

INDUSTRIAL CLASSIFICATION IN RELATION TO UNEMPLOYMENT COMPENSATION

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Many State and Federal agencies are interested in a classification, by industry, of various types of data. Some are concerned only with a particular segment of industry such as mining, manufacturing, or trade, while others are interested in the entire field of business activity. There is an even wider divergence in the type of industry information requested by the various governmental agencies: some wish to know the quantity of goods produced, others the value of output, total sales, number of unemployed persons, number of gainful workers, number employed, amount of pay roll, number of applicants for work, number of placements, number of accidents, and so forth. The type of information collected will vary with the particular segment or segments of industry under consideration as well as with the purpose for which the data are being collected. Some agencies are specifically established to collect information, while for other agencies the collection of information is incidental to the administrative process.

Industrial information collected by the State unemployment compensation agencies, except for data gathered by means of special studies, can clearly be classed in the latter category. Not only is the information collected as a part of the administrative process, but the primary purpose in gathering data is to supply facts which will help solve administrative problems in the field of unemployment compensation. This objective has been uppermost in the minds of the representatives of the State unemployment compensation agencies and of the Social Security Board, both of whom are responsible for determining the type of information which should be collected.

A classification of employers on an industry basis is essential to the administration of State unemployment compensation laws in a number of particulars. The more important uses are indicated in the following paragraphs.

Instability of Employment

The State unemployment compensation agencies are faced, directly or indirectly, with the problem

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of the stabilization of employment. An intelligent attack on this problem involves recognition of variations among industries in the amplitude, as well as in the timing, of fluctuations in employment. Frequently it is necessary to have also a knowledge of fluctuations in employment by broad occupational groups or divisions within an industry. For example, it is usually believed that the vegetable-canning industry is a seasonal industry, but even here it may be primarily the production employees who are affected. Not all places of business engaged in vegetable canning will have the same season, as some plants will assume sideline activities during their usual off season. A number of State unemployment compensation laws provide for the payment of benefits to "seasonal" workers only for unemployment which occurs within the regular season for the industry in which they work. The unemployment compensation agencies in such States are faced with the problem of determining what industries are seasonal and what are their seasonal periods of operation before issuing regulations covering these provisions. If such regulations are to be of any significance, it is obviously necessary that they apply to an aggregate of reporting units which are as nearly homogeneous as possible.

Of equal importance in any program of stabilization is the study of the varying effects of cyclical changes upon different industries. The production of nondurable consumers' goods is in general less influenced by cyclical forces than the production of durable consumers' goods and producers' goods. If a State agency is to have adequate data to cope with these problems, detailed information on an industrial basis is necessary.

Employer Merit Rating

Knowledge of the industry or industries in which an employer is engaged will enable the State agency to interpret a given employer's record in relation to other employers who are engaged in the same industry or industries. Such information may prove useful in explaining merit rating to employers. Furthermore, because of

differences in the factors which affect employment in the various industries, it may be advisable to consider whether or not employers ought to be grouped according to industry for merit-rating purposes.

Part-Time and Reduced Employment

There may be considerable differences between industries in the prevalence of part-time and partial or reduced employment. Variations are likely to be found in the proportion of the working force affected, the time of occurrence, and the duration of such employment. Any consideration of the problems of part-time and reduced employment in relation to the unemployment compensation program must be based on a knowledge of such differences.

The availability of monthly data on the number of covered workers, the amount of wages, number of claims for benefits, amount of benefits paid, duration of benefit payments, and other items by industrial groups will facilitate analysis of some of the aforementioned problems. Furthermore, the classification of employers by industry and the organization of the unemployment compensation records on the basis of such a classification make it possible both to conduct special studies of problems peculiar to given industries, and, in more general studies, to weight the influence of the various industries according to their relative importance.

The Development of the Social Security Board Industrial Classification Code

For the reasons already mentioned, it was considered desirable by the Social Security Board and the State unemployment compensation agencies to classify places of business into industrial groups for the purposes of unemployment compensation recordkeeping. It then became necessary to determine what classification to use.

Of the Federal agencies which classify industry for reporting purposes, many deal with only one or a few phases of industrial life and do not cover the entire range of business enterprise. Several of the Federal agencies do classify the entire range of industry, but for a purpose different from that of the State unemployment compensation agencies. It seemed desirable, therefore, to develop a classi-

fication system specifically adapted to the administrative problems of the unemployment compensation agencies.

The pioneering work in the development of the present industrial classification code was done by the Bureau of Research and Statistics, Division of Placement and Unemployment Insurance, of the New York State Department of Labor, working in cooperation with representatives of the Central Statistical Board, Bureau of Labor Statistics of the United States Department of Labor, and the Social Security Board. From the inception of this work the primary purpose has been to develop a practical classification adapted to the needs of unemployment compensation agencies. Another guiding criterion, however, has been to obtain the greatest possible conformity of this classification to the industrial classifications of other Federal agencies which collect statistical information to ensure, so far as is possible, comparability of data. Thus the classification as developed adheres very closely to the existing practices of the Bureau of the Census of the United States Department of Commerce, and the Bureau of Mines of the United States Department of the Interior, in regard to those branches and aspects of industry for which these agencies collect industrial information.

In other fields a considerable amount of original research was undertaken. Furthermore, in the development of the two-digit code it was frequently necessary to make certain combinations of industries (as classified by some other agencies) to make it possible for the entire range of industry to be included in not more than 100 major industry groups, from 00 to 99.

The first two editions of the Industrial Classification Indexes were published by the Division of Placement and Unemployment Insurance of the New York Department of Labor, the first, in June 1936, and a revised edition in November 1936. After a thorough review of the November edition by a joint committee representing State and Federal agencies, a few changes were made, mostly of a minor character, and the coding indexes were published as the Social Security Board Industrial Classification Code on March 15, 1937. The latter code is the one used for the collection of statistics by industry in the State unemployment compensation agencies.

The present code is a two-digit code and serves conveniently to classify industry into broad major categories. It is recognized that for special analyses such as are required in connection with problems of seasonality or partial unemployment, many of these groups are so large as to comprise nonhomogeneous industries. Thus many of these major industrial groups will need further subdivision.

At the present time a special committee composed of representatives of the Social Security Board, the Central Statistical Board, the Bureau of the Census, the Bureau of Labor Statistics, the United States Employment Service, the Bureau of Internal Revenue, and the Division of Placement and Unemployment Insurance of the New York Department of Labor, is engaged in the preparation of the standard industrial classification code. This code will divide the major groups into third and fourth digit groups wherever needed. It is believed that this can serve as a guide to State agencies which find subclassification desirable.

In the development of the subdivisions, the most important criteria which are guiding the work are: (a) to develop industrial subgroups which conform to the existing pattern of industry; (b) to set up only groups which are distinctly classifiable on an establishment basis and contain a large enough number of establishments to warrant separate treatment; (c) to make, insofar as possible, the classifications comparable to the existing industrial classifications of other Federal agencies.

Industrial Classification in Operation in the State Unemployment Compensation Agencies

The industrial classification code has not been developed to classify tax entities or employers, but places of business. Since the information desired does not relate to ownership, but primarily to employment characteristics when the same employer owns a number of places of business in different industries it is important that these be considered separately. Because it has been found that the term "place of business" is less likely to be misunderstood by employers than the term "establishment," the place of business has been adopted as the basic unit. Each place of business is considered as a unit in assigning

an industry number, but for purposes of simplifying the reporting for the employers, all the places of business in the same industry may be combined under one unemployment compensation account number. To illustrate, if an employer has 500 grocery stores in a State, all these stores would be classified in the Social Security Board major group 54, "Retail Food," but it would not be necessary for the employer to submit 500 separate reports. As all these stores are in the same industry they may be combined for industry-reporting purposes.

However, most of the States also desire information on various items by areas, to aid in localizing specific problems, for making comparisons between areas, and for general informational purposes. These States do not permit employers to combine places of business for reporting purposes unless they are in both the same industry and the same area. Thus, if the 500 grocery stores mentioned in the earlier illustration were located in three different areas, the employer would submit one report for each area under three different unemployment compensation account numbers.

The Social Security Board requires only four items of information by industry from the State unemployment compensation agencies, to be reported monthly beginning with the pay-roll month of July 1938: namely, number of reporting units, number of workers employed in the last pay periods ending within the month, amount of wages payable, and amount of contributions; and if a State requires employee contributions, a differentiation must be made between employer and employee contributions.

In all State agencies, information on these basic items is gathered in connection with the collection of contributions. For employer-reporting purposes, most of the States use one of the two following plans or minor variations patterned on one or the other of these plans. Under the first plan an employer has a different account number for each industry and area in which he operates, and receives a contribution report form which includes the minimum statistical items for each unemployment compensation account number assigned to him. Under the second plan an employer receives only one contribution report form, but if more than one unemployment compensation account number has been assigned to him because

he operates in a number of industries or areas, these numbers are indicated to him on a supplementary statistical report form on which he submits the required statistical information for each reporting unit or unemployment compensation account number. Both plans, if properly administered, provide information on an industrial basis rather than on a tax-entity basis.

While the Social Security Board does not at present require the States to report benefit operations—claims received, claims authorized and disallowed, and number and amount of benefit payments—for separate industries, many of the States plan to record such data by industry groups. Moreover, benefit payments will be reported by the States to the Social Security Board by industry groups at a later time.

Additional problems in industrial classification administration will arise as the unemployment

compensation program advances. The need for more detailed industrial break-downs in employer reporting than is involved in reporting on the present major industrial groups has already been mentioned. Furthermore, there is the problem of keeping the classification of employers in each State agency up to date, since the type of business carried on by a given employer at a given location does not necessarily remain the same over a period of time. In addition, changes in the pattern of American industry may in time require adjustments in the industrial classification code if it is accurately to portray existing industrial conditions. In the interest of comparability of statistical information and of avoiding complications in administration which may result from frequent changes, it is expected that the number of adjustments in the present code will be kept at a minimum.

STATISTICS OF UNEMPLOYMENT COMPENSATION

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It has long been recognized that the administrative records of State unemployment compensation agencies would be valuable sources of economic and social data. The agencies' claims and benefit records, and employer reports of contributions and workers' earnings, may be expected to supply information that will shed light on employment trends and wages in various industries, occupations, and sections of the country, as well as on the nature and duration of unemployment.

The efforts of State unemployment compensation agencies during the period of operation prior to payment of benefits have necessarily centered on such matters as the determination of employer liability, the collection of employer contributions, the building up of adequate wage records for covered employees, and the establishment of procedures for handling claims and making benefit payments. The 22 States that began benefit payments in January 1938 are now absorbed in handling an unexpectedly large volume of claims and in paying benefits promptly.

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The Reporting Program of the Social Security Board

To carry out its responsibilities under the act, the Social Security Board has established a program of statistical reporting by the States, including at present report on financial transactions; on employer and employee coverage, taxable wages, and contributions; and on benefit operations. The requirements cover the minimum information needed by State agencies and the Board and have been made simple and flexible in recognition of the differences in State laws and the heavy administrative burden of State agencies during the early stages of operation. This reporting program will provide data on a Nation-wide basis through assuring comparable administrative and economic statistics for all States.

Statistics on Financial Transactions

Beginning with August 1937, a monthly report of financial transactions was requested of the States. This report was designed to show the amount of contributions received, the amount of funds transferred by the State Treasurer and placed in State depositories, and the amount of