

# Unemployment Insurance: Recommendations of the Senate Advisory Council

*Recommendations for strengthening the unemployment insurance system were made by the Senate Advisory Council on Social Security in its fourth and final report, submitted to the Senate Finance Committee on December 28, 1948. The Bulletin presents from this report, as it did from the Council's earlier reports, the introductory section and summary of recommendations.*

WITH its report on unemployment insurance,<sup>1</sup> presented to the Senate Committee on Finance on December 28, the Committee's Advisory Council on Social Security completed the study of the social security programs for which it was established in September 1947. This fourth and final report contains the Council's recommendations for improving the existing State-Federal system of unemployment insurance by extending coverage, removing some of the present barriers to more adequate benefit provisions and benefit financing, making more rational the relationship of the rate of contribution to the cyclical movements of business, improving the methods and financial basis of administration, and increasing employee and public participation in the program. In addition, five of the 17 members favored the establishment of a single national system of unemployment insurance. Four of the five, however, declared that they would support the majority recommendations for improving the State-Federal system if the Congress should decide against establishment of a national program.

The Council's first report,<sup>2</sup> submitted on April 8, 1948, and summarized in the May issue of the BULLETIN, dealt with necessary and desirable changes in the present Federal program of old-age and survivors insurance. The second report,<sup>3</sup> issued on May 5, recommended the establishment of an insurance system to cover the risks of income loss from permanent and total disability. With two members dissenting, the Council

recommended a national system, incorporated in the old-age and survivors insurance program. The third report,<sup>4</sup> issued August 5, dealt with changes in public assistance. The proposals were based, the Council said, on the presupposition that the recommendations on old-age and survivors insurance and permanent total disability insurance would be enacted into law. The third report, therefore, was intended to supplement the first two reports. The second and third reports were summarized in the October issue of the BULLETIN.

The material that follows is taken verbatim from the introductory section of the report, in which the Council summarizes the proposals, developed more fully in the main body of the report, for remedying the major deficiencies of the present program and also stresses the need for a broad educational program.

## Introduction and Summary

### *Characteristics of State-Federal Unemployment Insurance*

During the long and deep depression of the 1930's, the United States became acutely aware of the plight of millions of men and women who were unemployed through no fault of their own. Although up to that time, only one State had enacted an unemployment insurance law, the Federal Government took steps in 1935 to provide unemployment insurance at an early date for a large proportion of the industrial and commercial labor force. The Social Security Act of 1935, however, did not set up a single Federal system of unemployment insurance.

Rather, through a tax-offset device, it encouraged the States to establish their own systems conforming to a few broad Federal standards. Within 2 years the 48 States, the District of Columbia, Alaska, and Hawaii had unemployment insurance laws.

The Federal Government levies a 3-percent tax on the pay rolls of employers in business and industry who have eight or more employees. This tax can be offset—up to 90 percent—by contributions paid by employers under approved State laws. A State law can be approved only if the funds collected under it are deposited to the State's account in a trust fund in the Federal Treasury to be used by the State exclusively for the payment of unemployment insurance benefits. Furthermore, the benefits provided under the State law must be paid through public employment offices "or such other agencies as the Federal Security Administrator may approve." In general, no Federal standards have been established relating to such benefit rights as the amount or duration of benefits. One Federal standard relating to benefits, however, was set as a condition for tax offset; namely, that benefits under the State law shall not be denied to any otherwise eligible individual for refusing to accept new work (1) if the position offered is vacant due directly to a labor dispute; (2) if the working conditions offered are substantially less favorable than those prevailing for similar work in the locality; or (3) if, as a condition of employment, the individual must join a company union or resign from or refrain from joining any bona fide labor organization.

As an incentive to employment stabilization, employers were allowed credit against the Federal tax, not only for contributions actually paid, but also for contributions which were waived because the employer's contribution rate was reduced by the State on the basis of his experience with unemployment "or other factors directly related to unemployment risk."

<sup>1</sup> S. Doc. 206, 80th Cong., 2d sess.

<sup>2</sup> S. Doc. 149, 80th Cong., 2d sess.

<sup>3</sup> S. Doc. 162, 80th Cong., 2d sess.

<sup>4</sup> S. Doc. 204, 80th Cong., 2d sess.

In addition to stimulating the enactment of State unemployment insurance laws, the Federal Government undertook to assure adequate Nation-wide provision for administering the program, by authorizing grants to States to meet the total cost necessary for proper and efficient administration of their laws. Although technically made from the general Federal Treasury, it is clear from the hearings and committee reports that these grants were thought of as being financed by the 0.3 percent of covered pay rolls which constitutes the income to the Federal Government from the Federal Unemployment Tax Act. These administrative grants were to enable, and also require, the States to use methods of administration reasonably calculated to insure the full payment of benefits when due, to provide for fair hearings to those whose claims are denied, to make reports, and to cooperate effectively with public works agencies and the Railroad Retirement Board. A State was not entitled to the grants if these conditions were not met or if, in the administration of the State law, benefits were denied in a substantial number of cases to individuals entitled thereunder under the State law. Except for these very general Federal standards, each of the 51 systems has established its own eligibility requirements, benefit amounts and duration, waiting periods, disqualification rules, and administrative procedures.

The Council has studied the present State-Federal arrangements, and the majority approves the basic principles of the system. In the opinion of the majority (1) the State is the proper unit to determine the benefit provisions which will meet the varying conditions in different parts of the country; (2) State laws can assure more adequate benefits in highly industrialized areas; and (3) the State-Federal program has shown over the past 10 years that it is capable of making progress. In most States the minimums, maximums, and average weekly payments have risen, durations have increased, waiting periods have decreased, and coverage has broadened.

Five members of the Council, however, favor the establishment of a single national system of unemploy-

ment insurance. In their opinion, unemployment is essentially a national problem and is an inappropriate area for State operation. They point out that many workers move from State to State in their search for work and that labor markets cut across State lines. The maintenance of 51 separate systems, each with its own reserve, is in their opinion actuarially unsound. They also feel that the effectiveness of the various State plans has been diminished by the growing restrictions on benefits and that the progressive changes in the benefit provisions of State laws have not kept pace with increasing wages and prices. Four of these members would join with the majority, however, in the recommendations included in this report for the improvement of the State-Federal system should the Congress decide against the establishment of a national program. One member is not signing the recommendations of the Council since he disagrees with some of the most important ones even under a continued State-Federal system.

### *Deficiencies in the Present Program*

The dual nature of the State-Federal plan for unemployment insurance has limited the scope of the Council's work. Since the actual administration of unemployment benefits is the responsibility of 48 States, the District of Columbia, and the Territories of Alaska and Hawaii, it would have been impracticable for the Council to have made a detailed investigation of administration in each jurisdiction. The Council, however, has studied the basic principles and operations of the State-Federal program and finds five major deficiencies.

1. *Inadequate coverage.*—Only about 7 out of 10 employees are now covered by unemployment insurance.

2. *Benefit financing which operates as a barrier to liberalizing benefit provisions.*—The present arrangements permit States to compete in establishing low contribution rates for employers and therefore discourage the adoption of more adequate benefit provisions.

3. *Irrational relationship between the contribution rates and the cyclical movements of business.*—The present

arrangements tend to make the contribution rate fluctuate inversely with the volume of employment, declining when employment is high and when contributions to the unemployment compensation fund are easiest to make and increasing when employment declines and when the burden of contributions is greatest.

4. *Administrative deficiencies.*—Improvement is needed in methods of financing administrative costs, provisions for determining eligibility and benefit amount in interstate claims, procedures for developing interstate claims, and methods designed to insure prompt payments on all valid claims and to prevent payments on invalid claims.

5. *Lack of adequate employee and citizen participation in the program.*—Workers now have less influence on guiding the administration of the program and developing legislative policy than they should, and some employees, employers, and members of the general public tend to regard unemployment compensation more as a hand-out than as social insurance earned by employment, financed by contributions, and payable only to those who satisfy eligibility requirements.

The Council has also made recommendations on other points, but has mainly proposed measures designed to remedy these major defects. The recommendations apply only to the continental United States, Hawaii, and Alaska. The Council, in its report on old-age and survivors insurance, proposed that a special commission should be established to determine the various types of social security protection appropriate to Puerto Rico, the Virgin Islands, Guam, and other possessions of the United States.

### *Recommendations for Improvement of the Program*

A summary of the Council's recommendations follows:

1. *Employees of small firms.*—The size-of-firm limitation on coverage in the Federal Unemployment Tax Act should be removed, and employees of small firms should be protected under unemployment insurance just as they are now protected under old-age and survivors insurance.

2. *Employees of nonprofit organizations.*—The Federal Unemployment Tax Act should be broadened to include employment by all nonprofit organizations, except that services performed by clergymen and members of religious orders should remain excluded. The exclusion of domestic workers in college clubs, fraternities, and sororities by the 1939 amendments to the Federal Unemployment Tax Act should be repealed so that these workers will again be protected under all State laws.

3. *Federal civilian employees.*—Employees of the Federal Government and its instrumentalities should receive unemployment benefits through the State unemployment insurance agencies in accordance with the provisions of the State unemployment insurance laws. The States should be reimbursed for the amounts actually paid in benefits based on Federal employment. If there is employment under both the State system and for the Federal Government during the base period, the wage credits should be combined and the States should be reimbursed in the proportion which the amount of Federal employment or wages in the base period bears to the total employment or wages in the base period. The special provisions for federally employed maritime workers should be extended until this recommendation for covering all Federal employees becomes effective.

4. *Members of the armed forces.*—Members of the armed forces who do not come under the servicemen's readjustment allowance program should be protected by unemployment insurance.

5. *Borderline agricultural workers.*—To afford protection to certain workers excluded by the 1939 amendments to the Federal Unemployment Tax Act, defining agricultural labor, coverage of that act should be extended to services rendered in handling, packing, packaging, and other forms of processing agricultural and horticultural products, unless such services are performed for the owner or tenant of the farm on which the products are raised and he does not employ five or more persons in such activities in each of four calendar weeks during the year. Coverage should also be extended to services

now defined as agricultural labor by section 1607 (1) (3) of the Unemployment Tax Act.

6. *Inclusion of tips in the definition of wages.*—The definition of wages contained in section 1607 (b) of the Federal Unemployment Tax Act should be amended to specify that such wages shall include all tips or gratuities customarily received by an employee from a customer of an employer.

7. *Contributory principle.*—To extend to unemployment insurance the contributory principle now recognized in old-age and survivors insurance, a Federal unemployment tax should be paid by employees as well as employers. Employee contributions to a State unemployment insurance fund should be allowed to offset the Federal employee tax in the same manner as employer contributions are allowed to offset the Federal tax on employers. The employee tax would be collected by employers and paid by them when they pay their own unemployment tax.

8. *Maximum wage base.*—To take account of increased wage levels and costs of living, and to provide the same wage base for contributions and benefits as that recommended for old-age and survivors insurance, the upper limit on earnings subject to the Federal unemployment tax should be raised from \$3,000 to \$4,200.

9. *Minimum contribution rate.*—The Federal unemployment tax should be 0.75 percent of covered wages payable by employers and 0.75 percent payable by employees. The taxpayer should be allowed to credit against the Federal tax the amount of contributions paid into a State unemployment fund, but this credit should not exceed 80 percent of the Federal tax. Since no additional credit against the Federal tax should be allowed for experience rating, the States would, in effect, be required to establish a minimum rate of 0.6 percent on employers and 0.6 percent on employees.

10. *Loan fund.*—The Federal Government should provide loans to a State for the payment of unemployment insurance benefits when a State is in danger of exhausting its reserves and covered unemployment in the State is heavy. The loan should be for a 5-year period and should carry interest at the average yield of all in-

terest-bearing obligations of the Federal Government.

11. *Standards on experience rating.*—If a State has an experience-rating plan, the Federal act should require that the plan provide: (1) a minimum employer contribution rate of 0.6 percent; (2) an employee rate no higher than the lowest rate payable by an employer in the State; and (3) a rate for newly covered and newly formed firms for the first 3 years under the program which does not exceed the average rate for all employers in the State.

12. *Combining wage credits earned in more than one State and processing interstate claims.*—The Social Security Administration should be empowered to establish standard procedures for combining unemployment insurance wage credits earned in more than one State and for processing interstate claims. These procedures should be worked out in consultation with the administrators of the State programs and should provide for the combination of wage credits not only when eligibility is affected but also when such combination would substantially affect benefit amount or duration. All States should be required to follow the prescribed procedures as a condition of receiving administrative grants. Similar procedures should be worked out, in cooperation with the Railroad Retirement Board, for combining wage credits earned under the State systems and under the railroad system.

13. *Financing administrative costs.*—Income from the Federal Unemployment Tax Act should be dedicated to unemployment insurance purposes. One-half of any surplus over expenses incurred in the collection of the tax and the administration of unemployment insurance and the employment service should be appropriated to the Federal loan fund, and one-half of the surplus should be proportionately assigned to the States for administration or benefit purposes. A contingency item should be added to the regular congressional appropriation for the administration of the employment security programs. The administrative standards in the Social Security Act should be applicable to the expenditure of the surplus funds

as well as to expenditures of the funds originally appropriated.

14. *Clarification of Federal interest in the proper payment of claims.*—The Social Security Act should be amended to clarify the interest of the Federal Government not only in the full payment of benefits when due, but also in the prevention of improper payments.

15. *Standards for disqualifications.*—A Federal standard on disqualifications should be adopted prohibiting the States from (1) reducing or canceling benefit rights as the result of disqualification except for fraud or misrepresentation, (2) disqualifying those who are discharged because of inability to do the work, and (3) postponing benefits for more than 6 weeks as the result of a disqualification except for fraud or misrepresentation.

16. *Study of supplementary plans.*—The Congress should direct the Federal Security Agency to study in detail the comparative merits in times of severe unemployment of (a) unemployment assistance, (b) extended unemployment insurance benefits, (c) work relief, (d) other income-maintenance devices for the unemployed, including public works. This study should be conducted in consultation with the Social Security Administration's Advisory Council on Employment Security, the Council of Economic Advisers, and the State employment security agencies, and should make specific proposals for Federal measures to provide economic security for those who are unemployed in a depression and are not adequately protected by unemployment insurance . . .

### Goal of Universal Coverage

At present about 7 out of 10 jobs in American industry are covered by unemployment insurance laws. It would obviously be desirable, if practicable, to have all jobs covered. In unemployment insurance, however, universal coverage would entail more difficult administrative problems than would be met in old-age and survivors insurance. The Council, therefore, does not recommend that the Federal Unemployment Tax Act be extended now to include the two groups which would present the greatest adminis-

trative difficulty—farm workers and domestic workers—and, in view of constitutional limitations, the coverage of employees of State and local governments will have to be left to the States.<sup>5</sup>

The Council favors the immediate extension of the Federal Unemployment Tax Act to the areas of employment that present no overwhelming administrative or legal difficulties—namely, to employment by small firms, by nonprofit organizations, by the Federal Government (both civil and military), and to certain borderline agricultural employments. Such extension might increase coverage in an average week by over 7 million or to about 85 percent of the total number of individuals employed by others.

In absolute terms, the number of individuals in employment covered by the State unemployment insurance laws has increased markedly in the past 10 years. This increase is shown in the following tabulation:

	Covered Workers (In millions)
1938.....	19.9
1939.....	21.4
1940.....	23.1
1941.....	26.8
1942.....	29.3
1943.....	30.8
1944.....	30.0
1945.....	28.4
1946.....	30.2
1947.....	32.2
1948 (June).....	32.6

Much of this increase has resulted from the increase in the active labor force of the United States. In considerable measure, however, the increase also reflects changes in the size of firm covered by State laws. The original laws of 33 States limited coverage to commercial and industrial workers in firms with 8 or more employees in at least 20 weeks in a calendar year. In 1948, 17 States covered employees in firms with 1 or more persons, although only 6 of the laws ap-

<sup>5</sup> Extension of compulsory coverage to workers engaged in the "proprietary" functions of government—as opposed to regular governmental functions—is, in all probability, constitutional. In a State-Federal program, however, the Council believes that it would be better for States to provide for covering all governmental employees under one plan rather than, in effect, to force the coverage through Federal law of those governmental workers engaged in "proprietary" activities.

plied without restriction as to the number of workers, length of employment, or size of pay roll; and only 22 States still excluded from coverage employees of firms with less than 8 persons. The laws of 29 States contain provisions which will automatically extend coverage to smaller firms to the extent that the Federal size-of-firm restriction is reduced.

While progress has been made in extending coverage to smaller firms, maritime services represent the only type of work originally excluded to which coverage has been extended on a general scale. Effective July 1, 1946, Congress extended the Federal unemployment tax to services in private maritime employment and the States with maritime firms amended their laws accordingly. As early as 1944, a few States had already extended coverage to maritime workers following a Supreme Court decision that the Constitution did not prohibit such coverage under State laws. In addition, the War Mobilization and Reconversion Act of 1944 provided reconversion benefits for federally employed seamen.

The Federal Unemployment Tax Act now excludes agricultural labor; domestic service in a private home; service of an individual for his son, daughter, or spouse, or of a minor child for a parent; services for Federal, State, or local governments, or for foreign governments; services for nonprofit, religious, charitable, educational, scientific, or humane organizations; casual labor not in the course of the employer's business; and miscellaneous services such as services as a student nurse or interne, service for employees' beneficial associations, domestic service for college clubs, and services for organizations exempt from Federal income tax if the remuneration is not more than \$45 in a calendar quarter. Railroad employment, which was originally covered, is now under a separate Federal unemployment insurance system.

The occupational exclusions in State laws are in most cases the same as those in the Federal act, but several States have provided for broader coverage. New York from the outset has covered domestic workers in a home with four or more domestics, and in 1947 New York provided pro-

tection for State employees. Wisconsin has covered some State and local government employees from the beginning. Hawaii in 1945 and Tennessee in 1947 extended coverage to nonprofit organizations, excluding ministers, members of religious orders, and, in Tennessee, executives and members of the teaching staffs of educational institutions. A few additional States cover some employment by nonprofit organizations. Many States have contemplated coverage extension and would automatically cover additional occupations if and when the Federal act is extended.

In an average week during the year ended June 30, 1948, the total labor force contained 62 million persons, of whom 2.1 million were unemployed and 59.9 million were employed. The employed labor force comprised 12.8 million self-employed persons and unpaid family workers and 47.1 million employees. About 70 percent of the employees, or 32.9 million of the 47.1 million, were covered by some unemployment insurance program. About 14.2 million employees, or 30 percent of those employed by others, were in employments which carried no form of unemployment insurance protection . . .<sup>6</sup>

Some involuntarily unemployed persons will probably continue to be outside the scope of unemployment insurance even if "universal coverage" is achieved. Those seeking jobs for the first time or after a long absence from the labor market form one such group. Another is made up of those who are intermittently in and out of the labor market, but never in for very extended periods. Persons formerly dependent on self-employment but now, for one reason or another, seeking work as employees are a third group. It is probably not feasible to cover the self-employed against the risk of losing their self-employment, for it would be extremely difficult to determine when a self-employed per-

son becomes unemployed. If his business declined gradually, it would be almost impossible to determine at what point he actually became available for employment by another. A further difficult problem would be to determine whether his unemployment was involuntary or merely the result of his decision to give up his business.

The Council's goal for coverage in unemployment insurance is the protection of all persons who work for others and have a recent record of depending on wages for a significant part of their support. This goal must be obtained gradually. The Council believes that the Federal Government cannot reasonably require the States to cover all workers immediately. The Council hopes, however, that some of the States will take advantage of the opportunity to assume leadership in extending coverage to domestic workers in private homes and to a larger part of farm employment than we believe should be covered immediately under the Federal act. The State-Federal program permits States wishing to make progressive changes in the program to take such steps before other States are willing to do so.

If the old-age and survivors insurance system is extended to virtually all who work, as recommended by the Council in an earlier report, the resulting experience should be available for solution of the reporting problems connected with the extension of unemployment insurance to agricultural and domestic workers. The Council believes that this experience should be made available to the States and that the wage reports obtained under old-age and survivors insurance should be offered to the States on a cost basis.

### ***Benefit Financing Designed To Encourage the Adoption of Adequate Benefit Provisions***

The Council believes that liberalization of the benefit, duration, and eligibility conditions in the State laws is generally needed. Unemployment insurance payments should be as high a proportion of wage loss caused by unemployment as is practicable without inducing people to prefer idleness to work. The higher the ratio of unemployment benefits to wage loss caused by unemployment, the more

effectively unemployment insurance limits the tendency for the reduced purchasing power of unemployed persons to create more unemployment. Liberalization of unemployment compensation should take the form of (1) more liberal eligibility requirements; (2) higher benefits in relation to wages; and (3) longer duration of benefit payments.

Considerable progress has been made in the last 12 years in liberalizing benefit provisions in the State laws. Today, for example, 40 States pay benefits for 20 weeks or more, while in 1937 there were only 5 States which provided for duration of 20 weeks or more; in 1948 there are 41 States which pay a maximum weekly benefit of \$20 or more, while in 1937 there were no such States. To some extent these gains have been limited by stricter eligibility requirements and, despite the progress made in liberalizing unemployment insurance programs, it is estimated that approximately 27 percent of the beneficiaries in 1948 exhausted their benefit rights while still unemployed. Benefit amounts are generally still too low in relation to wages. Satisfactory estimates of the fraction of wage loss caused by the unemployment of covered workers that is compensated by unemployment benefits are not available, but rough calculations indicate that it is probably not more than 25 percent. As a result, unemployment compensation today has very limited value in checking the cumulative increase of unemployment.

One way of encouraging liberalization of unemployment compensation would be to impose Federal standards for eligibility, duration, and benefit amount. The Council has carefully considered such standards and has decided not to recommend them. Such an approach seems to the majority of the Council to be unduly complicated as well as inappropriate in a State-Federal system. The Council believes that the best way to encourage the liberalization of unemployment compensation is to remove, or at least greatly diminish, the incentive which States now have to reduce their unemployment insurance contribution rates.

The Federal Unemployment Tax

<sup>6</sup>Data on labor force, unemployed and total employed, from *Monthly Report on the Labor Force*, Bureau of the Census; employment covered by unemployment insurance, estimated by the Bureau of Employment Security; employment not covered by unemployment insurance, from Bureau of the Census, adjusted by Bureaus of Old-Age and Survivors Insurance and Employment Security.

Act was passed, in part, to equalize the tax burden on employers regardless of the State in which they did business. Before the Federal tax was imposed, State legislatures were reluctant to establish unemployment compensation systems because of the fear of placing local employers at a disadvantage in competing with employers in States which did not require unemployment contributions.

The objective of eliminating interstate competition has been only partially realized, and a strong incentive to reduction of contribution rates remains. Since the Federal tax rate of 3 percent may be offset up to 90 percent not only by actual payments to a State unemployment insurance system, but also by credits for experience rating, the tax burden on employers is allowed to vary considerably from State to State.

All States now have some form of experience rating. This fact, however, does not necessarily reflect their belief in the efficacy of experience rating as a device for inducing employers to regularize employment. Under the Federal act, experience rating is the only way that State contribution rates can be reduced below 2.7 percent (90 percent of 3 percent), and since in all likelihood no State would need such a high rate even for a greatly liberalized benefit system, the States have adopted experience rating as a rate-reduction device.

Unfortunately, the present law places no floor under rate reduction through experience rating. The contribution rate may be set at zero for a large group of employers, and the average for the whole State may drop to very low levels. In the year 1948, 15 States had average rates of 1 percent or less. While the Federal law set rates higher than now seem necessary, many States have gone to the other extreme and are collecting contributions which in all probability are considerably below the average rate necessary to finance an adequate system of benefits over the next 10 years, even if their existing reserves in the unemployment trust fund are utilized extensively. Now, in a period of full employment, rates should certainly be at least as high as the average rate which will be needed over the next

10 years. Employers can now afford to pay higher rates and, on general economic grounds, rates should not be stepped up when unemployment is on the increase.

The Council is concerned that, under present arrangements, contribution rates will tend to become inadequate in more and more States. Employers are, of course, interested in rate reductions, and, since they pay the full cost of the present system, their wishes have considerable weight with legislatures and the public. Under present conditions, any proposal for more liberal benefits must be weighed against the cost to the employer and his tax position in relation to employers in other States.

The Council proposes two remedies for this situation: (1) The equal sharing of costs by employer and employee, and (2) the imposition of a Federal minimum for the State contribution rate, so that the rate will not be allowed to fall below a point which will be sufficient to pay adequate benefits in the great majority of States.

The Council believes that the proposed minimum rate, greatly reducing interstate competition for rate reduction and providing adequate funds for the majority of State systems, would result in considerable liberalization of benefit provisions.

Under such a plan there would no longer be strong inducements for a State to keep benefits below a reasonable amount. Low benefits would not hold out the possibility of lower contributions as they do now, but would merely result in an accumulation of ever larger reserves.

### *Developing a More Rational Relationship Between Contribution Rates and Cyclical Movements of Business*

A minimum contribution rate would also go far toward promoting a more rational relationship between the rate of contribution and the cyclical movements of business. In most States, experience rating, at least as practiced thus far, means that a favorable period of employment reduces the ratio of the employer's contributions to his pay rolls, while an unfavorable period of employment increases this ratio. Some types of experience rat-

ing create a closer relationship than others between recent changes in the volume of employment and the contribution rate, but all types—in greater or lesser degree—tend to vary the contribution rate inversely with the volume of employment.

The tendency for the rate of unemployment contributions to rise as employment decreases can have serious consequences for the economy. For example, today when employment is high and the demand for goods urgent, many employers are paying contributions at a lower rate than they can expect to pay, on an average, over a period of years. If business and employment were to decline and if unemployment were to rise, these employers would have to contribute at higher rates, at the very time when prices were falling, when business profits were diminishing, and when business concerns were having increasing difficulty in meeting their obligations.

Under the Council's proposal for a minimum contribution rate, this tendency would be substantially reduced in States which retain experience rating. The minimum rate would reduce the possible range by requiring States to charge more than they might otherwise charge in periods of full employment, thus reducing their need to raise rates in periods of increasing unemployment. In the majority of States, the minimum rates will be sufficient for an adequate system of benefits and presumably would be the rate charged all employers and employees at all times.

The Council believes that it would be quite unfortunate if a rise in unemployment were to result in increasing the contribution rate when markets are falling. The Council has therefore proposed, in addition, a Federal loan fund, so that, if necessary, a State may borrow rather than increase the contribution rates while unemployment is rising. The Federal loan fund would make it possible for States to pay more liberal benefits with a given contribution rate, but neither the loan fund nor the Federal minimum rate would relieve a State from considering solvency problems in the light of its own contribution rate, reserve funds, and unemployment experience.

## ***Setting the Minimum Contribution Rate***

The Council has proposed a Federal tax rate of 0.75 percent of covered wages payable by employers and 0.75 percent payable by employees, with a credit up to 80 percent for contributions paid into a State unemployment fund. This proposal would result in a minimum State contribution at the combined rate of 1.2 percent.

Appendix A [carried in the full report] discusses in detail the method of arriving at this minimum rate. In general, it was necessary to assume certain illustrative benefit plans as "adequate" and then to estimate the cost of such plans in the various States. These costs were estimated under two widely differing hypothetical sets of economic conditions for the next 10 years, and the actual cost was assumed to fall within the resulting range.

The Council emphasizes the difficulties of estimating the costs of unemployment insurance. No one can predict with assurance the pattern of employment and unemployment over even as brief a period as the next 10 years. Unemployment insurance has certain self-limiting factors, however, which reduce the effect of large-scale unemployment on costs. The program, in the first place, is not designed to compensate for long-term unemployment, and the eligibility requirements also serve to reduce the liability of the system during a depression. We believe, therefore, in spite of the uncertainty of the economic assumptions, that our estimates provide a sufficient basis for establishing minimum rates on a national basis.

A minimum rate which will adequately finance a given level of benefits in some States is bound to be too low in others, while some States will be able to finance more liberal benefits at the same rate. In selecting a minimum rate to recommend, therefore, the Council had to decide whether to recommend (1) a rate that would be high enough to finance an "adequate" system of benefits in all States but would be higher than necessary in most, (2) a rate that would be just sufficient to supply an adequate level of benefits in the States

with the lowest costs but would be too low for most States, or (3) a rate that falls between these two extremes and is about right for the majority of States.

The Council has decided in favor of the third of these approaches; it is therefore necessary to emphasize that the rate should be thought of strictly as a minimum rate and that several States will need to charge higher rates to support an adequate system of benefits. With a combined contribution rate of 1.2 percent, according to our estimates based on past benefit experience, from 31 to 36 States would be able to pay benefits which are somewhat more liberal than the existing average level of benefits, and would still have adequate or more than adequate reserves. Five States would undoubtedly have to charge more than the minimum rate to support a benefit structure that could be considered adequate, and the past benefit experience of three others indicates that their costs are so low that their reserves would rise under assumptions even more pessimistic than 2 to 10 million unemployed. Between these two extremes are seven high-cost States that might have to charge more than the minimum rate if they are to offer benefits equivalent to those assumed in these estimates and five to nine States with high reserves and relatively low costs that probably would be able to pay benefits in excess of those assumed in the estimates and still maintain their reserves more or less intact.

In recommending a combined minimum contribution rate of 1.2 percent, the Council has assumed that in meeting benefit costs most States during the next 10 years will utilize a portion of their currently large reserves as well as contributions.

## ***Promoting Greater Employee and Citizen Participation***

The Council is impressed by evidence that, in general, the workers covered by unemployment insurance laws lack an adequate sense of participating in the programs. Their failure to concern themselves with unemployment insurance may in part be the cause of the unduly strict eligibility requirements and disqualification provisions in some States. The

Council finds several reasons for this lack of a sense of participation. One is probably the fact that the volume of unemployment during the last few years has been very small and jobs have usually been easy to obtain. Another is the fact that since the payroll contribution is paid solely by the employer, the employee does not have the sense of making a direct contribution each week to his protection against unemployment.

The Council believes that it is vitally important to have both employees and managements take a lively interest in the system of unemployment compensation and feel keenly concerned about providing the best possible administration and adequate benefits. Only keen interest on the part of the covered employees and managements will keep the unemployment compensation system adjusted to changing conditions, and will assure the best possible administration. To this end, the Council proposes that employees contribute as they do for old-age and survivors insurance.

The Council also recommends that advisory councils composed of representatives of management, employees, and the general public be established and encouraged to assume an active role in advising on the formulation of legislative and administrative policy. The Council believes that these three groups must be kept fully informed and abreast of current developments and that advisory councils provide one way of accomplishing that purpose.

A Federal Advisory Council on Employment Security has recently been established. Forty-five States provide for State-wide councils with equal representation of labor and management groups and all but one provide for one or more public members. In 41 States these councils are mandatory and in four permissive; in over half of these States, the administrative agency appoints the councils; in less than half, the governor; and in three, the governor on the recommendation of the State agency. In several States, such as New York, Connecticut, Massachusetts, Illinois, Wisconsin, and Utah, the councils have met frequently and played an important role, but in some others

they are inactive. State advisory councils on employment security should be encouraged to assume an active role in the program.

### **Promoting Improved Administration**

Efficient and equitable administration is of the utmost importance in unemployment insurance, since a large number of administrative decisions must be made continually and rapidly to determine if a person is eligible for benefits. The need for high quality in administration is most apparent in those aspects of the program which involve the determination of current eligibility for benefits and direct contact with claimants. In these aspects of the program, efficient procedures for claims taking, interviewing, and reconsidering claims and appeals are essential to adequate fact finding and correct determination of rights to benefits, a determination that assures both full and prompt payment of benefits to claimants entitled to them and denial of benefits to those who are not eligible.

The Council recognizes that responsibility for the fair and efficient administration of the unemployment insurance programs is primarily the responsibility of each State. The quality of administration will necessarily depend in large part on the caliber of the personnel selected to do the State job. There can be no substitute for a career service with high standards of job performance and careful training for the complicated task of administering unemployment insurance. The Federal Government, however, has an important role in administration in enforcing minimum standards and in providing administrative funds.

There is considerable evidence to indicate that the funds supplied for administration in the past have not been sufficient to support the most efficient kind of administration. The Council believes further that the present arrangements for financing the administration of unemployment insurance are unduly rigid and do not give the State agencies sufficient opportunity to experiment in improving administration. The Council therefore recommends changes in the methods of financing administration

which will provide additional funds for State administration of unemployment insurance. These funds would enable some States to pioneer in administration and do more than the minimum which the Federal Government is willing to approve as necessary for all States. The purpose can be accomplished by providing that some funds which could be used for administration be automatically assigned to the States. Because of great variation in work loads depending on the level of unemployment, a large contingency fund should be authorized in addition to the regular appropriations to the States and the Social Security Administration.

Although the Federal law provides specific authority for requiring "such methods of administration as are reasonably calculated to insure the full payment of compensation when due," equally specific authority is not given to require methods that will prevent improper payments. The Council has proposed that this situation be corrected.

The Federal Government has a particular responsibility for the protection of employees who move from State to State. In both war and peace, it is important that people should be free to move and that those who move should not be discriminated against either in regard to their benefit rights or their right to prompt payment. The Council proposes the establishment of Federal provisions to assure the coordination of the individual State laws in such cases.

### **Disqualifications**

The Council believes that the Federal interest requires the establishment of a standard on disqualification provisions. In 22 States employees who are disqualified not only are denied benefits for unemployment immediately resulting from the voluntary quit, refusal of suitable work, or discharge for misconduct, but also lose accumulated benefit rights which would otherwise be available to them if they are subsequently employed and suffer a second spell of unemployment. The Council can see no justification for these punitive provisions in a social insurance program and recommends that they be prohibited. Fed-

eral action is apparently needed to correct this situation, since the number of States with such provisions has been increasing. In 1937, seven States reduced or canceled benefit rights for causes other than fraud or misrepresentation; in 1940, 12; and in 1948, 22.

The Council also believes that the postponement of benefits as the result of a disqualification should be for a limited period only and recommends a period of 6 weeks as the maximum. This is probably the longest period during which it is reasonable to presume that the original disqualifying act continues to be the main cause of unemployment. The Federal standard should also prohibit interpretations of "misconduct" which tend toward making inability to do the work a basis for a finding of misconduct.

### **Study of Supplementary Plans**

The State-Federal system of unemployment insurance should pay benefits of sufficient duration to permit most covered workers in normal times to find suitable employment before their benefit rights are exhausted. Furthermore, the Council has recommended that the State-Federal public assistance program be strengthened to meet more adequately the needs of unemployed workers ineligible for insurance benefits or with inadequate insurance rights.<sup>7</sup>

These dual provisions for the unemployed through the State-Federal programs would suffice, the Council believes, unless the country is again plunged into a period of severe economic distress. In that event, additional Federal action would clearly be needed for the relief of the unemployed. A depression has an uneven impact upon different cities and regions, and many States and localities are not capable of meeting the greatly increased expenditures necessitated by mass unemployment. In such a period only the Federal Government has sufficient credit and sufficiently broad eventual tax resources to meet the full need.

<sup>7</sup> Recommendation 2 in the public assistance report provides for Federal grants for "general assistance." *Public Assistance, A Report to the Senate Committee on Finance* (S. Doc. 204, 80th Cong., 2d sess.).



The Council has not been able to make a thorough study of the alternative lines of action open to the Federal Government for providing income maintenance for the unemployed in such a situation and has therefore made no specific recommendations on this point. We recommend, however, that the Congress should direct the Federal Security Agency to study in consultation with other interested agencies various methods for providing income security for workers who do not have private or public employment and to make specific proposals for putting the best methods into effect.

### **Temporary Disability Insurance**

The Council has also been unable to devote the time necessary for making policy decisions in the field of temporary disability. We have included in this report, however, a section which discusses the need for protection against wage loss due to illness and the methods that have been suggested by various groups to provide this protection.

### **Importance of a Broad Informational Program**

No social security program can be effective unless those who are entitled

to participate know their rights and obligations. A program of public information is particularly important in unemployment insurance. In this program, with its necessarily somewhat complicated provisions, it is of great importance that all claimants and workers understand the principles of the program and the specific provisions of law. We believe that much remains to be done to develop an informed public through informational programs. The addition of an employee contribution and the greater use of advisory councils will also contribute to this end.

## **PRESIDENT'S MESSAGES**

*(Continued from page 11)*

"The total of budget expenditures for social welfare, health, and security also is expected to rise in the fiscal year 1950, to nearly \$2,358 million, exclusive of expenditures from trust accounts. The increase over the fiscal year 1949 is \$394 million, of which \$147 million is in transfers to the railroad retirement trust account and \$86 million is for increased grants to the States for public assistance under present Federal law. Most of the remainder of the increase is divided between present programs for the promotion of public health and proposed new legislation for medical care insurance and public assistance.

"Excluding trust account transactions, new appropriations requested for social welfare, health, and security for the fiscal year 1950 are estimated at \$2,271 million. In addition, \$92 million of new contract authority will be needed, making a total of \$2,363 million of new obligational authority for these programs. This does not include \$40 million of appropriations necessary to liquidate contract authority made available in prior years, mainly for hospital construction grants. Of the new appropriations in budget accounts, \$84 million is for proposed legislation. All the rest is for programs under present laws.

"*Public assistance to the aged and other special groups.*—The public assistance programs of the Federal Government are all carried on in cooperation with the States, and the expend-

itures are almost entirely in the form of grants to State governments.

"By far the largest amounts are for assistance to the aged, the blind, and dependent children, for which Federal Government expenditures under present laws are estimated at \$1,064 million in the fiscal year 1950. Each State determines its own scale of benefits to individuals in these public assistance categories, and the Federal Government reimburses the States for from 50 to 75 percent of the payments in each case, up to maximum individual benefit rates specified in the Federal law. The level of these matching payments was raised by action of the last Congress.

"Because of this grant arrangement, the amount of Federal expenditure for public assistance in any one year is not directly subject to Federal budgetary control, but is determined by the action of the several States in fixing benefit rates and approving individual claims for assistance. The total amount of Federal expenditures has steadily increased as the rising cost of living has compelled the States to give more assistance and the number of needy aged persons in our population has continued to rise. This increase in public assistance expenditures would be slower, and should ultimately be reversed, if other contributory insurance are made adequate to carry most of the load.

"The Budget includes \$65 million as the tentative estimate of first-year expenditure under proposed legislation to improve the present public assistance system and to help cover State relief payments to persons not now eli-

gible for assistance from Federal grants . . .

"*Placement services and unemployment compensation administration.*—Public employment services and administration of unemployment insurance will require approximately \$150 million or about 80 percent of all expenditures for labor programs. Except for \$11 million for the railroad unemployment insurance program, these funds are expended principally through grants to States.

"Provision has been made, in the reserve for contingencies, for any added cost which may arise because of future statutory increases in State salary rates or because of unexpected increases in State workload.

"*Trust accounts.*—Total unemployment benefit payments are rising above the 1948 level, in large part because of increased labor turn-over, the return of prewar seasonal patterns and because many insured workers have exhausted their claims to veterans' unemployment allowances from the Federal Government and collect State benefits when unemployed. Growth of the labor force and liberalization of State laws are also factors. Receipts are below the 1948 level because of changes in the law relating to railroad unemployment.

"My proposal to strengthen the unemployment compensation system contemplates that coverage will be extended to workers in small establishments, Federal employees, and other workers not now insured. It contemplates that in some States the level of benefits will be raised and their duration extended."