

whole, however, the law has proved to have been soundly framed, and no basic changes in its structure appear to be necessary.

### *Old-Age and Survivors Insurance— A Going Concern*

Despite its present limitations, old-age and survivors insurance is already doing a substantial job. At the end of June there were about 1.3 million monthly benefits in force. These included 520,000 wage earners aged 65 or over, 170,000 of their wives and children, and about 595,000 survivors—orphans, widows, and parents of insured wage earners.

Of those entitled to benefits, about 1.1 million were in actual receipt of monthly benefits. The benefits of 74,000 aged wage earners, 17,000 wives of such workers, 20,000 children, and more than 26,000 widows were suspended because these beneficiaries were working in covered jobs. In addition to the persons who had filed benefit claims, about 750,000 aged wage earners were fully insured and therefore eligible to receive retirement benefits but had not filed for them, presumably because they were still working. About one-half of these had wives who also had reached age 65 and were therefore eligible.

Because of the newness of the program, the number now eligible for retirement benefits is small in comparison with what it will be, say half a century from now. By that time, a large proportion of the wage earners now under age 65 will have had an opportunity to qualify for these benefits. By the middle of 1945, some 70 million living persons under age 65 had acquired some wage credits toward ultimate retirement benefits.

The life insurance protection afforded by the program is also very significant. Almost \$400 million has been paid out in lump-sum death payments or monthly survivor benefits. Some 40 million wage earners are now insured; that is, some form of survivor benefits would be payable on the death of any one of them. The total amount of potential insurance protection for these 40 million workers and their families represents more than the equivalent of \$50 billion of term life insurance. This protection is of great psychological as well as economic value to the workers of the country.

Even if we look forward only another 15 years, old-age and survivors insurance beneficiaries will have increased to 5 or 6 million. If coverage is extended to all gainful workers and benefits are also provided for extended disability, from 12 to 16 million persons would be receiving benefits by 1960.

On the basis of its experience in the successful operation of the program and study of needs the system is designed to meet, the Board has recommended to Congress that coverage be extended to all gainful workers and to the risk of protracted disability. It is both necessary and administratively

feasible, the Board has reported, to include agricultural and domestic employees, self-employed persons, and others originally excluded because of possible administrative difficulties in the initial years of operation. Successful experience in the administration of old-age and survivors insurance benefits also justifies confidence on the part of the Board that it can successfully administer extended disability benefits. Only by such extension and expansion can the program meet the needs of American families for protection against the long-term hazards of old age, disability, and death.

## *Unemployment Compensation*

THE UNITED STATES faces the period of postwar readjustment far better prepared to handle the problems of unemployment than at the end of World War I, though it has mobilized three times as large an army, raised production to four times what it was at that time, and devoted a far greater proportion of its capacity to the war.

Then study of the problems of demobilization of servicemen was not begun until a month before the end of the war, and no systematic program was adopted to aid in the transition to peace. This time the Servicemen's Readjustment Act of 1944 was passed almost a year before V-E day. Laws are already on the statute books to provide machinery for facilitating contract termination, plant clearance, and the disposition of surplus property, and for financial aids to business and farmers. Moreover, unemployment compensation gives a means of assuring workers that, if they are laid off and no suitable jobs are available to them, they will have a measure of support during their search for work.

Last year, approximately 44 million workers earned wages in employment covered by State unemployment compensation laws, and about 36 million earned enough to qualify for benefits should they become unemployed. No such system was available to the industrial worker after the last war or during the 1920's and most of the 1930's. Then the only resort of the unemployed worker was to use up any savings he might have accumulated and find his way to local relief, or to accept privation.

Although Wisconsin enacted an unemployment insurance law in 1932, no other State passed such a law until Federal action in this field became certain. The Social Security Act performed its primary function of quickly stimulating enactment of State laws; within 2 years after its passage, all 51 jurisdictions had unemployment compensation laws. The Federal-State program of unemployment compensation has made notable advances although much still remains to be done to achieve maximum effectiveness. While the States carry major responsibility for administering the program and for determining the coverage and benefit provisions of their laws, from the beginning the Federal Government has exercised continued support and concern with the progress of the program. Today all groups in the community agree that primary reliance should be placed upon unemployment insurance when workers are temporarily unemployed.

A system of unemployment compensation, properly coordinated with the employment service, provides the best available means of giving a worker access to job opportunities and, if there is no suitable job for him, of compensating him for his enforced unemployment. Through regular collection of contributions on behalf of employed workers, it creates a fund to pay benefits as a matter of right to those who are out of work. It aids in sustaining and enhancing human resources, in the interest not only of the

individual himself but also of employers and the community.

When 22 States began to pay unemployment compensation in January 1938, few people in this country had any knowledge of how unemployment insurance operated and still fewer had any experience in its actual administration. Only in Wisconsin had unemployment benefits actually been paid. During the last months of 1937, business had begun to decline and unemployment to spread. On the average, almost one-fifth of the labor force was unemployed in 1938, and expenditures for public aid totaled more than \$3 billion. The States were faced not only with the difficulty of inaugurating a new and untried program but also with an unexpectedly heavy initial claims load. The general record of performance in those first days is one of which the American people can be proud.

Except for this downswing in the fall and winter of 1937-38, employment has been generally upward since the State programs began operation. During 1939 the number of unemployed decreased by more than a million. With the beginning of the defense program in 1940, unemployment began to dwindle and disappear, declining from 8.4 million in July 1940 to an average of 840,000 in 1944, well below what had been considered the irreducible minimum. At the same time, employment rose to unprecedented heights. By July 1940 more than 37 million people were in non-agricultural jobs; by 1944 nearly 44 million, on the average. Instead of unemployment, the country faced labor shortages and called for more and more workers.

These changes are reflected in experience under the program. Average employment in covered industries increased from 23 million in 1940 to 30 million in 1944, and the number of workers who earned wage credits at some time during the year rose from about 32 million in 1940 to 44 million in 1944. The rise in covered pay rolls reflects lengthening of the workweek, overtime, bonus and incentive pay, and shifts of workers to more highly skilled jobs and industries. Total covered wages more than doubled, rising from \$32 billion in 1940 to \$69 billion in 1944.

Despite the decrease in the over-all tax rate caused by experience rating, contributions rose from \$854 million

in 1940 to \$1.3 billion in 1944. The decline in unemployment brought drastic cuts in benefit expenditures from a high of \$619 million in 1940, when for the first time all States paid benefits throughout the year, to a low of \$62 million in 1944. Because of the impact of the two opposing forces, funds available for benefits rose steadily and by the end of June 1945 totaled nearly \$7 billion.

During even these years, however, unemployment compensation was performing a valuable function. In 1938, when unemployment had risen more than 2.5 million above the 1937 average, almost \$400 million was paid out in benefits in the 31 States that were fully operating during some part of the year. These benefits went a long way toward aiding the individuals and communities in weathering this short but difficult period. In the early months of 1942, when the country began serious conversion to war production, the system stood ready to compensate the workers who were out of work during the change-over. Then the unemployment rolls were swollen with the most highly skilled workers of the country. The program performed the valuable task of preventing the scattering of the Nation's skilled labor force and enabled workers to stand by until their plants could be geared to war production.

During the war also, unemployment compensation has kept the labor supply from being dispersed when shortages of raw materials and changes in methods of production have caused dislocations and temporary unemployment. Skilled workers, separated from their jobs, found immediate reemployment; for the most part, they did not even apply for benefits. Of those who filed initial claims in 1943, nearly half were reemployed or disqualified before receiving any benefits. The beneficiary rolls have been made up largely of marginal workers—handicapped and older people, women, and other new entrants into the labor market.

Now, as the country faces the reconversion of industry to peacetime pursuits, the program will meet its first real test. By December 1944, employment in covered industries had declined from a peak of 31.3 million in June 1943 to 29.3 million. Claims loads are increasing. While the claimant population includes a large

number of emergency workers, for the most part it is made up of the highly skilled workers in the country, the workers who have shared in the outstanding war-production job and are temporarily unemployed until they can get peacetime work. It is up to the program to demonstrate the extent to which it is able to direct workers into jobs and maintain their skills and the extent to which the community can rely on unemployment compensation as the major first line of defense against unemployment.

### Coverage

Although it was to be expected that the States would attempt to cover only employers subject to the taxing provisions of the Federal act, even in the early days a significant number extended coverage beyond those limits. By the end of 1937, 22 States, with almost 50 percent of the covered population of the country, had made employers of fewer than 8 workers subject to their laws, and 10 of these, with 13 percent of the covered population, were covering employers of 1 or more. Some progress has been made since then. By the middle of 1945, 29 States, with two-thirds of the covered population, covered employers of less than 8 workers; 16 of these States, with 29 percent of the covered population, covered employers of 1 or more.

No action has been taken by Congress to extend coverage beyond the limits of the original Social Security Act. Employees of firms of less than 8, government employees, maritime workers, domestic workers, agricultural labor, and employees of non-profit institutions are still excluded from the Federal act, and by and large, except for employees of small firms and certain types of maritime employees in some States, from the State laws.

### Benefits

At the end of 1937, all the States provided a waiting period of 2 weeks or more in a benefit year; 4 years later, 19 States required only a 1-week waiting period within a benefit year, and 10 additional States had enacted similar legislation by the end of 1944. By the middle of 1945, 35 States required a waiting period of only 1 week in a benefit year, and 1 State, following the precedent of the G. I. Bill of Rights, had no waiting period.

Improvement in other benefit pro-

visions, although substantial, has come slowly. The greatest advances have been made during the 1945 State legislative sessions, following congressional recommendations to the States to increase duration of benefits and the maximum weekly benefit, that is, the maximum weekly amount that can be paid to any insured worker no matter how high his previous earnings. Similar recommendations had been made by the Social Security Board and by organizations such as the Council of State Governments, the Committee on Economic Development, and the national labor organizations. At the end of 1937, 49 States, including almost 95 percent of the covered population had a maximum benefit of \$15 per week, 1 State had \$16, and 1 State, \$18. Four years later, at the end of 1941, only 30 States, with 50 percent of the covered population, had a maximum as low as \$15, while at the end of 1944 22 States, with 20 percent of the covered population, paid no more than \$15.

During this period, however, average weekly wages in covered industries rose sharply, from \$25.28 in 1938 to \$41.26 in 1943 and \$44.29 in 1944. Although the average weekly benefit for total unemployment increased from \$10.94 in 1938 to \$15.90 in 1944, it lagged far behind the increase in wages because existing maximum provisions curtailed the amounts of many or most beneficiaries. While the State laws are designed to replace about half the wages lost by an unemployed worker, the effect of the maximum was to reduce benefits of many workers to a third or less of what they had been getting in covered jobs. In 1944 almost 60 percent of the payments—and in 3 States, more than 90 percent—were at the maximum.

During 1945, however, 26 State legislatures raised the maximum weekly benefit amount. Now 41 State laws pay more than \$15 a week to workers whose wage credits qualify them for the maximum. Six States, with 10 percent of the insured covered population, have a maximum rate of \$24–28, including allowances for dependents. Among the 9 States with a covered population of a million or more, only Texas has a maximum below \$20. In the early days, only the District of Columbia made provision for dependents' allowances, but during the 1945

legislative sessions 3 additional States (Connecticut, Michigan, and Nevada) have adopted such provisions.

Lengthening the duration of benefits has also come slowly, with the most substantial advance during the present legislative sessions. At the end of 1937, only 12 percent of the covered population was in the 6 States in which the maximum potential duration of benefits exceeded 16 weeks. By the end of 1940, only 9 States, with 19 percent of the covered population, had maximum duration of more than 16 weeks. The 1941 and 1943 legislative sessions, however, made substantial gains. By the end of 1944, maximum duration of more than 16 weeks had been provided by 23 States, with 65 percent of the insured population. As a result of action by the 1945 State legislatures, 37 States, covering almost 90 percent of the insured population, now have a maximum duration of more than 16 weeks.

In 1937 no eligible worker could receive more than 20 weeks of benefits, and by 1944 only 2 States provided maximum duration of more than 20 weeks. Today, as a result of amendments passed during the last legislative sessions, 51 percent of the covered workers are in the 11 States providing maximum duration of between 21 and 26 weeks. Despite these advances, however, in 19 States, with 19 percent of the covered population, no worker can receive benefits for as much as 20 weeks. Only 5 States, with 28 percent of the covered population, pay benefits for as long as 26 weeks to qualified workers who cannot get jobs.

Since 1941 there has been no substantial progress in making the potential duration of benefits uniform for all eligible workers in a State. In 1937, only 1 State included provision for uniform duration of benefits; by 1941 there were 13 States. Today only 14 States have such provisions. Uniform duration of benefits is simpler for the worker to understand and the State agency to administer than a provision relating potential duration to a worker's past earnings or employment. It also has the advantage of treating all eligible workers within the State alike, thereby clearly outlining the task to be performed by the unemployment compensation program.

As duration of benefits provided in

the laws has increased and unemployed workers have had greater opportunity to get jobs, the relative number of workers who exhaust their benefit rights has decreased rapidly. The fears of some early critics that unemployment insurance would destroy the incentive to work and create an army of unemployable persons have been disproved. The rise in employment during the war years and the decline in the claims and benefit loads, even when benefit rates were being raised and duration lengthened, bear ample testimony to the fact that workers prefer jobs to benefits and take jobs when they can get them.

### *Disqualifications*

With a better benefit structure than existed in 1939, the program is in a stronger position to handle unemployment problems that may develop in the postwar period except for the disqualification provisions in 26 State laws which cancel or reduce a worker's benefit rights. Provisions to disqualify a worker who quits voluntarily without good cause, who loses his job for misconduct, or who refuses suitable work are essential to assure that only involuntary unemployment is compensable. In the early days these disqualifications ordinarily took the form of postponing benefit payments for a reasonable period following the disqualifying act, on the assumption that the unemployment immediately following that act was not compensable but that later unemployment was compensable because it was due to labor-market conditions and the inability of the worker to get a suitable job.

The theory of postponing benefits is based on the assumption that most individuals in the labor market want jobs, not benefits; that as long as benefits, no matter how high, are less than wages, workers will prefer jobs to benefits; that even among workers who quit their jobs for no good reason, most will need and want work after a period of time. Therefore, benefits should not be denied if, after the disqualification period is over, a worker is available for work but remains unemployed because no suitable job is open to him.

Even in 1937, however, 7 State laws included disqualification provisions which, in addition to postponing benefits after a disqualifying act, reduced

an individual's benefit rights or canceled his wage credits. Such penalty concepts arose from a distorted theory of unemployment compensation, which assumed that the individual should not only not be compensated for the unemployment following his disqualifying act, but should also be penalized by denial of future benefits even when his continued unemployment obviously was not his own fault.

This concept grew out of the philosophy of experience rating, which assumes that the employer is responsible for unemployment; consequently, employers felt that their accounts should not be charged with unemployment for which they could not be held directly responsible. Such a view underlies the provision in many laws which limits good cause for quitting work to cause attributable to the job or the employer. A worker who may have had a compelling personal reason to leave a job, such as sickness, may be disqualified from receiving benefits if he is unemployed when again available for work unless it can be shown that his leaving was attributable to the job or the employer. The war economy also fostered the development of penalty provisions because labor shortages stimulated a desire to penalize workers who left their jobs.

During 1939-41 the number of States with penalty provisions more than tripled. By the end of 1944, 28 State laws contained provisions canceling or reducing benefit rights for one or more disqualifying acts. Although 2 States abandoned such provisions for all disqualifying acts during the 1945 State legislative sessions and no additional State adopted such provisions, those still incorporated in the statutes of more than half the States may become an increasing source of irritation, lack of public understanding, and dispute.

Even if a high level of employment is maintained, millions of individuals will lose their wartime jobs and will have to seek other work. Although unemployment benefits should be available to them if they are able and available for work and do not refuse suitable work, many workers who lose jobs will find their benefit rights less than they expected because they were canceled or reduced by a past disqualifying act. In the fourth quarter of 1944, nearly one-fourth of the disqualifications imposed involved re-

duction of benefit rights. While the figure is small in comparison with the number of potentially eligible workers in the future, it is large enough to cause concern. Only elimination of these provisions can keep them from working real hardship.

### Financing

In framing the taxing provisions of the Social Security Act and the State unemployment compensation laws, no one contemplated that the first decade would record an accumulation of a fund of almost \$7 billion. The prevailing opinion was rather that the program was underfinanced and that contribution rates could not be reduced below 3 percent and benefit rates and duration increased substantially without endangering the solvency of the State funds. Early experience tended somewhat to confirm this opinion; in 1938, 9 States paid out more in benefits than they received in contributions and had to draw on their initial reserve, and even in 1940 benefit payments exceeded collections in 4 States. The overcautious estimates made by the Committee on Economic Security, the illiberality of the early laws, and the booming economic activities of the war period have resulted, however, in the accumulation of funds that certainly have been more than ample for the period through which we have passed and will undoubtedly be sufficient for any foreseeable unemployment in the future, even if all States provide protection as great as that in the most liberal States.

The accumulation of reserves has had a salutary effect on the economy by withdrawing current purchasing power at a time when it could not be used to buy goods and services and thus helping to fight inflation and stabilize prices. After the war, these reserves should be ready to work to check deflation. They are an appreciable item in national savings. Not only can they be used to give individuals the security that they need during periods of unemployment, but they can also play their role as part of the liquid assets which, as the Director of War Mobilization and Reconversion said in his third report, "can be a self-starter for our post-war economy, and if handled right, a 'flywheel' for years to come."

Although each State now has a fund

sufficiently large for any benefit expenditures that may occur in the foreseeable future, the States' reserves bear little or no relation to their possible future benefit expenditures. Michigan, for example, has one of the smallest funds in relation to taxable pay rolls in the State, while it will probably have one of the heaviest claims loads. The District of Columbia, on the other hand, has one of the relatively largest funds and will probably have one of the lightest claims loads. Fortunately the Federal unemployment account, established in 1944 by the so-called George Bill, (War Mobilization and Reconversion Act) will provide a pool from which any State can borrow should it face insolvency. While it is doubtful that any State will need to borrow in the near future, this provision represents a first step forward in sounder financing of the program.

From the beginning the system has been financed almost exclusively by a pay-roll tax on employers which, with the operation of experience rating, has varied with the employer's experience with the risk of unemployment. Even in 1937, 40 State laws included provisions for experience rating, although the provisions became effective at later dates. In 1941, 17 States varied employer contribution rates under their experience-rating provisions; by 1944 the number had increased to 42. Only 10 State laws have ever included provisions for employee contributions, and only 4 States now have such provisions. The lack of employee contributions is probably attributable to the growth of experience rating and the rise in reserve funds available for benefit payments, which made collection of additional revenues unnecessary.

Unlike foreign unemployment insurance systems, our Federal-State program provides no direct government contribution to financing. Interest paid on State accounts in the Federal unemployment trust fund, however, has added important sums to those accounts. In 1944, interest totaled \$102 million, almost \$40 million more than the total amount paid out in benefits in that year. For all but 3 States, interest was more than sufficient to finance that year's benefit payments. Since the beginning of the program, interest has been equal to 19

percent of the total paid in benefits, with a State range from 10 percent in Michigan to about 138 percent in Hawaii.

While reserves have been increasing, the average employer contribution rate has declined. For the country as a whole, employers paid an average rate of 2.6 percent of covered pay roll in 1941; by 1944 the average rate had been reduced to 1.8 percent.<sup>1</sup> This figure will be reduced still further when New York employers, with 13 percent of the Nation's covered workers, receive credits on their 1945 contributions. More than half the employers in the 42 States with experience rating contributed in 1944 at less than the standard rate.

Rate reductions have not come as a result of employers' efforts to stabilize employment, but rather as the result of the general economic conditions engendered by the war. They have subjected competing employers in different States to great differences in tax burdens and have placed new employers at a competitive disadvantage with other employers in the same industry. They have come during economic prosperity at a time when over-all government policy dictated the need for higher taxes and such taxes were easiest for employers to bear. With the cessation of war production and the rise in the claims load, this situation will be reversed; experience rating will impose higher taxes on employers when it will be difficult to bear them. None of the existing experience-rating provisions provide for decreasing rates when unemployment is increasing.

The inverse relationship between contribution rates and the business cycle led 10 States in 1943 and 2 additional States in 1945 to enact temporary provisions for war-risk contributions. These provisions levied additional contributions on employers whose pay rolls had expanded greatly during the war and who therefore are likely to represent a heavy charge on the system when the war ends.

It may be that experience rating has had a salutary effect in preventing the accumulation of excess reserves.

<sup>1</sup> Exclusive of war-risk provisions in 10 States; inclusion of such provisions would raise the average slightly.

Under the present Federal legislation, experience rating is the only way contribution rates can be revised. But if over-all adjustment in the tax rates is needed, there should be better ways of providing it—better for the individual employer, for unemployed workers, for the economy as a whole.

### *Administration*

Great progress has taken place in administering the program. Notable advances have been made in the selection of personnel on a merit basis, in reducing employer delinquency in contributions and wage reporting, and in the development of more effective and economical methods of operation. During recent years the employment service was primarily concerned with meeting wartime needs by mobilizing the labor supply, only a very minor portion of which was made up of the few individuals filing claims and drawing benefits. In the period ahead, close and effective relationships with the employment service will be essential to give laid-off workers access to job opportunities and to assure unemployment compensation agencies the information necessary to administer their programs adequately.

An effective job has been done in enabling workers who are eligible for benefits in one State to file claims for and receive benefits in any other State in the country. This will prove important as reconversion requires extensive moves of workers and their families. The procedure, however, is still time consuming, and delay in receiving benefits is greater for interstate workers than for others. Little advance has been made in eliminating the multiplicity of reports required of employers under old-age and survivors insurance and unemployment compensation, or in simplifying or making uniform the reports that an interstate employer must file under various State unemployment compensation laws. Much still remains to be done toward making the program simpler for a worker to understand.

### *Conclusion*

Ten years ago, few persons in the United States had any experience with unemployment compensation. Today

the program is a going concern, deeply rooted in the life of the country. It has first place in any discussion of ways in which individuals are to obtain security against wage loss in unemployment. Significantly, the readjustment allowance program for veterans is in fact an unemployment compensation program. It is significant too that all groups in the country think first of enlarging the scope of unemployment compensation or strengthening it to meet emerging problems rather than resorting to untried and emergency methods. That fact is a better measure of the progress in this decade than are differences of opinion concerning ways to improve the program. To aid in ushering in a postwar period with a high level of employment, all this experience should be mobilized immediately to achieve extension of coverage to the large groups still excluded, more nearly adequate benefit provisions in all States, reduction in reporting burdens on employers, a program which workers can understand more easily, and more equitable methods of financing the program.

In operation, unemployment compensation has disproved fears once expressed that workers will not work if they are entitled to benefits. It has still to prove to what extent workers can rely on these benefits without resort to public aid when economic conditions are less auspicious.

Whether or not the country succeeds in maintaining a high level of employment, unemployment compensation faces difficult problems. It is the most complex of the social insurance programs to plan and administer. It will always be subject to controversy because decisions on paying or denying benefits affect mobility of labor, even the volume of unemployment, and the ability of unemployed workers to maintain their skills. Such decisions also necessarily influence wages offered and received, and relief policy. Many of these problems are receiving public attention for the first time as reconversion proceeds. Full use of the knowledge and experience that has been acquired over the past 10 years will assure that the program can measure up to meet the problems which lie immediately ahead.