Operations Under The Employment Security Administrative Financing Act of 1954*

Until the pertinent provisions of the Social Security Amendments of 1960 became effective, employers subject to the 3-percent Federal unemployment tax paid—by virtue of offset provisions against State unemployment taxes—0.3 percent of taxable payroll into the general funds of the Treasury.[1] Although these collections were not earmarked, Congress intended and expected them to be the source of funds for the administrative expenses of the employment security program. Until recent years, however, even at 0.3 percent, collections proved excessive for the purpose. By 1953 between $700 million and $1 billion more had been collected than had been paid out for Federal-State administrative costs. This amount remained in the general revenues of the Federal Government and was used for general expenses of the Federal Government.[2]

FEDERAL UNEMPLOYMENT ACCOUNT ACTIVATED

To ensure that all future unemployment tax collections be devoted exclusively to employment security purposes, as well as to increase the assurance of the State benefit funds' solvency, Congress passed the Employment Security Administrative Financing Act of 1954 (Public Law 567, Eighty-third Cong. 2d sess., Aug. 5, 1954).

A portion of the act was incorporated into the Social Security Act as title XII, and another into chapter 23 of the Internal Revenue Code. The act provided that the excess (up to $200 million) of Federal unemployment tax collections over total Federal and State employment security administrative expenses—the so-called Reed Act[3] funds—be set aside in the Federal unemployment account in the unemployment trust fund for non-interest-bearing repayable advances to eligible States.

A State becomes eligible to borrow when its unemployment insurance reserve balance at the end of a quarter falls below the total benefits paid in the immediately preceding 12 months. Whenever, on any June 30, the Federal account equals or exceeds $200 million in cash, any remaining excess collections are to be pro-rated among the States, in the proportion that their covered payrolls bear to the aggregate covered payrolls of all States, and deposited in the respective State accounts in the unemployment trust fund.

Reed Act funds transferred to the State accounts must be used to finance benefit payments unless, in certain specific circumstances, they have been appropriated by a State legislature for administrative costs that are not covered by the employment security administration grants under title III of the Social Security Act.

APPROPRIATIONS OF EXCESS COLLECTIONS

Computations made by the Bureau of Employment Security of the Department of Labor indicate that from the fiscal year 1953–54 to date $336.7 million more was collected in taxes than was expended for administration. Table 1 summarizes annual tax collections, expenses, and the amounts to be appropriated under the act. Table 2 details the appropriations and the subsequent financial transactions.

Of the $345.4 million actually appropriated,[4] $151.1 million was credited and transferred directly to the Federal account in 1955 and 1956 and began earning interest at once. Amounts totaling $191.8 million have been held in the form of undistributed appropriations of the unemployment trust fund for varying short periods at the end of fiscal years before transfer to the Federal or the several State accounts. Undistributed appropriations ordinarily earn no interest. Since, however, these amounts must be credited, by law, as of July 1, they did earn interest from the be-

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[1] For changes in the financing provisions made by Public Law 86–778, see "Social Security Legislation in the Eighty-sixth Congress," *Social Security Bulletin*, November 1960, pages 27–28.

[2] House of Representatives, *Report No. 427*, 83d Cong., 1st sess.; and Senate, *Report No. 1621*, 83d Cong., 2d sess.

[3] Representative Daniel A. Reed of New York was a prominent sponsor of the bill.

[4] The difference of $6.1 million from the computed $336.7 million represents certain administrative costs of the Bureau of Employment Security transferred out of the Federal account in 1958 and subsequently reimbursed to it (see footnote 2, table 2).

ginning of the fiscal year although physical transfer took place on or about July 20.

At the beginning of 1956–57 the $81.0 million then held as undistributed appropriations was divided: $47.7 million was transferred to the Federal account to bring its balance up to $200 million, and the remaining $33.4 million was credited to the State accounts. In each of the 2 following fiscal years the Federal account balance was slightly larger than $200 million. All the excess collections appropriated under the act were held as undistributed appropriations until they were transferred directly to the State accounts. Table 3 shows the amounts received by each State in each of the three transfers and the total amounts each State received of the grand total of $138.0 million so distributed.

INTEREST EARNED

The $64.3 million deposited in the Federal account on December 23, 1954, earned $36,019 in the last week of the year at the going interest rate for the unemployment trust fund (special obligations were then bearing 2.25 percent interest; the rate on public issue holdings brought the computed average rate up to 2.30 percent). Through the fiscal year 1959–60 the Federal account has earned a total of $26.4 million in interest on its available balances and outstanding loans.

LOANS TO THE STATES

Upon application of their respective Governors and certification by the Bureau of Employment

TABLE 1.—*Computation of excess of tax collections under the Federal Unemployment Tax Act over employment security expenditures, and amount of balances available for appropriation, fiscal years 1953–54 through 1958–59*

Item	1953–54	1954–55	1955–56	1956–57	1957–58	1958–59
Estimated taxes on employers [1]	$275,279,278	$287,025,881	$324,023,607	$329,923,653	$336,441,886	$325,467,521
Total deductions from collections	210,991,771	200,249,184	242,992,712	258,728,433	302,988,404	325,889,513
Refund of taxes, including interest	2,329,282	2,246,752	2,295,787	2,764,527	2,810,113	3,965,266
Employment security administrative expenses:						
Department of Labor	207,036,215	196,294,231	238,854,000	252,529,679	296,582,946	317,073,482
Treasury Department [2]	1,626,274	1,708,201	1,842,925	3,434,227	3,595,345	4,850,765
Net sum to be appropriated *for* year	64,287,507	86,776,697	81,030,894	71,195,220	33,453,482	0

[1] For fiscal years 1953–54, 1954–55, and 1955–56, tax on employers of 8 or more; beginning 1956–57, on employers of 4 or more. Includes adjustments for differences between estimated and actual tax collections for earlier years

[2] Includes Office of the Treasurer of the United States, the Bureau of Accounts, the Internal Revenue Service, and the Bureau of Public Debt.

Sources: Department of Labor, Bureau of Employment Security, *Unemployment Insurance Program Letter No. 432* (July 25, 1956); *Fiscal Letters No. 354* (Aug. 15, 1956), *No. 382* (Sept. 16, 1957), and *No. 403* (Aug. 29, 1958); and unpublished report, 1959.

TABLE 2.—*Financial transactions under the Employment Security Administrative Financing Act of 1954 and status of the Federal account,* [1] *as of June 30, fiscal years 1954–55 through 1959–60*

[In thousands]

Item	1954–55	1955–56	1956–57	1957–58	1958–59	1959–60	Cumulative, December 1954–June 1960
Appropriations under the Act	$64,288	$167,808	$71,195	[2] $39,532	0	$2,553	[2] $345,376
Transferred to Federal account:							
Directly, from general funds	64,288	86,777	0	0	0	0	151,065
From undistributed appropriations			47,655		[2] $6,079		53,734
Transferred to undistributed appropriations	0	81,031	71,195	39,532	0	2,553	194,311
Interest earned by Federal account	776	3,505	5,138	5,396	5,563	5,972	26,350
Transfers to State accounts	0	0	33,376	71,195	33,453	0	138,024
From Federal account	0	0	0	0	0	0	0
From undistributed appropriations	0	0	33,376	71,195	33,453	0	138,024
Advances to States	0	3,000	2,630	[3] 16,635	212,440	2,004	[4] 240,765
Advances repaid by States	0	0	3,000	[3] 14,000	0	0	17,000
Advances outstanding	0	3,000	2,630	5,265	217,705	219,709	219,709
Year-end balance of transactions	65,063	233,376	276,703	[2] 241,721	[5] 1,398	[5] 7,921	7,921
Federal account	65,063	152,345	205,508	[2] 202,190	[5] 1,398	[5] 5,368	5,368
Undistributed appropriations	0	81,031	71,195	39,532	0	2,553	2,553
Repayable cash advance [6]	0	0	0	5,183	7,030	7,272	7,272
Total proprietary interest, Federal account	65,063	152,345	205,508	207,372	8,428	12,640	12,640

[1] Federal unemployment account in the unemployment trust fund.

[2] Includes transfers (not shown) totaling $6,078,600 in 1957–58 from the Federal account for administrative expenses of the Bureau of Employment Security of the Department of Labor, under P.L. 85-67 (June 20, 1957), and subsequent reimbursement of that sum (shown in 1958–59) from general funds under the Comptroller General's decision (B-135956, July 1, 1958).

[3] Includes advance of $14 million to Oregon, which was nullified on legal grounds (see text) and returned.

[4] Includes an additional advance of $4,056,000 to Pennsylvania, effective July 1, 1960, repayable under the 1954 provisions.

[5] Includes return of $6,773 in 1958–59 and $1,419 in 1959–60 of unobligated portions of amount advanced to the Bureau of Employment Security.

[6] Difference between the total assets in Alaska's trust fund account and its total indebtedness to the Federal account.

Source: Unpublished quarterly report of the Treasury Department.

Security, four States—Alaska, Oregon,[5] Michigan, and Pennsylvania—have borrowed a total of $240.7 million in seven separate advances from the Federal account. (The word "advance" is used advisedly to enable States that have constitutional provisions against borrowing to use the Federal unemployment account.) The largest sum a State may receive at a given time is the highest amount it paid out in benefits during any of the 4 quarters preceding the application for an advance.

When the Employment Security Administrative Financing Act of 1954 was under debate, it was generally predicted that Rhode Island would be the first State to need assistance from the Federal unemployment account and that Alaska would probably be the second. Despite the fact that in 1954 extraordinarily heavy unemployment reduced Rhode Island's unemployment insurance fund to its lowest level since 1941 and that the reserve ratio of 3.7 percent was the lowest of any State at that time,[6] the fund weathered the recession and the intervening years without borrowing. Continued solvency of the fund will depend on current tax developments and future economic conditions.

Alaska, however, became the first to secure advances from the Reed Act fund. From 1955–56 through 1959–60 it has borrowed $11.8 million in five separate advances. Its indebtedness to the Federal account at the end of 1959–60 amounted to $8.8 million, or $7.3 million more than its total assets in the unemployment trust fund (excluding amounts held locally).

Pennsylvania eventually turned to the Federal account, but not until the last quarter of 1958–59, when the Governor applied for an advance of $112.0 million. So depleted was the Federal account by that time, however, that only $96.4 million was available. Upon transfer of that amount to Pennsylvania's account, and before the quarterly interest of $1.4 million was credited on June 30, the balance in the Federal account was reduced to $349.50. Since then Pennsylvania's advance has been increased to $102.0 million.

Oregon and Michigan are the other two States

TABLE 3.—*Amounts credited to State accounts in the unemployment trust fund under the Employment Security Administrative Financing Act of 1954*

State	Total	July 1, 1956	July 1, 1957	July 1, 1958
United States	$138,024,733.38	$33,376,030.98	$71,195,220.32	$33,453,482.08
Ala	1,610,073.77	363,917.03	845,105.16	401,051.58
Alaska	186,712.29	43,344.78	97,707.28	45,660.23
Ariz	657,622.70	151,031.60	335,560.79	171,030.31
Ark	721,870.21	176,351.63	371,787.89	173,730.69
Calif	13,347,356.81	3,206,479.17	6,856,561.32	3,284,316.32
Colo	1,030,163.84	230.101.38	537,743.65	262,318.81
Conn	2,707,709.40	657,714.45	1,395,052.32	654,942.63
Del	509,852.27	119,561.65	272,298.02	117,992.60
D.C	745,845.46	186,092.48	382,862.60	176,890.38
Fla	2,362,269.68	490,993.50	1,231,156.28	640,119.90
Ga	2,171,612.87	503,928.55	1,133,447.01	534,237.31
Hawaii	333,517.92	81,925.36	168,878.01	82,714.55
Idaho	360,787.65	87,633.81	186,315.95	86,837.89
Ill	9,818,936.31	2,386,449.29	5,073,065.45	2,359,421.57
Ind	4,002,465.85	974,221.47	2,075,959.15	952,285.23
Iowa	1,406,043.76	332,160.94	733,702.73	340,180.09
Kans	1,206,064.75	289,064.37	624,733.43	292,266.95
Ky	1,499,468.03	369,689.77	768,952.50	360,825.76
La	1,809,184.95	426,159.44	924,122.69	458,902.82
Maine	641,866.81	152,664.44	335,802.04	153,400.33
Md	2,279,608.29	555,412.60	1,173,129.56	551,066.13
Mass	5,057,199.45	1,256,930.65	2,596,731.43	1,203,537.37
Mich	7,305,074.37	1,847,064.47	3,755,559.72	1,702,450.18
Minn	2,211,604.48	532,977.94	1,139,927.07	538,699.47
Miss	683,708.67	153,861.19	358,088.53	171,758.95
Mo	3,200,212.66	768,936.87	1,655,872.34	775,403.45
Mont	404,159.68	99,893.57	210,569.75	93,696.36
Nebr	680,500.65	162,275.28	355,163.04	163,062.33
Nev	289,907.24	75,686.76	144,452.99	69,767.49
N.H	471,421.94	118,140.80	240,843.82	112,437.32
N. J	5,577,333.12	1,380,440.15	2,859,285.94	1,337,607.03
N. Mex	466,975.97	109,565.85	237,403.61	120,006.51
N. Y	17,425,571.30	4,244,089.48	8,928,247.36	4,253,234.46
N. C	2,544,756.94	595,802.33	1,331,621.16	617,333.45
N. Dak	199,638.39	43,740.87	104,844.05	51,053.47
Ohio	9,341,919.95	2,340,669.22	4,792,266.38	2,208,984.35
Okla	1,230,703.81	291,234.71	642,701.66	296,767.44
Oreg	1,435,294.62	321,589.94	770,800.68	342,904.00
Pa	10,705,658.53	2,675,381.81	5,486,515.57	2,543,761.15
R. I	841,411.98	193,763.19	446,194.44	201,454.35
S. C	1,178,742.33	285,873.33	601,023.17	291,845.83
S. Dak	208,526.67	47,633.91	109,688.67	51,204.09
Tenn	2,015,298.19	466,434.87	1,069,324.67	479,538.65
Tex	5,651,610.73	1,295,317.76	2,943,640.64	1,412,652.33
Utah	547,255.57	132,358.82	280,548.98	134,347.77
Vt	235,590.02	54,600.20	124,037.15	56,952.67
Va	2,066,372.68	477,481.60	1,072,934.81	515,956.27
Wash	2,186,888.63	545,202.10	1,109,991.98	531,694.55
W. Va	1,289,476.34	300,254.71	668,220.78	321,000.85
Wis	2,955,997.09	722,623.22	1,528,703.03	704,670.84
Wyo	206,887.76	51,307.67	106,073.07	49,507.02

Source: Treasury Department unpublished reports.

that have secured advances. In the last quarter of 1957–58, Oregon became eligible for an advance, and the Governor applied for $14.0 million, which was certified and transferred. The money had scarcely been credited to Oregon's reserve account when the State attorney general ruled that the Governor had no authority to apply for such an advance. The advance was therefore not only returned, but canceled from the books as though it had never been made. Although this statement is true from the legal point of view, during the brief period in which the $14.0 million was credited to the Oregon account the money was not available for any other State, and the Oregon advance has been included in the totality of financial data pre-

[5] Oregon's advance was, in fact, nullified, as discussed later in this note.

[6] Rhode Island Department of Employment Security, *19th Annual Report, 1954*, page 4.

sented here. The transaction has never been regarded as an advance by the Bureau of Employment Security, and since the fund had a large balance at that time, requests by other States were not adversely affected.

The recession of 1957–58 so depleted the reserves of the Michigan unemployment insurance fund that it became eligible for an advance from the Reed fund and made application. At the start of 1958–59 it received an advance of $113.0 million but has never needed to use the money. Although Delaware and West Virginia have become eligible for advances from the Federal account, neither State has applied.

REPAYMENT OF LOANS

Two of the four States that received advances have made repayments to the Federal account. As stated above, Oregon returned its $14.0 million loan almost immediately. Alaska has repaid its first advance—$3.0 million. Of a total of $240.7 million advanced, only $17.0 million has been repaid or returned, leaving an outstanding balance of $223.7 million.

Repayment of the Federal advances is closely tied in with the question of the Federal Government's interest in the solvency of the borrowing State's unemployment insurance fund. Continuing Federal interest in fund solvency led first to passage in 1944 of the George Loan Fund Act (sections 904(h) and 1201 of the Social Security Act) and, exactly a decade later, to passage of the Reed Act. The George Fund Act established the Federal unemployment account (which was never activated and utilized until passage of the Reed Act) to provide interest-free advances to States with depleted unemployment insurance reserves. Although the George Act did have specific repayment provisions, these could be circumvented. In effect, therefore, the act "left it largely to the discretion of the States as to whether they would revise their tax structures so as to make any advances in fact repayable."[7] The conference of State unemployment insurance officials testifying during hearings on the Reed Act "recommended the strengthening of the repayable loan provision by the method of reducing the allowable offset against the Federal tax."[8]

[7] House Committee on Ways and Means, *Employment Security Administrative Financing Act of 1953* (H. Rept. 427 on H.R. 5173, 83d Cong., 1st sess.), page 3.

If a State receiving an advance still has an outstanding loan balance by December 1 of the fourth year after the initial advance or subsequent advances were received, the Reed Act provided that the total offset credits (normally up to 90 percent of the Federal employment tax, allowable to participating employers by virtue of their payment of State unemployment taxes) are to be reduced by 5 percent for that fourth year, and by an additional 5 percent for each additional year a balance is outstanding. Thus, instead of an offset of up to 2.7 percent of covered payroll, the tax offset would be but 2.55 percent of payroll for the fourth year, 2.4 percent for the fifth year, and so on. The effective Federal tax is thereby increased from 0.3 percent of payroll to 0.45 percent for the fourth year, 0.6 percent of payroll for the fifth year, and so on.

The Social Security Amendments of 1960 reduced to 2 years the period during which a State can have an unrepaid advance or advances before the tax offset is reduced and doubled the offset reductions (10 percent instead of 5). However, the repayment provisions of the 1954 Employment Security Administrative Financing Act apply and will continue to apply to all loans made before the adoption of the 1960 amendments to the Social Security Act.

[8] Ibid.

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