

a few instances, enactment of more liberal benefit provisions brought benefit disbursements substantially above the amounts paid in March 1943. For the Nation as a whole, the weekly benefit for total unemployment averaged \$15.66 this March as against \$13.70 a year earlier.

The number of initial claims received in local offices was slightly less than in February and 20 percent less than in March 1943. Although two-thirds of the States reported fewer claims, the claims loads increased substantially in several States. In some the rise was due to changes in war-production requirements, and in some, to progressive curtailments in the construction and textile industries; in a few States the rise reflected the beginning of new benefit years.

Although the number of continued claims was 5 percent more than in February, because of the increased volume in initial claims in preceding months, it was 38 percent below the number in March a year ago.

THE SLIGHT monthly increase in total expenditures for public assistance in the continental United States that has occurred, with two exceptions, in every month since June of last year continued in March. The total expended, \$78.5 million, was 0.1 percent above that in February and 1.1 percent above expenditures under the

four programs in March 1943; if expenditures under the WPA and NYA programs are included in the figure for the earlier month, however, assistance expenditures this March were 10 percent less.

The increase from February in total payments resulted from gains in aid to dependent children and general assistance; payments for old-age assistance and aid to the blind decreased slightly. For the third consecutive month, the number of recipients declined in all programs.

The slight decrease in the number of aged recipients continued a 21-month decline which, by March, amounted to 6 percent; over the same period, payments increased 16 percent. For aid to dependent children, March declines completed 2 full years of continuous decrease in the number of families aided; the number dropped 34 percent, and payments also fell 17 percent. Moving within a much narrower range, the number of blind recipients has nevertheless declined slightly each month since June 1943; in March the number was 4 percent less than in the earlier month, but total payments were 0.5 percent more. The drop in general assistance cases, which began in February 1942, has continued with only one interruption; by March 1944 the number of cases had dropped 66 percent and payments, 59 percent.

International Labor Organization Conference

The International Labor Conference opened its 26th session in Philadelphia on April 20, with delegations from some 40 of the member States of the International Labor Organization. Each member State was represented by four official delegates—two representing the Government, one employers, and one labor. Walter Nash, Deputy Prime Minister of New Zealand, was elected conference president. For the United States, the Government delegates were Secretary of Labor Frances Perkins and Senator Elbert D. Thomas; Robert J. Watt represented labor and Henry I. Harriman, management. Arthur J. Altmeier, Chairman of the Social Security Board, was one of the advisers to the Government delegation.

Included in the conference's 7-point agenda, determined at a meeting of the Governing Body of the ILO in London last December, were recommendations to the United Nations for present and post-war social policy; the organization of employment in the transition from war to peace; social security—principles, and problems arising out of the war (including proposals for medical care); and minimum standards of social policy in the dependent territories.

War-Risk Contribution Provisions in State Unemployment Compensation Laws

By Gladys R. Friedman*

PROVISIONS FOR "war-risk contributions" from employers whose pay rolls have expanded during the war were incorporated in the unemployment compensation laws of ten States in 1943 (Alabama, Florida, Illinois, Iowa, Maryland, Minnesota, Missouri, Ohio, Oklahoma, and Wisconsin). These war-risk contributions were additional to or higher than the rates which would otherwise have been assigned under the existing financing provisions of the State laws.

Inclusion of these provisions grew out of concern over the extent of the potential benefit liability which was rapidly accruing from the tremendous

expansions in pay rolls caused by war activity, and over the anticipated effect of heavy benefit payments, after the war, on the individual rates assigned employers. It was also recognized that additional taxes imposed upon employers operating under war contracts could often be reimbursed by the Federal Government¹ and

¹ Representatives of the War and Navy Departments appeared before committees of the legislatures in Missouri and Ohio and opposed enactment of the war-risk legislative proposals on the grounds that any increase in unemployment taxes paid by employers producing war materials for the United States would constitute an item of cost which for the most part would ultimately be reimbursed by the Federal Government.

would, therefore, represent no additional tax burden on employers. It was argued that other employers with war-expanded pay rolls, even though they were not operating under Government contracts on a cost-plus basis, could more easily assume this tax during the war than afterward, when their pay rolls probably will decline with cessation of war production.

The emphasis on the probable effect of post-war costs on individual reserve accounts is well illustrated by the following statement of policy which introduces the war-risk contribution provision of the Wisconsin law:

"War-time expansion has increased the pay rolls of some employers substantially over their 1940 pay rolls, with a corresponding increase in the potential post-war benefit liabilities of their reserve accounts, but without a corresponding increase in the level of those accounts under this chapter. Unless corrected, this condition would

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endanger the post-war solvency of such accounts, and would require higher contribution rates to be collected from employers generally, during the post-war years. Therefore, such accounts should now be built up toward more nearly adequate post-war levels, to help avoid (or reduce) the post-war rate increases which would otherwise result, by collecting contributions from such employers at higher war-time rates, based on their pay-roll increases and the relative adequacy of their accounts."

While complete analysis of these provisions must await data on actual operations, their inclusion in ten laws during 1943 warrants some preliminary analysis of the major characteristics of the provisions, consideration of the financial characteristics of those States, and some questions concerning the implications of the provisions.

War-Risk Contribution Provisions

In general, the war-risk provisions apply only to the war period. The liability for the increased taxes is assessed on employers whose pay rolls have expanded greatly during the war—either all employers or those whose pay rolls are of a specified size. In most of the States, the war-risk rate is levied only on that part of the pay roll in excess of a stated amount. The rate may be a flat rate on all employers and higher than the rate determined under the usual tax provisions, it may be levied in addition to the regular rate, or it may vary with the increase in the employer's pay roll and the status of his reserve account.

Effective Period

The war-risk provisions became effective in two States (Minnesota and Oklahoma) January 1, 1943; in one (Alabama) April 1, 1943; in six (Florida, Illinois, Iowa, Maryland, Missouri, and Wisconsin) July 1, 1943; and in one (Ohio) January 1, 1944 (table 1). Three States (Florida, Maryland, and Oklahoma) made no provision for a specified termination date. Oklahoma's use of the lowest of the annual taxable pay rolls of the preceding 3 years from which the pay-roll expansion is measured limits the life of this provision for most firms, since it is hardly likely

that, in general, pay rolls in the post-war period will be higher than in the war period. Florida specifies that the war-risk provisions shall remain in effect as long as the State-wide reserve at the end of any calendar quarter does not exceed \$65 per insured worker; the Florida agency estimates that this floor will probably be reached by the end of 1944. The other seven States all specify an effective period which runs for 2-3 years, ending some time in 1945 in six of the States, and on March 31, 1946, in Alabama.

Employers Subject to the Tax

In general, only employers whose pay rolls have expanded greatly during the war period are required to pay war-risk contributions.³ In determining what employers are subject to the tax, the provisions take into consideration the size of the employer's pay roll; the increase in his pay roll over a specified prior period; and, in four States, the rates now assigned employers under experience rating, or the status of the employer's account.

Size of pay roll.—Half the States (Alabama, Illinois, Iowa, Minnesota, and Wisconsin) exempt employers with small pay rolls from the special war-risk contribution, regardless of the increase in their pay roll. Presumably, these States were interested in taxing only the large employers, because of the greater instability of small firms and the assumption that the large employers are likely to be those engaged in war production whose taxes will be reimbursed by the Federal Government and also those who, individually, will throw the greatest burden on the fund.

The five other States levy the tax on all employers regardless of size of pay roll. Presumably, these States levy the tax without regard for size of pay roll on the theory that employers with war-expanded pay rolls would represent the greatest risk to the unemployment fund or that the accounts of all employers with war-expanded pay rolls might be subjected to heavy post-war drains and could more easily

³In addition, 4 States (Iowa, Minnesota, Missouri, Wisconsin) levy contributions on specified new employers, or those without pay rolls in the base period; and Wisconsin levies a special post-war reserve tax of 0.5 percent on all subject employers, regardless of size of pay roll.

pay these increased contributions now than later.³

The size-of-pay-roll exemption varies among these five States; Iowa and Wisconsin exempt employers with annual pay rolls of less than \$30,000; Alabama and Illinois exempt employers with annual taxable pay rolls of \$100,000 or less; Minnesota exempts employers with quarterly taxable pay rolls of \$50,000 or less. The Alabama exemption would exclude about 87 percent of the employers subject to the unemployment compensation tax classified by size of pay roll, while the Wisconsin and Iowa exemptions may result in eliminating approximately two-thirds of the firms subject to the unemployment compensation tax in each State, judged from 1943 reports. No information is available on the proportion of total covered pay roll included in these figures.

Increase in pay roll.—In all ten States, an employer's liability for the special war-risk tax in any taxable period depends on a specified increase in his pay roll during the years of war activity. In some States this factor is used alone; in others it is used in combination with other factors, such as the condition of the employer's reserve account. The "normal" period from which the pay-roll expansion is measured and the percentage increase in pay rolls which make an employer liable to these new provisions vary greatly among the States.

The most common base from which an employer's pay-roll expansion is measured is the amount of his pay roll in 1940. Five States (Illinois, Iowa,⁴ Maryland, Minnesota,⁵ and Wisconsin) use this base. Three States (Alabama, Missouri, and Oklahoma) use the employer's annual taxable pay roll for several preceding years. Alabama

⁴The Maryland agency has reported that many small employers not directly engaged in war production were among the 2,000 employers subject to the war-risk rate for the fiscal year 1943-44. Many of them experienced expansions in pay roll due to higher wage scales and longer hours of work rather than an increase in the number of workers employed.

⁵If there is no 1940 pay roll, pay roll for year ending on computation date is used.

⁶The pay-roll expansion in any calendar quarter is measured in relation to the corresponding quarter in 1940.

Table 1.—War-risk contribution provisions, 10 States, 1943

State	Effective period	Employers liable—		War-risk contribution rates and subject pay rolls
		Without pay rolls in specified period	With specified increase in pay rolls	
Alabama.....	April 1943-March 1946.	None.....	Employers with total taxable pay roll in 12-month period, beginning April 1 of any year, which exceeds \$100,000 and exceeds the greater of (a) average annual taxable pay roll for 4 consecutive calendar years immediately preceding the 12-month period or (b) the average annual taxable pay roll for first 2 of last 4 calendar years by 100%.	Flat rate of 2.7% in lieu of modified rate under experience rating on that portion of total taxable pay roll in 12-month period, beginning April 1 of any year, which exceeds the greater of (a) average annual taxable pay roll for 4 consecutive calendar years immediately preceding the 12-month period or (b) the average annual taxable pay roll for first 2 of last 4 calendar years by 100%.
Florida.....	Beginning July 1, 1943, whenever State-wide reserve at end of any calendar quarter does not exceed \$65 per insured worker.	Employers with no 1939 taxable pay roll whose current annual taxable pay roll exceeds first annual taxable pay roll by 100%.	Employers with current annual taxable pay roll which exceeds 1939 taxable pay roll by 100%.	Flat rate of 2.7% in lieu of modified rate under experience rating on portion of current taxable pay roll which exceeds by 100% either (a) taxable pay roll for 1939 or (b) if no 1939 taxable pay roll, first annual pay roll thereafter.
Illinois.....	July 1943-December 1945.	None.....	Employers with taxable pay roll for July-December 1943 which exceeds \$50,000 or for 1944 and/or 1945 which exceeds \$100,000 (a) with modified rate of less than 2% whose taxable pay roll for preceding calendar year exceeds taxable pay roll for 1940 by more than 100% but less than 150% or (b) with modified rate of less than 2.7% whose taxable pay roll for preceding year exceeds taxable pay roll for 1940 by 150% or more.	(a) Flat rate of 2% in lieu of modified rate under experience rating on portion of current pay roll which exceeds \$50,000 for July-December 1943 or \$100,000 for 1944 and/or 1945, or (b) flat rate of 2.7% in lieu of modified rates under experience rating on portion of current pay roll which exceeds \$50,000 for July-December 1943, or \$100,000 for 1944 and/or 1945.
Iowa.....	July 1943-December 1945.	(a) Employers subject to law after Dec. 31, 1942, if annual pay roll ¹ during first year of coverage equals or exceeds \$30,000; or (b) employers with no 1940 pay roll if pay roll for year ending on computation date equals or exceeds \$30,000.	Employers with annual pay roll on computation date of \$30,000 or more which exceeds pay roll for 1940 by 100% or more.	Variable rates ranging from 2.7% to 5%, depending upon employer's reserve percentage correlated with percentage increase in pay rolls, in lieu of modified or standard rates under experience rating (a) on that portion of pay roll ¹ in current year which exceeds pay roll for 1940 or (b) on total pay roll for those employers who have no 1940 ² pay roll.
Maryland.....	July 1, 1943, and thereafter.	None.....	Employers whose taxable pay roll for calendar year immediately preceding current fiscal year exceeds by 50% pay roll for 1940.	Flat rate of 2.7% on entire pay roll in lieu of rates under experience rating.
Minnesota.....	January 1943-June 1945.	Employers subject to law after Dec. 31, 1940, whose total current taxable pay roll for any quarter January 1942-June 1945 exceeds \$50,000.	Employers with total current taxable pay roll for any calendar quarter January 1942-June 1945, which exceeds \$50,000 and exceeds by 100% or more pay roll of corresponding quarter of 1940.	Flat rate of 3%, in addition to rates assigned under experience rating, (a) on that portion of pay roll which exceeds employer's pay roll in corresponding quarter of 1940 by 100%, (b) for employer newly subject since Dec. 31, 1940, on entire pay roll.
Missouri.....	July 1943-June 1945.....	Employers with no annual pay roll for each of the calendar years 1939, 1940, and 1941.	Employers with annual pay roll for fiscal years ending June 30, 1944, and/or 1945 which exceeds by 50% or more the average annual pay roll for the calendar years 1939-41.	Flat rate of 3.6% ³ in lieu of modified rates under experience rating on that part of current taxable pay roll which exceeds by 50% average annual pay roll for calendar years 1939-41; if no pay roll for each of years 1939-41, the rate of 3.6% on whole pay roll, provided that Commission may establish average annual pay roll for any employer without pay roll in 1939-41 whose pay roll from year to year has not increased more than 50%. Rate is levied only on that part of pay roll in excess of established average annual pay roll.
Ohio.....	January 1944-December 1945.	New employers not subject to experience rating whose current annual taxable pay roll exceeds by 50% or more taxable pay roll for first 4 consecutive calendar quarters in which they had employment.	Employers with most recent annual pay roll which equals or exceeds by 50% average annual pay roll used in computing first modified rate and whose accounts do not equal or exceed 9% of average annual pay roll.	Variable rates ranging from 0% to 1% on total taxable pay roll—in addition to modified rates under experience rating—depending upon percentage increase in employer's pay roll correlated with ratio of excess contributions to annual pay roll. Maximum total contribution rate (regular rate plus war-risk) 3.5%. For new employers not yet subject to experience rating, rates are those applicable to employers with reserves of less than 3% of pay rolls.
Oklahoma.....	Jan. 1, 1943, and thereafter.	None.....	Employers with annual taxable pay roll in current calendar year which exceeds by 200% their lowest annual taxable pay roll for the 3 immediately preceding calendar years.	Flat rate of 2.7% ⁴ in lieu of modified rates under experience rating on that part of current annual taxable pay roll which exceeds by 200% the lowest annual taxable pay rolls for the 3 immediately preceding calendar years.
Wisconsin.....	July 1943-December 1945, or earlier. ⁵	Employers who became subject to law after Dec. 31, 1942, and whose pay roll for their first year of coverage is \$30,000 or more.	(a) Employers whose pay roll for year ending on computation date is \$30,000 or more and exceeds by 50% pay roll for 1940. (b) All subject employers.....	(a) Variable rates ranging from 0% to 5% on total taxable pay roll in lieu of modified rates under experience rating based on employer's reserve percentage correlated with increase in pay roll. ² Maximum rate for July-December 1943, 4%. (b) Flat rate of 0.5% on total taxable pay roll of all subject employers for special "post-war reserve" in the employer's account.

¹ Iowa agency has interpreted this as total pay roll.² For employers with no 1940 pay roll, the rates applicable to employers whose pay rolls have expanded 400% or more applied.³ Any employer whose contributions have increased because of the war-risk rates is entitled to a special credit of \$100 against amount of increased contributions for each of the 2 fiscal years during which war-risk provisions are effective.⁴ Penalty rates were suspended during 1943 and 1944.⁵ War-risk contributions will cease to be effective on the earlier of the 2 following dates: Dec. 31, 1945, or the close of the third month following the first calendar quarter for which the total of all taxable pay rolls is less than \$200 million as determined by the Commission and published in an official State paper.

specifies the average annual taxable pay roll of the first 2 of the last 4 years or the average of the 4 years immediately preceding his current pay roll; Missouri, the average of 1939, 1940, and 1941; Ohio, the average annual pay roll used in computing the employer's first modified rate; and Oklahoma, the lowest annual taxable pay roll in the 3 preceding calendar years. Florida⁶ uses the employer's 1939 taxable pay roll.

Although data are not yet generally available on the effect which the use of these various bases for measuring pay-roll expansion may have on the number of employers who are subject to the tax, some indication may be gleaned from examining the trend in covered employment and pay rolls in these ten States.

The expansion in covered employment did not begin uniformly after the normal year, taking as examples the five States which use 1940 as the base year from which expansion is measured. In Illinois, the expansion has continued uninterruptedly since the beginning of 1939. Although employment and pay rolls in Iowa were higher in 1940 than in 1939, significant expansion got under way only in 1941. In Maryland, 1939 would probably have been a better base year to use if all the defense and war-expanded pay rolls were to be considered, since the employment trend was already upward in 1940. For Minnesota, 1940 probably was as good a base year as possible, since employment was higher in 1939 than 1940. Wisconsin employment and pay rolls had already expanded somewhat by 1940.

In the pay-roll increase required before an employer may be liable for war-risk contributions, the ten provisions again show no uniform pattern. Six States levy war-risk contributions on employers with specified increases in pay rolls, while four (Illinois, Iowa, Ohio, and Wisconsin) levy these contributions on employers with specified increases in relation to the rates they are receiving under normal experience-rating operations or the status of the employers' individual reserve accounts. Oklahoma taxes employers whose pay rolls have expanded 200 percent or more over

⁶ If there is no 1939 pay roll, the first annual taxable pay roll is used:

those in the "normal" period specified; Alabama, Florida, Illinois, Iowa, and Minnesota, 100 percent or more, and Maryland, Missouri, Ohio, and Wisconsin, 50 percent or more.⁷

Combining pay-roll increases with specified variable tax rates or reserve ratios under experience rating as the basis for determining the liability of the employer in four States (Illinois, Iowa, Ohio, and Wisconsin) leads to some interesting contrasts.

Wisconsin substitutes a war-risk contribution-rate schedule for the normal experience-rating schedule by increasing the contributions due from employers in relation to their reserve ratio and pay-roll expansion. In Ohio the war-risk contribution rate depends on the employer's reserve ratio and pay-roll expansion, and is assessed in addition to the rate under experience rating. In both States, however, employers with the highest reserve ratios and the lowest normal experience rates are exempt from any increase in tax regardless of the increase in pay rolls. The Wisconsin schedule of war-risk rates provides that these rates will be assessed on some employers normally liable to zero rates, as the pay-roll expansion increases. Ohio, however, exempts all employers, regardless of pay-roll expansion, who have rates below 1.5 percent. This difference may be due in part to the fact that in Wisconsin rates can go down to zero under experience rating, while in Ohio the minimum rate is 0.7 percent.

Illinois exempts from war-risk rates the employers with standard or penalty rates who have the greatest expansion in pay rolls as well as employers with rates of 2 percent or above, who had smaller expansions, levying the new taxes on the excess pay roll of employers receiving the lowest rates now. In Iowa no employer with the specified expansion is exempt from the war-risk rate because of his rate under experience rating.

⁷ Four States (Iowa, Minnesota, Missouri, and Wisconsin) also assess war-risk rates against newly subject employers, under varied specified conditions, without any requirement of pay-roll increases. Iowa and Wisconsin, in assigning rates, assume that employers with no 1940 pay roll had an increase of 400 percent or more.

Pay Roll Subject to War-Risk Rates

Only three States (Maryland, Ohio, and Wisconsin) levy the war-risk contribution rate on the entire pay roll of employers who meet specified conditions; the other seven (Alabama, Florida, Illinois, Iowa, Minnesota, Missouri, and Oklahoma) levy it on that portion of the pay roll which is in excess of a stated amount.⁸

Among the seven States which levy the war-risk rate on only a part of the pay roll, there are differences in the proportion subject to the levy. Illinois, Iowa, and Missouri specify that the war-risk rate will be levied on that part of the pay roll which exceeds that of the base year used; Alabama, Florida, Minnesota, and Oklahoma levy the war-risk contribution rate only on that part in excess of the specified increase used to determine the employer's liability for the tax. It seems clear that the States which collect additional revenue on the employer's entire pay roll will receive far more, relatively, than the other States, and that the smaller the proportion of pay roll subject to the levy, the less will be the revenue.

War-Risk Contribution Rate Structure

The rate structure also is not uniform. Maryland, one of the three States which levy war-risk contribution rates on the entire pay roll of specified employers, levies a 2.7-percent tax on all employers whose pay rolls have expanded 50 percent or more instead of basing their rates on the benefit ratio used for all other employers under their regular experience-rating formula. Ohio adds an additional tax ranging from 0.1 to 1 percent, depending on the employer's rate or reserve ratio and his increase in pay roll, with a maximum total contribution (war-risk and regular tax) of 3.5 percent.⁹ If, however, the balance in the fund is less than the benefits in the 2 preceding years

⁸ In addition, however, Iowa, Minnesota, and Missouri levy the tax on the entire pay roll of certain new employers, while Wisconsin also levies its special post-war tax on the entire pay rolls of all employers.

⁹ Newly subject employers, not yet subject to experience rating, are to receive rates applicable to employers with a reserve of less than 3 percent.

the rate is increased 0.5 percent, making the maximum total contribution rate 4 percent. Wisconsin substitutes for employers subject to the war-risk rates, a new schedule of rates ranging from 0 to 5 percent¹⁰ (instead of 0 to 4 percent), also depending on the employer's reserve ratio and percentage increase in pay roll.¹¹ In addition, it levies a flat 0.5 percent tax on all subject employers, regardless of increase in pay rolls, for the post-war reserve.¹²

The seven States which levy the rate on only part of the pay roll fall into several groups. Alabama, Florida,¹³ and Oklahoma¹⁴ levy a flat 2.7-percent tax on the excess pay roll, while the rest of the pay roll is subject to the regular experience-rating tax rate. The Missouri provisions are similar, except that the rate levied on the excess pay roll is 3.6 percent.¹⁵

Illinois raises to 2.7 percent the rates that are below that figure for employers with pay rolls which have expanded 150 percent or more; for employers with rates below 2 percent the rate is raised to 2 percent if their pay-roll increases were between 100 and 150 percent. Iowa substitutes rates ranging from 2.7 to 5 percent on the excess pay roll, depending on the employer's reserve ratio and the increase in the pay roll.¹⁶ Minnesota

¹⁰ The maximum rate is 4 percent for the 6 months ended December 31, 1943.

¹¹ Employers with no 1940 pay roll receive the rates applicable to employers whose pay roll has expanded 400 percent.

¹² For the quarter ended September 30, 1943, the revenue from this tax was \$1.6 million.

¹³ An amendment to the experience-rating provisions of the Florida law is included with the war-risk provisions. It provides that if the balance in the fund as of December 31 of any year does not exceed \$22 million, or \$65 per covered worker, experience rating will be suspended and all employers subjected to a 2.7-percent rate on their entire pay roll. This reserve provision had formerly been \$12 million. Funds available on June 30, 1943, were \$25.7 million.

¹⁴ Oklahoma suspended penalty rates in 1943 and 1944.

¹⁵ Employers whose contributions are increased because of the war-risk rates are entitled to a special credit of \$100 against the amount of the increased contributions for each of the 2 fiscal years during which the war-risk provisions are effective.

¹⁶ Employers with no 1940 pay roll receive rates applicable to employers whose pay roll has increased by 400 percent or more.

adds a 3-percent tax on the excess pay roll.

Even with the war-risk provisions, four States (Alabama, Florida, Maryland, and Oklahoma¹⁷) will not tax any employer at more than the standard rate. In all the other States the regular experience-rating formula provides for a maximum rate above the standard. In one of these States (Illinois) the war-risk provisions do not provide rates above the standard; the rate on the excess pay roll is increased to only 2 percent or 2.7 percent, depending on the increase in the pay roll and the rates assigned employers under regular experience-rating operations.

In the four States which provide a maximum rate of 2.7 percent under regular experience-rating provisions, revenue will still be less than that which would have been collected at the standard rate, despite the war-risk provisions. In these States the war-risk provisions merely introduce another factor which determines an employer's liability for the standard rate on his whole pay roll (as in Maryland) or on that part of his pay roll which is in excess of a specified amount (as in Alabama, Florida, and Oklahoma).

Liability of Newly Subject Employers

Six States (Florida, Iowa, Minnesota, Missouri, Ohio, and Wisconsin)

¹⁷ Rates above 2.7 percent were suspended for 1943 and 1944; maximum rate is 4 percent thereafter.

make special provision for specified newly subject employers, or for employers without pay rolls in the base period used. In four, these employers are subject to the tax without reference to increase in pay roll, and in all but Florida their rates are higher than those of other employers. In Iowa and Wisconsin, employers with no 1940 pay roll receive the rates which are applicable to employers whose pay rolls have expanded by 400 percent or more—the highest range of rates. Minnesota and Missouri apply the war-risk rate to the entire pay roll of employers who had no pay rolls in the prior period, while for all other employers it is applied only to the excess pay roll. Ohio treats employers not yet subject to experience rating as if they had a reserve of less than 3 percent of average annual pay roll, the reserve which makes an employer eligible for the highest range of rates.

Financial Characteristics of the Ten States

The ten States which have adopted war-risk contribution provisions do not have any common financial problem, judged by the expansion in their pay rolls, by their probable claim load in the post-war period, or by some rough indicators of the solvency of their unemployment compensation funds. Alabama, Florida, Maryland, and Ohio have experienced a wartime pay-roll increase substantially greater than for the United States as a whole. In Illinois, Iowa, Minnesota, Missouri, and Oklahoma, the pay-roll increase

Table 2.—Selected financial indexes in 10 States

State	Percentage increase in taxable pay rolls, April-June 1943 ¹ compared with April-June 1940	Funds available at end of year as percent of taxable wages during year ²		Percent of employed covered workers, September 1943, who could have maximum duration of benefits under State laws from funds available on Dec. 31, 1943	Estimated demobilization unemployment as percent of September 1943 covered employment ³
		1939	1942		
Alabama.....	157.5	5.2	6.0	46.0	32.7
Florida.....	174.7	6.2	4.8	50.2	22.4
Illinois.....	83.4	7.8	8.4	53.4	30.7
Iowa.....	79.1	5.7	7.3	82.9	26.2
Maryland.....	102.0	3.0	5.8	37.5	39.2
Minnesota.....	81.3	5.1	5.4	53.5	21.0
Missouri.....	90.7	7.7	8.3	67.0	29.0
Ohio.....	124.8	7.1	7.6	65.0	36.7
Oklahoma.....	103.3	6.0	6.7	54.9	32.3
Wisconsin.....	113.8	8.5	7.7	62.5	32.6

¹ Represents wages earned in covered employment for all pay periods ended within the quarter; data for 1943 estimates.

² Wages over \$3,000 excluded.

³ Based on estimates in *Monthly Labor Review*, July 1943, adjusted for coverage under State unemployment compensation laws.

has been below the Nation-wide average of 110.7 percent, while in Wisconsin the increase was slightly higher.

In each State except Florida, there is substantial correlation between the wartime increases in covered pay rolls and the unemployment that may be expected as a result of post-war demobilization. The States with the sharpest rises in pay roll are likely to face the heaviest relative post-war demobilization loads. In Florida a large part of the pay-roll increase took place in construction industries, in which contraction in employment has already begun. Such unemployment, therefore, is not considered as resulting from post-war demobilization, nor should it prove costly to the unemployment compensation reserve fund, since workers laid off now can be quickly reemployed in other industries. Demobilization unemployment likely to result from contraction of shipbuilding and manufacture of lumber products will probably represent a relatively light drain on the Florida reserve fund.

Estimates of the impact of demobilization, published by the Bureau of Labor Statistics,¹⁸ provide a rough basis, after adjustment for coverage of State unemployment compensation laws, for estimating the number of unemployment compensation claimants that may result from the temporary contraction of work opportunities and the return of ex-servicemen to the labor market during the reconversion period at the end of the war.

While these estimates do not show the total claim load to be faced by the States, they do indicate the relative impact of demobilization on the State funds. Although Florida had the greatest percentage increase in pay rolls among the ten States, it will have next to the smallest relative demobilization problem, according to the estimates. Maryland, however, with the next greatest increase, may have the greatest problem. Iowa and Minnesota, with comparatively small increases in pay roll, will probably have comparatively small demobilization problems.

In terms of the ratio of funds available at the end of the year to taxable pay rolls for the year, Alabama,

¹⁸ "Relative Severity of Post-War Demobilization by States," *Monthly Labor Review*, Vol. 57, No. 1 (July 1943), pp. 1-4.

Table 3.—Selected data on experience rating in 10 States¹

State	Effective date	Contribution rate				Percent of rated accounts with reduced rates in 1943
		Minimum	Maximum	Estimated average		
				1942	1943	
Alabama.....	Apr. 1941	0.5	2.7	1.6	1.2	95.2
Florida.....	Jan. 1942	1.7	2.7	2.3	2.2	70.0
Illinois.....	Jan. 1943	.5	3.6	-----	1.3	80.2
Iowa.....	Jan. 1942	.9	3.6	-----	1.0	72.0
Maryland.....	July 1943	.9	2.7	-----	2.1	84.5
Minnesota.....	Jan. 1941	.5	3.25	-----	2.0	77.3
Missouri.....	Jan. 1942	0	4.1	1.5	1.6	81.6
Ohio.....	Jan. 1942	.7	3.0	1.2	1.4	92.7
Oklahoma.....	Jan. 1942	.5	2.7	1.7	1.5	80.1
Wisconsin.....	Jan. 1938	0	4.0	1.5	1.7	69.8

¹ Excludes the war-risk contribution provisions.
² Maximum rate assigned for 1943 is 2.75 percent.
³ Maximum rate assigned for 1943 is 3.0 percent.
⁴ Excludes voluntary contributions in the 3 States

which make provision for them.
⁵ Maximum rate is 2.7 percent for 1943 and 1944 and 4 percent thereafter.

Illinois, Iowa, Maryland, Minnesota, Missouri, and Ohio had a higher ratio of funds at the end of 1942 than in 1939, despite the growth in taxable pay rolls. On the other hand, Florida, Oklahoma, and Wisconsin had smaller relative reserves in 1942 than in 1939. In five States, the ratio of reserves at the end of 1942 to taxable pay rolls for 1942 was lower than 6.8 percent, the average for the country as a whole.

Judged by other rough indicators, the financial condition of the unemployment compensation systems differed considerably in these ten States. The proportion of employed covered workers, as of September 1943, who could receive benefits for the maximum duration provided under their respective State laws from funds available on December 31, 1943, ranged from 37.5 percent in Maryland to 82.9 percent in Iowa. All the States except Alabama and Maryland had reserves at the end of 1943 sufficient to pay benefits for the maximum duration to at least half of all workers in covered employment in those States as of September 1943.

A comparison of funds available for benefits at the end of 1943 with the amounts needed to pay the maximum duration of benefits to the number of covered workers who might become unemployed as a result of the demobilization revealed considerable diversity among the States. Maryland had just enough funds in reserve, while Florida, Iowa, Minnesota, and Missouri had more than two times the amount necessary.

In one respect, however, the financial structure of these States was similar; they all had experience-rat-

ing provisions in effect, except Maryland, where experience rating became effective in July 1943. However, the effective date of the experience-rating provisions, the measures of employer experience with the risk of unemployment which are used, the revenue lost as a result of experience rating, and the rate structure varied considerably. In Illinois and Maryland, 1943 was the first year in which experience rating operated. Iowa, Missouri, Ohio, and Wisconsin used the reserve ratio¹⁹ to measure the employer's experience with the risk of unemployment; Florida, Maryland, and Minnesota, the benefit ratio;²⁰ and Alabama, Illinois, and Oklahoma, benefit wages.²¹ Under their regular experience-rating formulas, Missouri and Wisconsin permitted employers to cease paying any contributions. Alabama, Florida, Maryland, and Oklahoma provided for no rates above the normal 2.7-percent rate. In all but two States, the regular experience-rating provisions reduced the average rate to less than 2 percent in 1943.

Concluding Observations

Actual analysis of either the impact of the war-risk contribution

¹⁹ A reserve ratio is the ratio between the excess of all contributions credited to an employer's account over all benefits paid to his workers debited to his account and the employer's annual pay roll for a recent year or averaged over recent years.

²⁰ A benefit ratio is the ratio between benefits paid to workers of an employer in a given period of time and the employer's pay roll during that period.

²¹ Benefit wages are the proportion which the taxable wages paid to workers who become unemployed and receive benefits are of total taxable wages paid by that employer.

provisions on employers or the revenue which will be obtained through the operation of these provisions must await the receipt of statistics from the States or the preparation of special studies by the States. Despite its limitations, however, this analysis of the legislative provisions incorporated in the unemployment compensation laws of the ten States, throws some light on the impact of these new provisions on the financing of unemployment compensation.

1. Although the impetus for war-risk contributions may have come in part from the theory that most employers subject to such rates would be war contractors who would be reimbursed by the Federal Government, the rates are not assigned to employers in war industries alone, but to employers in any industry with a specified pay-roll expansion. While it is true that the war industries have had the greatest expansions in pay rolls during this period, it will be important to know the relative number of firms subject to these provisions which were reimbursed through the terms of their war contracts, and the distribution by industry of the firms subject to war-risk contributions.

2. If the major purpose of these provisions was to increase revenue to the fund from war-expanded pay rolls because of the increase in their potential post-war benefit liabilities, the Wisconsin provisions are far more effective than any of the other State provisions. The purpose is accomplished through levying the tax on the *entire* pay roll of employers with an annual pay roll of \$30,000 or more who showed an increase of at least 50 percent over 1940; by stepping up the regular rates assigned under experience rating, based on the employer's reserve ratio and the increase in his pay roll; by treating newly subject employers for rate purposes as if their pay rolls had expanded 400 percent or more; and by levying a special additional flat "post-war reserve"

contribution of 0.5 percent on all subject employers.

3. While no data are yet available to indicate the amount of revenue that will be collected through the operation of these new provisions, it seems clear that for the most part it will not offset the revenue loss due to the regular operation of experience rating. Four of the ten States which did not have rates above 2.7 percent under their regular experience-rating formulas in 1943 have no rates in excess of the standard even with the war-risk provisions; only three States levy the increased rate on the entire pay roll of employers with increased pay rolls.

Even in States where the war-risk rate schedule provides rates above the standard, the loss in revenue will probably not be completely offset. For example, while preliminary data received from Iowa indicate that regular experience-rating operations in 1943 would have resulted in a reduction of an estimated \$3,913,000 in revenue to the unemployment compensation fund over what would have been collected at the standard rate, the war-risk provisions resulted in increasing revenue by only \$1,385,000.

4. Provision for war-risk contributions has distinct advantages in States which vary employer rates under an experience-rating formula which uses the reserve ratio as a basis for rating subject employers. In these States the higher war-risk contributions levied during a period of pay-roll expansion will be paid at a time when employers are best able to bear the increased tax. At the same time, the crediting of all contributions to individual employer accounts will affect the future potential rates that would otherwise have to be assigned these employers in a period of recession when benefits are larger, pay rolls are decreasing, and employers are less able to bear the burden of increased taxes.

5. It will be important to know to what extent revenue from the war-risk provisions accrues from employ-

ers newly subject to the State laws who are engaged in war production and to weigh the policy considerations inherent in any special tax on new businesses. In all but one of the six States which levied the war-risk contributions on newly-subject employers, their tax rate is higher than that of other employers with similar pay-roll records in the State.

6. One of the difficulties of basing the employer's rates on experience with past unemployment is that when unemployment is low, as it has been during the war, rates fall despite increased pay rolls which, in reserve-ratio States, lower the ratio of the balance in the account and automatically tend to increase the rate. Thus, contribution rates will fall at just the period when the potential liabilities of the State funds are expanding and employers are best able to bear the burden of high taxes.

The war-risk contribution provisions attempt to prevent contribution rates from falling as rapidly as they otherwise would under existing experience-rating provisions, by introducing another basis on which to vary rates, in addition to experience with the risk of unemployment—experience with increase in employment. Therefore, the adoption of these temporary war-risk contributions raises interesting questions on the extent to which similar provisions may have permanent validity for experience rating, and on the possible deterrent effect of placing a special tax on business expansion. There seems to be an implicit recognition of the fact that the use of past experience with the risk of unemployment may not offer a permanently sound basis for a variable rate structure in unemployment compensation. To the extent that this measure will keep rates up in periods of prosperity and allow rates to fall in periods of business depression, it deserves serious study in connection with the financing of unemployment compensation.