

[1] *Loc. cit.*, p. 13.

—only four weeks. On the other hand, in Hungary (where the sick-benefit funds take care of accidents for the first ten weeks), the employers and employees contribute equal amounts. The German proportion has also been adopted in the new Russian act, though in the earlier drafts of the bill, which were published in the heat of the revolutionary era, the government seemed inclined to place a larger share of the burden upon the employer. However, it must be remembered that the cost of medical aid—one of the two main functions of the sick-insurance systems—is in Russia entirely placed upon the employer.

Finally, in the recent act of Servia the contributions of both employer and employee are equal, and Roumania is the only exception to the rule, placing the entire cost upon the insured employee.

Thus, the early sick-insurance systems established one important principle, that of the employer's share in the cost. Meanwhile, the experiments with the encouragement of optional sick-insurance gradually developed in various countries into systems of state subsidy. And it is quite significant that this principle was embodied in both recent compulsory insurance acts. Norway provides the following distribution of the dues: injured person, .6; employer, .1; commune, .1; state, .2.

Here, then, the employer's share is considerably smaller as compared to the Continental countries, and while both the local and national treasuries were made to contribute, it evidently did not decrease the workman's share any, only the employer being relieved by this state subsidy.

In England, where definite rates of dues are established by the recent law, the distribution is as follows:

	For male persons	Female persons
Insured	4 d.	3 d.
Employer	3 d.	3 d.
State	2 d.	2 d.

the state contributing, in the case of women, 25%, and in the case of men, 22.2% of the entire expense. From this point of view the British system is decidedly superior to the German one, as it leaves upon the insured person only 44 1-2% (in case of the women 37 1-2%) of the burden instead of 66 2-3%, as in Germany.

The distribution of the dues or premiums among the two or

three parties is only one aspect of the problem. The other, perhaps a no less important one, is the actual determination of the total dues necessary to meet the benefit requirements established by the law.

Here again a radical difference is found between the German and the British plan. The German plan presupposes financial autonomy of the individual sick-funds. The law establishes certain minimum benefits, but permits their further extension both in kind and in amount, though within certain defined limits. Such extension of benefits evidently presupposes a further increase of dues. But even within the same iron-clad limits of minimum benefits, there may be many variations in cost, which would call for variations of dues. Such causes may be: differences in the sex or distribution of the membership, in climatic conditions, and in hygienic conditions of the trade,—all these factors influencing the average sick-rate very materially. The law, therefore, requires the dues to be sufficiently large to cover the cost of the benefits, though there are certain restrictions upon raising the workman's contribution over 4% of the wages, or the total contribution over 6%. Contributions may be raised above 4 1-2% only if it is necessary so as to provide the minimum benefits, but not for the sake of additional benefits.

In actual practice the dues but seldom (in less than 1% of the fund) are raised above the normal limit of 4 1-2%. For over two-fifths of the funds the rates are from 2% to 3%, for about the same proportion less than 2%, and for about one-fifth from 3% to 4 1-2%. But as the lower rates are mainly found in very small societies, probably more than one-half of the membership pays from 2% to 3%.

There has been a very strong tendency for increase of rates, either because earlier rates proved inadequate or because of the desire to raise the benefits above the minimum. Thus, in the local sick-funds, which now insure over one-half of the total number, the proportion of funds requiring dues over 3% has increased from 3.2% in 1888, to 33% in 1908, and in the establishment funds from 3% of the funds in 1888, to 27%. The Austrian plan is very similar. The ordinary maximum rates for the minimum benefits are 3%, and while under certain circumstances an increase is possible, it is seldom used. In Hungary the limits of rates established by the law are from

2% to 4% of the wages. In Norway, too, the actual determination of the dues is left to the individual societies.

As against this system the British act has established a uniform definite amount of dues as stated above, 4d. and 3d. from the insured in a total of 9d. and 8d. (for men and women respectively). But as this uniformity might create a burden for the lower-paid strata of labor, certain exceptions are made for them. Thus, if the worker earns less than 15s. ($3.75) per week, his dues are reduced as follows:

If earning 2½ s. (67½¢) a day or less	3 d. (6 cents)
If " 2 s. (50 ¢) " " "	1 d. (2 ")
If " 1½ s. (37½¢) " " "	Nothing.

In these cases the decrease in the contributions of the employee is not permitted either to injure his rights to the definite benefits, nor to affect the finances of the society insuring him. The difference is made up jointly by the employer and by the national treasury.

These details were thought necessary because there is rather an important principle involved. That the poorer paid worker should be taken special care of is eminently just. But who should pay the difference? In the original bill of Lloyd George this was placed entirely upon the employer. " If you make the state pay the difference, then it means that the employers who pay higher wages to their workmen will be taxed for the purpose of making up the diminished charge for workmen of other employers who are paying less; and I do not think it would be fair. We have come to the conclusion that the difference ought to be made up by the employer who profits by cheap labor." [2]

The influence of these employers was evidently strong enough to modify this. If a man does not earn over 2 1-2s. he pays 3d. instead of 4d., the extra 1d. being met by the employer. But when the earnings fall below 2 1-2s., the state assumes the burden of 1d. and the employer the remainder (2d. in case of male employees and 1d. in case of female employees.) Finally, in case of earnings under 1 1-2s., the worker contributing nothing, the state again contributes 1d. Perhaps it might be argued that this additional contribution may be considered a just penalty the state should pay for

[2] *Loc. cit.*, p. 9.

permitting wages to fall to such low limits, now that the principle of the minimum wage-scale has been recognized in Great Britain.

Note Concerning the Application of the British National Insurance Act

The first report concerning the application of the British Sickness Insurance System (Report on the Administration of the National Insurance Act, Part I., "Health Insurance." London, 1913), dated June 30, 1913, arrived while these pages were in press, too late to make satisfactory use of. The main facts disclosed are: the very comprehensive application of the act during the first year, notwithstanding the tremendous administrative difficulties and the noisy opposition. The total number of persons insured is estimated at 14,500,000. In England alone it amounted to some 10,862,000 on March 30, 1913. The distribution of this membership by organizations is interesting. Friendly societies claimed 4,618,000 insured, and trade unions 1,190,000. Employers' Funds (known in this country as establishment funds) are insignificant, with a membership of 62,000 only. New associations organized by industrial insurance societies (primarily the British Prudential Insurance Company) for the policyholders are very strongly represented, with 4,455,000 members, or about 44% of the total. The number of deposit contributors (the weak point of the British system) is very much smaller than was expected. Only 508,000 of them registered, of which 36,000 through error and 77,000 of them subsequently asked for transfer to some organization, leaving their number at 395,000, or about 3½%. In Scotland, too, there were only 37,000 deposit contributors out of 1,480,000 insured, or only 2.5%. It appears quite certain, therefore, that when, on December 31, 1914, the provisions of the law concerning deposit contributors expire, some practical method will be found to grant these presumably subnormal numbers the full advantages of insurance, either by joining their accounts together into a number of associations, or by offering approved societies special inducements for taking them in.

During the first nine months of the application of the act 342,000,000 stamps were sold in England, an average of

8,900,000 a week. Of this amount 224,400,000 were of the 7d. denomination and 102,500,000 of the 6d. denomination, i.e., the regular contributions for male and female insured, and only 16,000,000 of odd denominations. The total revenue from the sale of these stamps for England alone was over £9,000,000 or $45,000,000. The total revenue for England only, up to May 31, 1913, was £15,770,000 ($76,000,000), of which the contribution from the exchequer amounted to £2,688,000 ($13,000,000). Since the payment of benefits began six months later than the collection of contributions, the expenses were only about $26,000,000, of which $19,000,000 was in payment to approved societies and $2,000,000 for medical and administrative expenses. Remembering that the report does not cover a full year, and that from 40 to 50% must be added to the data for England to obtain complete data for the United Kingdom, the total revenue of the system may be estimated at about $120,000,000 per annum, of which about $25,000,000 will be contributed by the national treasury.

A picturesque and significant detail is the statement of the U. S. Consul at Birmingham (Daily Consular and Trade Reports for July 8, 1913) that "as a result of the act the demand for patent and proprietary medicines has been reduced by about one-third," and that "for the next year it is the purpose of most of the patent medicine makers to double their advertising." Here is a new and interesting phase in the struggle between profits and social service!

CHAPTER XVII

COMPULSORY SICK-INSURANCE

(Continued)

Benefit Features

What does the insured workman receive for his contributions? That, after all, is the crucial test of a compulsory insurance system. It is a complex organization devised for a certain purpose: to eliminate sickness as a cause of poverty. Two interpretations may be given to this formula. One, the narrower one, would demand that only the bare necessities of life be satisfied, so that illness should not result in destitution; the broader interpretation would demand a scale of benefits sufficiently high to permit the preservation of substantially the same standard, for every deterioration of the standard not only means poverty in the individual case, and often leaves permanent results, but also has its serious social effects.

The general tendency of the compulsory systems as yet seems to incline to the narrower interpretation of the functions. Most of the laws establish minimum requirements to the benefits given, leaving the further extension of the principle of sickness insurance to the individual associations. Such extension sometimes does take place, and many arguments may be brought forth in favor of such elasticity of the law, which makes a finer adjustment to local and occupational variations than would be possible otherwise. But nevertheless such voluntary extensions must meet the same difficulties as all other forms of voluntary insurance and the minimum requirements are of utmost importance.

An essential feature of almost all laws (the British system being a notable exception to the rule) is that their operation is definitely limited to temporary sickness, and does not extend to chronic ailments such as prolonged suffering from tuberculosis, cancer, etc. This limitation is not based upon the

theory that the latter cases are less in need of relief. On the contrary, it is quite evident that the economic results of invalidity are very much more serious; but because these chronic cases would introduce a serious complication into the organization of the sick-funds, they must be taken care of in a different way. As at present organized, the sick-funds are based upon the presumption of a uniform flow, both of revenue and expenditures. If they were to undertake the care of chronic cases, these would gradually but surely increase. That would require the accumulation of reserve by the funds to provide for the growing cost, and would introduce a complex actuarial demand, which a sick-fund with a rapidly changing body of members is not ready to meet. The German act, therefore, provides that while the individual funds may for themselves determine the limits of continuity of benefits, these limits must not be less than 26 weeks and not over 52 weeks. The lower limit of 26 weeks is a material improvement over the original law which provided for a minimum of 13 weeks; the change was effected in 1903. Until that time the great majority of the funds were providing the minimum benefit only—to be exact, 17,696 out of 23,271 in 1903, or over 76%, 4,616, or some 20%, granted aid for more than 13 but not over 26 weeks, and only 962 over 26 weeks. These figures indicate how small the value of the optional provisions, comparatively speaking. Since the change in the law has been made 22,393 out of 23,240, or 96% of the funds, grant aid for the minimum period of 26 weeks.

In Austria and Hungary the minimum limit is 20 weeks; though the funds are permitted to extend this to not over one year, very few have done so, and the comprehensive plan for the revision of the whole social insurance system, which has been seriously considered in Austria since 1908, contemplates the extension of this limit from 20 weeks to one year. In Norway, where the system is somewhat more rigid, 26 weeks is the only limit provided by the law, i.e., all societies must furnish aid up to 26 weeks in case illness last that long; and no fund is permitted to extend it beyond 26 weeks in any one year. In Russia the same 26 weeks' limit exists, and in Roumania the limit is 16 weeks only.

In marked contrast to all these laws stands the National Insurance Act of Great Britain, which provides benefits unlimited in time. But in drawing comparisons with the German

or any other Continental system, it is but fair to state that the British system is a combination of sickness and invalidity insurance. The benefits for these two conditions are different and are known under different names, the " sickness benefit " extending for 26 weeks only.

It has been frequently pointed out that the lines of demarcation between the different branches of social insurance are somewhat artificial and not always easy to draw. It is quite true that sickness insurance shades gradually into many other branches. The point of contact between sickness and invalidity has already been noticed. There are many points of contact between sickness and accident insurance as well.

First, there is the vast number of non-industrial accidents. The study of accidents as a feature of modern industrial activity may have had the effect of obscuring the other division of accidental injuries not due to industry, or, to be more exact, not due to the special hazard of the workman. It is true of almost all forms of sickness insurance, compulsory as well as voluntary, that such injuries are treated as would be cases of illness. In the same degree as any other human being is the workman subject to a vast variety of non-industrial injuries, in transportation, on streets, in elevators, etc., etc. In fact, it is usually estimated that perhaps one-half of his injuries are non-industrial from this point of view. The experience of the Leipsic Fund for 18 years showed that out of 538,808 cases treated, there were 42,893 industrial accidents, or some 8%, and 62,295 non-industrial, or 11.5%.

It seems worth while to mention the only exception to this rule concerning non-industrial accidents that the writer is aware of. The workmen's insurance law of Switzerland, adopted early in 1912, combines a voluntary subsidized sickness insurance system with a compulsory accident insurance system. Thus far the Swiss law presents nothing new in principle. But the original feature is the compulsory insurance against non-occupational accidents, which extends over the same groups of wage-earners who are protected by the compulsory industrial (or occupational) accident insurance. The benefits are also the same for the two classes of accidents, and in this respect the protection against this class of misfortunes is stronger under the Swiss law than under any other law; for while sickness insurance ordinarily grants only a

protection limited in time, and invalidity benefits, when they exist, are very meager, the Swiss law grants substantial pensions for permanent disability and death arising from non-occupational accidents.

The burden of cost, on the contrary, is altogether different. Instead of the employer meeting the whole cost, as in case of industrial accidents, he is entirely relieved from the burden. The premium is to be borne jointly by the individual insured workman and the state, the latter contributing 25% of the premium. Nevertheless, the employer is required to assume the duty of meeting the payment of this premium, or rather, the workman's share, and deduct it from the employee's wages. This is decidedly a novel contribution to the theory and practice of social insurance, and serves as an eloquent proof that the last word in this field of social insurance has not been said.

In addition certain obligations are placed in several of the countries upon the sick-funds in connection with industrial accidents, which have already been referred to.

According to the German law, the sick-funds furnish all their regular benefits, financial and otherwise, in case of industrial accidents for the first 13 weeks. In Hungary the limit is placed at 10 weeks, and in Austria at 4 weeks. In Russia the same 13 weeks' limit has been introduced, much against the protests of the labor delegates in the Parliament, while the shortest period, of two weeks only, is found in Roumania. In Norway, on the contrary, only medical aid is furnished by the sick-funds in case of industrial accidents.

Thus, the sick and accident insurance laws are made to dovetail into each other, and this in itself is a desirable situation. But the justice of thus forcing a part of the cost of accident compensation upon the sick-funds has been frequently questioned. For it must be remembered that the sick-insurance funds are supported largely by the workmen themselves. This shifting of a part of the burden of accident compensation back upon the workmen seems to be in direct contradiction to the essential principle of compensation, that the industry and not the working class should bear the charge. The objection is undoubtedly a sound one. But it is argued in its defense that the sick-funds have a ready medical and administrative organization for handling these early stages of accidents

and all the numerous cases of minor injuries which require only temporary aid and medical attention; that to duplicate this organization for the employers' mutual accident insurance associations would require a useless expenditure, and that this administrative advantage, and not the hidden desire to shift a part of the cost, is the main reason for this arrangement.

The argument would perhaps sound somewhat more plausible if the sick-funds were required to furnish only the medical and surgical aid, but not the financial subsidies as well. It is not difficult to imagine a situation where the sick-fund takes upon itself all the work in connection with the care of these numerous minor cases, but is recompensed from the accident insurance institution for the actual outlay. In fact, this is not an imaginary situation, but the actual condition in several industries where a mutual sick-and-old-age benefit fund existed before the compensation idea was realized—for instance, in the Italian railroads, where strong pension funds exist.

Here, again, the British system presents a marked contrast to the Continental ones. Not only has the new law not relieved the employers of any duties under the compensation system, but it is specifically provided that when a disabled workman receives his compensation benefits he is not to draw his sick-benefits. It is not difficult to understand the reason for this difference, when it is remembered that the accident compensation law preceded the sickness-insurance system by fifteen years. In any case, the possibility of a logical method of co-operation between accident compensation and sick-insurance is another argument in favor of the compulsory system. Where a compulsory sickness insurance is absent, either one of the two difficulties may arise. On one hand, the injured person may be deprived of help when he is badly in need of it because of a prolonged waiting period (two weeks in many British countries and in most American states); on the other, there is always the possibility of a duplication of benefits from the compensation system and from the voluntary sick-fund, thus making the total compensation perhaps even greater than the normal income, and thus furnishing a powerful stimulus for malingering.

We now come to the two main functions of every sick-insurance system, by which its efficiency must be judged: namely, financial aid and medical aid.

The provisions for medical aid are extremely liberal in most countries; in Germany the minimum requirements are that the fund furnish surgical and medical attendance, free medicine for twenty-six weeks, and such therapeutic supplies as eye-glasses, trusses, bandages, etc. When necessary, the fund may substitute hospital treatment, and a good many of the larger funds do so. In fact, a good many of these funds have extended their organization of medical aid far beyond the minimum requirements. The right to prescribe certain articles of diet at the expense of the fund, if in the physician's opinion they are necessary, or medicinal baths, and similar services has been established by many funds.

The provisions are similar in Austria and Hungary (though the minimum is limited to twenty weeks), in Norway and under the new law in Great Britain, though in actual practice the organization of medical aid is perhaps not as liberal as in Germany.

The only exception to this rule, as we have already said, is Russia, where the development of medical aid for the wage-worker, at least as far as manufactures and mining are concerned, preceded the compulsory sick-insurance system by many decades—having been established in 1866 for manufactures, and in 1886 in mining, as a direct function of the employer.

While it is true that this may be explained by the inaccessibility of medical aid in many parts of Russia, the principle is nevertheless exceedingly important and interesting. The new law did not disturb these relations. Hospitals in larger establishments, and dispensaries and emergency wards in smaller establishments, and even maternity wards and contagious disease wards in certain cases, must be supported entirely at the expense of the employer, or private agreements made between him and private or public hospitals. The system is often criticised in Russia as falling far short of the desirable ideal, and the criticisms may be justified. Nevertheless a useful lesson may be derived by Americans from the bit of statistical information that, according to an investigation in 1907, 3,000 establishments were provided with dispensaries, 470 with emergency wards, and 2,088 with hospitals; that over 2,000,000 workmen were thus furnished medical aid, at a cost of over $6,000,000; that the Russian railroads,

with a wage-working force of some 750,000, had hospital facilities numbering over 5,000 beds, a medical and hospital staff of nearly 6,000, and spent nearly $4,000,000 for medical aid. Here we see an approach to a socialized system of medicine, which would prove of tremendous usefulness even in the United States in view of the excessive cost of medical aid.

To return to western Europe, the proper organization of medical aid has always been a vexed problem with the sick-funds. A simple assumption of the cost of medical and pharmaceutical aid to be obtained at the discretion of the sick, and at the customary level of compensation for private medical practice, would have proven an enormous burden. Even voluntary sick-funds were forced to seek a more economic organization, and with compulsory sick funds it became a very important problem. Contracts between funds and physicians became a necessity. Usually they have assumed one of two plans, either of which has its ardent adherents and its violent opponents.

The question at issue is the possibility of freedom of choice of a physician. Under one plan, an exclusive contract is made with a physician, or two, who assume the duty of treating the membership for a stipulated sum or for a per capita charge. Under the other plan the contract is made with a large number of physicians who assume the obligation to give treatment according to a certain stipulated charge per case. Economy is urged in favor of the first plan. On the other hand, the advocates of the latter plan insist that freedom of choice of the physician is a necessary condition of that intimate relation of confidence and interest which must exist between physician and patient if medical practice is to yield favorable results.

But the Continental laws do not prescribe the conditions of the contract, leaving them to the many sick-funds. Here the competition between the physicians and the hard bargaining of the sick-funds has had some very peculiar results. The price for medical aid through this competition was reduced to such low levels, that " physicians' strikes " became a common occurrence in Germany, hardly serving to increase the confidence of the people in the medical profession, no matter how justified on economic grounds these strikes may have been.

The difficulties which the British National Insurance Act encountered at its very inception and even before, during the preparatory stages, from the British medical profession, are probably fresh in the memory of every reader of newspapers. The British physicians have evidently profited by the sad experience of their German colleagues and are resolved to escape the ruinous effects of competition. Organized in a powerful British Medical Association and fully conscious of their economic and trade interests, they are decided to obtain a fair remuneration for their services, and as the issue seemed to be between eight and six shillings per capita as an annual remuneration for medical treatment, and as four or five visits seem to be the annual average, it is difficult to grow indignant over these features of their demands. For, after all, even a physician must pay his bills, and cannot live on the gratitude and love of his appreciative patients.

But there was also another aspect to the organized efforts of the medical profession, which has succeeded in influencing the law. Their association formulated " six cardinal points," which they insisted should be embodied in the law, and most of them were. These points included—the guaranteed freedom of choice of physician, the removal of the administration of medical benefits from the friendly societies to certain insurance committees, the physicians fearing to deal with the former; but the most objectionable demand was that there be placed an income limit of £2 per week to those entitled to organized medical benefits, so that all earning over £2 a week should be forced to use private medical advice, paid at the customary rates for such. Even this principle was embodied in the law, though in a modified form. Instead of the definite limit of £2 the various local bodies administering the law were authorized to establish local limits. This whole tendency is decidedly reactionary and vicious—as vicious and anti-social as the efforts to suppress the so-called " dispensary and free hospital evil " in the United States. For it is an unmistakable sign of the times that private medical practice is a declining institution, that it is expensive, wasteful, and inefficient, and that it gradually must give way to organized medical service. It is, therefore, exceedingly significant that the difficulties between physicians and the government have

moved the latter to a threat of establishing a national (or socialized) system of medicine with paid medical officers, if no compromise could be reached. Whoever is familiar with the splendid achievements of the organized rural medicine supported by the " zemstvos " (organ of local self-government) in Russia, knows that such a system of socialized medicine is not a Utopia, but a thoroughly practical institution, and compulsory sick-insurance is undoubtedly destined to be the force which will help realize such systems of social medicine.

The general basis of sick-benefits established by the German law is one-half the wages, beginning with the third day of illness. In actual practice there are several important modifications. The actual wages received by the sick person are not taken into consideration. The sick-funds pay one-half the average wages of the class of persons for whom the fund is established, so that there is one general level of benefits for each fund, which must not exceed 4 Marks (95 cents), though this rule may be changed by the sick-fund. In communal sick-insurance the basis was half the wages for unskilled labor in the locality. It still may be said, however, that in general half the wages is the normal sick-benefit. In actual practice this minimum level of 50% is the one used in the vast majority of cases. About 2,500 funds, or 10%, have raised it voluntarily above the minimum limit of 50%, and only 460, or some 2%, over 66 2-3. The same 50% is found in other compulsory acts, those of Luxemburg, Hungary, Russia, and Servia, while in Austria and Norway the higher limit of 60% obtains. Finally, in Roumania an interesting effort is made to adjust the benefit to the economic need, by providing 50% for married and only 35% for single workers.

This limitation to 50% may perhaps be considered as the weakest point in the German and Hungarian sick-insurance systems. One may admit without argument that a subsidy of 50% is vastly superior to no subsidy at all; and that a sick-allowance of 100% would be a tremendous stimulus to malingery; but somewhere between these two limits the just level must be found and a country which has established a normal standard of 66 2-3% for industrial injuries cannot logically persist in a 50% basis for sickness, for the degree of economic need is not in the least affected by the distinction between

sickness or accident injury in causing disability. As a matter of fact, the desirability of increasing the limit is freely admitted, but the difficulty of increasing the cost to the worker is quoted as the main obstacle. Here, again, the British system has departed from the Continental system. Instead of a proportionate relation between earnings and dues on one hand and benefits on the other, the British system collects definite and equal dues, and correspondingly it grants definite and equal benefits—10s. to the men and 7 1-2s. to women as a sick-benefit—5s. after twenty-six weeks.

In his exposition of the law, Mr. Lloyd George was very emphatic in proving the superiority of the British method because the lower strata of the German working class received less than that amount. The maximum wage to be considered being 4 Marks, or 95 cents, 50% of that amounts to 47.5 cents, giving a weekly benefit of $2.85, while the British benefit is $2.44—not very much less. The British limit thus establishes an " existing minimum " standard, while in the lower wage groups the sick-benefit of the German system must be decidedly inadequate. As to the higher-wage groups, they are destined to receive very much less than one-half in either country. The average amount of daily benefit in Germany was some 30 cents, or $1.80 per week, or considerably less than the British benefit.

But of all forms of sick-benefits, it may still be said that their highest aim is limited to prevention of extreme destitution, and not as yet to the protection of the wage-worker's standard.

In addition to the sick-benefits two other forms of benefits deserve special emphasis because of their tremendous social importance: the lying-in benefits and funeral benefits. The lying-in benefits open up a very large problem of their own. In fact, there is good authority in literature as well as in legislation to treat them as a special branch of social insurance—under the heading of maternity insurance, and at least one country (Italy) has a special national compulsory maternity-insurance system. For in the life of the working class maternity has proved a fruitful source of destitution.

In the United States this problem seems somewhat less acute than in the European countries, perhaps because of a stricter standard of sexual morality, and also perhaps of a greater

familiarity of all classes of society with various methods of suppression of childbirth, notwithstanding the many and stringent statutes on the subject.

The inclusion of childbirth as a form of illness to be granted sick-benefits dates back of compulsory sick-insurance, as in all countries friendly societies or mutual benefit societies have frequently assumed this duty. But nevertheless, such a simple extension of the term does not altogether solve the problem. The fact must be kept in mind that maternity, even if calling for expert medical aid, is not a disease unless accompanied by complications, but a normal physiological process.

The distinction is not only an academic one, but one of great practical importance. When one or several of the numerous possible complications arise, we are dealing with disease and resulting disability is undisputed, so that there can be no doubt as to the proper sphere for the activity of the sick-funds. But the process of child-bearing may be, in fact usually is, normal among primitive people; and, among women of the wage-working class generally, the actual lying-in term is very short. Women of the working class frequently work till the last day before childbirth, and very soon, perhaps within one week, perhaps even sooner, after that event. There is, therefore, no physical disability. But the results are very detrimental, nevertheless. They are injurious to the health of the mother, leading to numerous female complaints; they are still more injurious to the health of the offspring, for when motherly care in the earlier days of infancy is lacking, it results in an increased infant morbidity and mortality.

There are at least three aspects of the problem of maternity insurance:

1. That of the wage-worker's wife, who is "not gainfully employed," in the sense of not bringing any money revenue into the family.

2. That of the married woman worker, who combines the duty of a wage-earner with those of a housewife, or at least a wife, and is only partially dependent upon her earnings, and finally,

3. That of the unmarried wage-earning mother.

One need not be shocked at the inclusion of the third group. The gravity of the economic problem of motherhood is directly

in inverse order to that in which the three groups were placed here. Perhaps least important in the normal family where the head of the family earns enough for the normal standard, it becomes often a problem of life and death, of crime or prostitution, in the case of an unmarried mother. The argument that the very origin of the situation is found in vice is quite worthless, because economic problems must not be confused with one's personal views on the proprieties of sex morality. The flat fact is that motherhood out of wedlock is not a rare phenomenon, nor does it necessarily spell eternal damnation of the soul and a hopelessly incurable moral decrepitude. It is the purpose of social insurance laws to meet existing economic problems—not to teach morality. And most European laws have frankly waived the " moral " point of view. In the accident compensation and insurance laws a similar problem arose, and in most countries the rights of the wife and children are recognized without any demands for the marriage certificate or other evidence of legitimacy.

Maternity benefits are of greatest importance in case of workingwomen, who often are forced to work until the last day before childbirth, and to return to work too soon after the act. In many countries it was found necessary, as a protection against infant mortality primarily, to prohibit employment of women for certain periods before and after childbirth. But such legislation may lead to very sad results unless some source is found to supply the income of which the workingwoman is deprived; and thus a theoretical argument is found in favor of a national system of lying-in benefits or maternity insurance. For purposes of convenient administration it may be expedient to place this function upon the system of sick-insurance, but its independent character need not be obscured thereby, for to be thoroughly effective it must include benefits for some time before birth and for some time after birth. It was in this way that maternity insurance for women wage-workers was developed in Italy, which presents a unique example because it has organized a national system of compulsory maternity insurance by the law of July 1, 1910, in absence of any national sick-insurance system. And this law was the direct outcome of an earlier act prohibiting the work of women within one month after childbirth. The subject was thought of sufficient importance in Italy to create a

national organization. It covers all workingwomen in factories, etc., from the age of fifteen to fifty, and—this is significant—married and unmarried women alike. The system is based upon the contributing plan, both the employers and employees contributing an equal amount. The total contribution thus equally divided is 1 lira for women 15 to 20 years old and 2 lire for the ages 20 to 25, but a distinction in rates for married and unmarried women was not even suggested during the five years of consideration of the bill. The amount of benefit is not very large (30 lire, or $5.79, to which the state adds out of its own funds 10 lire ($1.93), making a total of $7.72.) Still, the amount is enough to meet the cost of a midwife and the bare necessities of life.

As far as female wage-workers are concerned, all the compulsory insurance laws enumerated make a maternity benefit compulsory upon the various sick-funds. To be sure, this benefit is usually not very great. In Germany in addition to medical aid, etc., it is a six weeks' regular sick-benefit, regardless of whether the mother is able to return to work or not. If complications arise, the usual sick-benefits are naturally continued. Both Hungary and Norway follow the German limit of six weeks, while in Austria and in Russia benefits are limited to four weeks only. On the other hand, Great Britain, in accordance with its principles of iron-clad uniform benefits, grants a definite sum of 30s. ($7.50), in addition to the normal sick-benefits of four weeks. This sounds more lavish than it really is, because medical attendance is not guaranteed gratis, and the inevitable conclusion is that the 30s. will be applied to the cost of medical aid and necessary nursing.

In a much less satisfactory condition is as yet the problem of provision for the more numerous cases of childbirth in the wage-worker's family, where the mother is not a wage-worker herself. Though there is no corresponding loss of wages, there are the inevitable extraordinary expenditures, not only for medical aid and supplies, but also for nursing and often for hired help—such as it is—to keep the household a-going. But maternity benefits to wives, together with other extensions of benefits to members of the family, are only permitted to the sick-funds under all compulsory sick-insurance systems but one. The exception again is the British system, which in this as in many other aspects has gone beyond the established

standards and has granted the same benefit of thirty shillings to the wife of the insured workingman.

Funeral benefits constitute the last of the four important functions of nearly all forms of compulsory sick-insurance. In view of the well-known unreasonable extravagance in the matter of funerals among the poor of many nationalities in the United States, it is hardly necessary to argue that a funeral is the cause of many a financial crisis in a workingman's family. Perhaps just because of this extravagance, many may doubt the wisdom of the inclusion of funeral benefits in a compulsory insurance scheme, as a possible factor in furthering such extravagance. Compulsory insurance is justified only because it intends to meet real financial needs, and not fancied ones. But, as a matter of fact, funeral extravagance is much less known in Europe among the very nationalities and races who practise it so ostentatiously in the United States.

The funeral insurance of the European compulsory sick-insurance systems is devised on a very modest basis. In Germany the required minimum is 20 days' wages, and the maximum permitted to the sick-benefit societies, 40 days' wages. The same minimum limits obtain in Austria and Hungary. In Norway the benefit is 25 days' wages, but not over 50 crowns ($13.40). The new Russian law prescribes funeral benefits of from twenty to thirty times the daily wages. The British act is the only one under which no funeral benefits are provided, though such as a rule are given by many of the fraternal orders through which sick-insurance is to be effected.

Surely, no extravagance is encouraged by such amounts, and the rôle of funeral benefits in the structure of social insurance is regulated to its proper modest place. This is in strong contrast to the situation in many countries, the United States more markedly than any other, where voluntary commercial insurance has become popular and millions of dollars are spent for what is nothing but an exaggerated form of funeral insurance, thus stimulating artificial standards which are of no economic consequence (one is tempted to say of no earthly use) to the working class, while doing nothing or next to nothing to meet the real economic problems and protect the standards upon which life, health, and happiness directly depend.

Medical aid, in its widest meaning, sick-benefits, maternity

and funeral benefits, constitute what might be termed the "minimum program" of a comprehensive compulsory sick-insurance system. But just as certain groups not included in compulsory membership are permitted to enjoy the advantages of the system as voluntary members, so further extensions of the benefit features are permitted and encouraged. These may and usually do take one of the two following forms:

1. Extension of the benefits in time or an increase of their amount, or,

2. Extension of the benefits to the insured's family.

It is somewhat difficult to gage the actual achievements of the voluntary principle on these lines, especially as far as the second group is concerned. A few very large local funds—for instance, the famous one of Leipsic—have extended their activity almost as far beyond the requirements of the law as the law permits. But it is doubtful whether, on the whole, this additional activity amounts to very much. We saw that as far as the extension period of the sick-benefits, or the increase of their rate above 50%, are concerned, only a small minority have gone beyond the minimum limits. One form of voluntary benefits did grow in popularity, that is, the furnishing of medical aid to members of the family, because in this direction a great advantage could be obtained at a very low cost. As far as sick-benefits to members of the family are concerned, they amount to less than 3% of the total sick-benefits paid. The conclusion is inevitable that on the whole the optional features of the compulsory system were not very much more successful than the voluntary systems were. If an improvement of the quality of service of the sick-insurance systems is to be accomplished, it will be through compulsory means.

Our account of compulsory sick-insurance systems in Europe will not be complete without at least brief mention of various special compulsory systems which are found in addition to the eight or nine national compulsory systems. By such special compulsory systems are not meant those which may exist in any private establishment, no matter how large a number of employees it may embrace, where compulsion to join the establishment's sick-fund, whether open or implied, comes from the manager's office. But where the compulsion is enforced by a statutory enactment, and is accompanied by other features of compulsory systems, such as employers' con-

tributions, state subsidies, and the like, the system evidently belongs in this chapter, even if limited to one large industry only.

Even of these to present a complete list would be a difficult undertaking indeed. Information concerning them is not always easily available, and it is a fact that in most published works on workingmen's insurance, whether in English or even German, these are seldom referred to. Fortunately, in that bulky encyclopedia of facts and statistics, the two volumes of the Twenty-fourth Annual Report of the U. S. Commissioner of Labor, on "Workmen's Insurance and Compensation Systems in Europe," many of these special systems are described in great detail, and at least some of them may be mentioned.

Thus, France has for many years resisted the compulsory principle in workmen's insurance. "It was not applicable to the Latin character," the French delegates at the numerous congresses of social insurance invariably argued. The first renunciation of this principle came through the enactment of the old-age compulsory insurance law of April 5, 1910. Nevertheless, sixteen years earlier, France, through the enactment of June 29, 1894, transformed the voluntary sick-insurance system of the mining industry into a compulsory system with contributions from both employees and employers, and state subsidies as well, the service consisting of medical aid, sick-benefits, and numerous other benefits to the members as well as their families. As this system covers over 200,000 persons and their families, the principle of compulsory sick-insurance seems to have quite agreed with the French character.

In Italy, while the voluntary efforts at sickness insurance were very weak, large organizations for sick-relief grew up among the railroad employees, and since 1896 it has been made compulsory by law. In 1907, with the national system of the Italian railways, one large compulsory mutual benefit society was organized with a membership of some 50,000, the greater share of the contributions to which came from the railroads and less than half from the employees themselves, and comprehensive sick-benefits, so that in Italy, too, the compensation principle was known and approved since 1896—fourteen years earlier than the maternity insurance law was enacted. Also

in Russia, the railroads have had compulsory sickness insurance for their employees since 1888. In short, throughout the world, the compulsory principle in sickness insurance has been tried and found effective in accomplishing the objects for which sickness insurance is intended. Perhaps of all large industrial countries, the United States is at present the only one in which as yet compulsory sickness insurance is utterly unknown.

CHAPTER XVIII

BEGINNINGS OF SICKNESS INSURANCE IN THE UNITED STATES

It is well to begin by stating the plain, unadorned truth concerning sickness insurance in the United States.

If social insurance be defined as the sum-total of social efforts for the solution of the problems of poverty by insurance methods, then of sickness insurance there is none whatsoever. But perhaps it is as well to remember that voluntary co-operative efforts in the field of workingmen's insurance in all countries preceded state interference.

It is, therefore, to the study of such voluntary co-operative efforts that one must limit himself as far as the problem of sickness insurance in this country is concerned.

Professor C. R. Henderson has very successfully summarized the situation.[1]

"America has no system of industrial insurance,[2] but a beginning has been made from various starting points—local societies, trades unions, fraternal societies, employer's initiative, private corporations, casualty companies, and municipalities. . . . Out of these fragmentary, inadequate, unsystematic experiments, the nation has yet to develop a consistent and worthy social policy."

The absence of social systems enacted through law and the prevalence of a multitude of voluntary co-operative efforts make the study extremely difficult and complicated. Fortunately for the student who may desire to pursue this ungrateful task, a few comprehensive sources are available. There is the official Twenty-third Annual Report of the U. S. Com-

[1] Ch. R. Henderson, *Industrial Insurance in the United States.*

[2] Professor Henderson stands almost alone in using the term "industrial insurance" as equivalent to "social" or workmen's insurance. While the term in itself is not objectionable, it has become so popular in application to a definite form of commercial insurance that there seems to be little advantage in preferring it to those which have become popular in Europe and are free from danger of misunderstanding.

missioner of Labor entitled, "Workingmen's Insurance and Benefit Funds in the United States," replete with facts and figures, but rather limited in scope, because of the extremely narrow interpretation of the term "workmen's insurance," which was made to include only such organizations as are strictly limited to wage-workers, and has entirely excluded the fraternal orders, which, after all, are the largest vehicles of workingmen's insurance in this country. Nor is the entire exclusion of commercial insurance altogether justified, for the efforts of industrial life insurance companies, large and small, to furnish life and funeral insurance, and of the casualty companies in the direction of accident and health insurance, are extremely interesting, at least as an indication and measure of the existing need of insurance among the wage-workers of America.

There is also the more comprehensive and more readable, but less statistical study by Professor Charles R. Henderson of Chicago University, which takes in all possible phases of the situation in the United States as it existed in 1908.

A glance at the size of these two volumes might lead to some hopeful conclusions concerning workingmen's insurance. But it seems that the less perfect, the more diffuse and vague a social institution is, the more voluminous must necessarily its description become.

It is much simpler to deal with one uniform national system than with the hundreds of little local plans, with all their individual variations, errors, hopes, and failures. When making his private investigation, Professor Henderson deplored the absence of authentic statistical information, which only a governmental authority could obtain, and in view of that absence he was forced to devote a good deal of time and space to descriptions of individual institutions of various types. The official investigation of the United States Bureau, published in 1910, partly supplied this want, and in view of the bewildering absence of uniform standards, it was forced to devote the largest part of the reports to separate descriptions of funds, societies, etc. It is only when the statistical summary of these many facts is carefully examined and compared with the existing need, that the pitiful insufficiency becomes apparent.

The future historian of these extremely interesting efforts

and movements will not fail to do justice to the foreign influences of this growth. The Germans with "Krankenkassen," the English with their strong adherence to fraternal orders and benefit features of trade unions, the Italians with their "Società" and the Jewish communities with their lodges, semi-religious and semi-charitable, have laid the foundations of both the main features of sick-insurance, medical aid and financial sick-benefits.

In fact, outside of the immigrant groups, the negroes represent the only class of population where the habit of mutual insurance through voluntary association has developed to the highest degree in the United States.

In other words, we find in the United States a situation not unlike that in European countries before any remedial legislation developed: before not only the compulsory system was inaugurated or subsidies granted, but before even regulating and encouraging legislation became known.

If an effort is made to classify all the existing insurance channels dealing with the health of the wage-worker, the following scheme may be helpful:

1. Institutions conducted by the working class and exclusively for its benefit.
   Trade unions: (*a*) National; (*b*) Local.
2. Institutions conducted exclusively for wage-workers, but either with some participation, or under influence of the employer.
   (*a*) Railroad funds; (*b*) Establishment funds.
3. Institutions of a mutual nature, conducted by wage-workers in co-operation with other social groups.
   (*a*) Fraternal Orders; (*b*) Local Lodges; (*c*) General Benefit Societies; (*d*) Special Sick Benefit Funds.
4. Institutions of a commercial character, operating for a profit, and not limited to the working class, yet drawing its clientele primarily from it.
   (*a*) Industrial Insurance Companies; (*b*) Casualty Companies, doing Industrial Health Insurance.

All the groups of institutions enumerated, with the exception of the large industrial life insurance companies, include sick-benefits in their operations, and in many of them sick-benefits are the most important function.

This lack of any well-defined division between various branches of workmen's insurance is a condition invariably present at the same stage of development in all other coun-

tries before workingmen's insurance becomes a subject of social planning and legislation.

Naturally enough accidents are covered wherever sick-benefits are granted. And in view of the absence of any organized system of accident compensation until very recent years, industrial accidents make proportionately much heavier demands upon all these funds than they do in any European system.

In addition to industrial accidents, old-age and invalidity benefits, funeral insurance, widows' and orphans' subsidies, ordinary life insurance, and even employment benefits are found closely interwoven with sick-benefits, to the hopeless confusion of all actuarial principles, and often to the detriment of the organization.

Perhaps no better evidence is possible of the necessity of sick-insurance and of its recognition by the American wage-workers than the growing prevalence of sick-benefits among the trade unions, which are, after all, organized for a very different purpose.

The membership of the American trade and labor organizations is variously estimated at 1,500,000 or 2,000,000, exact statistics not being available. Professor Henderson quotes a list of 120 organizations with a membership of 1,493,300 in 1905. A recent estimate of the New York State Department of Labor places the total at 2,280,000 membership.

The federal investigation states that[3] "in 1881 there were about 20 national and international labor unions in the United States, while in 1907 there were 125 or more," but no data as to their membership are given. Eighty-four of these are listed as possessing some benefit features. Every one of these 84 grants death benefits, but only 19 of them gave benefits for temporary disability (which includes sick and accident benefits).

The total membership of these 19 unions was about one-fourth of the total estimate for all organized labor. Only one-fourth were protected by sick-insurance through their unions, and they represent mostly the highest skilled and best-paid trades in American industry.

The total expenditures of the 84 national unions for benefits during one year were determined by the Bureau of Labor

[3] *Loc. cit.*, p. 23.

as $7,829,121. Of this amount $5,164,385 was spent in death benefits, and $832,760 for temporary disability benefits, or a little over 10%, little more than $2 for each insured member. The very small levels of sick-benefits indicate that this insurance is a burden which even the highly-skilled and highly-paid American mechanic cannot easily bear. The usual benefit (in 10 cases out of 19), is $5, which—it is necessary to remember—includes the inevitable expense for medical aid. In two unions it is $6, in one $10, and in one $15; both the latter are very small organizations. On the other hand, it falls to $3 or $4 in 3 or 4 of these unions. In the light of such figures, the imposing number of some 350,000 to 400,000 insured shrinks perceptibly in importance.

The federal investigations have conferred a valuable and difficult service, by compiling data not only for the large national or international labor organizations, but also small local organizations. In the very nature of things such an investigation could not be exhaustive.

As it is, the investigation covered 530 local unions, with a membership of 173,690. Among these smaller local organizations sick-benefits were, relatively, much more frequent. Benefits were given for temporary disability (including sickness and accidents) by 346 unions, with 103,452 members. The total amount expended for benefits by the unions reporting did not exceed $457,494, and of this amount $198,190, or a little over four-tenths, was granted for temporary disability. As over 9,000 members participated in such benefits, the average per beneficiary was a little over $22. But the striking feature is the very small proportion of beneficiaries—less than 1 in 10, while European statistics indicate a sick-rate of 40% to 50%. The only explanation is that the granting of benefits is hedged in with so many conditions that not all can qualify. The amount of the sick-benefit is exceedingly variable, and in strong contrast to a certain uniformity found in European countries where a national system exists. The rate varies between $2 and $10, but the predominating rate in over one-half of the unions is $5 per week. The maximum period for which benefits are paid is rather short. Out of 316 unions reporting the period was 13 weeks in 62 funds, from 10 to 12 weeks in 85 funds, and less than 10 weeks in 57 funds, making a total of 204, or two-thirds, which do not

assist beyond 13 weeks. Over one-half of the funds do not pay any benefits for the first week of sickness or for cases lasting less than one week. As far as the searching official investigation could discover, the total amount distributed by both national and local unions for sick-benefits does not much exceed $1,000,000.

It is doubtful whether a much greater future may be expected of this aspect of workingmen's insurance. It is true that the present policy of the leaders of the American Federation of Labor is favorable to the development of such benefit features. And the union undoubtedly has certain essential advantages in operating a benefit or insurance scheme. To begin with, it may realize within its domain the ideal of universality through compulsion. That may solve a great many difficulties, especially in the field of sickness insurance, by preventing an advance in the average age of the membership. A second advantage is the uniformity in accident or sickness exposure which must result from all members of the fund belonging to the same trade.

But on the other hand, only a small portion of the American working class is united under the banner of the American Federation of Labor, and these are the highly technical workers with comparatively high wage levels. The modern tendency in American unionism is directed towards organizing the unskilled trades—where wages are very low. In this process of organization the high dues necessitated by the benefit features would prove an obstacle which the labor movement is likely to brush aside so as not to let it stand in the way. If the benefit features be made voluntary, then one of the main advantages of the union is dispensed with. Nor is the management of a large benefit fund necessarily in the line of the most efficient leaders of an organization for collective bargaining.

According to the terminology used by the governmental investigation, the Industrial Benefit Societies are mutual aid societies organized on an occupational or industrial basis, either local or national—a type found to be popular in many European countries in which voluntary sick-insurance is developed. This is the type which is growing in popularity in France, Italy, Spain, Denmark, and other countries. In the United States this type has not developed very widely. Only 35 societies of this type were included in the report. There is

only one organization among the 35 described which has a large membership. That is the German Kranken- und Sterbekasse of New York, known as the Workingmen's Sick and Death Benefit Fund, with a membership of 37,000 and a budget of nearly half a million dollars, of which nearly one-half goes for sick-benefits. The total membership of all the funds did not much exceed 55,000, and their total budget over $700,000. Twenty-seven of these funds granted sick-benefits, for which only less than $250,000 was used ($220,000 of this amount by the New York German Sick Benefit Fund). In other words, this form of organization of workingmen did not become popular. The wage-workers prefer either a shop organization (an establishment fund), or if they organize outside of the shop, do so either through the union or by entering a general fraternal order.

Establishment Funds have had a higher degree of development in the United States. Often the organization of such funds is encouraged and sometimes enforced by the employer, because experience has shown that liability claims were less frequent when immediate relief was given by such a fund. The official report, though it does not claim to be complete, included 461 such benefit funds with a membership of 342,578. The establishment funds, in distinction to the union organizations, are essentially sick-benefit funds. In almost all cases a small death benefit is included.

In the establishment funds we find a truly modern movement: of the 461 funds, only 5 were established before 1871, 21 were organized during the decade 1871-1880, 100 in the period 1881-1890, 154 in 1891-1900, and 181 in 1901-1908.

Unfortunately, the material collected by the U. S. Bureau of Labor, though presented at great detail, is not in such a shape that it can be conveniently studied. The exact information presented in regard to each one of the 461 societies is not summarized, and, therefore, many questions remain unanswered. As establishments differ vastly in size, so do these funds in membership and financial operations. Sixty-eight of the funds had a membership of over 1,000 each; 10 claimed more than 5,000 members each, and 1, in the coal-mine industry, as many as 26,654, while in the majority the number is only a few hundreds or less than a hundred. Naturally, the total income varied from a few hundred dollars to $220,000

in one case. The total income of these establishment funds amounted to some $2,500,000, of which the employers contributed about $300,000, or only one-eighth. Even if only those 140 funds be considered to which the employers made some contribution, their share was only $300,000 out of a total of $1,800,000, or about one-sixth. The spectacular liberality of the average American employer for social welfare work thus seems rather exaggerated. There are but a few funds in which the employer's contributions are substantial, both in themselves and in proportion to the total revenue of the funds. In the majority the employer's contribution was small, often representing a lump-sum donation of $500 or $1,000 rather than a definite proportion of the expenses. These contributions of the employer represented rather the part played by "honorary members" in European mutual aid societies, than the recognition that the employer, the industry, ought to bear a part of the burden of ill-health to which it so largely contributes.

There were vast differences in the organization of different funds besides the question of distribution of burden. A few of these were compulsory—70 out of 461. There was a vast variety of dues levels, but the usual dues were from $2.60 to $6.00 a year, or from 5 cents a week to 50 cents a month. A glance at the tables in the federal investigation presenting all these data will impress very strongly this potent and important fact: the vast differences in the efficiency of sickness provision which different labor groups, sometimes in the same industry and the same locality, enjoy.

The largest, most advertised, and best-known establishment funds are the famous "railroad relief funds." The question may be asked why the railroad industry has done more than other branches of industrial life to further insurance and organized relief. Several explanations are advanced by Professor Henderson:

"The railroad companies in the United States have made thus far the most important contribution to the promotion of industrial insurance. They are under the control of men who have large views and highest ability. Mr. Bryce says of these men: 'These railroad kings are among the greatest men, perhaps I may say the greatest men, in America.' The long life of these corporations is also favorable to large and permanent schemes of betterment, and if we add

the enormous resources of the companies, we may account for their leadership in the field."

It would seem, however, that other, more businesslike and material reasons were also contributing to this growth besides the greatness of the American railroad men, which can scarcely be claimed to have directed its efforts primarily towards the welfare of the men employed. And such an explanation may readily be found in the special railroad hazard,—as the special hazard has also caused a larger number of establishment funds to be organized in the American mining industry. Not only does a special hazard create a greater need for insurance and relief, but it makes a relief fund a greater necessity as a method of prevention of liability suits. In fact, it has been held in several states that the acceptance of relief from a fund to which the employer contributed was a material consideration which made the agreement not to sue binding, while otherwise such an agreement would be non-enforcible. As a matter of fact, eight funds, managed jointly, contain in their applications for membership or in their constitutions a provision releasing the funds from all claims for benefits, whenever a suit for damages is brought against the employing company. In these funds the companies make contributions as follows: One company duplicates contributions; one contributes 20% as much as the employees; three, 15%; one, 10%; one, 2%, and one less than 1%.

Though a good deal has been said and written of these American railway funds, the conclusion must not be drawn therefrom that the entire army of railroad employees, or even a large part of them, are protected by such funds. The investigation of the U. S. Bureau of Labor made a very careful canvass of these funds, and only fifty relief funds connected with thirty-seven railroad systems were discovered.

Moreover, these 50 funds were of two classes—36 insurance funds, to which the employees contributed all or a part of the revenue, and 14 pension systems, maintained entirely by the employing companies. These latter limit their activity entirely to the problem of superannuation. Of the 36 insurance funds, almost all (31) paid temporary disability, i.e., accident and sickness benefits. Out of approximately 500,000 employees, 300,000 were members of the funds in 1907. As the total number of railroad employees at the time was nearly

1,700,000, less than 20% of them were protected in case of sickness by these funds—while in most European countries compulsory sick-insurance for railroad employees exists.

The railroad funds are all of comparatively recent origin. Only seven were in existence before 1880, thirteen were established during 1880-1890, eight between 1890-1900, and eight in 1900-1907. Within recent years, notice of the organization of similar funds has reached the press, but these institutions are primarily concerned with life and accident insurance.

The total amount paid out by these fifty funds during one year amounted to over $5,000,000, out of which a little over $2,000,000 was for temporary disability benefits. The pension and sick-benefit funds of the Pennsylvania System are by far the largest of all the funds. They alone granted benefits to the amount of over $2,600,000, of which $1,250,000 was for temporary disability. The membership of these two relief systems numbered 135,000. The next in importance were the Baltimore and Ohio funds, with a membership of over 50,000; the Chicago, Burlington, and Quincy, with 25,000 members; the Philadelphia and Reading Relief System, with a membership of 20,000; and the Atlantic Coast Line R. R. Fund, with a membership of 12,500. These five railroads, therefore, claimed nearly 88% of the entire membership, and a similar proportion of all benefits (over 93% of the disability benefits).

This list of five railroads practically exhausts all that was accomplished in the way of sickness insurance for the whole army of railway employees. The following clause from the regulations of one of the funds is significant, to say the least, and deserves to be reproduced here in full:

"The acceptance by the members of benefits for injury shall operate as a release and satisfaction of all claims against the company and all other companies associated therewith as aforesaid, for damages arising from or growing out of such injury; and further in the event of the death of a member, no part of the death benefit or unpaid disability benefit shall be due or payable unless and until good and sufficient release shall be delivered to the superintendent of all claims against the relief department, as well as against the company and all other companies associated therewith as aforesaid, arising from or growing out of the death of the member, said release having been duly executed by all who might legally assert such claims; and further, if any suit shall be brought against the company, or any other company associated therewith

as aforesaid, for damages ensuing from or growing out of injury or death occurring to a member, the benefits otherwise payable, and all the obligations of the relief department, and of the company created by the membership of such member in the relief fund, shall thereupon be forfeited without any declaration or other act by the relief department of the company; but the superintendent may, in his discretion, waive such forfeiture, upon condition that all pending suits shall first be dismissed."

These conditions are rather interesting because the total contributions of the railroads do not exceed $400,000 out of a total revenue of $4,000,000, or about 10%. In the case of the Baltimore and Ohio relief department, of a total income of nearly $1,000,000 and dues of $860,000, the company contributed $16,550, or about 1 1-2%.

As these relief funds serve the double purpose of being also auxiliaries of the personal injury claim department, very little of these contributions should really be charged to social welfare work—most of it is a " sound business expenditure."

There are many other interesting features concerning the activity of these railroad funds. That the 14 funds granting pensions are managed by the employers exclusively goes without saying. Of the 36 relief funds, 14 are administered jointly by the employers and employees. In fact, the practical administration in these cases is in the hands of the railroad company, and the influence of the membership slight. Only in the smaller funds is the democratic principle recognized.

As the wages of railroad employees are comparatively high, the dues and the benefits are much higher than in other funds we have studied. In very few instances do the dues fall below $6 per year, and in some cases, for the higher grades of employees, they rise to $60. The benefits for temporary disability in a good many funds depend upon the salary and dues, and seldom fall below $5 or $6, rising to $10, $15, and even $17.50.

The existence of a vast variety of workingmen's institutions for sick-insurance in the United States was established in the preceding pages. Nevertheless, no exaggerated idea must be formed of their importance or number. After all, how much do all these institutions amount to? Counting in the national unions, the local unions, the local and national workingmen's independent funds, the establishment funds, and the railroad

funds—how big a part of the working class do they serve, and how far do they meet the existing need? While an accurate census is lacking, an estimate may be ventured on the basis of the data here gathered.

SICKNESS INSURANCE FOR WAGE-WORKERS IN THE UNITED STATES, 1907

Form of organization	No. of funds	No. of workmen covered (approximately)	Amount spent on temporary disability
National unions	19	375,000	$ 830,000
Local unions	346	100,000	200,000
Industrial benefit funds	35	55,000	250,000
Establishment funds	374	300,000	1,200,000
Railroad funds	31	300,000	2,000,000
Approximate totals	805	1,130,000	$4,480,000

These figures are not staggering if they are compared either with the 15,000,000 insured in Germany, nearly 25,000 funds, and expenditures of $70,000,000 for sick-benefits. They are not likely to look very hopeful when compared with the nearly 20,000,000 persons engaged in manufactures, mechanical pursuits, trade and transportation, and personal service. They may even appear ridiculously small when placed side by side with the estimated loss of $650,000,000 caused to the American workers through sickness, according to the "Committee of Experts on Industrial Diseases." And perhaps the saddest feature of it all is that as yet organized society in the United States has done nothing even to develop this important matter, nothing to encourage it, nothing to at least protect and regulate it, and save it from ruin as a result of inexperience and ignorance. In all the light of the growth of the social conscience, we preached either self-help and dime-saving to the needy class, or the necessity of bulky contributions for hospitals and organized charity to the fortunate few, but never considered the enormous importance of protecting the benefit funds of the unions from lawsuits, or protecting the rights of members of establishment funds, or granting some special encouragement to the other forms of industrial benefit organizations.

The institutions and organizations described do not embrace all of the sickness insurance which has grown up in this

country. A workingman may, and often does, carry his sickness insurance as well as other forms of insurance in other ways than through special workmen's organizations, most important of which are the so-called fraternal orders.

Though the American fraternal orders have a membership of nearly 8,000,000, and, therefore, enter into the life of 25% or 30% of all our families, they have not yet been studied with any such degree of thoroughness as have, for instance, the British friendly societies. It is not even possible to tell accurately to what classes of population these fraternal members belong. But common observation would divide them about equally between wage-workers and the lower middle class. Professor Henderson quotes the results of an investigation made by the Connecticut Bureau of Labor for the purpose of throwing some light on the subject, and though this investigation is over twenty years old, yet the results may be quoted here for what they are worth.

COMPOSITION OF MEMBERS OF FRATERNAL ORDERS

Occupation	In societies with branches Per cent.	In societies without branches Per cent.
In business	21.16	40.29
In professions	5.33	14.74
Well paid mechanics	38.65	27.37
Lower paid mechanics	20.28	6.35
Clerks	11.20	11.25
Farmers	.66	——
Housewives	2.72	——
	100.00	100.00

This would indicate that, in societies with branches, nearly 60% were workmen, and in societies without branches about one-third. No reason for this remarkable difference between the two types of organization is apparent, and perhaps 50% is a fair estimate for the proportion of wage-earners.

In so far as fraternal orders have been discussed in economic literature, it was mainly as life insurance organizations, and that undoubtedly is the largest part of their work. It is characteristic of the narrow interpretation of the term "insurance" in this country until recent years, that a distinct line was drawn between the insurance features (meaning life in-

surance), and the benefit or relief features (meaning sickness, accident, and invalidity insurance). The exact amount of sickness insurance accomplished by the fraternal orders cannot be stated. The "Statistics of Fraternal Societies," an annual publication of the *Fraternal Monitor,* conveys the information, probably intentionally coached in a form calculated to stagger the average imagination, that fourteen societies granting sick-insurance have paid out in sick-benefits since their formation, and up to 1911, no less a sum than $435,599,301. But it is hard to tell just what this means if translated into annual expenditures, and a comparison of this statement in a series of issues of that publication, leaves one in a somewhat doubtful frame of mind in regard to the accuracy of the figures.

More trustworthy are the data gathered annually by the *Insurance Year Book,* which combine fraternal as well as other mutual sick-benefit associations. They show an unmistakable growth in popularity of sick-insurance on a mutual scale.

	1901	1905	1910
Number of mutual sick-benefit associations	58	100	119
Number of certificates written	207,044	478,990	651,776
Number of certificates in force at end of year	153,907	517,240	825,770
Total income	$2,091,273	$4,328,577	$5,873,638
Total payments	1,996,204	3,996,626	5,580,816
Total payments for claims	927,123	2,077,857	2,375,967

This is healthy growth, to be sure, which has increased the active membership more than thrice within ten years. But there is one very peculiar feature of these sick-insurance mutuals—the payments for claims do not even equal one-half of the total income or the total payments of these organizations. The expenditures for administration were not particularly excessive, but the fees of the physicians and the agents, i.e., mainly the expenses of extending the business, consumed almost as much as the actual payments on claims. This may partially explain the rapid growth in the number of persons carrying insurance, but surely limits the social usefulness of the institution for mutual sick-insurance.

Finally, mention must be made of the rapid growth of sick-

insurance commercially managed by the so-called casualty insurance companies, mainly as a side-line to the very popular accident insurance business. This form of sickness insurance is of very recent growth. Many early experiments to organize sickness insurance on a commercial basis failed for lack of necessary statistical data, but the recent phase dates back to about 1896. Its earliest form was an insurance against a few selected diseases, often as a " free " addition to the very profitable accident insurance policy. This was not satisfactory, for the necessary effort to distinguish between covered and not covered diseases made the settlement of claims very irritating, and while this form of limited insurance is still found, much more popular is insurance against all forms of disability from sickness. A very popular form is one which commands a premium of $60 for the least exposed occupations, and grants an accident insurance of $5,000 against death (with smaller amounts for serious injuries), with a $25 weekly indemnity for total disability, and half that amount for partial disability, and in addition, various benefits for operations, hospital treatment, and the like. Policies granting half of these benefits may be purchased for half the price.

The number of persons insured under this form is unknown, but judging by the growth of premium income, it has been steadily growing in popularity. Thus, for the four years 1899-1902, the premium income for health insurance by all casualties operating in the United States was a little over $1,000,000; for the one year 1905 it exceeded $2,500,000, and in 1911 amounted to $7,100,000.

Only a small proportion of this insurance is carried by wage-workers. To begin with, the high premium usually paid annually, or at least quarterly, is not adaptable to the need of the working class. Moreover, the rates are very much higher for the mechanical workers. Curiously enough, while there is no adjustment of premiums to age (which in sickness insurance is a factor of tremendous importance), there is a very rigid adjustment to occupation. Moreover, the social efficiency of this form of insurance, as measured by proportion of payments on claims to the premium income, is not very high. For the twelve years 1899-1910, $31,199,551 was received in premiums, and $12,566,457 paid in claims, or only slightly above 40%. Still, this development of sickness insurance, though undoubt-

edly stimulated largely by the energy of the ubiquitous insurance agent, may serve as eloquent evidence that, even in the middle classes, the advantages of loss distribution, the advantages of a social guarantee in case of sickness are now widely appreciated.

To meet the demands of wage-workers and persons of smaller incomes generally, the so-called industrial accident and health insurance business has developed within recent years, based upon small monthly (and sometimes quarterly) premiums. Perhaps the most popular policy selling is the one with a uniform premium of $1.00, to which the benefits are adjusted according to the occupational classes, of which nine or ten are usually recognized. For this amount of $12 per annum, of which perhaps two-thirds may be charged to the health part of the insurance, is granted a life indemnity of from $600 down to $100 (in case of accidental death only), and a monthly benefit of $60 down to $20 in case of disability from accident or disease.

Of the total amount of accident and health insurance, which amounted in 1911 to about $35,000,000, not more than 20%, or $7,000,000, was written on this industrial plan among wage-workers, and of the total amount of health insurance written ($7,100,000) perhaps some $1,500,000, which would represent some 200,000 insured workers, the majority of whom receive, in case of sickness, a monthly benefit of $20 to $30 only. The loss ratio on this form of sickness insurance is extremely low, in many companies not over 35%, and in some only 30%, i.e., only about one-third of the premiums return in the form of benefits to the insured. Besides, a comprehensive investigation of this industrial accident and health insurance by various state insurance departments, a few years ago, has demonstrated a deplorable disregard of the interests of the insured and numerous frauds in connection with the settlement of claims, so that the social utility of the entire industrial health insurance is very doubtful indeed.[4]

To sum up this dry but necessary account of many tendencies towards the development of a sickness insurance system in this country:

[4] See Proceedings of the National Convention of Insurance Commissioners, 1911, Vol. II, for the very sensational results of this investigation.

1. The great variety and rapidly increasing number of institutions for the special purpose of sick-insurance, as well as the extension into this field of insurance substitutions primarily organized for life insurance, clearly demonstrates not only the need for this form of protection, but also the appreciation of this need by the working class and the lower middle class.

2. The preponderance of mutual organizations in this field points the way to the necessity of making this insurance both cheap and democratic.

3. Nevertheless, only a very small proportion of those who are in need of it are as yet provided with sick-insurance, and this is what might be termed the aristocracy of the working class.

4. With very few exceptions the entire burden of the cost of sick-insurance falls upon the shoulders of the wage-workers, which is neither ethically just nor socially expedient.

5. Organized society, which influences economic conditions in so many different ways, has as yet done nothing to provide the wage-worker with sick-insurance, or even to help him to provide it for himself in the most efficient way. And, finally,

6. As sickness is in reality a much graver economic problem even than industrial accidents, the next step in the development of social legislation in the United States, after the accident compensation problem has been at least partially disposed of, must be a system of sickness insurance.

It is to be hoped that once the first step towards social insurance has been taken, America will not for long remain hopelessly behind Europe in other branches of social insurance. The British National Insurance Law has done great service to the American people, in that it has at last opened its eyes to a subject which has appeared like a great mystery before. The progressive social worker must learn to understand that a sickness insurance law, even in one state, can do more to eradicate poverty, and is, therefore, a greater social gain, than a dozen organizations for scientific philanthropy with their investigations, their sermons on thrift, and their constant feverish hunt for liberal contributions. And still more important is it that the wage-worker learns to see that a victory won in the field of social legislation is a permanent gain in the economic position of himself and his whole class; that, no

matter how energetic he and his more fortunate coworkers may be in organizing an efficient method for industrial aid, there are millions of workers weaker economically, weaker in organizing power and experience, who cannot be equally successful, and that their failure not only injures them, but depresses the whole working-class standard. In short, the wage-workers must learn to see that they have a right to force at least part of the cost and waste of sickness back upon the industry and society at large, and they can do it only when they demand that the state use its power and authority to help them, indirectly at least, with as much vigor as it has come to the assistance of the business interests, manufactures, agriculture, commerce, and transportation.

PART IV

INSURANCE AGAINST OLD AGE, INVALIDITY, AND DEATH

CHAPTER XIX

THE OLD MAN'S PROBLEM IN MODERN INDUSTRY

THE great discoveries of Metchnikoff have given the human race a new hope, a new conception of what the normal span of life ought to be. But while these discoveries have not yet reached the stage of practical application, discoveries equally remarkable in their time, in the domain of medicine and personal and public hygiene, have already accomplished a great deal in decreasing mortality and prolonging normal human life. Within the last century the popular concept of the normal milestones between youth, maturity, and old age has been very much affected. Some seventy years ago, Balzac accomplished a revolution in literature because he dared to bring forth the romance of a woman of thirty—of the Balsacian age, already *passée*—while now we quite earnestly speak of a young woman of forty, and of a man of sixty as being in the prime of life. Commerce, the professions, and politics—especially politics—have furnished numerous examples of the admirable vigor and useful activity of men past sixty and even seventy. We look askance at the man who dares to aspire to the highest and most trying political office of the land before having reached his fiftieth birthday. And one need only remember the storm of very serious indignation which was raised by the humorous reference of Professor Osler to the comparative uselessness of men over sixty—to appreciate the beneficent results of a century of scientific achievements, as they have influenced humanity towards a wiser, saner, more moderate mode of living, both individually and socially.

Unfortunately, these blessings of civilization, like most other blessings for that matter, have not benefited all classes of society—not in the same degree, anyway. For side by side with the achievements of old age in arts, literature, business, professions, science, and statesmanship, modern civilization on its industrial side has created the very grave problem of super-

annuation—the problem of the jobless, helpless, incomeless, and propertyless old man of fifty.

Individual aged paupers there always were in organized society, or at least for thousands of years back. We find frequent references to them in Scriptures,—but they were primarily individual problems and not social. Presumably individual methods of relief, private or church charity, served as a sufficient remedy. But the socio-economic problem of the old man or woman, as we know it to-day, is specifically a problem of modern society, a result of the rapid industrialization of production within the last century. It is a problem radically different from that of accidents, in that it is not an abnormal occurrence, but a normal stage of human life. It is different from sickness in that improvement in hygiene seems to aggravate it rather than relieve it. It may possibly be compared to the problem of childhood, except that modern industrial life has preserved the obligations of parents to children, possibly because it needs the children, but has destroyed the obligations of children to superannuated parents, because there is no economic need of the superannuated parent.

What is the modern problem of old age? It is the problem of poverty caused by inability to find employment because the productive power has waned—and waned not temporarily, but forever. Evidently, in this form, the problem could not exist until the majority of mankind became dependent upon a wage-contract for their means of existence. It may be said that the problem has always existed, because there always were old men and women. In a primitive agricultural community, however, where the patriarchal family prevails, there can be no acute old-age problem. The authority of the patriarch is paramount and lasts longer than his productive powers. When no longer able to lead a plow, he is still looked up to for advice. The family is one large consumption unit, its members all prosper or starve together.

There are several reasons why the rapid industrial progress of our times constantly accentuates it. The first one is the very result of those beneficent effects of civilization, of general improvement in hygiene and sanitation, which have resulted in a material prolongation of the average human life. While it has not affected the workman in the same degree as the higher classes, nevertheless it did affect him too. And in

the measure in which it has prolonged the average duration of life, it has also prolonged the average duration of old age.

There is a good deal of misinformation concerning this point, especially among many workmen. It is not uncommon to hear the statement that as the average span of human life is not over thirty or thirty-five years, the problem of old age concerns very few workmen only. But the average duration of life proves absolutely nothing, and its extreme shortness is due primarily to a high infant mortality. As a matter of fact, the probability of the average human being reaching old age, whether we define it as beginning at seventy or at sixty, is quite good. Even according to the American Experience Table of Mortality of 100 persons at the age of twenty, 53 will reach the age of sixty-five, and 42 the age of seventy, at which time the average expectation of life will be eight and a half years. If we take 100 persons at the age of thirty, 53 will survive till sixty-five, and 48 till seventy. To make the actuarial statements intelligible to the lay reader, the same facts may be stated as follows:

Of all men who have reached the age of thirty, nearly three-fifths may expect to reach the age of sixty-five, at which time they may expect to have eleven more years of old age; of the same men at thirty, nearly one-half survive at seventy-five, and still hope for eight and one-half years on an average. But, as a matter of fact, the American Experience Table of Mortality was compiled half a century ago, when the primitive conditions of life in the United States caused a high mortality rate and a short expectancy of life. Since then the mortality rate has fallen in the United States as well as in all civilized countries, and the expectancy of life has risen.

It is true that, as has been established by statistics of industrial insurance companies, which extend their operations primarily over persons of the poorer classes, their mortality rate is considerably higher and their longevity correspondingly lower, but among them, too, some improvement has taken place. Even the American fraternal orders, whose membership at least up to one-half consists of the wage-working class, show an experience very much more favorable than that of the American Table just quoted. Ten to fifteen years of life (over sixty-five) is, therefore, a certainty to more than one-half of the wage-workers.

Second, the economic conditions of the wage-contract accentuate the economic disability of old age. Under normal physiological conditions, old age, unless preceded by a definite chronic ailment, should lead to a gradual failing of the productive powers. As the medieval independent worker became old, he worked less and produced less, but he went on working as long as he could produce something. In an agricultural community, the usefulness of an old man or woman does not cease until actual senility is established, and actual senility is a comparatively rare phenomenon. But under a wage-system, the condition is altogether different.

The economic disability of old age may arise suddenly while the aging worker is still fit for productive activity, but finds himself below the minimum level of productivity set by the employer.

Thus the economic activity, and, therefore, the income, stops, not because productive powers have altogether failed, but because they have begun to decline, and not an accurate physiological test, but the employer's opinion, has the decisive force. Thus, economic old age in the vast majority of cases arrives very much earlier than physiologic old age, as a result of the wage-system.

There is a third very important factor which works in conjunction with the first two to lengthen the period of old age. We saw how under improved sanitary conditions it is lengthened at the distal end. But under the constantly growing intensity of labor it is also growing at the proximal end. Even physiologically speaking, old age actually arrives earlier than it did, at least in the case of the workingman. Perhaps there is no better illustration of the glaring economic contrasts of modern social life than the difference of the effect of old age upon the propertied classes and the wage-workers. The constant speeding up of the industrial processes, the almost inhuman intensity of effort which grows even more than in direct proportion to the shortening of the workers' hours, the work at great depths in mines, or dizzy heights in building operations, the ever-present danger of bodily injury, all these facts have their effects. We have scarcely begun to study the problem of pathological effects of fatigue, but that it must result in producing premature old age is quite evident. The result is the pathetic problem of the man at fifty, of which we hear

so much at frequent intervals, and which threatens to become the problem of the man at forty-five. Modern tendencies in industry all work together to aggravate this situation.

Industrial efficiency, scientific management, Taylor system —these are all forces—as at present utilized—to use up human energy at greater speed, within a shorter time, even though at a higher cost if necessary, and to dispense with it immediately its high degree of efficiency begins to decline. The rapid increase in the investment of fixed capital, the consequent increase in fixed and overhead charges make such scientific management highly desirable, if not necessary. One might say that this is the defense of machine production to the shortening of hours and prohibition of night work, enforced by the growth of organized labor, and which—the old economists were anxiously teaching—must ruin machine industry by forcing millions of investments to remain idle fourteen or sixteen hours out of twenty-four.

It is not an easy matter to give a statistical corroboration of these principles, but a few suggestive figures from American statistics may be quoted. In 1880 the number of persons sixty-five years and older constituted 3.5%; in 1890, 3.9%; in 1900, 4.2%, and in 1910, 4.3%, showing a constant increase in the proportion of older persons. To make the data comparable with the occupational statistics, let us take only males above fifteen years of age. The number of persons over sixty-five years old per 1,000 men over fifteen has increased from fifty-four in 1880, to sixty in 1890, and sixty-three in 1910. According to occupational statistics, however, among males gainfully employed and over fifteen years of age, persons of sixty-five years and over constituted only 50 per 1,000 in 1890 and 47 per 1,000 in 1900.[1] Thus, the proportion of old men in the country was increasing, while the proportion of old men in gainful occupations was declining.

Perhaps there is a still better way of putting the same facts. In 1890, of all men over sixty-five years of age 73.8% were gainfully employed; in 1900, or ten years later, only 68.4%. This is a difference of 5.4%, and the total number of men over sixty-five in 1900 being 1,555,000, the inevitable conclusion is that the economic progress of ten years meant an additional

[1] For 1910, the data concerning occupation are unfortunately not yet available at this writing.

100,000 or so men thrown out of employment. Even these figures do not tell the whole story. In agriculture age is not such a serious obstacle. In professions even less so. As a result we find that in agriculture 6.1% of the men employed are over sixty-five years old, in the professions, 5.5%, but in manufacturing and mechanical pursuits only 3.5%, and in trade and transportation only 3%. In so far as the older men are not altogether thrown out of the industrial field, they are shifted to unskilled occupations. Among unskilled laborers the percentage of males over sixty-five years is 12%, and among railroad employees only 5%.

It is very important for the proper understanding of the old-age problem, to grasp the full meaning of what one might call "the iron law" of the increase of old-age dependency under a system of wage-labor, because of the widely prevalent tendency to look for explanations either in exceptional misfortune or in psychological or ethical failings. In a very recent work on *Old Age Dependency in the United States*, the author,[2] discussing the causes leading to old-age dependency, says:

"After the age of sixty has been reached, the transition from non-dependence to dependence is an easy stage—property gone, friends passed away or removed, relatives become few, ambition collapsed, only a few short years left to live, with death a final and welcome end to it all—such conclusions inevitably sweep the wage-earner from the class of hopeful independent citizens into that of the helpless poor."

All of which is undoubtedly true. But this only scratches the causes of old-age distress on the surface: at least as far as the wage-earner is concerned, what constitutes the crucial cause is not so much the loss of relatives, friends, ambition, or property, as the loss of the *job* and the inability to find another because of the failing physical powers.

Nevertheless, the factors so eloquently enumerated by Mr. Squier do play an important part in contributing to old-age distress. They represent the dangers which stare in the face a large proportion of the middle class. If, as industrial statistics conclusively show, the wage-working class is rapidly

[2] See Welling Squier, *Old Age Dependency in the United States*, pp. 28-29.

growing in numbers and proportions in all industrial countries, this can take place only at the expense of the middle class—especially the lower middle class. Thousands and hundreds of thousands of this class have the struggle of their lives to hold on to that class, and while holding on, to accumulate enough for old age. Some succeed well, others not at all, and even among those who have been successful to a degree, an unexpected or unprovided for misfortune may send them tumbling down the social ladder. If it happens in youth or middle age it may mean only an additional recruit in the army of wage-workers, who sometimes may even succeed in climbing back. But at an advanced age it may spell ruin and pauperism. What student of social conditions has not come across these derelicts of humanity? Every year there are from ten to fifteen thousand failures in the United States important enough to be recorded statistically, and probably many times as many very small business collapses which cannot even be dignified by the name of failures, because there was no credit to begin with. It is for this phase of the subject that the data of the Massachusetts Commission concerning the amount of property held at some time by the poor is so valuable. We are told that out of 12,322 poor persons, 4,677, or 37.9%, claimed to have had some property; that out of these erstwhile property-owners 23.3% had less than $500, 22.8% from $500 to $1,000, and 53.9% over $1,000; that out of these 4,677 property-owners, 2,624, or 56.1%, had sustained losses:

Through extra expense for sickness and emergencies	60.1
Through intemperance and extravagance	6.2
Through business failures and bad investments	25.4
Through fraud	5.1
Through fire	3.2

Of course, such data can have but a very slight degree of accuracy, as one will readily perceive, but they are interesting in the clear indication they give of the presence of the middle-class element among the aged poor. No loss of property will transform the wage-worker into a pauper as long as he is in a physical condition to command a *job,* and a job is to be had.

More important, therefore, than the financial or sentimental misfortunes, are the palpable physical disabilities from which the aged poor are suffering. Of the aged poor studied, the

Commission found 22.9% to be able-bodied—yet poor nevertheless; 61.6% were wholly incapacitated, and 15.5% partially so.

Defective physical conditions were varied and many—26.9% were aged and infirm, 32.4% suffered from chronic diseases, 23.1% were rheumatic (and who has any use for a rheumatic laborer?), and 13.3% were crippled, maimed, and deformed. Others were feeble-minded, epileptic, blind, or deaf and dumb, but such rarer conditions are not typical. That nearly one-seventh were either crippled or maimed throws a rather interesting light upon the results of the old system of employer's liability which contributes its share to old-age destitution.

A chronic disease, a permanent injury are doubly destructive of earning capacity when combined with old age. But in thousands of cases they are of themselves sufficient to produce loss of earnings and destitution. It is for this reason that there is a close relationship between the problems of old age and invalidity, which forced many countries to handle these two problems through a combined organization. For, in one sense, invalidity may often be defined as premature old age. Officially, old age begins at seventy, under some laws dealing with the problem; in other countries, at sixty-five or at sixty; and in a few special organizations for old-age provision, under certain conditions, even at an earlier age. But all these definite limitations between middle and old age are as unreliable as the calendar limits for the coming of spring and summer on a certain date. As economic old age may come long before physiologic old age, so invalidity is but a form of premature physiological old age.

How extensive is the need for some definite system of old-age provision? An accurate answer for the United States presents many difficulties. Old age in itself is an elusive concept, but dependent old age is still more difficult to define. Only after various systems of old-age relief were introduced, has the number of persons availing themselves of it been determined, thus giving an indication of old-age need. After all, the situation is not very much different from that found in regard to the other branches of social insurance—that a careful estimate was not possible until the insurance system was introduced; and accident and sickness statistics are best where the insurance system is most perfect.

When the statistics of the countries are studied which have introduced a system of old-age relief, the number applying for it is simply appalling. Anticipating our discussion of old-age pensions, we may briefly state that the British act of 1908 grants a small weekly pension to every person over seventy who is not in possession of an income of $105 per annum. At the time the law passed, it was expected that 386,000 persons would be entitled to this pension. During the first year of the application of the act the number of applicants rose to 667,000, so that in a population of 44,000,000, 9 per 1,000 were over seventy years old and had an income of less than $2 per week; and this in addition to some 414,000 paupers in poorhouses and other public institutions. As the total number of persons over seventy years was approximately 1,250,000, this means that nearly 1,080,000, or 86%, of the men and women of that age needed relief. The number of men and women of that age-group with an income sufficient to make a pension unnecessary was estimated originally at 393,000. It evidently proved to be just about one-half of that.

It is admitted that pauperism in England, and especially old-age pauperism, exists (or perhaps it should be said "existed"?) on a larger scale than in some other industrial countries, and particularly in the United States. But no one expected France to be the country of pauperism. France with its frugality, thrift, love of saving and investments, France with its few children, and a shrinking population which has already stimulated a current of immigration from Italy, Spain, Russia. Nevertheless, when pensions of $2 to $4 a month were granted in 1907 to aged persons with an income of less than $6 per month—over half a million persons qualified for this pension. As the number of persons seventy years or over in a population of 40,000,000 could not be much more than 1,200,000, that meant about one-half of that age-group. In Denmark, that prosperous little country, whose achievements in democracy, in agriculture, in mutual aid, and co-operation have been the wonder of the world, 35% of the population over seventy years were found to be in possession of an income of less than $26 a year and, therefore, entitled to a pension.

This is only true of Europe, one might say. But in the pros-

perous Australasian colonies, in New Zealand, Victoria, New South Wales, etc., the granting of an old-age pension immediately disclosed a very large number of aged poor varying from 25% to 50% of the total number of persons over sixty-five years of age.

What is the situation in the United States? Frankly, no one knows. As this is the "richest country in the world," problems of poverty are assumed to be less pressing. The Twelfth Census tells us that there were, in 1910, 6,216,674 persons over the age of sixty, distributed as follows:

60—64	2,267,150
65—69	1,679,503
70—74	1,113,728
75—79	667,302
80—84	321,754
85—89	122,818
90—94	33,473
95—99	7,391
100 and over	3,555
	6,216,674

What proportion of this enormous army suffers from economic distribution?

Various estimates have been made. The first socialist congressman, Victor L. Berger, in a speech before the House, estimated it at 2,675,000. He included, however, persons over sixty; and all those who do not possess revenue of $10 per week. Moreover, no basis for the estimate was given. Mr. Lee Welling Squier begins his recent book, specially devoted to this problem, with the statement that "there are approximately 1,250,000 former wage-earners who have reached the age of sixty-five years in want and are now supported by charity, public or private."[3]

The estimate is based upon the investigation of old-age pauperism made in Massachusetts by the special "commission on old-age pensions" of that state, and may be accepted as fairly reasonable in absence of better data, though the conditions in one state may not be sufficiently characteristic to be applied to the remaining forty-seven states.

[3] *Old Age Dependency in the United States*, p. 3.

DEPENDENT POPULATION SIXTY-FIVE YEARS AND OVER

	In Massachusetts (determined by the Mass. Commission)	In the United States (estimated by Mr. L. W. Squier)
In correctional institutions	556	15,180
In insane asylums and hospitals	1,961	53,544
In almshouses	3,480	95,128
In benevolent homes	2,598	71,024
By public outdoor relief	3,075	83,996
By private outdoor relief	2,312	63,112
By United States pensions	27,230	744,188
	41,212	1,123,172

The statistical method by means of which the table was constructed is crude enough. Nevertheless, the statement appears rather conservative. There can be no doubt that the number of persons receiving private outdoor relief is largely underestimated. It is admittedly limited to relief granted by so-called organized charity and is not complete even as far as this aspect of charitable relief is concerned. The amount of private charity granted by the poor no less than by the rich, cannot be determined.

But there is a more important criticism to be offered of these figures in that they deal only with assisted old-age destitution. Because Massachusetts has a stronger sense of obligation toward the aged poor and builds more almshouses and benevolent homes than does a Southern state, it may appear that the latter, with the poor white trash and the poorer negro, has a smaller proportion of aged poor. Subtracting the enumerated 41,212 persons from the total number of persons sixty-five years or over, determined for Massachusetts at about 177,000, the commission arrives at 135,788, which it calls "non-dependent poor." The real question is: what proportion of these 135,788 is in need of some systematic relief or provision? Accepting Mr. Squier's estimate of 744,188 for the United States as approximately correct, the real question is what proportion of the remaining 3,000,000 persons, sixty-five years and over, is in that condition?

Why should their condition be a problem? it may be asked. These 3,000,000 are not receiving charitable relief and yet they

are not starving. That may be true. Death from starvation is not a very common occurrence in this country of plenty, though cases may happen more frequently than the newspapers report, and though premature death from chronic malnutrition may be much more frequent. But the purpose of a social policy in dealing with destitution is not only to substitute for private and public charity, is not only to prevent starvation, not only, in short, to prevent the extreme of pauperism, but also to cure or prevent poverty, to prevent semi-starvation, to raise conditions of life, standards of life for the victims as well as for the working class as a whole, by removing the depressing effect upon wages and the standard of living which a large contingent of pauperized or semi-pauperized or simply destitute individuals must necessarily exercise.

Most aged persons are not actually starving to death in the United States, even when not in receipt of organized public or private charitable relief. Neither were they presumably starving in Great Britain, France, or any country which was forced to institute old-age pension systems. After all, some of them hold on with grim desperation to an opportunity to earn a wage. Not many succeed, to be sure. To return to the United States statistics. There were in 1900 some 1,065,000 men sixty-five years or over engaged in gainful occupations, out of a total of 1,555,000 of that age. But of 1,065,000 men nearly one-half were farmers; and professional men, bankers, brokers, manufacturers, corporation officers, and mechants constituted another 15%, leaving only about one-third for wage-earners. The question is: how many of the 500,000 men over sixty-five years of age and not employed were being supported by charity or private aid; how many of the 1,400,000 women over sixty-five years of age had the comforts of their own homes, and how many were burdens to a workingman's family? And how many of the 500,000 or 600,000 wage-workers, sixty-five years or older, were earning enough for any approach to a physiological standard? Perhaps nothing short of an old-age pension system will bring forth exact answers to these questions.

This, then, is briefly the situation and the problem. What are the remedies? In absence of any systematic social method of dealing with the problem, three ways are open to the aged workman who is unable to find employment, or, when

employed, unable to earn the amount needed even for a modest living:

(1) Savings; (2) dependence upon children or relatives, and (3) finally, public charity.

It is not necessary to repeat the general arguments made in an earlier chapter as to the absence of a continuous surplus from which savings could be made, as well as to the depressing effects of the saving habit upon the standard of life. But we may point out, at this juncture, several reasons why the remedy of individual savings is even less applicable to the problem of old age than that of sickness or unemployment.

1. The amount necessary is evidently greater, for old age is not a brief transitory condition, such as sickness or unemployment may be. It would require a continuous saving for a great many years.

2. The amount necessary is uncertain. There is, after all, the even or more than even chance of early death before old age may be reached. And in addition, the wage-worker has no means at all to know how much he would have to save, nor whether his savings will prove sufficient.

3. It is the final emergency, which in the natural course of events must be preceded by all other emergencies of a workingman's existence. Inevitably the fund of savings would have to be used to meet all these emergencies.

4. The remoteness of the emergency would prevent necessary savings at a time when such savings would be easiest, that is, in earliest years.

5. To assume that under these conditions all workingmen could save sufficient to provide them against old age, would be to disregard all real conditions of the wage-worker's existence. Even in the most saving of our states, the average amounts held per depositor in the savings banks are ridiculously small as compared to the amount needed for a sufficient income at old age.

6. Finally, special saving for old age would only be possible through a persistent, systematic, and obstinate disregard of the needs of the workingman's family, which would make the preaching of such special savings a decidedly immoral force.

That in thousands of cases children or relatives are forced to give help is a fact too well known to be disputed. But it

is a condition which usually exists, and is this sort of relief always possible, and if possible, desirable?

The strongest emphasis on this remedy for old-age destitution was recently made by the Massachusetts Commission on Old-Age Pensions. The secretary of the Commission, Professor F. Spencer Baldwin, has repeatedly emphasized the same argument in articles [4] and lectures. It was used as one of the main reasons against the desirability of an old-age pension system in the state of Massachusetts. In the report of the Commission it is stated in the following energetic language:

> "*The disintegrating effect on the family.* A non-contributory system would take away, in part, the filial obligation for the support of aged parents which is a main bond of family solidarity. It would strike at one of the forces that have created the self-supporting, self-respecting American family. The impairment of family solidarity is one of the most serious consequences to be apprehended." [5]

There is a good, old-fashioned, atavistic nobility of sentiment about this argument which will greatly please all good men and women except those who have to be supported by their children, and those who have to support their parents and also their own families on a wage-earner's budget. Scientifically the argument is certainly original, because it assumes the basis of the family to be the support of the older generation by the younger, while it has always been fairly well agreed upon by all students of society that the shoe was on the other foot, and that the care of the children by the parents was the proper function of family. It further seems to assume that we love our burdens, and that when parents cease being burdens the children cease loving them.

It assumes that the standing of a superannuated parent in a family is in an inverse proportion to the amount he is able to contribute to the family budget. It is an appeal to an ideal of a patriarchal family which has been dead for a century in every industrial country, and which really never had any strong hold upon American life. Of course, its inapplicability to the aged single man or the aged spinster aunt will be evident. For it certainly cannot be claimed that the support of all spinster aunts is also a fundamental principle

[4] *Quarterly Journal of Economics*, 1910.
[5] Report of the Massachusetts Commission, etc., p. 301.

of American family solidarity. Then, again, even married people may not have any children, or may have lost them. One must remember that New England was practising race suicide long before the term ever became popular. As a matter of fact, the very data gathered by the Commission show that of the inmates of almshouses and benevolent homes over 25% were single, and of those receiving outdoor relief 15%.

Furthermore, these data also show how these almshouses and homes do break down the solidarity of the American family. Of their inmates, 42% had adult children living at time of entrance, of the several thousand pensioners receiving outdoor relief 60% had adult children at the time of investigation, and 59% other near relatives. It is really surprising that the Commission did not recommend discontinuance of aid, both institutional and outdoor, because of the demoralizing effect upon said children and relatives.

However, the same table which conveys the information just quoted shows that while there were children in some 60%, only in 22% were they able to render aid; that this proportion was only some 10% in case of the inmates of homes, and about 50% in case of persons receiving outdoor relief. Moreover, it appears from another table that some 40% were receiving aid from children or relatives, as outdoor relief is seldom bountiful.

The long and short of this dependence upon family solidarity is just this:

1. That in a number of cases the aged poor are single individuals.
2. Or if married or widowed, have no children.
3. And if there are adult children or other relatives they are unable to render any aid, or, at any rate, sufficient aid.
4. Or if they are able, may not be willing to do so.

But, nevertheless, there must be thousands of families where children are either unable or unwilling to render aid to the superannuated workers, but do it, nevertheless, because of deep attachment to the parents, or family pride revolting against application to charity, and that the filial obligation is thus enforced by a neglectful society with the effect of frequently depressing a standard of life already too low, or forcing the old father or mother to eat the daily bread unwillingly yielded, in pain and humiliation, or—preventing the formation of a new

family by the dutiful son or daughter, because of the existing obligation towards the ruins of the old family. And these are the results of trying to apply an eighteenth century ideal to twentieth century conditions.

In view of the failure of individual methods, such as private savings, and semi-social methods, such as family solidarity, to meet the problem in a satisfactory way, the burden, or a very large share of it, is thrown upon the primitive social method of poor-relief, whether public, semi-public, or private, by individual alms-giving. That charity—private charity, church charity, and public poor-relief—has done a good deal since time immemorial almost no one will deny. But it is just as evident that this cannot be considered as a final settlement of the problem of destitution. Even if poor-relief were capable of assuming the care of all those who need it, it would be far from satisfactory. In Great Britain, where the aged pauper population is proportionately the greatest in the world, the number of people receiving poor-relief served more to accentuate the need for some systematic and satisfactory way, than to evidence that the problem had been solved. For it is admitted by modern society that alms-giving and alms-receiving are degrading and demoralizing, and that alms-giving should be restricted as far as possible. Modern philanthropy defends its right of existence on the plea that it works for the rehabilitation of the individual and family; and the situation of the superannuated worker is not such as to permit of rehabilitation.

Poor-relief, in all countries, carries with it a social stigma, and in most a definite loss of the prerogatives of free citizenship. Outdoor poor-relief meets the constant danger of malingery and exploitation, and institutional poor-relief is gruesome to every one except the senile, the invalid, or physically or mentally defective. The majority of people, even of the poorest class, have a wholesome antipathy to poor-relief, and institutional relief is considered the last hope. But even aside from these moral aspects of poor-relief, materially it has never been sufficient, either quantitatively, or qualitatively, to solve the problem of old age.

Moreover, poor-relief, as the only solution of the problem, is highly unsatisfactory, not only from humanitarian considerations, but also for "sound business reasons." By its

objectionable character to the wage-worker, it fails to furnish any incentive for voluntary retirement. The problem of old age has a direct bearing upon efficiency in production, and, therefore, upon the employer's profit. The reasons forcing the older men out of the field of production have already been mentioned. In practice, the elimination of the aging worker does not proceed as easily and smoothly as all that. Some employers are humane. And where the humane employer's place has been taken by a corporation " without a body to be kicked, without a soul to be damned," the actual hiring and firing may be done by foremen, privates of yesterday. It may be easy to establish rules of admission, but not so simple to enforce rules about wholesale discharge. Age may be lied about, and the decline in efficiency may only be noticeable to the nearest workman. Besides, there is the union to be reckoned with, and no establishment can preserve any degree of efficiency if it is in constant turmoil of labor conflicts. Thus, the need of some systematic provision for retirement adds additional weight to the importance of the old-age problem.

CHAPTER XX

VOLUNTARY PRIVATE OLD-AGE INSURANCE IN EUROPE

Until now we have carefully avoided all reference to actuarial theory, though discussing various problems of insurance, because actuarial facts are seldom intelligible and never interesting to the lay reader. But in dealing with the problem of old-age insurance, some understanding of the actuarial principles becomes imperative, because their neglect has led many useful and well-meant experiments to grief.

Old-age insurance differs from the other simpler branches in that it is based upon an accumulation of funds even more than distribution of losses, and is intimately connected with the foundations of actuarial science,—problems of death-rate, average longevity, and life expectancy. It will be necessary, therefore, to present the basic facts underlying old-age insurance, though this will be done in as elementary and non-technical language as possible. Let us assume the case of Richard Roe, an energetic, prosperous, and sensible young man of thirty, unmarried and without any financial obligations toward any one. Mr. Roe is earning a good income and wants to enjoy all the advantages thereof. Being an absolutely unattached individual, he does not aspire to leave a fortune at his death, nor does even life insurance appeal to him. If he is a careful man he probably carries an accident and health policy, which, in virtue of the principle of distribution of losses, will for a small consideration guarantee him his regular income, or nearly that, in case of accidental injury or sickness.

But there is another contingency—that of old age, and consequent disability—confronting Mr. Roe. Besides he may think that any man should retire at the age of seventy, sixty-five, or even sixty. Of course, Mr. Roe is not at all sure that this contingency will ever arise. He may die before arriving at the age of sixty, as thousands of people do. To save money for

old age may be just wasting good money—for which so much present certain enjoyment could be had. Besides, Mr. Roe, even though a good business man, really could not tell how much money he should have to save. He may live to sixty-five, seventy, or even ninety years of age—one out of every 100 men at thirty really does live to be ninety years old. An insurance policy for an annuity (or pension) to begin at the age of, let us say, sixty-five, and to last till death will easily solve all these vexatious problems for Mr. Roe. While everything is doubt and uncertainty for him, for the insurance company that undertakes the contract, everything on the contrary is order, law, and mathematics. Mr. Roe will not have to save too much. He will have to lay aside only as much as is necessary. In addition, there would be the advantage of enforced regular periodical savings, which Mr. Roe otherwise, in the pursuit of the good things of life, might forget to make. There would be the safety of funds which otherwise might be lost through bad investments, and also the advantage of compound interest, though that, of course, is applicable to individual savings as well.

How much, then, will Mr. Roe have to lay aside each year to assure himself an annuity, or pension, of $1,000 a year beginning with sixty-five? The insurance company will quote him a "premium." This premium will be "loaded," i.e., in its computation the administrative expenses of the company will be represented, and its profits, and the commission of the agent who may have had a hand in convincing him of the advantages of insurance over individual savings—but all this loading, in addition to the "pure premium" or actual cost, we need not consider. On the day Mr. Roe arrives at the age of sixty-five, the insurance company must pay him $1,000 and continue paying him $1,000 each year as long as he lives. It must have the money on hand from which to make these payments, otherwise it is insolvent, and it must know, approximately at least, how much money it will take.

The insurance company does know this, because of the existence of mortality tables. It cannot tell, even when Mr. Roe is sixty-five, and still less at the time of his insurance, when he is only thirty, how many payments, if any, it will have to make in his individual case. But it does know that at the age of sixty-five his expectancy of life is a little over eleven years;

it also knows that at the age of sixty-five, forty will die out of 1,000 within the year, 43 of the surviving within the next year, 47 of the then surviving within the third year, and so forth. So, assuming that there are 1,000 Roes surviving, it will have to make 1,000 payments the first year, 960 payments the second year, 917 during the third year, 532 payments in the tenth year, because only that many will survive at the age of seventy-five—only 26 payments in the twentieth year, as 976 Roes are supposed to have died by that time, and so on, until the ninety-sixth year, when, according to the American Experience Table, no more survive, the obligations will cease. All the means to make these payments must be on hand at the time the insurance premiums cease. But though 11,597 payments will have to be made in all on 1,000 surviving lives, it does not follow that $11,597,000 in cash must be laid aside by the insurance company, because the principle of compound interest comes into play. Assuming a 4 1-2% rate of interest—$1,000 which must be paid one year from now, is worth only $956.93, because that amount placed for a year at interest will produce exactly $1,000. And at the same rate of interest, a payment of $1,000 due in twenty years, is only worth $396.78, and so on. Thus, the present value of the 11,597 payments will be considerably less than $11,597,000—let us assume, $7,500,000; therefore, for each individual Mr. Roe, $7,500 will be necessary, and sufficient, though our particular Mr. Roe may live to be all the ninety-six years old and receive 32 payments at $1,000 each.

To make this accumulation of $7,500 possible in thirty-five years between thirty and sixty-five, Mr. Roe would have to make only comparatively small payments. Again the wonderful influence of compound interest comes into play. If the present value of $1,000 to be paid thirty-five years later (at 4 1-2%) is only $205.03, it also means that $100 deposited in 1912 will be worth $487.73 in 1947. And in addition, mortality comes to the rescue of the surviving Mr. Roe. In order that 1,000 Roes should survive at the age of sixty-five, 1,732 must insure at thirty, or inversely, if 1,000 insure, only 577 will survive. Some will make only one payment, and others many more, up to the full 35 without getting any pension, and those who survive profit thereby, in that their premium must be correspondingly smaller. In fact, Mr. Roe will have to pay

about $60 per annum in order to guarantee himself the pension of $1,000 from sixty-five years on. This much for the meager effect of the combined forces of a mortality table and the table of compound interest. The illustration shows all the mathematical advantages of old-age insurance, and Mr. Roe would be a fool not to take advantage of these forces, for he can easily dispense with the paltry amount of premium without much inconvenience.

It goes without saying, old-age insurance is a much more preferable way of providing for old age than individual savings. The middle classes in Europe do avail themselves of this form of voluntary insurance, especially in France, because of the popularity of early retirement. It is much less customary in the United States for several reasons—because the insurance companies compute their premiums at 3% or 3 1-2%, and a business man may reasonably expect to obtain 4%, or even 5%, without much risk; because active Americans do not look forward to early retirement; because, finally, insurance companies for good reasons do not try to popularize this form of insurance, which is just the opposite of life insurance. For, when actual mortality falls short of the expected mortality, the insuring company is a gainer thereby, having less to pay in death-benefits; but when the same thing occurs among annuity or pension receivers, then every additional year of life means an additional payment to the pensioner.

But, as far as the working class is concerned, it failed to avail itself of all these advantages. Many other more pressing needs always stared in the wage-worker's face, and the contingency of old age was always a remote contingency.

Instead the wage-workers endeavored to apply the principle of solidarity and of the distribution of loss in the only way that was known to them—through mutual aid, familiarized by its successful application to the much simpler problem of sickness insurance. The workingmen had their friendly societies or mutual aid societies or unions. Their function was never very strictly defined or limited. The transition was easy from benefits for temporary sickness to benefits for chronic invalidity, and further to old-age benefits. For, after all, where shall the strict line be drawn between a temporary and a permanent disease, between invalidity and old age? Especially since the initial spirit of friendly societies was

rather mutual charity than insurance? In this way, many of these organizations, especially in the second half of the nineteenth century, began to provide for old-age benefits. Perhaps the greatest development of this form of old-age provision may be found in France, where, in 1904, as many as 1,420 societies were granting such aid, of a total of over 18,000 mutual benefit societies, and the total number of persons pensioned because of old age or invalidity during one year reached nearly 15,000. In Great Britain, also, a few friendly societies provide old-age pensions, or superannuation benefits, though in the total activity of the friendly societies, they do not represent a very important share, and in addition some of the stronger British trade unions, famous for their development of benefit features, have, during the last twenty years, developed their old-age benefits. Thus, within the ten years 1898-1907, the total amount of old-age benefits paid out annually by one hundred large trade unions has increased from $773,000 to $1,595,000, i.e., more than doubled. But here, too, other benefits were considered more important, for instance, unemployment, sickness, and death, so that superannuation benefits did not claim more than 15% of the total amount spent. While the total membership of the British trade unions was estimated towards the close of the first decade at some 2,500,000, the 32 unions which were known to grant superannuation benefits had a membership of less than half a million. In Belgium, out of a total of 7,945 mutual benefit societies, 4,851 were providing old-age insurance, though as we shall presently see, in that country the condition was primarily due to another factor, that of a state subsidy which has greatly stimulated mutual old-age insurance. In Italy, out of 6,535 mutual aid societies, 1,616, or nearly 25%, were granting old-age pensions, and 1,049 single old-age benefits. Similar efforts were made by voluntary organizations of workmen in all civilized countries.

But notwithstanding the imposing figures, the total amount of old-age insurance, if it might be termed thus, carried by mutual benefit societies and trade unions is very limited. And quite necessarily so. The mutual benefit societies were gradually forced to grant old-age relief simply as an extension of the sickness-insurance system. It did not develop as a problem in scientific insurance with the necessary prepara-

tion of actuarial data. For with the possible exception of a few very large British friendly societies, most mutual benefit societies possessed neither the necessary knowledge nor the necessary means to conduct insurance on strict actuarial principles. Whether as a result of ignorance or of poverty, many of these voluntary societies in facing the problem of age-relief, pursued collectively the same course which the average workman is forced to pursue individually, i.e., they met the situation only as it arose, and raised only the funds necessary to meet the current obligations. That was true mutual aid, the younger generations granting aid to the older members, with the expectation of receiving their aid from the younger generations in their old age.

In other words, it might be said that the mutual benefit societies recognized the principle of distribution of losses, as they had become familiar in accident and sickness insurance, and thought it possible to meet the problem in this way. They were not aware of the grim necessity of accumulating funds in dealing with old-age relief.

But, as Mr. Roe's story may have shown already, there is a very essential difference between these lines of insurance. In accident and sick-insurance we are dealing with a certain constant average which must be provided against. A certain number of people get hurt or sick each year. But a certain number of persons will not get old each year if we start with a body of young men. On the contrary, they will get old only after a considerable period of time, and payments must be made for a long time before any pensions become due. If they do, they will eventually derive the advantage of their payments, of accrued interest and also of the mortality tables. But when an old-age benefit is decreed or a system of old-age benefits is instituted for immediate payments without any preliminary accumulation of funds to meet the cost, a definite burden is immediately placed upon those whose membership dues must meet the cost of the pension.

Not only that, but the moment an old-age benefit system is created, a very large financial obligation is created with it, the exact amount of which may be quite unknown to the members of the society. In the illustration of Mr. Roe we have used, we have assumed that he was to pay his premiums from thirty to sixty-five. If he is to begin his old-age insur-

ance five years later, his premium must be higher, for he has five less payments to make, and less time for these payments to draw compound interest. Yet in a mutual benefit society or a union, when a superannuation benefit system is decided upon, no distinction is made between members as to age. A fine feeling of fellowship usually is the decisive factor. But a feeling of fellowship cannot change the inexorable laws of arithmetic. The inevitable usually happens. The amount of contributions necessary to meet the cost of the old-age benefits will evidently depend upon the proportion of old men to the entire membership. As with every year the average age of the members increases, the proportion of old men naturally rises and the necessary contributions must rise with them, unless there is a sufficient influx of new membership to offset the change.

What is the inevitable result of such development? That as the burden of supporting the older members becomes heavier, it becomes more and more difficult to attract new young members to the fund, and many drop out, while the older members hold on because they are coming nearer to the pension, and a situation like this must lead, and very often has led, to the entire collapse of many friendly societies. It is for this reason that the granting of old-age pensions by friendly societies has, in many countries, been restricted or put under strict control or even prohibited.

And as these conditions have become generally known, the enthusiasm for superannuation benefits in friendly societies and trade unions has subsided.

The very modest development of these voluntary old-age insurance systems through the unaided efforts of the workmen themselves left the problem of superannuation and retirement unsolved. The pressure of this problem upon industry gave rise to another movement for private old-age insurance, that of establishment funds and industrial old-age pension funds. The characteristic feature of these is not only that they unite into one organization employees of one establishment or correlated establishments of one industry, but that they are often compulsory in practice as far as the employees of that establishment and industry are concerned, and that they, in the majority of cases receive a more or less substantial subsidy from the employer. They are also known often as private pen-

sion funds. They are features of large industrial establishments or corporations only. They deserve special emphasis because of the tendency of some students of social insurance to consider them the best solution of the old-age problem.

There are certain advantages in the old-age voluntary insurance of the establishment funds as compared with the mutual benefit societies, but also certain serious objections which must be carefully considered.

First among the advantages must be considered the financial assistance from the employer. Without some such assistance it is questionable whether one can speak of true establishment funds, and especially is this true of old-age funds. The great importance of such a subsidy in making old-age insurance feasible follows from general principles of social insurance. In practice, however, there are all possible degrees of financial assistance, when the establishment funds are purely voluntary organizations. Contributions from both sides are the rule in Europe, but their respective amounts may vary. In some places the employer's contribution is extremely small, and simply acts as a subterfuge for leaving in his hands the entire administration of the fund. In many funds contributions are equally made by both parties to the wage-contract, or again there may be a definite contribution from the employee, while the employer assumes the remaining cost of the pension promised. And in the other extreme, we may find pure service pensions, where the whole cost is met by the employer.

A second advantage is a higher rate of old-age benefits, not only because the employer's contributions make it possible, but because the scale of benefits must be fairly high to make voluntary retirement attractive, and rob the enforced retirement of its objectionable features. Unless these conditions obtain to some degree, the pension fund fails of its purpose, and the employer's contribution is wasted.

A third is security from financial ruin. Better actuarial preparation may be made by a large employer. As membership is often compulsory, there is less danger of failure because of lack of new blood or retirement of younger members as soon as the average age begins to rise. Moreover, in establishment funds the scale of benefits is usually the definite thing; the contributions are adjusted to them; and if they are not suffi-

cient, the employer is often forced to meet the deficit, either voluntarily or through pressure from the body of workingmen, who consider the proposed benefit a promise to be kept. As a matter of fact, that was the history of many establishment and industry funds: a constant increase of the share of the employer as the actuarial basis of the funds failed to work itself out.

Perhaps a few facts and figures from the experience of the railroad pension funds will illustrate the point. In France, voluntary railroad pension funds have existed since the fifties, and they usually began with a promise of a definite scale of pensions, and with equal and small contributions from the employer and employees. In all of them the contributions proved insufficient, and the deficit was met by increased contributions from the employers. Thus, in one railroad fund the employer's contribution was increased from 4% of the wages in 1869, to 5% in 1884, to 8% in 1892, and 12% in 1895, while the employees' contributions remain unchanged. In another railroad pension fund, the contributions of the railroad company in 1865 were 1%, in 1878 2%, in 1881 5 1-2%, in 1882 6 1-2%, in 1888 8 1-2%, and since 1891 15%, while the employees' contributions remained unchanged at 3%. The identical experience was observed in the railroad pension funds of Italy, Belgium, Russia, and other countries. Thus security, universality, comparative cheapness, and liberality of provision are the special advantages of these funds.

But there have been pointed out many objections and shortcomings of this solution of the old-age problem.

First, their limitations; they are not at all applicable to smaller establishments, and, after all, depend upon the good will of the employer. In France, where as much faith was put in these institutions as in this country at present, an investigation in 1895 showed that outside of railroads, mining, and governmental establishments, less than 5% of the industrial workers were provided for by these establishment funds. It is questionable whether a similar investigation in the United States at present, within the same industrial limits, i.e., outside of the railroads, would show even as high a percentage.

Second, their security is far from absolute, unless some efficient government control is provided. Employers who are

in charge of these funds may be dishonest, and even honest employers may fail. Moreover, the policy of the establishment may change, and the promised pension may not materialize. There is no legal guarantee that, for instance, the Pennsylvania R. R., one of the most liberal roads in pension matters, will continue to pay the pensions it pays to-day. It is entirely a matter of good will. Here is a special problem requiring a scientific remedy of state control for these establishment funds. As the pensions promised under certain conditions are in the nature of a contingent and deferred wage-payment, they are an assumed obligation, which must be met. In France, e.g., they are regulated by a special act passed fifteen years ago, which is planned to meet just this situation by state supervision and guarantee.

Third, their inapplicability in case of a shifting employment, and resulting interference with a healthy and normal mobility of labor. It is evidently unjust that in resignation or discharge, acquired rights be lost, and yet they must be based upon length of continuous service.

Fourth, the indirect incidence of the cost of these pensions upon the employees. This is somewhat abstractly stated, and may seem purely hypothetical. But in any case it is in perfect accord with both economic theory and practice. What is meant by "incidence" is just this: When pensions are given by some employers and not by others, they constitute an important difference in the financial conditions of the employment contract, and must be considered as a deferred wage. There will, therefore, be a tendency to discount them in the actual wage-scale. Either in entering the service or leaving it for better paid employment, account will be taken (inaccurately, to be sure) of the present value of the pension rights, so that the contribution of the employer will be largely nominal only.

But, perhaps, the greatest objection to them from the worker's point of view, at least in their present condition of legal irresponsibility, is the obstruction they place in the way of labor's struggle for improving the wage-contract. The knowledge of rights acquired under a pension system through many years of service, the fear of losing these rights through leaving the service, must materially reduce the old employee's powers of collective bargaining. In fact, it is often charged by the

workers that this is the primary object of the employers' pension funds, and though these statements may be exaggerated, it is not improbable that the entire cost of a pension scheme is but a cheap price for this assurance against the likelihood of strikes.

Of course, many of these drawbacks may be cured when establishment funds are merged into systems of industry funds, with right of free transfer from one fund to another fund in the same industry, and even certain provisions for leaving an industry prematurely. For, naturally, workers usually move within spheres of defined industry. Such guarantees can be created efficiently only by a legislative act. And perhaps the French act of 1909, creating a compulsory system of old-age pensions for railroads (most of which have had voluntary pension systems for fifty years), with a minimum scale of benefits, but leaving the actual working out of details little disturbed, is a fair illustration of this tendency.

CHAPTER XXI

SUBSIDIZED VOLUNTARY STATE INSURANCE AGAINST OLD AGE

The basic principle of social insurance—the necessity of active constructive interference by the state—is perhaps best illustrated in the case of Old-Age Insurance. The problem is simply too big to be handled by the wage-workers unaided, either individually or collectively. Hence, the very limited results of such co-operative efforts indicated in preceding pages. The necessity for national action has been admitted by the modern state for a long time. As a matter of priority it is interesting to note that the first timid steps in what we now call social insurance were made in several European countries in connection with old age.

From the days of the great French Revolution has the problem of old age and various methods of meeting it been discussed in France. Since the early fifties of the last century, at least in three states,—France, Belgium, and Italy,—some systematic efforts were made by the state to come to help.

Naturally enough, the first efforts were not very revolutionary. The whole concept of social insurance was as yet unborn. Compulsion was even unthought of. The limit of the possible state aid to old-age insurance was assumed to be regulation, encouragement, stimulation of voluntary insurance. Perhaps France was the state to open the era of direct state insurance by organizing, in 1850, its National Old-Age Insurance Institution. Belgium soon followed, and after a very much longer interval (in 1898) Italy, and, finally, Spain in 1908. Thus, curiously enough, state institutions for voluntary old-age insurance appear almost like a racial institution. They served for many years as the basis for a heated dispute concerning the comparative advantages of the Latin principle of free voluntary insurance and the Teutonic principle of compulsion.

As the French National Old-Age Pension Fund (La Caisse

Nationale des Retraites pour la Vieillesse) offers an experience of over sixty years of continuous operation, the principles of optional state old-age insurance may best be learned by means of a study of this institution.

The purposes of this as well as other similar institutions may be stated under the following four heads:

1. To encourage individual provision for old age by providing a safe institution.

2. To put old-age pension insurance upon sound actuarial principles.

3. To reduce the cost to its lowest possible level by eliminating all other elements besides that of pure premium.

4. To further aid and stimulate voluntary insurance by more direct subsidies.

The principle of " safety " is self-evident. It is the same principle which was argued so persistently in the United States recently in connection with demands for Postal Savings Banks. Not only was the increased safety of a government guarantee desirable in itself, as private savings banks were known to fail, but because, it was argued, the prestige of safety attaching to a government institution will influence the more ignorant to save, many of whom heretofore, in their ignorance, permitted this lack of confidence to interfere with their saving habits.

The principle of actuarial soundness was already referred to. It was shown that neither in the mutual benefit societies nor establishment funds was such actuarial soundness often present. Both benefits and contributions are determined in advance, according to some arbitrary rule: in case of benefits, a rule of a necessary minimum, and in case of contributions, a rule of permissible maximum, both of which are not actuarial principles by any means. If the relation does not work out, one of the following things may happen: (1) Insolvency; (2) decrease of benefits, or (3) increase of contributions. We have seen that in establishment funds, where some moral or legal responsibility of the employer exists or may be assumed, an increase of contributions usually occurs. But voluntary state insurance in the beginning was expected to be self-supporting and, therefore, a strict adherence to the actuarial principles was necessary. Therefore, no definite benefits were promised and no definite contributions exacted. The amount

of old-age pensions obtained depended upon the free will of the insured. It was evidently a modified form of individual saving—modified by the actuarial rules concerning annuities.

In the illustration of Mr. Richard Roe, used in a preceding page, it was shown in a general way how the necessary amount of premium must be computed to provide an individual with a definite pension to begin at a certain time. In that problem, partly arithmetical, partly actuarial, all the quantities were known, from which " X "—the annual premium—was to be computed.

It was recognized very early by the advocates of voluntary insurance for workmen that that was quite an impossible plan to follow. It was a perfectly proper and feasible thing for Mr. Roe to determine at the age of thirty to make his definite annual contributions for thirty-five years to come. But very few workmen would be in a position to assume such an obligation, and if they assumed it, a still smaller proportion would be able to live up to the contract. Surely the state institution could not build its plan of relief upon thousands of lapsed policies as private insurance companies do.

In the French National Insurance Institution, the actuarial computation was, therefore, reversed. The premium was assumed and the amount of pension made dependent upon it. This may sound very technical, but the underlying principle may be easily understood without knowledge of insurance technic.

Suppose a workman of any age, say twenty-five, decides to provide for an old-age pension, to begin, say, at the age of seventy. The ages here are entirely illustrative and immaterial from the point of view of principle. The following actuarial rules come into play.

1. Every deposit or payment made by him at the age of twenty-five will have a definite value at the age of seventy as the result of the principle of compound interest. That is only an arithmetical or algebraic problem.

Whether uniform deposits at regular intervals, annual, monthly, or weekly, are required, or whether that is left entirely to the discretion of the insured, is immaterial. The principle remains the same. The final value of each of the individual deposits will be a different one, not only according to

the amount of the deposit when made but also according to the length of time it remained in the possession of the insurance institution and was drawing compound interest. The first dollar deposited at the age of twenty-five at 4 1-2% will be worth at seventy $7.57, and the last dollar paid in at sixty-nine will be worth only $1.04 1-2. Naturally, the total accumulation at the end of the period will be the sum of these separate values. It will depend entirely upon how many payments the insured will have made and at what period. The earlier he begins and the more often he makes his payments, the larger will be the amount to his credit at the age of seventy.

As yet we are dealing with mathematics only and not actuarial science, with savings and not insurance. But having arrived at the pension age, which we assumed to be seventy, the insured does not get the value of his deposits; instead he gets an annuity or pension in annual payments as long as he lives. How is the amount of it computed? There the probability of life comes into play. The average probability of life at the age of seventy is 8 1-2. The value of accumulations is, let us say, $1,000. The problem again is simple. For $1,000 an annuity of a certain amount may be purchased, as has already been explained.

In Mr. Roe's case, the problem was stated thus: How much money is necessary at the beginning of the pension period to insure an annuity of $100? Here the same problem presents itself in an inverse way: Granted the amount of money available at the beginning of the pension period, how big a pension may be purchased with it? The answer depends both upon the rate of interest and the expected mortality and probability of life. It is, therefore, not simply an arithmetical but an actuarial problem.

In our example, then, there is a process of individual savings up to seventy, and the insurance principle begins at seventy only. In actual practice, the two computations can be combined. It may be determined that a deposit of $1 at the age of twenty-five will produce an annual pension of so many cents to begin at seventy and last until death. The difference between ordinary private savings and this form of insurance lies in the fact that the insured person is not permitted to withdraw his deposits at will, as he may from a savings bank. Of course, if he dies, before acquiring a pension, the deposits will

be returned to his heirs. That is known as the reserved capital form of insurance, when the capital is reserved for the benefit of heirs in case death occurs before pensionable age.

But, in addition, another actuarial principle may be introduced, that of mortality before seventy. Of course, of all persons insuring at twenty-five or thirty-five or forty-five, a large proportion will die before seventy. Suppose the accumulated value of the deposits is not returned at death. Naturally, the common fund for those surviving will be greater at the time they reach seventy. That also is not a matter of accident. The number of deaths at various ages can be fairly accurately foretold in advance by means of mortality tables. And so it can be computed what the value of a deposit of $1 at the age of twenty-five will be at seventy, if only those surviving at that age are to share in the common fund. The value of that deposit will be higher and the annual pension beginning with seventy, which may be purchased with the deposit of $1 at the age of twenty-five, will also be higher. That is known as " insurance at alienated-capital plan " because in making deposits, the insured relinquishes all claims to its value except as a possible old-age pension. It will be objected to, that this plan makes those dying before the pension age and their families contribute to the old-age pensions of the survivors, but this is only an application of the essential principle of insurance.

In fact, only this form (on the alienated-capital plan) is insurance in the full sense of the word. But it was quite evident that it was not applicable to many workingmen's families and the serious objection was raised that such a form of insurance would be encouraging the selfish workman to seek personal protection for old age at the expense of the family's interests, as for the same amount of contribution he might purchase a substantial life insurance for the protection of the family.

The privilege of substituting the reserved-capital plan enables him to protect the interests of his family to some extent. Both plans are, therefore, open to the workmen under all European institutions of voluntary state old-age insurance.

The reserved-capital plan is more appropriate for the workman with a family, while the single or childless may naturally prefer the alienated-capital plan. In actual experience of the

French Old-Age Insurance Institution, the choice between the two plans is about equally divided.

It is clear that, with the same contributions, the alienated plan will give a higher old-age pension. This may be illustrated by a table showing the conditions in the French insurance institution.

AMOUNT OF ANNUAL PENSION PAYABLE FOR THE DEPOSIT OF $100 WITH THE NATIONAL OLD-AGE RETIREMENT FUND, BY AGE OF DEPOSITOR AND PLAN OF INSURANCE

Age of depositor	Amount of annual pension payable for the deposit of $100							
	Alienated-capital plan				Reserved-capital plan			
	Age at which pension begins				Age at which pension begins			
	50 years	55 years	60 years	65 years	50 years	55 years	60 years	65 years
3 years	$51.22	$74.66	$114.77	$190.32	$41.15	$59.98	$92.21	$152.91
5 years	47.15	68.73	105.66	175.22	37.72	54.99	84.53	140.17
10 years	38.95	56.77	87.27	144.72	30.25	44.09	67.79	112.41
15 years	32.15	46.86	72.05	119.47	24.07	35.08	53.93	89.43
20 years	26.18	38.16	58.66	97.27	18.99	27.68	42.56	70.58
25 years	21.16	30.84	47.41	78.62	14.88	21.69	33.35	55.30
30 years	17.15	24.99	38.42	63.71	11.55	16.84	25.89	42.93
35 years	13.89	20.24	31.12	51.61	8.86	12.91	19.85	32.91
40 years	11.22	16.35	25.13	41.67	6.68	9.73	14.96	24.80
45 years	9.00	13.11	20.16	33.42	4.92	7.17	11.02	18.28
50 years	7.13	10.40	15.98	26.50	3.52	5.12	7.88	13.06
55 years	.....	8.05	12.37	20.51	.....	3.52	5.41	8.97
60 years	.....	.....	9.31	15.43	.....	.....	3.53	5.85
65 years	.....	.....	.....	11.13	.....	.....	.....	3.53

Actuarial tables do not make absorbing reading, but the reader is advised to give some attention to this table. It presents the strongest argument for voluntary insurance, but also discloses the weakness of it.

The combined effects of mortality and compound interest are truly wonderful. *One* payment of $100 at the age of three, will guarantee a life pension of $190.32, beginning at the age of sixty-five, and running, on the average, eleven years. Nevertheless, there are very few parents so thoughtful and self-sacrificing as to take upon themselves the solution of the old-age problem for their children. Even if made at the age of twenty, this *one* payment will produce a pension of $97.27. In view of such wonderful results, it may be argued, there is no excuse, except almost criminal

thoughtlessness, for every one not producing a substantial pension for himself. But though these actuarial facts have been known and displayed for many decades, they have failed to solve the old-age problem.

Naturally, the pensions purchasable on the reserved-capital plan, are very much smaller. By paying $1 (in speaking of the wage-worker it will perhaps be more reasonable to use a smaller unit as an illustration), at the age of thirty-five, the workman may purchase a pension of 52 cents on the alienated-capital plan, and only 33 cents on the reserved-capital plan, or 36% less.

The fact that nearly one-half the insured preferred this latter plan shows that the workmen were not unmindful of the future of their families even at the expense of their own future comforts.

Thus far we are dealing with insurance which is not only voluntary, but self-supporting. The French institution, from the very beginning, did more than that. It offered many subsidies to the depositors, both direct and indirect. The indirect subsidy was granted by cheapening the insurance, first through the elimination of the element of profit and, second, by assuming the cost of administration.

Few persons, outside of the insurance circles, appreciate what an enormous charge upon premiums administration expenses present. All insurance business requires a complex administrative machinery of clerical and executive nature and that is especially true when insurance must be effected by means of an enormous number of very small payments. Within recent years, for instance, the number of individual deposits made into the French institution has reached nearly 5,000,000, which would average some 16,000 deposits per day. The amount of saving represented by failure to charge the insured with the cost of administration cannot be estimated by the actual expenses for administration the institution incurred. In addition there must be taken into consideration the numerous privileges which the French institution, like all similar institutions, enjoyed, such as freedom from taxes, from various stamp duties, free service of the post-offices, and so forth.

Thus, the very fact of its being a state institution meant an indirect subsidy. But in addition to these more or less veiled

subsidies, the French Old-Age Institution granted a more direct subsidy by guaranteeing a higher rate of interest than could be obtained in the commercial savings institutions. When the institution was first organized, this guaranteed rate of interest amounted to 5%, which was a very substantial subsidy indeed.

The experience of the French institution is extremely interesting in furnishing proof of how Utopian was the hope of solving the problem of old age by such indirect methods. Of depositors to take advantage of this institution with cheap insurance and the disguised subsidy of a 5% rate, there was no dearth, but they were not of the working class.

The institution, it must be remembered, was not limited to the members of the wage-working class. Any such limitation would have been very much out of harmony with the political and social views prevailing at the time. It was offered for the people at large, with the natural expectation that only the poorer classes would avail themselves of this opportunity. In this respect, the expectations were not realized.

The profitable rate of investment combined with the peculiar love of the French bourgeois for a quiet, secure old age obtainable by the purchase of an annuity, attracted a great number of small property-owners. Though a limit was put upon the maximum deposit, this did not influence matters any more than the maximum amount of deposits in a savings bank in this country. And for fifty years the French government struggled with the problem of how to make this National Old-Age Retirement Fund a poor man's institution. On one hand, it tried to limit the maximum amount of deposits permitted in one year, and on the other hand, reduced the guaranteed rate of interest in 1882 to 4 1-2%, in 1886 to 4%, and in 1891 to 3 1-2%, because it was argued that the difference of 1-2% meant a great deal more to a property-owner with large deposits than to a workingman.

Finally, in 1895, the admission was forced, that as far as the individual workingman depositor was concerned, the institution was largely a failure and the principle of direct subsidies to certain depositors was introduced, limited to persons with a pension income of less than 360 francs ($69.48).

Though the subsidies were small, the principle was important. Not all depositors were entitled to them, but only those

in greatest need. Evidence of contributions for a certain length of time was required and the age for the maturity of the pension with the privilege of getting this special subsidy was gradually reduced from seventy to sixty-five.

Very similar was the experience and the development of the Belgian "General Savings and Retirement Fund," which was also started in 1850. Here, too, a hidden subsidy of a guaranteed high rate of interest was given. But the popularity of the fund was very small and the depositors were mainly of the middle class. In the early nineties, the Belgian government began to grant small subsidies to such mutual benefit societies as made use of the National Fund for old-age insurance.

That was a very praiseworthy effort to combine the social advantages of a mutual benefit society with the financial advantages of a state controlled and scientifically managed fund. But the effect of this law was not as thoroughgoing as expected, and a new act of 1900 established more direct subsidies to every depositor of a certain group, and these subsidies were increased in 1903.

Thus, the experience of both the French and the Belgian funds showed that voluntary state old-age insurance for workmen proved a dismal failure unless it was accompanied by direct subsidies.

The other two Latin state institutions for voluntary insurance, which were established at a very much later date (Italy in 1898 and Spain in 1908), profited by the experience of the French and Belgian institutions, which they have followed quite closely. It is not necessary, therefore, to go into details concerning these two countries. The Italian institution is officially known as the National Institution for the Insurance of Workers against Invalidity and Old Age (Cassa Nazionale de Previdenza per la Invalidità e per la Vecchiaia degli Operai), thus emphasizing the special purpose of serving the wage-workers of the country. Other classes of the population may also insure, but under less favorable conditions and without any right to the special subsidies. The necessity of granting benefits in addition to the free cost of administration was recognized early in the preparation of the plan. Both forms of insurance, under alienated and reserved capital, are permitted.

The Spanish Old-Age Insurance Institution (Instituto Nacionale de Prevision), established by the act of February 27, 1908, and organized in 1909, is too young an institution to give any useful lessons as yet. It was admittedly modeled after the French, Belgian, and Italian examples, especially the latter.

In regard to the form and amount of subsidies, the greatest variety between the institutions mentioned is found. The subsidy provided by the Belgian act of 1900 was not very great. It amounted to 60 centimes on each franc paid in by the depositor up to a maximum of 15 francs ($2.90) each year, the maximum subsidy being, therefore, 9 francs ($1.74) per annum. For persons who were over forty years old at the time the law of 1900 was passed, the maximum was increased to 14.40 francs. The subsidies proved sufficiently attractive to the younger elements but the problem of old age was pressing and older men did not seem to be attracted, so for their special benefit the act of 1903 was passed, increasing the subsidy to the older persons as follows:

A subsidy of 100% on the first 6 francs deposited annually by persons forty to forty-five years old on January 1, 1903, or up to 6 francs, this subsidy rising to 150%, or up to 9 francs for persons forty-five to fifty years at that time, and to 200%, or up to 12 francs for persons over fifty years old at that time.

Thus, the total maximum subsidy granted to persons of these three age-groups was 11.40, 14.40, and 17.40 francs respectively ($2.20, $2.78, and $3.36).

This increase of the subsidy for persons over a certain age at the time the subsidized system went into effect, touches upon one of the most difficult problems of old-age insurance. Briefly, the problem is this: Granted the great advantages of old-age insurance, either a voluntary, subsidized system which stimulates thrift, or a compulsory system which may be said to enforce thrift,—all this may hold out some hope of a more cheerful old age to the men and women in youth or early middle age, but what does it offer to the aged people who have already reached the pensionable age, or are very near it? Absolutely nothing, or very little. In other words, the organization of an old-age insurance system aims to solve the problems of the future, but has nothing for the problem of to-day.

The way the Belgian government was forced to meet that problem was practically by establishing a system of straight old-age pensions, but giving it a temporary character. As the general subject of straight old-age pensions will be considered by itself, it will be sufficient to mention here only the chief provisions of the Belgian system. The act granting the very small government pension of 65 francs ($12.55) was the same which established all the other subsidies. Persons born before 1836 (i.e., sixty-five years old or over in 1901) were given the pension outright. Persons born from 1836 to 1842 (i.e., from fifty-eight to sixty-five years old when the act went into effect) were to get the pension when reaching the age of sixty-five. For persons born in 1843, 1844, and 1845 the requirement was exacted that they prove having carried insurance in the National Old-Age Insurance Fund for at least three years, having paid in not less than 18 francs ($3.47) before qualifying for the pension.

The granting of new pensions under this law should, therefore, have ceased on January 1, 1911, but a further extension to persons born in 1846, 1847, and 1848 was granted by the act of May 11, 1912, so that the temporary system of old-age pensions in Belgium is extended to January 1, 1914, and in the meantime preparations for a comprehensive compulsory insurance system continue.

The subsidy system of the Italian institution is not so complicated. It was thought somewhat dangerous to embody in the new law the promise of a definite subsidy for fear there might be such an influx of contributors that the finances of the institution would be overwhelmed. The institution has an endowment fund and certain guaranteed revenues, which may be used for giving subsidies. The normal state benefit must not exceed 10 lire ($1.93) per annum, and has been kept at that maximum level. While the amount to be deposited annually by the insured is left, as in all similar institutions, to their discretion, a certain degree of thrift is exacted before the subsidy is granted, namely, an annual deposit of 6 lire ($1.10) is required.

The normal age of arriving at the pension is put at sixty for men and fifty-five for women, but in certain industries men may require a pension at fifty-five, or, again, they may postpone it to sixty-five years, the amount of pension decreasing

in the first instance and increasing in the second. Normally, twenty-five years of insurance is required, but for persons beginning insurance at an advanced age this period may be reduced to ten, and, on the other hand, special subsidies are granted to such persons, as otherwise the pensions acquired would be too small. A special invalidity fund has been created by lump-sum appropriation of 10,000,000 lire and certain additional sources of income, and from this fund special benefits are given to invalids, who must apply for earlier grant of their pension.

In the Spanish act, too, the actual amount of subsidies is not determined in the law, but is left to the discretion of the directors, but must not exceed 12 pesetas per account per annum during the first ten years of the institution. Special subsidies are, however, granted to persons beginning their insurance at an advanced age, at the time of organization of the institution.

Perhaps it is unnecessary to explain that these subsidies are not given to the insured, but deposited to his account and go to swell the amount of pension purchased. That is their only destination. Recalling the distinction between insurance on the alienated-capital and the reserved-capital plan (the family of the insured under the latter plan recovering back the payments in case of assured dying before pension age), the subsidies are used to purchase insurance on the alienated-capital plan only. Naturally, under this subsidy system, the amount of pension purchasable with certain deposits is considerably enlarged. The possibilities of insurance in the Italian Old-Age Fund are eloquently demonstrated in the table on the opposite page.

To the wonderful results of computed interest and a mortality table, is added here the effect of the subsidy, and the combined results are shown up very temptingly before the eyes of the workingman. For instance, if a workingman began his regular contribution at the age of twenty, and regularly contributed 3 lire a month (58 cents) and 36 lire a year ($6.95), then at the age of sixty-five he may begin to draw a pension of 1,015 lire, or $200, per annum, on the alienated plan; on the reserved plan, it will amount to only $125. A very substantial pension, that, in Italy. The only question is: how many workingmen are willing and able of

their own free will and out of their own resources to contribute 36 lire to this one purpose of old-age pensions?

EXPECTED VALUE OF ANNUITIES, BY FORM OF INSURANCE, AGE AT TIME OF INSURING, AND AMOUNT OF CONTRIBUTION

[Source: Luigi Rava, La Cassa Nazionale di Previdenza per la Invalidità e per la Vecchiaia degli Operai.]

Form of insurance and age at time of insuring	Expected value of annuity for annual premium of—				
	$1.16 (6 lire)	$2.32 (12 lire)	$3.47 (18 lire)	$4.63 (24 lire)	$6.95 (36 lire)
ALIENATED CAPITAL					
Pension maturing at age of 60, insured at age of—					
20 years	$29.72	$45.74	$61.76	$77.78	$109.82
25 years	22.58	34.55	46.51	58.48	82.41
30 years	16.60	25.48	34.35	43.23	60.99
35 years	11.19	17.56	23.93	40.30	43.04
Pension maturing at age of 65, insured at age of—					
20 years	53.27	82.60	111.94	141.28	199.95
25 years	40.72	62.92	85.11	107.31	151.70
30 years	30.69	47.29	63.88	80.48	113.68
35 years	22.58	34.55	46.71	58.67	82.80
40 years	16.21	24.70	33.39	41.88	59.06
RESERVED CAPITAL					
Pension maturing at age of 60, insured at age of—					
20 years	24.70	35.51	46.51	57.32	79.13
25 years	19.11	27.60	36.09	44.58	61.57
30 years	14.28	20.84	27.41	33.97	47.09
35 years	9.84	14.67	19.69	24.51	34.35
Pension maturing at age of 65, insured at age of—					
20 years	40.92	57.90	74.50	91.48	125.06
25 years	31.85	45.36	58.67	72.18	99.01
30 years	24.51	34.93	45.36	55.78	76.62
35 years	18.34	26.44	34.55	42.65	58.87
40 years	13.51	19.49	25.48	31.46	43.43

It must be admitted that the state subsidy system has had its perceptible effect. In France, for instance, the number of new deposit accounts opened increased from 90,000 in 1898 to 236,000 in 1908. It is true that in France, even with this direct encouragement, the individual workman depositor is a rare individual. The largest part of the activity consisted in furnishing a safe, financially sound old-age pension system for various industrial funds, establishment funds, and mutual benefit societies, which are satisfied to collect the dues, but turn their funds over for safe management and also in order

to get the subsidies and other benefits, to this institution. This activity is not unimportant, and it can scarcely be doubted that the subsidy not only changed the channels of old-age savings but actually stimulated them. Toward the end of the last decade, the total number of accounts reached a million and a half.

In Belgium, where the subsidy was direct and comparatively larger, the effect was even more perceptible. In 1890 the number of insured was only 10,000 and under the influence of the subsidies began to grow, though slowly, and by 1899 it amounted to 169,000. The systematic granting of subsidies ordered by the act of 1900 in one year doubled the number of depositors. In 1902 it reached half a million. The increase in the rate of subsidies in 1903 brought the number to 636,000, and by 1910 it was well over 1,000,000.

Belgium's experience has often been called upon to prove the great results possible under an optional system, and the superfluity of a system of compulsion. But certainly heroic measures were necessary to preserve the semblance of liberty, for when a deposit if 18 francs within three years gave a right to a life pension of 65 francs, only a lunatic might be expected to fail.

Of all the four institutions for voluntary state insurance, perhaps the Italian may be adjudged the best organized. Its subsidies are much more systematic than those of the French system, while the Belgian approaches too closely a straight government annuity.

The statistical information concerning the activity of the Italian institution is, unfortunately, meager. It is known, however, that some twenty to fifty thousands of new applicants came to it annually, and at the end of 1910 the total number of accounts opened amounted to some 300,000, and that their contributions, by that time, amounted to some $5,000,000.

All the data are satisfactory as far as they go, but do they go far enough? What proportion of the wage-working class has the system of Liberté Assisté been able to attract?

Leaving out of consideration the Belgian system, for reasons already stated, the 800,000 to 900,000 voluntary depositors in the French institution scarcely represent one-fifth of the members insured against sickness, scarcely 8% of the wage-working class, scarcely 4% of the persons in gainful occupations. For

of these 900,000 insured, over 100,000 were not wage-workers, but salaried employees, and 450,000 were petty accounts of pupils.

No better is the situation in Italy, as with a population of 35,000,000, of whom probably 18,000,000 are gainfully employed, the insured scarcely represent 2%. Even the industrial population alone, not counting agriculture, is over 6,000,000, so that the insured scarcely represent 5% of that number, after twelve years of operation. And yet the period of greatest growth for the Italian system seems to have passed. In 1906 over 150,000 new accounts were started, in 1907, 35,000, and in 1908 less than 29,000.

Nor is this all. An account started does not necessarily mean an account kept up. Enthusiasm may wane or the economic strength may be overestimated. Very interesting light is thrown upon this problem by a special investigation made in 1904 and covering the years 1900-1903, i.e., the first four years of operation of the fund. This investigation proved beyond any reasonable doubt the very significant fact that the number of dormant accounts, i.e., accounts on which no deposits were made during the year, is rapidly increasing. In 1900, they were only 2% of all depositors; in 1901, 6 1-2%; in 1902, 12%, and in 1903, 28 1-2%. In other words, many make good resolutions but neglect to keep up their contributions—no matter what the cause.

If this was the fact in three or four years, it may be surmised what the result would be after twenty-five or thirty years.

Another feature is the very low average of contributions: in 1901, 42.8%, and in 1903, 31.7%, of all accounts contributed just 6 lire annually, i.e., the minimum necessary to qualify for the subsidy. Only from 25% to 28% contributed over 10 lire. The discontinuance of accounts is gradual. Thus, in 1902, 27% paid less than 6 lire (thus losing the right to the subsidy) and 12%, nothing at all. The next year 7.7% paid less than 6 lire, and 28.5%, nothing at all.

It is but safe to assume similar conditions in other state institutions. Of course, the state insurance system has that tremendous advantage, that it knows no lapsed policies—the curse of private insurance among wage-working classes.

In absence of lapses, however, the result of irregularity in

payments is to produce pitifully small pensions. As to how this worked out in Italy, no information is as yet available. The Italian system is still in its accumulating period. But the old French institution furnishes some very telling material for judgment on this point. The average pension has declined from $34.48 in 1891, to $24.14 in 1908. The average of the pension granted at present is only $16 to $17. In fact, over one-half of the pensions granted (53% to 56%) are less than 50 francs ($9.65) per annum, and only 10% are over 200 francs ($38.60). When these amounts are considered, the fact that the institution has from 300,000 to 400,000 pensioners loses a good deal of its brilliancy.

Similar conditions are found in Belgium. The average annual payment per account has been decreasing. In 1900 it amounted to $3.92, in 1905 to $3.14, and in 1908 to $2.82. The average accumulation per account in 1898 was $43, and in 1908 only $25.

The capacity of the Belgian worker for accumulation is sufficiently demonstrated by these figures.

We have given this rather full account of the voluntary state insurance systems against old age because they are very little known in the United States, and because their discussion is usually limited to the legal provisions which make a much better appearance than the actual results as disclosed by their impartial and unadorned statistics.

To an unprejudiced student, the statistical data presented seem to justify the following conclusions:

1. That even a heavily subsidized system of voluntary old-age insurance attracts only a small proportion of the working class, presumably of the better-paid strata.
2. That even of those who begin accounts, a large and growing proportion fail to continue to make the necessary contributions with any regularity.
3. That usually only the minimum is contributed which is necessary to acquire the subsidies.
4. That the workingmen are forced to reduce their old-age pensions in order to safeguard the interest of their families, and
5. That the pensions actually acquired are pitifully small.

CHAPTER XXII

COMPULSORY OLD-AGE INSURANCE

The failure of the system of subsidized freedom to accomplish all that was hoped for it, must not close one's eyes to its positive achievements. Above all, it cannot be used as an argument against the adaptability of the insurance principle to the problems of old age. The cause of this failure may be stated in a very few words—unwillingness or inability of the working class to keep up, of its own free will, a comprehensive system of voluntary insurance. Whichever of the factors one is inclined to emphasize, the conclusion points toward a system by which such insurance could be enforced and at the same time subsidized—a conclusion which has already been tested in case of sickness insurance. Nevertheless, it must be remembered that, as a matter of historical fact, this is not the only solution advanced. Modern Europe (and to some extent civilized countries outside of Europe) is at present testing two answers to the problem of old age: one aims to overcome the unwillingness by compulsion, and the inability by substantial subsidies, and thus make insurance universal. The other is a complete negation of the insurance methods (if not of the insurance principles), and a straight grant of an old-age pension. Both systems have their adherents and opponents, and the controversy is one of the most important problems of social insurance. Both sides to the controversy must, therefore, be carefully heard before an independent opinion may be formed as to their merits. But it would evidently be futile to consider the arguments before the most important facts in connection with both systems have been learned.

The first effort at a comprehensive national system of compulsory old-age insurance is admittedly the German act of 1889. Until very recently it was also the only one, if the old-age insurance system of the little duchy of Luxemburg, established and modeled in all its essential features after the

German system be disregarded, because of its extremely narrow application.

In 1906 Austria followed Germany's example by organizing its system of compulsory old-age insurance, but limiting it to salaried employees only. This rather curious feature of the law places it outside of the sphere of workmen's insurance, while not necessarily depriving it of its claim to be considered a social insurance measure. But in this instance the social influence of the state is used for the benefit of a middle-class element—possibly an expression of the growing middle-class movement in modern Europe.

It remained, therefore, for France—the traditional enemy of Germany—to be the first to accept Germany's lesson on an equally comprehensive scale, by the act of April 5, 1910.

National compulsory old-age insurance is, therefore, exemplified by the two systems, those of Germany and France. Logically, compulsory insurance follows experiments with voluntary subsidized insurance. Historically, the sequence of events is somewhat disturbed, for the German system of 1889 preceded the French subsidy act of 1895, the organization of the Italian voluntary subsidized old-age insurance system of 1898, the Belgian subsidy system of 1900, and the Spanish institution of 1908. Nevertheless, when each country is taken separately, the discrepancy between logic and history is not so great. In France the transition from the voluntary to the compulsory system was typical. A similar step is contemplated in other countries where voluntary insurance at present exists.

And while it is true that only two [1] countries have as yet in-

[1] The act of January 25, 1912, establishing a compulsory old age and invalidity insurance system in Roumania, and according to latest information available not yet in force, reached the author too late to be embodied in the above text. In addition, newspapers report the adoption, on July 26, 1913, of a compulsory old-age insurance system in Sweden, making the total number of countries with such systems five: Germany, Luxemburg, France, Roumania, and Sweden.

The Roumanian act seems to be a compromise between the German and French acts.

The age of pensioning is 65, the normal old-age pension 150 lei ($28.95), and the invalidity pension is increased by 10 bani (2 cents) for every weekly contribution over 200. Invalidity is defined as inability to earn one-third of the normal amount (principle borrowed from Germany). The weekly contributions are uniform for all classes of insured (French method); namely,

troduced such insurance on a national scale (as against nine with systems of sickness insurance), this does not at all cover the field of application of the compulsory principle to old-age insurance. Already, in connection with sickness insurance, the " industrial " systems, i.e., those limited to certain industries, have been referred to. These industrial pension funds deal with old-age pensions (and also widows' and orphans' pensions) much more extensively than with sick-benefits. They are truly compulsory, usually in virtue of definite legislative acts, and, therefore, are important facts of social insurance, though usually because of their limited application, because of difficulty in obtaining information, and because most of these systems antedate the modern era of social insurance, they are quite neglected in ordinary accounts of the progress of social insurance. As has already been stated on several occasions, in three branches of industry, mining, navigation, and railroads, are they most common. In the mining industry there is the Austrian compulsory old-age pension fund established by the act of 1854; the Belgian old-age fund, established in 1868; the French miners' old-age insurance system, established by the act of 1894; the Russian system, limited to the government mines, by the act of 1881.

In the navigation industry, perhaps the oldest system is that of France—created as early as 1673, and repeatedly reorganized since then. This is one of the earliest social insurance organizations in Europe. In Belgium the Seamen's Aid and Provident Fund was organized in 1884, introducing a system of compulsory old-age insurance for seamen on vessels flying the Belgian flag. In Germany a separate pension system for the navigation employees has been introduced by the act of 1907, which is much more liberal than the general national system.

The railroad industry is the youngest of the three branches of industrial activity, nevertheless, it is perhaps the best provided by old-age insurance and pensions. In France independent pension funds were organized by the various railroads from the early fifties. By the law of July 26, 1909, they became compulsory for all important railroad systems.

45 bani (8.7 cents), but a new principle is introduced in the requirement that the amount of contribution be shared, in equal parts, by employer, employee and state.

In Italy pension funds were organized by the private railroads voluntarily in the sixties and seventies, but when almost the entire railroad system was purchased by the government, though for the purposes of operation they were leased to private corporations, yet uniform pension systems were prescribed by the act of April 27, 1885. By the law of July, 1908, after the operation was undertaken by the government itself, one consolidated system was substituted. In Russia the private pension funds were organized by the railroads as early as 1858. They were made compulsory by a general act for all private railroads in 1888, and for the state railroads in 1894. In Belgium one centrail railroad pension fund existed by virtue of the law of 1884. In most other countries railroad employees have pension funds either made compulsory by the employer or voluntary.

Finally, there is a vast variety of compulsory old-age insurance systems and pensions funds for employees of the governmental industrial establishments. They are most important naturally in those countries in which government industrial activity is most highly developed; as examples may be quoted the state tobacco factories of Italy and France, the liquor monopoly service, and various metal-working establishments in Russia.

Nevertheless, it remains quite true that the national systems of Germany and France are of the greatest importance, both because of the vast number of wage-workers concerned and because in the striving for universality does the practice of compulsion find its main defense; and a comparative study of these two systems must now be undertaken.

As both old-age insurance systems are extremely complicated, the detailed study of either of them is a task of considerable magnitude and difficulty, because they combine a vast variety of legal, administrative, and actuarial details. The determination of the extent of the application of the law, the adjustment and the promised benefits, the financial organization in view of the necessity for large accumulations of capital, the adjustment of the new system to the existing provisions for old-age insurance so as not to disturb them, the proper balancing of distribution of the burden between the state, employer and insured, the necessity of special provision for the older men and women who cannot expect to profit by

insurance alone, and the usual combination of invalidity insurance and often widows' and orphans' insurance with the old-age features, such are only a few of the problems which a comprehensive old-age insurance system must meet some way or other, and in connection with each one of them many divergent views are advanced. It will be impossible, therefore, to give here more than a comparative outline of the main provisions and results.[2]

Admittedly, the French system has been developed under the influence of the German example; but having been adopted twenty years later, it found many conditions existing which Germany did not have to take into consideration; this alone will explain most of the differences.

The basic principles of the two schemes may be indicated in a rather schematic way in a few words. Both systems aim to cover the entire wage-working population in the system of compulsory insurance, but in addition permit optional adherence to certain classes, standing near but a little above the working class. Both combine old-age insurance with invalidity insurance, but in the German system invalidity plays a very much more important part than in the French system. Both systems admit the necessity of subsidizing the premiums paid by the insured, both by contributions from the employers and the state, and on very similar principles—the insured and employer contributing the same premiums, while the state gives one uniform bonus to each maturing pension. The details of computing the contributions and the pensions are, however, radically different. The administration and organization of the systems is also very much different, because in Germany it is centralized in a small number of state institutions, while in France wide freedom of selection is given to the insured; for the French government found a large number of various organizations for old-age insurance existing, and their destruction was neither desirable nor practical.

With these general statements kept in mind, a more careful study of the two systems may be undertaken.

[2] The reader interested in obtaining more detailed and accurate information may find it in the respective chapters of the Twenty-fourth Annual Report of the Commissioner of Labor. For the texts of the acts see Bulletin of the Bureau of Labor No. 91. Also "Compulsory Old Age Insurance in France," by the author, *Political Science Quarterly*, September, 1911.

Universality in the application of the system, as has already been stated, is both the ideal and the justification of the compulsory principle, but in practice the achievement of the ideal often meets many obstacles. The German system applies to all wage-workers in industry, transportation, commerce, agriculture, and domestic service; and to salaried employees earning less than 2,000 marks ($476) per annum.

The French system is equally comprehensive, except that even for wage-earners there is a limit of 3,000 francs ($579). Besides, the French law, having found in existence several large industrial groups with compulsory insurance systems much more liberal, excepted them from the provisions of the new law. Nevertheless, there are large classes of persons in modest economic conditions, who are not less, or perhaps even more, in need of old-age provision than persons regularly employed; there is, first, the still larger class of artisans, working on their own account. There are the workers who are paid for services, the casual laborers, the farm-tenants, and so forth. It is argued that since a subsidy from the employer is the reward for compulsion, and as these classes have no regular employer, it would not be just to apply the principle of compulsion to them without granting them the reward. But it would seem that better justice would be for the state to meet this part of the burden, which in other cases the employer is made to bear.

There is another difficulty, however, to the extension of a compulsory system to these economic strata, and that is the administrative difficulty of exacting small payments from individuals. For the administrative basis of a compulsory system consists in making the employer responsible for the collection of the contributions of premiums. Evidently a serious hiatus is thus created in the striving of the compulsory system for universality.

To meet these limitations somewhat, both systems provide for voluntary insurance in addition to the compulsory system. This is open in both countries to artisans, casual workers, small employers of labor, to employees having an income somewhat above the maximum under the compulsory system [in Germany over 2,000 Marks to 3,000 Marks ($476 to $714), in France 3,000 francs to 5,000 francs ($579 to $965)], and in addition to these, share tenants, independent farmers, and

also wives and widows of insured persons, are permitted to avail themselves of the advantages of the system, except the employer's contribution. To be sure, France had its voluntary system of state old-age insurance for many years before this new act was passed. But the new law provides a system of state subsidies which is far in advance of the earlier subsidies under the acts of 1895 and 1898, and that is expected to prove a further stimulus to voluntary insurance.

Under these rules a very large majority of the working population should be insured. In Germany, in 1910, out of a population of 63,000,000 over 16,000,000 were insured, or nearly 25%. Considering that persons under sixteen were not insurable, and that married women do not often carry the insurance, the proportion is very high, probably much more than one-half of the adult population. It was by 2,000,000 greater than the number insured against sickness, as in the latter system several large wage-earning groups were left out. On the other hand, there were over 27,000,000 persons insured against accidents, or 12,000,000 more than against old age. The difference is mainly explained by the large number of independent farmers insured against accidents but not against old age.

In France, with a population of 40,000,000, the number of persons subject to compulsory insurance was estimated at 10,500,000, or 26%, and voluntary insurance is available to 6,000,000 more. In Germany, experience has shown that of the voluntary insurance very little use has been made, but it is not unlikely that the optional feature of the law would be somewhat more successful in France. However, it must not be forgotten that in addition to these 10,500,000 over half a million are insured under the industrial systems in mining, navigation, and railroading.

Contributions are made both by the employer and employee in equal amounts, and the funds thus accumulated and invested are expected to meet the cost of pensions. It would be more exact to say that the employer makes the contribution, but is permitted by law to discount one-half, but no more, from the wages of his employees. It is important to bear this distinction in mind, because in actual practice, the custom is growing for employers not to make these discounts but to bear the entire cost. Of course, this is perhaps of

smaller importance than it would seem to be, as in either case the share of the employee is a deferred wage payment and will be discounted in the competitive labor market. In other words, this custom is no different from any difference of wages paid by the more generous or wise employer.

In this principle France has followed the German precedent even up to the payment of dues by means of special stamps attached by the employers to the wage-earners' cards.

Similarly, the German influence was strong in the system of state contributions. The share of the state, besides bearing all the cost of central administration, furnishing post-offices as financial agencies free, is a direct contribution to the pension, not during the insurance period, but after it has matured.

In Germany the amount is 50 Marks per annum ($11.90). In France the subsidy provided in the original act was 60 francs ($11.58), but to overcome the opposition among radical labor organizations (of which more anon) it was increased to 100 francs ($19.30) by the act of February 27, 1912. However, the German subsidy is absolutely uniform, while the French system is somewhat more elastic. Briefly, thirty annual payments are required to entitle the insured to this subsidy. If the payments are over fifteen, but less than thirty, 2 1-2 francs for each year's payment is granted.

A radical difference is observable in the amount of weekly contributions or premiums, the German system preferring the graded plan, and the French system the uniform plan. The comparative advantages of both plans constitute one of the mooted questions of the theory of social insurance. It is argued on one hand that provision for old age must take into consideration the standard of life of the individual, and, therefore, must be made a function of the earnings, as is the case in accident and sickness insurance; that the working class economically is not at all the homogeneous mass it is assumed to be, and that neither their needs nor their paying capacity are the same. But, on the other hand, it is argued with equal conviction, and perhaps with even more justice, that at best the provision granted for old age is a modest one, aiming to furnish only the "existenzminimum," which is assumed to be one for all wage-workers. Perhaps a still more convincing argument in favor of uniformity is the comparative sim-

plicity of administration, and the avoidance of many technical problems, which the grading of contributions and of pensions creates.

The French system is in fact extremely simple. Under the compulsory system adult males pay 9 francs per annum, or 3 centimes per day; adult females pay 6 francs per annum, or 2 centimes per day, and minors 4 1-2 francs per annum, or 1 1-2 centimes per day, and the employer contributes an equal amount, so that the actual premium is double the amounts quoted. For voluntary insurance a certain range is permitted between 5 and 18 francs.

In Germany the system of contributions is complicated. An actual adjustment to the true wages which was contemplated originally would have created enormous complications. The existing system is a compromise between the two principles, in that it provides a classification of all degrees of wages into five groups. Until the radical overhauling of the entire system of social insurance in Germany in 1911, the classification of the wage-groups, and the respective rate of contributions was as follows:

Wage group	Annual earnings		Weekly contributions	
1	350 M. or under	$83.80 or under	14 Pf.	13.3¢
2	350 M. to 550 M.	83.80 to $130.90	20 "	14.8¢
3	550 " 850 "	130.90 " 202.30	24 "	15.7¢
4	850 " 1150 "	202.30 " 273.70	30 "	17.1¢
5	1150 M. or over	273.70 or over	36 "	18.6¢

Of these amounts the employer and the employee contribute one-half. On a basis of fifty weeks of employment these contributions would amount to: 7, 10, 12, 15, and 18 Marks ($1.66, $2.86, $3.57, $4.28, and $5.15). The rate of contributions was slightly increased by the comprehensive revision of the whole insurance code in July, 1911, but as the increase of contributions was made only for the purpose of providing an independent and new form of social insurance, namely, widows' and orphans' pensions, perhaps it is not necessary to go into these changes at this place.

A good deal of criticism was heard in Germany at the time of introduction of the old-age insurance system and during the first few years of its operation, and again in France im-

mediately after the law of 1910 was passed, against the levying of the heavy burden upon the wage-worker. As the entire opposition to the contributory insurance principle on the side of the workingmen and their preference for a straight pension is based upon this feature of contributions from the employee, it will be preferable to postpone the discussion of this problem until the straight pension has been studied. It may be noted at present that the proportion of the contribution to the wages is not very high, between 1-2% and 1 1-2%, according to the wage level. The burden of the contribution will be felt more perceptibly in the lower wage-groups, and, perhaps, a better adjustment would have been indicated. The same may be even more emphatically said of the French system, because the contribution is the same for all wage-groups. The British sickness and invalidity insurance system, which raises the share of the employer in cases of the lower wage-groups, offers a very ingenious method of meeting this criticism, as the employer is the one who benefits by the low level of wages.

Still more complicated is the system of benefits. Both systems combine old-age insurance with invalidity insurance, though the invalidity feature in the German system is very much more important than in the French system. In addition, the French system carries a small life insurance feature with it, and the German new act has tacked on a widow and orphan insurance system. Finally, for administrative purposes also, the German system includes provision for delayed cases of sickness; and from the standpoint of national health, this side of the old-age insurance system is extremely important. It is, of course, difficult to grasp the entire picture at once. The various features must be studied separately, the old-age pensions, as the basic feature of the system, being best taken up first.

Here, again, there is a considerable difference between the German and the French systems. The German system provides definite old-age pensions, while the French holds on to the system of individual accounts and pension accumulations, developed in the practice of voluntary insurance.

As already mentioned, in Germany the old-age pensions begin at seventy. The original French act of 1910 placed the age of the normal pension at sixty-five, but for the purposes of over-

coming the opposition of the radical labor organizations, it was subsequently reduced (by the act of February 27, 1912) to sixty; and this difference naturally puts the French system far ahead of the German one from the point of view of social welfare, though the higher German age limit, as will be explained presently, is largely mitigated by the invalidity considerations. The German old-age pension consists of two portions: (1) the one of fifty Marks contributed directly by the government treasury, and (2) the amount contributed by the Insurance Institution out of its funds in accordance with the wage-class.

Class	Insurance pension		State subsidy		Total	
	Marks	Dollars	Marks	Dollars	Marks	Dollars
1	60	14.28	50	11.90	110	26.18
2	90	21.42	50	11.90	140	33.32
3	120	28.56	50	11.90	170	40.46
4	150	35.70	50	11.90	200	47.60
5	180	42.84	50	11.90	230	54.64

In actual practice the pension seldom equals exactly one of these amounts, for a worker rarely, if ever, remains his whole life in the same wage-class and in the computation of the actual pensions the respective length of service in the various classes is taken into consideration, so that the old-age pensions will be of all possible amounts between 110 and 230 Marks ($26.18 and $54.64).

On the other hand, the French method of computing the pension is technically different though the final results are approximately the same. No definite pension is promised, but each premium payment carries a certain pension value with it, depending upon the age of the insured. Instead of a table of definite payments, such as the German law contains, the French government has published an estimate of probable pensions, on the supposition of continuous payments, beginning at a certain age.

The matter of the transitory period will be taken up later. The lower part of the table shows that the pension obtainable is entirely a result of the number of contributions, i.e., of the age when the insurance starts. If it be begun at the tender age of twelve (when employment is permitted by the French law), and kept up continuously till sixty-five, which, after all, is an unusual condition, pensions of 400.19 francs ($78.78)

might be earned by the male employees (only $62.73 by the females). If, however, the insurance begins at forty, the possible maximum is only 160.59 francs, or $30.99, and 127.05 francs, or $24.52. The law being compulsory, and most wage-workers beginning their employment at or near the minimum age-limit permitted by the law, it is reasonable to expect that the pensions maturing in 1960 will be near the maximum amounts. On the other hand, for all the fifty years up to that time, the pensions will be very much smaller.

PROBABLE PENSIONS UNDER THE FRENCH SYSTEM OF COMPULSORY INSURANCE AGAINST OLD AGE

Age at beginning of insurance	Value of pension				Amount of state subsidy included	
	Male		Female			
	Francs	Dollars	Francs	Dollars	Francs	Dollars
Transitory period						
64	102.06	19.70	101.38	19.57	100	19.30
60	103.69	20.01	99.79	19.26	92	17.76
55	109.06	21.05	100.04	19.31	82	15.83
50	118.64	22.90	103.09	19.90	72	13.90
45	132.93	25.66	109.29	21.09	62	11.97
Normal period						
40	160.59	30.99	127.05	24.52	60	11.58
35	196.49	37.92	150.99	29.14	60	11.58
30	239.78	46.28	179.85	34.71	60	11.58
25	291.87	56.33	214.58	41.41	60	11.58
20	330.07	63.70	256.47	49.50	60	11.58
15	382.15	73.75	299.02	57.71	60	11.58
12	408.19	78.78	325.05	62.73	60	11.58

The table, as given above, is based upon the normal retirement at sixty-five, as provided for in the original act of 1910; and a government contribution of 60 francs. While the act of February 27, 1912, has increased the latter to 100 francs, thus increasing the pension by 40 francs, of course the reduction of the age to sixty would work in the opposite direction, bringing it down approximately to the same amount.

The old-age pension remains, after all, a mere pittance,

even in France. And, in justice to the French lawmakers, be it said that they seem to have recognized it fully, for an old-age pension obtainable under this act is not an obstacle to receiving charitable relief (or a straight government pension under the act of 1905). On the other hand, it is perhaps equally fair to point out that the actuarial value of an annuity to begin at the age of sixty is very much greater than that beginning at seventy, and that by a voluntary postponement to the latter age the pension may be materially increased.

In both countries a certain length of insurance is required before the old-age pension is earned. In Germany 1,200 weeks' contributions must be made, and in France thirty annual contributions, which on the assumption of forty employed weeks throughout the year amounts to about the same time-limit. But what is to become of the older men who cannot wait thirty years before they get their old-age pensions? In other words, while the system of old-age insurance is based upon a long payment of premiums, what does it offer in the way of an immediate solution of the problem of old-age relief? The problem was too pressing to be left without immediate answer. And the immediate availability of pensions was the greatest argument for straight non-contributory pensions. In both countries, therefore, so-called "transitory provisions" were introduced, i.e., special provisions for persons of such an age that they could not contribute for thirty years before they reach the pensionable age. In Germany, since the amount of old-age pensions is definite, the privileges of transitory provision consisted simply in making a reduction of forty weeks for each year of age over forty at the time the insurance law went into effect.

In France a similar rule was established by the act of 1910 for persons over thirty-five years old when the law goes into effect, and by the act of February 27, 1912, was extended to persons over thirty. But while this provision will enable the older men to get their pension at the age of sixty, it would be extremely small for the persons of older age-groups. The accumulations during a few years would be very small, and the larger share would be the state subsidy. For this reason the original act of 1910 not only waived the requirement as to length of insurance, but gave larger state subsidies to the

older persons, which are indicated in the last table,—increasing the normal 6 francs subsidy to 62 francs in case of persons over forty-five and by a sliding scale of 2 francs for each additional year of age to 100 in case of sixty-four years of age, when only one year of insurance was to precede the granting of the pension. In other words, the inadaptability of the insurance system to solve the immediate problem was admitted, and to meet this difficulty, what is very nearly a sliding scale straight old-age pension was introduced as a temporary measure. The complicated provision was swept aside, however, by the latter amending act, which increased the government contribution to 100 francs for all assured.

As to the actual amounts of the pension in France, only surmises are possible at present, but in Germany sufficient statistical data are available. The average amount of the pension granted has been slowly but persistently rising. In 1891 it was only $29.51, but even in 1908 amounted to less than $40 ($38.83). It now equals a trifle more than ten cents a day, the increase being due primarily to the increase in wages in the German Empire.

In respect to invalidity the German system is very much more comprehensive than the French. In fact, the very concepts of invalidity in the two systems are quite different. Under the French, invalidity is defined as total and permanent disability to earn a living. This is the kind of invalidity which results from a definite disease. The same is true of the new British National Insurance System, which is often said to include invalidity as well as sickness. But the British act speaks of "disablement," which makes the insured "incapable of work," under which total disability only is understood.[3] In both the French and the British systems, therefore, only total invalidity due to sickness and following it, is included. Under the German law, on the other hand, reduction of earning capacity to one-third of the normal is sufficient to establish invalidity. This may be the result of disease, but more frequently is a natural result of advancing old age, so that the German concept of invalidity is almost equivalent to premature old age, or economic old age, which precedes the physiological stage. This breadth of interpretation largely

[3] See Carr, Garrett, and Taylor: *National Insurance*, London, 1912, p. 153.

mitigates the high seventieth-year limit for normal old-age pensions. As a matter of fact, out of 140,000 pensions granted in the German system in 1908, only 11,000 were for normal old age, while 117,000 were for permanent invalidity, and 12,000 for sickness (of which more will be said later). During the earlier years, old-age pensions predominated, as, naturally, the benefits of the system were extended at once to all persons over seventy. But of all pensions in force in 1908, which numbered 1,014,000, only 102,000, or a little over 10%, were old-age pensions, and 894,000 invalidity pensions. Throughout the twenty years of experience the proportion of invalidity pensions has been constantly growing, showing a tendency to begin the old-age pension at an earlier age. Thus, in 1895 old-age pensions constituted 35%; in 1900, 14%, and in 1908, only 8% of all pensions granted. The situation is partly explained by the greater liberality of the invalidity pensions. An invalidity pension may be obtained after 200 weeks of insurance, even though only 100 weekly contributions were made; or after 500 weeks of insurance, and then entirely irrespective of the number of weekly contributions. The method of computing the pensions is rather complicated. It consists of three essential parts. There is a basic pension somewhat smaller than for old-age pensions, and there is the same state subsidy of 50 Marks. And, in addition, there is a supplementary amount depending upon how many weekly premiums the applicant has paid. These amounts are shown in the following table, according to the wage-groups:

Wage groups	Basic pension		State subsidy		Total		Supplementary amount for one week's contribution	
	Mks.	Dollars	Mks.	Dollars	Mks.	Dollars	Pfg.	Cents
1	60	14.28	50	11.90	110	26.18	3	0.7
2	70	16.66	50	11.90	120	28.58	6	1.4
3	80	19.04	50	11.90	130	30.94	8	1.9
4	90	21.42	50	11.90	140	33.32	10	2.4
5	100	23.80	50	11.90	150	35.70	12	2.9

For each week's contribution made during the insurance period the small supplementary amount is added to the pension. The minimum invalidity pension, therefore, would be 110 Marks ($26.18); but, on the other hand, in the highest class, with a 1,000 or 1,200 contribution, and supplementary

amounts of 12 pfenning per week, the total supplementary amount would be 120 to 144 Marks, and the total pension 270-300 Marks, or considerably more than the old-age pension. As a result there is every incentive for persons over sixty to apply for their invalidity pensions earlier, and thus straight old-age pensions are rapidly becoming very unpopular. This is often quoted in Germany by some opponents of social insurance as evidence of moral depravity on the part of the German workingman. As a matter of fact, only 22% of the invalid pensioners obtained their pension under forty-five years of age, and by forty-five the earning capacity of a modern wage-worker has already materially declined. In any case, the facts are that over 80% of the pensions are granted under seventy, 66% under sixty-five, 48% under sixty, and 34% under fifty-five years of age. As a matter of fact, the average invalidity pension was somewhat larger than the old-age pension.

As compared with these, the French provisions for invalidity are very meager. Provision for invalidity is made in two different ways, first, by permitting "anticipated liquidation of pensions," and, secondly, by special subsidies in total disability. By anticipated liquidation is meant the following: although the age of normal retirement is comparatively low (sixty years), the insured is permitted to demand the beginning of his pension five years earlier, i.e., at fifty-five or at any time between fifty-five and sixty. But in such cases, the amount of pensions will be correspondingly reduced on actuarial principles, for, naturally, the present value of a pension of $1 to begin at once at the age of fifty-five is very much higher than the value of a pension of $1 to begin five years later, at the age of sixty. Moreover, the state subsidy is to be reduced accordingly, in cases of such anticipated liquidation. In other words, it is to be accomplished without any additional cost to any one, and, therefore, no evidence as to invalidity is required.

But further, persons suffering from permanent and total disability are entitled to an immediate liquidation of their pensions, irrespective of age, on the same principles as above, and in addition to special invalidity subsidies. The amount of such subsidies, however, is not fixed in the law, except by establishing maximum limits, but is left to special regulations and appropriations, to be made from year to year. The limits

are that the state subsidy shall not exceed 60 francs. The invalidity problem still awaits its solution in France.

Sickness pensions are a peculiar feature of the German law; they are granted in the same manner as invalidity pensions, but are temporary only, as they represent that part of the invalidity pension scheme which dovetails with the sick-insurance system; for the sick-insurance funds are not required to grant sick-benefits beyond twenty-six weeks, and those who need longer treatment and support are turned over to the invalidity institutions. The French system has no counterpart of this function. In the new British insurance act this feature is combined with the sick-insurance organization, and it is with this function, and not with the invalidity pensions proper, that the permanent disablement feature of the British insurance system should be compared.

This activity of the invalidity insurance institutions in connection with granting of sickness benefits is of utmost importance from the point of view of prevention of invalidity and conservation of national health. For in connection with it has grown up a magnificent system of sanatoria for treatment of the working class for chronic diseases such as no other country can as yet boast of, and which Great Britain is only beginning to imitate in virtue of the new act. The law never forced this wide activity in cure of diseases and prevention of disability upon the invalidity insurance institutes, but simply permitted it whenever such course was considered advisable, as a saving of the invalidity pension. But here an ounce of prevention has quickly proven its worth. Under this system the invalidity institutes own 36 sanatoria for lung diseases and 29 other institutions of various kinds, with a total capacity of 6,642 beds, representing an investment of 57,000,000 Marks. Nearly 87,000 persons have received treatment in 1908, of whom nearly 70,000 received it in hospitals, sanatoria, and similar institutions for a period of over 4,000,000 days. Nearly 40,000 persons received such treatment for pulmonary tuberculosis alone, and the official reports claim that, in about 80% of these, disability was removed because the disease was early taken care of.

The German and French systems differ materially in their organization. The term " state insurance " is more applicable to the German conditions, for the insurance is conducted by a

small number of large territorial institutions, known as "Versicherungs-Anstalten," thirty-one in number, covering the entire country, some extending to an entire political division of the Empire, some to administrative portions of a political division; in addition there are special institutions for three branches of industry, the railroads, mines, and navigation. The purpose of establishing these latter was to preserve existing pension institutions and permit them to continue the more liberal provision for old age which they had been granting.

In France, for the same reason, a good deal more latitude was given to the insured. In the earlier plans one central old-age insurance was contemplated, but there was a great deal of criticism of such centralization. It was argued that such a central institution with the enormous funds for investment at its disposal would have a very harmful effect upon the money market. Later schemes, therefore, proposed series of territorial organizations. Again this was met by a criticism—that the numerous mutual organizations of workingmen which had been developing all the time and which play a very important part in the life of the French workingmen, would be ruined thereby. These conditions were taken into consideration and the law of 1910 left a good deal of latitude as to the institutions which are to carry on the insurance. This may be effected either in the existing national old-age retirement fund, or by the mutual benefit societies or unions of such, or by private establishment funds—or new departmental funds similar to the German territorial funds to be established, always provided, of course, that a strict governmental control will be exercised. In both countries, the employers as well as the employees, through elected representatives, will largely influence the management.

The financial aspect of measures of such magnitude must be of great importance. On one hand is the cost of the state subsidy. That was a problem very carefully considered in both countries, and in all others when compulsory old-age insurance systems were discussed. It is questionable whether any one of the preliminary estimates will come very near the truth, for there are so many factors of uncertainty; but on mature consideration, the results of such errors are of very little consequence. Once these state subsidies have been ac-

cepted as permanent factors of the national budget, it is of no more importance to estimate them correctly twenty years in advance, than to estimate now the probable cost of the war establishment in 1945. "Sufficient unto the day are the troubles thereof."

More important, however, is the problem of the financial stability of the insurance institutions, i.e., a proper balancing between income and benefits granted, so that the latter shall not lead the institutions into bankruptcy, and, on the other hand, that the benefits should be as large as consistent with the premiums. While the method of balancing these is different in Germany and in France, yet in each case the absolute accuracy of actuarial computations made in advance cannot be expected.

The possible dangers of such errors are provided for in both countries by periodical actuarial audits of the conditions of the insurance institutions.

Finally, the third important fiscal problem is that of the proper application of the accumulated reserve funds. Under a system of old-age insurance such accumulations are essential. They were often criticised as decidedly harmful, and as constituting a serious objection to the whole old-age insurance scheme, though no one, for some reason, thinks of advancing this argument against all ordinary life insurance where the accumulations are still greater. The specific dangers usually mentioned were the depressing effects of large investments upon the money market, the deprivation of productive industry of these large funds, the excessive financial power of the administrators of the fund, the artificial stimulus to government bonds, in which these funds would be invested. These dangers are met partly by decentralization, partly by providing a large list of authorized securities which seldom include private industrial stock, to be sure, as the same criterions of safety must be applied to these investments as to other insurance companies. Thus, the German law authorizes investments in Imperial bonds, in German state bonds, guaranteed railroad bonds, bonds of communes, village bonds, school bonds, real estate mortgages, savings-bank deposits, and real estate investments. Similarly, the French act permits investments in state securities, state guaranteed securities, departmental, communal, and colonial bonds, securities of other

public establishments, real estate mortgages, etc. The experience of the German system has demonstrated that state and Imperial bonds constitute a small and decreasing proportion of investments (16% in 1900, and 12% in 1908), while the bulk is devoted to the purchase of local improvement bonds and real estate mortgage investments. It was proven that under proper administration and legislation, this fiscal feature of old-age insurance may become an important factor for social progress instead of a danger, if this fiscal power is directed into socially desirable channels. Under the German law, the institutes are permitted to invest up to one-half of their reserve in enterprises promoting the social welfare of the working class. The investments which would come under this classification have increased from $47,000,000 in 1900, to $174,000,000 in 1908, and they are classified in the official statistical reports as follows:

(a) Building of workmen's dwellings, homes for workmen, etc., $57,000,000.

(b) Aid to agriculture, such as land mortgages, branch railroads, road improvements, stock-raising, etc., $23,000,000.

(c) Building of hospitals, convalescent institutes, sanatoria, homes for the blind, etc., building of slaughter-houses, water-works, sewers, etc., $81,000,000.

(d) Building of institutions for use of invalidity insurance, such as hospitals, sanatoria, tuberculosis institutes, etc., $13,000,000.

Similarly, the French act specifically authorizes investments in loans to various institutions of social providence or social hygiene, and societies for the construction of cheap dwellings. And it is not at all a negligible function of the old-age insurance system that hundreds of millions of dollars, the accumulations of and for the working class, may be utilized in furthering its interests. Granted sufficient self-government in these institutes, one may expect eventually to see a part of these reserves utilized in encouraging the co-operative activity of the wage-working class, and thus influencing the entire standard of life of the wage-worker.

Numerically, the results of the German old-age insurance system are imposing. The estimated number of persons insured is 15,250,000, or 24%, of the population. The figures of receipts and expenditures are enormous. In 1908 the receipts

equaled $68,000,000 and the expenditures nearly $48,000,000, while the reserve funds reached the sum of $354,000,000. Of the receipts, the employers and employees contributed $22,000,000 each, or over 30%, while the government subsidies amounted to $12,000,000, or less than 20%, and the interest to $12,000,000, so that practically the employees contributed 30 cents on each dollar. Of the expenditures, only $4,500,000, or less than 10%, went for administrative expenses, a truly remarkable average for an old-age insurance institution. This included such items as collections and verification of dues, determination of compensation, arbitration of disputes, and all other administrative expenses.

The cost of administration is continually declining. In 1891 it amounted to 20.3%, in 1895 to 12.5%, in 1900 to 10.8%, in 1905 to 8.6%, and in 1908 to 9.2%. Of the total expense for benefits $31,638,000, or 73%, went for invalidity pensions, and only 9% for old-age pensions. The medical expenses alone amounted to $4,480,000, or over 10%.

The total number of pensions granted during one year in 1892 was about 60,000, and in 1908, 140,000, and the number of pensioners receiving pensions in 1908 was over 1,000,000, of whom only about 100,000 were receiving old-age pensions, and some 185,000 sickness pensions. The average amount of pensions, as has already been stated, was $38 to $40.

In France, the system has been introduced so very recently that little statistical information is as yet available. It is well known that the radical portion of the French working class found serious fault with the entire system. Not only did it object to the compulsory contributions exacted from the workingmen, but was inclined to consider the whole scheme a capitalistic bait for the suppression of a revolutionary labor movement. The Confédération Générale du Travail, representing the syndicalist branch of the French labor movement, inaugurated an energetic campaign of obstruction, which was only partly neutralized by the agitation of the socialist party in favor of accepting the law.

Oddly enough, the obstructionist policy of the syndicalists was not without its positive constructive results, in that it hastened the adoption of the amending act of February 27, 1912, the two most important provisions of which were, the reduction of the annual age of retirement from sixty-five to

sixty, and the increase of the governmental contribution from 60 francs to 100 francs.

The other effects were perhaps less desirable. As the inauguration of the insurance of each individual case in a measure depended upon the co-operation of the person to be insured, the propaganda of obstruction materially interfered with the application of the law. An unexpected difficulty developed as a result of several judicial decisions to the effect that while the employer was under obligation to pay his share of the weekly dues, there was no provision in the law compelling, or even permitting him to exact the workingman's share from his wages.

Under such conditions, the resistance of the syndicalists was very effective indeed. While the total number of persons to be insured under the compulsory provisions was estimated at some 10,000,000 or 12,000,000, the number of persons inscribed on the rolls according to the requirements of the regulations issued by the Government in June, 1911, i.e., one month before the law went into effect, was 4,620,152, of which only 1,349,714 names were presented voluntarily. By the first of October, 1911, the names inscribed reached 6,188,941, of which the voluntary inscriptions amounted to 2,136,160, while the income from the sale of the stamps indicated about 1,344,000 actively complying with the requirements of the law.

Thus, the extent of the application of the compulsory and nearly universal law was, for a time, very discouraging indeed. The latest information indicates, however, that the somewhat childish opposition of the workmen is gradually vanishing. On January 1, 1913, the total number of insured, according to the report of the Ministry of Labor, reached 7,854,132, of which 776,782, or nearly 10%, were inscribed under the optional provisions of the law. The monthly income from the sale of stamps increased from 1,172,000 francs in the summer of 1911, to 4,300,000 towards the end of 1912, while the expected sale under a complete compliance with the law would have been about 15,000,000 francs. An estimate may, therefore, be made that about one-third of the French workmen are actively complying with the law one and a half years after it went into force. Proposals are up for necessary amendments of the act, to make a general compliance automatic.

CHAPTER XXIII

NON-CONTRIBUTORY OLD-AGE PENSIONS

Compulsory insurance, which grew out of voluntary insurance, simply meant the extension of a system in which few benefited, to the entire working class. The principle of employers' contributions which was admitted all through the discussion of Compulsory Old-Age Insurance to be an essential principle of the system, was adopted as a demand of justice; it was a price which industry was forced to pay to solve for itself the problem of superannuation, which was a growing impediment to industrial efficiency.

But, in addition, all existing forms of compulsory workingmen's insurance against old age embody a state subsidy, which, considered by itself, is a straight governmental old-age pension. The justification of this contribution from the state treasury was found, not only in the need of the working class and inability to obtain a satisfactory old-age pension by its own efforts, but also in the expected relief of the financial burden which the state hitherto carried for purposes of old-age poor-relief. Whether compulsory old-age insurance has as yet succeeded in reducing this burden of poor-relief is a point which need not be discussed at this particular moment. But there is no doubt of the historic connection between poor-relief, admitted as a right of the poor or, at least, as a duty of the state and the state's contribution to compulsory old-age insurance.

This logical and historical connection becomes still more prominent when the so-called transitory provisions of German or French compulsory insurance law are examined. It was shown that the great drawback of a compulsory insurance system in case of old age is its inability to cope with the immediate problem, because a long term of years is necessary before the system may work itself out. In order to meet this difficulty, all compulsory insurance systems or plans provide for a material increase of state benefits in cases of those men or

women who must reach the pensionable age in the immediate future, so that for those workmen who are sixty years or over at the time the law goes into effect, their pension is practically all a state pension, and the element of their own contributions and their employer's contributions is quite insignificant. Thus, while in principle the compulsory insurance system and the state pension system are quite contradictory, yet in practice they merge one into the other. On the basis of this the argument has even been advanced that there is no essential difference between the contributory insurance system and the straight pension system; that as the cost of a straight pension system must be obtained from general taxation and ultimately must come from the national income, which is created by human labor, the workingmen, as a class, must be considered as contributing to the cost of this old-age pension. While, in a broad sociological sense, this is undoubtedly true, nevertheless, the differences in the application of the two systems are so great that perhaps more is lost than gained in such a confusion of terms.

We may pass over with brief mention the various systems, almost universal in civilized countries, for granting straight pensions to government employees, a subject itself of large and growing importance because of the rapid development not only of governmental activities, but also industrial activities of the modern state. Many pension systems exist not only for the military establishments but also for the civil employees, and, finally, for the industrial employees of European governments. But the question of government pensions to its own employees is essentially different from government pensions to workmen in general, because, in the first instance, the government stands in a dual capacity towards the applicant for pensions, not so much that of the government as of an employer, and the problem approaches that of establishment funds of large proportions. In the discussion of straight governmental pensions the government must be eliminated as employer, and it must be considered simply as the central governmental fiscal authority. The following are the countries possessing such systems: Denmark since 1891, New Zealand since 1898, Belgium (as a temporary measure) since 1900, France since 1907, Australia since 1908, and Great Britain since 1908. In justice to the Australian Commonwealth, it

must be stated that long before the Commonwealth had established its old-age pension system (in fact, long before the Commonwealth of Australia had been organized), several systems had been organized in Australian colonies, namely, that in New South Wales in 1900, in Victoria in 1901. Thus, the system of straight old-age pensions seems to be ahead of that of compulsory insurance in popularity. The straight old-age pension plan owes its comparative popularity in the United States primarily to the British plan, only recently put into existence; while, on the other hand, for nearly twenty-five years, Germany remained the only example of a national compulsory old-age system.

France presents the unique example of the combination of the two systems, and the significance of this combination will be touched upon presently. Perhaps it is not out of place to point out that since the German system is primarily a system of invalidity insurance, and since Great Britain only a few months ago introduced its system of compulsory invalidity insurance in connection with sickness insurance, Great Britain also may be considered as combining the two principles and that, therefore, to-day one cannot speak of the sharp antagonism between the two principles which was presumed to exist in 1908.

The first system of straight old-age pensions established in Denmark by the act of April 9, 1891, showed its very close connection with the system of national poor-relief. Because of the small size of the country, comparatively little attention was paid to that experiment in other countries, and especially in the United States, for many years, until the British law had emphasized the importance of the system. The official title of the Danish act, which reads "Law concerning old-age support for the worthy poor aside from poor-relief," embodies two important points: first, that it evidently grew out of poor-relief, and, second, that it was just as evidently meant to be distinct from poor-relief. It was intended to be a system of outdoor relief, while poor-relief frequently is institutional. And most important of all, it was intended to free the recipient of this form of relief from the various disqualifications, both legal and moral, which poor-relief inevitably carries in all countries. It was an admission that an honest workingman, disabled in his declining years, was entitled to support with-

out being classified as a pauper, without losing his rights as a citizen, and without suffering the loss of caste which the poor-relief necessarily carries with it. Practically the same arguments were advanced in other countries which followed this system.

The historical connection between poor-relief for the aged and straight pensions is especially clear in the case of France, whose enactment of a pension system, very little known in the United States, preceded that of Great Britain by three years.

Though many efforts at the solution of the old-age problem by various schemes of voluntary insurance were made in France, culminating in the direct grant of subsidies in 1895, yet even the government did not put much faith in the efficacy of this measure, as is shown by the fact that in the very same year Parliament demanded the granting of old-age benefits to worthy poor. In 1897, therefore, a small appropriation of less than 600,000 francs was made for the purpose of subsidizing such communes as would be willing to grant systematic outdoor relief to its aged poor. This experience was a flat failure, as within ten years the number of persons receiving aid did not exceed 25,000 and the appropriation made by the state treasury was never exhausted. In 1905 the government was forced to adopt what practically amounts to a system of straight pensions under official designation of "obligatory relief to indigent age, infirm, and incurable persons."

The best-known old-age pension system, and the most comprehensive, is that of Great Britain, where the system of poor-relief for the aged has reached its highest development.

Here the system of old-age pensions was finally established by the law of August 1, 1908, and went into effect on January 1, 1909, but thirty years of active agitation preceded this law. The gravity of the problem of old-age relief in Great Britain is well known. In no country had the industrial revolution of the nineteenth century been so rapid and so thorough, and perhaps in no country did it have such a destructive influence as in Great Britain. For centuries, this country struggled with its problem of pauperism until it produced a working class which looked forward to spending its declining years in a poorhouse as a natural reward for a life of toil.

The movement in Great Britain started with the publication

of proposals by private individuals familiar with the questions of poor-relief. Frankly, the proposals had in view the situation of those already in the clutches of pauperism rather than a method of prevention of poverty.

For two decades, no less than five public commissions investigated the problem of old-age relief and the struggle was long and persistent between the two methods advanced—that of compulsory insurance and straight pensions. Several commissions reported adversely primarily on the grounds of fiscal difficulties, but the situation was such in Great Britain that the argument against the need of some drastic measure could not seriously be made. And it was undoubtedly this consciousness of the immediate pressure of the problem that finally swung the pendulum in favor of a straight old-age pension. It is perhaps significant that it was the same Lloyd George, the author of the recent law concerning compulsory sickness and invalidity insurance, who only three or four years ago was an ardent adherent of the straight pension plan.

In short, wherever the straight old-age pension was adopted, the line of reasoning at least (if not the underlying economic problem) was somewhat different from that of the compulsory insurance schemes—it proceeded from poor-relief much more than from the fact of voluntary insurance.

One advantage of the straight government pensions systems, which must be readily admitted, is their extreme simplicity, especially when compared to the bewildering complexity of either the German or French old-age insurance acts. The reason for this is evident when it is remembered that a straight pension system provides only for the distribution of money, usually in definite amounts, under certain conditions, and the enumeration of these qualifying conditions is almost all that the law contains.

The crucial question is, to whom shall pensions be given? Of course, there is the age qualification, but theoretically that is of secondary importance. If the pension is to begin at seventy, rather than sixty-five, five years' more waiting is necessary. But who may reasonably expect it? In the old-age insurance system there can be no doubt on the subject. The exact limits of application of the law must be known for years before a pension is applied. Such definiteness is evi-

dently both unnecessary and impossible in the case of straight old-age pensions.

The first question that arises is: Shall there be any limitations at all, except those of age? At the first glance the question may sound preposterous: as the main purpose of the old-age pension is to relieve old-age distress, what possible excuse can there be for granting a straight old-age pension except to those who need? What reason can there be for granting this pension to the retired merchant or banker?

Nevertheless, universal pensions were very seriously advocated both in England and in the United States. It was argued in favor of such seemingly useless prodigality, that only by such means can the essential nature of an old-age pension be kept free from contamination by any semblance to charitable relief for paupers and all odium from receiving such pensions be done away with. Only then would the granting of a pension be possible without any inquisitorial investigation into the private means of the aged. But the evident extravagance of such a plan was too apparent to be dispensed with easily. It was argued, therefore, that the well-to-do would, of their own free will, refrain from applying for pensions. Yet, curiously enough, the advocates of universal pensions were forced to suggest such indirect methods as distribution of the pension money under unpleasant conditions, to a long waiting line, in all sorts of weather, in obscure parts of the city, in order to eliminate those who had no real need of the pension. Thus, the "worthy poor" would suffer together with the "greedy rich." But these appeals for a universality of this kind belong to a historical stage which has passed, and in all acts definite limitations are contained.

The formula of the first pension act, that of Denmark, has been accepted by all the acts enumerated—in spirit, if not in letter—the "deserving poor"—those are the only ones to whom a pension is granted. Thus, all the limitations in the acts are directed towards two concepts: (1) the "deserving" and (2) "the poor."

The "deserving": The qualifications under this head are usually of two kinds, either civic (or political) or moral. Citizenship is a universal requirement of a straight old-age pension, although not in old-age insurance. Old-age pensions are not granted to aliens. Combined with this qualification,

there is usually a similar one for a definite length of residence and sometimes one for a definite length of citizenship.

Thus, as far as residence is concerned, Great Britain requires twenty-five years; Australia, twenty years (reduced from twenty-five years in August, 1909); New Zealand, twenty-five years. No definite period of residence is prescribed in France, but the extreme difficulty of naturalization makes, perhaps, such qualification unnecessary. In Denmark, the problem of the alien hardly exists; in Belgium only one year's residence is required and again the naturalization requirements are difficult. In addition, in Australia, three years' citizenship are required, and in Great Britain the requirements are severest, being twenty years' continuous citizenship as well as residence.

It seems worth while to indicate these limitations because, with the exception of Denmark, all the countries having governmental old-age pension systems are also countries of immigration—some more than others, but even in France and to some extent in Belgium the influx of immigrant labor from eastern and southern Europe is a growing phenomenon. In the opinion of the legislators, this has evidently justified the severe residence requirements, so as to prevent the dumping of the pauper population of other countries. But it evidently leaves a wide gap in the efficacy of the law, for the strictest requirements of that nature will not influence the current of immigration very much, and yet the immigrant population will necessarily give its quota of deserving (or non-deserving but equally needy) aged poor.

The list of moral qualifications is even more formidable. The French act seems to be the only one which has no reference to the moral character of the prospective pensioner. The Australian act directly specifies the requirement of "good character" and that of New Zealand "good moral character," but in addition, these and the other acts contain other requirements very much more specific.

The most important of these is freedom from a criminal record, though this may not be absolute. In Great Britain, a prison sentence disqualifies for ten years; in New Zealand, from twelve to twenty-five years, according to whether it was a short or a long sentence. In Denmark, the disqualification is permanent unless a pardon has been obtained. Wife (or husband) desertion within four years before application

for pension is sufficient to disqualify both in Australia and New Zealand; also neglect of one's children under fourteen years. Considering, however, that persons over sixty-five years are concerned, these requirements cannot work hardships in many cases. Habitual inebriety is specifically mentioned in the acts of Great Britain (where it may be reason for disqualifying for ten years), of New Zealand, where a sober and reputable life for at least five years is demanded.

The economic qualifications are also of a twofold character. On one hand, the applicant must be poor; on the other hand, he must not be (or at least, have been) a pauper. In this respect even the British act was fairly liberal: while the applicant must not be in receipt of poor-relief, there were some forms of charitable assistance which were not to be considered poor-relief, such as medical aid, or burial aid for death of dependent. But these disqualifications arising from pauperism became void in 1911, and an amendment of the act in 1911 further liberalized the conditions of eligibility to the pension, resulting in a material increase of the number of pensioners. In the Danish system, conviction for mendicancy or vagrancy for five years previously is sufficient to disqualify, the period having been reduced from ten years in May, 1908.

Still more definite are the restrictions as to establishing the existence of need. Of all the limitations of the extent of application of a pension, this is the most important, as it excludes a very large proportion of the persons of the age-groups concerned. Of these restrictions, the more important is that concerning the amount of income permitted; less so is the limitation of the ownership of property. These limitations naturally vary much in proportion to the local conception of a minimum standard. The highest standard is found in Australian countries. No one may receive a pension who enjoys an income of £52 in Australia (£1 a week or $5), and £60 ($300) in New Zealand. In Great Britain the permitted revenue must not exceed £31 10s., or about $157.50 per annum, or, roughly, $3 per week. In France, the permitted amount is much less—480 francs, or $92.64, while in Denmark, only 100 kroner, or $26.80, may be disregarded. Under the temporary scheme in Belgium, a revenue of 360 francs for single persons, and 600 francs for married persons, was permitted.

In addition, limitations as to the value of property owned, are found in several acts, which are somewhat narrower than the income permitted. Logically, the necessity for such further restrictions is apparent, otherwise, it would be to the interest of the aged person, and especially of his prospective heirs, that he invest his property in the least income-bearing securities, so as to come within the law. Yet it surely cannot be the object of a governmental pension plan to preserve the ample savings of aged people for the benefit of their able-bodied and grown-up children. To prevent this contingency, a limit is placed upon the value of accumulated property which may be held without disqualifying the owner from pension. In New Zealand the limit is £260 (about $1,300), and in Australia, £310 ($1,550).

Important as are all these requirements, theoretically, the one which definitely determines the sphere of activity of a pension act is the economic qualification contained in the maximum income. The other qualification is that of age. Here, too, a wide variation is observable. The British and French pension systems (until 1910) have a very high age limit of seventy; New Zealand and Australia, as well as the Australian colonies, before the act for the entire Commonwealth was adopted, began their pensions at sixty-five (as did Belgium under its temporary provision), and Denmark begins its old-age relief at the earliest age of sixty. It is necessary to add that at least in two countries, Australia and France, the pension provisions are extended to invalids, irrespective of age, provided incapacity may be definitely established.

That the age limit of seventy is entirely too high has been argued frequently and may be readily admitted. Not only does it materially interfere with the popularity of the system, in that few workmen expect to survive to that advanced age, and fewer care to worry about the age, but there is the more weighty material consideration that the conditions which make for old-age dependency become operative much before the age of seventy, and that the problem of prevention of poverty and pauperism is met less than half-way by this limitation. The only objection argued against the lowering of the age limit is the fiscal one, the excessive burden to the national treasury. But it can scarcely be doubted that the extension of the old-

age pension to sixty-five in Great Britain is a question of time only.

As to the amount of pension, two tendencies are observable; some laws establish a well-defined amount, uniform to all, or at least uniform under uniform economic condition; e.g., providing a sliding rule of pensions in accordance with income. Other acts permit adjustment to individual cases, with certain latitude to the judgment of the administrative officers. In that, they differ radically from the compulsory old-age insurance acts, where the amount granted depends upon definite extraneous conditions and not the status of the pensioner at the time the pension matures.

The earliest pension act, that of Denmark, adopted the latter of the two tendencies. There is no definite rate of old-age pensions. The law simply provides that " relief must be sufficient for the support of the person relieved and for his family and for their treatment in case of sickness." Moreover, this old-age relief need not necessarily be in the form of a regular money pension. In the cities, such payment usually constitutes the relief, but in the country, aid " in kind " in the form of fuel, food, or rent is frequently granted. The other limits, as established by various communes, are between the maximum of 200 kroner ($53.60) and a minimum of 50 kroner ($16.30).

In France, the close connection between old-age pensions and poor-relief is evidenced not only in the title of the act, but also the provision which leaves the selection in each individual case, between institutional relief and outdoor relief in form of pensions, to the local authorities. The French act does not establish any definite level of pensions. The granting of the pension is made by the commune which also determines the general level of pensions for its own district, subject, however, to the approval of a central authority. The limits were rather meager. The minimum is only 5 francs (96 cents) per month, and the normal maximum, 20 francs, or $3.86, and pension-levels in excess of that amount were only authorized by the central authority for the largest cities.

In Australia, as in Denmark, an adjustment to the individual case is permitted. The amount of pension must be " at such a rate as, having regard to all the circumstances of the case, the commissioner who determines the pension claim deems reasonable and sufficient." A maximum amount of £26 per annum,

or about $2.50 per week, is provided, with a further condition that the pensioner's total income, including the pension, must not exceed £52 per annum, or $5.00 per week. The same comparatively high level of pensions obtains in New Zealand, and did obtain in those Australian colonies which preceded the Commonwealth's Act.

Finally, the British system, in amount of pension, stands between those of Australia and the Continental systems. The amount of pension fluctuates between 1 and 5 shillings per week, 24 cents to $1.22, according to the amount of the other income as per the following schedule:

When income does not exceed £21, the pension is	5	shillings
" " is over £21 but not over £23, 2½ s	4	"
" " " £23, 2½ s. but not over £26, 5 s...	3	"
" " " £26, 5 s. " " " £28, 17½ s.	2	"
" " " £28, 17½s. " " " £31, 10 s.	1	"
" " " £31, 10 s. there is no pension ..		

Roughly, the combined value of the pension and the income enjoyed will fluctuate between $1.25 a week for those who have no income of their own at all, and about $3.00 for those who are on the boundary line.

A certain relation between the local cost of living and the amount of pension is easily noticed. But in all the countries enumerated, the amount of pension is barely sufficient to grant the most urgent necessities of life; in fact, in one or two cases, it may be questioned whether the old-age pension succeeds in doing that much. Nevertheless, it is true of all these countries that the demand for these pensions is very persistent and the number of pensioners is rapidly growing. Opponents of old-age pensions and of all similar legislation have often pointed to this fact as evidence of greed and fraud, but it is difficult to dismiss the weight of evidence of general old-age dependency which these figures give. Many severe qualifications are exacted before the right to a pension is admitted. There is no reason to assume that all these requirements remain a dead letter. Granted, then, these numerous qualifications and the different age limits, what proportion of the aged apply for and receive the old-age pensions?

Perhaps there is no country in which both mutual aid and co-operation and individual thrift are so highly developed as

they are in Denmark. Nevertheless, in face of existing poor-relief, the adoption of the pension act immediately brought forth a fairly large contingent of aged people in need of assistance. In the population of only a little over 2,500,000 the very first year showed over 30,000 beneficiaries, and the number has been constantly, though slowly, growing in a much greater proportion than the population. In 1907 this number exceeded 50,000, so that at present at least 60,000 receive this old-age relief. Of persons over sixty years of age, over 25% are admitted by careful examination of communal authorities to be in need of support; the number naturally growing rapidly with age. Thus, between sixty and sixty-five, the percentage for men was 8%, and for women 21.5%; for the ages sixty-five to seventy, 19% and 34%, and for the age-group of over seventy, 30% and 39%.

During the same period, the average amount of pension granted has materially increased, from $27.23 in 1895, to $42.89 in 1907. In the latter year the average for cities was about $53, and for the rural districts, $36.

No less popular is the old-age pension system in France, notwithstanding the very much smaller amount of pensions. The law went into effect in January, 1907. In July of the same year, i.e., only six months after the operation of the law, the number of persons receiving assistance was ascertained to be 340,610, of whom 298,840 were receiving outdoor relief or pensions. By June 30, 1910, the total number of pensioners was 525,730 and adding 43,726 receiving relief in institutions, the total number of persons aided under this act was 569,456. By September 30, 1912, this number had further increased to 640,-532. With a population of 40,000,000 of whom not over 2 1-2%, or 1,000,000, could be over seventy years of age, nearly 57% were receiving aid under the pension law, being evidently dependent.

Even a larger proportion of the aged applied for pensions in Great Britain. The immediate response of the population to this act was rather a sad reflection upon the conditions in Great Britain. It was estimated in advance that the number of persons of seventy years of age and over in Great Britain was 1,254,000, of whom 393,000 probably had an income exceeding £26 per annum (which was the level proposed and subsequently changed to £31 10s. per annum), that 414,000

were paupers and about 60,000 not qualified to receive pensions for various reasons, and that the number of pensioners would be 386,000. It was further assumed that the pension would prove a strong stimulus for reducing the number of paupers and thus increasing the number of pensioners to about 488,000 in 1911, and 626,000 in 1912. Appalling as these figures were, the actual experience showed that they materially underestimated the existing demand for old-age relief, as in 1909 the total number of pensioners already reached 667,000, or nearly twice as many as were expected, constituting over one-half of the population over seventy years of age, although about 25% or 30% were receiving aid as paupers. Since then the number of pensioners has grown with remarkable rapidity, reaching 700,000 in 1910, 907,000 in 1911, and 942,000 in 1912. The sudden increase in 1911 is clearly due to the expiration of the poor-relief disqualifications. Thus some 75% of the population over 70 years of age are receiving old-age pensions at present.

It is still more amazing that the degree of old-age need was almost as urgent in the prosperous Australian colonies. Who has not heard of the economic prosperity of New Zealand? Nevertheless, in a population of a little over 1,000,000 the number of pensioners in 1909 was 14,396, or nearly 1 1-2%. As the number of persons over sixty-five years of age constitutes about 4% of the total population, it follows that some 35% of that age-group were able to qualify for the old-age pensions.

Finally, for the whole of Australia, the number of pensioners in December, 1909, was 60,000 in a population of 3,832,760, or nearly 1.5%, or over 40% of the aged population.

Can any evidence be more convincing than these dry figures of the urgent need of some form of old-age provision?

With such large and rapidly growing numbers of pensioners throughout the civilized world, the cost of old-age pensions must be perceptible. Even in such a small country as Denmark, the cost has increased from $685,000 in 1892, to $2,175,000 in 1907. In New Zealand, the cost reached nearly $1,750,000 in 1909; in New South Wales over $2,134,000, and in Victoria over $1,325,000. The greatest expenditures are naturally called forth in France and Great Britain. In France

the cost during the first year of its application was about 45,000,000 francs (about $9,000,000), and has since increased to some 100,000,000 francs, or about $20,000,000. In Great Britain, where both the number of pensioners and the amount of pension is greater, the cost for 1909 was £8,500,000, or $42,000,000, and increased to £9,800,000 ($48,000,000) in 1910-11, and £11,700,000 ($57,000,000) in 1911-12. In other words, the pension system called for large appropriations which must rapidly increase, while under a compulsory insurance system, on the contrary, a gradual decrease of contributions from the national treasury is expected.

The financial arrangements of the different systems are, therefore, of considerable importance. In this, two different types may be distinguished: Under one there is a concentration of all expenditures within the national financial system, and under the other there is an effort to shift at least part of the expenditures upon the local authorities and means.

In Great Britain and its colonies the first plan prevails, and it is understood in Great Britain that the income tax is to be called upon to furnish the necessary means for meeting this additional expense. In Denmark and France, where the local authorities are given considerable discretion in determining the amount of pension, they share in its cost. In Denmark the rule is simple: the commune grants the relief out of its own funds and is reimbursed, out of the treasury, for one-half of the expenditures. In France the financial arrangements are more complicated. The communes which grant the pensions receive subsidies from the department, according to a complicated sliding rule of taxable property which works out in such a way that the larger the proceeds from local taxation, the larger is the share of the commune and the smaller the subsidy of the department. The latter may vary from 90% to 30% of the total cost. In addition, the state contributes from 10% to 20%, according to the number of persons per thousand assisted, if it is over 10,000. Furthermore, the department itself receives a subsidy from the state varying from 50% to 95%, according to the local level of taxation. Experience has shown that under this complex system of apportionment, about one-half of the cost is contributed by the state treasury, the subsidies being greatest where the local finances are weakest. The advantages of this system are supposed to be not only

in lifting part of the burden from the national treasury, but also in enlisting the interest of the local authorities in eliminating malingery and fraud.

Notwithstanding the great popularity of old-age pensions wherever they were introduced, they have been subject to severe criticism, both by adherents of the compulsory principles and by others who expect various harmful results from the introduction of such systematic old-age relief. Perhaps the most emphatic criticism of old-age pensions has been made in the report of the Massachusetts Commission on Old-Age Pensions, Annuities, and Insurance, which was published in 1910. This criticism is summed up by the commission under the following heads: (1) heavy expenses; (2) moral effect upon character in destroying the habit of thrift; (3) the disintegrating effect on the family, and (4) the harmful effect upon wages.

The arguments, supported by the weighty authority of the commission, and not limited in their application to the United States, are deserving of a careful consideration. The fiscal argument may be passed over for the moment. When an institution is to be established, first, its necessity, its usefulness, or harmfulness must be considered, and only then, the question of ways and means comes into the foreground.

Does the prospect of an old-age pension decrease the habit of thrift? And is this possible effect an argument against old-age pensions? In every one of the existing pension systems a certain amount of property and income is permitted to the old-age pensioners. The fact that from one-fourth to three-fourths of the people reaching that age do not possess the necessary income shows that there was either no habit of thrift to destroy or that the conditions of life and wages were such that thrift was impossible. In other words, the argument, to be consistent, should be, not that the system of old-age pensions destroys the habit of thrift, but that it interferes with the upbuilding of such a habit, and that if such a habit were capable of upbuilding the level of wages, it might then offer a solution of the old-age problem. But this theory is so emphatically contradicted by all known results of studies of wages and the standard of living, that it really does not seem to need any formal refutation. In so far as the standard of wages may be influenced by the worker himself, it is not the habit of thrift but his standard of life that succeeds in making them.

Moreover, in addition to the problem of old age, there are many other conditions facing the workingman during his whole life which may sufficiently stimulate this habit of thrift where thrift is possible and desirable. The legitimate purpose of thrift is to regulate expenditures in such a wise manner as to prevent waste and permit a constant rising of the standard of life. If thrift is to be called upon to make provision for the uncertain emergency of old age, such results will only be obtainable at a certain reduction of a standard throughout the life of the wage-worker.

Still more striking is the fear of the disintegrating effect of the old-age pension on the family. It has been argued by the commission that such a pension system " would take away the moral obligation for the support of aged persons which is the main point of family solidarity." To say the least, this is an argument which holds fast to an ideal of family which dates back to the middle ages, or at least to an agricultural community.

" We Americans," says Mr. L. W. Squier,[1] " have not that conception of the family as the unit of society, and that reverence for old age, which is engrafted upon the heart of the Oriental. . . . In this country no such esteem for the aged ones prevails, except among his relatives and especially in agricultural communities. In our manufacturing centers, especially, the helpless, destitute grandfather or grandmother is regarded as a distinct burden to the household, the carrying of which oftentimes forces children out of school and into the streets, factories, or shops, in order to provide for the added increment to the household expenses which the taking on of an aged relative entails."

The phenomenon is not a result of racial distinction between Oriental and Occidental; it is a distinction between the status of family in an agricultural and industrial stage of civilization. The truth is that there is nothing for the old-age pension to destroy.

And then there is the supposed economic danger—the depressing effect upon wages. This objection of the commission is based on no less than three considerations:

First.—The unfavorable effect the pension would have by attracting foreign sources of labor. In support of this theory,

[1] *Old Age Dependency in the United States*, p. 312.

the commission brought forth no facts, nor could the statistical demonstration of this argument be at all possible. Yet against it may be quoted the consideration that migration is not popular in the age-level over fifty, and that as far as the younger elements are concerned, it would be childish to expect that they would be influenced in the selection of the country of immigration by conditions as they will be after sixty, rather than those immediately to be expected.

Second.—There is the fear of the effect of possible competition of the pensioners. It is assumed that a pension which grants an old man or woman no more than a guarantee from starvation must increase his power as a competitor. The argument, if sound, would apply equally well to a freely purchased annuity, to support furnished by children, or even to a substantial savings-bank account obtained by patient exercise of thrift. It is quite evident if the man at the age of sixty or sixty-five, when the pension is granted, is still physically in a position to perform some useful labor, though with a much lower degree of efficiency, his danger as a competitor would be very much greater in absence of other means of support. Any labor union man knows what a professional economist may sometimes disregard, that a competitor in the labor market is never as dangerous as he is when he is starving. As a matter of fact, the age-limit exacted in all pension systems, with the possible exception of Denmark, is such as to make the fear of competition a negligible quantity.

The third argument is even more far-fetched: it is claimed that the prospect of a pension in future old age would tempt and enable workingmen to offer their services for lower wages at present. It presumes a theory of wages which includes the cost of old-age support as a usual element. It presumes that specific savings for old age are a normal feature of the life of the working class. In short, it assumes various economic conditions which are based upon the hypothetical study of the nature of the economic man rather than upon the actual studies of the life of the working class.

There remains the one and all-powerful convincing argument of cost, especially the fear that the cost would be greater than assumed, for that is just what happened in most countries granting old-age pensions; but that is only another form of admitting that the degree of old-age distress and of the

need for old-age support is much greater than we are willing to believe.

The argument of cost must assume either, that a civilized, highly industrial nation is too poor to keep up its veterans of industry, or that the degree of comfort granted by old-age pensions is unnecessarily high (being $1.25 in England and $2.50 in Australia), or, finally, that the working class itself is better able to yield that support than is the nation with its far-reaching power of taxation. It is difficult not to reach the conclusion that this argument is simply equivalent to a denial of any responsibility on the part of organized society towards relieving the distress of those who, after having spent their lives in productive activity, find themselves deprived of any means of support. All these arguments have been sufficiently thrashed out, not only in such radical countries as Australia and New Zealand, but even in Great Britain, and modern Europe has long since reached the point where it is willing to face these similar problems upon a basis of study of actual conditions, rather than abstract arguments based upon the doubtful economic psychology. France, in 1905, and Great Britain, in 1908, adopted their far-reaching and costly systems of old-age pensions for no other reason than that the social need for such systems was proven to be pressing.

But granting all this, granting the great degree of distress and society's admitted obligation to come to the rescue, is a system of old-age pensions the best or only method of accomplishing the aim? Our study of the subject has demonstrated the existence of two methods—seemingly contradictory and mutually exclusive, though in reality merging one into the other—that of compulsory old-age insurance against a system of non-contributory old-age pensions. While only two important countries have as yet adopted national systems of compulsory old-age insurance, that is the method contemplated in most other Continental countries. It is also true that France, having adopted the system of old-age pensions in 1905, nevertheless enacted compulsory insurance in 1910. It is also true, however, that during the introduction of the compulsory system in France, there was a violent opposition to the system from the population at large and especially from the radical elements of the working class, and that from the extremest of them the opposition to the compulsory principle, or rather to the

contribution by the wage-workers, went so far that for a certain time a systematic effort was made by the radical faction of the French socialist movement to resist, by force, the application of the law.

The situation, therefore, appears somewhat confusing. What are the main objections of the workingman to a compulsory insurance system? Evidently, it cannot be the state subsidy granted, for this is but the application of the state pension principle, nor can it be the objection to the contributions from employers.

It is argued, and with a good deal of justice, that compulsory contributions by the workmen themselves represent a hardship and an additional burden which a good many of them are unable to meet without suffering material loss. That a good deal of weight must be given to the argument goes without saying. That a system of compulsory insurance which would eliminate that feature, were it to grant equally favorable results, would be more desirable from the point of view of the classes interested may also be admitted. Such a system of insurance, combining a state subsidy only with the employers' contributions, is not being contemplated at present in any of the countries. It is necessary to point out that the harmful effect of that additional burden of compulsory insurance contributions is somewhat exaggerated.

As a matter of fact, the German employer frequently pays both shares of the compulsory system voluntarily. An increasing number of students are beginning to see that this feature of the employees' contribution is far less important than it has been made to appear. On the other hand, the compulsory insurance system seems to have a great many advantages over the system of straight pensions. Of course, the latter is extremely simple as compared with the bewildering perplexity of a modern compulsory insurance law, and its very simplicity proves attractive to the popular mind, but scientific remedies to social evils cannot be any simpler than the problems themselves. That the system of old-age pensions proved to be the most effective as an immediate remedy to an existing situation, such as was found in France or England, may be admitted without dispute. But there are many serious objections to such a system, at least as it has been realized, besides those which the Massachusetts Commission has mentioned.

To begin with, all systems existing grant but a minimum necessary to keep soul and body together, for it must not be forgotten that the origin of old-age pensions was in poor-relief. It is true that the same criticism may be offered of the compulsory systems of Germany and France, but it must be remembered that neither the German nor the French national system has exhausted the possibilities of compulsory old-age insurance. It is for this very reason that special pension funds of the railroad employees, miners, and seamen found in such quantities throughout Europe were mentioned, for there one finds large possibilities of a compulsory old-age insurance system. In these funds the ideal of old-age insurance has finally been realized, in that they grant a great deal more than a bare means of existence. In fact, they grant what, with proper consideration for the respective standards of wages and life in the various countries, must be considered a comfortable old-age provision, and they do grant it by means of a system to which both sides contribute.

More than that, while they all began upon the principle of equal contributions from both sides, they proved to be an excellent means of forcing very much higher contributions from the employer. Finally, no compulsory system exacts evidence of practical, if not legal, pauperism, which all state pensions do.

Many broader economic arguments can be advanced in support of the compulsory system. It is not a dead-level system. It preserves a normal relation between the standards of life before and after the age of pension and also preserves a just relationship between services rendered and the rewards granted, for it is usually based upon the length of contributions, which is the length of productive activity. It is economically just, in so far as it exacts a contribution from the industry, for superannuation is no less a factor of modern industrial life than is the rate of accidents or of sickness. If it be just that each industry should contribute to the cost of accident compensation in proportion to the number of accidents occurring, rather than that the entire cost be forced back upon the national treasury, it would seem to be equally just that an industry which uses up men by forty-five or fifty-five years be made to contribute to the cost of old-age support in a greater degree than another industry or occupa-

tion in which men can preserve their productive life until sixty-five. Looking upon it in another way, the justice of the claim may be admitted, that a contribution on the part of the industry to old-age insurance is but a deferred wage; surely if the French railroads contribute to various pension organizations from 10% to 15% of the cost of labor, the sum-total is undoubtedly a part of their expense for labor. In a final analysis, therefore, the workingmen themselves may be said to advance the entire cost of old-age support. Nor is this wrong in principle, provided that we assume that a workingman's wages are sufficiently high to permit such old-age pension. In other words, a national system of old-age insurance must be considered as a means by which society raises the general wage level so as to include the cost of old-age support with the cost of the normal standard of life. If, under modern industrial conditions, it could be expected that the wage-workers themselves would be able to raise the standard of wages to the necessary level so as to include the cost of old-age support, and that they would use this additional increment for that purpose—no compulsory system would be necessary. But the compulsory system is necessary just because these two conditions are found to be impossible.

Does it follow, from this line of argument, that old-age pensions are harmful or unnecessary? Not at all. At least two very convincing arguments may be advanced in favor of old-age pensions. Firstly, as a temporary measure, they are inevitable, for the conditions of compulsory insurance have no retroactive force; secondly, modern industry being organized as it is, there will be, for a long time, a certain element of casual, irregular labor which will be unable to comply with the exacting conditions of compulsory insurance and is yet deserving of some systematic support.

Moreover, the need of old-age provision is not necessarily limited to the wage-working or salaried classes, which alone can be systematically provided for under a scheme of compulsory insurance with employers' contributions. The most "universal" compulsory system is far from being universal. Not only the casual laborers but also artisans, the small producers, the petty merchants, and occasionally other groups of population, may find themselves in old age in the position of the "worthy poor." Their need will be supplied by an old-

age pension more dignified than the old forms of poor-relief.[2]

It is for this reason that the situation in France, combining both systems, is so extremely interesting. In discussing this situation, Mr. M. M. Dawson states [3] that the function of the old-age pension is a transitory one to be supplanted by the compulsory insurance system in time. This may be true to a certain extent only. It was argued, when the system of old-age pensions was first proposed, that it would do away entirely with other forms of old-age poor-relief, institutional as well as outdoor. The fact that, while poor-relief was somewhat affected, it was yet not entirely eliminated, is no argument against the pension system. It simply showed that the old-age pension satisfied an additional need. Even so, the compulsory insurance system may supplement instead of substituting for the old-age pension.

The most liberal system of old-age pensions existing does not, therefore, completely do away with the possible application of a compulsory system, and surely no system of compulsory old-age insurance has done away with the necessity of old-age pensions.

It is not at all impossible that Great Britain may, in the not distant future, follow France's example in providing a dual system. Surely, the National Insurance Act, which has familiarized Great Britain with the principle of compulsory insurance and has gone partially into the field of invalidity insurance, appears as a very powerful argument in favor of such a course. There is also a serious movement on foot for a system of compulsory old-age insurance in Denmark, the fatherland of straight non-contributory pensions, but this movement seems free from any demand for the abolition of the existing pension system.

[2] The writer is under obligations to Professor K. Coman, of Wellesley College, and Mr. Paul Kellogg, editor of *The Survey*, for the privilege of reading the MS. of Dr. Coman's paper on the new Swedish Old Age Insurance Law, which includes the novel feature of exacting insurance from every man, woman, and child over sixteen. This absolute universality is unique and not likely to be adopted by many countries.

[3] *Market World and Chronicle*, August 31, 1912.

CHAPTER XXIV

THE PENSION MOVEMENT IN THE UNITED STATES

It is a very interesting fact of American social history that both from the point of view of actual achievements and that of intelligent consideration, much more has been accomplished in provision for old age and superannuation than in sickness insurance. Perhaps it may be explained by the influence of the British precedents, where the enactment of an old-age pension act preceded that of compulsory sickness insurance by four years. Perhaps it is the effect of the war pension system which has familiarized the American mind with the problem of old age. But one who looks for economic interpretation of important social phenomena may find at least a partial explanation in the pressing need for a solution of the problem of superannuation in economic activity of all kinds.

The sick workman hardly presents a problem from an industrial point of view. Automatically he is eliminated from the field of employment, and his place must be filled by another, more vigorous wage-worker. It is not so easy to eliminate the aged with their gradually failing economic activity, unless some systematic plan of retirement exists.

Undoubtedly that explains the growing popularity of various establishment funds, which will be discussed presently. It is not often that the economic basis underlying " social welfare work " of large corporations is emphasized so pointedly as was done by Mr. F. A. Vanderlip (whose close relationship with industrial and financial interests will not be doubted by any one), in the following quotation:

" The pension attaches the employees to the service and thus decreases the liability to strike. It makes more certain the continuance of efficient men in the lines of work with which they are perfectly familiar. Of quite as much importance is the fact that a pension system enables employers to dispense with the elderly and inefficient, and thus gives constant encouragement to good effort on the part of the younger men hoping for promotion. When employees realize

that unsatisfactory conduct may at any time lose them not only their present position—a loss which in such a labor market as ours might be easily be made good—but that it entails further the loss of a very valuable asset, the employee's right to a pension, the incentive to good conduct is greatly increased. It operates especially as an incentive to hold men between the ages of forty and fifty, when they have acquired the experience and skill which makes them especially valuable, and prevents their being tempted away by slightly increased wages for a temporary period." [1]

Naturally, the pressure of these economic factors expressed itself not only in these establishment pension funds, but also in the appointment of commissions for the investigation of this problem in several states, and in a general discussion of the problem, as a result of which a considerable amount of descriptive material is available which enables the student to gage, at least approximately, the development of various forms of old-age insurance.[2]

But while the efforts and experiments are many, the actual results as yet are few. Almost all the types of institutions for insurance or mutual aid which have been enumerated and briefly described in connection with sickness insurance are also operative in the field of old-age provision. In addition there are other important institutions of governmental nature.

In old-age insurance as in sickness insurance, the following organizations must be taken into account:

A. Private Agencies.
   (1) Mutual Insurance. Trade and labor unions.
   (2) Contributory Voluntary Systems. Establishment funds.
   (3) Straight Pensions Granted by Employers. (*a*) Establishment funds. (*b*) Railroad funds.

[1] Conference of Charities and Corrections, Philadelphia, Pa., 1906. Proceedings (quoted by L. W. Squier: *Old Age Dependency in the United States*, p. 73).

[2] See Twenty-third Annual Report of the U. S. Commissioner of Labor: "Workmen's Insurance and Benefit Funds in the United States," especially Chaps. III and IV.—Charles R. Henderson: *Industrial Insurance in the United States*, especially Chaps. VII, VIII, IX, and X.—L. W. Squier: *Old Age Dependency in the United States.*—*Pension Funds for Municipal Employees and Railroad Pension Systems in the United States* (Senate Document No. 427, 61st Cong., 2nd Sess.—E. B. Phelps: "The Drift Towards Old Age Pensions," *American Underwriter*, Vol. XXX, January, 1909.—Report of the Massachusetts Commission on Old Age Pensions, Annuities, and Insurance.

(4) Private Voluntary Annuity Insurance. Fraternal orders.
(5) Commercial Annuity Insurance. (*a*) Ordinary insurance companies. (*b*) Industrial insurance companies.

B. Governmental Agencies.
(6) Voluntary Insurance. (*a*) Massachusetts plan. (*b*) Wisconsin plan.
(7) Municipal Agencies. Employees' pension funds: (*a*) Teachers'. (*b*) Firemen's. (*c*) Policemen's. (*d*) Other employees'.
(8) State Pension Schemes.
(9) The National Military Pension System.

The list is not complete, but sufficiently comprehensive to indicate the extreme complexity of the existing organizations which may be taken into consideration if ever a truly national system of old-age provision is decided upon.

As in Europe, so in the United States, mutual insurance has accomplished very little towards the solution of old-age pensions. In regard to the benefit activity of trade unions, the official report of the U. S. Bureau of Labor is available. If only 11% of the total benefit payments went for purposes of sickness, the share of superannuation benefits was very much smaller, namely, $198,615, or less than 2 1-2%.

Of the eighty-four national unions investigated, only four (with a combined membership of 100,000) reported superannuation benefits, and in addition four unions had provided for a superannuation benefit system in the future.

It is evident that superannuation benefits form an unusual feature of trade union activity in this country. In fact, the Amalgamated Society of Carpenters and Joiners is the only national union whose activity in that direction was of some importance. It boasts of superannuation benefits since 1867, and in 1905 spent for this purpose $180,000 distributed among 1,818 aged members. But the interesting feature of this activity is that this superannuation was almost altogether limited to branches outside of the United States; of the 1,818 pensioners, only 39 were in the United States. Only some $25,000 was spent by the American union for superannuation benefits.

Still more insignificant was the activity of the local unions. Only seven unions, with 10,000 members, were granting pensions for permanent disability due to any cause. In other words, as far as old-age provision is concerned, the trade

unions frankly recognize the impossibility of dealing with the problem, because of both the actuarial and administrative difficulties involved, and very little development in that direction may be expected in the future.

Another form of mutual insurance, which is not limited to wage-workers alone, but combines this class with some portions of the middle classes, is that of fraternal societies. But these societies operate mainly in the field of life insurance and partly in sickness insurance. As far as old-age pensions are concerned, that is still more limited than in the case of trade unions.

To begin with, in most states old-age pensions are prohibited to the fraternal societies by law, and though some exceptions exist, very few of the fraternal societies have availed themselves of the opportunity.

It is true that the Massachusetts Commission on Old-Age Pensions recommended a change in the law which would permit fraternal societies to assume the payment of old-age pensions, but the Insurance Commissioners' Convention of 1910 took a stand against this recommendation, taking the point of view that the readjustment of its life insurance activity was a sufficiently big problem for the time being.

If the danger of unsound actuarial conditions always stared in the face both unions and fraternal orders, there could be no such difficulty in the case of private commercial life insurance companies. But, nevertheless, the results here, too, are disappointing, to say the least. Even among the middle classes, who purchase life insurance in such enormous quantities from the " ordinary " insurance companies, insurance of old-age pensions has never become popular in this country.

Very recently, and presumably under pressure of the Massachusetts Savings Banks Insurance plan, the large industrial insurance companies have introduced old-age insurance policies, or rather combinations between life and old-age insurance. The conditions of such insurance look attractive, as is shown by the table on the opposite page.

It may be true that thirteen cents a week is not a very heavy burden for a young man of twenty. But it must be remembered that it is the exceptional man at twenty who will worry about the remote contingency of old age at sixty-five; that the cost is very much higher if the insurance is begun at an ad-

vanced age. A policy providing an income of $5 per week, if taken out at the age of thirty-five, would require a regular weekly outlay of seventy cents. For that amount, which is over $35 a year, he may purchase a thousand-dollar life insurance policy, and many are the workingmen who prefer such protection of the family to protection of their own old age. As a matter of fact, the old-age annuity policy offered, notwithstanding some extensive advertising, has failed to achieve any popularity among the wage-workers.

Age	Industrial policy	Intermediate policy	
	$100 life insurance and $100 pension beginning at 65 years of age	$500 life insurance and $100 pension beginning at 65 years of age	
	Weekly premium	Annual premium	Quarterly premium
20	$0.13	$12.66	$ 3.24
25	.16	15.31	3.91
30	.21	18.93	4.84
35	.27	24.01	6.14
40	.37	31.40	8.03
45	.53	42.85	10.95
50	.82	62.44	15.96

All these forms of private old-age insurance are carried by the workingmen entirely at their own expense, fitly termed by Mr. L. W. Squier, "Pensions by purchase." The combined results of all of them are altogether negligible. When the American pension movement is spoken of, an entirely different tendency is meant, or, more accurately, two tendencies:

(1) The efforts of the employers and,

(2) State efforts, constituting true social insurance.

Enormous publicity has been given within recent years to the establishment of pension and retirement plans by certain corporations employing large numbers of wage-workers. Because of this publicity the actual results achieved have loomed up much greater than they really were. As a matter of fact, only a very small proportion of wage-workers have been as yet provided for through these establishment funds. Such funds are more popular in the railroad industry than in any other field of industrial activity. But, after all, the official investigators of the U. S. Bureau of Labor were able to discover only fourteen such railroad funds, of which that of the Baltimore and Ohio Railroad, existing since 1884, is the

oldest example; and the other large funds are those of the Eastern and Western Departments of the Pennsylvania Railroad, that of the Chicago and Northwestern Railroad, the Illinois Central Railroad, and the Philadelphia and Reading system.

The total mileage of all the railroads possessing such pension funds was not much over 30,000, or from 10% to 15% of the American railroad mileage. The total expenditures of the fourteen funds were not much over $800,000, and the number of pensioners 4,638, giving an average of about $170 per pensioner, or $3 a week.

More recently Mr. L. W. Squier, in his study of *Old Age Dependency,* supplemented the data of the official investigation by additional inquiries referring to the years 1910 and 1911, and as a result four or five railroad companies are added to the field.

A characteristic feature of all these railroad pension funds is that they are straight grants made by the employer and out of the treasury of the corporation, without any contribution by the employee.

A certain uniformity exists among all these funds. They usually provide for optional retirement at sixty-five and compulsory retirement at seventy years of age. With one or two exceptions the amount of the pension provided is 1% of the average salary for ten years preceding for each year of service, so that after twenty-five years of service, one-fourth of the average salary would constitute the pension. A long period of continuous service, twenty or twenty-five years, is usually required; in fact, the age of entrance in most railroads is limited to forty or forty-five. The administration is entirely in the hands of the employing corporation, and notwithstanding all rules, the granting of the pension in each individual case depends entirely upon the administrative board. In all pension plans the fact is very emphatically underscored that no contractual obligation on the part of the corporation exists, and that the pension scheme may be modified, suspended, or discontinued at the will of the employer.

It may be claimed for this system of pensions that it has solved the superannuation problem for the railroads which have adopted them.

The drawbacks of these pension systems have been stated

so frequently that it seems unnecessary to repeat the familiar arguments. "Any plan," says Professor H. R. Seager, "which ties a man to his job by discouraging him from changing from one employer to another is undesirable. All economists recognize that the mobility of labor is an important factor in securing for wage-earners higher earnings and better conditions. These pension plans are intended to and do oppose the mobility of labor."

But even more harmful than the interference with the individual free mobility of labor are the obstacles to a concerted action of labor and the power of repression which the right to deny the pension grants. Many American writers are ready to see in these establishment funds the possible solution of the old-age problem. Every announcement of the organization of a new pension fund is hailed with extravagant praise and hope.

But European experience has conclusively demonstrated that a radical change in the nature of corporation pension funds, which would destroy many of its most valuable features (from the employer's point of view), can only be accomplished through governmental action. Only through appropriate legislation can the arbitrary character of the pension grant be abolished and the establishment fund virtually transferred to an industry fund, the fulfilment of assumed obligations exacted, the interests of employees leaving the service voluntarily or through dismissal safeguarded, etc. Under such regulation as is found in connection with railroad funds throughout civilized Europe, the establishment funds become true organs of social insurance.

Gradually the establishment pension system is spreading from the railroads to industrial establishments, but with a much lower rate of speed than is commonly supposed. The International Harvester Company and the Standard Oil Company are quoted as famous examples, though the Carnegie Relief Fund of the United States Steel Corporation is perhaps the greatest of them. Only a few such funds were discovered in 1907 at the time the federal investigation was made. A more recent effort to list these establishment pension funds was made by L. W. Squier, who had sent out over one thousand inquiries to the largest employers of labor, and succeeded in bringing together evidence of only twenty-nine systems for old-age pen-

sions of some kind or other, and these twenty-nine corporations included coal, iron, and steel companies, other industrial enterprises, public service corporations, meat-packers, mercantile establishments, and even banks.

The inquiry of the Massachusetts Commission on Old-Age Pensions, limited to the employers of that state, has yielded similar results. Circulars were sent to over 1,000 corporations and individual employers in that state; and though 362 replies were received, only four of the firms claimed a regular system of retirement pensions, though many other concerns reported that occasionally pensions are granted by special vote.

In other words, even in the railroad industry, pension funds protect a very small proportion of the employees, and in other lines of commercial and industrial activity the pension funds, notwithstanding all the publicity that is given them, are very exceptional indeed. The loud advertising given to the funds at the time of inauguration is likely to exaggerate the frequency of such funds in industry at large. Moreover, not many of the pension funds or pension systems discovered in the various services referred to are to be classified as satisfactory. It is admitted by many of the twenty-nine firms mentioned by Mr. Squier that no universal pension system exists, but employees are occasionally pensioned when, in the opinion of the employers, they deserve it.

Even the best organized pension funds are not free from this charge of arbitrariness. The following quotation from the by-laws of the pension system of the International Harvester Company, which constitutes its concluding paragraph, is characteristic of the entire pension movement in large American establishments:

> "Neither the establishment of this system nor the granting of a pension, nor any other action now or hereafter taken by the Pension Board, or by the Officers of the Company, shall be held or construed as creating a contract, or giving to any officer, agent, or employee a right to be retained in the service or any right to any pension allowance, and the company expressly reserves unaffected hereby, its right to discharge without liability, other than for salary or wages due and unpaid, any employee, whenever the interests of the Company may in its judgment so require."

The small social value of such provisions for old age and their demoralizing character upon the spirit of self-reliance

among the wage-workers, need not be argued at great length.

Among the railroad companies the principle of straight "gratuitous" pensions has been pretty well established. But among the industrial establishments a greater variety of systems exists. Both straight pensions and contributory systems of old-age insurance (either compulsory or voluntary) exist, though the straight, non-contributing pensions are about twice as frequent. Of ninety firms mentioned in the various investigations quoted, some twenty were granting straight pensions, sixty had contributing schemes, and in ten the granting of pensions was occasional.

Naturally, there is considerable variety in details. In straight pensions the age of compulsory retirement is seventy or sixty-five, seldom below that. The prevailing scale is similar to that of the railroads, 1% for each year of service,—which is far from being a liberal provision. When contributing systems exist, this provision is subject to wide fluctuations. The amount of contributions in some cases is purely nominal (10 cents per month in one case, for instance), in others it amounts to 3% or 4% of the salary. Where these contributory systems exist, provision is usually made for a return of the contributions in case of leaving the service, and for representation of the assured upon the management of the fund. Perhaps these are the very reasons why these contributory systems are not popular among the employers.

To sum up this very brief review of all existing forms of voluntary old-age insurance or private old-age provision:

The results achieved as yet are very insignificant quantitatively, and far from satisfactory qualitatively.

The activity of labor unions is extremely small because the problem is almost beyond them, and they limit their benefit features to death and sickness insurance. Fraternal orders, with all their difficulties of an actuarial character before them, have kept out of the field of old-age insurance, nor is it formally open to them by law.

Private insurance companies, whether of the ordinary or industrial type, have recently made some efforts to popularize old-age annuities, but without any marked degree of success. A few—very few—large corporations have introduced superannuation systems either by contributing pension funds or by straight gratuitous pension systems, but these are accompanied

by well defined and generally recognized dangers to the economic independence of the working class.

It is becoming quite evident that a national policy toward the solution of the problem is strongly indicated, that the reliance upon the good will and judgment of corporations is Utopian. In this respect past history but repeats itself. More than seventeen years ago France went through the process of evolution. In the report of the U. S. Commissioner of Labor on "Workmen's Insurance and Compensation Systems in Europe," we read:

"In 1895 when the various proposals for a national old age pension system were universally discussed, the argument was often heard that such a compulsory system was hardly necessary in view of the rapid growth of establishment funds through efforts of the better class of employees. A statistical investigation of such funds was requested by the parliamentary commission . . . and undertaken by the Bureau of Labor. . . . The investigation showed conclusively that in the general problem of old age provision for industrial workers, these establishment funds were of very little importance, less than 100,000, or about 3.7%, of the industrial employees being protected by them." [3]

It is doubtful whether a similar investigation undertaken in this country at present would show even as high a percentage of employees provided for, especially if the railroad funds be excepted, which were not included in the French investigation. Unfortunately, the investigation of the U. S. Bureau of Labor, though containing detailed descriptions of many individual funds, fails to answer this all-important question. In any case, while the results of the French investigation stimulated the movement for a national system, governmental regulation of the existing establishment funds was accomplished as early as 1895, and such governmental supervision is the crying need of the existing pension funds and systems in this country to-day.

In marked distinction to the total absence of any governmental activity in the field of sickness insurance, a few governmental efforts have been made and some results have been accomplished in old-age provision. These may be classified as follows:

[3] *Workmen's Insurance and Compensation Systems in Europe.* Twenty-fourth Annual Report of the N. J. Commissioner of Labor. Vol. I, Chap. IV, p. 873.

(1) The pensioning of government employees.
(2) The system of war pensions.
(3) The provision for voluntary insurance in social agencies.
(4) The inception of a movement for old-age pensions.

The provision for old-age pensions for government employees is important as an admission of the necessity of pensions to meet the problems of old age and superannuation. It is also important in itself because of the large and growing number of government employees. How large this number is, is scarcely appreciated, in view of the narrow interpretation of the term "government employee." The Federal Government alone employs perhaps over half a million persons. To this must be added the employees of state governments, and the still more important army of municipal employees, which includes such large bodies of men and women as the police, the fire department service, the street cleaning service, hundreds of thousands of school-teachers, the sanitary service (hospitals, asylums), the large clerical service, etc. While no complete statistical data are available, it is quite certain that the number of governmental employees of all these groups exceeds 1,000,000.

Even of this number a majority is as yet unprovided for. But proportionately government employees have fared better than employees of private corporations, especially as far as municipal employees are concerned.[4]

An investigation by the U. S. Bureau of Labor, made in 1910, demonstrated 48 funds or systems of retirement of teachers; 41 of these are confined to teachers employed by special municipalities. Six funds cover teachers of entire states. These are Connecticut, Maryland, Massachusetts, New Jersey, Rhode Island, and Virginia. Of the twenty-five largest cities in the United States all except one possess such retirement funds, so that it may safely be said that teachers in large cities are well provided for; and only those in the rural districts (with the exception of the few states enumerated) and to some extent in the smaller cities as yet have no provision made for their old age. Still more numerous are the policemen's and firemen's funds, of which 167 were recorded in the official in-

[4] L. W. Squier: *Old Age Dependency in the United States*, Chaps. V and VI, pp. 139-228.—*Pension Funds for Municipal Employees and Railroad Pension Systems in the United States* (61st Cong., 2nd Sess., Doc. 427).

vestigation of the Bureau of Labor. Of the seventy-five largest cities, sixty had such funds or systems; of the forty largest cities only six lacked them. From the point of view of old-age pensions, the policemen and firemen, therefore, are the best provided of all American wage-workers.

Outside of these well-defined groups of employees, however, only a very few pension funds exist. The official investigations, with all the powers of inquiry at their disposal, included only four such funds in their list. Some of these funds are of a recent origin, but others have been in existence for twenty or thirty years. The curious question arises why the existence of these many pension and retirement funds scattered throughout the country has not of itself created an interest in the masses of workingmen (from whom, after all, all policemen and firemen and a large proportion of teachers are recruited), for old-age retirement methods,—no demand for the extension of similar advantages to the industrial army as a whole. Perhaps a plausible explanation of this fact may be found in the peculiar attitude of the American people to government service. Notwithstanding the formal extension of civil service principles to various municipalities, the real situation is a close connection between " government jobs " (city " jobs " especially) and political influence or " graft." A policeman or fireman receives his appointment because of service rendered to the " organization." It is, therefore, a privileged position to which the ordinary principles of a wage-contract do not apply. His wage is usually very much higher than what he could command in ordinary life, his emoluments even higher. The pension fund is simply one of the many privileges of the city " job."

Unfortunately, the conditions of most of these pension funds are such as to corroborate this point of view. The official investigation made by the Bureau of Labor is too brief to throw much light on this subject. It is little more than a list of the existing pension funds, with the few essential data presented in tabular form, but no information as to the actual mode of operation. But even an inspection of these data leads to that criticism. Over one-third of the pension funds are supported by the government only. While the others are formally contributory systems, the contributions of the employees are so ludicrously small in about 40% of these funds that they repre-

sent but a very small proportion of the pension cost. This of itself is no great misfortune. It simply means that we are dealing here with straight or nearly straight service pensions, provided such is the legal status of the fund, and the municipality or the state plainly assumes the responsibility. As a matter of fact, this is true of very few funds only. In most of them, in addition to the contributions of the employees, various miscellaneous sources of revenue exist, the proceeds of which are accidental, and stand in no relation to the obligations assumed, such as a percentage of the excise money, contributions from liquor tax, or a definite appropriation from the state, or fines and deductions from salaries, proceeds from sale of condemned material, a part of tax collected from fire insurance companies, police-court fines, dog licenses, and what not. Under such circumstances a special act of Providence would be necessary to establish the proper balance between revenues and obligations assumed; and, as a matter of fact, such balance exists in very few funds only. From an actuarial point of view most of these funds are insolvent, and in the absence of a state or municipal guarantee, a crisis at some future time seems inevitable.

Yet, in view of this lack of financial soundness, the rules for the granting of pensions are extravagant to an extreme. While the provisions are naturally subject to many variations, in the majority of cases a very substantial pension of 50% of wages is granted, after twenty years of service in case of voluntary retirement. In some of the funds proof of incapacity is required; but this usually is purely perfunctory, and the demoralizing effect is that men and women in the prime of life, often not over forty-five years of age, receive a substantial pension from the city government, at the same time drawing income from other employment or professional work.

While this situation is true of employees of various municipalities, the situation is diametrically different in the case of the army of employees of the United States Government, which numbers several hundred thousands, and possibly half a million. With the exception of employees of the military and naval establishments, no provision for the pensioning and retirement of public employees exists. In this, as has been frequently pointed out in the discussions of recent years, the United States Government occupies a position that is unique

among all civilized nations. Not only does no provision exist, but until very recent years the situation was practically hopeless. In Washington there was no less popular cause than that of a "civil pension list." The government employees bitterly complained that they had no friend in Congress, and the members of the National Legislature absolutely refused to take any interest in their cause, because of the general conviction that such a measure would be extremely unpopular among their constituencies at home. It was customary in newspaper discussions to explain this attitude by the resentment which the country at large felt towards the excessive burden of war pensions, and the unwillingness to add an additional burden for civil pensions. But when the repeated extensions of the war pension system at an enormous cost within recent years are considered, the explanation seems to fit but little with the actual facts.

Of late the movement for civil service pensions has grown. Within the ranks of the employees themselves it has grown because the problem of old age is facing an increasing number of older employees. And the administrative branch of the Government was forced to face the problem because of the serious difficulty of preserving any degree of efficiency with a force badly suffering from superannuation. Repeatedly, heads of executive departments, and occupants of the presidential office as well, have come out with a strong plea for some measure of relief, so as to make the retirement of superannuated employees possible, and these pleas were not without some effect upon the legislative body.

Nothing, however, has as yet been accomplished, because of lack of agreement as to the best method of procedure. The discussions leave no doubt that as far as the Government is concerned, it has taken the typical attitude of the employer; it is the necessity of finding a solution of the superannuation problem, of finding a method of preserving a standard of efficiency rather than of old-age provision, that is the moving force of all the pension agitation, hence the effort to accomplish this result with the least possible expense to the national treasury. Very few voices are heard in favor of a straight pension system. Not only is the preponderance of opinion among the administrative and legislative circles in favor of a contributory system, but the demand is usually made that the entire cost of

retirement on a pension be placed upon the shoulders of the employees. It is argued that a position in the civil service is in itself a privilege, and that there is no reason why the bureaucracy should be given the tremendous economic advantage of a gratuitous pension at the expense of the nation at large, which does not enjoy such advantage.

This at least represents a definite point of view. But nothing except ignorance of the elementary principles underlying the pension problem can explain the demand often made, that even the immediate retirement of the employees already superannuated be placed upon the body of employees themselves; for this would place the duty of supporting the older members upon the younger men and women. An intermediate plan (strongly advocated by the actuary Herbert D. Brown) proposes a compromise: that the retirement of the old men be accomplished at the expense of the Government, this cost being gradually reduced as the older men die out, and the younger generation accumulate, through its own contributions, a sufficient fund for retirement.

It is of more than local interest to observe that among the employees themselves the same cleavage into two camps has taken place. The older men, as a rule, prefer a straight pension. A contributory system offers nothing to them; they expect retirement either immediately or in the near future. They have lost all hope of leaving government employ for more remunerative opportunities. On the other hand, the younger men think more lightly of their old age; they are not sure that they will survive the age of retirement; they are still less sure that they will be in government service by the time they reach that age; their main interest in fact, under pressure of the rising cost of living, with which the general standard of salaries has not kept abreast, lies in an increase of present wages; and they fear that the grant of a straight pension will clog the movement for higher wages. Under influence of a very able and energetic propaganda, many of them have been convinced that a contributory scheme for old-age pensions would leave the movement for higher wages intact, and since, in most of the contributory plans suggested, provision for return of contributions in case of leaving the service has been embodied, a good many of them have come out for contributory systems. At the bottom of this is the view that

an old-age pension, no matter how granted, is after all but a deferred wage, and they do not wish to lose that deferred part of their pay in case of death or resignation.

It is unfortunate that this division of opinion has furnished a very effective argument for further delay, so that the body of four or five hundred thousand government employees is no nearer a solution of the old-age problem than it was five years ago, and it is doubly unfortunate in view of the tremendous impetus any pension system for these governmental employees would have given to the whole American pension movement. But it is very significant that notwithstanding the attraction of a " gratuitous " system of old-age pensions, the contributory system, i.e., a system of compulsory old-age insurance, has succeeded in gaining a very high percentage of adherents. For, after all, *mutatis mutandis,* the same arguments apply to employees of large industrial corporations, and with an even greater force because of a lesser security of tenure, and the very much greater shifting of the labor force in such corporations.

It is a very singular feature of the old-age pension situation in the United States, that while so little has been accomplished for the permanent employees of the Government, the pension for temporary services—the so-called war pension—has achieved such tremendous development. After all, it is idle to speak of a popular system of old-age pensions as a radical departure from American traditions, when our pension roll numbers several hundred thousand more names than that of Great Britain. It is preposterous to claim that the cost of such a pension would be excessive, when the cost of our pensions is over $160,000,000, or more than three times as great as that of the British pension system. In the face of such a cost, it is childish to consider the system of war pensions as a sentimental problem only, and to speak of the millions spent for war pensions as the cost of the " Civil War." We are clearly dealing here with an economic measure which aims to solve the problem of dependent old age and widowhood. No state legislator will claim, unless it be in a peroration to a Fourth of July outburst of oratory, that the constant pressure for extension of war-pension benefits, and the systematic political work which creates such pressure, which neither party has had the courage to resist—is all the result of patriotic

enthusiasm only. It is necessary to face the situation frankly, and applying to the system of war pensions the ordinary standard by which any piece of legislation is judged, inquire how far it meets the problems, how efficiently, economically, and justly it may work for their solution.

As is well known, the total cost of these pensions has been enormous. The increase in the annual disbursements for war pensions during the last four or five decades is shown eloquently in the following figures:

Year	Million dollars	Year	Million dollars	Year	Million dollars
1867	21	1890	106	1907	138
1879	33	1891	117	1908	153
1880	57	1892	139	1909	162
1888	79	1893	157	1910	160
1889	89	1894	140	1912	153

Lovers of startling figures may obtain some satisfaction from the information that the total cost up to June 30, 1912, not counting the administrative expenses, reached the neat sum of $4,383,368,163.88. But the amount itself need not frighten any one. The question is how it was expended and what it has accomplished. In the little table above, certain years were picked out which indicated the development of the pension system. After a normal growth from 1867 to 1879, there is a sudden increase in 1880; similarly after the gradual increase from 1880 to 1888, a sudden rapid rise in the four years 1889-1893, when the cost has nearly doubled (from $79,000,000 to $157,000,000). From 1894 to 1907 the total amount of pensions fluctuated between $138,000,000 and $145,000,000, but in 1908 again suddenly increased to $153,000,000, and in 1909 to $162,000,000, declining since to $153,000,000 in 1912.

The sudden increases are due to legislative changes. The original act of July 14, 1862, provided pensions for disabled soldiers, and for widows, orphan children, and dependent mothers of deceased soldiers, the amounts varying from $8 to $30 per month. The increase of expenditures in 1880 was due to the arrears act of 1879, which provided for payment of back pensions from the time disability was incurred, i.e., for from fifteen to eighteen years. Neither the original act nor the latter measure took any cognizance of economic need ex-

cept as to dependent mothers. This was followed by the ninety-days pension act of 1890, in which the very lenient requirement as to the length of military service (only ninety days) was combined with the qualification of mental or physical disability, and the pension amounts were from $6 to $12 per month. The act explains the rapid increase of expenditures in 1890-1893.

Few of the changes took the economic circumstances into consideration. The extensions were based primarily upon a more lenient attitude towards the requirement of past services and records rather than upon any effort to adjust this annual distribution of enormous sums to economic need. As a result the preposterous situation is created that various sized portions of this official melon are given to thousands of people who may not at all require it. No satisfactory statistics on this point exist, but it is a matter of common knowledge not only that pensions are obtained upon fraudulent representation of past services, forged records, fictitious marriage certificates, etc.,—an aspect of the problem sufficiently important in itself, which need not be discussed here at any length however,—but what is economically much more important, a large proportion of this amount goes to individuals who have no economic need whatsoever of financial assistance.

How large this economic waste must be, may be approximately summarized from these figures. The total number of pensioners on the rolls, which by 1870 was about 200,000, has been rapidly growing, until by 1890 it exceeded half a million. Within the next three years it jumped to 906,000, and by 1902 reached nearly a million. In the natural course of events it has been declining since then, so that by 1912 it was 860,000. Of course invalids of war do not constitute the entire number. The proportion of widows and orphans has been growing until it now constitutes nearly 37% of the pensioners. Nevertheless, the majority of the pensioners is made up of men who must be of very advanced age—over sixty-five at least. The number of these invalids in 1893 reached its highest numbers, 760,000. Since 1898 it has been quite regularly declining, from 759,000 to 538,000 in 1912. But even with that smaller number it represents a very large proportion of all persons over sixty-five. For the total number of males over sixty-five in 1910 was 1,986,000. In the nature of things, however, very few foreign-born men are on the pension lists, and comparatively

few persons of the negro or other colored races. The total number of native white persons sixty-five years or over in 1910 was 1,117,000. The number of war pensioners was over one-half of that, or in other words, every second native white man over sixty-five was receiving a pension.

As a matter of fact, the proportion is undoubtedly greater than one-half, at least in certain portions of the country, for the national pension system does not apply to the aged survivors of the Confederate cause. Moreover, several Southern states have pension systems of their own. According to a special study made by Professor W. H. Glasson some years ago,[5] eleven states spend over $4,000,000 anually for some 85,000 pensioners, of whom some 60,000 are invalid soldiers, and the remainder widows. It is a safe estimate that with the South (or at least the aged persons of the South) excluded, nearly two-thirds of the native white persons over sixty-five years of age are receiving a federal pension.

Whether these two-thirds of the native white old men have really participated in the war and whether from a patriotic or moral or sentimental point of view they "deserve" their pensions for sufficiently valuable services rendered to the state or nation, is a question of very little economic importance. But do they really represent the needy portion of the aged population? A plausibly affirmative answer is given to this question by some very careful students. "Since the great majority of the old soldiers came from manual occupations, it seems fair to presume that the military pension system has acted as a workingmen's pension system," says Professor Charles R. Henderson.[6] It must be remembered, however, that the vast majority of the Civil War veterans had left the military service at a very early age; that a numerically large wage-working class is a rather recent element of American society; that the development of industry after the Civil War and the energetic exploitation of natural resources have created a large number of individual opportunities; that the shifting from the wage-working to the middle class, which is still to some extent a feature of American life, was very much more common forty or fifty years ago; that in so far as the growth of American industry created a demand for wage-

[5] *Review of Reviews*, July, 1907.
[6] *Industrial Insurance in the United States*, pp. 276-77.

labor, this demand has been largely met by a constantly growing current of European immigration; and that this very current had lifted the native American into the middle class. Add to this the important fact that very important privileges had been granted to Civil War veterans, in homestead preemptions, in civil service of all branches, federal, state, and municipal, and the conclusion is inevitable that:

The most singular feature of the American pension system is that it primarily redounds to the advantage of a class least in need of old-age pensions. This, and not the evidences of fraud in obtaining a pension, is the gravest indictment of the pension system, with its annual expenditure of $160,000,000. It is naturally quite difficult to establish the truth of this conclusion statistically. Nevertheless, a few interesting statisical considerations may not be out of place. In the following table the distribution of men over sixty-five years of age in gainful occupations is given according to the five well-known occupations, as classified by the Census, separately for native whites and foreign whites.

MALE PERSONS SIXTY-FIVE OR OVER IN GAINFUL OCCUPATIONS
1900

Occupational group	Native white		Foreign white	
	No.	Per cent.	No.	Per cent.
Agriculture	364,552	56.9	125,289	40.9
Professional service	36,149	5.7	8,219	2.7
Domestic and personal service	47,798	7.5	49,594	16.2
Trade and transportation	81,026	12.6	41,356	13.5
Manufacturing and mechanical pursuits	111,626	17.3	82,204	26.7
	641,151	100.0	306,662	100.0

A glance at this table is sufficient to demonstrate the very much higher economic status of the first group. Agriculture and professions claim 62.6% of all native white persons over sixty-five gainfully employed, and only 43.6% of the foreign white males of the same age-groups. On the other hand, mechanical pursuits and domestic service employ 42.9% of all the foreign whites and only 24.8% of the native whites. More detailed illustrations could be drawn in unlimited numbers. The foreign-born whites on one hand and the negroes on the

other, who, after all, constitute a very large majority of the wage-working class, get very little of the war pension, the bulk of which must reach the middle-class American.

Nor are statistics necessary to prove this obvious state of affairs. The economic effects of the war pension have been so carelessly treated in the pension legislation that it surprises no one to find a war veteran drawing a substantial salary as a public employee (after having obtained the appointment under privileged conditions), and at the same time his war pension for disability; and perhaps the most striking and ludicrous example of this was the well-known case of a prominent veteran, who some years ago received within one month a high pension specially voted by Congress because of total and permanent incapacity, and immediately after that an important and responsible position in the Federal Civil Service, which carried with it a salary of $3,500 per annum.

Notwithstanding all these incongruities, however, the system of war pensions represents a very important entering wedge for a national system of old-age pensions. No matter how lenient and extravagant future war-pension legislation may be, it is hard to imagine how the rapid decline in the number of surviving invalids of the war can be prevented. As their number has declined from 758,511 to 538,000 in fourteen years, or on an average of 15,700 for each year, and as within the last five years the decline was from 679,937 to 538,000, or 28,400 for each year, it is reasonable to expect that within this decade the number will be further reduced to about 200,000. A large appropriation will, therefore, automatically become available, which will permit of the establishment of a national old-age pension scheme without even any material fiscal disturbance—something which no important European country has been able to accomplish.

Already the first beginnings in the movement for a national old-age pension system have been made. England's precedent on the one hand, and the familiarity with the war pension on the other, have given the straight pension idea a material advantage over plans for compulsory insurance. A few states have appointed commissions for the study of the problem, and though the most important of them, the Massachusetts Commission, has not only filed a report against straight governmental old-age pensions but stated bluntly that " any recom-

mendation of general legislation on the subject of old-age pensions or insurance would be premature at the present time," nevertheless, even this report, quite comprehensive on its informational side, has contributed to the popular knowledge of the subject. It is doubtful whether the majority either of the wage-working population or of the students of economic problems, would agree with the conclusion that " there is no alarming amount of old-age destitution." Moreover, the advocates of social insurance might find a good deal of comfort in the statement of the commission that " if any general system of old-age pension is to be established in this country, this action should be taken by the National Congress," and also that " the problems of sickness and accident insurance should be dealt with before enacting . . . legislation concerning old-age pensions or insurance." The old attitude of indifference to measures of social insurance seems to have gone for good.

The positive recommendations of the Commission were neither novel nor extensive; they simply followed the earlier measures in which a good deal of faith was put in Europe twenty-five or fifty years ago, but since then have been recognized as utterly inadequate. Whether it will be necessary for the United States to accumulate at its own expense this painful and slow experience, it is hard to say. But there can be no doubt that the measures recommended by the Massachusetts Commission—such as instruction in thrift, voluntary annuity insurance in private insurance companies, organization of pension schemes by large private employers of labor, amendment of the laws concerning fraternal organizations so as to permit them to pay old-age benefits, will prove no more effective for a general solution of the problem of old age than did similar plans and measures in all industrial countries of Europe.

In Federal legislation also a few preliminary steps have been taken. Already several bills have been introduced in Congress dealing with the general problem of old age. In December, 1909, Representative Wilson of Pennsylvania introduced a rather naïvely drawn bill which provided for a national old-age pension system of $120 per annum for all persons over sixty-five years of age who do not possess property valued at over $1,500, or an income of more than $240, under a subterfuge of organizing an " Old-Age Home Guard of the United

States, '' in which men and women of that age would be permitted to enlist in order to receive the pension as '' pay.'' The bill failed to attract much publicity, but the bill introduced eighteen months later (July, 1911) by the first socialist Representative, Victor L. Berger, fared much better. This bill had the advantage of the combined support of both the enthusiastic membership of the socialist party and many trade unions. Being a socialist measure, its provisions are naturally very liberal, at least financially; more liberal, in fact, than those of any existing governmental old-age pension system. It proposed a pension of $4 per week or less, on a sliding scale, to all persons of sixty years of age or over, who do not possess an income of over $10 a week. Several provisions in the bill (especially those requiring sixteen years of citizenship, and denying the pension to any one ever convicted of felony) called forth severe criticism from many radical socialists, and the bill, rather hastily drawn, was made the subject of very acrid discussion in the socialist press for many months. But this discussion rather helped the cause, for it brought the subject of pensions home to hundreds of thousands of American families. The demand for an old-age pension has for over twenty years constituted a permanent plank in the platform of the socialist party, but for the first time it has now become a living issue as is proven by the fact that it has been included in the famous '' confession of faith '' and in the national and New York State platforms of the Progressive party.

Finally, the first steps have already been taken towards active participation of governmental authority in old-age insurance. Massachusetts, since 1907, and Wisconsin, by an act of 1911, have taken this significant step.[7] While it is true that the Massachusetts plan is carried out not through the state directly, but through savings banks, the degree of control and regulation exercised makes it no less a state insurance system than many state insurance systems in Europe.

The principles of the Massachusetts plan, for which the well-known '' people's attorney,'' Louis D. Brandeis, has so ardently worked, are very similar to those upon which voluntary insurance against old age in Europe is based.

[7] See Massachusetts Commission on Old-Age Pensions, Report, pp. 190-204.—L. W. Squier: *Old Age Dependency in the United States*, pp. 286-90.—Quarterly Publications of the American Statistical Association, No. 85, 1909.

As the Massachusetts system is designed especially for the purpose of life insurance, a more detailed description of it will be given in the following chapter dealing with this subject. Though old-age insurance is permitted to this system, it is accomplishing so very little for the solution of old-age dependency that only on grounds of scientific accuracy may the inclusion of the Massachusetts system in this chapter be defended. During the first sixteen months only 59 policies out of 1,499 issued by the Whitman Savings Bank called for annuities—1 out of 25.

Very little may as yet be said about the Wisconsin plan, which has been in operation a few months only. It differs from the Massachusetts system in being a straight state insurance system. Both annuities and life insurance are permitted, and as the law provides for loading of the premiums for expenses, and even for the building up of a surplus, it cannot be said that the state furnishes even an indirect subsidy.

But while the actuarial field of operation for both systems may prove a very narrow one, their importance need not be underestimated. It is not only that a few more provident individuals will have sagacity enough to take advantage of cheaper insurance. It is not only that, as is claimed by Mr. Brandeis and others, the fear of competition of these state insurance schemes has already forced the industrial and ordinary private insurance companies to reduce their premiums. Their main significance is in establishing the important principle that the old-age insurance problem is one of deep concern to government and society. And the European experience showing experiments in voluntary state insurance as a preliminary step towards true social insurance, which is compulsory insurance, is a portent of the inevitable development in the United States as well.

CHAPTER XXV

LIFE INSURANCE FOR WORKMEN—PENSIONS FOR WIDOWS AND ORPHANS

A CAREFUL examination of a very large number of general books on social insurance discloses the rather striking fact that the subject of ordinary life insurance—the most familiar type of personal insurance in this country—is singularly disregarded. In scarcely any one of them is a systematic treatment of this form of insurance to be found. In most it is not even referred to. Evidently the explanation cannot be found in the suggestion that the wage-workers do not need it. For the danger of premature death, with dependent relatives surviving, is and must be a very serious one to the wage-working class.

The omission of this topic is rather due to the absence until very recently of any large state or social efforts to deal with the problem, so that in a systematic study of social insurance, the problems of life insurance would be presented mainly as so many open questions still awaiting an answer. Within the last few years, the bold new German plan of pensions for widows and orphans has paved the way for a careful consideration of this problem, and it has called attention to the fact that fragmentary provisions for the emergency of death have already been made in almost all European countries, and in a great variety of ways.

It scarcely seems necessary to emphasize the fact that premature death of the bread-winner is a serious economic risk which exists in each and every wage-working family. In discussing the economic results of industrial accidents, the effects of fatalities upon the standard of the surviving family were sufficiently indicated. Obviously, from an economic point of view, it matters little whether an industrial accident or an illness was the cause of death. With the higher sick-rate among the wage-workers, with the prevalence of various industrial diseases, the death-rate among wage-earners is higher and

the average duration of life shorter than among the other groups of population. Normal death after a life of useful toil should come at an age when the immediate descendants at least are beyond the age of dependency. But perhaps few appreciate how comparatively rare are deaths at normal age. Taking all cases of death under sixty-five as premature, both physiologically and economically, 77% of all deaths in 1908 in the United States were premature.[1] Even if the alarming infant mortality is disregarded and only deaths of occupied males are considered, 73% occurred below the age of sixty-five; 55% occurred below the age of fifty-five; 39% below the age of forty-five. Thus the majority of deaths did, except in cases of wholly unattached bachelors, lead to some measure of economic distress. It goes without saying that these premature deaths are more frequent among wage-workers. Thus, among professional classes, deaths under the age of forty-five constituted nearly 50% of all deaths; in personal service, 60%; in manufactures and mechanical industries, 55%; among the laboring and servant class, 68%.

The economic results of most premature deaths of breadwinners are the problems confronting widowhood and orphanage: the charitable relief of widows burdened with large families, the employment of widows in poorly paid and unsanitary trades, the growth of orphan asylums, and to a large measure, child labor. Though the situations are familiar, almost obvious, a few statistical data will be of some interest in helping to measure the extent of the problems. In 1910, if only 20,381,819 women constituting the female population over twenty be considered, there were 2,712,075 widows, or 13%, for the vast majority of whom widowhood necessarily was an economic problem. No statistics of the number of orphans in the United States exist, as far as we are aware, but it is safe to assume that in the case of widows who are under fifty-five, the majority have dependent children, and the number of such widows within the age-groups 20-55 was 1,177,043, or 7% of all the women at that age.

That the problem of woman's work is to a very considerable extent the problem of widowhood, the following figures will show: of 5,329,292 women employed in gainful occupations in 1900, 857,922 were widows, or fully one-sixth, though widows

[1] U. S. Census Bureau, Mortality Statistics, 1908, p. 19.

constituted less than one-tenth of all female persons over ten. Moreover wage-work for a widow is a very much more serious problem than for the unmarried women. It is wage-work not temporary in character as it mostly is for a young unmarried woman, looking forward to marriage after a few years of employment. It is wage-work of the middle-aged woman, usually broken down in health from childbirth, poverty, and specific female complaints. It is, finally, wage-work in the poorest paid and most unsanitary employments. Thus, common day-laborers constitute less than 1.7% of the unmarried women, and 3.4% of the widows; laundry work, less than 3% of the single women and 13% of the widows. Poor dressmaking and seamstress work is another field of endeavor open to aged widows.

A good deal has been written about the cruel parents who feed on the sweat and blood of their children. The peculiar economic conditions of " she-towns " where women and children find ready employment while able-bodied men must live in idleness, have been studied and described. But one of the most obvious and least emphasized causes of child labor is the economic distress of orphanage. A limited investigation into this question made by the U. S. Census in 1907 from the data of the Census of 1900, and which covered only 23,567 children, showed that over 20% were orphans, either through death or desertion of their father.[2] It is particularly in the street trades (messengers, errand-boys, newsboys), which are responsible for some of the worst features of child labor, that the largest proportion of fatherless children is found.

The need of insurance protection against the economic consequences of death for the wage-workers is thus evident enough. It does not follow from this that the methods of life insurance which have achieved such popularity among the middle classes are at all adapted to the wage-workers.

The economic basis of life insurance, as it is usually practised in this and other countries, is that of accumulation of a fixed sum. The underlying thought, perhaps unconsciously, is a money valuation upon human life. As in case of fire insurance, the sum insured is supposedly big enough to compensate for the loss, so in life insurance, the middle-class man is en-

[2] Bureau of the Census, Bulletin 69, *Child Labor in the United States*, 1907, p. 19.

couraged to carry a lump amount commensurate with his value. The earning capacity of the bread-winner is capitalized, for modern society has been taught to think in terms of capital and interest. The persistent efforts of private life insurance companies to extend the field of their operations have undoubtedly been socially useful in that they have done a good deal to popularize the concept of insurance. But one of the results of their efforts has been the confusion of insurance and accumulation. The popularity of short-term endowment policies has been one of the results of this confusion. Expensive endowment policies are carried by thousands who can ill afford them, at a very great cost and sacrifice, when all that they need,—protection against the danger of death,—could be obtained at a cost many times smaller,—simply because they have been taught to combine insurance with forced saving.

When saving is thus combined with insurance, its combined cost becomes too heavy a burden for many.

The co-operative efforts of life insurance by the lower economic groups were usually directed towards simple insurance, because of its cheapness.

The combination of life insurance with enforced savings is out of place as far as a class is concerned which can hardly afford to make any savings. Life insurance for wage-workers must approach the problem from an entirely different angle. It must take into consideration the definite economic problems arising out of death, and only those. Workmen's life insurance must be planned with a view of protecting certain definite interests of dependents. For a wage-worker to withhold a portion of his earnings from consumption for the purpose of life insurance in absence of definite beneficiaries would be harmful social waste.

What, then, are the economic losses ensuing from the death of a wage-worker? They are of two kinds: the expenses incidental to death,—the cost of the last illness and the funeral,—and secondly, the loss of income to the widow and children, and, less directly, to other dependent relatives—the superannuated parents, brothers, and sisters. In other words, the problem is very much like that arising from fatal accidents, for which the necessary provisions were already discussed.

The existing provisions for life insurance for wage-workers may be classified, following the general lines of division laid

down for other branches of social insurance, into four large groups:

Commercial Insurance.
Voluntary Co-operative Insurance.
Voluntary State Insurance.
Compulsory State Insurance.

Even among the middle classes of Europe life insurance with private stock companies is far less popular than it is in the United States. It may be safely said that "ordinary" life insurance as the average American middle-class citizen knows it, which begins at a rather advanced age and demands heavy annual or semi-annual premiums, has not found a very good field even among American workmen, and is practically unknown among the workmen of Europe, and, therefore, scarcely requires any further discussion.

But in this country as well as in several European countries, notably Great Britain and Germany, a special form of life insurance for workmen has been developed by private stock companies under the name of "industrial" or "prudential" insurance. Its tremendous growth within a comparatively short period of time makes the relation between industrial and social insurance, especially their probable relation in the future, a problem of great theoretical interest and practical importance.

In discussing the general distinctions between commercial and social insurance, it was pointed out that the high cost of private, voluntary, commercial insurance was the one great obstacle in the way of its meeting the economic needs of the wage-working masses, that not only was the true cost of insurance high, but the high administrative expenses, agents' commissions, and the profit of the insurance company made the final cost still higher, and, therefore, still more prohibitive to the masses of wage-workers. In the case of industrial insurance all these factors are very much more marked than in ordinary life insurance, intended for the middle classes. For the distinctions between ordinary and so-called industrial life insurance are these:

1. A higher assumed mortality for industrial insurance in view of a higher death-rate and a shorter probability of life among the industrial population.

2. A much smaller average amount of insurance, and for this reason a higher administrative cost, and

3. Finally, a weekly (instead of an annual or semi-annual) collection of premiums through personal visits by agents; and all these three factors go far to increase the cost of industrial insurance as compared to ordinary insurance. This can easily be shown by a comparison of rates. Nevertheless, the number of people insured under this system in the United States, in England, and in Germany is enormous.

In this country, though industrial insurance was first begun only about thirty-five years ago, its growth was phenomenal, so that by the end of 1911, there were nearly 25,000,000 policies in force, as the following table shows:

INDUSTRIAL INSURANCE IN THE UNITED STATES, 1876-1911

Year	Insurance written during year	Number of policies in force	Amount of insurance in force	Premiums received	Losses paid	No. of Cos.
1876	$ 722,168	4,816	$ 443,072	$ 14,495	$ 1,958	1
1881	37,089,522	359,942	22,641,798	1,608,891	541,925	3
1886	132,674,189	1,764,158	196,694,876	1,368,142	2,466,725	3
1891	218,130,800	4,302,427	481,060,716	20,654,980	7,725,328	9
1896	360,852,458	7,375,688	886,484,869	40,058,701	13,420,336	11
1901	598,593,825	12,334,459	1,640,398,546	74,660,060	22,003,402	15
1906	631,417,769	17,829,046	2,451,177,221	130,215,764	34,864,191	19
1911	785,902,210	24,708,499	3,423,790,536	183,504,755	50,231,397	32
Total for 36 yrs.	$12,622,251,147	———	———	$1,892,221,516	$536,687,594	

It is often claimed in defense of these industrial insurance companies that with a proper organization, private voluntary insurance may accomplish results equally large as compulsory systems of social insurance in Europe. The proportion of the population carrying industrial policies in the United States is nearly 27%, or very much greater than the proportion carrying sickness insurance in Germany.

But mere numbers of insured cannot be depended upon as a sound criterion of the social value of any insurance system. This must be judged by the social returns on one hand, and its cost on the other.

What are the benefits which the American working class (and the same situation obtains in other countries where industrial insurance is popular) derives from this enormous organization? It is spoken of usually as a form of life insurance. This is evidently a misunderstanding, for the entire system fails absolutely to meet the more serious problem of

premature death,—the problem of supporting the surviving dependents. The average amount of the insurance carried per policy is ridiculously inadequate to meet any of these serious economic problems. In 1881 it was $91 per policy; in 1891, $112; in 1901, $133; and in 1911, $138. Even though there has been an increase in the average amount from $91 to $138 in thirty years, this has hardly compensated for the decline in the purchasing value of money during the same period. Even as a temporary relief to tide the family over during the critical period after the loss of the bread-winner, the amount of $100 to $150 is hardly sufficient. As a matter of fact, it has been freely admitted for years that the problem which industrial insurance aims to solve, is not of " life insurance " but of " death insurance," not the problem of relief for the survivors, but of a decent burial for the dead. If the purpose of social insurance be defined as " improvement of the standard of living," industrial insurance aims to improve the " standard of dying " and of burial.

No greater authority on the purposes of industrial insurance can be found than the late Senator John F. Dryden, organizer and President of the Prudential Insurance Company. The purposes of industrial insurance are clearly stated by Senator Dryden in the following words:[3]

" To provide . . . for the most simple needs of the mass of the population at the hour of death. . . . The problem reduces itself to the necessity that the burial of the father or the child must be paid for. . . . The poor have their standards of life . . . and however humble their station they prefer the burial of their dead at their own expense in a manner which to them represents the common decencies of life."

In view of these unmistakable statements, one rather wonders at the extravagant claims made for industrial insurance by the same writer that " the value of industrial insurance as making for a higher standard of family life cannot be overestimated." It is too well known that the greatest portion of money paid out in industrial insurance claims, readily finds its way into the pockets of undertakers as a result of a deplorable extravagance in funeral arrangements, encouraged by a life-long insurance for the purpose of " a decent funeral."

[3] *Yale Readings in Insurance: Life Insurance,* by Professor Zartman.

This being the main result of industrial insurance, what is its cost? The table shows that the total amount contributed by the insured in premiums is enormous. The bare statement that for thirty-six years $1,893,000,000 was spent does not tell the full story. More significant is the fact that the annual amount has increased from less than $2,000,000 in 1881 to $183,000,000 in 1911, almost equaling at present the total cost of the German social insurance system. Thus, the American working class pays for funeral insurance as much as is contributed in Germany by all three parties concerned, the wage-workers, the employers, and the state, for (1) accident insurance, (2) sickness insurance, (3) funeral insurance, (4) maternity insurance, (5) invalidity insurance, and (6) old-age insurance combined.

The expenses of administration exceed 40% of the income, so that over $750,000,000 was spent unproductively by the industrial insurance companies. Whether the heavy administrative expense is justifiable, taking the business as it is organized at present, is an open question, which need not be answered. It may be readily admitted that without the heavy cost of solicitation and collections, the results accomplished—the almost universal insurance of the wage-workers and similar economic groups—could not be. But this very admission is the strongest argument possible in favor of compulsory insurance, for it demonstrates the frightful difficulties in the way of making universal insurance possible under a voluntary system, and the insignificant results obtainable notwithstanding the high cost.

In discussing voluntary old-age insurance even in state institutions, statistics were quoted (in connection with the Italian National Old-Age Insurance Fund) to show how frequently a good intention to keep up the insurance fails in the course of time. It is the purpose of the costly system of weekly collection by personal visits of agents to counteract this tendency. Nevertheless, the results are equally unsatisfactory. Under the European systems of voluntary old-age insurance—the failure to keep up contributions regularly does not lead to a forfeit of the accumulated rights. Under the "industrial" system, the danger of a lapse with a consequent forfeiture of the insurance is an additional stimulus to regularity. It is claimed to be necessary in order to preserve the continuity

of the payment of premium, but even this costly system does not produce the desired effect. The number of lapses is enormous. In 1901 the three large industrial insurance companies which do over 95% of the whole industrial insurance business in this country, had 12,522,000 policies in force. By the end of 1911 the number increased to 22,760,000, an increase of some 10,338,000 policies. But during the same ten years 38,593,000 policies were written. Even assuming a uniform mortality of 25 per 1,000, which is, of course, very much too high and an average of 16,000,000 policies in force during the ten-year period, or 4,000,000 deaths, it will leave over 24,000,000 policies unaccounted for—most of them discontinued through irregularity of payment of the weekly premiums. Thus, in 63% of all cases the agent system proves ineffective, which is a worse showing than the voluntary system makes in some European countries.

Thus, the experience of industrial insurance proves not only the paucity of the social results of the commercial principle when applied to the insurance of the masses, but by its very imposing figures also the failure of any voluntary system—no matter what its organization and methods—to accomplish the results which compulsory insurance achieves.

The results accomplished through various forms of mutual organizations in the field of life insurance are less startling in numbers but very much more substantial. Both trade unions and mutual benefit societies under the various names usually include funeral benefits in connection with sick-insurance, and often in countries without a strictly regulated sick-insurance system, more substantial death-benefits, either in the form of a lump sum, thus performing the usual functions of life insurance, or even grant pensions to widows and orphans.

The extent of these operations naturally varies with the development of the mutual principle in general and with the economic status of the wage-working class, which limits the possible expenditure of the normal wage-worker's budget in that direction. Thus, in Italy, 30% of the mutual aid societies grant single benefits to widows and orphans; only 4.5% undertake to grant widows' and orphans' pensions, while as many as 45.4% granted funeral expenses. Though in Great Britain the main activity of the friendly societies is in the line of sick-insurance, nevertheless, over $4,000,000, or 15%, of the total

benefits was granted in one year on account of death. Out of an expenditure of $10,000,000 by one hundred large British unions, some $500,000, or 5%, was for the purpose of funeral benefits. On the other hand, when state controlled sick-insurance systems exist (whether compulsory or voluntary) sick-benefit societies are usually prohibited from undertaking any life insurance features beyond granting a modest funeral benefit, because of the great financial difficulties in the way of a satisfactory compliance with promises recklessly made. In Great Britain, where mutual life insurance is perhaps more highly developed than in any other European country, a limit of £200 (somewhat below $1,000) was placed by legislation.

Perhaps in no country has mutual life insurance reached such development as in the United States. It is extremely interesting to find that in distinction from the British and German unions, even the trade unions' benefit activity puts death-benefits upon the first plane. Thus, the official investigation of the Bureau of Labor showed that out of $7,829,021 expended for various benefits, $5,164,385, or fully two-thirds, was paid in death-benefits. So prominent was this feature that all the national unions paying any benefits at all included this life insurance. Less than 10,000 death-benefits were paid during one year, thus making the average death-benefit over $500. Of course, the average must not be taken too literally. Marked variations exist. In the vast majority of cases the amount is under $200 or a funeral benefit rather than life insurance, but in a few instances, especially in the case of railway employees' unions, the amount is much more substantial, from $1,000 to $3,000. In these instances the death-benefit assumes the dignity of life insurance, often with an amount depending upon a voluntary premium.

Even the local labor organizations, very much weaker financially, still emphasize death-benefits, though to a less marked degree. Practically all the 34 railroad benefit funds pay death-benefits, and in one year over $1,600,000 was paid for 3,138 deaths, or a little over $500 per death. Of these, 17 paid from $50 to $400, while the remaining 17 paid from $1,000 to $3,000 and in several additional optional benefits for greater dues were granted. Here, too, therefore, are found all transitional forms from merely funeral benefits to substantial life insurance. Of the 461 smaller establishment funds described

by the Government report, 419, or over 90%, paid death-benefits. Most of them paid a definite lump sum, while in a few a per capita assessment system exists, under which the amount of the death-benefit depends upon the membership at the time. Frequently, though, in a minority of the funds, different amounts are provided for different classes of membership, but in these funds the amount is usually small.

These facts throw considerable light upon the problem of life insurance for workmen in the United States. On one hand, the conclusions to be drawn are rather hopeful. They show that at least as far as that part of the working population is concerned which has become accustomed to co-operative effort, they both see the necessity for some life insurance and succeed in establishing it through their own efforts. Members of trade unions and of benefit societies, prefer, and very wisely, to organize their own life insurance rather than bear the heavy burden of the industrial premium loadings. A rather rough computation based upon the official report here so frequently quoted, seems to show that about 1,430,000 members of unions, 300,000 members of railroad benefit funds, and 330,000 members of establishment funds, or considerably over 2,000,000 workingmen, have preferred this method.

On the other hand, it is extremely easy to criticise the actuarial basis of these life insurance schemes. As the official report states, "no actuarial examination of the benefit funds of the various unions has ever been made," and the same is true of the railroad and establishment benefit funds. In no other line of voluntary insurance is the eventual retribution for neglect of the actuarial principles so certain as in the case of life insurance. It is almost certain that in most of the funds studied, no accumulations have been made to constitute a reserve fund for the obligations which the increasing age of the older members has put upon them. Nevertheless, there is very little danger that this absence of actuarial soundness will injure the union funds or establishment funds very severely. They are placed frankly upon an assessment basis. Both in the unions and in the establishment funds the membership is practically compulsory. There must, therefore, be a constant influx of new blood, and there is very little reason to fear an excessive increase of the mortality rate.

But much more significant is the possible criticism that most

of this life insurance is not life insurance at all, but merely funeral insurance. It has the advantage of comparative cheapness as compared with "industrial insurance," but this advantage does not solve the economic problem of death. At best, even this cheap funeral insurance meets the demands of some 2,000,000 only. Substantial life insurance may be enjoyed by perhaps 10% of that number. The development of these co-operative efforts speaks rather of the recognition of the need than of a very great degree of success in meeting it.

There remains the most important co-operative institution for life insurance in the United States—the so-called fraternal orders.

It is very much to be regretted that an economic institution of such tremendous importance has never been made the subject of comprehensive study. It is impossible to do more here than cast a glimpse at this virgin field. Within the last fifty years the development of fraternal insurance in the United States has been enormous. The ceremonial features (or "ritualistic work" as it is officially styled) of these orders sometimes obscure their activity in mutual aid, which consists, as officially stated by the National Fraternal Congress (one of the two affiliated bodies of these orders), in the following: (a) Fraternal assistance to living members in sickness and destitution; (b) the payment of benefits to living members for total physical disability; and (c) the payment of benefits at the death of members to the families, heirs, blood relatives, or dependents of such deceased members.

Of all the benefit features enumerated, life insurance has become the most prominent one. The total volume of life insurance written by the fraternal orders is even greater than that of the industrial companies, as will be seen from the following comparison:

	Number of policies outstanding			Insurance in force (in million dollars)		
Year	Ordinary Life Insurance Cos.	Industrial Life Insurance Cos.	Fraternal Orders	Ord. Life Ins. Cos.	Indust. Life Cos.	Frat. Orders
1901	3,458,464	12,334,459	4,518,955	7,573	1,640	5,656
1911	6,621,386	24,708,499	10,122,169	12,803	3,424	9,840

While the number of certificates of fraternal orders is considerably smaller than that of industrial policies, the average

insurance carried per certificate is nearly six times greater, and the total amount of insurance in force is nearly three times greater. In fact, it is almost as great as that of the ordinary life insurance companies. They have a tremendous social advantage over both other forms of life insurance in a very much smaller expense ratio. In 1911 their entire expenses of management including commissions constituted an expense ratio of less than 14%, while the ordinary life insurance companies for fifty years showed an average expense ratio of 20%, and the industrial life insurance companies 40%.

Nevertheless, the fraternal orders have been severely criticised, and in measure justly, because of their failure to comply with the laws of actuarial science. They largely owe their tremendous popularity to the cheapness of the insurance they sell, which in most cases is below the actual cost. Advantage is taken of the fact that the low average age produces for the time being a very low mortality rate, and the rapid increase in membership helps to keep up that lower mortality rate for a longer time than would otherwise be possible. But evidently these factors cannot be operative forever, and the day of reckoning must finally arrive. In fact, it has been proven repeatedly that some of the older fraternal orders are already in a precarious position because of a rapidly increasing mortality rate. When, however, on the basis of such actuarial criticism a comparison is made between fraternal and commercial insurance, and entirely in favor of the latter, the whole point of the problem is missed. The social value of cooperative life insurance is too great to be dismissed in this peremptory manner. The problem must be met in an entirely different way.

It must be readily admitted that the speculative element must be taken out of a business of such national importance. The early arrivals of a fraternal order must not be permitted to exploit their later membership. Stringent regulation of the rates must, therefore, be enforced. But such regulation must take into consideration the economic condition of the classes which are forced to obtain cheap life insurance or none at all. The condition points a way to a more or less active assistance of the state to the fraternal orders, especially as far as insurance for smaller amounts is concerned. That there is no lack of willingness to purchase life insurance the

figures quoted above conclusively show. But there is very little doubt that in life insurance as in other forms of insurance, it is either cheap insurance or none for the larger proportion of the population.

To be sure, that may not be true of all the 10,000,000 holders of fraternal certificates. The membership of these orders was never studied. Partial investigations make it likely that only one-half or less of the membership belong to the wage-earning class. If a statistical investigation were undertaken, it would probably demonstrate the fact that these could claim a lower average insurance than the representatives of higher economic groups.

The duty of the state to provide the wage-earner with cheap life insurance has already been recognized by several states. In other words, the same development is taking place in life insurance as in sickness and old-age insurance, though as yet the results are very much less important.

Perhaps the oldest example of this is found in Great Britain, which in other respects lagged behind Continental Europe in matters of social legislation, until very recently at least. By the act of 1864 the postal savings banks, established three years earlier, were authorized to write both life insurance and old-age insurance in small amounts. This insurance was intended to be self-supporting, but the elimination of most elements of loading, such as profits, cost of collection, agents' commissions, and general administrative expenses, made it possible to achieve very cheap insurance. While all classes of the population were permitted to take advantage of this scheme, yet narrow limits were placed upon the amount of insurance that could be bought in this way, namely, £100 (less than $500) for life insurance and £50 for annuities (less than $250). In this way the advantages of the state insurance were limited to the lowest economic group.

The perfect failure of this plan is well known. Though insurance sold through these channels was very much cheaper than that sold by commercial companies, especially by the industrial companies, a ridiculously small number of aspirants for this insurance appeared, averaging only a few hundred a year. Weak efforts to stimulate the activity of this scheme were made without much success, although the premiums were repeatedly reduced. Representatives of commercial insurance

companies, not only in Great Britain, but in other countries as well, pointed with satisfaction at this example of failure of a state insurance scheme, insisting that it proved the impossibility of carrying insurance into the wage-working masses without the expensive system of agents and collectors. How inefficiently the system was managed appears clear from the fact that throughout its existence, annual premium payments have been exacted.

It is very likely that the experience of this system, which was much better known among the foreign students of insurance than among the British workmen for whom it was intended, retarded the development of state life insurance. But it did not suppress it. Within recent years a strong movement in favor not only of state life insurance, but of a state monopoly of this business appeared in many countries. Monopolies have been recently introduced in Italy and in Uruguay, and similar measures are contemplated in several other Latin-American countries.

It is undoubtedly true that often the purpose of such monopolization of insurance may be fiscal rather than social, yet the step cannot help having its social effect, for if efficiently administered, national life insurance must effect some savings in eliminating profits, eliminating the expensive agency organization, and reducing the high administrative expenses of a competitive business, and, moreover, directly or indirectly shifting a part of the administrative cost upon the national treasury.

Nevertheless, these new tendencies towards a general nationalization of life insurance are less important for their immediate social effects than the more direct efforts of governmental authority to cheapen or popularize life insurance for the working masses. Several such special efforts have been recorded within recent years, notwithstanding the admitted failure of the British postal scheme. France, Italy, Russia, and recently Massachusetts have made steps in that direction, in most countries in connection with savings institutions. Wisconsin must be added in virtue of its law of 1911; but very little can be said of it as yet, except that it is a system of direct state life insurance open, in competition to private insurance companies, to all citizens of the state, and required by the law to be self-supporting. Of all the steps in that direction,

the one taken by the State of Massachusetts is of most interest to the American student.

The Massachusetts System of Savings Bank Insurance, established by the act of June 26, 1907, is admittedly the work of that famous Boston lawyer, Louis D. Brandeis, who, by his highly efficient work in many cases of tremendous public interest, has earned for himself the unique title of "the people's attorney."[4]

Because of effective publicity work the provisions of the act are fairly well known. The purposes of the act are to furnish secure life insurance or old-age annuities to the wage-workers of Massachusetts at the lowest possible cost, as a substitute for the expensive so-called "industrial life insurance." For that purpose savings banks are empowered to organize insurance departments, provided they are willing to comply with certain conditions concerning guarantee funds for the purpose of making the insurance secure—a small guarantee fund for expenses, and a special insurance guarantee fund. The social intent is emphasized in the limitations placed upon the insurance to be written—$500 for life insurance and $200 for annuities. Employment of solicitors and collectors is specifically prohibited, though the establishment of agencies under approval of the Bank Commissioner and Insurance Commissioner is permitted. The state retains a very material control over this form of life insurance by the creation of the office of State Actuary, to whom the preparation of the policy contracts and the premium rates (uniform for all banks) is intrusted. A State Medical Director acts in advisory capacity to the insurance department of the savings banks. A general Insurance Guaranty Fund has been created, to which 4% of all premiums are contributed, for the purpose, suffi-

[4] (1) Louis D. Brandeis: *Massachusetts Savings Banks and Pension System*, in Quarterly Publications of the American Statistical Association, No. 85, March, 1909. (2) Pamphlet of same title issued by Massachusetts Savings Insurance League; no date. (3) Massachusetts' Substitute for Old Age Pensions, issued by the League; no date. (4) *Life Insurance: The Abuses and the Remedies*, by L. D. Brandeis; published by Policyholders' Protective Committee; no date. (5) *Four Wonderful Years*, by L. D. Brandeis; *Boston American*, August 5, 1912; reprinted by the M. S. I. League. (6) *Savings Bank Life Insurance*, a small eight-page monthly now in its third year, published in Boston. (7) Reports of the several Massachusetts Savings Banks; and (8) other leaflets and pamphlets obtainable at 161 Devonshire Street, Boston.

ciently indicated by its name, to furnish additional security to the policy-holders.

The theoretical question may be raised whether the Massachusetts system, thus organized, may be designated a state insurance system. Like all definitions, this one will depend largely upon the interpretation of words. The elements of close governmental control, and especially the existence of the General Guaranty Fund, make it at least as much a state insurance system as the famous sick-insurance system in Germany or the accident and old-age insurance systems of Italy. But whether strictly a state insurance or not, there can be no doubt of its being a definite policy of social insurance,—the first significant step towards social insurance in the United States.

There is no doubt that the promises made by the originators of the scheme have been fulfilled. The rates promulgated are materially lower than those of the industrial insurance companies.

RATES FOR LIFE INSURANCE UNDER THE MASSACHUSETTS SAVINGS BANK INSURANCE SYSTEM

Age	Monthly premium for $500 life policy	Annual cost of $500 life policy	Twenty-year $500 endowment monthly	Annual cost of twenty-year $500 endowment
20	$0.86	$10.32	$1.47	$17.64
25	1.00	12.00	1.81	21.72
30	1.15	13.80	2.24	26.88
35	1.34	16.08	2.85	29.40
40	1.58	18.96	3.74	44.88
45	1.91	22.92	5.15	61.80
50	2.38	28.56	7.60	81.20

Mr. Brandeis is authority for the statement that the gross rates of this form of insurance are about 17% lower than the "now prevailing rates of private industrial companies." Mr. Brandeis also claims for his scheme that it forced repeated reduction of rates by these private companies since 1906, both because of its direct competition and the discussion resulting from its adoption. In addition, the conditions of the Massa-

chusetts system are more favorable. They are participating, and the dividends declared within the first four years have increased from 8 1-3% during the first year, to 16 2-3% during the fourth year. They are more liberal in their provision concerning cash surrender value, paid-up insurance, or extended insurance in case of lapse. All in all, there can be very little doubt that it is a wise step on the part of the workingman, or any citizen of moderate means, to prefer the Massachusetts savings bank scheme to ordinary industrial insurance.

But what are the actual results of the system? Does it of itself offer any satisfactory solution to the problem of premature death? This inquiry need not be made in any spirit of criticism of the Massachusetts plan—the advantages of which must be frankly admitted. But the social valuation of any scheme of betterment cannot be based upon its intensive virtue alone. The extent of its activity must be the final criterion, as it was admitted to be in all European discussions of the comparative merits of voluntary and compulsory insurance.

These results have been clearly summarized by Mr. Brandeis in the *Boston American* for August 5, 1912, under the rather extravagant caption, "Four Wonderful Years—The Success of Massachusetts Savings Bank Insurance," where the data are brought down to August 1, 1912.

Of the 192 savings banks existing in the state, only 4 have established insurance departments. All these four banks are located in three small cities, and no sweeping movement to extend the activity of the savings banks into the field of insurance is thus noticeable. As the further development depends upon the will of the savings banks, there is here the first serious handicap, such as a similar system attached to the national postal savings bank (created since the Massachusetts system went into effect) might not be forced to face.

Several banks, however, while hesitating to establish independent insurance departments, agreed to act as agents of these pioneers. Many large employers of labor have also volunteered to assume the duties of agencies; also several social institutions and some labor organizations.

A special appeal is made to mutual benefit associations to substitute collective insurance of their membership with this financially sound system for their unscientific and insecure

method of granting death-benefits. In a circular recently issued for purposes of stimulating this, three associations are mentioned which have adopted this plan. Their combined membership exceeds 1,000. The advantages of the employers making contributions for this purpose are there clearly pointed out.

Nevertheless, the total results are as yet exceedingly meager, and scarcely deserve to be considered "wonderful." At the end of the third full year, October 1, 1911, there were 5,130 policies outstanding, with $1,956,038 insurance, and by August 31, 1912, they had increased to 6,616 policies, representing $2,492,181 insurance, or an average of $378 per policy. The growth is there, but it is a very modest growth, scarcely comparable with that of either industrial or fraternal insurance.

Why do not the wage-workers of Massachusetts rush head over heels to take advantage of this plan? For one reason, a good many are already overburdened with expensive industrial insurance. But new industrial insurance continues to be written. The weekly collection plan and the energetic collector continue their effective work. The question—and, therefore, the answer—are in no way different from those asked and given with very much more extensive insurance plans in European countries. Whether it be inability or unwillingness, the facts are facing one squarely: The voluntary Massachusetts system will hardly succeed in solving the problem of dependency. There is no doubt, however, that in familiarizing the wage-worker with collective insurance through their mutual organizations, in educating the employers to assume voluntarily part of the cost of life insurance (which, unfortunately, very few employers as yet have agreed to), the plan of Mr. Brandeis is really paving the way for a compulsory system.

But even if the activity of this system were a hundred times as extensive as it is, does the life insurance furnished (an average of $378) really offer a satisfactory solution of any economic problem? At best it can tide over the period of extreme helplessness only. Wage-earners' life insurance must be based upon entirely different considerations—a continuous and more or less prolonged need of dependent survivors.

It is highly significant, therefore, that in so far as the modern method of compulsion has been applied to the problem of

premature death, it has taken a decided stand in favor of survivors' pensions rather than lump-sum provisions.

More than once has the close connection between different branches of social insurance been indicated. In so far as all accident insurance and compensation deals with fatal accidents, it solves the problem of life insurance at least to that extent. In sickness insurance also the funeral expenses are taken care of, so that this part of the problem is met more or less satisfactorily in all countries where true social insurance has extended over the accident and sickness problem. Less known is the fact that much more satisfactory provision for widows and orphans already exists for large bodies of wage-workers in many European countries, namely, for railroad employees, miners, and sailors, whose special pension funds, repeatedly referred to, invariably contain liberal provisions for pensioning widows and orphans.

There is a natural combination between old-age pensions and life insurance, because both require continuous payment of premiums for a final emergency. There is also a natural antagonism between the two, because with limited means to purchase insurance, the workman under a voluntary system is usually confronted with the necessity of selecting one or the other, the necessity of deciding between his own interest and that of his family. In the industrial groups enumerated, the necessity for such selection is absent, for both are combined in the same pension fund. One contribution pays for both, and as the employer in all these funds is a substantial (in many cases, as in the French railroads, the main) contributor, it follows that a part of the burden of widows' and orphans' pensions—the most logical form of life insurance—is put upon the industry. Thus, under the French act of July 24, 1909, which established the minimum requirements for the railroad pension funds, the widow of a pensioner receives half of his pension for life. The widow of an employee who dies while in service receives half of the pension to which he would have been entitled because of his age and length in service. In absence of the widow, the orphans enjoy the same rights. As a full pension under this act is equal to half the wages, or even more, for over twenty-five years of service, the widow's pension may be over 25% of the wages. Similar provisions exist in Italy, Russia, etc. The amounts, while not large, are nevertheless an

element of substantial aid to the survivors when judged by local standards, and are in any case very much more substantial than a life insurance policy of a few hundred dollars.

Coming now to the latest development, namely, national systems of widows' and orphans' insurance, the first efforts in that direction have been made both in Germany and France, naturally enough, in connection with their old-age insurance systems.

From the very beginning of the old-age insurance systems some consideration was shown for the interests of the surviving dependents. During the parliamentary discussions of the German Old-Age Insurance Bill in 1887 and 1888, some protection of widows and orphans was thought necessary. Substantial provisions were thought financially not feasible at the time, and a compromise was found in the provision which returns to the widow or orphans the contributions made by the workman if he dies before receiving a pension.

In France, during the twenty years of discussion of the old-age insurance plan which was finally realized in 1910,[5] the comparative needs of old-age and life insurance were always seriously discussed. Many of the plans proposed even went so far as to offer the freedom of choice between the two. Other plans insisted upon combining both features in the system. In the final form so much was yielded to the life insurance idea, that both forms of old-age insurance were permitted; that on the alienated-capital plan, as well as the reserved-capital plan (see page 333), the latter providing for the return of the premiums in case of death. More important, however, is the direct provision for death benefits in connection with the compulsory old-age insurance system. The death-benefits are not large: they vary between 150 and 300 francs ($29 and $59) according to the size of the family, and are payable in monthly instalments of 50 francs, the number of instalments varying from three to six. Thus, at one stroke, a slight amount of life insurance was provided for some 12,000,000 individuals, an achievement which industrial insurance of the commercial type could only boast of at the cost of many millions in unproductive administrative expenses.

But the most extensive, truly national system of widows'

[5] I. M. Rubinow: "Compulsory Old Age Insurance in France," *Political Science Quarterly*, September, 1911.

and orphans' pensions is the one adopted by Germany right on the heels of the French act, namely, in connection with the revision of all its social insurance legislation, in the act of July 19, 1911. The provision for a national system of widows' and orphans' pensions is the most important addition to the whole structure of social insurance made by that act.

Such a system was contemplated for many years, but was delayed because of the fear of the new fiscal burden it was to create. Therefore, an accumulation of a fund was decided upon. When, in 1902, a new customs tariff act was passed, increasing duties upon many articles of food, an effort was made to mitigate the protests against these new duties by providing that if they should yield an excess revenue this excess should go into a special fund to provide widows' and orphans' pensions in the future. The receipts from this source were rather uncertain. Finally, the unwisdom of making a measure of such national importance as widows' and orphans' pensions dependent upon the uncertainty of custom receipts was recognized, and the present system as established depends, as does the old-age insurance, partly upon the contributions of both employers and employees, and partly upon state subsidies.

The amount of the widows' and orphans' pension is made dependent upon the amount of the invalidity pension which the deceased was receiving or would have been receiving at the time. The widow is to receive 30% of that pension. Orphans' pensions are given to children under fifteen only, and for the first surviving child 15% is given, and 2 1-2% only for the other children. In addition to that, however, the widow is entitled to an annual subsidy of 50 Marks from the state treasury, and each child to 25 Marks. Altogether the annual pension may not be great, but it compares favorably with the invalidity pensions. As the average invalidity pension amounts to about $40, or 170 Marks, consisting of 120 Marks as the pension proper and 50 Marks (the state subsidy), the widow's pension would, on the average, be 86 Marks, or $20, and that of a normal family with three children, 160 Marks, or $37. In other words, a widow's pension will amount to about half the invalidity pension, and a family's pension to about as much as the whole pension.

These pensions are not altogether a state gratuity. For, in order to make them possible, an increase in the contributions

for old-age and invalidity insurance was required, as is shown in the following statement (see page 353 for the division of the wage-workers into classes).

Class of wage-workers	New premiums, including widows' and orphans' pensions		Old premiums, exclusive of widows' and orphans' pensions		Increase for purpose of paying pensions	
	Pfenning per week	Cents per week	Pfenning per week	Cents per week	Pfenning per week	Cents per week
I.	16	3.8	14	3.3	2	.5
II.	24	5.7	20	4.8	4	.9
III.	32	7.6	24	5.7	8	1.9
IV.	40	9.5	30	7.1	10	2.4
V.	48	11.4	36	8.6	12	2.8

The increase in the weekly contribution varies from one-half a cent for the lowest wage-group, to less than three cents for the highest wage-group. As half of this contribution falls upon the employer, only from 1-4 cent to 1.5 cents per week additional is required from the wage-worker himself.

As yet this new German system, if both intensively and extensively considered, represents the highest development of wage-workers' life insurance While more liberal provision for a few industrial groups exists, its very limitation reduces its importance. Of course it would be too much to expect that the rather meager provision thus given will altogether solve the problem of the widow and orphan, but it is a step in the right direction nevertheless. The fact that as yet it remains the only example of national life insurance, serves to underscore the vast field of social insurance measures yet untouched, the many economic problems which social insurance, though capable of meeting, has as yet refused to meet. There can be little doubt that the next decade will see a further extension in the same direction in many European countries.

Perhaps nothing better illustrates the irresistible development of social insurance principles in the United States than the very recent movement towards mothers' pensions in a number of states. It matters little that this movement grew entirely independently of any cognizance of insurance principles; that few, if any, of its furtherers thought of the measures advocated as a part of a life-insurance system; and that, as a matter of fact, its essential features are those of a system of public relief rather than insurance; for the same is true of the

entire old-age pension development in many countries. The essential fact remains that the problem of orphanage is distinctly recognized as a public problem, and the insufficiency or undesirability of leaving this problem to voluntary charity is at the foundation of popular clamor for these measures. In forcing this question of orphanage to the foreground long before the other problems of poverty have been provided for, the United States is disturbing the historical sequence in the development of social insurance which has been typical of Europe. But this only goes to show that having fallen in line later than other industrial countries, the American people may be expected to attack all the branches of social insurance at once.

As in the case of compensation legislation, the movement, starting in one state, has suddenly acquired national importance.[6] Illinois passed the first "Mothers' Pension" act in 1911; California and Colorado, in 1912; and fourteen more states,—Washington, Utah, South Dakota, Idaho, Minnesota, Iowa, Nebraska, Ohio, New Jersey, Pennsylvania, Massachusetts, Michigan, Wisconsin, and Oregon,—in the spring of the current year. In addition, two municipalities, Milwaukee and St. Louis, have established similar systems independently of state action. In many other states, including New York, the bills were introduced, but failed of passing; but favorable action may be expected in the near future.

To be sure, the provisions of the many acts clearly indicate their close relationship to public relief rather than to insurance. While popularly known as "Mothers' Pensions," they really provide pensions for dependent children, to be paid to widows or wives of deserting, disabled, or imprisoned husbands. Emphasis is placed upon moral considerations as much as upon economic ones; the purpose aimed at is claimed to be the preservation of the family, and the avoidance of commitment of children to public institutions. Evidence is, therefore, required that the family is not only in need, but also worthy of preservation. When these conditions are certified to by the proper officers, an allowance may be granted—

[6] See "Pensions for Mothers," by Professor Edward T. Devine, *American Labor Legislation Review*, June, 1913, for adverse criticism, and discussion by William Hard in the same issue; *The Survey*, July 5, 1913, pp. 450-51, for recent analysis of the acts.

by the courts in some states, as in Illinois, by special committees in others, as Pennsylvania. The amounts as provided in most states are fairly liberal—$15 for one child, and $7 for each additional child under sixteen, in Illinois; $12 for one child, $20 for two, and $5 for each additional child, in Pennsylvania, etc.

It is rather significant that these results were achieved in the face of a very definite opposition from a social group in which the most cordial support of these measures might have been expected—organized charity, and many social workers. The argument was advanced against mothers' pensions, that it interfered with private generosity towards the needy, and that it was also less discriminating and tended to preserve families perhaps unworthy of preservation. Thus, a method of social provision is being criticised for relieving private charity, i.e., for accomplishing something which is usually expected of all such measures, and the failure to accomplish which is also frequently mentioned in Europe in severe condemnation of the social insurance movement. In view of the sudden growth of this peculiar movement, it is exceedingly interesting to observe that already it has shown its tendency to develop into an international movement. On April 24, 1913, an act establishing pensions for widows with children (styled perhaps more accurately public aid) was passed in Denmark, the fatherland of the non-contributory pension system. According to this act, which is to go into effect on January 1, 1914, the following benefits are to be paid to widows out of public funds (without recourse to the Poor Law) for the purpose of maintaining and educating their children: £5 11s. 1d. per annum (about $27) for each child under 2 years; £4 8s. 10d. (about $20) for each child from 2 to 12 years old; and £3 6s. 8d. (about $16.60) for each child 13 to 14 years old. (This information has been gleaned from the *British Labour Gazette,* where the amounts are stated as here given.)

The mothers' pension movement, as it is developing in the United States, does not offer, even theoretically, any comprehensive remedy for the problem of widowhood and orphanage. Its dependence upon the philosophy of public relief is too evident to permit it to be classed with measures of economic justice. The necessity of application and investigation, and the dependence of the grant upon some extraneous judgment

as to economic need and moral worth, are conditions which differentiate it very decidedly from an automatic system of insurance. In short, the arguments made use of in the discussion of old-age insurance *versus* pensions are doubly applicable here. But as an admission of the necessity of public provision, and of its preference to private charity, these acts mark a very important step forward, a step towards, if not quite yet a measure of, social insurance.

PART V

INSURANCE AGAINST UNEMPLOYMENT

CHAPTER XXVI

THE PROBLEM OF UNEMPLOYMENT

All criticism of modern industrial society focuses on the conditions of unemployment, especially as expressed in large industrial crises; and in search of correspondingly broad economic measures of relief, the suggestion of insurance is often sneeringly referred to as being altogether incapable of dealing with the grave situation confronting the wage-workers. It is perhaps advisable, therefore, to point out in the very beginning, that in this respect, theoretically at least, the problem of unemployment is not different from problems of accident, sickness, or invalidity. In each case, it may be readily admitted that prevention is better than relief. It is certainly much more desirable that there should be no industrial accidents than that we should have complicated systems of compensation. This is a legitimate problem for proper factory inspection, for further development of safety appliances, and for other methods of social control of industrial activity, and while a great deal can be done and must be done in that line, while perhaps a great proportion of industrial accidents are preventable and therefore socially unnecessary, yet it may be admitted at the outset that the entire abolition of industrial accidents will remain a Utopia for many years to come, if it ever will be accomplished.

Even thus, industrial hygiene and general sanitation, wise living and a high standard of life might be expected to reduce the rate of sickness among wage-workers as well as among all other classes of the community, though perhaps no serious man would expect total abolition of all physical ailments. It may be reasonably expected that the probable conquest of tuberculosis and (the now remote, yet not impossible) conquest of cancer will probably reduce the mortality in youth and prime of life. But the day is far distant when all premature deaths may be prevented and life insurance made unnecessary. Shortening of hours, decrease of intensity by proper social control, and

elimination of muscular strength by substitution of machinery for muscle power, may return the old age to industry, or at least prevent the premature exhaustion leading to chronic invalidity, but the change at best will be long in coming.

If, therefore, a fruitful field remain for application of principles of insurance to the problems of accident and disease, the same must hold true of the condition of unemployment. Efforts to adjust the demand for labor to its supply, and thus so regulate our entire economic life that industrial crises and periods of depression should be abolished, are certainly commendable, but the fact remains that under modern industrial conditions and until a national system of co-operative economy has entirely supplanted it, there will be a greater or smaller risk of unemployment with its consequent loss of earnings as a problem of economic life.

That there is at times a very large amount of unemployment during the grave disturbances of economic life known as economic crises or industrial and commercial depressions, is a fact too generally known to require elaborate evidence. But outside of the army of wage-workers themselves, there is comparatively little knowledge of an equally large or perhaps, on the whole, even larger amount of unemployment at all times and under all conditions of industrial activity.

Notwithstanding the tremendous importance of the problem, statistical data concerning the extent of unemployment are as yet very unsatisfactory. An enormous amount of fragmentary information is available, but it is either unreliable or incomplete. It is claimed by many students of the problem that in the study of relief measures, the first pressing problem is that of obtaining satisfactory statistics, without which a scientific basis for action is lacking. On the other hand, it is equally evident that these statistics, in the very nature of things, will never be satisfactory until some systematic system of insurance is created, because without it, it is almost impossible to trace all existing unemployment. This appears to be a vicious circle, which is not different, however, from the situation concerning accidents or sickness, for complete accident or sickness statistics were never available until systems of compensation were established.

Moreover, the technical difficulties in connection with unemployment statistics are evidently much greater. An accident

is a definite event which may be easily recorded. Even sickness can be established in the majority of cases from the outside. But unemployment or lack of employment is a more or less diffuse condition, which requires careful definition. It is not sufficient to record the external fact of absence from work. Unemployment must be carefully differentiated from any form of disability and this differentiation may sometimes be rather difficult. The difficulty becomes still greater when involuntary unemployment (true lack of employment) must be distinctly separated from such voluntary unemployment as may be due to trade disputes, or faults of character, or a definite desire to defraud.

Complete statistics of unemployment would need to furnish information as to the total time lost from lack of work in a certain country during the shortest industrial cycle, which is a year. No such information exists, as was stated above. The fragmentary direct information available is usually of two kinds: either a determination of the entire number of persons unemployed on a certain day, such as can readily be made in connection with a population census but conveys little valuable information concerning the problem, because of its dependence upon the accidental and exceptional circumstances of the day when the census was taken, or a more complete study of fluctuations of unemployment within narrow limits of a trade or community. A somewhat similar effort was made by several U. S. Censuses to discover the total amount of unemployment for a whole year, but the results, depending as they do upon the memories of millions of people, are not considered very trustworthy.[1]

It is worth while to quote a few of the data available, so as to get at least a general conception of the number of unemployed wage-workers. A very interesting census of unemployment was taken in Germany in 1895, and though the data are considerably antiquated, they have not lost their interest. In

[1] For a good deal of valuable information, the reader is referred to the comprehensive Third Report of the New York Commission on Employers' Liability, etc., entitled *Unemployment and the Lack of Farm Labor:* "Unemployment in the State of New York," by Dr. W. M. Leisersor; and "Unemployment: A Problem of Industry," by W. H. Beveridge (mainly English data), and the respective sections in the various chapters of the Twenty-fourth Report of the U. S. Commissioner of Labor.

a year of normal industrial activity in Germany in the middle of June, when conditions of employment are at their best, 179,000 persons were found unemployed, constituting a little over 1% of the army of wage-workers. By the beginning of December of the same year, the number had increased to 554,000, or nearly 3 1-2%, indicating a tremendous increase of unemployment in winter, a feature of unemployment which we shall have occasion to refer to presently. An inquiry as to the duration of unemployment on the dates on which data were collected showed that nearly 45% of them in June had been unemployed over one month, and in December over 33% had been so unemployed. Some 17% had been unemployed for over three months in June, and about 8% in December.

More significant are the data concerning the cases of unemployment per 100 employees as reported by labor organizations for a longer period of time.

The reports of German trade unions indicate that during the first quarter of the year when unemployment is usually at its highest percentage, cases of unemployment fluctuated between 6% in years of highest activity such as 1906, and nearly 13% in years of industrial depression, such as 1909. Yet it is a well-known fact that organized labor, because largely skilled, suffers from unemployment a great deal less than unorganized and especially casual and unskilled labor.

In France, a census taken in 1901 showed over 314,000 unemployed out of a total of over 10,000,000 wage-workers, or a similar proportion of a little over 3%. The average number of unemployed, as reported by the trade unions, fluctuated between 7.8% and 11.9% in 1908, and between 6.4% and 13.5% in 1909, thus showing the effects of the industrial depression of 1908-1909.

In the United Kingdom, the " unemployed percentage," as reported by several hundred unions and compiled by the *Labor Gazette,* fluctuated during the fifteen years, 1894-1908, between 2% and 10%. In the United States the special inquiries made in connection with the census of 1890 and 1900 are available (the results of a similar inquiry made in 1910 not having been published yet), and while the data are admitted to be very untrustworthy, they are, nevertheless, extremely suggestive. In 1890, out of 23,318,183 gainfully employed, 3,523,730, or 15.1%, had reported having been unemployed for some time

during the preceding year. Ten years later, out of 29,073,233 employed, 6,468,964, or 22.3%, reported unemployment. There is evidently a problem here that concerns millions of wage-workers. Its true significance is very much greater than the percentages given above would indicate, for as a basis the number of all persons employed and not of wage-workers only (whose number cannot be ascertained), has been taken.

NUMBER OF UNEMPLOYED IN CENSUS YEAR 1900 ACCORDING TO LENGTH OF UNEMPLOYMENT

Time unemployed	Number	Percentage
1— 3 months	3,177,753	49.1
4— 6 months	2,554,925	39.5
7—12 months	736,286	11.4
	6,468,964	100.0

Over one-half of these 6,500,000, and possibly three-fourths of them, suffered from unemployment to a degree which could not fail to cause national distress. The total time lost to the productive industries of the country was enormous. An approximate estimate would indicate that during one year over 1,900,000 years of productive labor were lost; or what amounts to the same thing, of 29,000,000 gainfully employed, on an average nearly 2,000,000 had been idle throughout the whole year.

The measure of unemployment disclosed by these figures seems to be much greater in the United States than in Europe. It must be remembered that neither 1889-1890 nor 1899-1900 were years of industrial depression. If, therefore, a similar census was taken for 1893-1894, or 1907-1908, the results might be still more depressing, and the " wild " estimate of five to six millions unemployed during a severe industrial crisis such as the United States is particularly subject to, does not appear so wild after the statistical data quoted are contemplated.

What other evidence exists concerning conditions in the United States corroborates these alarming estimates. The figures published every quarter by the New York Bureau of Labor concerning conditions in the New York trade unions, are very familiar; the percentage of union workers unemployed at the end of September fluctuated during the last fifteen years between 4.7% in 1899 and 22.5% in 1908; at the end of March,

between 9.9% in 1906 and 30.6% in 1897 and 35.7% in 1908. No European figures of unemployment reach anything like such heights. The problem of unemployment, therefore, appears as a particularly serious problem in the United States.

While it is impossible to enter here upon any careful analysis of these data, there are two features of unemployment disclosed by unemployment statistics which must at least be briefly referred to: (1) The fluctuations of unemployment in time, and (2) the difference of the degree of unemployment in different trades.

Two cycles of unemployment are disclosed by all statistical data of unemployment published, the shorter annual cycle and the longer cycle (anywhere from seven to fifteen years long) between the ever-recurring periods of industrial activity and industrial depression.

There is always a good deal more of unemployment in the winter than in the summer; only when an industrial crisis, altogether independent of climatic conditions, should break out in the summer is this condition disturbed. As will be indicated later, this is due to a few large trades subject to seasonal fluctuations because of weather conditions; building, construction, and farming are three such trades, which are important enough to influence the general level of unemployment. A five-years' average in France shows a variation between 8% for July-September, and 10.5% in December-February. For fifteen years the average unemployed percentage of the British unions for July amounted to 3.7%, and for January to 6.6%. According to the New York figures, the average percentage of unemployment at the end of March for 1897-1909 was over 20%, and the end of September, only 10%.

The problem of unemployment is to a large extent a winter problem, which is a serious factor in itself, for in winter all conditions make the struggle for existence more difficult: higher prices for food, greater need for clothing; increased expenditure for light and an additional expense for fuel and absolute dependence of life itself upon continuous shelter—such are the conditions under which the greater share of unemployment must be borne.

The larger cycle works more slowly, from crisis to industrial expansion and down again to an industrial crisis or depression. This fluctuation is perhaps strongest seen in

American data, especially during the last two decades, including as they do two very severe industrial crises, with at least two periods of less severe depression in industry and commerce. These marked fluctuations present a strong contrast to the problems of accident and disease where the risk is fairly uniform from year to year, and while it changes throughout the different seasons, does so but slowly.

On the contrary, as far as differences between one trade and another are concerned, there is a marked analogy between the risk of unemployment and the risk of accident. In so far as accurate statistical information is available, it proves a fairly definite unemployment ratio for each trade and fairly uniform conditions concerning seasonal and even cyclical fluctuations. This is but natural, since the frequency of unemployment or the general relation between supply and demand of labor depends largely upon the organization of the specific trade, as well as of the market for the products of the trade. Every large enumeration of the unemployed, such as has been made in connection with the national census already referred to, in Germany, France, or the United States, demonstrates this.

To an American reader, the situation in the United States is necessarily of greatest import. A reference to the volume on "Occupations" of the Twelfth Census (pages ccxxv-ccxxvii and especially ccxxxii-ccxxxiii) will furnish a wealth of information which cannot possibly be embodied here. When all the occupations are arranged in order of the percentages showing some unemployment in the year of the census of 1900, the percentage is found to fluctuate between 59.9% for glass-workers and 1.9% for physicians, or, limiting the inquiry to mechanical trades only, 11.2% for confectioners. The building trades show a specially high percentage: masons and plasterers over 55%; paper-hangers, carpenters and joiners, and ordinary laborers from 40% to 50%; of miners, 44% suffered from some unemployment, and marble cutters were only slightly better off (39.5%); in the iron and steel industry and lumbering industry, the proportion was about 30%. Workingmen in various textile industries showed from 20% to 30%, and similar percentages were indicated in the clothing trade. Among transportation employees, the condition was better, only 15% to 20% in various branches of this industry reporting unem-

ployment. In the food industry, the degree of unemployment was about 10%, and among commercial employees of various groups, it was under 10%; the influence of the trade upon the degree of unemployment is thus clearly established.

The effort to determine the ultimate economic causes of unemployment, though it presents a fascinating subject of economic inquiry and investigation, is beyond the scope of this work. In itself, it may boast of an enormous literature because there is scarcely any important factor of economic organization that is without its influence upon the state of employment; and there is hardly a measure of economic policy that is not defended or attacked because of its influence upon the conditions of labor supply and demand. As Mr. W. H. Beveridge tersely put it, " the problem of unemployment lies, in a very special sense, at the root of most other social problems." It is sufficient for our purpose, waving aside any search for ultimate causes, to indicate the active factors whose influence upon the degree of unemployment is a matter of everyday observation.

The three main factors of variations of the unemployment rate are the (ten or fifteen years) long cycle, from crisis to crisis, the shorter annual cycle, and the variations between trades indicate at least three groups of such factors.

Of these three, those causing the ever-recurring economic crises are most obscure. From the Malthusian theory of over-population, through Jevons' theory of sun spots, Hobson's theory of over-production due to excessive savings, and the theory of psychological cycles, over-speculation, Tugan Baranowsky's theory of misdirected production down to the theory of under-consumption because of the extraction of surplus value, various explanations have been given by some economic writers only to be discarded by others. Socialists have designated industrial crises with their necessary consequences, unemployment and distress, as the inevitable consequences of competitive industry. Somewhat unexpectedly, a non-socialistic writer has recently arrived at the same conclusion: " So long as the industrial world is split up into separate groups of producers—each group with a life of its own and decaying in ceaseless attrition upon its neighbors—there must be insecurity of employment. It is probable that at least one of the most striking specific factors in the prob-

lem—namely, cyclical fluctuations in trade—may be traced ultimately to the same source. Unemployment, in other words, is to some extent, at least, part of the price of industrial competition, part of the waste, without which there could be no competition at all. Socialist criticism of the existing order has, therefore, on this side much justification."[2] Thus, back of this most important factor, which statistically has been shown to be responsible for the largest amount of unemployment, there are blind forces of economic organization over which the working population has no control at all.

The fluctuations within the shorter annual cycle are due to factors of a more obvious character. These cover seasonal unemployment, due to the great importance of seasonal trades, i.e., trades active only through a part of the year or much more active during one part of the year than the other. These seasonal fluctuations may be due to inevitable weather conditions, such as influence all the building and construction work and farm labor. They may be due to similar fluctuations in the sources of supply, such as canning fruit and vegetables. But frequently they depend upon the weather conditions but indirectly. This is true of the whole important clothing industry where changes in weather conditions create seasons of extensive demand for the product of industry and the swiftness of changes in fashions forces the compression of production within the shortest possible time preceding the opening of the market.

And then, there is the fluctuation between trade and trade, between occupation and occupation, which partly depends upon seasonal changes, but partly upon other factors as well. There are occupations in which efficiency is closely dependent upon permanency of employment—such as clerical work or railroading. At the other extreme, there are other occupations in which this labor contract is made for a day or a few hours only. This class covers a good proportion of all unskilled labor, and perhaps the most typical example is the work of loading and unloading vessels on docks. There may be work all the year around, but no employer has constant demand for labor, and no employee a constant position. As a result, there is constant searching for employment with an enormous loss of working time for each individual employee.

[2] W. H. Beveridge, *Unemployment*, p. 235.

Furthermore, there are many minor ones which, together, may be responsible for a considerable share of unemployment. Old industries break down and new ones are created. The readjustment is not always easy and always takes time; some of the employees may quickly adapt themselves to a new occupation, others, under the influence of age or some other unfavorable factors, may never succeed.

Large undertakings come to an end and then a large surplus of labor power is liberated, which may not find employment at once. Occasionally industrial establishments are transferred from one locality to another and labor is seldom mobile enough to follow this change immediately. In the process of consolidation of many independent industrial establishments into large "trusts," some of them may cease operations altogether and similar liquidations of manufacturing establishments occur for other reasons—business failures, of which 10,000 or 15,000 occur annually in this country, death of employers, etc. In every case a certain amount of unemployment is created.

It is necessary to bear all these factors in mind in order to place the responsibility for unemployment where it belongs, for the point of view is still frequently met that unemployment is a fault of character rather than of opportunity. The factors briefly enumerated above are mostly impersonal factors, and those that are personal pertain to the personality of the employer and not the employee. Mr. W. H. Beveridge has very properly given his excellent study of unemployment the subtitle "A Problem of Industry" (not of character). The greatest share of unemployment is due to faults of industrial and economic organization, over which the employee, as an individual in any case, has no control. Unemployment is due to disturbances in the demand for labor and not in its supply, which is fairly constant or at least slow in its changes.

It is true nevertheless that a personal factor of unemployment exists. It is true that the less efficient, less energetic suffer more from unemployment, not only because they are less successful in finding employment, but because they are the first to lose it when reduction of force becomes necessary. From the less efficient the transition is gradual to those only partially employable or those altogether unemployable, the

" hobo " and the tramp, down to the habitual criminal. These may present a separate problem of their own, a problem of social hygiene, prophylaxis, and medicine, but even in dealing with this social disease, it is well to study carefully its etiology.

There may be hereditary tramps with unconquerable wanderlust—individuals, who, if grown up under more favorable circumstances, might have developed into famous globe-trotters, hunters, or sportsmen. But, after all, this type, like the type of the hereditary criminal, is an exceptional one; most tramps, like most criminals, are creatures of those circumstances which have forced them out of the routine of honest and systematic toil. " The man," says W. H. Beveridge, " who is continually tramping the streets in search of employment, is losing quite certainly in nearly all the qualities that go to make for industrial value."

It would seem to be hardly necessary to dwell upon the economic consequences of unemployment upon those suffering from it. The sudden increase in the number of people out of work which occurs during an economic crisis, seldom fails to cause an alarming amount of very acute distress, even in connection with the highest wage levels. There is immediately an increase in pauperism and crime, and the very picturesqueness of the situation makes a strong appeal for charitable relief, usually distributed neither wisely nor too liberally. But perhaps it is no exaggeration to say that, in the final analysis, the " normal " amount of unemployment that always exists is productive of even worse results in the undermining influence it exercises upon the general standard of life of the working classes.

Because a few trades exist in which high wages fairly compensate for the large amount of unemployment (such as the bricklayers' trade, for instance), it is often assumed that a similar compensation usually exists. It is true the high wages earned during the busy season help to carry the worker's family through the critical period of unemployment; but it does not follow from this that unemployment is without its damaging effects even in these cases. It may be quite true, as Mr. Beveridge states succinctly, " An individual is not self-supporting unless his earnings amount to a sufficiency for life, and not merely to a sufficiency for the time of work-

ing. An industry is not self-supporting unless it yields wages not only for the time of employment, but also for the time of inevitable unemployment as well; unless it maintains all the men required by it both while they are in active service and while they are standing in reserve.'' [3]

But this is an expression of an ethical ideal rather than of economic reality under the present organization of industry. Competitive industry (unless forced by proper legislation) does not determine the workingman's share—wages—on any such principle.

As the New York Commission stated in its report on unemployment: [4]

"There is little evidence, except in highly organized trades, like building, to show that wages are adjusted in such a manner as to afford an adequate annual income to the wage-earner, despite loss of time through unemployment. It would be an advantage to the employer to retain his employees in constant employment throughout the year if he had to pay them in the busy season an additional sum to enable them to live the slack months. That employers do not give steady employment is evidence that wages are not adjusted on any such basis."

An additional reason why no such adjustment is possible is because in no occupation is the risk of unemployment either certain or definite, and no adjustment can be made to an unknown factor except through a method of insurance. In his well-known compilation of wages in the United States, Professor Scott Nearing is forced to reduce the average annual earnings (derived from weekly wages) by 20% to allow for the average employment. To compensate for this, unemployment leads to woman and child labor, to a material reduction of the standards, to underfeeding, debts, pauperism, and actual distress to the point of starvation.

The variety of measures proposed compares favorably with that of the causes responsible for the existence of the problem. The vast majority of these aim at prevention rather than cure, a condition of affairs which in itself is highly praiseworthy. In social, as in physical hygiene, prophylaxis is more important than therapeutics. But even in medicine, the sci-

[3] *Unemployment*, p. 236.

[4] *New York Commission on Employer's Liability, etc.*, 3d Report, "Unemployment and Lack of Farm Labor," p. 53.

ence of prophylaxis is far from having reached that stage which would make the therapeutic measures unnecessary.

From protection to home industries through high customs duties down to the socialist demand for a co-operative commonwealth, every economic policy realized or proposed has aimed to prevent unemployment.

A detailed review of all these various measures either tried or proposed, would be beyond the scope of this study, devoted primarily to a definite plan of relief. But, perhaps, it is worth while mentioning them briefly, so as to indicate the necessity for such organized systems of relief.

Industrial development has often been advanced as the surest method. But while it seems quite plausible that high industrial development must absorb the surplus of labor, unemployment, both acute and chronic, has become the feature primarily of the countries and age when industrial development was fastest, for industrial development does not guarantee regularity of activity or employment. Better regulation of the competitive conditions of the labor market through public employment offices or labor exchanges has been widely advocated and tried, and of the usefulness of such institutions there can be no doubt. Considering that wage-labor constitutes the only means of existence of the majority of the population of the United States, for instance, it is indeed remarkable how little has been done to improve the conditions of selling labor power. The necessary coming together of buyer and seller is left entirely to chance, to individual energy, or becomes a matter of speculative enterprise, private employment offices, and private advertising agencies. As a result, the adjustment is far from perfect; the amount of unemployment is usually greater than is justified by the existing demand for labor, for part of this demand remains unknown.

Perhaps the most urgent plea for such labor exchanges was made and the greatest faith placed in their effectiveness by Mr. W. H. Beveridge, whose study on " Unemployment " has been frequently quoted in this chapter. But a careful study of this work demonstrates that the author had in mind the peculiar conditions on London docks, and his remedy is directed against one specific form of unemployment—casual labor, which Mr. Beveridge hopes could be " decasualized " by a system of proper registration in labor exchanges.

Beyond this specific remedy, Mr. Beveridge proposes a flexible standard of wages and also a flexible standard of hours of labor—a remedy which seems to tend toward the same condition of casual labor which elsewhere he attacks so energetically. There is little doubt that in certain seasonal trades, where the wide fluctuations between unemployment and extreme intensity of activity with overtime, are caused not by climatic conditions, but the caprices of fashion,—such flexibility of hours would stimulate a shortening of a busy season, with the always present danger of prolonged hours of labor during the busy season.

Another very popular measure, partly prophylactic, partly remedial, widely advocated by radicals is the organization of public works. The remedy has often been tried and often with very unsatisfactory results. That regular public employment, as such, is almost free from the danger of unemployment[5] may be readily admitted. And it follows that extension of governmental activity must have a steady influence upon the labor market. But the organization of public works for the purpose of relieving the army of unemployed is a very much different matter. There is no permanent army of unemployed, and in the very nature of things there cannot be one, outside of the class of tramps and criminals. Irregularity of employment affects all, or nearly all, industries, and public undertakings cannot be temporarily established in these various branches of industry, to be closed down again when conditions of employment have improved. Inevitably, therefore, only such public works have been undertaken which "could employ all persons skilled or unskilled," which means the simplest work of unskilled labor, in building or street-works, reforestation, or similar undertakings. Naturally, work performed by hands unused to it cannot be performed economically. The state is faced by the dilemma either to pay wretchedly low wages in accordance with the value of the work performed or to pay wages out of proportion to the value, which brings public works into the class of thinly disguised public charity. At best, the result is that public work is performed at high cost and performed ineffi-

[5] The word "almost" is used advisedly. Workmen are frequently laid off both at the government printing office and at the various navy yards when work is slack.

ciently and even then it is seldom sufficient to meet the demand.

It does not follow therefrom that public works have not performed their useful functions in times of great emergency. Under conditions of sudden and vast unemployment, they have proved a more dignified method of granting public relief to the needy than direct private or public charity or poorhouses or workhouses. But their failure to meet the problem of unemployment successfully has underscored the necessity of another method to meet the conditions of unemployment in so far as it cannot be prevented or, at any rate, is not prevented.

What is this method? While the source of income is for the time destroyed, expenditure must go on. It is theoretically true that the relief of possible distress due to unemployment reduces itself to the question of wages. A proper averaging of wages over the entire period including the time of employment and time of unemployment, is the only solution of the problem.

But several difficulties arise. First, can the proper averaging be achieved in the case of each individual workingman, since the risk of unemployment does not distribute itself in equal portions among all workmen? Secondly, can the individual workman be trusted to have enough acumen to make provision for the lean weeks? And, thirdly, does the average income make such average possible without destroying the necessary standard, or in other words, are wages high enough to furnish the necessary means to overcome the results of unemployment?

Applying the general principles of social insurance and the well-known facts of wages and cost of living to this specific problem, all the three questions must be answered in the negative. The proper solution must, therefore, be found in the following three conditions:

1. A true averaging of income may only be obtained by means of the insurance method.

2. This insurance must be compulsory, and,

3. The industry or the social surplus must participate in this process of loss distribution, as it does in other forms of social insurance.

The answer, therefore, is, briefly—Compulsory, Subsidized Unemployment Insurance.

CHAPTER XXVII

SUBSIDIZED UNEMPLOYMENT INSURANCE

GRANTED that unemployment insurance is necessary—is it possible? For many years this question was asked by most authoritative students of the subject, and the answer was not always favorable; various experiments were made by municipalities and voluntary organizations in different countries, and some of them suffered a dismal failure. The very fact of this prolonged discussion through almost two decades, and of the timidity in making experiments, in the face of the rapid development of other forms of social insurance, is evidence that there are special difficulties in the path of unemployment insurance which are not met with in the case of accidents or disease.

What do these difficulties consist of? It is the theory of insurance science that any risk may be insured, provided there is any regularity at all about its occurrence. Unemployment is a risk. It demonstrates a fair degree of regularity both in its dependence upon trade and in its time fluctuations, whether in annual or longer cycles.

When the whole problem was investigated very thoroughly by the Imperial Statistical Office of Germany, in 1906, the conclusion arrived at was that there were no insurmountable technical obstacles to the development of an unemployment insurance system. The real difficulty was stated to be the absence of a simple test of unemployment. With comparatively few exceptions, the presence or absence of an accidental injury may be easily determined. It is an objective occurrence to be verified by statements of witnesses and the results may be controlled by expert medical supervision. The same, though perhaps in a somewhat lesser degree, is true of sickness. Malingering and exaggeration of subjective symptoms may occur, but it must be the exception rather than the rule.

But the fact of unemployment or, rather, lack of employment, the impossibility of finding employment, lacks that con-

clusive evidence. It often is and still oftener may be claimed to be the result of the individual's efforts or absence of them. It may be easily simulated.

Furthermore, unemployment insurance tends to result in an unfavorable selection of risks against the insuring institution. After the average risk is determined, it is the usual practice of every insuring company to exercise strict supervision over the selection of risks, accepting such individuals (or property) as are a better risk than usual, and rejecting those that are a worse than ordinary risk. In this way insurance is made safe and also profitable. The risk of unemployment is, to a large extent, dependent upon personal factors. The insurance institution may eliminate such trades as have an excessive unemployment risk, but it is difficult to eliminate the individual with an abnormally high unemployment risk.

Finally, it is argued that any system of unemployment insurance faces a serious difficulty when confronted with the conflict of capital and labor. A certain amount of unemployment is voluntary for legitimate reasons—that unemployment, either individual or collective (strikes), which results from bargaining over the wage-contract. It is not always easy to differentiate this form of unemployment from others. If unemployment insurance is extended over this form, it must meet with tremendous opposition from the employing class; if it is excluded, the opposition is equally strong on the side of the wage-workers.

These and similar difficulties are quite real. But the fact that, notwithstanding them, at least one form of insurance—that of the voluntary co-operative kind through workingmen's own organizations—namely, labor unions—not only proved feasible and successful, but developed very rapidly during the last twenty-five years—is evidence that these conditions are merely difficulties to be overcome by suitable organization rather than obstacles which would close the path.

Out-of-work benefits have always been a natural function of labor organizations. Even if the entire benefit activity of trade unions be considered an adventitious, supplementary feature of an organization whose main purpose is improvement of the conditions of the labor contract, out-of-work benefits are an exception because they are necessary to preserve the very life of a trade union. For a unionist out

of work may weaken in his union principles and prove dangerous to the organization.

Its development has been greatest where the trade unions are strongest, in Great Britain and Germany. In Great Britain, the one hundred principal trade unions in ten years (1898-1907) distributed nearly $20,000,000 in unemployment benefits out of a total budget of over $86,000,000, or 22.8%. Both the actual amount paid out and the proportion of total expenditures devoted to this subject has rapidly increased. In 1904 it exceeded $3,000,000. Yet the membership protected by these benefits was less than 1,500,000 out of a total union membership of 2,500,000, and a total wage-working population of nearly 15,000,000.

The building trades, and the metal, engineering, and shipbuilding trades were best protected; in fact, they distributed over two-thirds of the total unemployment benefits.

In Germany, notwithstanding the comparative youth of the trade-union movement, the extent of this activity is equally wide. Out of a total union budget of some $10,000,000, nearly $2,000,000 was spent for unemployment benefits, and an additional $300,000 for travel benefits. Some 2,000,000 workers were protected against this risk by co-operative insurance.

In comparison with the amount of unemployment benefits given by the British and German unions, the activity of the American unions in that direction is but slight. It is reported that in 1910 all the national unions affiliated with the American Federation of Labor distributed in unemployment benefits no more than $240,717. In 1909, in face of the serious industrial depression, the total amount was larger, $535,995.

In other words, unemployment insurance has been realized by these labor organizations in face of all the enumerated difficulties. The important question arises, why did not these difficulties interfere in any way, or at least in any material way, with its growth? The answer is extremely simple if the nature of these difficulties is again considered, for scarcely any of them apply to the conditions under which labor unions grant their out-of-work benefits.

The " moral hazard " of malingery is naturally reduced to a minimum. A trade union knows the conditions of its particular labor market as no one else can know them. Often it

takes an active part in placing the unemployed; it also knows the conditions of employment so as to be able to see the difference between a reasonable and an unreasonable offer. It is almost impossible for a refusal of a reasonable offer to remain a secret. And as to an offer to work for sub-standard wages, it is the direct policy of a trade union to prefer the payment of an out-of-work benefit to a permission to accept such employment.

Not only these broad difficulties but even the technical ones also vanish. There can be no unfavorable selection of a few trades because each union organizes its unemployment benefit system within the limits of one well-defined trade or a group of closely related ones, where the risk of unemployment is fairly uniform. Nor can there be a personal selection of bad risks because, though voluntary from the point of view of general law, these out-of-work benefit systems are usually compulsory within the limits of the trade organization. Thus, the financial strength of the benefit fund is not undermined by only poor risks assuming insurance.

But while this form of insurance against unemployment has been successful not only within the limits of its activity but also as a demonstration of the possibility of avoiding all difficulties, its narrow limitations must not be overlooked.

Its effect is strictly limited to trade union organizations. Rapid as was the growth of these organizations, after all the vast majority of wage-workers is still outside of them, and in some countries they are quite feeble. Now, the necessity for unemployment insurance is vastly greater for those outside of the trade unions than inside of them.

Whether or not organization of labor has any benevolent effect upon the extent of unemployment, there can be little doubt that it has raised the average earnings of its membership. Union workmen as a rule do not suffer so much from distress in case of unemployment as do non-organized trades. Moreover, it is well to remember that almost the entire army of casual laborers is ouside the pale of unionism, receives the lowest wages, and suffers from the greatest amount of unemployment. Briefly, the same situation develops as in the other forms of co-operative workmen's insurance. Those most in need of it do not enjoy it.

Moreover the wage-workers themselves have the entire

cost of this insurance to bear. Union or no union, a very large proportion of the wage-workers are not in a condition to assume this burden. And even those who are better placed, are forced to make the level of benefits very low in order to keep the dues or premiums down.

As a result, these out-of-work benefits are usually very moderate in amount. While a good many unions do not dare to grant any at all, others are able to grant them for a very short time only. In England, the usual rates are 10s. and 12s. per week, which may be drawn for about twenty weeks, so that the average amount of unemployment benefits possible within one year may be estimated at $50 or $60.

In Germany, a benefit from 1 to 1 1-2 Marks (24 to 36 cents) is usual, while the duration may extend from ten weeks in some unions to forty in others. In Belgium, where unemployment benefits among union men are perhaps more common than in any other country, the average benefits (before the establishment of the Ghent system, which will be described presently) varied from 50 centimes (10 cents) to 2 1-2 francs (50 cents) per day, or 60 cents—$3 per week; benefits over 1 1-2 francs per day, or 90 cents per week, being exceptional. The same rate, 1-2 to 1 1-2 francs, predominates in Italy. The observation which Mr. Beveridge makes of the English out-of-work benefits, "the allowance is never by itself adequate for the maintenance of a family," is equally true of these benefits in other countries as well.

The persistence of these efforts proves insurance to be necessary and the fair degree of success proves it to be, under certain conditions, feasible. But the final possibilities are found to be limited and the cost a heavy burden, unless shared by other groups of the social body. Thus, the way is clearly indicated towards a carefully planned structure of social insurance against unemployment.

There have been many classifications of the various social systems of unemployment insurance, but perhaps it is best for the purpose of uniformity to adopt here the classification used for all other branches of social insurance, so as to underscore the absence of any fundamental difference between this and all other branches. The development from voluntary mutual to voluntary subsidized state insurance, and from that to compulsory subsidized state insurance, has been traced

in sickness, old-age, and invalidity insurance, and the same process may be noticed in the field of unemployment.

The many experiments, the failures, and the successes as well, were almost all made in voluntary subsidized insurance. The fact that instead of the state, in many instances, the local governmental authority, the department or province or even commune has undertaken the organization and granted the subsidy, is, after all, a detail of minor importance.

Somewhat crudely, all these schemes of subsidized voluntary insurance provided for by public or governmental authority may be divided into groups, which Mr. J. G. Gibbon has named: (1) Provided Voluntary Insurance and (2) Autonomous Insurance.

The difference between these two forms of organization is essential. Under the " provided " form, the public authority, usually a municipality (although in a few cases only a semi-public body, perhaps of a charitable nature), organizes the insurance institution and offers to extend its benefits, including a financial subsidy, to the individual workman. The " autonomous " form proceeds on an entirely different plan—it accepts the form of insurance organization created by the workmen themselves and only comes to their assistance, thus following the familiar lines of voluntary subsidized sickness insurance or old-age insurance in the Scandinavian and other countries. Of these two forms, whose designation is sufficiently characteristic, the latter, the autonomous form—is the more recent and by far the more successful. It is undoubtedly the activity of the " provided " form, organized in the nineties of last century, which is responsible for the pessimism as to possibilities of unemployment insurance so current ten or fifteen years ago.

Altogether, only a few experiments in that line were made. The earliest was that in the city of Berne, Switzerland, in 1893. In 1896, Cologne, Germany, established a fund, still existing, and in the same year a private organization in Bologna made a similar effort. Other funds are found in Leipsic (since 1905), in Venice (since 1901), in Basle (1901), and Geneva (1904).

The organization of these insurance funds is very primitive. All workers without distinction are usually permitted to join on the same terms. As a result, all the difficulties men-

tioned in connection with the general problem of unemployment insurance come very strongly into play. There is selection of " bad risks " both individually and by trades. In all the schemes mentioned, the building trades predominated among the insured, sometimes up to 80% or 90%.

Naturally, the trades less subject to unemployment avoid this form of insurance. Even among the building trades, the better element is antagonistic to the organization.

A very high proportion of those insured is forced to apply for the benefits—even in Cologne from 80% to 85% in six years out of twelve. The insurance principle is practically obscured. The scheme becomes simply a method of taking out more money than was put in. This serves as an additional attraction to the both economically and morally weakest elements of the working class, and not only repels the stronger but becomes soon a source of danger to the fund itself. The subsidies, usually derived from two sources, a contribution from the municipal treasury or voluntary subscriptions of " honorary members," or other charitable individuals or institutions (and, as a matter of fact, rather slight in all the localities enumerated), become exhausted or threaten to be so; and to preserve even a semblance of the insurance principle, the management of the funds usually feels itself constrained to apply various restrictive measures to reduce the excessive demand for benefits. Various regulations of this kind exist. Certain trades may be altogether excluded because the unemployment risk is too great. A residence qualification is established to prevent migration for the purpose of receiving the benefits. A certain length of membership is required with regular payment of dues, as a means of eliminating the malingerer. And while these measures strengthen the finances of the scheme, they really reduce its usefulness.

Briefly, the situation is that good risks avoid these schemes and the worst are not admitted. As a result the sphere of application of all of them is a very limited one. In Cologne, which has nearly the very oldest and the most important of these systems, the total number of insured is under 2,000. The Berne unemployment fund insures only about 500. The Basle fund, after ten years, boasted of a little over 200 members insured.

In so large a city as Leipsic, the unemployment insurance

fund, organized by some private agencies in co-operation with certain trade unions, has attracted two hundred and twenty-seven members in the fourth year. The total number of insured in all the schemes of this type is, therefore, less than five thousand.

The truth of the situation is that these funds have become but modified forms of public relief for a few unemployed, the right to relief being predicated upon certain contributions. This public relief is combined with the granting of such employment as cleaning the streets. Charitable funds, either voluntarily contributed by individuals or by municipalities, are an essential feature of them. These voluntary contributions seldom last, are never sufficient, and the maximum activity depends upon success in obtaining funds.

Some of these funds have done a certain amount of useful work in relieving unemployment distress and in finding employment for the idle during the winter months. But as a possible nucleus for a general scheme of unemployment insurance, they have failed, and perhaps that is their most important achievement—that they have clearly established the impossibility of individual, voluntary unemployment insurance.

Vastly more successful has been the system of unemployment insurance which is usually known as the Ghent System, because the earliest successful experiments were made in the Belgian city of Ghent in 1900, under the direction of Mr. Louis Varlez, a very close student of the unemployment problem.

The principle underlying the now famous Ghent system is very simple. It was quite evident, even ten to twelve years ago, that while the few municipalities which tried it failed to evolve a practical system of unemployment insurance, labor unions were carrying on a considerable amount of that insurance without any particular difficulties except that certain unions felt that they could not afford it. Instead of trying to build up a new system of unemployment funds, it seemed much simpler, and much more advisable, to direct the efforts toward developing a system which the workman had created himself and which proved entirely successful within its limits. The main shortcomings of trade union insurance were, on one hand, the small benefits and the heavy burden upon the work-

ers' pockets, and on the other, the fact that many unions were evidently unable to organize such systems with the funds at their disposal.

The essential thought of the Ghent system is, therefore, its public (municipal) subsidy to labor organizations granting out-of-work benefits. The purpose is to increase the amount of the benefits given without any additional cost to the wage-worker and to stimulate other unions to organize such systems. With this purpose in view, a certain appropriation is made by the municipality of Ghent together with its suburbs. From that appropriation subsidies are granted to all organizations giving unemployment benefits, in a certain proportion to those benefits, which must be determined periodically in dependence upon the funds at disposal, the general level of unemployment and so forth. This proportion has usually been 60% of the original benefit, so that the unemployed received 60% more than he otherwise would have been entitled to. Those to whom the principle of self-help is a sanctity, may claim that the underlying principle of this system is that of "helping self-help." This is only true, however, if the term "self-help" is made broad enough to include "collective mutual help." For the decision of a trade union to organize a system of unemployment insurance is rather a triumph of the principle of collective mutual help over the hope in the efficacy of "self-help."

The details of this scheme are somewhat more complex and cannot be gone into here at great length. There are various limitations. The limit of the subsidy cannot exceed 100% of the benefit originally given. The subsidy is computed only on the first daily franc of the benefit. It is not given for more than sixty days in any one year to one unemployed. These conditions and limitations under no circumstances interfere with the right of the trade union to organize its own scale and conditions of unemployment benefits. They apply to the benefit and not to the subsidy. The Ghent system has admittedly had a marked degree of success. From 28 the number of affiliated trade unions has increased to 43 within nine or ten years, the number of insured from 13,000 to 18,500, and in eight years some 650,000 francs were distributed in unemployment benefits for some 375,000 days of unemployment. Of the total amount about 220,000 francs were con-

tributed as a subsidy. Thus, the experience of this one town of some 200,000 population has been really greater than that of half a dozen of the purely municipal funds, such as Cologne, combined.

The Ghent system, with various more or less important modifications, has found its imitators in many communities throughout Europe. Not only municipalities but various departments or communes, and finally states, have made appropriations for subsidizing either trade union unemployment funds, or similar voluntary schemes of unemployment insurance. Perhaps the extent of this growth within one decade can best be presented in a somewhat tabular statement adopted, with modifications, from J. G. Gibbon's Unemployment Insurance:

(*a*) Municipalities

1. Belgium. All cities of over 35,000 population, and several smaller cities, altogether twenty-one funds with forty-one communities participating.
2. France. A large number of municipalities, Paris, Lyons, Limoges, Roubaix, etc.
3. Germany. Several cities, such as Strassburg (since 1906), Erlangen (1909), Mülhausen (1909), Freiburg (1910), Heidelberg, Nuremberg (1911). It is planned in Berlin, Hamburg, München, and other cities.
4. Holland. About twenty-five cities and towns altogether, including Amsterdam, Arnhem, and Utrecht (since 1906), one since 1907, eleven since 1908, eight since 1909, one since 1910, and one since 1911.
5. Italy. Three cities, Milan since 1905, through a privately endowed philanthropic fund, Padua and Brescia since 1909 or 1910, directly (this does not include Bologna and Venice, where direct systems of insurance exist).
6. Switzerland. The country of the early and unsuccessful attempts at direct and even compulsory insurance, has also been influenced to adopt the Ghent scheme. St. Gall since 1905, and Geneva since 1909, and a few other small towns.

(*b*) Larger Civil Divisions

Provinces, departments, etc. Small subsidies, often in addition to the subsidy of the local community, are given by these political divisions in Belgium and France.

(*c*) State Governments

1. Belgium since 1907 distributes a small subsidy to some of the communal unemployment funds, or trade associations granting un-

employment benefit, whether affiliated or not with the communal fund.

2. France similarly distributes in subsidies to unemployment insurance associations a sum appropriated, which amounts to some $22,000 annually since 1905.

3. A truly national system of subsidized unemployment insurance was passed in Norway in 1905 (4) and similarly in Denmark in 1907.

The list is comprehensive enough to indicate the rapid extension of the Ghent system or its various modifications. Naturally, with such a large number of systems independent of each other, a very great variety of detail in methods may be observed, upon which the efficiency of the system often depends.

The differences in the method of organization between municipal and national systems were already indicated. That the national systems have the preference seems to be quite evident, if only because they are much more effective in extending the benefits of unemployment insurance and not interfering with the mobility of labor. Thus the Danish and Norwegian systems seem from the point of numbers to be the most perfect. Considering the population of these two small countries, it is certainly significant that Norway has about 50,000 persons insured against unemployment, and Denmark an even 100,000.

To whom shall the subsidy be paid? That is one of the essential problems of organization in most of these funds. Most of these organizations—in fact, practically all of them in all countries—are trade unions. But no law or system requires them to be such. In fact, in some countries, it is very definitely provided that the subsidized association shall not be a trade union, but an organization expressly formed for the purpose of unemployment insurance. In actual practice this requirement has simply resulted in subsidiary formal organizations of the same membership as the trade union. That is the situation in Denmark, and in Norway the law requires that if a trade union possesses an unemployment benefit fund, its accounts should be kept entirely distinct, and the fund should possess a legal identity of its own.

There are several reasons for this requirement. The modern state had no desire to openly come out as a partisan of trade unions, or to permit the use of any part of its subsidy for other purposes than unemployment benefits. Furthermore,

it did not want to discriminate against the non-union man, and wanted to leave open for him a way to the subsidy. Moreover, in granting the subsidy, the state wants to exercise control of the unemployment benefit fund without interfering with the trade union as such. In both these countries, the law requires, as a condition of the subsidy, that membership in the fund be open to any one, whether a member of the trade union or not. This provision was very distasteful to the unions and delayed the acceptance of the subsidy, especially in Norway; but, gradually, the opposition was overcome, because its actual effect was felt to be very weak.

Other regulations as to the organizations entitled to subsidy, or individuals entitled to membership in such organizations, are few. The natural tendencies of the workingmen's organizations are permitted to work themselves out. In some of the systems enumerated, it is required that the organization be limited to one trade or allied trades, this uniformity of occupation being necessary to insure some uniformity of risk. Most of the municipal systems leave the actual determination of the amount of benefits payable to the voluntary organizations, though they may pay their subsidy only up to a certain amount of the benefit. On the other hand, definite limits are met with. Under the Strassburg system, for instance, the benefit originally paid by the trade union must not be over 1 Mark (24 cents); the Norwegian law puts it at one-half of the wages, and the Danish law places the limits at from 1-2 to 2 Kroner (13 cents to 54 cents). There is in most of these limits some conception of the rock-bottom standard of physical necessities of existence.

The variety of provisions is not smaller in the manner and proportion of the subsidies granted. Under the Ghent system the subsidy is given ex post facto in proportion to the benefits. While the subsidy is given at the same time with the basic benefit, the amount is reimbursed to the organization after a subsequent accounting. This is the predominating method in other Belgian communities, in the Milan fund, in most Dutch systems, in the national system of Norway. The system of Denmark is the most notable exception to this rule, the subsidy being paid according to the premium rather than the benefit. The Ghent method is usually considered prefer-

able, in that it encourages the payment of benefits rather than accumulation of funds, prevents the waste of subsidy in administrative expenses, and requires less interference with the management of the funds by the association.

The amount of the subsidy must be substantial if the results aimed at—effective increase of the benefits and strong stimulus to the development of mutual insurance—are to be realized. In the Ghent organization 60% of the basic benefits were usually given. Under the Danish law one-third of the premium is contributed out of the national treasury, and the local authorities are permitted to contribute another sixth, so that altogether one-half of the premium is contributed, constituting a subsidy of 100%. The Norwegian system provides for a subsidy of 25% of the total benefits paid, or 33 1-3% of the basic benefit. In most of the cities of Holland the subsidy is 100%. In the city of Strassburg it is 50%; the same amount is paid by the Humanitarian Society, which conducts the system in Milan. To be sure, the actual rate of the subsidy is often smaller than that stated in the rules because many other regulations exist restricting the subsidy, often according to the length of residence, or excluding the earliest stage of unemployment, or limiting the duration of the subsidy. In other words, the subsidy system may have its own regulations as to subsidy, without necessarily enforcing them upon the voluntary organization.

As a matter of fact, the activity in granting out-of-work benefits, and consequently the subsidy as well, is limited to trade unions. Thus, the benefits of all these systems are limited to organized labor. The granting of the unemployment subsidy may have had the effect of attracting to the trade unions a certain proportion of the wage-workers' class, who, otherwise, would not have joined them, but with all that, a larger part of the workingmen in most of the countries still remain outside of these organizations, and to them the system of subsidies to voluntary organizations offers little or nothing.

In order to meet the demand of this larger part of the working class, a modified system of subsidies to savings was devised. This consists in granting subsidies in the same amounts as to the associations, to withdrawals from the private savings-bank accounts when such withdrawals are made be-

cause of unemployment. During the first three years such subsidies to private savings were made only when the deposits were made for the special emergency of unemployment, and thus constituted a modified form of insurance. This was not altogether a new principle, for the identical form of unemployment insurance had been practised in the city of Bologna, Italy, by the local savings bank since 1896. In 1904, the scheme, in view of its failure to become popular, was made more liberal, by granting the same subsidy to withdrawals from any savings-bank account, provided the withdrawal was made because of unemployment.

This provision for unemployment of individuals not members of any unemployment benefit association, is found only in a few of the schemes described. In almost all the Belgian municipal funds, the principles of the Ghent system were followed, including this method of subsidizing individual savings. But outside of these, only a few municipalities have adopted this subsidiary system. It does not exist in either one of the two important national systems of Denmark or Norway, nor in the more limited system of France. The systems of Milan and other Italian cities, of all the cities of Holland, of the city of Luxemburg, and of most German cities, are strictly limited to subsidy of organizations, often only to trade unions.

To be sure, the question of existence or absence of this subsidiary system of assistance to individual earnings is rather an academic one, not because the interests of non-union labor are of no importance, but because even when the system exists, it has proven just as much of a failure as the essential feature of the Ghent system has been successful. Taking all the Belgian systems combined, about 150 or 200 persons have availed themselves of this system, with a total subsidy of about 2,500 francs, as against 17,000 to 20,000 persons subsidized through the trade organization part of the scheme.

Thus, the Ghent system, as well as its imitators and modifications, is practically limited to organized labor. It is true that in a few cities, as, for instance, Roubaix (France), Basle (Switzerland), Nuremberg (Germany), Dordrecht (Holland), and a few others, efforts are being made to meet the needs of unorganized labor in a different way—by direct municipal insurance funds, such as the " provided " schemes described

earlier in the chapter, the fund receiving the dues (or premiums) of those voluntarily insured, usually uniform for persons of all trades and ages and granting a benefit to which a subsidy is added. There is little reason to expect, however, that these plans should prove more successful than those in Cologne, Berne, Bologna, etc., already described.

How do these subsidized systems meet the essential difficulties of unemployment insurance which have been found to interfere so seriously with the working of the direct municipal system, namely, the difficulties of (1) proper definition of unemployment; (2) its distinction from other forms of enforced or voluntary idleness, and (3) tendency to malingery? Here, again, there is a wide space for the testing of divergent methods. There is, however, a certain uniformity in this variety. In so far as all of these schemes work in co-operation with the trade unions or similar voluntary organizations, they depend upon the system of supervision of these. There must be in each one of these organizations an incentive for preventing malingery or fraud, because they themselves pay the larger part of the subsidy. In addition, some other method of control usually exists. Thus, most of the insurance systems described work in close co-operation with "labor exchanges" or public employment offices, who fulfil the double functions of control and prevention, control over possible fraud, and prevention by placing the insured unemployed either in public or private employment. Registry at such labor exchanges is usually required as a condition of receiving the subsidy. In Strassburg, Erlangen, and several other German cities, daily visits at the labor exchange during the entire period of unemployment are a requirement—a rather vigorous method of control, which is defended also upon the ground that it is conducive to sobriety and offers better chances of finding employment. A good deal of theoretical importance is ascribed by some writers to these methods of control, for through them some definite system may develop to overcome one of the serious difficulties of direct public unemployment insurance.

How much have these numerous systems succeeded in accomplishing thus far? The answer to this question is not an easy matter, for most of these systems are very recent, and moreover it is always difficult to get an accurate measure-

ment when dealing with a large number of diverse, local, independent organizations rather than large national systems.

Perhaps the most comprehensive collection of statistical information on this subject is contained in the proceedings of the Conference on Unemployment held in Paris in 1910. Most of this information has been summarized by Mr. J. G. Gibbon in his study on *Unemployment Insurance,* and from his tables an effort may be made to measure the development as a whole.

NUMBER OF PERSONS INSURED UNDER THE VOLUNTARY SUBSIDIZED SCHEMES, STATE AND MUNICIPAL

Denmark	95,000
Norway	50,000
Belgium (21 communal funds)	40,000
France (state system)	40,000
Milan (Italy)	12,000
Holland (11 communal funds)	15,000
Strassburg	5,000

The brief list includes the most important of the systems of the Ghent (or modified) type, and in seven countries it covers a little more than 250,000 wage-workers.

A general estimate of the Ghent system must take these facts into consideration. As the first successful effort to apply social forces to the relief of the unemployment problem, it has its enthusiastic admirers, who consider it the only practical method of social unemployment insurance. It must readily be admitted that the development of the Ghent system was a growth of large importance. But it also has its very rigid limitations. Where labor organization is weak, or where, as in France, they have done very little in the field of unemployment insurance, the Ghent system fails to show results that count. And in all countries, it scarcely touches the very worst forms of destitution resulting from unemployment. In other words, the positive results of the Ghent system—the demonstration of the perfect possibility of unemployment insurance, the development of methods of meeting all its specific difficulties, are due to the fact that the union presents a unit of compulsory insurance. Its weakness and limitations are

due to the fact that the very existence of the unit is a voluntary matter. In so far as the system approaches compulsory insurance, it is within its own limits successful. In so far as it is voluntary, it fails of achieving the necessary results.

The inevitable inference points to the compulsory principle in this as in other lines of social insurance.

CHAPTER XXVIII

BEGINNINGS OF COMPULSORY UNEMPLOYMENT INSURANCE

Is compulsory insurance against unemployment possible? Until very recently, the answer to the query was unanimously in the negative. Like socialism, it had been tried and failed, and that had settled the question forever. But the one experiment in compulsory unemployment insurance bears about the same relation to a proper organization of such insurance as Owen's experiments to the ideal of a co-operative commonwealth.

" The experiment which had failed " was made in the small Swiss town of St. Gall (in the canton of the same name), in 1894. A law had been passed by the canton authorizing all towns to establish compulsory unemployment insurance systems if they saw fit, and the town of St. Gall was the first and only one to put that law into effect. The system was put into effect for two years as an experiment. The expenses of the fund were to be met partly by premiums and partly by voluntary donations and municipal appropriations. The dues were not uniform, but depended upon the earnings of the insured, rather than their trade or risk. Though the original intention was to make the insurance system universal, exceptions were made for various trades and for various considerations—the compositors, because their union paid out-of-work benefits; messengers, etc., because of the difficulty of applying a test to their employment; railway, postal, and telegraph employees, because they did not suffer from unemployment except through their own misconduct.

Though the system was compulsory, the compulsion was exercised individually upon the insured (which no other compulsory system does) and failed to work. Hundreds failed to comply, and some of them were fined. More gave false statements as to their earnings, so as to reduce their payments. The effort to enforce regular weekly payments directly from

workingmen would have been sufficient excuse for the most dismal failure. The system of administration was extremely unsatisfactory. The administration was intrusted to the Poor Law Department of the municipal government, which gave a color of charitable relief to the whole scheme, both in the eyes of the administration and the beneficiaries. The system of control over the fact of unemployment was very defective, or hardly existed at all. Sick persons, or persons who for various reasons declined employment, continued to draw their benefits. The requirements as to length of membership were not adhered to. In other words, the whole machinery worked as poorly as it could. If the fact is added to this that the system was started without adequate data as to unemployment, and, therefore, no proper balance between income and outgo could be expected, there is little ground for surprise that a heavy deficit developed during the second year. The fact that employers were not required to contribute irritated the insured, especially those who drew no benefits and perhaps could not reasonably expect to draw any. By far the largest share of the benefits went to unskilled labor and to the building trades, and the injustice of contributing to their support was acutely felt by other trades, few if any of whose members applied for relief.

The system failed (that is, was not renewed), as it was predestined to fail. It was the only system that actually received a trial. Agitation developed in Zurich for a compulsory system of unemployment insurance in 1898, but it was not adopted. And in Basle a compulsory unemployment insurance system was voted in 1899, but after its adoption was rejected on a referendum vote by 5,458 votes against 1,120, only 6,558 voting out of an electorate of over 16,000.

And that is all there is to the popular myth that compulsory unemployment insurance was thoroughly tested in Switzerland and found impossible.

Strange as it may appear, this slight experience (if it be worthy of that name) had a very strong effect upon the later development of thought. As the problem of unemployment became pressing, as its possibilities were proven by the Ghent system, and yet also its limitations, the question frequently came up for consideration. During the last decade many proposals for compulsory insurance against unemployment

insurance were urgently made in Germany, in France, in the United Kingdom, and in several small German states. Commissions were appointed to investigate the questions, and their decisions were always against the compulsion. Combined with it usually went a good deal of enthusiasm for the Ghent system. In France the Superior Council of Labor took a stand against both the compulsory plan and the plan of subsidizing voluntary associations, but two years later the latter plan was adopted. The well-known investigation of the problem made by Germany's Labor Bureau arrives at the same conclusion concerning the compulsory proposals, arguing (on the basis of St. Gall's experience), that it burdens the occupations with little or no unemployment, in favor of those suffering in a marked degree from it. The evident fact was disregarded that differences in rates could satisfactorily meet all such objections. In general the report, though avoiding positive recommendations, leans to the Ghent method of assisting voluntary insurance.

Within the last few years the problem has received very energetic discussion in Great Britain. The two most comprehensive investigations and studies of the whole subject made during this period are those of D. F. Schloss and J. G. Gibbon. It is significant, in view of the subsequent action taken by Great Britain, that both these investigators expressed their decided preference in favor of the Ghent system and against any compulsory state system. Mr. Schloss suggested that the principles of the systems of Denmark and Norway be followed, namely, that insurance be voluntary: (a) the funds be organized preferably on trade lines; and (b) on national rather than local lines.

Mr. Gibbon is still more explicit in his preferences. He concludes his valuable analytical study with a comprehensive list of twenty-three conclusions, in which a definite plan of action is lucidly outlined, both on its positive and negative side. The most important of these conclusions may here be quoted with advantage.

1. It is necessary that provision should be made against unemployment.

2. This provision should be made through insurance.

3. The community should financially aid the making of this provision.

4. This assistance should be given so as to encourage self-help. The amount of assistance should not be more than the provision made by the workmen themselves.

5. It does not seem expedient that this insurance should be made compulsory.

6. Fullest use should be made of voluntary associations, and preference should be given to insurance effected through these.

7. Side by side with these there should be a system of direct insurance of persons not affiliated with voluntary organizations.

8. In these direct schemes the premium rates should vary according to the risk of unemployment in the trade.

9. It does not seem expedient to require compulsory contributions from employers.

In face of these expert opinions, Great Britain was the first country to establish, through its National Insurance Act, a national system of unemployment insurance, which is (1) compulsory; (2) requires contributions from employers.

The logic of events, therefore, proved much stronger than the logic of academic science. Though the portion of the act dealing with unemployment is very much more limited in its scope than that concerning insurance against sickness and invalidity, its theoretical importance is vastly greater. For, in the organization of sickness insurance, Great Britain followed closely German precedents, but the solution of the problem of unemployment offered by the law makes a new contribution to the theory and practice of social insurance. While academic economic science thought (as it often does) a liberal imitation of institutions existing elsewhere the limit of possible economic action, it was the distinct service of those whose influence stood behind the National Insurance Act, that they saw the necessity, as well as the possibility, of taking a step in advance of existing precedents. And only thus is social progress realized.

The essential provisions of this compulsory system of insurance against unemployment are simple. It extends over the following trades: (1) building, (2) construction, (3) shipbuilding, (4) mechanical engineering, (5) iron-founding, (6) manufacture of vehicles, (7) saw-milling, or, in brief, over the two great divisions of British wage-labor, construction and

engineering. According to the estimate of Mr. Lloyd George himself, this will include some 2,400,000 workmen against a total number of 16,000,000 in Great Britain, though permission is granted to the administrative authorities to extend the scope of this system. It is because of this limitation that the unemployment insurance system is spoken of as an experiment. The limitation was defended not only on the plea of necessity for further experience before further extensions are made, but also because the trades enumerated suffer most from unemployment. In the other two large branches of British industry, cotton manufactures and coal mining, the fluctuations in production are largely met by short hours, and the situation, therefore, is less acute. As to casual labor on docks, the special difficulties of the situation evidently acted as a deterrent. Within the limits prescribed, almost all principles laid down by Mr. Gibbon were broken. The employer is forced to contribute an amount equal to that of the insured, namely, 2 1-2d., or 5 cents. To the total sum of contributions, amounting to 5d., or 10 cents, per week per employee, the state treasury adds one-third, which equals 1 2-3d., or 3 1-3 cents, per employee. In other words, not only is the employer required to contribute, but the total subsidy is very much larger than the share contributed by the employee himself—8 1-3 cents against 5 cents per week. For this amount the workman, in case of unemployment, is entitled to 7s. ($1.75) per week for fifteen weeks during any one year, or altogether, $26.25, provided, however, he has to his account five weekly premiums for every weekly benefit he claims. During the first week of unemployment no benefit is given. It is assumed that few workmen are in a position where they cannot stand the loss of one week's wages without relief.

The system is a direct state insurance plan. A general unemployment fund is created, into which all dues flow, and out of which the benefits are paid. Nevertheless the vast system of trade union employment benefits which has grown up in Great Britain is not disregarded. The unions may act as agents for the funds, receiving the dues and paying the benefits, for which they are reimbursed from the National Unemployment Fund. In this simple way the trade unions are enabled to continue their out-of-work benefit system and preserve the cohesive force of such systems, and since they

can buy 6d. worth of insurance for 2 1-2d., may either reduce their dues, or correspondingly increase their out-of-work benefits. Since the benefits of the national system are hardly sufficient for the support of a family, room is left for voluntary effort.

As a sort of compensation to the other trades, over which the compulsory system has not been extended, special provision is made for subsidizing other out-of-work benefit systems, by payment of not over one-sixth of the premiums. These subsidies do not come out of the unemployment fund. During the first few months of the application of the law 274 associations applied for such subsidies.

Special consideration for the interests of trade unions and desire for their good will and co-operation are shown significantly in the provisions which safeguard the possibility of conflict with their activity for general betterment of the wage-workers. Evidence is naturally required that the applicant for the benefit is unable to obtain employment, and has not refused a reasonable offer of such, but he may refuse employment in a situation vacant because of a trade dispute (strikes or lockout); he may refuse employment at a rate of wages lower or conditions less favorable than those which he habitually obtained, those generally observed in a given locality by trade agreements, without forfeiting his right to the benefit. In this way the possible coercive power of the insurance system upon the standard of the unemployed is removed. How this plan will work out in actual application remains to be seen, but the straightforward way in which the unionist's point of view is recognized by the state certainly deserves commendation.

Of the many other provisions of the act it is necessary to mention at least those methods by which other objections to a compulsory system are met. It is recognized that certain establishments, certain employers, or even individual employees may, for some reason or other, present an exceptionally low risk of unemployment. Care is taken that these should not be burdened over and above the actual risk presented. To accomplish this, an employer may claim the reimbursement of one-third of his own contributions for each employee continuously (at least forty-five weeks throughout the year) employed by him. This reimbursement equals

throughout the year from 75 cents to 87 cents per employee. Again, each insured may at the age of sixty claim the reimbursement of all the difference between his contributions and the amount drawn in unemployment benefits. In the case of a workman employed for 1,500 or 2,000 weeks (thirty or forty years) before he reaches the age of sixty, that would amount to $75 to $100.

These provisions and many other similar ones must go far in overcoming any natural opposition of many workmen against the compulsory levy of contributions.

The system has gone into operation too recently to furnish any data as to its failure or success, but it is built upon a solid foundation. The most serious danger which confronts it is the possibility of an industrial crisis with an exceptional amount of unemployment and consequent exhaustion of the unemployment fund. Even this contingency is provided for. The Board of Trade may, under such conditions, either decrease the benefits to not less than 5s. a week, or increase the dues equally from employer and employee, by not over one penny per week from either. Such an order may increase the revenue of the fund by 40%—on an assumption of 2,500,000 insured, by some $120,000 a week, allowing for an increase of some 96,000, or nearly 40%, in the rate of unemployment. This in itself may be enough, but, on the other hand, in fat years a reserve may be accumulated, for the periodical crisis must be expected. It would be unfortunate if such a crisis, like a conflagration in the experience of a fire insurance company, would occur before such reserves have accumulated.

But whoever knows the temper of English political life, will scarcely fear that such an untoward event will be permitted to break down the tremendous structure of unemployment insurance for lack of funds.

CHAPTER XXIX

THE SOCIAL IMPORT OF SOCIAL INSURANCE. A SUMMARY

In the preceding chapters the various branches of social insurance were studied at some detail and the specific problems of each branch were discussed. While the treatment of the subject has, therefore, necessarily become somewhat diffuse, the general social purpose of the sum-total of the measures described was not lost sight of. In this concluding chapter, an effort will be made to point out the essential features common to all these branches, the general purpose which lies back of them, the results achieved already, the arguments to be made in defense of this policy, the objections which are often raised against all of them, and the problems which must arise in connection with the whole field of social insurance. The treatment of these general aspects for considerations of space will be much briefer than would be desirable, but at least the most important problems cannot remain absolutely untouched.

That the purpose of every one of the measures described is to give relief in case of human destitution, is sufficiently apparent. And yet it would be an extremely narrow interpretation of the social insurance movement to consider it part and parcel of a system of relief work, of public charity organization. Relief is also the purpose of personal or public alms-giving, of workhouses or poorhouses, which are institutions or systems based upon entirely different premises. It may be true that some social insurance institutions, such as old-age pensions, or municipal unemployment funds, have grown directly out of methods of public relief. It is equally true that as yet a great many insurance systems provide amounts too small to be considered anything more than relief, and insufficient relief at that. The theory of an "Existenzminimum" is at the foundation of many benefit scales. Nevertheless, there is a radical difference between the two

theories, and, historically, insurance systems have often developed as protests against relief, against its insufficiency, both extensive and intensive, against its degrading character, and against its social injustice.

The purpose of relief is to grant the necessary minimum for a physiological existence, and that only. In actual practice it often grants less than that. The ideal purpose of social insurance, the purpose to which at least the best insurance systems tend (and the others slowly follow), is to prevent and finally eradicate poverty, and the subsequent need of relief, by meeting the problem at the origin, rather than waiting until the effects of destitution have begun to be felt.

It is quite true that the prevention of poverty may to many appear an over-ambitious, almost a Utopian plan. Beginning with Malthus, who thought poverty of the majority of the human race an inevitable biologic law, and down to Attorney-General Bonaparte, who defended poverty as a necessary social institution, the absence of which would dry up all the fountains of human sympathy, there were numberless variations of the " Leitmotiv " that " the poor we have always had with us " and always shall and always must. On the other extreme is the ultra-orthodox Marxist convinced that poverty must not only remain, but grow until the co-operative commonwealth has been established in all its glory.

Much, however, depends upon the true definition of the term " poverty." In one sense the vast majority of the people in every industrial country are poor. They are poor because they do not get an equitable return for their labor, because to them comes but a very small share of the total social product of the community. They are poor because they must earn their bread in the sweat of their brow—while a small leisure class wastes its life in insane luxury. They are poor because they can enjoy but the merest crumbs from the rich table that modern civilization and industrial development could provide for all. They are poor because not for them ever opens the rich world of art, poetry, and music which should be the property of the human race, and still remains in the monopolistic ownership of the few. And nothing but a complete reorganization in the principles of social distribution can be expected to correct this almost universal poverty of human society which the glowing accounts of the

increase in "national" wealth emphasize with gruesome eloquence.

But there is a much more circumscribed definition of poverty—the poverty of those who are on the margin of want most of their lives. There is the poverty of those who cannot maintain the necessary physiological minimum, and can only meet their economic problem either by a life which results in degeneration of the individual and family, or by an appeal for charitable relief which results in a loss of economic independence, and is penalized by modern society in many legal and social ways.

It is this narrower problem of poverty that is urgently demanding a solution, and no promise of a future millennium can quite solve it.

Can this problem be solved? The usual causes of this poverty have already been enumerated. It will do no harm, however, to repeat them: Absence of a wage-earner in the family (premature death by accident or any other cause, or desertion), disability to work (accident, sickness, motherhood, invalidity, old age), or inability to obtain a living (unemployment), these three causes practically cover all causes of poverty. In numerous ways social insurance institutions meet exactly the situations enumerated above. In a vast number of cases, they have been successful in meeting the problem fully. Why cannot a complete development of this social structure be expected to solve these problems entirely?

If the hope be considered Utopian, a parallel illustration might be found useful to drive the point home. In primitive communities the hazard of fire is a potent cause of poverty. The sight of a peasant leading a horse hitched to a wagon of very primitive construction, with a bell emitting pitiful appeals for contributions to the people of a burned village is still common in the streets of Moscow or any other large Russian town. The social loss from destruction of property by fire in the United States is enormous. It is vastly greater than in Russia and does not show any tendency to abate. It amounts to from $200,000,000 to $250,000,000 annually. But who thinks of this fire danger as a cause of human poverty? What is the difference between Russia and the United States? Only this, that in the latter country fire insurance is almost universal, while in the former it is still the privilege of

a few only. The Russian peasant is either too ignorant or too poor to protect himself against this danger of poverty. The American people have eliminated this one cause of poverty, even though it costs them nearly $400,000,000 a year to provide against a loss of little more than half that sum.

But do the actual results achieved by social insurance justify this sanguine hope as to its ultimate powers? Isn't there, as a matter of fact, a tremendous amount of human poverty remaining in the very countries where insurance institutions have flourished the most?

A thoroughly scientific inquiry along these lines is an undertaking entirely beyond the scope of this elementary study. The statistical study of the results accomplished through social insurance requires a detailed examination of a wealth of figures which cannot be undertaken here. In the preceding chapters, therefore, the methods and problems have been discussed, and the results alluded to, if at all, in very general terms only.

One measure of these results is the total sum of benefits paid out to the insured under the various insurance plans. Taking all countries together, these benefits amount to hundreds of millions of dollars annually. Since in Germany these payments were greatest, perhaps it is sufficient to quote these German figures. It is of interest to know, for instance, that in the first twenty-five years (1885-1910) of the existence of the German social insurance system, 8,393,000,000 Marks (over $2,000,000,000) was paid out in such benefits, not counting the cost of administration and the amounts accumulated; that in 1910 alone, nearly 720,000,000 Marks ($172,000,000) was paid out in this way. And it is difficult to imagine that this large and growing current of money paid to those who would otherwise suffer bitter need for lack of means or chance to earn a livelihood, has failed to eliminate a large amount of human destitution.

Nevertheless, the argument just made might be charged with the unpardonable crime of pure logic—*petitio principii*. What is the use of pointing to all this flood of millions, if, as a matter of fact, poverty, pauperism does continue to grow? This, on the face of it, is a strong argument. It is often made by opponents of social insurance. In America it was made, and very energetically, by Professor Farnam some

ten years ago, and his statements are still frequently quoted, though it is doubtful, if in view of the growth of interest in social insurance in the United States, he would be willing at present to make the same argument, at least with the same emphasis. More recently, Dr. F. Friedensburg, a German official for many years connected with the Social Insurance system, has again brought it forth, and his statements have been given wide publicity. The argument thus raised repeatedly deserves a very careful consideration.

How is the fact of increasing pauperism established? And how does it reflect upon the ability of social insurance to cope with the problem? It is manifestly a matter of great difficulty to measure the amount of human destitution. The usual procedure is based upon a statistical study of the amount of relief given, and the most important investigations were based upon study of German statistics, not only because they are most complete, but because there the argument is strongest in view of the vast structure of social insurance.

On the basis of these investigations, the charge is made that the amount of poor relief in Germany has actually increased. As a matter of fact, this statement itself is far from having been established. Twice within this quarter of a century, in 1895 and again in 1901, the powerful German Verein für Armenpflege, and again the German Imperial Statistical Office in 1894, have undertaken a comprehensive study of this problem of how far social insurance has succeeded in reducing the expenditure for poor-relief, and the results were not sufficiently conclusive one way or the other. The main problem to be answered was, "Has the care of the poor been relieved by workingmen's insurance?" In some communities it was, and others did not feel the effect. But admitting for argument's sake that the expenditures for poor-relief have actually grown, may this fact be used as an argument against the effectiveness of the social insurance principle?

The purpose of social insurance is to relieve those who would otherwise suffer—not to relieve the budgets of public or private charity organizations. It is true that it was often argued by over-enthusiastic advocates of this or that scheme, that it would do away entirely with the necessity for relief.

But evidently no system of poor-relief has ever come at all near the actual need of it. The fluctuations in the amount of relief granted might be assumed to reflect the state of need, but the general development of relief systems is just as much influenced by the degree of care society is willing to give to the needy. Unless this factor is taken into consideration, it might easily be argued that there is more destitution in Great Britain than in Russia, because more is spent for poor-relief in Great Britain, while Russia has hardly developed a public system of relief. So much credit may be given to the growth of humanitarian ideas in modern society, that it is less and less able to stand by and remain absolutely inert in face of actual destitution than it was fifty or one hundred years ago.

That alone would fully explain the growth of the cost of poor-relief, and in addition must be mentioned the increasing cost of living, which also makes poor-relief more costly, the growth of scientific charity, which begins to pay more attention to prevention and rehabilitation, which is more costly than simple alms-giving.

Moreover, the factors which cause destitution, or at least some of them, have meanwhile been increasing; accidents have increased, unemployment has increased, family abandonment has grown, and old age has grown in importance.

But how is it that insurance has failed to meet all this situation? The obvious answer is that in no country has social insurance at all approached the complete state which alone could accomplish the necessary result. The following three facts must be borne in mind when this argument is brought forward in opposition to the policy of social insurance.

1. In no country have all the branches of social insurance been developed.

Many countries lack a national system of sickness insurance, only a few have systems of old-age insurance, the first experiment in national compulsory unemployment insurance has only just been made in England, and in ordinary life insurance we have scarcely gone beyond the first steps. Complete as the German system is supposed to be, it does not cover unemployment, and provision for widows and orphans was not made until a few months ago.

2. Scarcely any known system is absolutely inclusive. Here the British Compensation Act, with its all-embracing formula of "any employment," is one of the few happy exceptions. Even in the best acts, a fringe of unprotected workmen is left on the outside, either because their industry is not covered, or their earnings are beyond the limit, or because employment is casual. Even in Germany the recent revision of the insurance law has resulted in extension of the sickness insurance system to 5,000,000 wage-workers hitherto unprotected. If, in some countries, the excepted class represents only a small minority; in others very large bodies of wage-workers, such as farm laborers or domestic servants, counting millions, are still without the pale of insurance protection.

3. The systems, with the possible exception of some accident compensation laws, grant inadequate relief. It is a sad fact that in the extension of social insurance, few if any compensation or benefit scales have been radically revised. Newer acts have admitted the insufficiency of older scales, by providing more liberal ones. The 70% of wages given in Netherlands, and 80% granted by the new Swiss act, emphasize the insufficiency of the older scales of 50% and even 60% which still predominate. The standard of wages of the majority of the workingmen is not so high that one-half of it should suffice for freedom from charitable relief in all cases. In sickness insurance, benefits are scarcely above 50%; old-age pensions, whether acquired by insurance or gratuitously, are far below even the Existenzminimum which they are supposed to furnish; so that even the receipt of a benefit does not always preclude the necessity of an appeal for charitable relief.

In view of these limitations, how can the efficiency of the social insurance method, its potential powers, be judged by the existing need for relief, or especially by the amount of relief provided? The deep and vast sea of human destitution is fed by many springs. Social insurance aims to dam these springs so as to destroy the sources from which the sea is fed. If only a few of the springs have been dammed, and in others the dams are leaky, or not sufficiently high to prevent the flow, how can the fact that the sea has not been altogether dried, be used as an argument against the usefulness of dams

in general? And if, while some springs have been dammed, others, for other reasons have grown to many times their former size, the sea might actually have become deeper. Yet this is proof that more dams are needed, not that dams are no good at all.

But new dams are being built all the time. When the effect is studied by careful investigation of the separate springs, rather than by hasty observation of the whole sea, the efficiency of social insurance methods becomes apparent. Intensive investigation of applicants for charity in this country proves that accidents and disease are a powerful factor in a large proportion of cases. Industrial accidents as a cause of pauperism in Germany have been eliminated almost altogether. As a result, the popularity of social insurance systems is growing all the time. The last year or two have brought a rich harvest. Numerous proposals and plans are being discussed in almost all industrial countries. Unemployment insurance is planned in the German Empire and many of its states, as well as in Austria, Italy, and in other countries. Austria and Italy, Russia and Norway, Belgium and Holland are planning old-age insurance systems. Where sickness insurance is known in its voluntary form, compulsion is loudly advocated. Where certain systems of accident or sickness insurance exist in a fragmentary form, their further extensions are only a matter of time. As practice develops the weak points in the system, labor representatives in the legislative assemblies demand radical changes. It is no exaggeration to say that annually hundreds of new bills in the field of social insurance are introduced in the various parliaments of the industrial world, far beyond the power of any one man to study them all in detail. This is the answer that economic and social progress gives to the charge of inefficiency.

Side by side with this tendency for the extension of the field, there is another tendency—to unify the various isolated legislative acts into compact structures as national systems. In Germany, Great Britain, and Switzerland, this tendency was partly successful. In Russia and in Austria, it is still working out its destiny. This tendency is not only important from the point of view of efficient and economic administration, but highly significant of the new larger view upon the functions of social insurance. It carries with it the admission

that social insurance is no more an experiment, nor even a method of meeting isolated problems when they become urgent, but a universal system of social policy.

But granted that social insurance can accomplish these results, is not its cost too high? Can society afford it? That such a question can still be asked, is a sad reflection upon the development of social solidarity. The question is never seriously asked whether society can afford fire insurance, for it is property and not human lives that it protects.

Social insurance cannot be adjudicated as too costly on the plea that there is a perceptible social loss in its organization, for the cost of management is universally low, while in fire insurance at least one-half of the cost is consumed in the very organization and administration. The plea of excessive cost is made only against that part of the cost which is contributed by parties other than the insured themselves—the employers (or industry) and the state. The argument is very emphatically advanced by Friedensburg, for instance, that the enormous contributions German industry is already forced to make to the existing branches of social insurance, and still more those which may be exacted in the future through further extensions, threaten to become an unbearable burden, especially in competition with other nations in the international marts. This is not a very new argument. There is scarcely a piece of protective labor legislation that was not objected to on the same ground.

But what are the facts? Germany's power as a competitor in international markets has not been declining, and if a system of social insurance is a handicap, it is one which the chief competitors of Germany—Great Britain and France—seem particularly anxious to establish for their own industry. Besides, in what sense can social insurance be a burden upon industry, a handicap upon its development? The total amount levied upon the employers is purely an addition to the latter's pay-roll, merely an increase in the wages. Is any such increase a burden upon industry? Does industry depend upon a low standard of wages?

The question whether any nation can afford a system of social insurance is equally a question whether it can afford to provide an " Existenzminimum " for its injured, its sick, its aged, or unemployed. And the rapid accumulation of capi-

tal in every industrial society, the growing annual surplus, is a sufficient answer to the question.

As a matter of fact, the cost of social insurance, even in Germany, where more has been accomplished than in any other country, is scarcely a material factor in the expenses of production. It is true that out of a total cost of 9,674,-000,000 Marks ($2,264,000,000), for twenty-five years, 4,817,-500,000 Marks ($1,127,000,000), or one-half, was contributed by the employers, but that amount could only constitute a small percentage of the wage-roll, and a still smaller percentage of the total value of the products. An investigation by Dawson, embracing a large variety of industrial undertakings, shows that the total cost of insurance to the industry fluctuates between 8.2% of the wage-roll for some coal mines, and 2.2% for some textile establishments, the average for 21 large establishments being 3.8%. A still more comprehensive investigation by the Hansabund[1] of 304 corporations in mining, manufactures, and transportation, with a total capital of 1,500,000,000 Marks, shows that the cost of social insurance in 1905 equaled 16.7% of the dividends, and in 1909 23.7%. Thus, as a result of this social legislation, about one-fifth (23.37 : 123.37) of the dividends was utilized for the prevention of human destitution, which otherwise would have resulted for the various economic losses to which wage-earners are subject. Is it really necessary to inquire whether any civilized country can afford to utilize at least one-fifth of its dividends for that purpose?

In addition to the burden upon the industry, there is also in many countries a burden upon the national fiscal system, in connection with sickness, old-age, or unemployment insurance. Just as emphatically, the danger of an excessive fiscal burden has often been emphasized and extensions of new forms of social insurance have been delayed for many years because of this fear.

Can the burden of social insurance press too heavily upon a national budget? In Germany the main contributions from the national treasury have been to the old-age and invalidity insurance systems. For nineteen years (1891-1909) they

[1] *Die öffentliche rechtliche Belastung von Gewerbe, Handel, und Industrie,* 1911, p. 7. Quoted by Friedrich Zahn, *Belastung durch die deutsche Arbeiterversicherung,* Berlin, 1912.

amounted to 587,000,000 Marks ($137,000,000), truly a bagatelle for the powerful German Empire, whose imperial budget alone amounts to $700,000,000 annually, and counting in the budgets of subsidiary German states, over $2,000,000,000.

From a fiscal point of view, the burden of the British insurance system is greatest. The old-age pension system costs about $50,000,000 annually, and the cost of the new national insurance law may be estimated at $35,000,000 or $40,000,000. Now, an annual expenditure of some $85,000,000 to $100,000,000 may appear as a tremendous burden until it is remembered that the national budget of the United Kingdom already exceeds $1,000,000,000. With a similar budget, the United States have been expending some $160,000,000 for war pensions. Of course the introduction of a national system of social insurance must swell the national budget. But the term " burden " is altogether inapplicable to it. The theory that a large national budget is of itself a dangerous thing, is one of the silliest superstitions of a kindergarten economics. By itself it simply indicates the extension of social activity at the expense of private activity, or a growth of social effort in new directions to accomplish socially necessary results. A public expenditure becomes a burden only when it is wasted, or when it goes beyond the limits made possible by the amount of the social surplus. Evidently no expenditure of money to raise the standard of living of the neediest and productive classes, or to prevent destitution among them, can be stigmatized as waste, for no higher purpose of social expenditures can be imagined. And when the question whether such expenditures are justified by the conditions of the social surplus is asked, it may be sufficient to point to the estimate of national wealth of the United States, which has increased within the decade 1890-1900 from $65,000,000,000 to $88,000,000,000, or over 30%, within the four years 1900-1904 from $88,000,000,000 to $107,000,000,000, or over 20%, and by this time would probably justify an estimate of at least $150,000,000,000. Surely, as long as this country can boast of an annual social surplus of some $5,000,000,000 after all truly wasteful expenditures, both private and public, have been discounted, it is senseless to discuss seriously whether we can afford the expense of a social insurance system.

The fiscal situation, and the arguments of excessive cost, can be very succinctly stated in the one following sentence: The class which needs social insurance cannot afford it, and the class that can afford it does not need it. To solve this socio-political antinomy, legislative coercion becomes necessary. In the best sense of the word is social insurance true class legislation. It is nothing but an effort to readjust the distribution of the national product more equitably—not in accordance with the ideal demands of equity, but at least with those standards which due consideration for national vitality makes immediately imperative.

But the objection is made that social insurance has no power to make such readjustment. The ultra-radical element in the labor movement insists that what the employing class is forced to contribute to the cost of social insurance it recoups itself by raising the cost of the product or lowering the wages, in other words, that, in the final analysis, the working class pays for it all, and, therefore, social insurance is worth nothing to this class.

Now, the questions of the incidence of any superimposed compulsory charge are not easy to answer, or at least to answer correctly. If the tyro in economic science is too often prone to assume that the charge must necessarily remain where originally placed, the opinion, at the other extreme, that the whole charge will necessarily be shifted because a tendency towards shifting it in a certain direction may exist, is just as much at variance with the actual facts. A tobacco monopoly may succeed in shifting the entire weight of the excise upon the consumers, but that is primarily the expression of the monopoly power. The bitter fight of the employers in most countries against efforts to impose part of the cost of social insurance upon them, is evidence presumptive, in any case, against their ability to shift the entire burden.

What evidence is there of such shifting? That the manufacturer will endeavor, or rather is forced by competitive conditions to try to shift every additional charge upon the price of the product is true enough. Even then, it must be noticed, not all but only a part of the cost would be shifted upon the wage-workers themselves, for they do not constitute all the consumers. But what evidence is there that this effort will be entirely successful? If social insurance be introduced

in one industry only, it is reasonable to expect that the industry will try to recoup itself. It will not permit the rate of profits to fall below the normal rate of profit in the country and at the time, unless such readjustment would be possible through price, a readjustment of capital would become necessary. But the situation is somewhat different when the system is universal, when no shifting from insured to non-insured industries will be possible. A sudden general rise in price, with the subsequent curtailment in consumption, is a somewhat more difficult matter. The general level of prices, while depending upon the various costs of production, is usually assumed to result in a normal rate of profits. But the rate of profits is not an iron-clad rate. And if the productive activity of capital is not to be curtailed, the increase in costs would force the rate of profits down. Still more doubtful is the ability of capital to shift the entire cost of insurance upon the wage-worker by reducing the wages. Here, again, as the writer is somewhat proud to have pointed out nearly ten years ago,[2] there is a very material difference between the economic effects of voluntary and partial insurance on one hand, and compulsory and universal insurance on the other hand. It is easy to imagine that the exceptional generosity of one corporation in providing insurance or pensions for its employees would eventually reflect itself in wages, or at least would tend to be discounted to some extent. The provision would attract labor to that corporation. What is perhaps more important, it would tend to keep employees from leaving that corporation, and in a rising wage-market (following a rising price-market) that would keep the wages of that particular corporation at a lower average level. But if a universal compulsory system is introduced by law, the effect would be decidedly different. The effort to shift the employer's contribution back to the wages could only be successful if the wage-working class, as a whole, would permit a sudden reduction of their standard of life. Since the forceful influence of that standard upon the wage level is now frankly recognized, such a result would be unthinkable. The working class may not always be strong enough to gain an increase of standard, but an effort to reduce it meets violent opposition, and is usually futile.

[2] *Journal of Political Economy*, June, 1904, pp. 366-68.

In fact, the resistance of a definite, well-established standard is so great that it is safe to assume a tendency to shifting in the opposite direction. Even in so far as the workingman is forced to contribute to a compulsory scheme, his tendency is to consider as his true wages the amount he actually receives after all deductions have been made. The energetic protests made by the radical French workingmen against their contributions at the time the old-age insurance system was introduced, are a sufficient guarantee that the efforts of the working class will be strained to the utmost to preserve the existing standard in the face of numerous reductions for social insurance. Nevertheless, it is not at all a matter of indifference as to who originally is charged with the cost. At best the tendencies in the shifting and incidence of the cost of social insurance which have just been indicated, work imperfectly. No shifting takes place absolutely automatically without meeting opposition, and without losing some part of its momentum. It is much easier for the working class to resist the employer's effort to shift the cost upon them, than to try to shift the cost upon the employers. And for this reason that the adjustment can never be perfect, it is extremely important to place the cost in the very beginning upon that class which can best afford it. But in the final analysis, it is from the fund of rent, interest, and profit that the largest part of the cost is paid.

Quite recently a new argument against social insurance has been made, which deserves special consideration, because it found the support of such tried and convinced advocates of the rights of labor as are the Webbs of England. In their extremely interesting and suggestive monograph on *Prevention of Destitution,* the Webbs advance a conclusion that insurance at best is only a necessary evil. That it does not even undertake to prevent the frequency of accidents, or to decrease the amount of idleness, but simply doles out pittances after the accident has occurred or the man has been thrown out of work. That, therefore, it is not at all a radical cure, but simply a method of symptomatic treatment. In writing their book, the Webbs had their own specific remedies for handling the problem of poverty in England in view, and the chapter of their work which is devoted to insurance is especially directed against certain details of Lloyd George's plan. These

detailed criticisms need not be considered. In fact the force of many of them may be readily admitted. But the charge that insurance is not prevention, and, therefore, less important, is not altogether a just one. It must be met here, because similar statements are not seldom heard in the United States in the course of the discussions of the compensation movement. "What labor needs is not the payment of weekly benefits for lost lives or limbs, but the prevention of these disabling and maiming accidents," sounds very convincing, and in a measure rings true—but in a measure only. It is not true that insurance has failed to exercise an influence towards the prevention of just these emergencies against which it undertakes to protect financially. On the contrary, in connection with each efficient insurance institution, there developed an organized effort at prevention. Accident compensation and insurance has stimulated scientific accident prevention in Germany on a very large scale, each industry bending its collective effort to exercise pressure upon the slovenly and careless employer. In the United States it has been claimed that fire insurance has exercised a greater influence upon prevention than any other factor. In the country possessing the most complete system of sickness insurance—Germany—the activity of the system in curing diseases is equally extensive as the distribution of sick-benefits, and from the point of view of national health is perhaps even more important. The excellent work done by German invalidity institutes in treatment of tuberculosis and other chronic ailments has been referred to. And the close connection of unemployment insurance schemes with the labor exchanges has admittedly exercised a benevolent influence upon reduction of unemployment within the limited sphere of their activity.

But the main objection to the criticism of the Webbs is the injustice of any comparison between prevention and insurance. Prevention deals with the social factors of accidents, unemployment, etc., while insurance deals with the individual victim of these conditions. They present, therefore, two distinct social efforts. The Utopian possibility of preventing all accidents and all disease in the dim future offers no remedy to the individual or family already thrown out of its normal run of life by an accident or disease. Moreover, no matter how careful and exact the regulation of in-

dustrial processes or of the general standards of public hygiene might become, it is doubtful if all dangers will ever be eliminated, as it is doubtful if ever within reasonable limits will come a time when no human being will step off the car in the wrong way, or fall off the ladder, or receive a rupture from overstrain, or light a cigarette without remembering to blow out the match—a time when there will be no pneumonia or cancer or rheumatism—so that insurance against them will be altogether unnecessary.

If the strictures raised by the Webbs represent a certain skepticism in regard to the sufficiency or insufficiency of the insurance method—a skepticism in itself productive of useful results,—other writers have brought much graver charges against social insurance,—that the protection thus granted destroys the sense of watchfulness and the independent spirit of the working class, and actually increases the sum-total of economic disasters against which it aims to protect. Perhaps the basis of this charge is too often a partisan consideration for the interests of the employers, to require a very profound refutation. It is evidently impossible to bring this charge against the organization of sickness, invalidity, or old-age insurance or widows' pensions. It is difficult to imagine that the workman might commit indiscretion of diet or exposure just because of the insurance against sickness. But the argument has been extensively used in connection with accident compensation or insurance and unemployment benefits, and was already considered in connection with these topics. It is only necessary to point out that the same argument is applicable with even greater force to fire insurance and other forms of property insurance, and yet it is but rarely advanced as a proof of its uselessness or harmfulness. That a certain force attaches to the argument will be readily admitted. But it leads only to definite appropriate regulations, and not at all to a condemnation of the system. Fire insurance companies guard themselves against this additional danger by strictly prohibiting over-insurance (i.e., insurance for a larger amount than the actual value of the property), and insisting wherever possible and necessary upon co-insurance (i.e., limiting their liability in such way that the owner of the property is not fully protected, and, therefore, preserves an economic interest in the preservation of the

property from destruction). These additional precautions are unnecessary in the case of social insurance, for not one existing system permits overinsurance or even full insurance. Even disregarding the physical pain of accidents, no social insurance system of any one of the five branches grants anything near the full amount of loss. The insured workman, therefore, retains a real interest in the preservation of his health or life or employment.

But the most damaging argument in the opinion of many is the charge that social insurance not only increases the actual hazard, but vastly more stimulates the simulation of accidents or disease or unemployment; that it encourages the professional mendicant, demoralizes the entire working class by furnishing an easy reward for malingery. For evidance supporting that charge, American writers and speakers of late point to the pamphlet of Dr. Friedensburg, which was translated by opponents of social and especially state insurance, and widely circulated throughout the United States. " Pension hysteria " is claimed to be the scourge of the German working class as a result of twenty-five years' experience with social insurance systems. Again Dr. Friedensburg may be quoted, not because this chapter is intended as a special refutation of his now famous attack, but because scarcely any German writer has dared to approach him in the energy of the language used.

" Insurance," says he, " has been the very factor which has led to universal degeneration and demoralization."[3] This, if at all approaching the truth, would be too high a price to pay even for the greatest benefit that social insurance can bring.

Naturally, this degeneration and demoralization—all due to the desire to obtain compensation and benefits through malingery and fraud, is very difficult to establish statistically. The citing of the amount of litigation under social insurance laws is not very conclusive, one way or the other. There are many points of dispute under any insurance system—how long did the disability last, what is the degree of disability, what is the proper amount of compensation, etc. The law recognizes that disputes are inevitable, and provides a special machinery for their settlement. If there are fraudulent cases,

[3] *Loc. cit.*, p. 46.

most of them must remain undiscovered. Every argument in proof of malingery is usually supported by quotations of discovered "horrible examples." The question remains, how far are they typical? As to that, only the impressions of persons familiar with the situation can be relied upon. As to these expressions, a vast variety of opinions exists. It has been asserted but too often that Dr. Friedensburg's opinion must carry unusual weight, because of his long connection with the German Social Insurance System in his high administrative capacity as President of the Senate of "Reichversicherungsamt" (Imperial Insurance Office). But perhaps this very close connection in face of an existing bias has really made him an altogether prejudiced witness. In his official capacity, he was brought into contact with the abnormal, the exceptional, requiring decisions of the highest jurisdiction, rather than with the vast majority of normal cases which are settled without any noise or friction.

As the writer of these lines has indicated elsewhere,[4] "nervous physicians and sensitive district attorneys sometimes get into that frame of mind." All the world is not suffering from dangerous illness and all people are not felons and murderers, just because the physician sees ill-health from morning till night, and the courts deal with criminals only.

Of course, there are cases of malingery, of deliberate fraud, of simulation of injuries. The prevention of malingery and fraud presents a definite administrative problem, which must be met by appropriate methods of administrative control. Unfortunately limitations of space have made the consideration of these numerous problems of good administration altogether impossible in this study. This important work must be undertaken independently. But malingery and fraud are not specific faults of social insurance. They occur in connection with every form of insurance. From deliberate arson to exaggeration of loss under fire insurance, from murder of wives or children under life insurance, which led to special legislation against overinsurance of children, there is quite a distance to the crime of a workingman who will insist upon prolonging his period of disability after accident or disease, at some one else's expense, in order to take advantage of an additional vacation.

[4] *Political Science Quarterly*, June, 1912, p. 313.

Commercial accident and sickness insurance can more than match the record of any social insurance system in that direction, for it has not the legalized methods of control at its disposal which usually constitute an important feature of the latter. Nor does any insurance hold a monopoly of fraudulent claims. The amount of perjury of injured plaintiffs, employers, witnesses, and even medical experts which liability litigation develops, is proverbial. For one thing, the amount at stake is usually very much greater. Whenever a damage suit is begun, the temptation to exaggeration is great, even if it be a suit for a fabulous sum for alienation of affections, or for breach of promise to marry. Every fraud or exaggeration on the part of the injured claimant in compensation cases can be more than duplicated by the efforts of the employing interests to escape payments, or reduce their amount.

There are a great many arguments of a more general character that are often brought forth against the program of social insurance. They are appeals to general political or social theory, and are usually of such an abstract nature that their proper consideration would necessitate a complete overhauling of all the disputed points in political and social science—an enormous and possibly praiseworthy undertaking of a lifetime, but not of much value in consideration of very practical social needs.

There is the argument of the proper limits of state activity, of the great advantages of self-help over mutual help, of the necessity to preserve the spirit of individual economic independence, and the danger of breaking the backbone of our working class by teaching it to rely upon the government, and so on and so forth. The more one studies the extensive European literature on these topics produced two or three decades ago when these problems were up for discussion in Europe, the less one feels the necessity of repeating the time-worn arguments. History has answered these questions clearly in Europe, and its voice is heard at present in the United States sufficiently well.

There is one interesting point, however, which has already been mentioned in connection with the problem of accident compensation, but which has a general application to the whole field of social insurance: That is the general effect of

this social policy upon the relations between the various classes into which modern society is divided by powerful economic forces. Social insurance is often advocated as a measure of social peace and for the very same reasons is violently attacked by others. It is supposed to teach the gospel of " identity of interests of labor and capital." For this reason mild social reformers in this country have recently been converted to the gospel of social insurance, while radicals in the labor movement have bitterly attacked it as an invidious method to devitalize the forces of the coming social revolution.

Does social insurance produce this effect, an effect benevolent or pernicious according to one's point of view? " It was believed," says Dr. Friedensburg, " that the workingmen might be bought off, so to speak, from revolution." But the results did not justify this expectation. " The institution which was designed to cut the ground from under the revolutionary party is now made to promote it."[5] Again, " One of these ethical effects was to be a reconciliation of social antitheses, and a restoration of International Peace. The actual result in this respect has been, unfortunately, utter failure."[6]

The situation, therefore, appears to be somewhat uncertain. Social insurance is good because it is conducive to social peace. It is bad because it weakens the forces of the social revolution. It has succeeded in accomplishing the result, and again it has dismally failed. If it has failed, then the attitude of the reactionaries is justified, but the revolutionary elements should cease objecting to it. The fact that both the extreme reactionaries and the extreme revolutionaries are dissatisfied with these general effects of social insurance upon the class relations in modern industrial society, surely furnishes some wholesome food for reflection. Here, again, a good deal depends upon the definition of our terms.

Has social insurance succeeded in realizing " social peace "? That depends upon what is meant by social peace. Does it stem the onward march of the social revolution? That depends upon what your definition of the social revolution is. If the original hope was that it might destroy the socialist movement, the growth of Social Democracy in Germany or any other country, the palpable historical fact is that social

[5] *Loc. cit.*, p. 24. [6] *Loc. cit.*, p. 58.

insurance did not succeed in accomplishing that. If by social peace be understood a subservient working class willing to leave the political and economic power in the hands of the employers, and unable to use its own strength in furthering the necessary economic reorganization of society—then, that social peace has certainly not accomplished.

Why should social insurance have had any such effect of developing in the wage-workers a canine fidelity and attachment to their employers? After all, the growth of compulsory social insurance proceeded under the coercive pressure of state authority, usually in face of an obstinate opposition of the employing class. But, nevertheless, social insurance was not without its far-reaching social results. And these results are of a twofold character, depending both upon the economic and political aspects of this legislation. In so far as social insurance is able to prevent the extremes of human destitution, it will tend to deprive the movement of the wage-working class towards a brighter future, of that element of utter despair, born of actual destitution, which is a mighty dangerous, double-edged weapon, especially when used in wide social conflicts. Such conflicts, born of despair, are more bloodthirsty, more destructive, and less productive of positive results than intelligent collective action for the common weal. That view of social progress is certainly misanthropic which can see no better moving force to collective action than the despair of unemployment, disease, and underfeeding. And on the political side, social insurance is a powerful object lesson of the reality of the new concept of the state as the instrument of organized collective action, rather than of class oppression, the concept of the future state in the making, rather than of the state in the past. As social insurance is the creature of the state—the "benevolent" autocratic state in some cases, but more frequently of the modern democratic state—it has had the effect of establishing much more peaceable relations between the state and the working class, in so far, that is, as the state is truly democratic. If it does not have that effect in Germany or in Russia it is because there is no democratic state.

Of course, in that political philosophy which provides no place at all for the organized state, a favorable reception to social insurance on the score of the results outlined above

cannot be expected. But, after all, one is justified in assuming that that attitude does not represent the predominating opinion of the working class.

The dangerous "doctrine of the class struggle" may frighten the timid. Its existence impresses itself too strongly upon modern social life to be lightly denied. But class struggle does not necessarily mean class war. As society grows in complexity, the social antagonisms assume a more civilized aspect. Just as love tragedies and accounts of personal honor are settled now in courtrooms with due regard to criminal and civil procedure, rather than the picturesque encounters with long-barreled pistols in the distant wood at dawn of day —so class struggles may receive their peaceful solution by taking the modern road from the ballot-box to the legislative halls of the nations. If such orderly social progress, untiring in its purpose, may be designated as "social peace" only the advocate of revolution for revolution's sake can object to any force that tends to bring it about. In that sense, social insurance does tend to bring about social peace—the peace of progress, not the peace of stagnation and death.

More than that—there can be no peaceful advance as long as the pressing problems of human destitution remain unsolved, and nothing short of a comprehensive national system of social insurance against all the factors of poverty, such as death, sickness, accident, invalidity, old age, or unemployment, offers even a semblance of an immediate solution.

BIBLIOGRAPHICAL NOTE

The intention to prepare a working bibliography of the entire field of Social Insurance was abandoned after some deliberation because of the magnitude of the undertaking. The addition of a small selected bibliography would have simply repeated what has been done by others. It seems sufficient to give a list of the most important sources and bibliographies to which the serious student must turn and which he must learn to handle if he intends to pursue his studies further in this very fruitful field.

The works such a student must familiarize himself with in the beginning are: *Workingmen's Insurance in Europe*, by DR. LEE K. FRANKEL and MR. M. M. DAWSON (New York Charities Publication Committee, 1910), and *The Twenty-fourth Annual Report of the U. S. Commissioner of Labor*, entitled "Workmen's Insurance and Compensation Systems in Europe" (Washington, 1911, 2 vols.), which represents the most complete collection of materials and statistics for the eleven most important countries of Europe. In German a similar, even more voluminous compilation exists, published under the editorial management of DR. GEORG ZACHER, *Die Arbeiterversicherung im Auslande* (5 vols., 1898-1910). In view of the protracted period of publication, not all the material is equally up to date (though this is partly corrected by numerous supplements), but, on the other hand, it presents the advantage of containing a good deal of very valuable historical material. Many acts are reproduced in the original and translation.

Of serial publications the most important are: The proceedings of all the International Congresses of Social Insurance (formerly *Congrès Internationaux des Accidents du Travail*, subsequently transformed into *Congrès Internationaux des Assurances Sociales*), beginning with the first one held in Paris, 1889, and of which the next one will be held in Washington in 1915. No less valuable is the entire series of the periodical publications of the same organization, begun in 1890 as the *Bulletin du Comité Permanent des Congrès Internationaux des Accidents du Travail*, and now known as the *Bulletin des Assurances Sociales*. It is now in its twenty-fourth year, and contains an enormous volume of legislative, statistical, and historical material.

Theoretically, the ideal way of studying the legislation enacted is in the official publications of the various countries. But this is extremely cumbersome, and but seldom possible to any one. Of very great assistance will be the collected work of PROFESSOR MAURICE BELLOM, *Les lois d'assurance ouvrière à l'étranger* (9 vols., Paris, 1892-1906), and the official annual compilation of the Belgian Labor Bureau, *Annuaire de la législation du Travail*, from 1897 to date. The *Bulletin of the International Labor Office* (since 1908), published in English, German, and French editions, contains texts of many important acts, lists the less important ones, and gives annually a comprehensive international review of legislation.

Of the American publications, both for European and American conditions, the most important are:

The Bulletin of the U. S. Department of Labor, then *Bureau of Labor* and now *Bureau of Labor Statistics.* This contains many translations of foreign acts, reprints of American acts, special studies, annual reviews, etc.

The *Publications of the American Association for Labor Legislation,* appearing since 1911 as *American Labor Legislation Review.* This material is especially valuable for the study of the American Compensation movement.

The current of social activity in this field is so swift that strict attention must be paid to current literature if one is to keep in touch with latest developments. In addition to the *Bulletin des Assurances Sociales* already referred to, the following publications must be closely studied:

Zeitschrift für die gesammte Versicherungswissenschaft (Berlin since 1901), which is not limited to Social Insurance but devotes a rapidly increasing proportion of its space to this branch of insurance science; *Arbeiterversorgung* (Berlin since 1884), *Aerztliche Sachverständigen-Zeitung* (Berlin since 1895), devoted to medical aspects of social insurance; *Die Berufgenossenschaft* (Berlin since 1886), dealing mainly with accident insurance; *Monatsblätter für Arbeitversicherung* (Berlin since 1907), etc.

A very comprehensive list of the important articles in these special publications, as well as in the general economic monthlies and quarterlies, may be conveniently found in the *Zeitschrift für die gesammte Versicherungswissenschaft.*

In the English language there is hardly any publication devoted exclusively to social insurance; the general insurance press has altogether disregarded this aspect of insurance. Gradually articles are finding their way into the general economic reviews of England and the United States. For current news, especially as to the American movement, *The Survey* as yet remains the best source, and of all the American insurance papers, *The Market World and Chronicle* is perhaps the only one in which an intelligent interest in social insurance problems may be noticed. For a current fairly accurate reference source as to pending American legislation, the *Weekly Underwriter* may be recommended.

For the specialist, the primary sources of information must remain of greatest value. Wherever social insurance institutions exist, reports are almost always published. The serial and other publications of the various European Bureaus of Labor also contain much valuable material. A bibliography of all these sources is rather a formidable affair. For the eleven most important countries, however, the titles of all the important publications may be found again in the *Twenty-fourth Annual Report of the United States Commissioner of Labor.* In the United States they are not always easily reached; but the Library of Congress, the Public Library of New York City and of a few other large cities, and of some of the larger universities contain a good deal of this material. For lack of the original sources, the Statistical Annuals of the different countries are often helpful. In several countries "general statistical series" are published (e.g., Germany, Austria, France, Denmark) and these should be looked into for valuable material on problems directly or indirectly connected with social insurance. In addition, many Labor Bureaus carefully investigate conditions in other countries, and sometimes the most accurate and painstaking studies of conditions in one country may be found in the official publications of other countries.

Until recently American State Labor Bureaus did not pay much attention to social insurance topics. Within recent years, however, a growing volume of material on industrial accidents may be found in the publications of some State Labor Bureaus, primarily those of New York, Massachusetts, Wisconsin, and Minnesota. Of greater value are the publications of the special governmental institutions which were organized for consideration of these problems: first, the temporary commissions for investigation of accident compensation and preparation of bills, and secondly, the special permanent bodies created for administration of the acts—Industrial Accident Boards, State Insurance Commissions, and Industrial Commissions. As the technical insurance problems are developing, the offices of Insurance Commissioners (those dealing with general insurance conditions and not specially with social insurance) are forced to pay more attention to problems of social insurance, and their reports will also deserve some study; also the *Proceedings of the Association of Insurance Commissioners.* In addition a growing volume of interesting literature emanates from the offices of several private insurance companies, and various associations and bureaus in which many insurance companies participate for purposes of statistical or actuarial co-operation, publicity, etc.

Among brief bibliographies, the most recent one is published in *American Labor Legislation Review*, Vol. III, No. 3, pp. 287-292. The little book, edited by E. D. BULLOCK, *Selected Articles on Compulsory Insurance* (Minneapolis, 1912), has a rather lengthy bibliography (pp. xvii-xxxv) consisting mainly of popular articles in American and English magazines. More comprehensive, but rather accidental nevertheless, are the bibliographies issued by the U. S. Library of Congress:

(1) *Select List of References on Workingmen's Insurance.* Compiled by A. P. C. GRIFFITH. (Washington, 1908.)

(2) *Select List of References on Employers' Liability and Workingmen's Compensation.* Compiled by H. H. B. MEYER, 1911.

(3) *Select List of References on Old-Age and Civil Pensions, 1903.*

Very comprehensive bibliographies, especially as to official and statistical publications are contained at the end of each chapter of the *Twenty-fourth Report of the U. S. Commissioner of Labor.* Similar bibliographical notes are found in all monographs, beginning with W. T. WILLOUGHBY'S *Workingmen's Insurance* (Boston, 1898), pp. 379-386; F. ROGERS and F. MILLAR'S *Old-Age Pensions* (London, 1903), pp. 211-226; J. G. GIBBON'S *Unemployment Insurance*, London, 1911, pp. 337-342, etc.

Of foreign bibliographies the most important are:

(1) A. GROTJAHN and F. KRIEGEL: *Jahresbericht über Soziale Hygiene, Demographie und Medizinal Statistik, sowie alle Zweige des Sozialen Versicherungswesen*, Jena, 1906, published annually, and devoting a considerable section to social insurance.

(2) *Bibliographie der Sozialen Wissenschaften* (also carrying an English title—*Bibliography of Social Science*), published by the *Internazionale Institut für Sozial-bibliographie* in Berlin, and since 1913, by the *Reichsamt des Innern.*

(3) *Bibliographie der Praxis der Arbeiterfrage* (*Beiheft zum "Arbeiterfreund": Organ des Central Vereins für das Wohl der Arbeiterden Klassen*).

(4) Bibliographies published by the Italian *Ufficio del Lavoro* and,

(5) by the Spanish *Instituto de Reformas Sociales.*

(6) Bibliographies of *The Bulletin of the International Labour Office.*

(7) In this country the best source for current bibliography, both American and foreign, is the *American Economic Review* (published quarterly since 1911 by the American Economic Association, and following the *Economic Bulletin* for 1908-1910), where the Section of Insurance is very well handled.

The specializing student may profit by the information that a card catalogue of these, as well as all other special topics, may be purchased from the Card Division of the Library of Congress, at two cents per copy. According to recent information, the Library possesses at present from 750 to 1,000 cards on various topics of State and Social Insurance.

INDEX

NOTE: The arrangement of material in the book being almost altogether topical, the Index has been made mainly geographical, to enable the bringing together of the information referring to each country. To save space, duplications in the Index have been avoided. For a full analysis of any one topic it will be necessary to refer to the same headline under many countries.

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