

some of the highlights of the many developments in these programs.

The three programs have some things in common. In all of them, the most consistent trend has been toward broadening the services to meet the needs of special groups of children.

All three programs consistently have carried the torch for higher standards of care and services of better quality.

The three programs have reached out to hard-to-serve groups—children in isolated areas, children with special problems, children requiring specialized services.

More and more the programs have stressed the preventive aspects of their services.

All have consistently struggled to improve the quality and skills of the workers as well as their numbers. Often only the high purposes and strong will of those administering and carrying on the services have made it possible to keep services from eroding in quality.

The programs have been responsive to new knowledge, new treatment, and new facilities. They have kept their services in tune with the changing pace and circumstances in the lives of families and children in the Nation.

Twenty-five Years of Unemployment Insurance in the United States

by R. GORDON WAGENET*

INTEREST IN UNEMPLOYMENT insurance legislation in the United States first appeared long before the enactment of the Social Security Act, but it took the most severe depression in the Nation's history and the encouragement of State action through the Social Security Act before unemployment insurance became a reality throughout the land.

In 1931, when unemployment reached 8 million or 16 percent of the labor force, 52 bills for compulsory unemployment insurance were introduced in 17 State legislatures, but only in Wisconsin was an unemployment insurance law enacted (in 1932) before congressional consideration of the Social Security Act. Within 2 years after the adoption of the Social Security Act in 1935, all 50 States and the District of Columbia had approved unemployment insurance laws. By 1939, all State unemployment insurance laws were fully operative and were paying benefits to eligible unemployed workers.

THE FEDERAL-STATE SYSTEM

The Social Security Act did not establish a system of unemployment insurance in the United States. It provided an inducement to the States to enact unemployment insurance laws. It levied a tax on the payrolls of employers of eight or more workers in commerce and industry and provided that if a State enacted an approved unemployment insurance law, subject employers could offset, against the Federal tax, contributions under the State law up to 90 percent of the Federal tax. The tax was 1 percent of payrolls in 1936, 2 percent in 1937, and 3 percent in 1938 and thereafter.¹

The Federal tax removed one of the major obstacles to State action. No longer did a State fear that its unemployment insurance law would place its employers at a competitive disadvantage with employers operating in a State without such a law.

The Federal-State partnership provided in the

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¹ Since 1939 only the first \$3,000 of annual wages paid to an employee by an employer is subject to the tax.

Social Security Act limited the role of the Federal Government in the unemployment insurance program to policies designed to protect the integrity of the system. The financial security of the State funds collected is safeguarded by requiring that each State deposit the contributions it collects in the unemployment trust fund in the U. S. Treasury. A separate account must be kept for each State from which the State may withdraw funds only to pay unemployment benefits.²

The Federal Government also assures adequate funds for administering the 51 separate State systems, regardless of the State's financial resources, by paying all State administrative costs. Funds for this purpose are appropriated each year by Congress, originally out of general tax funds but since 1954 out of the proceeds of the earmarked Federal unemployment tax.

In addition, the State laws and administration must meet certain requirements if employers are to receive tax-offset credit and the States are to receive administrative grants. The State must have methods of administration that will assure full payment of benefits when due. All State laws and administration must provide that individuals whose claims to benefits are denied be given an opportunity for a fair hearing before an impartial tribunal. Benefits cannot be denied to a claimant if he refuses to accept a job under certain conditions designed to protect standards of prevailing wages, working conditions and union affiliation.

The Federal act also requires that all benefits are to be paid through public employment offices or such other agencies as the Federal Government may approve. No other agency has ever been approved by the Social Security Board, where Federal responsibility for unemployment insurance was first lodged, or by the Department of Labor, which since 1949 has had responsibility for both the employment service and unemployment insurance. All State laws require that, as a condition of eligibility for benefits, all claimants must register for work at the public employment office and continue to report in accordance with the agency's regulations. By this means, a close

relationship between the employment service and unemployment insurance was made certain.

The establishment of a Federal-State system of employment offices had predated the Social Security Act by 2 years. In 1933, Congress had enacted the Wagner-Peyser Act as the first organized step in its attack on the unemployment problem. The organization of the employment service and unemployment insurance at the Federal level under the same administrative head was made effective in 1939, by Presidential action. Most States adopted a similar organization. Since 1941, the Federal Government has also provided complete financing of the State employment services.

The States have both policy and operating responsibilities for the program. Within certain limitations, the States have the responsibility of determining what kind of unemployment insurance law they want, what the coverage and contribution rates shall be, what amount and duration of benefits shall be paid, and what the eligibility requirements and disqualification provisions shall be. They also directly administer the State laws—collecting contributions, taking claims, determining eligibility, and paying benefits to unemployed workers.

GENERAL CHARACTER OF UNEMPLOYMENT INSURANCE LAWS

Although the State unemployment insurance laws differ in very many respects, in general they follow a similar pattern. Coverage is usually limited to employment covered by the Federal act, but a number of States have extended coverage beyond these limits. Unemployment benefits are available as a matter of right to unemployed workers who have demonstrated their attachment to the labor force by a specified amount of earlier work or earnings in covered employment. To be eligible for benefits the worker must register for work with the employment service, file a claim for benefits, be able and available for work, have served a waiting period, and not be disqualified for benefits. Benefits are generally set at about 50 percent of past earnings, subject to a maximum amount. In 12 States, additional benefits are provided for dependents. Duration of benefits is either uniform for all eligible claimants or variable, depending on the amount of past earnings.

² A 1946 amendment provided that employee contributions to the unemployment trust fund could be withdrawn to finance cash sickness benefits.

Unlike the old-age, survivors, and disability insurance program, State unemployment insurance benefits have been financed almost entirely by employer contributions. Only 10 States ever collected contributions from employees, and only in three States (Alabama, Alaska, and New Jersey) are employee contributions still collected.³ Employer contributions were originally set at 2.7 percent of payrolls (90 percent of the Federal tax), but in all States these contributions have been varied, depending on experience-rating provisions in the State laws.

THE CHANGING ROLE OF UNEMPLOYMENT INSURANCE

Since the beginning of the program (through 1959) \$27.1 billion has been collected in contributions, \$23.5 billion paid out in benefits, and \$3.0 billion in interest collected on accumulated funds. On June 30, 1960, about \$6.7 billion was available for future benefit payments. During this period, the program has played a varied role in the economy, responsive to changing economic conditions.

In 1938, when benefit payments began, more than 10 million persons—almost 20 percent of the labor force—were unemployed, and many of them were completely outside the system because they did not have sufficient covered employment to be eligible for benefits. In 1940, when benefit payments were fully operative in all 51 jurisdictions, average monthly employment in industries covered by the program was 23 million and about 5 million persons received benefits during the course of the year—a level not reached again until the recession in 1949. Because many workers had had irregular employment before becoming unemployed and because many were unemployed longer than the very limited duration of benefits permitted under the State laws, about half the beneficiaries exhausted their benefits. In no succeeding year until 1958 did as many as 2.5 million persons exhaust their benefit rights.

³ In California, New Jersey, and Rhode Island, part or all of the employee tax originally collected for unemployment insurance purposes was used to finance the temporary disability insurance law.

Wartime Experience

Almost immediately after benefit payments were effective in all 51 jurisdictions, the defense program got under way and the country began to convert its vast economic machine to war purposes. The war period brought expanding employment. Many women, youths, and older persons entered the labor force. Unemployment almost disappeared. Instead of mass unemployment, the country was faced with tremendous shortages of skilled labor as men left civilian work for the Armed Forces. Major emphasis shifted to the job of the employment service in mobilizing manpower for the all-out war effort. In 1942, at the request of President Roosevelt, all States transferred their employment services to the United States Employment Service in order to provide maximum utilization of the Nation's manpower.

In 1944, only 530,000 persons drew unemployment insurance benefits and the number exhausting benefits declined to 100,000. Benefit payments fell to \$62 million, only a little more than one-tenth of what they had been 4 years before.

Postwar Readjustment

Even before the end of the war, plans were developed to ensure that demobilized members of the Armed Forces would have security in their search for civilian work. The existing unemployment insurance systems had become important institutions in the economy, and in 1944 Congress provided unemployment insurance protection for returning veterans. Two years later Congress also enacted a temporary program for reconversion unemployment benefits for seamen, whose war employment was deemed Federal employment. Both these programs were administered by the State employment security agencies acting as agents of the Federal Government. The broad concern of the Federal Government with the problems of employment and unemployment found expression also in the Employment Act of 1946.

During the reconversion from war to peace, unemployment increased sharply from the low point of 1944, although the mass unemployment feared in many quarters did not develop. Workers displaced from wartime jobs and returning veterans were assured of security as the

country retooled for peacetime operations. By the end of 1946, with the wartime mobilization efforts completed, the employment service was turned back to the States.

The Past 12 Years

The postwar period brought many changes in the economy. Except for three recessions in 1948-49, 1953-54, and 1957-58, generally high levels of employment were maintained. Vast sums were spent by government and industry on research and development bringing new processes, new products, and higher standards of living to the American people. Productivity increased and with it wages. Automation and other technological changes resulted in the scrapping of old factories and the building of new ones, the decline of older and the development of new industries. Shifts occurred in employment and in geographic locality of industries. Manufacturing employment increased at a slower pace than the service industries. The decline in agricultural employment continued at an accelerated pace. Although many women left the labor force after the war ended, the labor-force participation rates of women increased from prewar levels. Production workers became a decreasing and white-collar workers an increasing proportion of the labor force.

In 1949, when the country experienced its first postwar recession, more than 7 million persons drew benefits, almost twice the number receiving benefits the year before. Benefit payments reached an alltime high of \$1.7 billion, reflecting the large number of beneficiaries as well as the higher wages and the liberalization of State laws in the war and immediate postwar years. Not only did the payments provide unemployed workers with needed protection, but they supported consumer expenditures and helped to prevent the recession from deepening.

As the economy recovered from the 1949-50 recession, expansion in economic activity caused covered employment to rise until by 1953 it had reached an average of 36.7 million. With the start of the Korean conflict, unemployment declined with unusual sharpness below the recession level, but during 1951-53—years of relatively high employment—the number of beneficiaries

fluctuated around 4 million, reflecting the expanded coverage of the program and the great changes taking place in the economy.

In 1952, Congress provided temporary unemployment insurance protection for veterans of the Korean conflict to be administered by State agencies.

Although the recession of 1953-54 was not as severe as that of 1949-50, benefit payments in 1954 rose to more than \$2 billion, 17 percent higher than in 1949, because of the improvement in State laws and the increase in covered employment. Attention began to focus increasingly on the function of unemployment insurance as a "built-in stabilizer" in maintaining consumer expenditures during the downswing of the business cycle and in curtailing the depth and length of a recession.

Despite an expanding economy, during each of the years 1955 and 1956 more than 4.5 million persons drew benefits, more than 1 million persons had used up all benefit rights before they became reemployed, and total benefit payments stayed well above \$1 billion. These high levels of operation during prosperous years were caused in part by the expansion in the program as well as by the fact that generally high levels of employment and prosperity in the country had not reduced unemployment to the lower levels reached after the 1949-50 recession.

The year 1957 ushered in the third and worst recession of the postwar period. States faced the heaviest load in their history. Average covered employment fell by 1.5 million from 39.9 million in 1957 to 38.4 million in 1958. In 1958 alone, 7.8 million persons drew benefits and 2.5 million, or 1 out of 3, exhausted their benefit rights. Benefit payments reached an all-time high of \$3.5 billion, 73 percent higher than the previous high point of 1954. The recession affected the States unevenly. Employment in durable goods manufacturing fell more than in other industries. States with a high proportion of covered employment in these industries felt the greatest drain on their funds.

Although the 1957-58 recession was of relatively short duration, reduction in unemployment lagged behind recovery in production. During 1959 unemployment benefits amounted to \$2.3 billion, a drop of \$1.3 billion from the year before but still higher than any other previous

year. Generally lower levels of unemployment hid local geographic pockets of unemployment where unemployment was persistently higher and lasted longer than in the country as a whole.

PROGRAM DEVELOPMENTS

The 25 years since the enactment of the Social Security Act have witnessed great changes in State unemployment insurance laws. Coverage has broadened, and the benefits provided today are far higher than they were originally. The States have adopted agreements for the payment of benefits to workers who move across State lines. The original overcautious estimates of the cost of unemployment insurance—a heritage of the depression of the thirties and a consequence of the lack of adequate unemployment data—coupled with the low unemployment of the war years, provided ample funds in all States in the early postwar years for both liberalizing benefits and decreasing contribution rates through experience rating. In spite of the many improvements that have taken place, much still remains to be done to make the program more effective.

Extent of Coverage

The coverage of the State programs has always been more limited than that of old-age, survivors, and disability insurance. That program, of course, covers self-employed persons, while the Unemployment Tax Act is applicable only to persons who work for wages for others. In addition, the Federal Unemployment Tax Act still excludes agricultural workers, domestic servants, State and local government employees, and employees of nonprofit institutions, as well as those working for employers with fewer than four employees.

The State unemployment insurance laws have covered all employment subject to the Federal act and in some States and some respects have gone beyond it. At the beginning of 1960, 24 States were covering firms with fewer than four employees and seven States were covering employers of one or more at any time. States have also experimented in covering other types of employment excluded from the Federal act. Twenty-four States cover about 350,000 State and local government employees.

Railroad workers originally covered by the State laws have been protected since 1939 under a separate railroad unemployment insurance law, administered by the Railroad Retirement Board. Unemployment benefits for Federal civilian employees and ex-servicemen, however, are administered by the States, and the protection afforded, though financed from Federal funds, varies according to the provisions of the State laws.

In all, at the beginning of 1960 about 45 million wage earners are covered by the Federal-State unemployment insurance program and 0.9 million by the Federal railroad unemployment insurance program. Approximately 13 million are not covered by any program: 1.7 million employees of small firms, 1.3 million employees of nonprofit institutions,⁴ 5.6 million State and local employees, 2.5 million domestic servants, 1.9 million agricultural workers, and 0.3 million employees in miscellaneous pursuits. Expansion of coverage to these groups remains as a task for the coming years.

Benefit Levels

Measured in terms of dollar amounts and weeks of benefits the State laws today are notably more liberal than they were originally. The early laws generally provided for benefits equal to 50 percent of full-time weekly wages up to a maximum of \$15 a week for a total of 13-16 weeks. Increased weekly earnings and rising reserve funds led to higher maximum amounts and longer duration, especially after the three postwar recessions. These higher maximums, however, lagged behind rising wage levels, and many unemployed workers exhausted benefits before being reemployed.

Benefit amount.—While the State laws have generally intended that benefits should be equal to 50 percent of weekly wages, the maximums on benefits incorporated in State laws have been curtailing the benefit rights of many workers to a level far below 50 percent. In 1938, average weekly wages in covered employment were

⁴This figure excludes more than 600,000 individuals, including clergymen and members of religious orders, student nurses, interns, and students employed in schools while enrolled.

\$25.28, and the maximum benefit of \$15 that prevailed in most States was almost 60 percent of average weekly wages.

By 1960, 16 States with more than 40 percent of the covered workers had maximum benefits of \$40-\$50 and no State maximum was less than \$25. Wage levels, however, had risen faster. As a result, maximum benefits in most States were less—in some States considerably less—than 50 percent of average weekly wages in covered employment.

Average weekly benefits for total unemployment went up steadily, from \$10.56 in 1940 to \$30.41 in 1959, reflecting the higher maximums in State laws as well as increased weekly earnings. Despite these advances, average benefits today represent a smaller proportion of weekly wages than they did when the program started. In 1959, six States provided for determining maximum benefits as a specified proportion of average weekly wages instead of a stated dollar amount. Such a provision will automatically reflect changes in wage levels and remove the need for constantly amending the flat maximum statutory dollar amount.

Supplemental unemployment benefit plans.—Following World War II, labor's demand for a guaranteed annual wage through collective bargaining resulted in the adoption of supplemental unemployment benefit plans in several major industries. It is estimated that almost 2 million workers are now covered by about 260 supplemental unemployment benefit plans. Most of these plans are integrated with State unemployment insurance systems, paying benefits for the same weeks that the unemployed workers are receiving State benefits. Out of a fund financed by employer contributions—in most plans equal to about 5 cents an hour—the worker receives benefits that, when added to State benefits, equal about 65 percent of after-tax, straight-time wages for 26 or 52 weeks up to a maximum company payment, such as \$25 a week. In some agreements, allowances are added for dependents.

What the long-run effect on the unemployment insurance system will be is yet to be determined. There is some evidence that the supplemental unemployment benefit plans have lessened employers' resistance to strengthening benefits under State laws. Thirty-four States raised

maximum benefits in 1955, 22 in 1957, and 22 in 1959.

Duration of benefits.—The duration of benefits has also been lengthened greatly since 1937. In that year most of the State laws (29) provided maximum duration of 16 weeks a year, and only five included longer duration; four of them provided benefits for 20 weeks. After the postwar recessions, each of which saw the number of claimants exhausting benefit rights significantly increased, benefit durations were lengthened.

Congressional concern with the growing number of persons exhausting benefits during the 1957-58 recession led to the passage of the Temporary Unemployment Compensation Act in 1958. It provided that, in States electing to participate in the program, additional benefits not to exceed 50 percent of the duration under the State law would be payable to workers who had exhausted benefits after June 30, 1957. The program was financed by advances made to the States from congressional appropriations and to be repaid by 1963, and it was in effect through June 30, 1959. Only 17 States participated in all phases of the program, and five enacted temporary programs of their own similar to the Federal program.⁵ The 22 States covered 70 percent of the covered workers. Sixty percent of the persons receiving additional benefits under the temporary program again used up all their benefits.

This act had a marked effect on State legislation. By the end of 1959, 32 States with more than two-thirds of the covered workers provided a maximum duration of benefits of 26 weeks, only 10 States (with 14 percent of the covered workers) provided less than 26 weeks (18-24 weeks) and in 9 States the maximum duration was between 28 and 39 weeks. In addition, six States provide for extension of duration (by 50 percent of regular duration in five States and by 8 weeks in one) whenever unemployment in a State reaches a certain level.

Primarily as a result of the changes in the duration provisions of the laws, the average period for which claimants can receive benefits increased from 19.8 weeks in 1946, the earliest date for which such data are available, to 22.4 weeks in 1954 and 23.6 weeks in 1959.

⁵ In 14 additional States, extension of benefits was provided only for Federal employees and veterans.

Disqualification Provisions

In general the disqualification provisions of State laws have been made more stringent in a number of respects since the laws were first enacted. The causes for which benefits are denied have multiplied, and the periods of disqualification have been made more severe. Many of these changes developed from employers' efforts to curtail charges to their experience-rating accounts. There is some evidence, however, that these trends have slowed down. Although a few States have increased the severity of their provisions in recent years, others have made theirs less harsh.

Financing the Program

While the Social Security Act imposed a uniform payroll tax of 3 percent on employers in covered employment, the tax did not remain uniform for long. Employer contributions collected by the States, set at 90 percent of the Federal tax, have been reduced to about half the rate originally considered necessary to finance the limited benefits provided in the beginning. Lower contribution rates have been established through systems of experience rating, the only method by which employer contributions could be reduced, since the Social Security Act has not permitted the States to adjust contributions to benefit costs by any other means.

Experience rating.—State experience-rating provisions differ widely in such matters as the schedule of rates provided, the minimum and maximum rates, the measure of unemployment experience used, and the method of charging benefits. The variations have increased each year. Although these provisions were intended to vary individual employer contributions with his unemployment experience and to act as an incentive to stabilize employment, in many cases they resulted in merely reducing employer taxes because of general economic conditions.

The low unemployment of the war years, coupled with the conservative benefit provisions of the early laws and the lag in adjusting them to increasing wages, resulted in increasing reserves in all States. As reserves mounted, pressure increased for reduced rates. In practically every session of the State legislatures, experience-

rating provisions were amended to make it easier for employers to qualify for reduced rates. Minimum and maximum contribution rates were lowered, separate rating schedules were added depending on the status of the fund, voluntary contributions were permitted, and benefits paid to workers under certain circumstances did not enter into the rating procedures.

Taxable wage base.—After the 1953-54 and 1957-58 recessions, the State funds were materially reduced. Although almost all the State laws contained provisions designed to protect the solvency of their funds, the provisions were ineffective primarily because they did not adequately take into consideration the increased liabilities of the system. Taxable wages on which contributions were based had remained fixed at the first \$3,000 of an individual's annual wage in the Federal act and, until 1960, in all but five State laws. But taxable wages, which represented 98 percent of total covered payrolls in 1938, amounted to less than two-thirds of covered payrolls in 1958.

State reserves.—The decline in reserves for the country as a whole hid wide variations in the reserves of individual States. By the end of 1959, 16 States had reserves of less than 5 percent of taxable payrolls and eight States' reserves equaled between 9 percent and 11 percent of taxable payrolls. For the period 1950-59, only 15 States had collected contributions equal to or higher than their benefit costs; the other States had used past reserve accumulations and interest payments on reserve funds to finance their benefits.

In 1954, Congress provided for Federal loans to the States with low reserves.⁶ The proceeds of the Federal unemployment tax were earmarked, and the excess of Federal tax collections over Federal and State administrative expenses was used to establish and maintain a \$200 million fund for noninterest-bearing loans to States whose reserves fell below a specified level. Any excess tax collections remaining were credited to

⁶ In 1944, in preparing for the postwar reconversion, Congress included in the War Mobilization and Reconversion Act a temporary provision for advances to State unemployment funds if they faced insolvency. Though this provision was in effect until 1949, it was never used.

the State's account in the trust fund to be used for benefit payments, and under specified circumstances for financing administration.⁷

The law was designed to provide emergency shortrun aid to any States facing insolvency. It assumed that the Federal Government had an interest in maintaining the solvency of State funds but continued to place full responsibility on the States for financing the benefits they provided.

One State requested and received a loan from the Federal fund before the 1957-58 recession. In 1958 and 1959 the fund made loans to three States, one of which was less than requested because by this time the loan fund was not large enough to cover the full amount.

Some of the State financial provisions may not provide for building up reserves adequate for a recession without running into financial difficulty. As late as January 1, 1960, only 18 State laws provided for assigning any rates higher than 2.7 percent. Fifteen State laws still provided zero rates for some employers, and eight States actually assigned zero rates to some employers in 1959. Currently all but six States tax only the first \$3,000 of annual wages paid to an employee.

In addition to meeting their current benefit costs, some States are faced with other financial responsibilities. Three States still have to repay funds borrowed from the loan fund, and 17 States funds advanced under the temporary unemployment compensation program.

the problems of an ever-changing labor market and the adjustments that these changes required of both employers and labor.

The growth of the State programs, both in number of workers covered and in benefits provided during the past 25 years, has emphasized the potential role of unemployment insurance as a built-in stabilizer of the economy. With the passage of the Employment Act of 1946, Government responsibility for fostering a high and rising level of employment and for preventing mass unemployment was made explicit. Because unemployment insurance, of all the income security programs, is most sensitive to changing economic conditions, it is being looked to more and more as a major device for bolstering consumer expenditures during the downswing of the business cycle. It has been estimated that unemployment insurance payments have offset between one-fifth and one-third of the loss of income during recent recessions. The question arises as to whether this is the maximum we should expect from the program. Belief that the program should be improved and concern with the inadequacy of benefits have been expressed by the President, the Council of Economic Advisers, and congressional committees, among others. In this context, the adequacy of unemployment insurance benefits becomes a matter of concern not only in relation to the protection provided to individual workers and their families. It is also a major factor in the effectiveness of the program in bolstering and stabilizing the economy.

ISSUES FOR TOMORROW

The employment security program has developed into the major institutional arrangement for securing a better utilization of manpower and for protecting genuinely unemployed workers during periods of unemployment. The Nation was indeed fortunate to have had, during periods of rapidly changing economic conditions and national needs, a well-functioning Federal-State system of employment services and unemployment insurance on which to rely. Throughout mobilization for war, postwar readjustment, prosperity, and recession, the Nation has looked to the employment security program to handle

Strengthening the Program

We need to look again at ways in which the program could be strengthened. Most of them have been suggested in the review of changes during the past 25 years:

- (1) Extension of coverage to the 13 million employees still excluded;
- (2) improvement of benefit provisions of State laws so that Hawaii will no longer be the only State that meets the standards recommended by President Eisenhower—to raise benefit amounts to make the great majority of covered workers eligible for benefits equal to at least half their regular earnings and a maximum duration of

⁷The amount distributed to the State accounts during the period 1956-58 was \$138 million.

benefits equal to 26 weeks a year for all eligible workers who remain unemployed that long;

(3) an increase in the taxable wage base to cover more than two-thirds of total wages in covered employment;

(4) an increase in the amounts available for loans to the States so that all States eligible for loans will be able to get them;

(5) additional funds to meet the costs of administering the program; with a labor force growing and including much larger proportions of young people, women, and older persons, the employment service and the program as a whole will have to expand to meet new problems and new opportunities;

(6) action by the States to improve the financial solvency of their systems where it is needed.

From a national point of view it is also important that the unemployment insurance system contribute through its taxing powers (as well as its benefit operations) more effectively to the stability of the economy. Up to the present time this goal has not been successfully achieved. In the past, because of the operation of experience-rating provisions, contributions have generally been lowered when unemployment and benefit outlays were low and raised when unemployment and benefit disbursements increased. This problem will not be easily solved; it must receive increasing attention if the program is to make its maximum contribution to the functioning of the economy.

Although these improvements have top priority in the period ahead, it is clear that other pressing problems will demand attention especially if unemployment in good times continues to hover around the levels of 1959 and 1960. Increased attention may center on extended duration of benefits beyond 26 weeks. Available information indicates that certain groups in the population—older workers, nonwhites, and the unskilled—are unemployed longer than the average person.

Helping depressed areas.—Unemployment in chronically depressed areas accounted for at least one-fifth of all unemployment during the full employment periods of 1956-57 and was at least 50 percent higher than the national average. Long-term employment declines in coal mining

and in the production of textiles, automobiles, steel, and machinery were important factors in these localized situations. The areas have not been spread evenly throughout the country. Some of the unemployed need training or retraining because their skills have become obsolete; consideration should be given to continuing the payments of benefits to unemployed workers while they are undertaking training. While other measures are needed to restore the economy of distressed areas, employment security programs should be reexamined to determine what part if any they are to play in encouraging outmigration from distressed areas and helping to finance workers' transportation costs.

Reevaluating the program's financing.—There is need for fundamental reconsideration of the financing of the system even if individual State solvency problems are solved. The Social Security Act placed full responsibility on the States for raising the funds sufficient to finance the benefits provided. The 1954 provision for emergency loans to the States in no way affected this basic responsibility. Twenty-five years of experience have indicated what was known, but not fully comprehended earlier, that the risk of unemployment varies widely among the States. A State's benefit costs are affected much more by its industrial composition than by the benefit provisions of its unemployment insurance law. Employment and unemployment levels are more the result of nationwide economic conditions or developments than of the situation in an individual State.

States with a heavy concentration of manufacturing employment or of employment in declining or seasonal industries have high benefit costs. During the 21 years 1938-58, costs in Alaska and Rhode Island—States with the highest cost—were more than six times the cost in Texas, the State with the lowest cost. This wide spread in costs—caused in large part by forces not confined to State boundaries—raises the question of whether there will need to be some measure of equalization of cost through national legislation.

Consideration will also have to be given to the question of whether it is equitable for some covered employers to pay no State contributions at all while other covered employers may be taxed

4.5 percent or even higher and whether it is not equitable to require a minimum State contribution from all employers for benefit purposes.

Research.—Other questions of public policy will undoubtedly arise. If policy decisions are to be based on objective considerations, much more basic research is needed on various aspects of the program. Too little is known about the characteristics of the unemployed and the reasons for their unemployment, especially in chronic labor surplus areas. Research is needed on the extent to which existing qualifying earnings requirements are appropriate measures of labor-force attachment. This information will be particu-

larly important in the period ahead when young people and women, especially secondary workers, will form an increasing proportion of the labor force. Much more needs to be known of the effects of the disqualification provisions on workers and on the relationship between unemployment insurance and fringe benefits.

THE EMPLOYMENT SECURITY system cannot remain a static institution. To perform effectively the functions for which it was designed, it must constantly adjust to the needs and requirements of the changing labor market in a dynamic economy.

A Quarter Century of Social Security Abroad*

DURING THE FIRST 25 years of the social security program in the United States, a remarkable growth in social security also took place in other parts of the world. The older systems that antedated the American program underwent many changes during this period. Their coverage was greatly enlarged, new benefits were added, and in some countries the basic approach was fundamentally altered. At the same time, many other nations introduced social security measures for the first time. Included among them are a number of countries that did not exist as independent nations in 1935.

This article presents a review of major social security developments abroad since 1935. Only a summary picture can be given, however, because of their volume and complexity.

SITUATION IN 1935

When the Social Security Act was passed in the United States, there were around 28 coun-

tries that already had social security systems of fairly broad scope in operation. All but six of these were in Europe, where nearly every country had some form of legislation before 1935. The only non-European countries in which social security measures then existed for sizable proportions of the population were Australia, Chile, Japan, New Zealand, the Union of South Africa, and Uruguay.

Most of the programs in operation in 1935 took the form of social insurance. In relying primarily on this approach there was a tendency to follow the example of Germany, which had introduced the notion of governmental social insurance during the 1880's. The techniques of social insurance spread rapidly through Central and Eastern Europe and then to Western Europe. A few of the nations with social security programs in 1935 relied on social assistance, however, as their chief means of protection. These countries were concentrated in Scandinavia and the English-speaking world. Denmark was the first to adopt this approach on a national scale in 1891. It was followed in turn by New Zealand, Australia, Iceland, and the Union of South Af-

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