

# Neither State nor Market: Early Welfare Benefits in Britain

Humphrey Southall (Queen Mary & Westfield College, University of London)

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## 1. Introduction

As in other countries, the debate in Britain on the future of welfare provision assumes a simple choice: either the state must provide or individuals must meet their own needs. It assumes a series of quite distinct problems affecting individuals and society: unemployment, ill-health, old age and so on. Increasingly, even defenders of the 'Welfare State' assume that the function of state provision is to meet the needs of the poorest, who cannot afford to provide for themselves, and that the majority, both middle class and those manual workers with secure employment, can insure commercially. This paper seeks to contribute to debates on the future of welfare provision by presenting historical evidence from Britain which challenges all three assumptions.

The next section shows that the first large-scale systems for insuring against ill-health and unemployment were created neither by the state nor commercial companies but by mutual societies and trade unions. The third section studies the relationship between sickness, old age, unemployment and strike action, arguing that they inevitably overlap and can only be distinguished within the rules of a particular system of welfare benefits. The fourth section uses this evidence to argue that any system which insures against loss of income through unemployment or progressively poorer general health in late middle age faces such large 'moral hazards' — not simply fraud — that it cannot be operated commercially. A brief conclusion draws some lessons for today.

## 2. Welfare provision in pre-1914 Britain

The so-called 'Old Poor Law' operated under Elizabethan legislation and was relatively well-suited to the needs of a market-based agricultural economy. The system was parish-based, funded from property taxes, and governed by a local elite who paid most of the taxes. The main beneficiaries were landless labourers who, in grain-growing regions, could only expect to be fully employed at harvest time. By collectively funding income support, the land-owners sustained a workforce without the inflexibility of hiring workers by the year. However, this system was less suitable for a more diversified, mobile and urbanised economy: some property owners had far less stake in maintaining a workforce than others; the Settlement Laws, tying workers to the parish on which they

had a claim, inevitably fell into disuse; it was far harder to distinguish the deserving and the undeserving poor in growing cities.

The creation of the New Poor Law in 1834 had only a limited and delayed effect on the operation of the system on the ground, but reflected attempts to deal with the consequences of industrialisation.<sup>1</sup> Parish provision was replaced by unions, each a substantial sub-county unit centred on a town, and each union was required to build a workhouse to house claimants under essentially penal conditions. However, in many urban areas workhouse construction was delayed until the 1860s and then concentrated on providing for orphans and the sick.<sup>2</sup> The bulk of expenditure was always on 'Outdoor Relief', meaning cash payments to applicants who remained in their homes, but the majority of these were the sick and the elderly, not the unemployed. The real failure of the Poor Law was not its penal treatment of paupers but the narrowness of provision. Central government pressure, particularly intense in the 1870s, meant a steady decline in the numbers relieved so that by January 1909, a year of deep recession, c.20,600 able-bodied men were relieved who were 'in want of work' and 'in health', far fewer than were being relieved by the trade unions discussed below.<sup>3</sup>

Therefore the Poor Law remained quantitatively important only in rural areas, and particularly in the grain growing districts, which experienced severe depopulation in the agricultural depression of the 1880s. For most of the urban population, the system could only be turned to in the direst emergencies: in practice, most people fended for themselves without assistance from the state. However, they did not do this through self-help and self-reliance, at least as conventionally understood. From the early eighteenth century, urban Britain developed a rich infrastructure of clubs and societies, and one of their main purposes was to provide for their members in hard times. Here we need to be wary of the implicit functionalism of most institutional history: in exploring associational culture, we must distinguish between the reason why a group of people chose to gather together, which was often social, alcoholic, and reflected the various sources of personal identity within society, and the various activities carried on through such a group once it existed.

The main focii for such gatherings were public houses and, to a much lesser extent, coffee houses and similar. Some groups defined themselves simply by locality, but others were based on religion, geographical origin, and particularly occupation. For example, among early societies in Wigan, Lancashire, were the Amicable Female Society,<sup>4</sup> and the Roman Catholic Society<sup>5</sup> while the Union Society of Strangers described its members as 'being chiefly Strangers & living in Wigan or townships adjoining, at a distance from our respective settlements'.<sup>6</sup> Many of the activities of these gatherings can only be guessed at — Adam Smith's comment that 'people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public or in some contrivance to raise prices' was made at this time,<sup>7</sup> while in 1817 the government was advised by a correspondent to curb trade unions by 'not allowing any publican to draw any ale for any person in his house after six o'clock in the evening'.<sup>8</sup> However, one

well-documented facet of many such gatherings was a friendly society or box club to provide for sick members.

The workings of a box club were simple: members paid their weekly contribution into the box, usually held by the landlord of the pub where they met, and if they fell sick their benefit was taken equally directly from the box. Such societies were numerous but small, creating few records. In 1801, Sir John Eden estimated there were 7,200 registered and unregistered friendly societies, and if there was an average of c.90 members, they included 648,000 of the English population; another count in 1803 gave 9,672 societies and 704,350 members in England and Wales.<sup>9</sup> As discussed below, the finances of such bodies were unstable and the majority probably had only a brief existence, but during the early nineteenth century local clubs began to coalesce into the better known affiliated orders. For example, the Manchester Unity of Oddfellows had nearly half a million members by 1875.<sup>10</sup> By 1913, the societies had a total membership of 6.78 million and operated within the National Insurance system as ‘approved societies’. They retained very large memberships through the inter-war period, but the Beveridge reforms of the 1940s saw a collapse in membership.<sup>11</sup>

The affiliated orders provided for sickness and old age, but the only 19th century organisations making significant provision for economic distress were trade unions. Although we would today make a clear distinction between unions and friendly societies, in the pre-1825 period unions are generally identifiable only through their name and trade-based admission rules. An extensive survey of the rulebooks of many such bodies from the late 18th and early 19th centuries preserved in the archives of the Registrar of Friendly Societies reveals a variety of experiments in providing for distress.

Simply by being a gathering of workers with the same occupation, a trade society inevitably functioned as an informal labour market: information about vacancies would be exchanged, and employers would know that the ‘house of call’ was a convenient place to find experienced workers; often hiring was the responsibility of foremen who were themselves members of the society. Further, visiting craftsmen travelling in search of work would know that the ‘house’ was a source of assistance. Some early society rulebooks provide more formal mechanisms for finding work. The most basic provision was to require members to notify the society of vacancies at their place of work; of course, given the social role of box clubs this would have happened informally in any trade-based club but some societies provided for fines, denial of benefit, or even expulsion for members failing to notify vacancies. Notified vacancies were then recorded in a book held at the house of call, going by various names: the master’s book, the vacant book, or the Order book. In some societies there was a strict requirement that the member who had been looking for work longest should have first refusal of a new vacancy, giving the union a large degree of control over the labour market.<sup>12</sup>

Notifications of vacancies would help members find work within their own town but in many artisan trades vacancies could only be found by searching more widely. Consequently, local clubs tried to help their members travel elsewhere. The simplest

provision was cash grants before departure; for example, the Liverpool shipwrights in 1794 ruled:

26. That if any member ... shall happen to be discharged from his place of work upon honourable terms and cannot get employment ... within the Corporation of Liverpool ... [he] shall be allowed and paid by the steward ... the sum of half a guinea to enable him to go to the next or such other place where the said trade of shipwrighting is carried out in order to get work.<sup>13</sup>

However, this was only of initial assistance on what might be a long journey. Travelling artisans could hope to get assistance from friends and relatives in other towns, but they would also call on members of their trade: the house of call was an obvious source of both information about jobs and food and shelter. Given the importance of craft loyalty, there was a long-standing tradition of assisting travelling fellow craftsmen, but this was vulnerable to fraud and, for the traveller, not entirely certain. As a result, the rules of local clubs do contain attempts to establish more formal reciprocal links.<sup>14</sup>

Once members of another society were to be treated just as if they were members of the local club, it was a small step to the creation of regional or national unions. In the pre-1850 period, the main way in which such organisations provided for the unemployed was through tramping benefit, under which travelling members were paid, often by the mile, as they moved around a network. The high mobility such a system promoted played a major role in extending the union as members found themselves in new towns, and therefore the tramping system has a central place in the development of British unionism. However, it declined in significance with the coming of the railways and for the sake of brevity I will concentrate on the development of direct financial assistance to the unemployed.<sup>15</sup>

There is some evidence that this first developed in London, a large labour market where there was less point in travelling outside in search of work. There is one example of a union trying to directly create work: in 1816, a society of London smiths and ironworkers provided that unemployed members be employed making tools, models or other goods for sale or loan, after six days out of work. However, the usual method was regular weekly payments on the model of sickness benefit. One of the earliest unions to provide against economic distress established an unemployment insurance scheme on essentially modern lines. In 1798, the Friendly Society of Tin Plate Workers, of Fleet Market London, included in their rules the following:

7. That when any Free Member has notice of leaving his employment he shall give notice to the stewards of the time & cause of his Discharge ... who shall do their endeavour to hear of employ for him. But if he or they do not hear of employ for him ... he shall go with one of the stewards the first Saturday night following & receive from the Treasurer such Benefit as shall belong to him during the time of his being out of Employ ...
8. That every Member that is out of Employ & on the Box must call on the Steward that he first applyd. to for Relief, every day between the hours of ten in the morning & six in the evening & must answer such questions concerning trade as the Steward may propose to him, & for every days neglect shall forfeit a days pay.

17. That every member of this Society [who is fully paid-up] & it should be his misfortune to be out of employ — providing it is not his own fault he shall be allow'd eight shillings per week during the time he is out of employ ....<sup>16</sup>

This contains all the essential elements of unemployment insurance: a set rate of payment, a test based on availability for work, and a link to a system for finding work. A limited number of other pre-1820 schemes have been located, some with interesting variants. For example, a society of Liverpool builders in 1810 restricted benefit for those out of employ to the winter months,<sup>17</sup> and the Southwark millwrights in 1820 limited it to 'between the 9th of November and the second Saturday in February'.<sup>18</sup> A Wolverhampton society of Cabinet Lock and Key Makers in 1811 varied benefit according to the member's family circumstances.<sup>19</sup> After 1830, unemployment benefit would seem to have become more common in the metal trades, but remained rare in building or printing, industries less prone to severe unemployment. The Manchester millwrights in 1836 were paying 10 shillings per week, but limited it to twelve weeks in a year, and provided for an advance of two weeks benefit to members going out of town to look for work; this still appears to be a provision primarily for frictional and seasonal unemployment.<sup>20</sup>

The economic crises of the 1840s, and particularly that of 1848 which was possibly the first to have a severe and simultaneous impact throughout the country, exposed the limitations of measures designed to cope with frictional and seasonal unemployment: it was no longer possible to escape distress by moving to another town or just waiting a couple of months. This created a need for large and well-funded systems of unemployment insurance, but few manual workers could afford this. During the 1850s and 1860s, remarkably comprehensive welfare systems were developed by a small number of trade unions in the relatively well-paid engineering, building, and printing industries. These typically had a weekly subscription of a shilling, in a period when unskilled labourers earned only around ten shillings (£0.50) a week while skilled engineers earned thirty to forty shillings (£1.50-2.00). In return for this, the Amalgamated Society of Engineers was paying the following benefits to its members in the 1860s:

- ten shillings per week for the first fourteen weeks of unemployment, and a lower rate indefinitely.
- sixpence per night for travelling members; this was a provision for 'unfree' probationary members ineligible for unemployment benefit. Unemployed members sent to a vacancy were paid their fares by railway, coach or steamboat.
- members losing their jobs for holding union office were paid the full rate of wages they had previously been receiving. From 1871 onwards the union paid all members locked out or called out on strike a 'contingent' benefit, usually in addition to unemployment pay.
- ten shillings per week for twenty-six weeks when sick, and then five shillings per week indefinitely.

- an emigration grant of six pounds, although this was hedged about with restrictions and may never actually have been paid.
- a grant of £100 to members unable to follow their trade because of ‘losing a limb, or having one disabled by accident or otherwise, or through blindness, imperfect vision, apoplexy, epilepsy or paralysis’.
- a ‘superannuation allowance’ of between seven and nine shillings per week, depending on how long they had been in the union; this is further discussed below.
- a ‘funeral allowance’ of £12 on the death of a member and £5 on the death of their wife.
- discretionary benevolent grants from a separate fund, which would seem to have been the only provision for widows and orphans.<sup>21</sup>

The ASE was the archetype, and its benefit system was probably both more comprehensive and better administered than any other union. However, a number of other unions developed broadly similar schemes: the Amalgamated Society of Carpenters and Joiners; the Friendly Society of Ironfounders; the London Society of Compositors. Although these unions were criticised both at the time, by the Royal Commission on Trade Unions of 1867-9, and subsequently by historians for operating an under-funded system of benefits, they were arguably the strongest unions industrially during the period and certainly grew and prospered.<sup>22</sup> Their growth and prosperity are of course inter-linked: expansion meant a constant inflow of younger members and therefore the older members who were more likely to become entitled to benefits were a relatively small fraction of the membership.

Until the 1880s and 1890s, trade unions outside the artisan trades seem not to have been able to afford extensive welfare benefits. With rising working class incomes, coverage expanded rapidly in the 1890s and 1900s. Figure 1 uses two comprehensive government surveys of the union movement in 1892 and 1908 to chart this process. Of unionists eligible for conventional unemployment pay in 1892, 33% were in metals, 10% in building and 7% in printing; in the metal trades, 75% of all unionists were eligible, as compared to 43% overall. In mining and textiles, benefits were generally paid only when mines or factories closed due to disasters such as fires. By 1908, the total number of workers receiving stationary relief had almost quadrupled so that 63% of all unionists, a total of 1,455,638, were eligible for benefit, although these were of course still only a relatively small part of the workforce. As in 1892, the largest groups paying no benefit were among the unskilled, but elsewhere, provision had expanded in almost every sector, most notably in textiles. In the traditional artisan trades, it would appear that almost all unions were offering unemployment pay of some form.<sup>23</sup>

On this evidence, comprehensive welfare benefits were something which all groups of workers aspired to, and this aspiration arguably fuelled the growth of the union movement. Precisely this period saw spectacular growth in total union membership, which rose from 2,485,000 in 1908 to 4,135,000 in 1913. Although no surveys of union benefit provisions are available between 1908 and the start of the Great War, we can

reasonably assume that the proportion of unions offering benefits was probably expanding and certainly not contracting. Assuming simply that the proportion remained constant, 2,440,000 trade unionists would have been provided with unemployment insurance by their own schemes at the end of 1913.

This calculation is hypothetical, and ignores the changes brought about by the National Insurance Act of 1911. This created the system of state benefits which survives in a recognisable form to the present day and was operated through a new network of labour exchanges managed by central government appointees. Nevertheless, there were important continuities between the union schemes and National Insurance. Firstly, the architects of unemployment insurance under the Act were the Board of Trade officials who had long had close contacts with the trade unions, and many of the details were borrowed from the ASE; Beveridge later commented that ‘the only working model on a large scale was afforded by trade unions’.<sup>24</sup> Secondly, the system created by the 1911 Act covered only a very limited group of trades: building and construction; shipbuilding; mechanical engineering; ironfounding; vehicle construction; and saw-milling.<sup>25</sup> This is of course precisely the group of trades within which union schemes were longest established, and the Act did not so much extend the availability of unemployment insurance as remove the need to join a trade union to get it. Consequently, only 2,326,000 workers were actually covered by the National Insurance Act in July 1914, a smaller number than that estimated above for the union schemes.

One final point should be emphasised: that such insurance was, prior to the state scheme, almost unique to the unions. Although the unions were much less important than the friendly societies in the provision of sick pay, the latter took only limited interest in unemployment: in 1891, the Hearts of Oak society provided only for remission of contributions while out of work; the Manchester Union of Oddfellows and the Ancient Order of Foresters operated a limited travelling scheme. Other friendly societies made similar provision but the amounts spent were very small. The Board of Trade told the 1893 Select Committee on Distress that the only non-trade society known in 1895 to offer unemployment insurance was the ‘Loughton Mutual Labour Aid Society’, of Essex, with under forty members.<sup>26</sup>

### **3. The trials of life: ill-health, old age, and unemployment**

Like modern social security, friendly society and trade union benefit schemes were centrally concerned with providing members with an income when they were unable to work. Lump sum payments were provided on death, mainly to provide a funeral, and for disabling accidents, but neither was a major part of total expenditure in the major trade union schemes. These had four dominant elements: sick pay, superannuation, unemployment pay or ‘donation benefit’, and strike pay or ‘contingent benefit’. In modern eyes these all appear quite distinct, but on more careful investigation all four interacted in complex ways which affected the operation of the schemes.

Let us begin with sick pay, the most common of all friendly benefits. The basis of entitlement was always an inability to work, and schemes commonly provided for

medical examinations where there was some doubt about a member's condition. Each branch usually had one or more sick stewards, whose job it was both to assist ill members and to check up on them, and a curfew was often imposed on sick members; for example, the ASE required them to be at home between 8 p.m. and 6 a.m. in summer, and 6 p.m. and 6 a.m. in winter.<sup>27</sup> In the case of the ASE, these procedures to limit fraud were elaborate and, from the minutes of the national executive, enforced. However, the difference between sickpay and superannuation was unclear.

Although today we take a set retirement age for granted, this was not a feature of early superannuation rules. For example, the ASE's 1864 rules granted superannuation to any member aged over fifty who had belonged for eighteen years 'who through old age or infirmity, is unable to obtain the ordinary rate of wages'; a superannuated member could no longer work in engineering but was free to earn what he could in another trade. Figure 2 (a) shows age-specific morbidity rates for one early artisan union, and makes clear the degree to which older members were more likely to claim sick benefit; the contrast is even greater if we concentrate on long durations of sickness, men aged over sixty being eight times as likely to be sick for over six months in a year than those under thirty.<sup>28</sup> Therefore, a benefit society would inevitably find itself paying sick benefit for extended periods to its more elderly members, and the real effect of the ASE's rule was to set a time limit on sick pay for younger members.

If sick pay was of greatest benefit to the elderly and superannuation restricted to the sick, the distinction between sickness and unemployment is rather clearer. Eligibility for unemployment pay required that you have been dismissed by your employer, while sick pay might require a medical examination and involved a curfew. However, the sick could not expect their previous job back on recovery and so must be considered 'unemployed'; much ill-health was linked to occupation; and vulnerability to unemployment was linked to health. One reason for basing sick funds on occupational groups was the incidence of occupational ill-health. As a society of Liverpool plumbers put it in 1812:

it is well known to medical professors that the trade of plumber is very pernicious and prejudicious to health ...<sup>29</sup>

The London ironfounders in 1826 gave as one of their reasons for formation the fact that other sick clubs had refused them membership on the grounds of the unhealthiness of their trade.<sup>30</sup>

Figure 2 (b) shows the degree to which the likelihood of unemployment varied by age-group, and given that older men were likely to have closer relationships with their employer and be more necessary for training new workers, this pattern must reflect poorer health, reduced physical strength, and deteriorating eyesight; and hence lower productivity. It should be emphasised that most skilled work required both technical expertise and considerable physical strength, mechanisation of the production process even in engineering being limited until the 1890s. An extreme example is iron-founding, where workers had to physically stir molten metal. As a result, men were likely to be physically worn-out well before modern retirement ages.



Therefore, instead of three quite distinct states we have a blending of unemployment, sickness, and old age; the larger share of benefit payments, however labelled, went to older men who had more intermittent incomes due to declining health. Without further analysis of individual level data, we cannot tell whether they were more likely to lose their jobs in lay-offs than younger men, but it seems certain that if made unemployed they would find it much harder to find another job; in other cases, they lost their jobs because ill-health prevented them from working. Eventually, employment for such a man would become so intermittent that he would claim superannuation. At different times he would be on the three different benefits, but there is one underlying process: growing marginalisation in the labour market due to physical decrepitude.

The final blurring is between all these benefits and 'strike pay'. For most of the post W.W.II period, industrial disputes have emphasised strikes for pay increases, but in the nineteenth century wage reductions were common and, as discussed in the next section, most stoppages resulted from union resistance to such reductions. In the artisan trades, most workplaces were relatively small, and there was little formal bargaining between unions and employers. Instead, the men might memorialise their employer for an increase, and quit if it was not granted, or the employer simply announce a reduction for all or some of the workforce. The most vulnerable workers in this process were the elderly, who knew they would not easily find a new job, and therefore they were most likely to be the first to have their hourly rate cut. Union benefit rules make it quite clear that a man whose pay was cut to below the local 'standard rate' decided by the union was entitled to claim unemployment benefit, just as if he had been dismissed. So we have the elderly, infirm member claiming unemployment benefit because his wages have been cut. Does it matter how we classify him? What matters is that the union's benefit both gave him greater control over his own life and strengthened the union's bargaining position. This point is further explored in the next section.

#### **4. Economic and social foundations of mutual insurance**

The two preceding sections have demonstrated a number of crucial points:

Firstly, if we see the core of the Welfare State as non-penal income support, its most important immediate precursor was neither the Poor Law nor commercial insurance but mutual insurance. These mutual schemes expanded rapidly, catered to a mass market, and experienced virtually no opposition from commercial insurance companies; they faded away only when the state supplanted them.<sup>31</sup> This is a striking contrast with the general history of mutual enterprise, which is one of idealistic failure or survival in tiny niches.

Secondly, the boundaries between hardship through illness, old age and unemployment were much less clear than they seem today; one might argue that the modern distinctions follow from the way modern welfare systems operate.

Thirdly, provision against loss of work was solely the province of trade unions. Although coverage was initially restricted, all unions arguably aspired to provide benefits, and in the years immediately prior to the introduction of the state scheme coverage was

expanding rapidly; so rapidly, indeed, that the state scheme appears more as an attempt to either pre-empt trade union provision or re-shape it to non-controversial ends than to cater for an un-met need.

How can we explain these patterns? This section argues that in insuring against loss of income mutual organisations had and have an unbeatable competitive advantage over commercial companies, and that trade-based mutual organisations were uniquely able to offer self-funding insurance against unemployment. Further, welfare benefits reinforced the other activities of the unions, and hence there was arguably a symbiotic relationship between the conventional industrial goals of the unions and the benefit schemes. The concluding section argues that much of this analysis holds true today.

Almost any insurance scheme must deal with the problem of moral hazard, which should be distinguished from fraud. Consider motor insurance: we insure to reduce the unpleasant consequences for us of an accident, but being insured inevitably alters our behaviour as drivers. Perhaps only a few of us are more likely to overtake on a blind corner just because we are insured, but how many more of us would stay home on a wet night if we knew we had no insurance? This problem and others are far more severe in insuring against the loss of a future income stream. The boundary between can't work and won't work is necessarily indistinct, and arguably a legitimate reason for insuring is to obtain a degree of discretion: to stay home for a couple of days longer so as to make a full recovery; to quit a job when conditions have become intolerable, and to find the best available new job rather than have to accept the first that comes along; to take retirement rather than simply work until one is worn out; but all these are of course matters of degree, and very hard for an outsider to judge. Equally, a future income stream is far harder to value than the cost of repairing a car, and of course the potential for fraud much greater; it is easy to imagine a commercial insurance company spending as much on private investigators as on disbursements, and any scheme must have such high transaction costs that the honest individual at average risk will have a strong incentive to stay away.

A mutual scheme based on some locality or occupational group overcomes many of these problems. The mechanism of the box club meant that all payments were very visibly a cost to the other members, and where clubs were based on both locality and affinity these other members would be those best placed to judge the legitimacy of a claim: the reality of an affliction, the degree of loss, the strength of the victim's efforts to find a new job. Perhaps most crucial of all, the other members could judge from their own experience whether the decisions necessarily taken by the claimant were proper or an 'imposition on the funds'. Too much discussion of social insurance is on the assumption that it is other people who claim, but the other members of the same box would be well aware that next month or next year they might find themselves in the same situation. This is in striking contrast to the state scheme, where criticism in the media of 'scroungers' is arguably matched in popular culture by vilification of the 'snooper': the containment of the effects of moral hazard, as distinct from out-and-out fraud, requires both sensitivity

and a degree of rough justice which uninvolved state or company bureaucrats can seldom combine.

Mutuality was an advantage in managing the claims of those making greatest demands on the system. It also made membership of schemes more attractive to low-risk individuals. There are three aspects to this. Firstly, all mutual organisations emphasised ‘conviviality’: payments and claims were made in person at monthly meetings which were social occasions, some clubs earmarked part of their income to buy drinks, and there were annual dinners, processions, and excursions. Secondly, belonging to a trade union also granted significant advantages in the labour market: although the closed shop was rare in pre-1914 Britain, union membership often signified that you were part of a well-trained elite of reliable workers within your craft and the union helped you find work. Thirdly, the previous section showed that low-risk individuals were likely to be the younger members. Consequently, non-trade friendly societies in the early nineteenth century frequently collapsed as their original members aged, finding it impossible to recruit new younger members as the benefit expenditure and hence subscription rose; more rarely, the younger members pushed out the older.<sup>32</sup> Younger members of a union could look at this situation differently: the more infirm older members were precisely those more likely to accept reduced wages if not otherwise provided for, and so in funding their benefits the younger members were helping sustain their own wage rates.

Symbioses work two ways. Anyone who has belonged to a club or society knows that however strong the social/alcoholic element any organisation needs ‘business’ to sustain itself, and justify attendance to wives. Even trade unions needed routine business to maintain their structures, as industrial conflicts are infrequent and unions which had no other role tended to atrophy in peacetime. However, the operation of welfare benefits had two other major attractions to industrial organisations. Firstly, they provided a cash flow which could also be drawn on to fund strikes and lock-outs. The extent of this was and is controversial, as critics of the unions saw them as subsidising conflict from sick funds and used this to justify legal controls on their finances. Two points are clear, however: the major unions never earmarked parts of their incomes for different functions, hence it is hard to define cross-subsidy; but expenditure on strike pay in the artisan unions was almost always small relative to other benefits. The question of whether unemployment benefit was really disguised strike pay is far more complex than it first appears and is discussed below, but again the bulk of expenditure came in winter and during recessions, not during episodes of unrest.

The second way in which benefit funds strengthened the unions industrially is less discussed but arguably far more important. In one crucial respect, union and other early mutual systems differed drastically from conventional insurance: entitlement was based primarily on present membership, not past contributions, and the societies had no contractual obligation to provide any future benefits, still less a particular rate of benefit. Consequently, expulsion from the union meant the loss of all future benefits, regardless of how much had been paid in: ‘any person rejoining ... shall occupy a position in all respects as if he had never been a member’.<sup>33</sup> Expulsion was not arbitrary, and major

unions had elaborate appeals procedures, but there was no question that a member would lose his pension if he failed to strike or accepted reduced wages without showing good cause. In the absence of the closed shop and with only a fraction of a craft in the union, this was an essential mechanism by which a union disciplined its membership and maintained itself as an effective economic coalition. Note that those with most to lose from expulsion would have been precisely those older members who were most vulnerable in the labour market, and as they would be too old for re-admission the loss would be final.

The discussion so far concerns all aspects of welfare benefits, but additional arguments apply to unemployment insurance. Again, there are two sides to the hypothesised symbiosis. Firstly, that until the state became involved only the unions could offer such a benefit. Secondly, that the provision of unemployment benefit was a central element within the industrial strategy of the artisan unions.

We have already seen that until 1911 it was only the unions that did offer unemployment benefit, and contemporary comments explain why. Frederick Harrison in the Minority Report of the 1869 Royal Commission on Trade Unions<sup>34</sup> stated:

[Donation benefit and other assistance to members out of work] are forms of benevolent assurance which nothing but a trade union could afford. It is plain that no friendly or other assurance society could guarantee working men support whilst out of employment, unless like a trade union it possessed some means of operating on the labour market.<sup>35</sup>

Hubert Llewellyn Smith, the first Commissioner for Labour at the Board of Trade, wrote in an 1893 report on methods of relieving unemployment:

The power of an organisation to assist the unemployed ... depends largely not only on the knowledge which it possesses of the conditions of each case and of the state of employment in each district, but on the completeness of the hold which it has over the individuals relieved. A trade union which gives many forms of benefit to its members has this hold in the highest degree, since in extreme cases fraud or 'malingering' may be punished by expulsion.<sup>36</sup>

The relevant parts of the 1911 National Insurance Act were drafted by Llewellyn Smith and Beveridge, both with intimate knowledge of the union schemes, and they saw the establishment of a network of employment exchanges as a pre-requisite for state unemployment insurance.<sup>37</sup> In the proposal submitted to the Cabinet by the Board of Trade, Llewellyn Smith restated his earlier view:

The experience of every unemployment insurance fund has shown that it is necessary, in order to protect the fund, to associate ... the scheme with the provision of some facilities for finding jobs for workmen in receipt of benefit. This is necessary in order to test the genuineness of certain cases by the offer of work.<sup>38</sup>

In other words, to offer insurance against unemployment an organisation must possess a detailed knowledge of the labour market in which the insured individuals seek work and an ability to monitor their behaviour. The costs of acquiring these are too great for them to be treated as incidental costs of operating unemployment insurance: the organisation

must possess them for other reasons. In practice, this limits the provision of unemployment insurance to three types of agency: the state, which can fund anything from taxation and may have other reasons for intervening in the labour market; coalitions of the employed, meaning trade unions; and employers. Individual employers will only be interested in securing individuals against unemployment if they have a long term commitment to those individuals. This point is returned to in the conclusion, but what is certain is that in the pre-1914 period British employers preferred flexibility in hiring and firing to whatever advantages there were in a more permanent link to employees. This meant that until the state took an interest the unions had a natural monopoly.

The evidence for the dependency of unemployment insurance on unionism is overwhelming but the converse relationship is less obvious and the association weaker: all such insurance was provided by unions but not all unions made such provision. Cost and moral hazard limited it to those well above average earnings while in other sectors fluctuations in the demand for labour were small, as in much of transport, or spread among the workforce by short-time working, as in mining. However, for the artisan unions it was arguably a central pillar of unionism, and it was these who formed the great and, crucially, stable national unions of pre-1914 Britain.

The central obstacle to the aims of unionism, particularly in investment industries, was the trade cycle. Unions stood for the maintenance and advancement of wages and working conditions. Among skilled men who retained some control over entry to their craft, 'advances' were relatively easily achieved during booms. However, in subsequent depressions the downward pressure on wages was irresistible and, overall, the oscillations of demand interacted with the asymmetry of bargaining in a bi-laterally monopolistic labour market to place the unions at a disadvantage: labour is a perishable commodity while capital, particularly variable capital, is not. Hence, given the limited importance of fixed capital even in such industries as engineering, in the nineteenth century strikes were much costlier to their initiators than were lock-outs. The monopoly is assumed but seems reasonable applied in the short run to single towns.

This downward pressure on wages reflected not only opportunism by those employers still with work in hand but also a real decline in their capacity to pay.<sup>39</sup> Hence demands for wage reductions could not be met simply by obduracy and solidarity. Unions which held out against any reduction would see mass unemployment among their members while work was available at reduced rates, leading to a catastrophic loss of membership.<sup>40</sup> However, simple acceptance of a direct relationship between product prices and wages, formalised as a 'sliding scale',<sup>41</sup> emasculated unionism; it was particularly unacceptable to craft unions with members in a number of industries, since it denied the central principle of a standard rate. It was therefore inevitable that unions would seek to provide for the cycle, as distinct from accepting it.

The tramping system was an adequate response to the structural unemployment of the industrial revolution: rapid movements of industry and localised decline. However it was inadequate in the face of general depression and was therefore replaced by unemployment pay, permitting union members to hold out for the standard rate in periods of depression.

In this way, by reducing their members' need for continuity of employment and, through sickness and superannuation benefits, creating an alternative reliance on the future strength of the society, the unions gave practical meaning to the mutuality of the moral economy.

However, a union could also collapse through the exhaustion of its funds; many early societies were ephemeral. A union's strategy to meet a depression involved three elements. Firstly, a rate of benefit sufficient for its purpose but discouraging malingerers; this usually meant a tapering-off as the duration of a man's unemployment lengthened. Secondly, a rate of contribution: the early societies often made do with one shilling per month and collapsed in slumps, but the ASE and its imitators charged this sum per week. Lastly, and clearly related, was wage policy: the aim of the union was maximisation of members' wages subject to the union itself staying solvent, since an exhaustion of funds through expenditure on unemployment benefit would mean a collapse of industrial power and a rout in the face of wage cuts. As a result, they did their best to maintain earlier increases in wages; William Allan of the ASE told the 1867 Royal Commission that the majority of strikes during the previous ten years had been against reductions, and only six at most for increases: 'we keep what we can get, as a general rule'.<sup>42</sup> However, large reductions in standard wages had to be accepted in depressions but only as strategic withdrawals in the course of a long advance. The implication is clear: the operation of unemployment insurance was intimately involved with processes of collective bargaining.

In public union leaders stressed the 'respectability' of their benefit activities and in union circulars discussed them only when urging restraint in expenditure. However, a detailed examination of that most respectable of artisan unions, the ASE, shows that its Executive Committee actively encouraged branches to seek wage increases during booms by giving prior authorisation for men losing their jobs to get unemployment pay, while in recessions the Executive discouraged such local initiatives by pointing to the state of the labour market and the funds.<sup>43</sup> Further, the unions expressed considerable reservations over the 1911 National Insurance Act; the 1909 Trades Union Congress resolved that:

No system of Labour Exchanges or compulsory State insurance for want of employment will be accepted by the organised workers unless the Trade Unions of the country have adequate representation in the management. And that the Trade Unions shall be the channel through which the financial arrangements between the workers and the State shall be transacted.<sup>44</sup>

Their concern centred on the conditions under which the unemployed might legally refuse work and retain state benefits. Where the unions treated their 'standard rates' as permissible minima, the Board of Trade used the 'previous wage rate' of the individual claimant, and the whole topic was a constant source of friction.<sup>45</sup>

## **5. Conclusion: welfare provision without the state**

This paper has argued that the problem of moral hazard — the ways in which individual behaviour is modified by the provision of insurance — has such a large impact on the operation of unemployment insurance, and to a lesser extent sick pay, as to make it impossible for a commercial organisation to offer such cover. This is mainly the

consequence not of the level of profit or subsidy required — early mutual schemes broke even and financed considerable expenditure on beer — but of the division between insurers and insured. This absence of commercial unemployment insurance was true then and remains true today; the one exception, at least in Britain, is insurance of mortgage payments but this is a very special case, as taking out the insurance is often a condition for obtaining the mortgage and any disbursements go not to the insured person but direct to the lender.<sup>46</sup>

Regrettably, discussion of both the history and the future of welfare has ignored changes in the labour market, even though Britain's welfare system has always been centrally concerned with replacing lost income. In 19th century Britain, people turned to mutual organisations because relationships with employers were weak and transitory, but for most of the 20th century the expectation has been that workers remain with the same employer for many years: 'good' employers, notably the state and large corporations, sought to provide lifetime employment as well as pensions. For many this system of secure employment has been the true welfare state, and state benefits have come to be seen as transfer payments to an underclass.

Today, however, secure employment is harder to find: the state privatises and contracts out, transferring workers to the private sector; large corporations such as IBM and General Motors 'down-size' and dismiss tens or even hundreds of thousands of workers. New employment is being created, but it is in small firms and often part-time or freelance. workers must frequently find new employers and will be without work for significant periods, which are likely to become more frequent as they become older and find it harder to learn new skills: unemployment is already high among workers aged 55-65. In this new world, individuals will still seek the security which their employers no longer provide. Discovering that the state has withdrawn from providing assistance to the middle mass of society, and that commercial insurance has little to offer, where will they turn? Is it possible that we will see a revival of trade union provision, or some new system of mutuality?

## Notes:

- <sup>1</sup> M. Blaug, 'The Myth of the Old Poor Law and the Making of the New', *Journal of Economic History*, Vol.XXIII (1963), pp.151-84; A. Digby, 'The Labour Market and the Continuity of Social Policy after 1834: The case of the eastern counties', *Economic History Review*, II, Vol. XXVIII (1975), pp.69-83.
- <sup>2</sup> F. Driver, 'The historical geography of the workhouse system in England and Wales, 1834-1883', *Journal of Historical Geography*, Vol.15 (1989), pp.269-286; H.R. Southall, 'Poor law statistics and the geography of economic distress' in Foreman-Peck, J. (ed.), *New perspectives on the late Victorian economy. Essays in quantitative economic history 1860-1914* (Cambridge: Cambridge University Press, 1991).
- <sup>3</sup> K.Williams, *From Pauperism to Poverty* (London: Routledge & Kegan Paul, 1981), p.183.
- <sup>4</sup> *Rules*, Wigan, 1797. Unless otherwise indicated, pre-1850 rulebooks are in Public Record Office class FS.1.
- <sup>5</sup> *Rules*, Wigan, 1794.
- <sup>6</sup> *Rules*, Wigan, 1799.
- <sup>7</sup> A.Smith, *The Wealth of Nations*, 1776, Book I, Ch.10 (London: J.M. Dent, Everyman edition, 1910, Vol.I, p.117).
- <sup>8</sup> HO 42/165; A. Aspinall, *The Early English Trade Unions; Documents from the Home Office Papers in the Public Record Office* (London: Batchworth Press, 1949, letter 212).
- <sup>9</sup> P.J.H. Gosden, *The Friendly Societies in England, 1815-75* (Manchester: Manchester University Press, 1961), pp.4-5.
- <sup>10</sup> *Ibid.* pp.27-30.
- <sup>11</sup> J. Riley, 'Ill health during the English mortality decline: the Friendly Societies' Experience', *Bulletin of the History of Medicine* , 61 (1987), pp.563-588.; N. Whiteside, 'Counting the cost: sickness and disability among working people in an era of industrial recession, 1920-39', *Economic History Review* , 2nd ser. XL (1987), pp.228-246.
- <sup>12</sup> For example, *Rules and Regulations of the Hand in Hand Benefit Society of Operative Painters*, London, 1835.
- <sup>13</sup> *Articles of the true and genuine British Society of Shipwrights*, Liverpool, 1794.
- <sup>14</sup> For example, Loyal Vulcan Society, *Rules*, Bath, 1823, rule 16; Manchester Working Class Movement Library.
- <sup>15</sup> For further discussion of tramping, see: E.J.Hobsbawm, 'The Tramping Artisan', *Economic History Review*, 2nd ser., III (1951), pp.299-320; R.A.Leeson, *Travelling Brothers* (London: Allen and Unwin, 1979); H.R.Southall, 'The tramping artisan revisits: Labour mobility and economic distress in early Victorian England', *Economic History Review* , 2nd ser. XLIV (1991), pp.272-96.; H.R.Southall, 'Mobility, the Artisan Community, and Popular Politics in early nineteenth century England', in G.Kearns & C.W.Withers, eds., *Urbanising Britain: Class and Community in the Nineteenth Century* (Cambridge: Cambridge University Press, 1991).
- <sup>16</sup> *Articles of Agreement of a Friendly Society of Tin Plate Workers held at the House of John White at the Sign of the White Swan in Fleet Lane, Fleet Market*, London, 1798.
- <sup>17</sup> *Rules Orders and Regulations to be observed and performed by the Friendly Society of Slaters and Plasterers*, Liverpool, 1810.



- <sup>18</sup> *Rules of the Journeymen Millwrights meeting at the Brown Bear, Bear Lane, Christchurch, Surrey, 1820.*
- <sup>19</sup> *Articles of a Friendly Society of Cabinet Lock and Key Makers in Bilston Street, Wolverhampton, 1811.*
- <sup>20</sup> *Rules and Regulations to be Observed by the Members of the Amicable and Brotherly Society of Journeymen Millwrights, Manchester, 1836.*
- <sup>21</sup> ASE, *Rules*, 1864 (copy in BLPES).
- <sup>22</sup> C.G.Hanson, 'Craft Unions, Welfare Benefits & the case for trade union law Reform, 1867-75', *Economic History Review*, 2nd ser. XXVIII (1975), pp.243-59.
- <sup>23</sup> *Agencies and Methods for Dealing with the Unemployed*, BPP 1893-4 [C.7182] LXXXII 377-.; pp.410-430; *Seventeenth Report on Trade Unions*, BPP 1912 [Cd.6109] XLVII 655-., pp.lxxvi-ii. NB some of this change reflects different methods of calculation.
- <sup>24</sup> W. Beveridge, *Unemployment: A problem of industry* (London: Longman, Green and Co., 1931), p.263.
- <sup>25</sup> As listed in the Sixth Schedule of the 1911 National Insurance Act (1 & 2 Geo.5, c.55); *Public General Statutes*, Vol.XLIX (1911), p.450.
- <sup>26</sup> *Distress from Want of Employment*, PP 1895, QQ.4682-9.
- <sup>27</sup> ASE, *Rules*, 1864, rule 21.
- <sup>28</sup> H.Southall and E.Garrett, 'Morbidity and Mortality among early Nineteenth century Engineering Workers', *Social History of Medicine*, Vol.4 (1991), pp.231-52.
- <sup>29</sup> Society of Plumbers of Liverpool, *Rules*, 1812.
- <sup>30</sup> *Rules and Orders to be Observed by the London Friendly Iron Founders Society, 1826.*
- <sup>31</sup> It may well be that they would have collapsed anyway when faced by sustained mass unemployment in the inter-war period, but this cannot be known for sure and they had earlier demonstrated a remarkable ability to adapt to changing economic environments.
- <sup>32</sup> I.Prothero, *Artisan Politics in Early Nineteenth Century London: John Gast and his times* (Baton Rouge: Louisiana State University Press, 1979), pp.29-30; Gosden, *Friendly Societies*, pp.94-9.
- <sup>33</sup> ASE *Rules*, 1864, rule 13.
- <sup>34</sup> Hanson, 'Craft Unions, Welfare Benefits', pp.243.
- <sup>35</sup> R.C. on Trade Unions, *Eleventh & Final Report*, PP 1868-9 [C.4123] XXXI 235-., p.xliii.
- <sup>36</sup> *Agencies & Methods*, PP 1893-4, op.cit., p.17.
- <sup>37</sup> Harris, *Unemployment and Politics*, p.316.
- <sup>38</sup> 'Memorandum on a Scheme for Unemployment Insurance', April 1909; PRO Cab.37/99/69, p.7.
- <sup>39</sup> See, for example, the analysis of the economics of the cotton industry in ch.4 of: J.Foster, *Class Struggle and the Industrial Revolution* (London: Methuen, 1974), esp. pp.80-83.
- <sup>40</sup> The best examples of this pattern were found in mining and the iron trade; H.A.Clegg, A.Fox & A.F.Thompson, *A History of British Trade Unions since 1889*, Vol.1 (Oxford: Oxford University Press, 1964), pp.15-23.
- <sup>41</sup> *Ibid.*, pp.18, 23.
- <sup>42</sup> R.C. on Trade Unions, *First Report*, BPP 1867 XXXII, 1-., QQ.833-844, Q.861.
- <sup>43</sup> Compare, for example, the Executive Minutes for 1866, a year of good trade, and 1868 (University of Warwick, Modern Records Centre, MSS. 259/1/1).

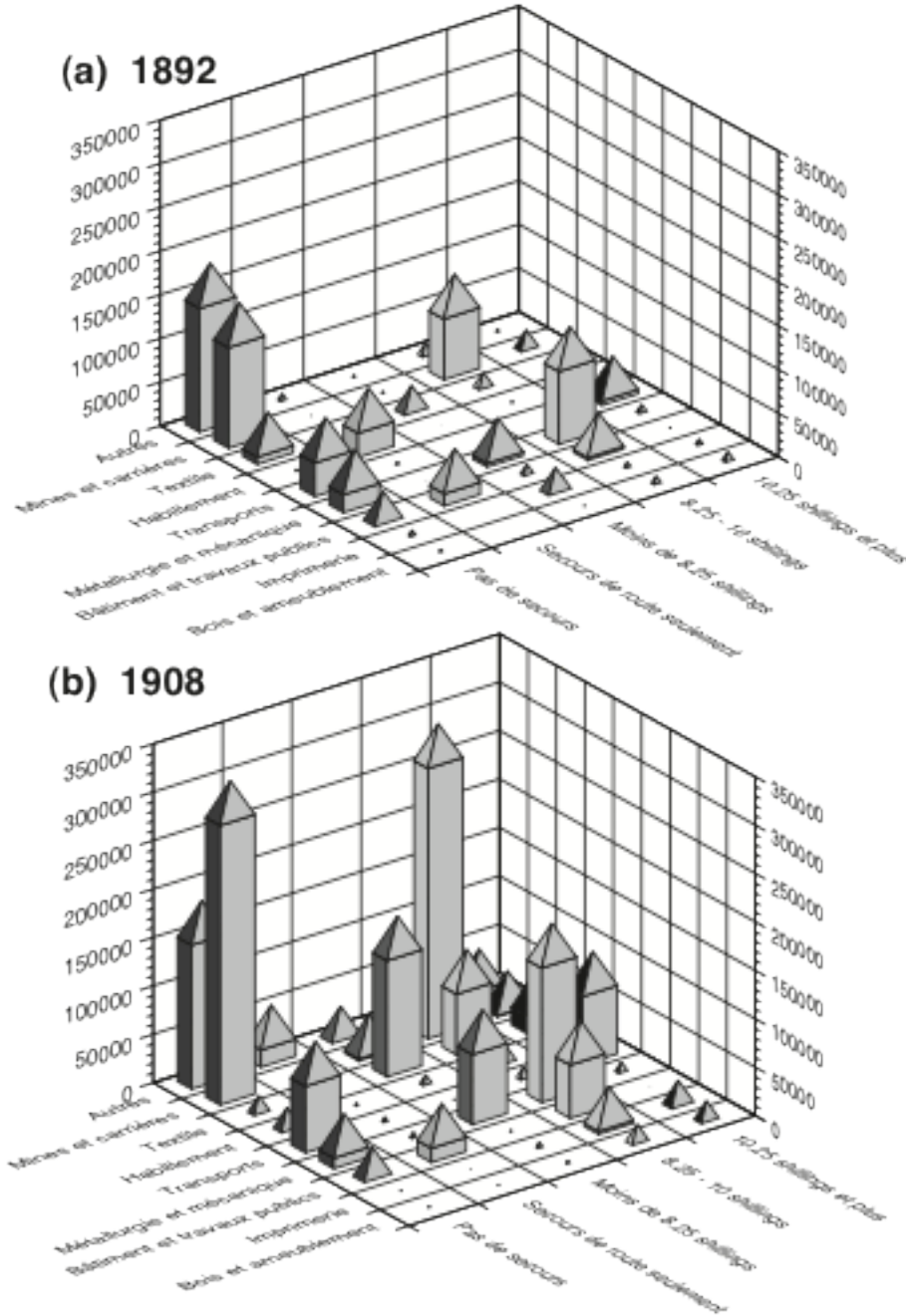
<sup>44</sup> *Report of the Proceedings at the 42nd Annual Trades Union Congress, 1909*, p.188.

<sup>45</sup> Harris, *Unemployment and Politics*, p.331; R.Davidson, *Whitehall and the Labour Problem in late Victorian and Edwardian Britain* (London: Croom Helm, 1971), pp.259-60, 272-3, 296-7.

<sup>46</sup> In other words, borrowers pay a higher monthly sum to the lender in return for not having to pay for a few months if they lose their job. In the past, British mortgage borrowers tended to be in white collar jobs with a low risk of unemployment; in the late 1980s, white collar unemployment and an increase in home ownership among blue collar groups has led to such schemes being offered on much less attractive terms. See *Which?*, July 1993.

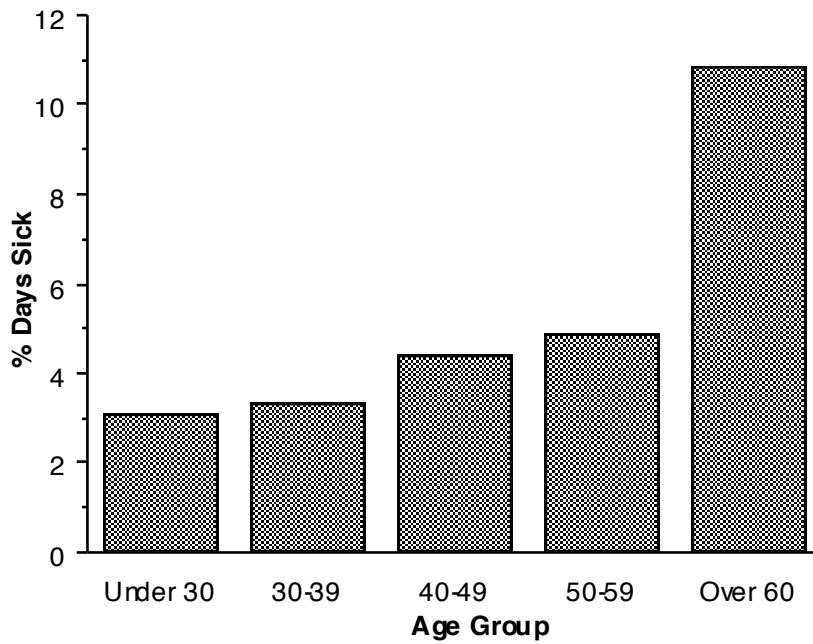
Figure 1:

Trade Union Benefit Provision by Sector



**Figure 2 (a)**

**Age-specific morbidity rates 1836-45  
(Steam Engine Makers' Society)**



**Figure 2 (b)**

**Age-specific unemployment rates,  
Manchester and Leeds 1895**

