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# **Economic and Financial Aspects of Social Security**

An International Survey

**J. Henry Richardson**



## Economic and Financial Aspects of Social Security

First Published in 1960, *Economic and Financial Aspects of Social Security* presents an important intervention by Professor J. Henry Richardson, an experienced authority on social security. Specially valuable is the chapter which considers what proportion of national income can be afforded for social security and also that on the alternatives of financing by accumulating large funds or by 'pay-as-you-go' methods. The author directs particular attention to age and retirement and urges that both social security systems and industrial organization should be so devised as to give encouragement and facilities for older people to continue working as long as they are fit. He also discusses remedies for poverty arising from sickness and large families with low incomes. The value of social security as a factor in economic security and in the redistribution of income, safeguards against inflation, and the problem of saving today for consumption in the future are also examined. This book is an essential read for scholars and researchers of political economy, labour economics and economics in general.



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J. Henry Richardson



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ECONOMIC AND  
FINANCIAL ASPECTS  
OF  
SOCIAL SECURITY

*An International Survey*

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The Cassidy Memorial Research Fund was established in 1952 to commemorate the pioneer work of the late Harry M. Cassidy, Director of the School of Social Work, University of Toronto, 1945-51. In particular, it is intended to further Harry Cassidy's conviction that the policies of social welfare and practices of social work need to be based on objective study and research. It is an essential principle of research that the results should be published and available for study and use. For this reason, the Fund sponsors publication of the results of research work when it is satisfied that the work has been thoroughly done and the material is of intrinsic value. Publication under the sponsorship of the Fund does not imply responsibility for the content of the work, or agreement with the opinions expressed: these are properly the responsibility of the authors.



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## PREFACE

Social security is a major feature of public social policy today. From tentative beginnings in a few countries in the early decades of the present century it has rapidly become a big factor in the lives of many millions of people throughout the world. My interest in it began in the 1920's while I was engaged in research into international comparisons of wages and standards of living as a member of the staff of the International Labour Office. These studies showed clearly that if a major concern of workers is about their weekly wages, a second one almost equally vital is security for themselves and their wives and children, including provision for their maintenance during sickness, disablement from accidents, unemployment, and the years of retirement.

No one could live through the depression years of the 1930's without recognising the need for comprehensive programmes of social security. Millions of skilled, competent able-bodied workers lost their jobs through no fault of their own, and they and their families suffered severe hardship and privation. As Professor of Industrial Relations in the University of Leeds I had opportunities to study conditions at first hand in severely depressed areas in Britain. However, Britain was fortunate in having organized a widespread system of unemployment insurance, and the benefits paid to the unemployed not only mitigated their hardships, but provided purchasing power which was one of the factors that made the depression somewhat less severe in Britain than in the United States, Canada and Germany.

In a visit to the United States during the depression years, where at one time as many as sixteen million workers were unemployed, I was able to see something of the chaos that resulted from the lack of an adequate system of social security. Hastily improvised relief works were started and assistance was given, but there was wide recognition that a more permanent system was necessary. This led to the adoption of the New Deal Social Security Act, 1935, which, with amendments, brought into being the Old-Age, Survivors, and Disability Insurance Program, laid a foundation for unemployment insurance and allowed for federal grants-in-aid to states for assistance to the aged, dependent children and the blind and for the development of measures to help disabled persons. This represents a great advance though it leaves a number of gaps.

When I visited Australia in 1938 a comprehensive programme of social security was under active discussion in Parliament, and was subsequently adopted. The tour also included New Zealand, where the Social Security Act, 1938, provided the first complete co-ordinated social security system in any country. Later, in 1946, the United Kingdom also instituted a comprehensive system.

After the Second World War, as a member in the United Kingdom of the Colonial Labour Advisory Committee of the Secretary of State for the Colonies, I had opportunities to consider problems of social security in the underdeveloped territories of the British Commonwealth to which the Committee gave special attention in order to give guidance in the formulating of policy in these areas. In this period I was adviser on social security to the governments of British Guiana, Barbados, Bermuda and Venezuela. Visits to Burma, India and West Africa also enabled me to study the relation between wages and the social security needs of workers in the early stages of industrialization in these countries, where conditions differ so greatly from those in the advanced countries of the West.

This experience in representative countries with low as well as high standards of living and a wide variety of political and social traditions, provided a useful basis for considering the fundamental aspects of social security and the extent to which one country can draw on the experience of others or must work out a quite different system of its own. In a short chapter on social security included in my book, *An Introduction to the Study of Industrial Relations* (1954), I wrote: 'Social security is a subject big enough to require a volume or even several volumes to itself.' At that time I wanted to write more extensively on the subject but saw no early opportunity of doing so. However, soon afterwards I was awarded the Cassidy Research Visiting Professorship for the year 1956-7 in the School of Social Work, University of Toronto, to study economic and financial aspects of social security. This award provided welcome facilities to concentrate on the subject and gave me freedom from teaching, university administration and committee work.

During the year at Toronto valuable assistance was given by Professor Charles E. Hendry, Director of the School of Social Work, Professor John S. Morgan, Mrs Florence Strakhovsky, Research Secretary of the Cassidy Memorial Research Fund, and by other members of the staff of the School with whom I worked in continuous co-operation. Visits were made to Ottawa, Washington and New York for consultations with officers in federal government departments, with authorities in schools of social work and with

business men, trade unionists and others interested in social security. Contacts were made with the provincial departments of health and welfare in Ontario, Manitoba, Saskatchewan, Alberta and British Columbia, whose deputy ministers and their colleagues were most helpful; there were also opportunities to discuss problems and policies with university people, members of the medical profession, hospital administrators and representative leaders in industry, agriculture and labour. Particular mention must be made of the valuable information supplied by the Ministry of Pensions and National Insurance in Great Britain, the Social Security Division of the International Labour Office and by members of the staff of the United Nations.

Special thanks for information and suggestions are due to Mr George F. Davidson, Deputy Minister of Welfare in the Canadian Department of National Health and Welfare, to his colleague, Dr Joseph W. Willard, Director of the Research and Statistics Division of the Department, and to Mr Richard E. G. Davis, Executive Director of the Canadian Welfare Council. Mr J. G. Bisson, Chief Commissioner of the Unemployment Insurance Commission, and his colleagues, Mr R. J. Tallon and Mr C. A. L. Murchison, kindly gave a detailed account of the problems and policies of the Commission.

In Toronto much useful information was made available by Mr James S. Band, Deputy Minister of Public Welfare for the province of Ontario, Dr J. T. Phair, Deputy Minister of Health, Mr E. E. Sparrow, Chairman of the Ontario Workmen's Compensation Board, and I had valuable discussions with Mr W. M. Anderson, President of the North American Life Assurance Company, and with Professor Malcolm G. Taylor of the Department of Political Economy, University of Toronto.

In the United States valuable help was given by Commissioner Charles I. Schottland of the United States Department of Health, Education, and Welfare, Social Security Administration, and by his colleagues, Mr Robert J. Myers, Chief Actuary, Mrs Ida C. Merriam, Director of Research, and Mr Robert M. Ball, Deputy Director. I benefited greatly from discussions with Dr Eveline M. Burns of the New York School of Social Work, Columbia University, with Dr Wilbur J. Cohen, Professor of Public Welfare Administration, School of Social Work, University of Michigan, and with Dr Victor Howery, Director of the School of Social Work, University of Washington, Seattle, who together with Mr W. G. Dixon, Director of the School of Social Work, University of British Columbia, assisted me

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in my work when on the Pacific Coast. During 1955-6, as Visiting Professor of Economics at the University of California, I also had opportunities to study standards of living and social security problems in the rapidly expanding economy of the Pacific region, and during 1957-8, when I was Visiting Professor at the New York State School of Industrial and Labor Relations, Cornell University, the discussions I had with members of the faculty were of great assistance.

The economic and financial aspects of social security constitute a very large subject of study, and in writing this book I have had to select what I considered to be the most significant aspects. The book is, therefore, a personal evaluation based on comparative analysis. My intention, however, has not been to present firm conclusions, but to open questions for discussion. Discussion is vital at the present stage of the evolution of social security if the issues are to be clarified, if the available resources are to be put to their best use and if the right blend of public responsibility, voluntary effort and individual responsibility is to be found.

J.H.R.

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## CHAPTER I

### INTRODUCTION

Comprehensive measures of social security are a recent development. Although social insurance was introduced in Germany in the 1880's, extensive application was impracticable during the nineteenth century because laissez-faire doctrines were still dominant and poverty was widely regarded as the result of the incompetence, thriftlessness and vices of the poor. In earlier centuries before the growth of modern industry, the problems of insecurity were different and the solutions adopted were simpler than in the complex, economically interrelated communities of today.

Apart from poor relief, which is now outmoded except in the more rationally administered form of public assistance, extensive systems of social security are a feature essentially of the present century. In some advanced countries, including the United States and Canada, they began only in the 1930's or 1940's and much is still piecemeal and unco-ordinated. In many underdeveloped countries the 1950's were still years of limited tentative experiments and there was much discussion in these countries about priorities and the limitations imposed by their poverty, low standards of productivity and dearth of trained administrative personnel.

In all countries the principles and methods of social security are under continuous active discussion, changes are frequent and nowhere has a final pattern evolved. In many countries there are gaps in the social security scheme and substantial numbers of people are not effectively protected. In underdeveloped countries these gaps are often due to lack of resources, while in some wealthy advanced countries public opinion is not yet ready for comprehensive coverage. There is, therefore, scope for much research into basic principles, trends of evolution and the proportions of national income which countries can afford to spend on social security in relation to the many other claims on their resources, including capital for investment to increase productivity and raise standards of living.

#### SOCIAL SECURITY IN PRIMITIVE COMMUNITIES

Social security problems in primitive communities, whether in former periods or in underdeveloped countries today, differ greatly from

those in communities where modern industrial conditions are established. Wars, including tribal conflicts and raids, were in earlier times a cause of insecurity, destruction, poverty and distress. Destruction of life and property by natural forces, such as earthquakes and floods, was in some ways more serious than it is today, as means of transportation and communication were so limited that people might be dying of hunger in one locality when resources which could have saved them were available only a few hundred miles away. Today the news of disasters flashes round the world within minutes or hours, and relief is rapidly mobilised. Yet communities in earlier times had their systems of social security. The most famous and extensive was that organised in Egypt by Joseph, who accumulated vast reserves in the seven years of plenty and spread their distribution over the seven lean years, thereby establishing an effective relation between saving and spending and avoiding wide fluctuations in standards of living. Most early communities were predominantly agricultural, and seasonal variations in output were regularly adjusted by storage so that supplies of food would not fluctuate too widely from plenty to scarcity; nevertheless, in poor years privation was often severe.

Whereas in a wage economy the insecurity of a family's income is caused principally by unemployment of all kinds, including seasonal unemployment, nowadays in a rural economy of small holders and peasant cultivators insecurity is caused not only by unfavourable weather and other causes of bad harvests, but also by fluctuations in agricultural prices, particularly where crops are sold for cash in world markets. In the inter-war years, the unstable standards of living of peasant cocoa farmers in the Gold Coast and of workers in rubber plantations in Malaya were the result of big changes in prices. Protection against these risks may take the form of marketing schemes and of insurance against losses in crops and livestock. Emergency relief on a national or international scale is needed when local communities are the victims of disasters, caused by the forces of nature, which are too serious for them to meet.

Some causes of insecurity were often less drastic in earlier times than they are today. Children began to earn their keep at an early age, and large families were usually an economic asset. Sick people and victims of accidents who were temporarily unable to work were provided with food and other necessities by members of their families, by neighbours in the village who knew them well, by monastic or other religious institutions or by the local lord of the manor. Invalids, widows, orphans and the aged were similarly sus-

tained. Local communities and tribes were knit together for mutual support and security.

Such neighbourliness is indeed a most valuable feature of human relations today as well as in earlier times, but so often nowadays in big urban centres people do not know those who live near them, and frequent movement prevents them from establishing those close associations and friendly relations which strengthen the foundations of security through direct mutual aid. In the feudal system, with all its drawbacks and restrictions, each individual had his established place and continuity of relationships and responsibilities; the coming of the industrial age not only broke the hampering chains of feudalism but destroyed the security it had provided.

#### THE NEED FOR A COMPREHENSIVE SOCIAL SECURITY PROGRAMME IN AN INDUSTRIAL SOCIETY

In the past, industry has borne only a part of the real costs of production. It has paid for the raw materials used, for machinery and factory buildings and the wages of its workpeople, but it has not adequately covered the social costs of industry. During the nineteenth century, when there was little state intervention and trade unions were too weak adequately to protect the workers, the road along which industry advanced was strewn with human derelicts. Victims of industrial accidents received little or no compensation, workers whose health was broken by injurious industrial processes were left to fend for themselves and the aged were dependent in the last resort on the harsh humiliations of poor relief and the grim institutional accommodation of the workhouse.<sup>1</sup>

Though industry depended on a large labour force, workers were dismissed with little or no notice whenever trade was slack, and were left to face poverty from loss of wages until industry wanted them back again. This treatment would be meted out even to men with long service, and scarcely a thought was given to their future or what would happen to the families dependent upon them. Industrial progress was often rapid but many people fell by the way-

<sup>1</sup> The social costs of industry cannot be reckoned solely in terms of the direct costs to the workers. Air pollution, the destruction of amenities and many other consequences of industrial development represent costs which industry has neglected to meet. A review of these wider aspects is given by K. William Kapp in *The Social Costs of Private Enterprise* (Cambridge, Mass., 1950).

side. Some argued that the unemployed man had only himself to blame if he went down, but it is now recognised that usually he was the victim of a system which he did not understand, and that the answer to his problem was for the community to organise ways of helping him to find another job and to provide systematically for his needs until he could maintain himself again. Only recently has attention been directed to the responsibility of employers so to plan and organise their work and labour force that redundancy is reduced to a minimum, and to pay appropriate compensation to workers with considerable service if they are dismissed because of lack of work. The growing attention being given in some industries to a guaranteed annual wage and to severance pay based on length of service is linked with the idea of giving the worker some security against seasonal and other lay-offs, and of making employers responsible for minimising unemployment from such causes.

Nowadays, technological developments, automation and electronic controls are accelerating the pace of industrial change. They generally represent substantial immediate and long-term advantages to the community, although some people will lose because, for example, their former skills are no longer wanted. There are also uncertainties about the effects of atomic devices on the health of the community. However, attitudes today contrast with those in the nineteenth century: governments are now more alive to the necessity of regulating industry to prevent injury to human welfare, trade unions in many countries are strong and alert in protecting the workers and leading industrialists recognise that it is good business to satisfy the reasonable claims of those they employ.

Contrasts between agricultural and industrial economies, and the greater anxieties and insecurities of the latter, are forcefully expressed by Professor Charles E. Hendry in an article in which he refers to the early farm immigrants to Canada, who were called 'settlers' and lived in 'settlements'.<sup>2</sup> These terms suggest security, and mutual aid and neighbourliness in times of difficulty. Apart from their exposure to the vagaries of the weather, the workers on the land had a feeling of self-sufficiency and a sense of security. With the coming of industrialisation a cash economy replaces a crop economy, mobility of labour is a necessity, workers become dependent on the manoeuvres of high finance and economic policy and their services may become unwanted because of the invention

<sup>2</sup> "Age of Anxiety", *Canadian Welfare* (Ottawa: Canadian Welfare Council), September 15, 1955, pp. 143-51. Professor Hendry is Director of the School of Social Work, University of Toronto.

of labour-saving machines. 'Unemployment becomes an even greater threat than the ominous shadows of a sky darkened by the approach of a hail storm across prairies ripe with wheat.' The worker is faced with uncertainties and insecurities, and is inevitably anxious about his future and that of his family. Fortunately, the productivity of modern industry provides resources sufficient to establish new forms of security.

This book is concerned essentially with security provided by the state. However, state provision is closely related to private provision by individual thrift, voluntary insurance and schemes for workpeople organised as 'fringe' benefits associated with their employment. One of the fundamental problems of social security is to determine what should be the extent of the state's responsibilities and what should be borne by individuals and private groups. Another problem is to determine how much a country can afford to spend on social security, remembering, however, that much of the expenditure pays for itself in the better health and greater efficiency of the population. Writing about Britain during the Second World War, Professor Cassidy with great insight said that the social services 'instead of being a luxury, or a sop to the conscience of the wealthy, or a desirable but costly charity, or an irresistible political demand of organized labour, are actually an indispensable element in the full mobilization of the nation.'<sup>3</sup> What was true of these services in time of war is equally valid in time of peace, and social security can make a big contribution to increasing the efficiency of production. Britain did not curtail her systems of social security during the war, but indeed expanded them, and it was in the war years that the still more comprehensive post-war scheme was planned.

The economic and humanitarian value of social security has been increasingly recognised, and many countries spend on it from 5 to 15 per cent of their national income. The size of this expenditure is mainly accounted for by measures taken during the second quarter

<sup>3</sup> Harry M. Cassidy, *Social Security and Reconstruction in Canada* (Toronto, 1943), p. 2. A somewhat similar view was expressed in a report on a co-ordinated policy regarding family levels of living that was submitted to the United Nations by a group of experts under the chairmanship of Dr George F. Davidson, Deputy Minister of Welfare in the Canadian Department of National Health and Welfare. The group was convened jointly by the United Nations and the International Labour Organisation. They said: 'Instead of treating social policy as a housemaid whose function is to tidy up human suffering and insecurity left in the wake of economic development, social objectives should be "built-in" on an equal footing with economic objectives into comprehensive social economic planning' (United Nations document E/CN. 5/321, February 28, 1957, Appendix).

of the present century in recognition of the value of social security. Among the items of national expenditure, social security comes second only to defence, itself in the widest sense a form of social security, and if substantial progress could be made in removing international tensions and in reducing expenditure on armaments, social security and education would become the most important items of public expenditure.

The cost of social security is a fair and reasonable charge on the community to cover the inevitable insecurities of life, some of which, particularly unemployment, are consequences of industrialisation and specialisation in modern production. In terms of human capital, it somewhat resembles the cost which employers bear to offset the depreciation of machinery, buildings and other material capital. Often employers would fully cover the depreciation of material capital, but neglected human capital. For each human being, life is whole and indivisible, and somehow, from the output of industry, resources must be pooled and spread to provide comprehensively for maintenance, not only by adequate wages during working years but by assistance for the periods when earnings cease and for the children who will be the next generation of workers.

Social security for all was one of the objectives of the Atlantic Charter, which included among its purposes the assurance that people in all lands may 'live out their lives in freedom from fear and want'. Yet some of the leading signatories of the Charter still have considerable gaps in their systems of social security, and, in consequence, many people have not been given assurance of freedom from want.<sup>4</sup> Although for some people, and in some circumstances, fear and insecurity may be spurs to action, generally these are evils, and freedom from them is essential if the best work is to be done. Some few may stagnate because of security, but for the great majority basic security is necessary for attaining the highest standards of efficiency. Without such security, freedom itself is endangered.

From the beginning of the present century, some countries began

<sup>4</sup> The Canadian Prime Minister, Mr W. L. Mackenzie King, speaking at the annual convention of the American Federation of Labor in Toronto on October 9, 1942, said, 'The era of freedom will be achieved only as social security and human welfare become the main concern of men and nations.' They include 'useful employment for all who are willing to work, standards of nutrition and housing adequate to ensure the health of the whole population, social insurance against privations resulting from unemployment, accident, death of the breadwinner, ill health, and old age.' King, *Labour and the War* (Canada and the War Series, Ottawa, 1942).

to see the need to introduce better methods than poor relief to cope with the insecurities which were largely caused by industrialisation, and particularly by the mobility of labour, the wage economy, a more individual form of society and the breakdown of traditional simple methods of provision by tribes and rural communities. There was a growing recognition that social welfare ought to be a responsibility of government. In consequence, social insurance has evolved as the most effective form of security. The impact of modern industry was rapid, almost revolutionary. In many countries, however, it was not until the distresses and chaos caused by the depression of the 1930's that a substantial advance in the provision of security was made. Necessity compelled action.<sup>5</sup>

#### SOCIAL SECURITY STILL PIECEMEAL AND INCOMPLETE

In all countries, social insurance began piecemeal, either for special groups of workers or for particular risks, but the general trend has been to widen its scope by including more industries, and agricultural workers, farmers, domestic servants and self-employed people (who were excluded from the earlier schemes), and by covering more risks. Yet, substantial gaps often remain.

It is to be expected that there should be gaps in the social security schemes of underdeveloped countries; they lack resources, and only small proportions of the population living in industrial urban centres have become insecure because they no longer benefit from the traditional rural and tribal methods of provision. The leaving of gaps is, however, more surprising in some wealthy, highly industrial countries. In the United States, for example, though comprehensive provision is made for old age and short-term unemployment, there is a lack of sickness insurance, medical care (including

<sup>5</sup> In Canada, as recently as 1944, although it is true that there were old age pensions under a Dominion-provincial scheme, they were paid only after a means test, as were also benefits for widows and orphans financed by nearly all provincial governments. According to the Department of Finance, *Report on the Administration of Old Age Pensions* (Ottawa, 1941), p. 10, half the Canadians over seventy years of age were then in receipt of old age pensions based on a means test. Many in the other half must have been in need but did not apply for assistance, while others, no doubt, had quite low standards of living even if they could not have qualified for a means test pension. After the war, in order to provide better standards of social security and to establish systems which would be of value if depressions were experienced again, the federal government introduced comprehensive measures to provide old age pensions and family allowances without means tests.

hospital accommodation), and provision for children in large families of low-paid workers.

The existence of gaps is due to a variety of factors, and these vary from country to country in accordance with special conditions and traditions. Sometimes a gap is merely temporary, and is progressively filled as experience is gained and methods are evolved for meeting administrative difficulties. A good illustration is provided by the Old-Age, Survivors, and Disability Insurance Program in the United States, the scope of which has been widened until it is almost comprehensive. It now includes self-employed persons, domestic servants, agricultural workers, widows and orphans, people over fifty years of age suffering from total permanent disability and others who were excluded in the early stages.

Some gaps remain because of the opposition of vested interests. Many members of the medical profession may strongly resist the establishment of public health services, and insurance companies may oppose some forms of social insurance because they fear their business might suffer. Such vested interests emphasise the value of voluntary insurance and point out that the number of people who protect themselves in this way is increasing.

Each country has its own attitude to social security, and this affects both scope and methods. In Canada and the United States, for example, in the prosperous years after the war, special emphasis has been placed on free enterprise and industrial economic expansion, and in some fields this emphasis has led to undue reliance on voluntary insurance and individual responsibility. If private measures were to become sufficiently widespread, comprehensive and reasonable in cost so as to provide adequate protection for almost the whole population, then various extensive state schemes would be unnecessary, and the needs of small residues of people who, for one reason or another, were not protected by private insurance could be met by public assistance. There would be no need to set up an elaborate system of social insurance for this small minority. Evidence, however, shows that large numbers of people in the poorer sections of the population are not properly protected by voluntary insurance. Many of them may have some insurance, but not nearly enough, so that figures showing the number of people enrolled in voluntary insurance schemes are not a reliable index of adequate protection. Some people take a chance that they will escape the risks, and do not insure partly because their incomes are low and other immediate demands seem more pressing. Thus they may spend more money than they should on hire purchase or in-

stalment buying which presuppose high degrees of security, and particularly freedom from unemployment and sickness. Then there are some who cannot protect themselves or can do so only at high cost because they are regarded as bad risks by insurance companies. The state can include them because they are a relatively small number whose risks can be merged with the smaller risks of the rest of the population. Only by compulsory contributory insurance can people be protected against their failure voluntarily to cover the risks they run, whether their failure is due to carelessness, ignorance or even deliberate choice. It would seem that the state should make basic provision, and that private schemes should provide supplementary benefits, including benefits at higher standards than those which the state should provide.

Sometimes gaps remain because social security measures may involve the transfer of resources from the wealthier sections of the population to the poorer, and the wealthy oppose increased taxation for this purpose. Another reason is that political opinion may be unfavourable because the potential beneficiaries may not be willing to pay increased contributions for social security, preferring to have the money to spend on other things. They do not feel the need keenly enough to be willing to pay the bill. Then again, in countries with federal systems of government, there are often gaps because some aspects of social security are the responsibility of the provinces or states, and in some of them public opinion does not support more adequate schemes.

As already indicated, gaps in social security systems are often due to lack of resources, though this is more true in poor than in rich countries. Like all other claimants to limited national resources, social security must take its place in the queue. By the interplay of political forces, priorities and allocations are arranged, but these change from time to time within a country and are not the same in different countries. In a poor country the claims for food, shelter and other necessities, and the amounts required for capital development to raise future standards of living are so great that only meagre measures of social security can be attempted.

Before social security was introduced, provision against many of the risks which it now covers was made somehow, but often quite inadequately and with much hardship. For example, provision had to be made either by the families themselves or by voluntary charitable organisations for all the needs of children, for the sick and for the aged. When, therefore, the state undertakes to make provision, the cost is not an entirely new charge on the community. A

substantial part of it is a redistribution of the burden to where it can be borne better and more systematically. The cost, apart from administrative expenditure, represents an additional charge only if the state makes provision at higher standards than before and if it fills gaps not previously covered. If the cost is greater, the provision is better.

A noteworthy trend since the Second World War is the growing emphasis on preventive measures, rehabilitation and other services with a similar purpose. In earlier periods less attention was given to such measures and services than to cash benefits. Cash benefits are often easier to arrange than large-scale preventive measures or services to individuals, whether in the form of rehabilitation of the sick or the victims of accidents, or in the form of provision for the welfare of orphans, aged people and others. Both cash benefits and services are necessary. This twofold need was neatly expressed in a publication by the Japanese Ministry of Health and Welfare which said that cash benefits and services were like the two wheels of a cart. In Britain and other countries during the depression years of the 1930's cash benefits were paid to great armies of unemployed, but insufficient effort was made to promote employment. It was argued that to pay insurance or assistance benefits was the least expensive way of dealing with unemployment, and there was not enough recognition of the injury caused by idleness, of the advantage gained by expenditure on public works in multiplying employment greatly beyond those directly engaged on such works and of the permanent value to the country of the works themselves.

#### SOME BASIC ISSUES

When social security policy is under consideration in any country, many questions are inevitably raised. For example, how much can the country afford for social security? Which needs claim priority? Should the necessary funds be obtained from the general revenues, from special taxes or from workers' and employers' contributions? Can a 'pay-as-you go' system of finance be arranged or must large funds be accumulated, especially for pensions? Should benefits be distributed largely according to need on the basis of a means test, or should the main emphasis be on social insurance and benefits be paid at specified rates without a means test? Should benefits be linked with wage rates so that skilled, highly-paid workers will get bigger benefits than unskilled workers, or should the community provide flat rate basic benefits alike for all, leaving better paid people

to make by voluntary means whatever additional provision they wish? To what extent are voluntary methods and private savings effective in providing economic security? To what extent does social security make a country's economy more stable by providing a basic income for individuals? Do social security systems contribute to economic progress and productivity, or do they weaken incentive, reduce the mobility of labour and make adjustments to changes in economic conditions more difficult? These questions indicate some of the many social security problems which are still the subject of controversy.

In the chapters that follow, the definition and scope of social security are considered and various basic principles and policies are outlined. The significance of social insurance is discussed and accounts are given of the relative merits of accumulating funds or using the 'pay-as-you-go' method of financing. Attention is then directed to the proportion of national income spent on social security, use being made of information available for a number of countries. In considering what proportions of the national income may be required in varying conditions to provide the essentials of social security and how the available resources are best distributed between the various claims upon them, it is recognised that the proportions may vary widely. The variations will depend on such factors as the risks covered and the number of potential beneficiaries. Even if these are comprehensively defined, there can be variations because of greater or less liberality in fixing scales of benefit, and because of fluctuations in the number of beneficiaries, particularly in the numbers of unemployed in years of boom and of depression. Except under strictly defined conditions, the proportions of the national income required for social security can be estimated only within wide limits.<sup>6</sup>

There are then chapters on old age and retirement, family allowances and medical care, which are the most costly items in a comprehensive system of social security and the subject of lively political debate in several countries at the present time. A further chapter deals with other social security contingencies, including unemploy-

<sup>6</sup> In years of severe depression, e.g. in the 1930's, a heavy outlay is needed for the maintenance of the unemployed by contrast with the much smaller outlay required in boom years, e.g. the prosperity enjoyed by many countries in the first decade after the Second World War. In the United States, for example, the cost of public assistance and work programmes for the relief of unemployment in 1934-5, which was a year of great unemployment, amounted to almost 6 per cent of gross national product, whereas in 1954-5, when unemployment was low, the cost was less than 1 per cent.

ment, industrial accidents, disability and the death of breadwinners.

Special emphasis is laid on the economic and financial aspects of these problems. No detailed descriptive account is given of the social security system of any one country, but in discussing the main problems, illustrations are drawn from the policies, practices and experience of different countries, particularly Britain, Canada, the United States, Australia and New Zealand. References are made to the special conditions and needs of underdeveloped countries.

No claim is made that the problems of social security are answered in this volume. The questions are considered, information resulting from practical experience is presented and tentative conclusions are outlined. Answers will become increasingly definite and a firmer foundation for decisions on policy will be provided as more experience is gained and more information becomes available.<sup>7</sup>

<sup>7</sup> Such studies as those made by the International Labour Office into the costs of social security in various countries, their relation to national income, the sources of revenue and the distribution of benefits for different purposes will provide increasingly valuable information in showing trends as the period covered by the surveys lengthens.

## CHAPTER II

### DEFINITION AND SCOPE

The essential purpose of social security is to ensure 'freedom from want' by collective or community provision for those people who, because of misfortune, are temporarily or permanently without sufficient resources for their subsistence and essential health services. With the best will in the world it is often impossible for individuals to meet the risks of life unaided, or even with the help of relatives and friends. A young worker with a wife and children may be totally and permanently disabled by an accident long before he could be expected to have saved enough to provide for his maintenance and that of his dependants. Many low-paid workers, after they have met the current necessities of life for themselves and their families, have little or nothing left for savings or voluntary insurance and are unable to make provision for their old age and other risks. Therefore, to quote from a publication of the International Labour Office, 'as the State is an association of citizens which exists for the sake of their general well-being, it is a proper function of the State to promote social security.'<sup>1</sup>

People who are in want or are likely to suffer poverty are mainly those with small means, and social security systems are primarily concerned with them. People who enjoy good and stable incomes are generally able to cover most of the risks of life from their own savings, including their voluntary insurance, and when a social security system pays benefits to such people it has gone beyond its basic function. This function is exceeded when, as in Britain, Canada and other countries, universal old age pensions and family allowances are paid to the rich as well as the poor. There may be good reasons, including administrative convenience, for this procedure, but such systems involve a wider conception of the purposes of social security.

Social security systems, being the responsibility of the state, are established by legislation which entitle specified categories of persons in specified contingencies to receive benefits. The systems are usually administered by departments of the state, such as the

<sup>1</sup> *Approaches to Social Security* (Geneva, 1942), p. 83.