Employment Security and the Future

By Arthur J. Altmeyer*

Shortly before making the address from which this article is drawn, the Commissioner for Social Security had spent several months in Geneva, on leave from the Social Security Administration, as Executive Secretary of the Preparatory Commission for the United Nations International Refugee Organization. Against the background of that experience, which gave him a heightened awareness of the meaning of social security in countries struggling to establish a democratic form of government amid the political and economic insecurity of postwar Europe, Mr. Altmeyer outlines recent developments in this country in achieving the objectives of a broad program of employment security as an integral part of social security.

TO ONE JUST BACK from overseas the contrast between the United States and Europe is striking, particularly when one is transported in a few hours from a continent of hungry, unhappy people living amid widespread devastation and demoralization to a country with an abundance of the good things of life. But despite the destruction all about one in Europe, it is inspiring to realize that all countries that are attempting to establish a democratic form of government are united in their desire to build or expand their social security programs. They are all convinced that a unified, comprehensive social security program is essential to the democratic way of life. To give economic and social security to people when they are unemployed or ill or old, when the wage earner of the family dies, or when other accident or catastrophe strikes a family, is one of the major cornerstones of the United Nations and the new life that is being rebuilt in Europe.

My European experience made me aware, as no amount of study and training could, of the international aspects of social security. Though that program develops in different ways in the different countries, as it should if it is to make its maximum contribution to the security of the people, and though it takes different legislative forms in response to the constitutional structure and the mores of the country, everywhere I found the social security program moving toward complete coverage of the population against the inevitable risks of living—unemployment, old age, and illness.

In our own way we, too, are moving toward greater coordination of the social security programs. While our progress in covering the risk of illness is slow, two States already have a program of temporary disability insurance coordinated with their unemployment insurance program.

Interrelations of the Social Security Programs

Many of the States are actively interested in expanding their unemployment insurance programs to cover temporary disability and I say, "More power to you." The closeness of the unemployment and temporary disability insurance programs was recognized by Congress when it permitted employee contributions collected for unemployment insurance purposes to be used for temporary disability insurance and when it permitted the funds accumulated in the railroad account of the unemployment trust fund to be used for a similar purpose.

But coordination of unemployment insurance and temporary disability insurance must include also coordination with a permanent disability insurance program. The eventual establishment of permanent disability insurance as part of the old-age and survivors insurance program, which the Social Security Administration has consistently recommended, demands coordination of both temporary disability and permanent disability insurance. Both programs require the use of medical certification and rehabilitation programs, which are part of the basic responsibility of the Federal Security Agency.

Even before temporary disability programs were enacted, the employment security program was strongly linked with other aspects of the social security program. Both old-age and survivors insurance and unemployment insurance cover largely the same employments, and the movement toward greater uniformity of coverage should continue. Both programs have close administrative relationships in the exchange of information on newly subject employers, proper industrial classification of employers, and preparation of benchmark data for estimates of employment and wages. A few States have successfully used old-age and survivors insurance wage data for determining unemployment insurance benefit rights, and in obtaining wage data from employers subject to the State unemployment insurance law many States have used a report form identical with that used for old-age and survivors insurance. Such coordination simplifies the reporting burden for employers, makes the program more easily understood by workers, and strengthens the entire social security program, Federal and State.

Employment security has close relationships with public assistance also. Since both are Federal-State programs administered by the Social Security Administration, they have been subject to a single set of personnel merit-system standards and in many ways to a single set of fiscal standards. Such devices simplify Federal-State relations and make for ease and economy of administration.

Moreover, all the social insurance programs have common concepts and administrative and financial interrelationships that need continual review, revision, and coordination in the light of changing economic and social conditions. The costs of one program—old-age and survivors insurance, unemployment insurance, temporary or total disability insurance—must always be weighed in relation to the costs of the other programs, for only by such coordination can the social se-

*Commissioner for Social Security. This article is drawn from an address made at the Twelfth Annual Meeting of the Interstate Conference of Employment Security Agencies, Hot Springs, Arkansas, September 30, 1947.

curity program make its maximum contribution to the individual and his family and, in turn, to the Nation's economy.

Employment Security and a Comprehensive Social Security Program

In discussing the actual and innate relationships between the employment security programs and other parts of the social security program, we cannot, of course, overlook the intimate ties between the employment service and unemployment insurance. They really are one program. The functions of each are so closely interlocked that as far as the public, the employer, and the worker are concerned both programs serve the same ends—to help a worker find a suitable job when he is unemployed and, only when he is unable to find such a job, to pay him benefits that help him bridge the gap in income between jobs. Both programs are part of a single plan, with the separate functions of one complementing and strengthening the functions of the other. The job-finding operation of the employment service is a necessary prerequisite to the determination of eligibility for unemployment insurance. On the other hand, unemployment insurance strengthens the employment service by channeling workers through that service, thus providing a central place where employers can look for workers.

The Social Security Administration has always emphasized the importance of the employment service, not only for the unemployment insurance program but for the service itself, because a strong national employment service is necessary for the economic security of workers and the economic well-being of the country. At the very outset the Social Security Board strengthened the employment service by requiring that unemployment benefits be paid only through public employment offices and by providing far stronger financial support for the employment service than it had ever had before. When the Social Security Act was passed, only 25 States, with 184 employment offices, had affiliated with the U. S. Employment Service. By 1938, when States began to pay benefits under their unemployment insurance laws, all States had affiliated and a Nation-wide network of 1,606 employment offices had been set up. The Service was strengthened not only because it received additional funds under title III of the Social Security Act but because the initiation of unemployment insurance did not result in two separate employment services, one for covered workers and one for noncovered.

Unemployment insurance brought to the employment service a type of applicant it had never had before—the skilled worker with recent work experience, who is the best part of the labor supply of the country. The placement record in States paying benefits was better than the record in States not paying benefits. The record speaks for itself. Neither the Social Security Board nor the States ever subordinated the employment service to the unemployment insurance function.

When the U. S. Employment Service was transferred to the Federal Security Agency in 1939, the Bureau of Unemployment Compensation was renamed the Bureau of Employment Security to reflect its new responsibilities. Despite the fears of some people that the U. S. Employment Service would be subordinated to the unemployment insurance program, the Service was expanded and strengthened throughout the period 1939–41, when it was administered by the Social Security Board. Services for claimants and nonclaimants and the special services for youth, for the handicapped, and for veterans were strengthened. When the U. S. Employment Service was transferred to the War Manpower Commission in 1942 it was a far stronger, sounder, and better service than it had been when the Board received it in 1939.

The reasons for combining the employment service and unemployment insurance programs in one Federal department are just as valid today as they were in 1939, when President Roosevelt said in his reorganization message, "I find it necessary and desirable to group in a Federal Security Agency those agencies of the Government, the major purposes of which are to promote social and economic security, educational opportunity, and the health of the citizens of the Nation."

Need for Continued Improvement

You and I may differ greatly on what is needed to strengthen the unemployment insurance program. After having been in Europe, however, and after hearing tales of what is going on in countries where people are not permitted to differ with one another—at least publicly—I appreciate differences of opinion as I did not before. I believe that discussions of what changes are needed to strengthen the program are healthy and sound; that individuals with administrative responsibility for a program must bring their best study and experience to bear on it if Congress and the State legislatures, which must make the changes, are to act in the best interests of the public.

While the unemployment insurance program has never operated during a serious depression, it has contributed greatly to the economic security of the Nation. During the defense program and the war years, it prevented the dispersion of the labor force and helped assure its availability, when and where it was needed, by compensating individuals who were unemployed because of shortages of materials and curtailment of peacetime operations. Immediately after the Japanese surrender, when large-scale lay-offs occurred in war-production industries, the program helped to compensate for the loss of earnings of war workers who had contributed to the war effort; when the country began reconverting to peacetime production, the availability of benefits eased the transition and helped in the orderly reconversion of the labor force. In the period ahead, this Nation-wide program should continue to make a major contribution to the stability of the economy and to the well-being of the American people. That objective is important not only to the Nation itself but also to the Nation's role in international affairs.

We all must agree, I think, that the Federal-State system today is stronger than it was originally. Benefits have been increased in amount and duration. Five States provide additional allowances for beneficiaries with dependents. Though no State law contains provisions for both maximum weekly benefits of $25 and a benefit

duration of 26 weeks for all eligible workers, 11 State laws provide maximum weekly benefits of $25 or more for claimants eligible for the maximum, and 7 States pay benefits up to a maximum of 26 weeks. This is a far cry from 1937, when only 2 States paid a maximum of more than $15 ($16 in one and $18 in the other) and only 5 paid benefits for as many as 20 weeks. The development has not been uniform throughout the country, with the result that the benefits vary, State by State, for workers whose wage loss from unemployment may be identical. Nevertheless the competition among the States, within the framework of a Nation-wide program, has served to stimulate laggard States to move forward to the goals recommended by the Social Security Administration and established by the more progressive States.

In some respects, however, the program is weaker than it was originally. Today 24 States disqualify a worker by reducing or canceling his benefit rights; in 1937 only 7 States had such provisions. Today 17 States disqualify claimants for voluntarily leaving their jobs, unless the cause is attributable to the employer or the employment; in 1937 only 4 laws contained such provisions. The trend toward writing such provisions into State laws has lessened, however, and it is to be hoped that future State legislative sessions will delete those provisions from their laws, so that disqualification provisions will be focused upon their legitimate purpose—to make certain that no one shall receive benefits so long as he is unwilling to work.

The changes that have been made in the benefit, eligibility, and disqualification provisions of State systems since the early days have been accomplished within a framework of Federal legislation that gives States complete responsibility for those provisions (except for the Federal provision protecting certain labor standards) and makes the Federal Government responsible for recommending changes that will improve the program. The existing Federal-State system has provided a pattern in which the interests of individual States have been welded into a coordinated Nation-wide program that has served the workers of the country well. As you know, I believe that the best way of providing protection to workers when they are unemployed is through a unified national program that covers the major risks to which the worker is exposed during his lifetime. However, a Federal program of old-age, survivor, and permanent disability insurance and a Federal-State grant-in-aid program covering unemployment insurance, temporary disability, and the costs of medical care together offer genuine opportunity and inducement for coordination of the insurance programs and for a division of responsibility and financing between the Federal and State Governments that should be fully utilized.

Undoubtedly the present Federal-State system of unemployment insurance is a vital institution in our economic life, and it can be expected to provide more effective protection in the future against the hazards of unemployment. Needed changes must be made in the years ahead, however, if our Federal-State system is to contribute all that it can to the maintenance of a high level of employment in the Nation. The Federal Unemployment Tax Act must be amended to cover firms of one or more employees, as well as other noncovered groups. Twenty-nine States have already extended coverage to smaller firms than are included under the Federal act, and 29 States have signified their willingness to extend coverage automatically if the Federal law is amended to include smaller firms than the State law now covers.

Many of you will agree with me that the financing provisions of the Federal act need amendment. These provisions have prevented the States from providing sound methods of financing their systems. The "additional credit" provisions of the Federal Unemployment Tax Act have confronted us with difficult technical questions that are hard to rationalize. The Federal tax of 3 percent has proved too high. In all but one State the original flat contribution rate of 2.7 percent is gone, and in its place are more and more complicated experience-rating formulas that penalize new employers. For the country as a whole, an average tax rate of 1.5 percent is being collected, while the funds accumulated in the unemployment trust fund totaled $7.2 billion on August 31, 1947, higher than they were on VJ-day. Estimates based on accumulated experience indicate that during a 10-year cycle the cost of the program for the country as a whole might average less than 1.5 percent if peak unemployment amounted to about 10 percent of the civilian labor force and somewhat under 2 percent if unemployment were as high as 20 percent. Furthermore, a portion of this cost could be met each year by the interest earned by the accumulated reserve funds.

I therefore believe that the Federal law might well be amended to provide for a downward revision in the Federal tax to 2 percent, which would permit employers to offset up to 1.8 percent for their contributions to the State system. Such a change need not affect the rate schedules of State laws, but the reduced Federal tax will more nearly reflect the actual experience of the past few years as well as conditions in the immediate future.

In addition, the additional-credit provisions of the Federal act should be amended so that States may reduce employer contribution rates in any way they decide. This recommendation does not mean that States could not, if they wish, continue to rate employers according to their individual experience with the risk of unemployment; it merely means broadening the basis on which employers can get additional credit against the Federal tax by permitting a State, if it so desires, to tax all employers within its jurisdiction at reduced rates determined by the State to be sufficient to meet its liabilities.

Another advantage of permitting States to grant uniform tax reductions to all covered employers is that it would eliminate the present discrimination against new firms, many of which are small and veteran-owned. Under present provisions a reduction in State tax rates may not be considered until the employer has been subject to a State unemployment insurance law for at least 3 years. As a result, new employers now pay contributions for a period of years at what amounts to the maximum rate in all

but 12 States, while the older, established firms with which they must compete pay at greatly reduced rates. If States were free to reduce the rates of all employers uniformly, the new employers would benefit immediately. Enactment of this proposal would also remove a major obstacle to extension of coverage to groups now excluded. There has been natural reluctance to extend coverage to new groups of employers if such extension meant that they would have to be taxed for several years at a rate considerably higher than that for the vast majority of employers.

If provision is not made for uniform tax reductions, however, immediate action should be taken to amend the additional-credit provisions of the Federal act to make possible the granting of lower tax rates to new employers. Under such an amendment, newly subject employers could be taxed at the average employer tax rate in the State until they had accumulated enough experience to be rated on an individual basis.

Changes such as these would go a long way toward improving the financing of benefits. Any change in unemployment insurance financing, on the other hand, should take account of pressing needs for temporary disability insurance and the revenues needed for such an insurance program. Consideration should be given to permitting the States to use their unemployment insurance contributions—from employers as well as employees—and their reserves if their temporary disability systems are coordinated with unemployment insurance. In any case, grants under title III of the Social Security Act should be made available to any State employment security agency administering a program of temporary disability coordinated with unemployment insurance.

Administrative Costs of the Program

We in the Federal service have felt that the present method of financing administrative costs does not offer sufficient inducement for State economy of operation and that it has put the Federal Government in the anomalous position of paying for all the State administrative expenses, even though many of its recommendations for more economical and efficient operation may not have been adopted. Some States, on the other hand, especially some of the larger and more highly industrialized States, have been dissatisfied with the present method of financing because they felt it did not ensure sufficient funds for administering the State systems and because the appropriation procedures necessitated by Federal budgetary requirements are too inflexible to permit proper planning of State agency operations. Other States have felt that the present method of financing administrative costs has ensured and will continue to ensure more nearly adequate administrative funds than any other method proposed thus far.

Despite these differences of opinion, the Bureau of Employment Security and the State agencies have continued to work together to improve the existing procedures for financing administrative expenses. The participation of State agencies in preparing estimates for title III grants should go far to introduce State responsibility for the congressional appropriation. I believe, too, that the combined efforts of State agencies and the Bureau in attempting to obtain a contingency fund from Congress at the beginning of the fiscal year, to be used only if developing work loads make it necessary, represent a constructive approach. State participation in developing work programs and in the administrative reviews is also helpful in developing a sense of joint responsibility for administrative efficiency and economy.

As you know, I have suggested that a possible alternative approach to the problem would be a system of Federal grants-in-aid to cover not only part of the cost of administration but also part of the cost of benefits. Such a proposal would also, of course, involve a proportionate reduction in the rate of the Federal tax. In my judgment such a grant-in-aid plan, so far as administrative expenses are concerned, would have the advantage of providing an incentive to the States for economical operation. It would also simplify employer reporting, do away with the possibilities of duplicate taxation, give the States far greater flexibility in financing their portion of the costs, and at the same time improve the stability of the system by introducing an element of reinsurance.

While I have not seen any detailed proposal sponsored by any group of State agencies or the Interstate Conference, I understand that in general you are discussing a proposal that provides for a 100-percent offset against the Federal tax as a substitute for the 90-percent offset.[1] The Federal Government would collect no revenue from the tax imposed, and the States would meet both benefit and administrative expenses from their trust funds.

Although it is difficult to appraise a plan of this kind without seeing it in concrete form, certain characteristics seem clear. It removes the Federal Government from any connection with grants to States for administrative expenses and gives the States full responsibility for determining what funds are necessary for the proper and efficient administration of the State laws. From the States' point of view, it gives them complete responsibility for administrative expenditures. To me this is one of the strengths of the plan.

The question whether substitution of complete State for complete Federal responsibility for the cost of State administration would provide larger administrative funds to some States does not concern me especially, as I know it does some State administrators. What concerns me more is whether this plan will provide *adequate* funds for *sound* administration in *every* State in the country. For I still believe, as do many of you, that whatever form our program takes in the future it must be a Nation-wide program if it is to meet effectively the needs of an economy like ours.

There is no question that some

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[1] At present, contributions under a State unemployment insurance law may be offset against the Federal unemployment tax (3 percent) up to a maximum of 90 percent of the Federal tax (or 2.7 percent). The remaining 0.3 percent is collected by the Federal Government and used to finance State expenses in administering the program; the contributions collected by States can be used only for benefit payments. The proposed offset of 100 percent would mean that States would collect the entire 3 percent and use the proceeds to finance both benefit and administrative costs. [Ed.]

States will not be able to finance their administration adequately from the equivalent of 0.3 percent of their covered pay rolls. In the fiscal year 1947 the administrative expense of the entire employment security program in 13 jurisdictions was greater than the 0.3-percent tax collected from employers in the State—not because these States were more extravagant but because States are not economically equal units. Some are large and thinly populated, with small taxable pay rolls; others, small but densely populated, have huge taxable bases. The former group of States would have to dip into their reserves originally accumulated for benefit purposes or else have the type of State administration that is characteristic of some other areas of State government, as you know better than I do. If the proposal meant dipping into State reserves that were originally intended for benefit purposes, complaint against governmental expenditures, whether justified or not, would undoubtedly arise.

Other considerations come to mind. If the plan contemplates substituting State legislative appropriations for congressional appropriations, it may introduce greater rigidities, certainly in some States, than the system we now have. The omission or inclusion of Federal standards must be weighed against the ability of the Federal Government to apply the standards. Serious questions may arise over the constitutionality of a plan that proposes a Federal tax without Federal revenue and that would do away with an equivalent relationship between the Federal tax rate and State tax rates.

Basically the plan substitutes what is in effect a State system of employment security for the Federal-State system we now have. It is tantamount to outright repeal of the Federal tax and might well be followed by such action if we were left with only the shadow of a Federal-State system. It is a denial of the national concern with the maintenance of a Nation-wide employment security program. No legal provisions can assure the maintenance of a reasonably adequate program throughout the country that do not also ensure adequate administrative financing of that program in every State. Even an organization of State officials, which by its very nature and constitution recognizes the need for discussion and conference that goes beyond individual State lines, cannot be a satisfactory substitute for an effective partnership of the State and Federal Governments in providing a Nation-wide system of employment security.

I hope that we can move in the direction of strengthening that partnership rather than toward dissolving it.

Legislative Changes in Public Assistance, 1947

By Jules H. Berman*

CHANGES IN THE STATE public assistance laws or appropriations to support the programs were debated in the legislatures of all but one of the States during the 1947 legislative sessions. Kentucky is the only State in which the legislature did not meet in either regular or special session. Most legislatures meet regularly in odd-numbered years, a few meet annually, and some legislatures, meeting in even-numbered years, had a special session in 1947. The results of the 1947 sessions hold considerable interest because of the increasing importance of public assistance in State expenditures. The increase in the cost of living has had a direct impact on the cost of providing assistance to needy people. This factor, together with the increase in the case load [1] since 1945, when most of the legislatures last met in regular session, has strained the resources of many States, even with the added Federal funds made available under the Social Security Act Amendments of 1946. Previously, each successive session of the State legislatures has resulted in marked liberalization of the assistance program.[2] That this trend continued in 1947 despite difficulties of financing shows that members of the legislatures are increasingly aware of the needs of the assistance group.

This survey of 1947 legislation is based on laws officially submitted to the Bureau of Public Assistance as part of the material on State plans. When this summary was prepared, not all legislatures had adjourned, and some other States had not yet sent their new laws to the Bureau of Public Assistance. By October 1 the Bureau had received copies of approximately 380 laws pertinent to the programs of old-age assistance, aid to dependent children, and aid to the blind. Although apparently the total number of laws enacted will be somewhat smaller than the number passed in 1945 (500), this year's sessions in many ways showed a greater concentration of interest in the specific details of eligibility and administrative practice.

A review of the 1947 legislation reveals that liberalization of provisions continued to a considerable extent, but it also indicates the concern of legislatures over the increasing amount of State revenue going for public assistance. Many States explored the possibility of recovering from any available resources of recipients some of the assistance granted, and several enacted provisions for such recovery. Concern over the cost of the program was manifested in a few States by legislation intended to limit the scope of the program and to disqualify some groups that hitherto had been eligible for assistance. Some legislatures attempted to make certain that no ineligible person should receive assistance and to provide various penalties for those who receive aid fraudulently. The majority of the States, however, enacted no particularly limiting legislation, and even the States that passed some laws limiting certain aspects of the program also enacted other liberalizing provisions.

Eligibility requirements were broadened in many States, and nearly all legislatures showed a realization that the rise in living costs necessitated an

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[1] The rise in case loads from January 1945 to January 1947 under plans approved by the Social Security Administration was as follows: old-age assistance, from 2,059,148 to 2,212,945; aid to dependent children, from 641,892 to 905,785 (children); aid to the blind, from 56,236 to 60,186.

[2] See, for example, "Legislative Changes in Public Assistance, 1945," *Social Security Bulletin,* April 1946.