

# IMMEDIATE PROBLEMS OF UNEMPLOYMENT COMPENSATION

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Unemployment compensation is a mechanism by which the community absorbs the shock of industrial change and adjustment through providing, in a measure, for workers who are deprived of jobs. It is not, and cannot be made, a complete answer to the problem of unemployment. It is important that we keep in mind what an insurance program may and may not be expected to do.

## *Three Types of Unemployment*

From this point of view, there are three general types of unemployment. First, there is the short time, occasional unemployment, when there is a job but the man and the job don't get together. This failure is due to poor organization of the labor market. Benefit payments are no real solution of the difficulty which creates this situation. The remedy lies in a really effective placement service, which is a prerequisite of any system of unemployment insurance. At the other extreme is the so-called technological unemployment, when jobs have completely disappeared. The only real solution appears to lie in retraining displaced workers, developing new skills, building new industries, guiding young workers into other types of industry, transferring labor to other communities, and the like. A program to cope with this problem must supplement any system of unemployment insurance.

The intermediate type of unemployment exists when a man has a job to which he is likely to return, or has a prospect of another job in the near future, but has no opportunity to earn an income at present. Here, both the community and the employer have a definite responsibility and a stake in providing income which will help to bridge the unemployment of these workers who are attached to industries where, presumably, they will again be needed. It may be possible, further, that a system of unemployment compensation can be so set up that it will provide income for the worker who is temporarily unemployed and at the same

time will stimulate the employer to regularize his business as much as possible. While this is open to question, it is the objective of the much-discussed device of "merit rating."

## *Three Levels of Administration*

Just as the problem of unemployment can be broken in these three parts, so the problems of State unemployment compensation administration fall at three levels. One part of the immediate responsibility is to maintain an effective placement service. We are fortunate in having such a service. The job in this respect, then, is to expand the service to meet the needs, and to integrate it with the benefit-payment procedure, so that the individual worker will find a *single* service to meet his needs. There may be two functions—placement and benefit payments—but from the worker's standpoint there should be *one* agency which performs these functions.

It is sometimes suggested that emphasis on the insurance function may lead to neglect of the placement function. Certainly no such result has occurred up to the present time. On the contrary, I am inclined to feel that in many communities we have undertaken an unduly ambitious program of expansion for the employment service. A realistic appraisal must indicate that there are places and times in which little can be accomplished by an elaborate system of interviewing and recordkeeping. In a one-industry town, the best records in the world would disclose few additional jobs. In a period of mass unemployment the same limitation would hold. At such times attention must first be directed toward giving the worker the benefits to which he is entitled, to tide him over the immediate emergency. In a varied-industry city, and in good times, when the level of employment is steady or on the up-grade, it is essential to stress the functions of job-finding and employer-contacting. The personnel in a local office should be such that they can deal with whichever aspect of the problem is more important at the time. With increased experience in the coordination of the two functions, and a more

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experienced staff, it should be possible substantially to reduce the expenditures for the combined service without sacrificing significant activities.

At the other end of the scale, we face a group of problems which relate to the long-run situation—problems of stabilization of employment, and of relief for those who are not eligible for benefits or have exhausted their benefits. In most cases State administrators will be expected to advise their communities with reference to such questions as these, to aid in exploring, developing, and planning, and in recommending legislation. Under some European systems, questions such as these are under the jurisdiction of unemployment insurance administrators. In this country, one typical law provides that "The unemployment compensation board \* \* \* shall recommend to the governor \* \* \* such action as will tend to aid and promote the prevention of unemployment \* \* \*. Said board shall encourage and recommend methods of vocational training, retraining and guidance \* \* \*. Said board shall cooperate with the state planning board and the state department of public works in planning public works projects to be conducted in times of depression \* \* \*." At present, however, the Federal Works Program stands separately as a second recourse of workers who have exhausted their rights to unemployment benefits or are without such rights. General relief to indigent persons, including those whose poverty arises from unemployment, is almost wholly the responsibility of local government. Long-range questions of stabilization of employment and fundamental problems underlying adjustment of employment and the labor supply have received some attention in recent years, but we have not yet made much progress in dealing with them.

The intermediate field is our immediate responsibility; this is where unemployment compensation can be most effective. Here the duty is not only to administer the laws as they stand—to develop procedures for carrying out the purpose of the acts as effectively and as economically as possible—but also to examine every aspect of the programs, to find their inconsistencies, their shortcomings, their mistakes, their ambiguities, and to remedy them as soon as possible. This is the problem of "simplification" on which the States and the Social Security Board are working at present. While the Board is willing and eager

to help in any way possible, the major responsibility in this respect necessarily rests upon the States. The Social Security Act definitely contemplates that each State shall have not only the right but the obligation to develop its own program. Because of the pressure of time, and because of lack of experience in the States, the Board has offered suggestions, when requested, on State legislation and procedure. The variety of the programs adopted by the States gives a valuable opportunity to test different procedures and assumptions, and it has been the Board's endeavor to provide a clearing house so that each State may get the benefit of the experience of others. When all is said and done, however, each State is responsible, within very broad limits, for working out its own system. The Board is responsible only for seeing that the acts and procedures are such as may reasonably be expected to accomplish the general purpose *fairly and economically*.

#### *Administrative Costs*

During the past 6 months, which must be recognized as an initial and emergency period, we have stressed fairness and effectiveness more than economy, but the time has come to emphasize economy as well. Many States have administrative costs that cannot be justified by the services rendered or the financial resources available. The existing arrangements assume that when State systems are in full operation administrative expenses should not exceed 10 percent of the sum of collections. The Board believes costs can be held within this limit if laws and procedures are simplified and the offices are staffed with qualified personnel. We believe the limit can be maintained without injustice to anyone, although some of the emphasis on individual determination of benefits and contributions may have to be abandoned.

#### *Amount and Duration of Benefits*

The present requirement under all State laws that contributions and benefits be geared to the exact earnings of the individual necessitates a tremendous amount of recordkeeping and computation. Furthermore, it may well cause many disputes, since it is difficult to understand and to apply the exact formula and errors are likely to occur. The alternative is not necessarily a flat-rate system, although, in the end, this may be found practicable, but perhaps a system of wage

groups or brackets, in which both contribution and benefit rates are roughly related to wages but are easily determined by inspection. The fixing of maximum and minimum rates already recognizes such a principle to some extent. It would be quite consistent with the objectives of unemployment compensation to graduate benefits from the minimum to the maximum by intervals of \$2 or even \$5, based on wage differences, and it would greatly simplify operations.

The same principle might be used to relate the duration of benefits to earnings by some sort of graduated scale of earnings categories. For example, provision might be made that anyone who qualified for benefits would receive them for a minimum of, say, 6 or 8 weeks of unemployment, and that duration would be extended, up to a maximum, by 2- or 4-week intervals for the groups with higher earnings during the base period. Such a procedure might obviate many of the complications of the present systems, under which the duration of a worker's benefits is determined individually in relation to his individual wage credits.

Both these changes could be made and so adjusted that the total income and outgo of State funds would be about the same. They would result in eliminating many small payments, and some persons who now qualify for very limited periods would be excluded entirely. It is doubtful, however, whether the very limited benefits paid to such persons are worth the relatively large cost involved in their determination. It may be necessary to fix a substantial minimum of earnings as a condition of eligibility for benefits, recognizing that anyone who does not meet this requirement would be more effectively cared for in some other way.

A related problem is presented by provisions of State laws which permit or require recomputation of wage credits every quarter. This procedure will, in some cases, provide more benefits currently than would be available if the basis for computing benefits were a fixed base year, but it is difficult or impossible to justify the expense of quarterly computation, especially since the benefits, in most instances, would be available at a later period if the worker should again become unemployed.

Besides the expense entailed by these various individual computations and others of similar nature, the time required has resulted in delays which probably more than offset any added benefit

which individuals may have received. Substantial justice and prompt service will probably be more satisfactory to the beneficiaries and everyone else concerned.

### *The Question of Merit Rating*

Provisions for merit rating raise another problem which is of more or less immediate concern in most States. Some agencies have given little thought to these provisions, but others which have faced them squarely find it most difficult and expensive to maintain the records necessary for merit rating in the generally accepted sense. Quite aside from the expense, I am inclined to feel that, as we examine this whole matter, we may find little justification for merit rating in a system of unemployment insurance.

Merit rating is based on an assumption which is peculiar to American thinking concerning unemployment insurance, i. e., that the system should be utilized to induce employers to regularize employment. Merit rating, by reducing the contributions of the "good" employer who maintains steady work, is designed to provide an incentive for stabilizing employment. The provisions for employer-reserve systems in two State laws express an even stronger assumption that, within specified limits, employers can carry responsibility for the continuous employment of their workers. On the other hand, the laws establishing pooled funds without merit-rating provisions proceed on the principle that unemployment is a common risk for which no specific responsibility can be allocated appropriately to one establishment or industry in contradistinction to another.

In support of the view that industry is responsible for maintaining employment, it is argued that when hard times come a business concern cannot shift charges for capital, except to a limited extent, and that it should not shift to the community charges for labor. Such a viewpoint was expressed some years ago by an eminent American jurist who said, in substance, that for every man who is steady in his work, there must be steady work; no industry is socially sound which cannot pay regular wages as well as regular interest, rent, and taxes. As an expression of a social ideal, that statement is excellent, but as a program of action it is difficult to put into operation. Responsibility for charges for either capital or labor, no matter how justifiable they are, is hardly more than a legal fiction when

a concern lacks the means to meet them. A large share of all modern industrial enterprise depends upon market conditions which are not within the control of an individual concern or even an industry as a whole. It is not necessary to outline the all-too-familiar forces through which disaster spreads from one industry to others at first glance only slightly related, to realize that employers, singly or as a group, can take only a limited responsibility for keeping their labor force employed.

### *Merit-Rating Procedures*

Even if one grants the utility of merit rating as a way of stimulating employers to regularize employment, some procedures now contemplated are still open to question. In putting such a system into operation, it would be unreasonable to compare an individual employer's experience with the *general* average of all employers. A formula based on such a comparison would give an industry such as a public utility, which has a steady market for its service through no effort on its part, the same credit for "regularization" as would be given to a clothing firm which finds irregular markets one of its major problems. Logically, an individual employer's experience should be evaluated for merit-rating purposes in terms of the average for his kind of industry. We should compare a gas company with other gas companies, for example, or clothing manufacturers with other producers in the same field. Then we could actually give credit for the results of employers' efforts. As now commonly conceived, merit rating would mean that industries fortunate enough to have steady markets would be relieved of contributions with the result either that workers in other industries would be deprived of benefits, or that their employers would have to pay additional contributions to make up the difference. Personally, I see no injustice in asking the fortunate ones to contribute for the benefit of those who suffer from irregular markets. I am sure that when the large majority of employers who are affected by irregular markets fully realize the situation, their desire for merit rating will be less strong.

Furthermore, the idea of basing merit rating on benefits paid to workers formerly employed by a given employer seems to me fallacious. Suppose an employer lays off 100 men in San Francisco in July. Because of seasonal activity in other lines

these men are reemployed, and no benefits are charged to the employer. Three months later another employer also lays off 100 men, but since other lines are slack, most of his men draw benefits which are charged to his account. So far as employers' policies are concerned, the two situations are identical, yet one employer gets a reduction of contributions and the other does not.

It seems to me that if we are to have merit rating, it should be based on separations, not on benefits paid. This procedure would eliminate, also, the problem of allocating benefit payments to more than the last employer. One State, I believe, prorates the charge over all past employers. This arrangement certainly has no relation whatever to any effort on the part of the employer to regularize operations. In summary, lack of logic and consistency in the arguments for merit rating, the complexities of the proposal, and the tremendous expense involved for recordkeeping convince me that it has no place in a system of unemployment insurance. In workmen's compensation, where conditions are under control of the individual establishment, the principle is sound; but not in the case of unemployment, where the individual employer's efforts have little to do with the risk involved.

### *Seasonal and Partial Unemployment*

Seasonal unemployment presents a problem not unrelated to that of merit rating. Some State laws make special provision for determining seasons in given industries. The object may be to prevent the workers from drawing benefits during a period when ordinarily they have not been employed, or it may be to protect the employer's merit rating by limiting the period during which he is responsible for wages or benefits. If, however, the purpose of the whole program is to stimulate employers to regularize, it may be that this aim is defeated by relieving them of that responsibility by fixing limited seasons. The problem of seasonal fluctuation and its relation to the employer, the worker, and the community is so complex that further study is urgently necessary to determine what special provisions may be made for it.

Another problem that must be dealt with in some way is that of benefits for partial unemployment. In a few States no provision is made for partial benefits; in some, partial benefits are post-

poned; and in several, partial benefits are paid without a waiting period. In at least one State such benefits are paid in a lump sum at the end of each month, and there is some discussion of quarterly payments to avoid the burden of weekly computation. I do not know what the final answer will be, but I am sure that some modifications are necessary in most States. We are gathering information on the actual levels of earnings and of benefits, the amount of wage loss through partial unemployment, and the like, and when such information is in hand perhaps we shall have a clearer picture of the problem.

One point seems clear: We shall need to distinguish more carefully than in the past between partial employment on the regular job; part-time employment of persons who, in general, are not seeking full-time jobs; and subsidiary employment of those who have lost their regular jobs. It may be wholly logical to overlook a certain amount of subsidiary earnings of a man otherwise unemployed, on the theory that he needs more than his unemployment benefits to live normally and that he should be encouraged to earn something at subsidiary employment if he can do so. A man partially employed on his regular job, however, should not necessarily be treated in the same way. While his need is doubtless equally great, he has made no additional effort to obtain these earnings, and no inducement held out to him will serve to continue or to increase such earnings. Effective administration requires that we recognize these distinctions.

#### ***"Simplifying" Unemployment Compensation***

All these matters and many others can be considered as "simplification." None involves fundamental change in the program which provides for paying benefits in proportion to a man's past earnings. Nor do they lead in the direction of the unlimited doles which are being urged in some proposals in different parts of the country. Indeed, I believe that by making the system of self-

financing insurance work more expeditiously and economically, we may help to maintain such a system against the attacks of those who, in the name of simplification, would introduce an entirely different program. There can be no question but that we must meet the need of the unemployed. To make real and lasting progress toward that end, however, we must maintain a balance whereby the whole community will be benefited by the arrangements made for the security of the individual. It is just because the need *must* be met that present effort must be directed toward making unemployment compensation work as effectively and expeditiously as possible within the means at our disposal. We must recognize throughout both the need and the limitations within which we must operate.

Most of the difficulties I have mentioned involve substantive changes and must await amendments of the State laws. The Social Security Board can and will be glad to make suggestions, to furnish information, but unless the States will make a program of simplification their own, no further steps can be taken. In the meantime there are changes in procedures which may be made without need to wait upon amendments. In such instances States can begin at once—and many have begun—to effect an integration which will not only reduce administrative expenses but will simplify procedures for the employer and for the unemployed worker and will expedite the latter's registration and benefit payment.

The Federal Government and the States are engaged in one great undertaking—the provision of a measure of security of income for those who suffer the loss of a job. Our immediate connection may be with a Federal agency or with a State government, with a compensation or benefits section, or with an employment service, but all these areas of work are part of the same job, directed toward the same end. The problems to be solved and the work to be done challenge our united energies and abilities.