Twenty Years of Unemployment Insurance

by Ruth Reticker*

"TWENTY years of social security" in America includes, of course, 20 years of unemployment insurance legislation and administration, though that program has, since 1949, been outside the Social Security Administration and in the Department of Labor.

Here is a program that up to June 30, 1955, had collected $20 billion for the payment of benefits, had received $2 billion of interest, had paid out $14 billion in benefits, and started the fiscal year 1955–56 with a balance of $8 billion available for benefits.[1] What is its significance to students of social security?

First of all: how does unemployment insurance differ from the other social security programs under the Social Security Act? Like old-age and survivors insurance, it is social insurance, but the Federal Government does not pay unemployment insurance benefits. The program is on a Federal-State, not Federal basis, and State agencies pay the benefits. Like public assistance, unemployment insurance involves Federal-State cooperation, but the Federal Government matches no payments to individuals. Its grants to States are for the "proper and efficient administration" of State laws. The unemployment insurance tax-offset provision, by which the Federal Government levies a tax on employers in industry and commerce and makes it to the States' advantage to adopt and maintain benefit-paying programs, is unique in intergovernmental arrangements.

Administrative Relationships

Unique too are the intergovernmental relationships that have developed in this Federal-State program—Federal-State, interstate, and interdepartmental relations. Some of these relationships have resulted from the statutory provisions of the Social Security Act; others have been developed as the best way to get a common job done.

To safeguard the financial stability of the system, the Social Security Act required that each State deposit the taxes it collects under its unemployment insurance law in the unemployment trust fund in the United States Treasury to be invested in Government bonds. A separate account is kept for each State, and the State may withdraw funds at any time but only to pay unemployment insurance benefits.

To assure funds for administration of the program on an equitable basis in all the States, regardless of a State's financial resources, the Social Security Act provided that the cost of administering the State employment security programs should be financed entirely by Federal funds. Funds for this purpose are appropriated by Congress every year and allocated to the States by the Department of Labor. The proceeds of the Federal unemployment tax have recently been earmarked for this purpose.

While including no standards on benefit amount and duration, the Social Security Act required that all State laws embody several safeguards of benefit rights. One is the provision of an "opportunity for a fair hearing, before an impartial tribunal, for all individuals whose claims for unemployment compensation are denied." Another is the so-called labor standards provision, that compensation shall not be denied to any otherwise eligible individual for refusing to accept substandard wages, hours, or working conditions or strike-bound work or work that requires joining a company union or prohibits membership in a bona fide labor organization. Another provision requires methods of administration reasonably calculated to ensure full payment of benefits when due.

The duties of the Social Security Board thus included approval of State laws and their certification for administrative grants and tax-credit offset for employers subject to the State laws. The Bureau of Unemployment Compensation,[2] set up under the Social Security Board, carried the detailed responsibility for these functions and also for various types of assistance to the State employment security agencies—assistance in legislative, interpretative, administrative, and financing aspects of the State programs.

Relation With the Employment Service

Two years before the Social Security Act was adopted, Congress had established a Federal-State system of public employment offices under the Wagner-Peyser Act. These offices were administered by the States and financed by the Federal and State Governments on a 50-50 matching basis, which has since been superseded by the 100-percent Federal grant for administration of both unemployment insurance and employment service functions in the States.

The Social Security Act required that benefits should be paid in the States "solely through public employment offices or such other agencies as the Social Security Board may approve." The Board approved no "other agency." All State laws require that, to be eligible for benefits, claimants must register for work at a public employment office and continue to report in accordance with the agency's regulations.

Since the Federal Government's responsibilities for the public employment offices were vested in the United States Employment Service in

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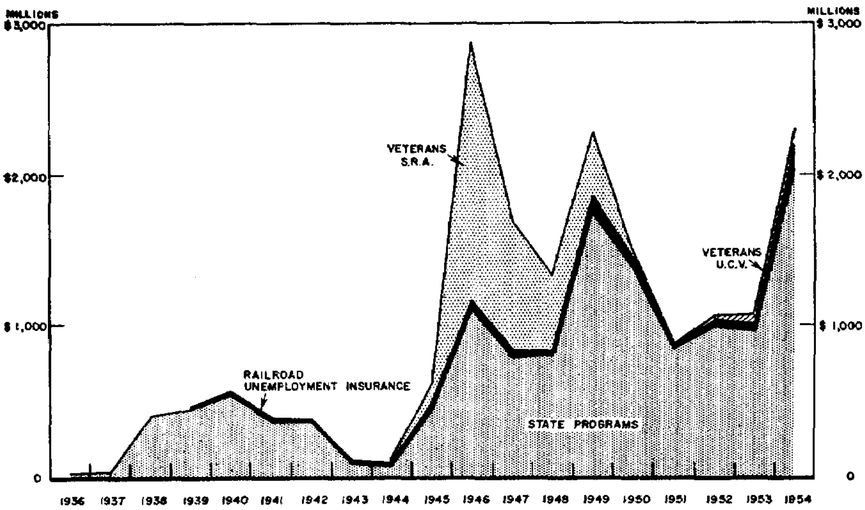
[1] For a detailed history of the unemployment insurance program and its operations, see "Twenty Years of Unemployment Insurance in the USA," *Employment Security Review* (Department of Labor, Bureau of Employment Security), August 1955, entire issue. See also "The Social Security Act: The First Twenty Years," *Social Security Bulletin*, August 1955, pages 2–9.

[2] In the early days of the program, as in the Social Security Act, the term "unemployment compensation" was used. After the Federal and State laws were declared constitutional in 1937, there began a tendency to call the program "unemployment insurance," recognizing that titles III and IX of the Social Security Act and the affiliated State laws constituted a program of social insurance.

Chart 1.—*Benefit payments under four unemployment insurance programs, 1936–54*



the Department of Labor, it was necessary that the Social Security Board and the Department of Labor cooperate to get the new unemployment insurance program under way. Nine months before unemployment benefits were payable in any State except Wisconsin, the Chairman of the Social Security Board and the Secretary of Labor signed an agreement for coordinating and integrating their functions "affecting the public employment services in the administration of unemployment compensation in the States." Under this agreement the Social Security Board granted funds to the States for the expansion of the employment service program.

Coordination of the employment service and unemployment insurance functions has continued through several reorganizations. From July 1, 1939, until September 17, 1942, when the United States Employment Service was transferred to the War Manpower Commission, and again from July 1, 1948, to August 20, 1949, the employment service and unemployment insurance programs were combined in the Bureau of Employment Security in the Social Security Board (later the Social Security Administration). Since 1949 the Bureau has been a part of the Department of Labor.

In only a third of the States (including Alaska, Hawaii, and the District of Columbia) is the employment security agency in the department of labor. The largest number of these agencies are independent boards or commissions (18 States). Fifteen other employment security agencies are independent departments of State government. One is in the State workmen's compensation agency.

Regardless of the place of employment security in the State government, the same overall agency in practically all States administers unemployment insurance and employment service functions. Except for a few specialized claims and placement offices in a few large cities, the 1,700 local offices of the State agencies take claims and perform other unemployment insurance functions as well as placement and other employment service functions.

Coverage

The coverage of workers under the program has nearly doubled in the past 20 years—from a monthly average of 19.9 million in 1938 to 39.3 million in 1955. The coverage has been smaller than that of old-age and survivors insurance—originally because the Federal tax for old-age and survivors insurance applied to employers of one or more at any time while that for unemployment insurance was limited to employers of eight or more workers in 20 weeks. The programs started with similar exclusions of agricultural workers, domestic servants, government employees, employees of nonprofit institutions, maritime workers, and self-employed workers. Both programs added maritime workers — old-age and survivors insurance in 1939 and unemployment insurance in 1946 after a 1943 Supreme Court decision in a New York case held that maritime employment was not excluded from State unemployment insurance coverage by the Constitution or by congressional enactments. Over the years, successive expansions of coverage under old-age and survivors insurance have added some workers in all the other categories so that this program now covers about 90 percent of all paid jobs.

Extensions of unemployment insurance coverage have been slower and will probably remain smaller. Self-employed persons, for example, cannot readily be brought under an unemployment insurance program because of the difficulty of determining when they are unemployed. The goal of universal coverage in unemployment insurance is thus limited to those who work for others for wages.

The most significant addition to coverage of the Federal law was made in 1954 when the Federal Unemployment Tax Act was amended to include employers of four or more workers in 20 or more weeks. About 1.4 million workers will begin to accrue rights January 1, 1956. At the same time Congress added unemployment insurance protection for any Federal civilian workers (2.5 million) unemployed after December 31, 1954. Since it is considered that the application of the Federal unemployment tax to local government units would be unconstitutional, President Eisenhower recommended that the States give their own 4.4 million employees of State and local governments the protection they require private employers to provide for their employees.

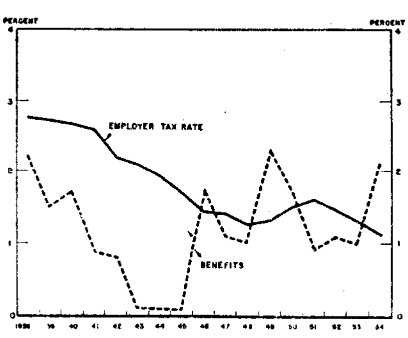
The State coverage provisions have always been, in practically all respects, at least as inclusive as coverage under the Federal tax provisions. Otherwise some employers would have been liable for the full 3-percent Federal tax and their workers would not have accrued rights to benefits. An increasing number of States have covered smaller firms than the Federal law. In 1954, when the Federal limit was eight employees, 29 States covered firms with one, three, four, or six employees. On January 1, 1956, when the Federal limit becomes four, 23 States, whose workers represent almost one-third of the civilian labor force, will protect workers in firms with one to three employees; in 18 of these States the law applies to firms with "one or more." It is estimated that 2.8 percent of the total coverage of State laws will be made up of workers whose employers are not subject to the Federal law.

In each type of employment excluded under the Federal law, one or more of the States has experimented with coverage, but the extensions are not significant numerically. The largest addition is in the field of State and local government, where 14 States cover about 120,000 of their government employees.

Benefits

The role of unemployment insurance in aiding workers to tide themselves over during periods of unemployment has varied markedly from time to time during the past 20 years. (charts 1 and 2). The number of claims and the amount of benefits have increased and decreased with changes in the levels of employment and unemployment—from a low of 533,000 claimants receiving $62 million in wartime 1944 to 6½ million claimants receiving more than $2.0 billion in benefits during 1954—a year of economic adjustment. Though statutory weekly benefits and the potential duration of benefits have increased over the years, benefit payments show no uninterrupted upward trend as do old-age and survivors insurance payments, which have, of course, had sharp changes in the rate of increase.

Chart 2.—*Average employer tax rate and average benefits paid as percent of taxable wages, 1938–54*



The contributions of the unemployment insurance program over the years to the maintenance of income of covered workers, the purchasing power of their communities, and the stabilization of the economy are widely recognized.[3]

Benefit Levels

When the program started with the depression experience so freshly in mind, it was felt that benefits of $15 a week for a maximum of 13-16 weeks were all that could be financed. The estimates proved unnecessarily cautious. By 1939, the Bureau was urging State maximums of $20 for 20 weeks; by 1945, $25 for 26 weeks. President Eisenhower, in his Economic Reports of 1954 and 1955, recommended that benefits for the great majority of covered workers should equal at least half their regular earnings and that all eligible claimants should be entitled to at least 26 weeks of benefits if they remain unemployed that long.[4]

By 1955 basic weekly benefits of $30 or more had been provided in 32 States with 70 percent of the covered workers. The average weekly benefit paid reflected these higher maximums, rising from $10.66 in 1939 to $18.77 in 1945 and almost $25.00 in 1954. Amendments to the State laws made in 1955 will undoubtedly result in higher average weekly benefits in 1955 and 1956.

These recent amendments in the State benefit formulas and the resulting current benefit levels will be described in detail in the January issue of the BULLETIN. Here it is enough to emphasize that benefits are paid under State laws from taxes collected by the States and that there are no statutory standards on benefits in the Social Security Act. Although the Bureau of Employment Security has, by its successive "draft bills for unemployment compensation," exhorted the States to maintain certain standards of adequacy, the principal generalization that can be made about the 51 benefit formulas is that they vary. There is great diversity in the formulas for determining eligibility for any benefits and for relating weekly and annual amounts of benefits to past wages, in the minimum and maximum weekly benefits, and in the minimum and maximum duration of benefits. All these differences lead to diversity in benefits, from State to State, for the same qualifying wages.

After the 1955 amendments become effective, a claimant with, for example, wages of $850 in that calendar quarter of his base period in which his wages were highest ($65 a week if he had steady work in that quarter) and base-period wages of $3,000 would qualify in the different States for basic weekly benefits ranging from $24 to $35 for 16–30 weeks, and for annual benefits varying from a low of $384 to a high of $1,020. In 10 States the weekly benefits for which such a claimant would qualify would not be the State maximum. He would, however, get benefits for the maximum duration in all but two States.

In the 11 States with dependents' allowances, a claimant with the earnings pattern specified and the maximum number of compensable dependents would get from $35 a week in North Dakota to $50 in Nevada and $60 in Alaska.

Dependents' Allowances

Only 12 States have adopted provisions, common in unemployment insurance in other countries, to increase the weekly benefits of claimants with dependents. Eleven States, with 27.5 percent of the covered workers, have such provisions now, but in two States they apply only at certain benefit levels.

The first such provision was enacted by Congress for the District of Columbia in 1936. The allowance was modest—$1 weekly for each of three

[3] See the *Employment Security Review*, August 1955, pages 16–20, and the *Bulletin*, August 1955, pages 7–8.

[4] For a historical perspective on changes in coverage, benefits, and financing provisions over the years, see the following *Bulletin* articles: "Variations in Benefit Rights under State Unemployment Compensation Laws," June 1942; "State Unemployment Compensation Laws of 1945," July 1945; "State Unemployment Insurance Legislation, 1951," December 1951; "State Unemployment Insurance Legislation, 1953," December 1953.

dependents—and limited to lower-paid workers, since the maximum weekly payment, with or without dependents, was $15.

Even after Congress added dependents' and survivors' benefits in the old-age insurance program in 1939, no State provided such allowance in unemployment insurance until 1945. Three States enacted provisions for dependents' allowances that year, one in 1946, six in 1949, and one enacted and one repealed such provisions in 1955.

The maximum allowance in the District of Columbia remains $3 and the maximum weekly benefit is $30, with or without dependents. The 11 other States that have had dependents' allowances have included allowances for claimants receiving the maximum weekly benefit; in most States the amount is larger for claimants who are in the higher brackets.

During 1954, 35 percent of the claimants in the 11 States with dependents' allowances received almost $27 million in allowances. For these beneficiaries, dependents' allowances increased the average weekly payment by about 19 percent; it increased the total cost of benefits paid to all beneficiaries in these States by only 6 percent. The experience of individual States, however, differed markedly from this overall average because of wide differences in the statutory definition of dependents and in the size of the allowances provided.

Interstate Aspects

The interstate aspects of the unemployment insurance program are more significant than those under any other social security program. Early in the program it was realized that under the State systems problems of duplication and of gaps would arise in coverage (and hence in taxation) and in the benefit rights of multistate workers. Some multistate workers would fall "between the States," and some workers would lose benefits by moving from one State to another. Over the years, many ingenious methods have been used to assure that the State systems do as much as a Federal system would do for these workers, while maintaining their integrity as State programs.

Most State laws provide that an employer who is subject to the Federal tax because he has eight or more employees (beginning in 1956, four or more) anywhere in the United States is subject under the State law with respect to any employees in that State, even if they are fewer than the State size-of-firm minimum. To avoid dual taxation or gaps in coverage of workers who perform services in more than one State for the same employer, the States have adopted uniform language for ascribing all the service of such employees to a particular State—for example, the State in which the worker's services are primarily performed, the State in which he has his base of operations, or the State from which his services are directed or in which he lives if he performs some service there.

In October 1937, 4 months after the last State had enacted its unemployment insurance law, the Interstate Conference of Unemployment Compensation Agencies was formally organized, with a full-time Secretary on the staff of the Bureau and with its expenses paid in full from Federal funds. Relations between the Federal Government and the States as a group center in this Interstate Conference, which later became the Interstate Conference of Employment Security Agencies.

Even before benefits were payable in 22 States in January 1938, interstate benefit payment procedures were developed by the Bureau of Unemployment Compensation, individual States, and the Interstate Conference. All States and Canada cooperate in the interstate benefit payment plan, under which a claimant may file a claim in any local office of the State where he is. If he has no, or insufficient, base-period wage credits in that State, the local office forwards his claim to another State in which he has wage credits for determination of his benefit rights.

If he is qualified for benefits, the local office sends continued claims to the "liable State," which then mails checks to the claimant for any compensable weeks. If any question of availability or disqualification arises, the local office obtains information from the claimant for the use of the liable State in determining whether payments should be made. A claimant who can qualify in more than one State may claim benefits in those States successively but not simultaneously.

Interstate claims represent a small but persistent proportion of all claims, usually 4 percent or 5 percent of all initial claims—in 1954-55, 5.8 percent. In 1946, however, a year of heavy postwar migration, interstate claims reached a peak of 7.6 percent of initial claims. In 1954-55, interstate benefit payments totaled almost $96 million for 3.8 million weeks of unemployment. Nationwide, these payments represented about 5.2 percent of all weeks compensated. Payments in Alaska for more than a third of the week compensated and in 12 other States for more than a tenth of the weeks compensated went to claimants outside the State—a contribution to the mobility of labor.

Another interstate arrangement specifies the circumstances under which claimants with base-period credits in two or more States may have their wage credits "combined" and their benefit rights determined under a single State law. All but four States are cooperating in a plan that makes possible "wage combining" when a claimant has insufficient wage credits in each of two or more States. An extended plan of wage combining will become operative January 1, 1956, in a majority of States with a majority of covered workers. This plan will increase the benefit rights of claimants eligible in one State but for less than maximum annual benefits, if they have base-period wage credits in one or more other States in which they cannot qualify for any benefits.

Interstate cooperation has been developed also in the collection of taxes due from employers who have moved across State lines, in prosecution of claimants who have made fraudulent misrepresentation in interstate claims, and in appeals by claimants whose interstate claims have been denied. In such cases the agency in the State where the claimant is may hold a hearing and send the claimant's testimony, for determination, to the State that would pay his claim.

Financing

Unlike old-age and survivors insurance, unemployment insurance has been financed almost entirely by taxes on employers. Only 10 States have ever collected taxes from employees; only three States have employee contributions now. The amount collected from employees through 1954 was only 3 percent of total collections.

The Federal tax is uniform for all employers; it is, in effect, 0.3 percent (3 percent minus the 2.7-percent credit offset). In all States, however, the employers' taxes have been varied in accordance with their experience with unemployment risk,[5] much as employers' rates under workmen's compensation are varied according to their experience with accident risk.

Recognition of Experience Rating

In fact, one of the most far-reaching decisions made by Congress in passing the unemployment insurance titles of the Social Security Act was the recognition of experience rating. The only State unemployment insurance law in existence 20 years ago—Wisconsin's Unemployment Reserves and Compensation Act—required employers to maintain individual "employer reserves" in a State fund, each employer's reserve to be used to pay benefits to his own workers when they were unemployed. Employers' contributions to their reserves were to vary with the payments from the reserves and the balance available for benefits. When the reserve per employee reached a certain level, the employer's contribution would be suspended.

The Social Security Act encouraged experience rating by providing that employers may get credit against the Federal tax not only for the contributions they pay under a State law but also for those they are excused from paying under the State experience-rating system. Such a system could not go into effect, however, in States with an employer-reserve plan until employers had accumulated contributions equal to at least 7.5 percent of their payrolls and, in the States with pooled funds, until at least 3 years after benefits were payable. Thus the Social Security Act equalized taxes in the States at the beginning of the program but allowed for tax variation after the program was established.

Most of the States adopted pooled-fund laws, under which all money collected from employers is "commingled and undivided." A separate bookkeeping account is maintained for each employer, but his workers have no special claim on the funds he has paid in. All benefits are paid from the State unemployment fund, regardless of the "balance" in an employer's account. In most States, however, the balance influences the rate of taxes that the employer pays.

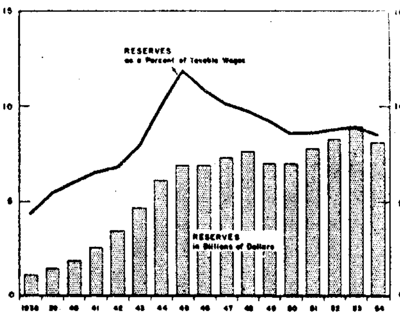
Thirty-three States with pooled-fund laws provided for a system of experience rating to take effect at specified times in 1941–44. Nine other States provided for a study of experience rating, and two originally made no provision for experience rating. Mississippi was the last State to adopt experience rating—in 1948.

Seven of the early State laws provided for separate employer reserves of the Wisconsin type though they included a partial pool or added one shortly; two other States adopted such systems later. All except one have since changed to pooled-fund laws. They made this change because they expected that after heavy postwar benefit payments it would be difficult for employers to meet the Federal requirements for reduced rates under an employer-reserve system (five times the largest amount of compensation paid in any 1 of the last 3 years). Kentucky, which still has a reserve account law, provides for a partial pool and for special contributions to maintain it if it falls below a specified level.

Financial Experience

The Committee on Economic Security had recommended a contribution rate of 3 percent of payroll as the most that the economy could

Chart 3.—*Reserves available for benefits, 1938–54*



afford and a rather limited schedule of benefits that was thought to be all that could be financed safely on the basis of this contribution. The 2.7-percent rate proved to be more than was needed in most States in most years. Only in 1938, the year benefit payments began and a time of heavy unemployment, in 1949, and in 1954 did benefits in the Nation as a whole exceed 2 percent of taxable wages. In the war years 1943 and 1944, benefit payments were negligible—0.1 percent of taxable payroll; in the first postwar year they were much less than expected—1.7 percent of taxable wages. In 1947, 1948, and 1951–53 the national average of benefit payments ranged from 0.9 percent to 1.1 percent of payroll. (chart 2).

As a result, reserves rose each year—from $1.5 billion in 1939 to $7.6 billion in 1948. Heavy expenditures in 1949 and 1950 reduced reserves to $7.0 billion, but they rose again to $8.9 billion in 1953 and then fell to $8.2 billion at the end of 1954 and to $8.0 billion in mid-1955. Meanwhile payrolls and fund liabilities had been rising. As a percent of taxable wages, reserves reached their peak (11.8) in 1945 and by 1954 had dropped to 8.2 (chart 3). These national figures obscure the great diversity in the State reserves—from 0.9 percent of taxable wages to 14.7 percent on June 30, 1955, for example.

As reserves grew, pressures for lower tax rates became more persistent. Under the provisions of the Social Security Act, States could not make flat rate reductions; to preserve the employers' tax offset, they

[5] For a description of experience-rating formulas and reports of earlier financial experience, see Rachel S. Gallagher, "State Differences in Unemployment Compensation Employer Taxes," *Social Security Bulletin*, October 1945, and "Trends in Unemployment Insurance Financing," October 1949.

had to vary rates according to employers' comparative experience with the risk of unemployment. The number of States with experience-rating systems in operation increased from four in 1940 to 45 by 1945 and to 51 by 1948.

In every session of the State legislatures, many of the existing experience-rating systems have been amended, usually to provide lower rates for some or all employers. The ways and means of doing this are many: for example, the addition of lower schedules, lower State fund requirements for given schedules to go into effect, lower experience requirements for individual employers to get specified rates, lower maximum rates (more than 2.7 percent in only 10 States in the least favorable schedule in 1955); and lower minimum rates (0 in 12 States and less than 0.3 percent in the most favorable schedule in 24 other States in 1955).

Less direct methods to give individual employers more favorable experience rates include voluntary contributions (to bring employers into lower rate classes), prorating to employers' accounts interest on the State's balance in the trust fund, and omission of charges for certain benefit payments following disqualification under specified circumstances.

As a result of the application of these various experience-rating provisions, the average employer tax rate fell steadily year by year from 2.75 percent in 1938 to 1.24 percent in 1948 (chart 2). Higher benefit payments in 1949 and 1950 brought less favorable schedules into effect; as a result the average tax rate in 1951 was 1.58 percent. Since then the general trend has been downward.

Indirect Consequences of Experience Rating

The consequences of experience rating have been far reaching. Many State legislatures find themselves confronted by opposing pressures: (1) to reduce taxes, whether or not reductions mean that benefits cannot be increased, and (2) to increase benefits as economic conditions require and to maintain or increase tax rates as necessary.

In most States, employers' tax rates depend on the benefits paid their former workers. Thus experience rating gives employers and employer organizations reasons to oppose proposals for increases in benefit amount and duration and to press for amendments to increase the statutory causes of disqualifications, to limit good cause for voluntary leaving to causes connected with the employer or the employment, to deny benefits to disqualified workers for longer periods and for separations other than the most recent, and to cancel the benefit rights of disqualified claimants.

The relation between tax rates and benefits paid also leads some employers to challenge more individual decisions granting benefits to their former employees than they otherwise would. About 1 in 8 of all appeals to the lower appeals authorities in the States are appeals by employers. In addition, employers appear as adversaries in hearings when claimants appeal decisions denying benefits.

Solvency of State Funds

Until 1955 funds in all States were adequate to pay benefits according to the statutory schedules. In 1944, in anticipation of heavy postwar drains and in recognition of the Federal interest in unemployment insurance solvency, Congress included in the War Mobilization and Reconversion Act a temporary provision for advances to State unemployment funds if they became depleted. Though this provision was effective through 1949, it was never used. In the Employment Security Administrative Financing Act of 1954, Congress added a permanent provision for Federal assistance to States with low reserves. The annual excess of the Federal unemployment tax collections over Federal and State employment security administrative expenditures is automatically appropriated to the Federal unemployment account in the unemployment trust fund. These excess collections will be used to establish and maintain a $200-million fund for non-interest-bearing loans to States whose reserves fall below a specified level.

Two States met the statutory requirement for such advances when the balance in their unemployment fund on the last day of 1954 was less than benefit payments during the preceding 12-month period. Funds, however, were adequate to meet benefit obligations in all States except Alaska, which was forced to suspend benefit payments for a short period in the spring of 1955. After the Organic Act for Alaska was amended so that Alaska could borrow under the Employment Security Administrative Financing Act of 1954, an advance was authorized July 1, 1955. Meantime Alaska repealed its experience-rating provision, raised the maximum taxable wages from $3,000 to $3,600, and added an employee contribution of 0.5 percent of wages for 1956 and 1957 to strengthen its financial position.

Administrative Financing

The Federal and State administration of the employment security program employs a staff of almost 50,000 persons, all but 3 percent of whom are in State agencies and their 1,700 local offices.

From 1935–36 to 1954–55 Federal unemployment tax collections amounted to almost $3.4 billion, and expenditures for administration of the employment security program totaled more than $2.3 billion. Federal grants to the States for unemployment insurance and employment service expenditures totaled $2.0 billion or about 60 percent of tax collections. The proportion of tax collections allocated to the States varied greatly —from less than 50 percent in Illinois, Indiana, Ohio, and Wisconsin to more than 150 percent in Mississippi, Nevada, and North Dakota.

Beginning with the fiscal year 1953-54, the proceeds of the Federal tax are earmarked for employment security purposes. At the end of 1954-55, the balance in the Federal unemployment account was almost $150 million. It is expected that by the end of 1955–56 the balance will exceed the $200 million required before additional funds can be credited to the State accounts in the trust fund. In accordance with the Employment Security Administrative Financing Act of 1954, these excess collections will be used by the States in financing benefits and under certain circumstances may be appropriated by State legislatures for financing administration.

Special Federal Programs

The story of unemployment insurance in the United States is not complete without mention of five programs outside the Social Security Act that have operated at some time during the past 20 years. Two programs for veterans and one for Federally employed seamen were temporary programs; those for railroad workers and Federal civilian employees are continuing programs.

Most of these Federal programs provide unemployment insurance protection for groups who are the special concern of the Federal Government—servicemen, federally employed seamen, and Federal civilian employees. These programs differ from the State and railroad programs in that benefits are paid from Federal funds, especially appropriated for the purpose, and not from taxes on wages. The programs differ among themselves, though all have been administered through local offices of the State employment security agencies. The trend over the years has been toward closer coordination with the State programs. The State agencies have paid the benefits as agents of the Federal Government. The Federal administration of the servicemen's readjustment allowances program was the responsibility of the Veterans Administration; Federal responsibility for the other programs was assigned to the Secretary of Labor.

Railroad Unemployment Insurance

Since July 1939 railroad workers, who were originally covered by the State unemployment insurance laws, have been covered by a Federal unemployment insurance program administered by the Railroad Retirement Board. The States transferred to the railroad unemployment insurance account in the unemployment trust fund the difference between the contributions they had collected from the railroads and the amount they had paid as benefits to railroad workers.

The program went into effect paying benefits of \$1.75–\$3.00 per day of unemployment for up to 8 days (\$14–\$24) in any half-month claim period and with a uniform potential duration of 80 days in a benefit year. Benefits have been liberalized frequently since then, and in 1954 Congress increased the maximum benefit to the equivalent of \$42.50 weekly. Benefits vary according to a schedule of annual earnings, but for any claimant the daily benefit rate must not be less than half his regular daily rate of pay for his last railroad job in the base year, up to the maximum benefit rate of \$8.50 a day. With this liberalization of weekly benefits, the 26-week uniform potential duration, in effect since 1946, was limited by a proviso that total annual benefits cannot exceed a claimant's base-period wages.

In the 16 years July 1939–June 1955, unemployment benefits of \$654 million were paid under this program (chart 1). (During the same period \$13.5 billion was paid under the State unemployment insurance programs.) It is estimated that altogether about 1.4 million different railroad employees had received unemployment benefits under the Railroad Unemployment Insurance Act by June 30, 1955.

Servicemen's Readjustment Allowances

The servicemen's readjustment allowance program (1944–50) provided allowances of \$20 for 52 weeks to unemployed World War II veterans. In addition, it provided benefits to self-employed veterans endeavoring to establish themselves in a business or profession.

More than 9.5 million of the 15.1 million World War II veterans filed claims for these benefits within a 5-year period and were paid benefits totaling \$3.8 billion. More than 700,000 of these claimants were self-employed veterans, who received payments totaling \$590 million. In the calendar year 1946, payments to veterans (more than \$1.5 billion) were 42 percent more than payments under the State laws. In some States servicemen's readjustment allowance benefits were as much as seven times the total State benefits.

Although, at one time or another, more than 6 out of 10 World War II veterans claimed servicemen's readjustment allowances, their unemployment was ordinarily not of long duration. In spite of the jibes about the "52-20 club," only 11 percent of those receiving these benefits drew them for the full 52 weeks; for all claimants the average was only 19 weeks. These figures are low in view of the temporary large labor surpluses due to mass separations from the Armed Forces, relatively high unemployment in the war-expanded civilian labor force, and wages in many areas that were little, if any, higher than benefits.

Unemployment Compensation for Veterans

A later program for veterans—established under the Servicemen's Readjustment Assistance Act of 1952—covers veterans with military service between July 27, 1950, and January 31, 1955. As would be expected, benefits are higher than under the servicemen's readjustment allowance program—\$26 a week for each week of involuntary unemployment but up to a maximum of only 26 weeks or \$676. A veteran who qualifies for unemployment insurance under any State law or the railroad unemployment insurance law must exhaust these benefits before he draws unemployment compensation for veterans. If the State benefits are less than \$26 a week, he receives veterans' benefits to bring the total payment up to \$26. All claimants under the veterans' program must meet the eligibility and disqualification provisions of the law of the State where they file their claims.

The number of veterans with military service during the Korean period (4 million as of June 30, 1955) has been small compared with those of World War II. Between October 1952, when the program began, and June 30, 1955, some 900,000 veterans filed claims for benefits and 650,000 received payments for 8.8 million weeks of unemployment, amounting to \$207 million. About 13 percent of the total number of weeks of unemployment compensated were weeks in which veterans had some benefits under another law and veterans' benefits to bring the payment up to $26. About 18 percent of these claimants had exhausted their benefits.

This program will end January 31, 1960. No payments may be made to individual veterans more than 3 years after their release from service or July 26, 1958, whichever is later.

Federal Benefits Under State Formulas

The permanent program of benefits for Federal civilian workers, like the temporary program of reconversion unemployment benefits for federally employed seamen (1947–50),[6] pays benefits as if the Federal employment had been subject to the applicable State law. If the Federal worker has wage credits also in State-covered employment, his benefit rights are based on combined wage credits, with the Federal Government paying the additional costs.

Under the program for seamen, about 31,000 persons were paid $6 million for 317,000 weeks of unemployment. Most of the benefits were paid in a few maritime States—California, New York, Massachusetts, and Washington—but some claims were paid in all 51 States.

The program for Federal workers became effective in January 1955. During the first 6 months of benefit payments, $16 million was paid in benefits to nearly 60,000 former Federal employees. About 53,000 of these beneficiaries were Federal workers who would have had no benefits but for the Federal program. The other 7,000 received $320,000 more than they would have drawn on the basis of their State wage credits alone. Although the program was in operation for only half a year, approximately 6,400 claimants exhausted their benefit rights by June 30, 1955.

Payments under this program during the 6-month period ranged from a low of $4,800 in Delaware to almost $1.9 million in California. Three other States—Pennsylvania, Tennessee, and Washington—also paid more in benefits than the District of Columbia ($620,000). Benefit payments averaged 1.9 percent of all State benefit payments in the same period, varying from 0.3 percent in Vermont, Delaware, and West Virginia to more than 20 percent in the District of Columbia.

Issues for Tomorrow

This report on unemployment insurance 20 years after the adoption of the Social Security Act shows the real progress that has been made in carrying out the objectives of the program. It reveals also that much remains to be done in the years ahead.

The program is closer than ever before to the goal of unemployment insurance protection for everyone who works for another for wages. By 1956, about 80 percent of the wage earners of the country will be covered, but 12 million wage earners subject to the risk of unemployment will still lack this protection. Their lack is a challenge to Federal or State action or both, to extend coverage to employees of small firms in the 28 States that stop at "4 or more" and to workers in the exempted occupations; to provide permanent protection for ex-servicemen; and to bring Puerto Rico into the Federal-State system.

With respect to benefits, the modernization of unemployment insurance recommended by President Eisenhower in his Economic Reports of 1954 and 1955 is far from complete. Bold steps are still needed to provide more nearly adequate protection against wage loss for workers who are covered, both in weekly payments and in weeks of benefits. In the absence of Federal benefit standards, action by State legislatures is necessary to make benefits adequate. Adequacy of weekly payments is an issue, for example, in the 44 States where the maximum basic weekly benefit is less than half the statewide average weekly wage. Adequate duration of benefits is an issue in the 24 States where no claimant can get as much as 26 weeks of benefits in a year—especially in the three States with maximum duration of 16 weeks.

As to financing, progress has been made toward a more professional approach to estimating State benefit costs over a period of years and providing for contributions to balance the expected outgo. Employment security agencies have a real problem, however, to convince taxpayers that primary consideration must be given to the program's long-term fund needs rather than to opportunities for savings in taxes in any given year. Among the most challenging issues in unemployment insurance is how to get public acceptance of a balanced approach to taxes and benefits, assuring consideration of proposals for more liberal benefits and more reasonable disqualifications on the basis of social and economic implications as well as costs to employers.

[6] Officers and crew members of vessels operated by the Federal Government under general agency agreements with private operators after the outbreak of hostilities in Korea were excluded from unemployment insurance coverage. Instead of setting up a special system for them, Congress made the Federal Unemployment Tax Act applicable to services on such vessels and permitted the States to cover such services under the regular provisions of the State laws as it had done for private maritime employment in 1946.

*Recent Publications**

General

AMERICAN ASSEMBLY. *The Federal Government Service: Its Character, Prestige, and Problems.* New York: The American Assembly, Graduate School of Business, Columbia University, 1955. 55 pp. Single copies free.

BEVERIDGE, WILLIAM HENRY. *Power and Influence.* New York: The Beechhurst Press, 1955. 447 pp. $5.

An autobiography.

GITLOW, A. L. "'Fringe' Benefits: A Review." *Personnel Journal,* Swarthmore, Pa., Vol. 34, Sept. 1955, pp. 126–130. 75 cents.

NATIONAL ASSOCIATION OF MANUFACTURERS. EMPLOYEE RELATIONS DIVISION. *Guide for Employers in Hiring the Physically Handicapped.*

(Continued on page 33)

* Prepared in the Library, Department of Health, Education, and Welfare.