Unemployment Compensation Goals in the Reconversion Period

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THE PROBLEMS confronting the country at the end of this war will be far greater than at the end of the last war. The number of men in the armed forces will be three times that in 1918–19. Far more civilian workers have been engaged in war production this time than during the last war. Despite efforts to plan an orderly transition from a war to a peacetime economy, there will inevitably be tremendous shifts of populations from war-production centers to centers of civilian production. Thousands of persons will lose jobs that they have held during the war and will have to seek jobs in other occupations. These jobs will require different skills; they will be jobs in different localities and in the production of different goods. The shifts will inevitably result in a substantial volume of temporary unemployment.

At the end of the last war no unemployment compensation law was on the statute books of any State or of the Federal Government. The employment service, which had expanded during the war, shrank to a mere skeleton. The civilian worker and the returning veterans looking for jobs had no effective public employment service to aid them in their search and no benefits available to them as a right if they could not find work. Their only recourse was to local public and private employment agencies for work applications and to local and private charity for relief. The armistice ushered in a period of uncertainty and tension for tens of thousands of civilian workers and veterans.

Today fortunately we are far better prepared for the reconversion period than we were at the end of the last war. For protecting workers through this difficult transition period of temporary unemployment, no better mechanism exists than unemployment compensation. To bridge the gap between war and peacetime work, it will be necessary to keep in contact with workers who lose their war jobs, to know where jobs are developing so that unemployed workers can be directed to them, and to pay benefits between jobs to workers who are unemployed, able and available for work, and registered for work. This is the function that the employment security program is designed to perform. It will not take the place of fully developed plans for maintaining a high level of employment. The full exploitation of the advantages of unemployment compensation, however, will make unnecessary other less appropriate governmental measures to maintain the labor force until reemployment. It will contribute most to a smooth reconversion and furnish the strongest guarantees to private enterprise.

Unemployment compensation systems now operating in all 48 States, the District of Columbia, Alaska, and Hawaii, and the special Federal system for railroad workers have all been paying benefits for at least 5 years. They have administrative staffs skilled and well acquainted with the types of problems that are likely to occur. They have accumulated more than $5.5 billion for the payment of benefits to eligible unemployed workers. These funds have been collected to meet just the type of unemployment problems we are likely to face in the post-war reconversion period.

If, however, unemployment compensation is to play a major role in the reconversion period, it will be necessary (1) to broaden coverage, (2) to increase potential duration of benefits, (3) to raise the maximum benefit amount, and (4) to preclude disqualification provisions from nullifying the protection provided by the insurance system. These objectives should be accomplished in spite of any interstate competition for reduced contribution rates. While there are other goals which should be attained—such as removing the special provisions restricting the benefit rights of seasonal workers, including dependents' allowances, raising the low minimum benefit amounts, and reducing the waiting period in every State law to 1 week—these are the four major goals the program must attain if unemployment compensation is to be an effective device in the reconversion period.

Coverage

Although the employed workers covered by State unemployment compensation laws increased from 20 million in 1938 to 30.7 million in September 1943, as a result of wartime employment and also of some expansion of State laws, many workers are still not included under any unemployment compensation law. Among the more important groups not covered are employees of small firms, maritime workers, Federal employees, and agricultural labor.

Approximately 3 million workers are still without coverage because they work for small employers. These workers have generally not had the same increase in wages as those employed by large firms; many of them, moreover, will lose their jobs after the war, because a returning veteran has a prior right to it or because of the uncertainties that many small businessmen are likely to face in this period. Employers of one or more employees are already covered by Federal old-age and survivors insurance and by 13 State unemployment compensation laws. Coverage under the unemployment compensation program need be no great administrative burden on small employers, since they are already reporting under old-age and survivors insurance. The success of the 13 States in covering these workers also demonstrates that the additional administrative job for State agencies is no real obstacle.

About 200,000 maritime workers are excluded from unemployment compensation. These workers have engaged during the war in service comparable in danger to that in the armed services, yet, unlike other workers engaged in industry and commerce, they have no protection against wage loss when unemployed.

Civilian employment in the Federal Government rose from 1.1 million in January 1941 to about 3.3 million in June 1944. Many of these employees left jobs in private industry to take work in navy yards, shipyards, and arsenals and are doing

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work essentially the same as civilian workers in the same localities and in the same occupations. The latter will be protected by unemployment compensation legislation when the war ends. The workers employed by the Federal Government will not. The problem of Federal workers is, however, not confined to the manufacturing establishments of the United States Government. Most of the workers hired by the Government during the war may lose their jobs at the end of hostilities; many of them formerly covered by unemployment compensation laws have lost their rights as a result of their Federal employment and will have nothing to fall back on until they can be reemployed.

Another large group of workers not now protected by unemployment compensation laws are agricultural workers. In their periods of unemployment, farm workers, too, need the type of protection offered by an unemployment compensation program. While the administrative problems inherent in covering all agricultural workers may be too great to attempt at this time, there is good reason why, at a minimum, workers on industrialized farms should be included under unemployment compensation. This work is in many ways similar to work in manufacturing establishments. The administrative task of including these workers under an unemployment compensation program should create no problem.

Duration of Benefits

No one knows how long it will take plants to reconvert to peacetime production or to reemploy workers laid off because veterans take their jobs. However, unless benefits will be payable for a sufficient duration to maintain the labor force until business has a fair chance to convert to peacetime production, substitute governmental action for the provision of work or purchasing power will have to be taken. Certainly 26 weeks is not too long a period to give business that "fair chance." No State law now reaches that level.

If the adjustment period is as brief as is hoped, the increased duration of benefits will not cost much, since workers will get jobs and not use up their benefit rights; if it is longer, increased duration of benefits will be well worth the cost. The reconversion period will be just the time when such protection is necessary if unemployment compensation is to fulfill its function.

It has been said that increasing duration of benefits to about 26 weeks a year will result in malingering and preference for benefits instead of jobs. Such statements suggest that the shorter the duration of benefits, the more effective would be the program and that probably no program at all would be the most effective. Full employment of the war years has already obliterated from the minds of some the reason for the enactment of unemployment compensation—the fact that unemployment is not caused by individual frailty but by economic circumstances. Moreover, mere extension of potential duration does not automatically provide benefits for longer periods; workers who refuse suitable employment will still be disqualified from receiving benefits. Adequate duration of benefits will go a long way in aiding the worker in search of a job; it will go a long way toward maintaining our standard of living, purchasing power, and employment.

Provisions of existing laws for even the maximum duration of benefits do not measure up to the responsibilities which will be placed on unemployment insurance in the reconversion period. In 28 States benefits may be drawn for only 16 weeks or less. Only 4 States assure 20 weeks of benefits to all eligible workers.

Maximum duration of benefits (in weeks)	Number of States with specified type of duration provisions, 1944	
	Uniform	Variable
14	1	1
15		1
16	7	18
17		1
18	3	4
20	4	[1] 9
23		2

[1] Includes Wisconsin and applies to payments for continuous unemployment from any 1 employer's account.

In 36 States the duration of benefits is related to the amount of employment or earnings which the worker had in a previous period, with a specified maximum duration. The other 15 States have a uniform duration of benefits for all claimants. Uniform duration of benefits is certainly more simple to understand, and consequently it will go further to supply that security which workers feel as well as experience.

In the 36 States with variable duration, many workers who meet the earnings requirement of the State laws are eligible for far less than the maximum benefit duration provided. In 3 States some eligible workers may be entitled to as little as 2 and a fraction weeks of benefits in a year; in 2 other States, only 3 weeks a year. In these 36 variable-duration States, minimum duration of benefits for eligible workers is as follows:

Minimum duration (in weeks)	*Number of States, 1944*
2 but less than 3	3
3 but less than 4	2
4 but less than 5	2
5 but less than 6	2
6 but less than 7	7
7 but less than 8	8
8 but less than 9	3
9 but less than 10	2
10 but less than 11	5
11 but less than 12	1
12 but less than 13	1

Figures on the average potential duration [1] of benefits of eligible claimants are a better measure of the extent to which variable-duration provisions limit the benefit rights of individuals than are the minimum-duration provisions in State laws. In 1941, a pre-war year of fairly high employment, nine States with provisions relating benefit duration to an individual's previous earnings provided average potential duration of less than 11 weeks to all eligible claimants; no State with uniform duration of benefits provided such limited benefits. At least 25 percent of the eligible claimants in nine States had potential duration of less than 8 weeks. The average potential duration of eligible claimants in variable-duration States, for benefit years ending 1941 and 1942, was as follows:

Average potential duration (weeks)	Number of States [1]	
	1941	1942
Less than 10	4	
10 but less than 11	5	0
11 but less than 12		4
12 but less than 13	3	4
13 but less than 14	3	0
14 but less than 15	0	5
15 but less than 16	3	2
16 or more	2	5

[1] Figures available for 29 variable-duration States in 1941 and 32 in 1942.

[1] Potential duration of benefits for which claimants actually qualify, within the minimum and maximum limitations of the law.

The need for longer duration is shown also by the large proportion of claimants who ordinarily are still unemployed when they exhaust their benefits. In a rather good year like 1941, about half of all eligible workers failed to be reemployed before exhausting their benefit rights. In five States the proportion was at least 60 percent.

Percent of beneficiaries exhausting benefit rights	Number of States[1] in benefit years ending in—	
	1941	1942
Less than 20	2	3
20 but less than 30	2	8
30 but less than 40	5	15
40 but less than 50	20	15
50 but less than 60	14	5
60 but less than 70	5	1

[1] Figures available for only 48 States in 1941 and 47 in 1942.

Provisions found in a few State laws would reduce benefit rights when the individual State reserves fall to a certain level. Obviously, such provisions would curtail the protection of the unemployment compensation system just when it is needed most to maintain both individuals and our whole economic system. If this country should be threatened with serious unemployment, assurance of substantial protection during unemployment would go a long way toward keeping fear and uncertainty from growing to panic proportion. It would make unnecessary the adoption of more drastic and less welcome measures.

Maximum Weekly Benefit Amounts

Weekly benefit amounts should, for the mass of wage earners, be large enough to compensate for a fair proportion of their loss in wages due to unemployment and be sufficient, without other public aid, for necessary cost of living throughout the period for which compensation is payable. The wartime increase in wages and employment and some liberalization in State laws have raised the level of weekly benefit amounts for total unemployment. The average rose from $10.66 in 1939 to $13.84 in 1943 and $15.87 in the second quarter of 1944. Because of overtime work and bonus payments during the war period, many workers, in States which base benefits on high-quarter earnings, will receive 50 percent or more of their weekly earnings in the form of benefits in the reconversion period.

However, this will not be true for many other workers. In States which base benefits on annual earnings and in States where the maximum benefit amount has not been increased with the increase in weekly wages, many workers still receive far less than 50 percent of their weekly wages. Basing benefits on annual earnings instead of earnings in the high quarter has resulted in a decreased average benefit amount in practically every State that has made such a change. This is because most workers are employed not 52 weeks a year, but something less than that, even in a period of full employment. Annual wages therefore inevitably include some periods of unemployment, and benefits based on such earnings are consequently lowered. In addition, benefits based on annual earnings bear little relationship to the weekly wage loss of a totally unemployed worker. It is significant that the three States that paid the lowest average weekly benefit amounts in 1943 (Maine $9.09, Kentucky $9.31, and North Carolina $7.10) base benefits on annual wages. While any annual wage formula can be adjusted to increase weekly benefit amounts, this may only distort further the basic relationships between benefits and weekly wages and may result in some persons' receiving more in benefits than in weekly wages. Certainly the benefits provided under the law should not act as an incentive to workers to prefer benefits to wages.

But more significant in the reconversion period will be the effect of low maximum weekly benefit provisions in the State laws. The major purpose of establishing maximum weekly benefit amounts in a social insurance system is to husband the limited resources of the system. Current maximums, however, reduce the rights of too high a proportion of all workers. Even in States where benefits are not related to previous annual earnings but to high-quarter wages or to full-time weekly wages, benefit amounts for many workers are less than half their weekly wages, because of these low maximum benefit provisions. While the level of maximum benefit amounts has been raised in many States, 22 States still provide that no benefit for total unemployment can be more than $15 a week.

Maximum weekly benefit amount	*Number of States, 1944*
$15	22
16	4
18	14
20	10
22	1

In 1943, 44 percent of all benefit payments for total unemployment were at the maximum specified in the laws. In nine States, more than 60 percent of the weekly payments were at the maximum. All four States paying 72–85 percent, at the maximum, specified a maximum of $15. Certainly when such a large proportion of payments is at the maximum specified in the State law, benefits are not being related to previous wages but are, in effect, uniform weekly benefit amounts.

Percent of weekly payments at maximum, 1943	*Number of States*[1]
Less than 30	7
30–39	11
40–49	7
50–59	6
60–69	5
70 or more	4

[1] Excludes 11 States where the maximum weekly benefit amount was changed during the year.

It is clear that, for most of the workers receiving the maximum, benefits are far less than 50 percent of previous earnings. Estimates that have been made indicate that, on the average, workers eligible for the maximum benefit amount in State laws are receiving only about 25–30 percent of previous earnings; for some of the higher-paid workers the percentage would be nearer 15–20 percent. Benefits at these rates obviously constitute meager compensation for wage loss suffered and run the danger of being too low to carry the individual through his periods of unemployment without drawing on other community resources.

With benefits fixed as a percentage of wages, the maximum weekly benefit amount might well be raised to $25. In all, there are 34 States which provide higher maximum benefits for workmen's compensation than for unemployment compensation. While the "G. I. Bill" provides a $20 benefit to all unemployed veterans, this is a *uniform* benefit paid to all unemployed veterans. Under unemployment compensation laws, which relate benefits to past earnings, even a

$25 maximum will give many workers less than the $20 benefit provided for veterans. Raising the unemployment compensation maximum to $25 will not lead to high benefits in low-wage States. If workers do not receive wages which enable them to qualify for this higher benefit, they will not receive it. But in high-wage States, raising the maximum will mean that the benefits for workers earning higher wages bear the same relation to their wages as do the benefits of lower-paid workers. A higher maximum will also be a recognition of the increased cost of living (particularly for the family man, who is generally the best wage earner) and will give much greater assurance that the unemployment benefit will be sufficient to enable him to get along without drawing on other community resources until opportunity comes for reemployment. Furthermore, as long as benefits are related to past earnings and are lower than wages, there will continue to be an effective differential between wages and benefits.

It has been said that maximum benefit amounts provide a means of adjusting State benefit scales to State wage levels. Yet the existing maximum benefit provisions are not at present uniformly related to State wage levels. Maximum benefits are higher in Georgia and Louisiana than in Ohio and Oregon. During the third quarter of 1943, average weekly wages in covered employment in Connecticut were lower than in California, Michigan, and Alaska, yet Connecticut's maximum weekly benefit amount of $22 is the highest in the country. Among the 22 States still providing a $15 maximum, average weekly wages during the third quarter of 1943 ranged from $24.12 in South Carolina to $46.96 in Oregon.

Estimated average weekly wages—3d quarter, 1943 [1]	Number of State laws with maximum weekly benefit amounts of—				
	$15	$16	$18	$20	$22
$20.00–24.99	2				
25.00–29.99	0		1		
30.00–34.99	7	1	3		
35.00–39.99	4	1	5	5	
40.00–44.99	1		4	3	
45.00–49.99	2	1	1	1	1
50 or more		1		1	

[1] Average quarterly earnings computed by dividing total earnings of covered workers by estimated number of workers employed at end of 3d quarter of 1943; average weekly earnings computed as 1/13 of average quarterly earnings.

Certainly the $15 benefits provided did not reflect similar economic conditions. Of the 16 States with average weekly wages above $40 in the third quarter of 1943, three have maximum benefit amounts of $15; two, $16; five, $18; five, $20; and one, $22.

Disqualifications

Under unemployment compensation, benefits should be payable only to genuinely unemployed workers in the labor market. All unemployment compensation laws impose certain disqualifications designed to ensure that objective. Thus, disqualifications are imposed when a worker quits his job voluntarily without good cause, when he is discharged for misconduct connected with his work, when he is engaged directly in a labor dispute, or when he refuses to accept suitable work. Recent amendments to many State laws, however, have shifted the emphasis from paying benefits to workers unemployed through no fault of their own to paying benefits only when the employer is responsible for their unemployment. Emphasis has also shifted from postponing benefits for a certain number of weeks following the workers' disqualifying acts to penalizing workers by canceling their benefit rights. Finally, a whole host of special causes of disqualifications have been written into State statutes. It is necessary that the basic principles be restored.

Good cause for voluntarily leaving a job should not be limited to causes attributable to the employer but should include good personal causes. As long as the unemployment is involuntary and the worker is available for work, good personal or family reasons for quitting a job, such as the fact that the conditions are such as to undermine his health, are as valid as reasons attributable to employers.

Workers should be disqualified for benefits merely by suspension of their rights for a reasonable period following a disqualifying act. In January 1938, eight State laws contained disqualifications which canceled part or all benefit rights, and the remaining States contained disqualifications which resulted only in postponement of benefit rights. The reasoning behind postponement of benefits was that the claimant should not be entitled to benefits during any period when his unemployment was directly due to a disqualifying act. After that period, his unemployment would be due not to his disqualifying act but to labor-market conditions, and it would therefore be compensable. Such suspensions are sufficient to deter workers from voluntarily becoming unemployed and to bar compensation for voluntary unemployment. By 1944, however, 19 additional States had included disqualifications which cancel part or all of a worker's benefit rights.

Disqualifying act	Number of State laws reducing or canceling benefit rights for 3 major reasons		
	January 1938	January 1940	January 1944
Total State laws with 1 or more types of disqualifications	8	14	27
Voluntary leaving without good cause	5	10	20
Discharge for misconduct	6	12	20
Refusal of suitable work	6	9	21

Under this philosophy a worker who has committed a disqualifying act is not only deprived of benefits for the period following his act but is further penalized by losing some or all of his benefit rights. If he should become unemployed in the future he may find that, though otherwise eligible for benefits, he has little or no benefit rights on which to draw. Such disqualifications may nullify duration provisions; they will be particularly serious in the post-war period, since cancelation of benefit rights for current disqualifying acts may result in curtailment of benefit rights later when workers are unemployed through no fault of their own. Such curtailment seriously limits the usefulness of unemployment compensation, particularly for such a period as the one we are facing.

The seriousness of this situation is shown by some figures on the extent of disqualifications. During 1943, for example, 28 percent of new claims allowed in Colorado were disqualified because of voluntary leaving, discharge for misconduct, and refusal of suitable work. The disqualifications in the Colorado law provide that any worker disqualified for any of these reasons shall have his benefit rights reduced by 3 to as much as 15 weeks; yet duration of benefits under the

Colorado law is equal to only one-third of the individual's base-year wages or 16 weeks, whichever is less. If disqualifications of 15 weeks were imposed under this law, the benefits would be payable for only 1 week. This is not an isolated example. Georgia disqualified 11.6 percent of its allowed new claims in 1943 and provides a mandatory reduction of 2–8 weeks for voluntary leaving and refusal of suitable work and of 3–10 weeks for discharge for misconduct. Disqualification for a single act can thus cut down Georgia's 16 weeks' uniform duration of benefits to as few as 6 weeks.

State	Percent of allowed new claims disqualified, 1943, because of—			
	All 3 issues	Voluntary leaving	Discharge for misconduct	Refusal of suitable work
California	13.0	2.6	0.2	10.2
Colorado	28.4	18.9	1.1	8.4
Georgia	[1] 11.6	8.9	2.7	[2]
Maine	7.3	3.2	1.3	2.8
Mississippi	[3] 17.0	[2]	[2]	[2]
Nebraska	7.4	5.1	.7	1.6
New York	9.9	2.9	.2	6.8
Washington	[3] 37.3	[2]	[2]	[2]
Wyoming	18.8	11.6	1.4	5.8

[1] Includes only disqualifications for voluntary leaving and discharge for misconduct.
[2] Data not available.
[3] Includes disqualifications for other issues.

Special causes of disqualifications, such as disqualifications of women who leave to marry, or because of pregnancy, which have been written into many State statutes should be removed and such cases handled by administrative action which appraises the circumstances surrounding the individual case in order to determine whether the individual is involuntarily unemployed and available for work. While the removal of such disqualifications from the statutes will increase administrative burdens, it will eliminate the inequitable treatment that now exists and restore the function of compensating for bona fide unemployment.

Effect of Interstate Competition for Reduced Rates

The accumulated $5.6 billion available in the unemployment trust fund on July 31, 1944, and the general agreement that the State funds are financially able to withstand the drains of the immediate post-war period should provide a green light for the necessary expansions in the program. However, 44 State laws now contain provisions for experience rating, and in 42 of them large groups of employers are receiving tax reductions under such plans. These reduced contribution rates have brought about interstate competition for lowering contribution rates still further. It is important that concern over the impact which a more liberal benefit formula will have upon the reduced rates assigned employers be prevented from acting as a brake upon necessary expansions in the program.

The 3 percent Federal unemployment tax was imposed to stimulate the passage of State unemployment compensation laws, to raise money for the administration of those laws, and to ensure that the tax on employers would be noncompetitive among the States. Freedom from competitive rates was assured by the combination of a tax on pay rolls at a uniform rate with tax-offset provisions which were uniform in application during the initial years. The approach was effective during the infancy of the program. So long as the rates imposed under the State laws were uniform, there was every reason for the States to extend and improve the benefit structure of the laws within the limits of available revenue.

With the increased allowance of reduced rates which are directly related to the amount of benefits paid, however, a split has occurred in the purposes of the program: employers weigh the implications of an expansion of benefits, not against the purposes that the unemployment compensation program is designed to serve, but against the effects of any benefit liberalization on reduced contribution rates. As the reduced rates have taken effect in one State after another, there has been an increase in the severity of disqualifications imposed, since employers look on benefit payments from the point of view of benefit charges to their accounts.

At the same time, the experience-rating provisions of State laws have been liberalized to make it easier for employers to qualify for tax reduction. In State after State, 2.7 percent (the amount of the Federal credit) has become the maximum contribution rate. The standards necessary for the attainment of reduced rates are lowered. The employers in State A work to secure as low a tax rate as their competitors in State B. Competition for rate reduction between States flourishes.

The effect of this competition on the finances of the State systems is not as yet fully evident. Not until 1942 was any considerable proportion of the total covered pay roll of the country in States with effective experience-rating provisions. Even in that year, 41 percent of the total pay roll was found in States which still imposed a flat 2.7 tax rate. Because of the expansion in pay rolls during 1942, 1943, and 1944, contribution collections have increased in spite of a decline in the over-all rate at which they were collected. At the same time, benefits during the war years have declined until the amount paid out in any year is almost negligible in relation to the amount collected. While 61 percent of the amount collected was paid out in benefits in 1940, this figure was 6 percent in 1943.

Year	*Ratio of benefits to contributions (percent)*
1938 [1]	74
1939 [2]	55
1940	61
1941	34
1942	30
1943	6

[1] 23 States paying benefits January 1938.
[2] 49 States; excludes Illinois and Montana, since benefits first payable July 1939.

This extremely favorable financial picture offers the best opportunity for the unemployment compensation system to play its proper part in an orderly transition to peacetime employment. Business would be shortsighted indeed to prefer the short-run advantages of tax reduction (which in any event will be limited within a narrow range below 3 percent of pay rolls) to the security which a reasonably adequate program of unemployment compensation can afford to free private enterprise. To permit interstate competition for reduced rates to block the full utilization of the program will be to hazard the total economic welfare of the country for a temporary financial advantage to one segment of our industrial economy.