361-76

INSTITUTE FOR RESEARCH ON POVERTY DISCUSSION PAPERS

POLICY DEVELOPMENT IN UNEMPLOYMENT INSURANCE

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August 1976

This research was supported by funds granted to the Institute for Research on Poverty at the University of Wisconsin-Madison by the Department of Health, Education, and Welfare pursuant to the Economic Opportunity Act of 1964. The conclusions expressed are those of the author.

Abstract

This paper traces the development of the Unemployment Insurance (UI) program from its earliest beginnings to the present, showing how its historical and legislative development has contributed to its current attributes as a program.

The first section details its history, including early union and management experiments in ways to alleviate the effects of unemployment, early legislative proposals, the contribution of the Great Depression in bringing about Federal intervention and labor's role in UI since 1935. The second section traces legislative changes in UI since 1937, including coverage, the weekly benefit amount, duration, waiting time, work history requirements and disqualifications. The third section evaluates the benefit changes that have taken place in the last thirty years. The fourth section discusses recent policy issues; and section 5 provides a short conclusion.

POLICY DEVELOPMENT IN UNEMPLOYMENT INSURANCE

1. The History of Unemployment Insurance Shapes Its Policies

Union and Management Experiments to Alleviate Effects of Unemployment[1]

The earliest union efforts to cushion the effects of unemployment for their members (c. 1830s) were part of benevolent programs of self-help. They took the form of crisis contributions by working members for their unemployed brethren and can be best understood as a form of worker philanthropy under trade-union auspices. This private relief played an important role in helping workers through periodic depressions, but the programs usually disappeared in good times. Even when contributions were regularized to persist over the business cycle, the plans suffered from actuarial inadequacy and casual administration. In 1931, only three national unions and some eight locals had plans in operation that had been established prior to the Great Depression.[2]

The first joint union-management plans were started in 1894 in the wallpaper industry, but not until the 1920s did the big burst in joint plans come about--in the needle trades and the hat, hosiery, and lace industries. Three of the plans guaranteed a certain amount of work and the other 12 paid benefits during periods of unemployment. Some plans were fully employer-financed; others also had some employee contributions.[3] By 1933, half of these plans had been discontinued--casualties of the depression.[4]

Many issues concerning negotiated unemployment insurance were already apparent in these early union efforts. Although some people thought that unemployment insurance programs should be the duty of government rather than

a subject for bargaining, Samuel Gompers's preference for the private approach prevailed. However, much disagreement remained on the issue of employee contributions. Even fully employer-paid plans were subject to the castigations of militant leftist leaders, who regarded them as a kind of capitalist "Bandaid" and did not wish to be put in a position of great dependence on employers.[5]

In the early period, it was company-sponsored plans, more than the union or joint plans, that caught the public's fancy. Between 1917 and 1933, 19 industry plans were established that included protection for about 80,000 employees in 38 firms. Some were benefit plans, some were savings plans, and others were employment-guarantee plans.[6] The view was widespread that "the problem of unemployment was essentially one of business and business management and must be met by business statesmanship."[7] Louis D. Brandeis, a severe critic of inefficient business management, argued that the employer rather than the union leader held the key to the solution of the unemployment problem. "Society and industry," he maintained, "need only the necessary incentive to secure a great reduction of irregularity of employment. In a scientifically managed business, irregularity tends to disappear."[8] The leaders of business who established the unemployment plans in the 1920s regarded themselves as "scientific" managers. Only when plans to alleviate the effects of unemployment failed to spread to all industry and the country was convulsed by the Great Depression did some of them abandon the private approach and become proponents of an obligatory unemployment-benefits law.[9]

Legislative Proposals: The Effort to Americanize Unemployment Insurance

Although a number of European countries had legislated unemployment programs in the form of government assistance to union plans (the Ghent system),

it was not until enactment of the British unemployment law that interest in the idea was kindled in the United States.[10] Bills were introduced in Massachusetts (1916), New York (1921), and Wisconsin (1921). The first two were copies of the British approach and involved tripartite financing (employers, employees, and government), while the Wisconsin bill was based on an insurance scheme that was to be financed exclusively by employers and introduced the concept of experience-rating. The prime author of the Wisconsin bill, Professor John R. Commons, had been impressed with the stimulus given accident prevention by the variable premium rates in Wisconsin's workmen's compensation law, and he sought to apply the same principle to prevention of unemployment. During the 1920s, bills embodying the Wisconsin approach were introduced in Connecticut, Minnesota, and Pennsylvania.

But the unemployment insurance concept was to be shelved for a variety of reasons. The interest that had been kindled by the British and later the German laws, as well as by the recession of 1914-1915, disappeared with the ascendancy of political conservatism that followed the first World War. The American Association for Labor Legislation, which had been instrumental in calling attention to the European developments, began to concentrate more on the area of health insurance. The public was caught up in the "new emphasis" of business on scientific management, which, among other things, was supposed to do away with unemployment by social "engineering." Over all was the pall of Gompers's opposition, which had discouraged unemployment insurance proponents since 1916. "Such laws," he said, "are not advocated for the good of the workers. They are advocated by persons who know nothing of the hopes and aspirations of labor which desires opportunities for work, not compulsory unemployment insurance."[11] As summarized by Philip Taft,

Gompers's opposition stemmed largely from fear of government--a fear supported by the long experience of the AFL with the executive and judicial branches during labor disputes.[12]

The Depression Brings Federal Intervention

The Great Depression changed everything. It showed the large numbers of persons whose jobs were at risk; it exposed the precariousness of private plans; it demonstrated the inability of the states to legislate on their own; and it changed the national AFL position. But a difficult political and constitutional issue was posed: How far should the federal government go in specifying the design of unemployment insurance laws?

The predepression view had been expressed in a Senate committee report in 1929: "Insurance plans against unemployment should be confined to the industry itself as much as possible. There is no necessity and no place for Federal interference in such efforts at this time. If any public insurance scheme is considered, it should be left to the State legislatures to study the problem."[13] Indeed, there was a rash of bills introduced in state legislatures from 1931 to 1934, but only one--that in Wisconsin--passed two houses--and it passed conditionally; it would not become effective if more than 200,000 workers should come under voluntary plans in the state. Even in a political climate of crisis, states could not overcome a natural reluctance to disadvantage their own industrial development by imposing taxes on business. As Franklin Roosevelt, then the governor of New York State, expressed it: "All must act, or there will be no action."[14]

Early in the depression years, the AFL was still suspicious and favored preventive efforts rather than insurance benefits. In 1930, its president,

William Green, expressed the view that unemployment insurance was "paternalistic. It is one system of the dole which demoralizes ambition, stultifies initiative and blights hope. . . . [T]he real cure is employment."[15] Preventive efforts preferred by the AFL included a national employment service, shorter work-days, and stabilization of employment. But by 1932 the pressure within was too great, and the AFL Executive Council instructed Green to draw up legislation on unemployment insurance. Several experts were consulted, including Felix Frankfurter of Harvard who was convinced that a federal plan would be unconstitutional because of the states' responsibility for regulation of manufacture and industry. The report to the convention that year urged the "passage of unemployment insurance legislation in each separate state, and the supplementing of each state legislation by federal enactments; such, for instance, as bills covering employees engaged in interstate commerce or employed in federal territories."[16]

In Congress, leadership was provided by Senator Robert F. Wagner of New York, who introduced a bill to get around the constitutionality question. It provided for a federal excise tax on employers, but if a state law contained the specified benefit standards, the employer could then receive a 100 percent offset on his federal tax. In effect, he would pay the state tax rather than the federal tax. This was a device suggested by Justice Brandeis after the Supreme Court upheld the Federal Estate Tax Act of 1926, which had used the offset approach to prevent states from undercutting each other through low inheritance taxes. This tax device was incorporated in the Wagner-Lewis bill, but because Franklin Roosevelt, then President, was not yet sure what structure he wanted, he announced that he needed time to study the whole question of economic-security programs. The Wagner-Lewis bill was shelved.

However, it is interesting in retrospect to note that this bill provided benefit standards that were not to be included in the Social Security Act the following year and still remain an unrealized objective of organized labor.

The Economic Security Committee appointed by Roosevelt had three options for structuring unemployment insurance: a purely federal system, which was rejected on constitutional grounds; a tax-credit plan, such as the Wagner-Lewis bill; or a subsidy plan. Roosevelt expressed himself in favor of a cooperative federal-state system; thus, the committee's choice was limited to the latter two alternatives. Although there was considerable support for the subsidy approach, including that of the AFL, the committee's final decision was for a tax credit, as in the Wagner-Lewis bill, but with the fewest possible standards.

Arthur Altmeyer has explained that the committee's decision was based on two grounds:[17] First, since the tax-offset plan, unlike the subsidy plan, would require states to enact their own laws, there was more likelihood of retaining some residual results if the Supreme Court struck down the federal action. Second, because there were difficult policy questions that would have to be addressed in formulating standards, the committee preferred to put maximum responsibility for writing them on the states. Among the policy questions needing answers were the amount and duration of weekly benefits, whether protections should be provided for seasonal and partial unemployment, whether there should be employee contributions, and whether there should be employer experience-rating. Reading Altmeyer's account, one gets the impression that while constitutionality constrained the choices,

the decision was heavily influenced by a practical desire not to endanger the bill's passage by loading it with two decades of controversy. In short, the strategy was to avoid substantive policy questions. Although the constitutionality question was settled by a chastized Supreme Court in a decision that would have permitted any of the alternatives considered by the Economic Security Committee,[18] many of the benefit and financing issues remain unresolved to this day.

Labor was to become a major supporter of the social security system of the United States, but one would not have predicted this at the outset. According to Witte,[19] of the four union leaders appointed to the Advisory Council[20] only Green and Ohl participated in the meetings. The five employer members attended all meetings. After the bill had been introduced and a hearing scheduled, William Green testified, making a long statement with so many suggestions for improving the bill that it was construed by some newspapers as an attack. During the hearing, Green, speaking for the AFL, criticized the bill in a way that was to prove prophetic. He pointed out that the weak role assigned the federal government would jeopardize the quality of the program:[21]

> It leaves to the states almost complete freedom of action in the adoption of unemployment insurance laws. There are no standards set for the state laws to follow. Each state is free to determine the waiting period to be imposed, the amount of benefit which shall be paid, the length of time benefits shall continue, the wage earning group which shall be included under the act, the type of funds which shall be set up, and the manner in which such funds shall be administered.

Green then recommended the subsidy approach with standards.

However, when the struggle began in the Senate and continued between the Senate and House conferees over the final form of the social security legislation, "the American Federation of Labor did everything it could to insure passage of the bill."[22] The provisions for an unemployment insurance system became law as Title III of the Social Security Act of 1935.

Labor's Role in Unemployment Insurance Since 1935

As enacted, Title III of the Social Security Act was an adaptation of foreign experience as modified by American preference for unemployment prevention first and benefits second. The vehicle for achieving the desired result was experience-rating. At first, experience-rating had been struck out of the proposal in the House as inconsistent with the objective of reducing interstate cost differentials in order to put the states on an equal competitive level in their economic development. But experience-rating was restored by the Senate and was later to result in a reduction of revenues for the program substantially less than the standard 3 percent of payrolls. The significance of this action is tied up with another peculiarity of the American approach--the absence of any indication from the national government about the quality of benefits. With no minimum benefit standards and a built-in propensity for underfinancing, it was going to prove very difficult to develop an adequate benefit structure.

Labor was to have another source of difficulty in its legislative work--that of finding allies. In other areas of social security, such as old-age insurance and later Medicare, there were groups with which to work because social-welfare organizations had common interests with labor. But in unemployment insurance, labor frequently had to work alone, and usually in direct opposition to the interests of the employer-taxpayers and their

organizations. Finally, labor had difficulty because the state emphasis in the program decentralized legislative efforts and put a heavy burden on the weak resources of state central bodies.

To deal with these new legislative dimensions, Green took two steps. He urged state central bodies to study the administration of the state laws to protect the rights of labor (particularly the application of disqualifications), and he appointed a three-member committee on social insurance to deep abreast of developments and to recommend improvements. In 1944, this committee was increased from three to nine members, and Nelson Cruikshank was appointed director of AFL social insurance activities. The committee met twice a year, and between meetings all matters affecting social security were cleared with the committee by Cruikshank and his staff.[23] The CIO also developed a social security committee and a reasearch and legislative staff. The AFL and CIO committees worked in close harmony on social security issues in the following years, and, as a result, the AFL-CIO merger brought no great policy changes. In 1957, the social insurance department of the AFL-CIO staffed a program for coordinating state central body legislative work on unemployment insurance and workmen's compensation.

Labor's objective during the period from 1938 to 1975 were, in general, to achieve substantial replacement of wage loss due to involuntary unemployment. In the earlier years, the hope persisted that a single fund at the national level could be developed, but the pattern of mild postwar recessions never forced an overhaul of the prevailing system. Although second-best in labor's view, inserting national benefit standards for state laws to observe became the practical objective.

The need for standards was demonstrated over and over again as inflation and rising wage levels during the 1940s and 1960s made obsolete the

weekly benefit amounts. Much of labor's efforts at the state level was a kind of treadmill exercise of constantly calling for the updating of benefits in an effort to keep up with rising wage levels, to the point where jobless benefits got to be known as $2 or $4 laws--the amount of increase passed in each legislative session. But the periodic adjustments were rarely sufficient to maintain, let alone improve, the wage-replacement rates.

It was the decline in the average weekly wage-replacement rate from about 43 percent to 32 percent by 1951 that gave rise to the demand for negotiated supplemental unemployment benefits. Seen from a historical perspective, the supplemental unemployment benefits proposals were a return to the Gompersian philosophy that companies should set aside reserves to conserve the wage earner's investment in the industry.[24] The supplemental unemployment benefit movement succeeded in those industries where companies wanted to retain access to a trained labor force following periods of high unemployment. To some extent, however, it also drew unions and companies away from efforts to improve unemployment insurance legislation.

2. Changes in Unemployment Insurance

In 1937, when unemployment insurance programs were being rapidly enacted in most states, legislators had no time to study the subject in detail and, therefore, they usually followed the recommendations of the Social Security Board. It was inevitable that, with time, the nature of these programs would become increasingly disparate. At the present time, these are separate plans for every state and the District of Columbia,[25] each with its own underwriting and administration, its own experience-rating plan, and its own benefit

policy. The ranges in benefits are summarized in Table 1. Clearly, any generalizations about changes in unemployment insurance over the years must be scrutinized for the considerable diversity that has evolved.

Reasons for Change

Since the Committee on Economic Security recommended coverage of nearly all wage and salary workers, it was a source of considerable disappointment that Congress opted instead for limited coverage. One important reason for changes in the laws since then has been to fill out the original design. Other changes have been necessary because of the shifting elements in the economic climate in which unemployment functions, particularly the upward movement in average wages and salaries. Rising earnings levels have brought about frequent adjustments in maximum weekly benefit amount and also in base-year earnings requirements.

Also, changes were necessary when prior predictions proved to be inaccurate. The original actuarial estimates indicated that 3 percent of the payroll would finance only up to 16 weeks of benefits for the unemployed. Experience over the years has shown that the cost of unemployment insurance was overestimated. Therefore, it has been possible to extend the duration of benefits and still stay within the cost range originally contemplated. Public criticism brought about changes in the disqualification provisions, which have been stiffened considerably in definition, administration, and length of penalties. Finally, the desire to experiment with new concepts has produced changes; two examples are some state allowances for dependents and so-called "triggered" extended benefits.

Table 1

Benefit Experience and State Range, 1974

	All States	High State	Low State
Average benefit amount	$64.25	Dist. of Columbia $83.83	Louisiana $40.82
Average benefit as ratio to average weekly wage	.364	Hawaii .446	Alaska .237
Average actual duration	12.7 weeks	Dist. of Columbia 19.1 weeks	North Carolina & New Hampshire 7.5 weeks
Average duration for exhaustees	22.4 weeks	Pennsylvania 30.0 weeks	Indiana 14.9 weeks
Average exhaustion ratio	31.1	Florida 48.0	New Hampshire 4.0

Coverage

Instead of the broad coverage recommended by the Committee on Economic Security, Congress chose to exempt certain groups--employees of businesses hiring fewer than eight persons, all employees of government and of nonprofit organizations, and agricultural and domestic workers. Although coverage was later extended to federal civilian employees, members of the armed services, and employees of some small firms, it was the Social Security Amendments of 1970 that achieved the most significant increase in coverage since the inception of the program. By that time, 21 states had already extended coverage to employees of firms smaller than the federal law required, but other states seem hard pressed to follow the example. It was frequently alleged that legislators in the latter states were reluctant to act because many of them were lawyers who employed secretaries and thus would be affected. The 1970 Amendments required all states to extend the tax to employers of one or more persons or employers with payrolls of more than $1500 in a calender quarter.

The 1970 Amendments also required states to cover certain nonprofit educational hospitals, and charitable organizations that employed four or more persons during a 20-week period. Unlike profit-making employers, these nonprofit organizations are not subject to the federal tax; instead, each organization may choose either to reimburse the state for unemployment insurance payments attributable to its employees or to pay a state tax. Employees of state hospitals and institutions of higher education were first covered in 1972. Seventeen states have exceeded the federal requirements and extended to these nonprofit organizations the same size-of-firm

coverage criteria that apply to all other employers. These state amendments still leave uncovered employees of churches or church-related organizations and employees of elementary and secondary schools.

Since 1948, the proportion of wage and salary workers in covered employment has risen from 76 to 88 percent, but remaining unprotected are 12 million wage and salary workers, almost all of whom are in state and local government employment (8.1 million), agriculture (1.4 million), and private household employment (1.7 million). The issues posed if coverage were to be extended to these groups are primarily cost and feasibility. There has been very little disagreement that in principle it is desirable to make unemployment insurance universally applicable to wage and salary earners. But in practice, only four states have extended some coverage to farm workers and four have had some experience with coverage of household employees.

Weekly Benefit Amount

Instead of adopting a weekly benefit in the form of a flat cash amount, as in Britain, on the recommendation of the Social Security Board the states chose to relate the benefit to 50 percent of the claimant's wage loss. In some cases the amount was tempered with allowance for dependents or "weighted benefits" for lower wage earners. There was little justification for the 50 percent reimbursement except that it was the one that had been applied in Wisconsin.[26] Even less justification lay behind the Board's recommendation for the maximum benefit but most of the states adopted the $15 maximum. This was about three-fourths of the mean wage in 1937, and meant that three out of four covered workers could get an individual benefit of half their wage loss.

Not much more was done about raising the maximums until the inflationary impact of World War II forced a reconsideration of wage loss and benefit levels. During and since the war, maximums have been adjusted upward many times (see Table 2), but rarely fast enough to keep a constant portion of the work force assured of reimbursement of half their wage-loss.

The large losses in benefits relative to wages occurred during the 1939-1953 period; the ratio was fairly well maintained between 1953 and 1960. Gains since 1960 are due primarily to three factors: the application of the flexible or sliding maximum, the record of the 1960s with its relatively low unemployment and climbing reserves, and the threatened federal intervention in the form of benefit standards.

The sliding maximum was first used in Wisconsin in 1959. Under that system, the legislature sets the desired ratio of the maximum to average weekly wages, while the actual dollar amount of the maximum is determined administratively once or twice a year, based on the average weekly wages in covered employment. By 1963, 11 states had adopted the formula, and by 1975, 32 states were using the sliding maximum. In many of these states the maximums are still quite low.[27] Looking at all states with and without sliding maximums, only 30 percent of all covered workers are in states with maximums at 60 percent of average weekly wages or above.

In the beginning, only the District of Columbia provided additional benefits for dependents, but as inflation eroded the benefit value and states were slow to raise maximums, the dependents' allowance emerged as an issue. Because they believed that unemployment insurance was withering on the vine and new initiatives were needed, the CIO membership attempted to apply pressure for the introduction of dependents' benefits in state laws. By

Table 2

Changes in Maximum Weekly Benefit Amount,

by Number of States

Maximum weekly benefit amount (MWBA)	December 1939	December 1953	December 1961	December 1968	December 1972	July 1975
$10.01-$20	51					
$20.01-$30			7			
$30.01-$40			30	7		
$40.01-$50			12	23	3	
$50.01-$60			2	16	14	2
$60.01-$70				6	17	2
$70.01-$80					10	6
$80.01-$90					6	19
$90.01-$100					1	13
$100.01-$110					1	10
Over 110.01						6
MWBA as percent of average weekly wage						4
20-29		2	2	1	2	0
30-39		17	10	10	3	3
40-49	2	29	29	21	19	6
50	15	2	5	15	9	11
50.9-59			4	3	10	15
60-69	17	1	1	2	8	17
70-79	7					
80-89	7					
90-99	3					
Percent benefit payments at maximum	26	59	46		44	42

Note: The benefit amounts do not include dependents' allowances. The table includes the District of Columbia and Puerto Rico tabulations when available.

1955, only 11 states had added them. Since then, three states have added dependents' allowances, but three others have dropped them. Numerous studies have shown that benefits for dependents help achieve the support objectives of the program; yet legislatures continue to resist on the ground that unemployment benefits are wage insurance.

Weekly benefit amounts have risen on the average from $10.56 in 1940 to about $70 in 1975, but if the movement in wages over that period are considered, it can be seen that benefits were a smaller proportion of average wages in 1972 than they were in 1940 (see Table 3). Again and again, labor has had to trade some feature of benefits for higher weekly maximums in order to maintain the rate of wage replacement. Wider use of the flexible maximum will add an important element of stability to the benefit side of the unemployment insurance program.

Duration

Basing its judgment on the amount of unemployment from 1922 to 1930, the Committee on Economic Security decided in 1935 that it would be risky to provide more than 16 weeks of benefits based on a 3 percent tax of payrolls. All but 5 states followed this advice and limited benefits to 16 weeks or less. Because of the record of high exhaustion rates accompanied by accumulating reserves, in 1942 the Social Security Board recommended an increase in duration of benefits to at least 20 weeks, and in 1944 the Director of War Mobilization recommended a uniform duration for all claimants of 26 weeks. This remained a national objective until 1955. Most states eventually accepted the 26-week duration, but only for those workers with substantial work records; the duration for others were variable but fewer than 26 weeks (see Table 4).

Table 3

Changes in Average Benefit Amount, by Number of States

Average benefit amount (ABA)	1940	1950	1960	1970	1972	1975 etc.
Under $10	30					
$10.01-$20	21	28				
$20.01-$30		23	25	1		
$30.01-$40			25	12	3	1
$40.01-$50			1	22	17	1
$50.01-$60				16	24	13
$60.01-$70				1	7	19
$70.01-$80						16
$80.01 and over						2
U.S. average amount	$10.56	$20.76	$32.87	$50.31	$55.82	$71.00
ABA as percent of average weekly wage						
Under 40	29	47	46	45	39	24
40-49.9	20	4	6	7	13	27
50 and over	2					1
U.S. average percent	39.1	34.4	35.2	35.7	35.9	36.0

Note: The table includes the District of Columbia and Puerto Rico tabulations when available.

Table 4

Distribution of States by Maximum Potential Weeks of Benefits for Total Unemployment, Classified by Variable and Uniform Duration

		Maximum Number of Weeks									
	Total	12	13-15	16	17-19	20	21-25	26	27-30	31-35	36-39
Dec. 31, 1957											
Total	51	4	13	29	1	4					
Uniform	1			1							
Variable	50	4	13	28	1	4					
Aug. 1, 1941											
Total	45		9	24	6	6					
Uniform	14		3	8	1	2					
Variable	31		6	16	5	4					
Jan. 1, 1950											
Total	51	1		5	2	21	9	13			
Uniform	15	1		2	2	6	3	1			
Variable	36			3		15	6	12			
Dec. 31, 1960											
Total	52	1				2	7	33	5	2	2
Uniform	13	1					4	7	1		
Variable	39					2	3	26	4	2	2
July 6, 1969											
Total	52	1						41	6	2	2
Uniform	8	1						7			
Variable	44							34	6	2	2
Dec. 1, 1973											
Total	52					1		42	6	2	1

Table 4 (Continued)

	Total	Maximum Number of Weeks									
		12	13-15	16	17-19	20	21-25	26	27-30	31-35	36-39
Uniform	9					1		7	1		
Variable	43							35	5	2	1
Dec. 1, 1975											
Total	52					1		42	6	2	1
Uniform	8					1		6	1		
Variable	44							36	5	2	1

Uniform vs. variable duration remains an issue to this day. Uniform duration, in which every claimant is entitled to the same number of weeks of benefits, is consistent with the support objectives of the program by concentrating attention on the reemployment prospects of workers. Variable duration, in which potential weeks are a function of an individual's previous work record, is urged on the ground that entitlement should vary with the amount of contribution made on behalf of the worker; it also permits a shorter period of entitlement for those with only marginal attachment to the labor force. At no time have more than 15 states followed the uniform principle, and today the number is down to nine. The 26 weeks, or six months, of benefits as a maximum was discussed extensively for so many years that it became a kind of sound barrier that was not penetrated until the recessions of 1958 and 1960-1961 when high exhaustion rates forced another look at the duration issue (Table 5). Nine states responded by extending the maximum duration beyond 26 weeks--some up to 39 weeks. Twenty-two states enacted temporary extensions, either with federal advances under the Temporary Unemployment Compensation Act of 1958 or on their own initiative (5 states).

The recession of the late 1950s was widely attributed to structural changes in the economy, such as automation and industry relocation. In 1960, Congress enacted the Temporary Extended Unemployment Act, which authorized the extension of 13 more weeks of benefits to exhaustees--to 39 weeks in all. Unlike under the 1958 Act, the additional weeks of benefits under the new law were to be fully financed by the federal government. The 1960 Act established a watershed: the states now assumed responsibility for the cost of normal unemployment and the federal government the cost of long-term unemployment. During the 1960s, it was widely agreed that while temporary extensions were one way of handling recession unemployment, it took too long for legislative

Table 5

Exhaustions as Percentage of First Payments,

U.S. Average and State Range, 1940-1975

Year	U.S. Average	Range[a]	
1940	50.6	24.7-75.6	
1941	45.6	20.8-67.7	
1942	34.9	12.7-52.2	
1943	25.2	2.6-43.1	
1944	20.2	7.0-51.2	
1945	18.1	3.4-79.6	
1946	38.7	12.1-73.8	
1947	30.7	11.8-65.6	
1948	27.5	8.3-59.2	
1949	29.1	15.8-54.7	
1950	30.5	20.7-58.9	
1951	20.4	12.4-94.4	
1952	20.3	12.3-44.2	
1953	20.8	8.6-41.7	
1954	26.8	15.1-52.3	
1955	26.1	12.9-51.8	
1956	21.5	11.1-49.8	
1957	22.7	12.0-41.1	
1958	31.0	12.2-46.6	
1959	29.6	7.4-47.2	
1960	26.1	9.0-45.5	
1961	30.4	18.3-48.2	N.H. = 12.9
1962	27.4	16.3-45.5	N.H. = 12.6; P.R. = 64.6
1963	25.3	11.4-41.3	N.H. = 10.5; P.R. = 60.3
1964	23.8	15.8-39.4	N.H. = 8.8; P.R. = 48.5
1965	21.5	13.0-36.1	N.H. = 4.1; P.R. = 51.3
1966	18.0	8.7-33.9	N.H. = 2.3; P.R. = 48.5
1967	19.3	9.8-32.0	N.H. = 1.3; P.R. = 61.1
1968	19.6	10.2-35.0	N.H. = 1.3; P.R. = 58.9

Table 5 (Continued)

Year	U.S. Average	Range	
1969	19.8	9.6-41.2	N.H. = 0.6; P.R. = 51.4
1970	24.4	13.2-41.2	N.H. = 4.3; P.R. = 48.2
1971	30.5	14.2-49.0	N.H. = 10.0; P.R. = 51.0
1972	28.9	15.7-45.1	N.H. = 5.0; P.R. = 56.5
1973	28.5	13.2-45.3	N.H. = 2.7; P.R. = 53.9
1974	31.1	16.1-48.0	N.H. = 4.0; P.R. = 54.4

[a]New Hampshire, from 1961 to 1975, and Puerto Rico, from 1962 to 1975, were significantly at the extremes beyond the range of other state exhaustion rates. They are excluded from the range and are listed separately.

bodies to respond to changing economic conditions. There was some experimenting among the states with temporary extensions triggered automatically by specified unemployment and exhaustion rates. The search for suitable Employment Security Amendments of 1970.

As previously noted, the 1970 law broadened coverage; it also provided a permanent program of extended benefits for persons exhausting their regular state benefits during periods of high unemployment. The weekly amount of the extended benefit is the same as a regular benefit; payment of extended benefits continues either half again as long as the individual's regular benefits, or 13 weeks, but no longer than a total of 39 weeks (regular plus extended). Designated unemployment rates, both nationally (all states together) and state by state, trigger the beginning and cessation of extended benefits.[28] The federal government reimburses the states for half the cost of the extended benefits.

Waiting Weeks

Related to the concept of duration is the issue of the so-called "waiting weeks" at the beginning of a period of unemployment before benefit payments can begin. At first, these no-benefit weeks were necessary to allow time for the processing of claims, but this administrative justification has been eliminated by modern record-keeping. Some people continue to advocate retention of the waiting period as a way to hold down program costs, since every claimant is affected.

Precisely because so many are affected by these uncompensated weeks, steady pressure has developed over the years to reduce or even eliminate the waiting weeks.[29] Initially, states required a two-week period, 19 required

three weeks, and 2 as many as four weeks. Some states also required waiting weeks for additional periods of unemployment during a benefit year. The trend to reduce this uncompensated time began in the early years of the program and continued until, by 1975, 12 states required no waiting period and the rest required only one week. Three states specify a longer period for partial unemployment benefits, and 10 states provide that the waiting period may become compensable retroactively if unemployment continues for a specified period--usually four or more weeks, depending on the state.

Work-Qualifying Requirements

Only those persons who are attached to the labor force, both currently and in the recent past, are entitled to unemployment compensation. A claimant must show evidence of a work history in a relatively recent period, such as the last year or 18 months (termed the base period). The underlying rationale for this requirement is somewhat muddy. One reason given is that by producing a record of recent work for which contributions toward unemployment benefits have been made, the unemployed individual demonstrates that he is "insured" under the system and is entitled to benefits.[30] Another explanation is that a record of recent work is a necessary part of the work test, adding to the presumption that the applicant is work-oriented. For whatever reason, all states made benefit eligibility conditional on previous work.

Originally, it was agreed that the best measure of previous labor was a specified minimum number of weeks of work. However, in order to simplify administration, most states adopted indirect ways of measuring this: for example, some specified a multiple of the weekly benefit amount or simply a total amount of earnings during the base period. Because flaws became

apparent in those substitute measures, they have had to be changed frequently.

Another reason for changes in the qualifying requirements is that they are now used for a purpose other than that intended. In the past, a number of states specified that seasonal employment (for example, canning, fishing) was excluded from coverage, but all states have now switched to using the earnings-qualifying requirement. Now a distribution of work over the base year is required, the simplest examples being that the claimant have earnings in more than one quarter of the base year or that his or her earnings in the base year be some multiple of high-quarter earnings. Both of these distribution requirements are widely used in addition to the quantitative measures of base-year employment. The effect of the various requirements is that between 14 and 20 weeks of work in the base year are needed to establish eligibility for unemployment benefits, although some states, especially those that require a claimant to qualify on several tests, are more restrictive. Conversely, other states are excessively inclusive because they have failed to update their requirements in terms of current wage levels.

Disqualifications

The objective of unemployment insurance benefits is to provide cash support to those persons who are involuntarily out of work. The question is how "involuntary" is defined. Its meaning is found in the disqualification provisions. The four main causes for disqualification are:[31] (1) being unable to work or unavailable for work (32 percent of total disqualifications); (2) leaving work voluntarily or leaving "without good cause" (30 percent); (3) discharge for misconduct (9 percent); and (4) refusal of suitable work (3 percent). The relative frequencies are for 1969 and have held fairly stable in years of normal unemployment. The remaining 26 percent of disquali-

fications are attributable to (5) involvement in a labor dispute, (6) fraudulent misrepresentation to obtain benefits, (7) special groups, such as persons attending school or pregnant women, and (8) receipt of wage-related income, such as pensions or dismissal pay. These eight causes accounted for a total of 1,700,000 disqualifications in 1969.

Using the base of "per 1000 claimant contacts" for all disqualifications, Leonard Adams has arrnaged the data according to levels of insured unemployment for the 1950s and 1960s (Table 6).[32] The table figures demonstrate clearly the higher rates of disqualification in the 1960s at equivalent levels of unemployment. In general, it appears that between 1950 and 1970, the work test had become more stringent and was being applied more vigorously than before.

This tightening in definitions paralleled an increase in penalties applied. Pressure was particularly strong during the years that federal benefit standards were being considered in Congress. Critical articles appeared between 1960 and 1966, emphasizing the leniency in eligibility requirements and disqualification provisions. The articles alleged that the program was being abused by claimants who did not want to work or had lost jobs through their own fault. The result was that many states changed from a disqualification period of four or five weeks to total disqualification for the full period of one's unemployment (Table 7). The trend toward severe penalties was curbed somewhat with the passage of the Employment Security Amendments of 1970, which specify that state laws cannot cancel benefit rights entirely for any reason other than discharge for misconduct connected with work, fraud in connection with a claim for benefits, or receipt of disqualifying income.

Table 6

Unemployment Insurance Disqualification Rates for 1950s and 1960s

Arrayed by Insured Unemployment Rates

1950s			1960s		
Year	Insured Unemployment Rate	UI Disqualification Rate	Year	Insured Unemployment Rate	UI Disqualification Rate[a]
1958	6.6	14.0	1961	5.7	17.5
1954	5.3	17.1	1960	4.7	18.5
1959	4.3	18.0	1962	4.3	21.1
1950[b]	3.9	18.0	1963	4.3	22.7
1957	3.7	18.5	1964	3.7	23.5
1955	3.4	20.2	1970	3.4	23.2
1956	3.1	19.5	1965	2.9	25.7
1952	2.9	19.0	1967	2.4	26.4
1951	2.8	19.3	1968	2.2	26.6
1953	2.7	21.1	1966	2.2	27.2
			1969	2.1	26.7

Source: Based on data published by the U.S. Department of Labor in The Labor Market and Employment Security (Statistical Supplement through 1963) and Unemployment Insurance Statistics thereafter.

[a]Number of disqualifications imposed per 1,000 claimant contracts.

[b]Insured unemployment and disqualification rates are for April-December 1950.

Table 7

Number of States with Specified Types of Disqualification Provisions

Selected Years[a]

Disqualification Provision	1960	1970	1973	1975
Leaving work voluntarily				
Good cause restricted[b]	20	26	27	27
Benefits postponed:				
Fixed number of weeks	15	13	16	14
Variable number of weeks	21	17	19	18
Duration of unemployment	17	28	32	34
Benefits reduced or cancelled	17	19	17	17
Discharge for misconduct				
Benefits postponed:				
Fixed number of weeks	16	20	17	16
Variable number of weeks	27	24	23	23
Duration of unemployment	10	15	20	20
Benefits reduced or cancelled	17	25	17	17
Refusal of suitable work				
Benefits postponed:				
Fixed number of weeks	14	17	19	16
Variable number of weeks	23	17	19	20
Duration of unemployment	15	23	17	19
Benefits reduced or cancelled	16	15	13	13
Other				
Benefits denied:				
Unemployment due to pregnancy	35	38	30	23
Unemployment due to marital obligations	21	23	15	15

Source: Comparison of State Unemployment Insurance Laws (Washington: U.S. Department of Labor, Manpower Administration). See tables in chapter on "Eligibility for Benefits and Disqualification from Benefits."

[a]Some states are counted more than once because variations in their laws provide for different disqualifications depending on circumstances.

[b]"Good cause" is restricted to the work situation--that is, attributable to the employer or involving fault on the part of the employer.

Recently, disqualifications for pregnancy and marital or domestic obligations have been receiving increased attention. The pregnancy issue has been the subject of constitutionality suits, a reflection of the growing awareness of discriminatory legislation. The number of states that specifically disqualify a woman during pregnancy has been reduced from 38 to 27. During the same period, the number of state laws denying benefits to individuals (both men and women) who leave work to preserve a marital relationship also decreased--from 22 to 15.

3. Evaluation of Benefit Changes

This review of specific revisions in unemployment compensation legislation would be incomplete without the addition of a more general evaluation of changes in benefits. Some provisions have been liberalized, some made restrictive. What is the net reach of changes in support of the unemployed? Are unemployment laws more or less generous than they were 30 years ago? And what about diffferences among states? Is the disparity tending to widen or narrow?

Change in Mix of Benefits

When all types of benefit provisions are considered together, four kinds of changes or shifts in the principles of compensation can be identified: (1) a broadened coverage; (2) a reduction in the weekly rate of compensation relative to wage-loss; (3) an increase in the duration of compensation, that is, in the number of compensable weeks allowed; and (4) more rigor and strictness in applying insurability and disqualification provisions. Of these, only broadened coverage appears to apply in about equal measure across all

states and does not involve any trade-offs or offsetting adjustments in other areas.

In the discussion that follows, reference to coverage will be omitted and the focus will be on trade-offs and shifting emphases on duration, weekly benefits, insurability, and administration. The purpose is to look at the program from the standpoint of an unemployed worker who is eligible for benefits, and to ask whether, over the years, the program has really improved or whether only the kind of protection provided has changed.

This analysis can be started in a simplified form. To the unemployed worker who has established his right to benefits, the two important factors are how much he gets per week and for how many weeks does he get it. Thus, for qualified workers, the measures of value of benefits are "average benefits relative to average wages" and the "average potential duration." In other words, what portion of lost weekly wages will be replaced and how long will payments continue if he needs them? At this stage of the analysis we omit concern about insurability and administration factors.

From 1938 until 1951, the weekly benefit amounts declined relative to wage levels and have since improved only slightly from the low point.[33] As a consequence, weekly benefits have not yet recovered the role they had at the beginning. For duration of benefits, the situation has been the reverse. From 1941 until 1960, the average potential duration improved rapidly. Since then, emphasis has been on temporary extensions, while the regular duration provisions have been liberalized only slightly. The trend over the whole period has been toward longer entitlement.

The National Trend in Liberalization

We have just noted the movement of weekly benefit amount is in one direction and the movement of duration in the other. What if they are com-

bined into a measure "average potential benefits relative to average weekly wages"? The combined trend suggests a net liberalization of 62 percent upward over the life of the program. However, this overlooks the tighter eligibility definitions and penalties we have observed, and says nothing about changes in administration that may affect the probability of qualifying for compensation. If it were more difficult to qualify in 1972 than in 1938, then from the viewpoint of all unemployed workers the liberalization would be something less than the 62 percent observed.

For this purpose it is necessary to develop an overall index that takes account of all the dimensions of benefits that may affect the unemployed; the construction of the index is treated elsewhere.[34] The mean of all states since 1938 is shown in Figure 1. The net liberalization appears to be more nearly in the amount of 39 percent after all adjustments (except for coverage) are made. This estimate is preferred to the one above because it takes account of the trade-offs between benefits and insurability that has occurred since about 1958.

It is important to reiterate that in plotting these trends the program is being analyzed only in terms of its value as wage insurance and of its benefits as a fractional replacement of wage loss. Of course, in strict dollar terms benefits have risen many times over--in large part because wages themselves have also risen. Against a backdrop of price and wage inflation, it takes a lot of effort just to stand still. Organized labor has made a great effort to improve unemployment insurance, and without this effort benefits would have become hopelessly outmoded, but much of this legislative work must be seen as a necessary treadmill activity. Nevertheless, there is a net improvement detectible in the program from 1939 to 1972 on the order of 40 percent.

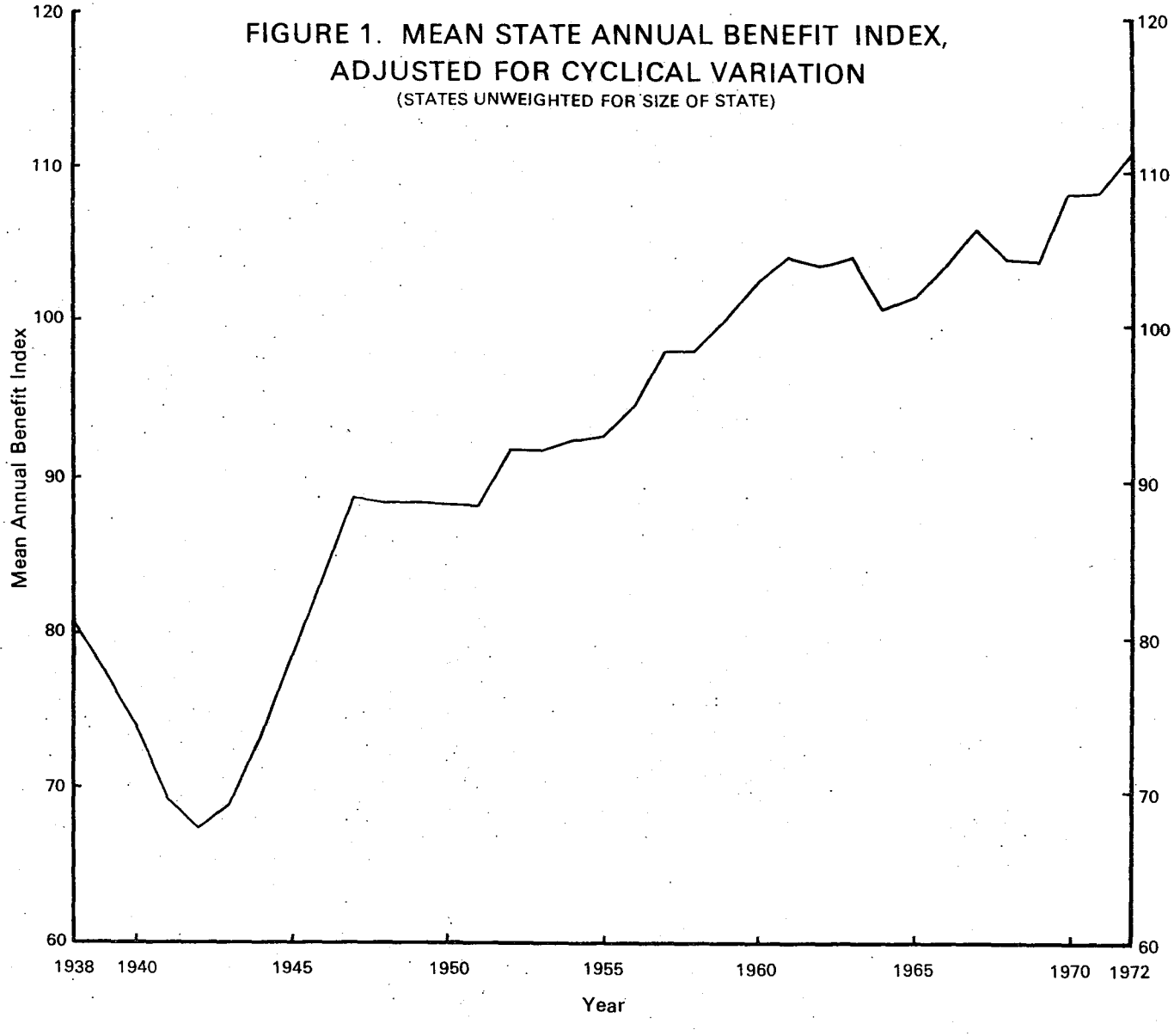
FIGURE 1. MEAN STATE ANNUAL BENEFIT INDEX,
ADJUSTED FOR CYCLICAL VARIATION
(STATES UNWEIGHTED FOR SIZE OF STATE)
Mean Annual Benefit Index
120
110
100
90
80
70
60
1938
1940
1945
1950
1955
1960
1965
1970
1972
Year

The Increase in Interstate Variation

One ostensible reason for federal intervention in the enactment of unemployment insurance was the reluctance of the states to impose payroll taxes, an understandable position for them to take in the context of interstate competition for industrial capital. This reason for including unemployment insurance in the Social Security Act was undercut by another decision--to allow experience-rating. It would seem that by introducing a factor encouraging tax-rate variation, experience-rating would conflict with the overall objective of achieving equal competitive advantages for the states. This suggests a question that can be answered empirically: Has experience-rating actually brought about more variation among the states in benefits and costs than the varying levels of unemployment would lead one to expect? While this is frequently alleged it is difficult to prove because the trade-offs in benefit provisions make the state programs difficult to compare and because, for any given year, there are varying unemployment rates among the states. Fortunately, the benefit index referred to above is a tool that can be used to overcome these difficulties. Since the benefit index is also a cost rate for a given level of unemployment, the necessary comparisons were made. The findings follow.

The first unemployment insurance laws were very similar in their provisions, but by 1950 there was enough dissimilarity that the cost rate for equal levels of unemployment varied enormously. The benefits in the most liberal states in 1950 were almost twice as costly as those in the least generous states for the same levels of unemployment. Further, this disparity has increased slightly since 1950 until the costs of benefits in the high-level states are now more than twice those in low-benefit states. Alaska and Hawaii are excluded from the computations because they were not in the program at the

earlier date and their inclusion would magnify the extremes in the later comparison. The actual range can be seen from the 1972 figures. The benefit index (or estimated cost rate for 4.5 percent unemployment) varied from 156 (Hawaii), 152 (District of Columbia), and 147 (Vermont), to 79 (Indiana), 75 (Oklahoma), and 68 (Alaska).[35] Not only has the range or difference between extremes increased, but the entire dispersion has also increased. The standard deviation has risen from 13.4 in 1950 to 16.4 in 1972. Again, Alaska and Hawaii are excluded so as not to magnify the picture.

The Persistence of State Preferences

In the years since 1947, those states high on the benefit index list are likely to have stayed there and those low on the list are even more likely to have remained near the bottom. Continuously near the top during the whole period have been Hawaii, Vermont, Maryland, and Utah. Others prominently near the top, at least since 1965, are the District of Columbia, Wisconsin, Rhode Island, New Hampshire, and North Dakota. On the other hand, near the bottom in 1972 and during most of the period since 1947 are Virginia, Texas, Alabama, Louisiana, Georgia, West Virginia, Florida, Indiana, Oklahoma, and Alaska. There appears to be a notable consistency in the ranking of states according to the benefit index. (It should be remembered that the index that produces this generalization is based on benefits relative to wages and therefore does not adversely reflect on low-wage states as such.)

The persistence of these divergent state attitudes toward benefits has helped bring broader support to labor's objective of federal benefit standards as the only way to achieve some degree of equitable treatment for the unemployed across the nation.

4. Recent Policy Issues

Some policy issues still beset unemployment insurance because of imprecise objectives or compromises in structure that date from the beginning. In this category are state-by-state reserve systems and the use that has been made of experience-rating. Other controversies exist because of such new thrusts as national manpower policy and the national policy to reduce poverty, both of which affect unemployment insurance and require a rethinking of its role.

National Manpower Policy

A fairly new aspect of the environment in which unemployment insurance now operates is national manpower policy, which did not exist except in wartime prior to 1960. Manpower policy has pursued such various objectives as creating more job opportunities for the unskilled, raising the income of hard-core disadvantaged workers by upgrading their skills and improving their work habits, and reducing structural unemployment and inflationary pressures through retraining programs to increase the number of workers with skills that are in short supply in the labor market. The objectives and forms of manpower programs vary with administrations and economic conditions. Because of similarities in purpose between manpower programs and unemployment insurance, these programs must necessarily be related or complementary. In forging the relationship, however, neither can be subordinated to the other because their roles do differ. Manpower programs are concerned with efficiency in the development, allocation, and use of human resources. Unemployment insurance, which is concerned with a quality of life--that is, surcease from the scramble of the labor market--is an idea based on deep-seated moral premises. People

compromise the work force of society but they are also the ultimate justification for that society. Therefore, the forces of supply and demand by themselves may not be permitted to dominate their livelihood.

For these reasons, unemployment benefits should not be discontinued if the jobless worker refuses training opportunities, at least during the normal duration of the benefit period, since they would constitute a denial of the worker's earned right to benefits. At any time during the receipt of regular state benefits, the claimant and not the unemployment insurance authorities should have the right to make the decision about training or relocation. But because unemployment insurance is a holding operation and benefits cannot be continued indefinitely, a different approach is justified for the long-term unemployed under nonrecession conditions. In such instances, the worker's willingness to take active steps toward readjustment might be an appropriate condition for continuation of income-support payments.

The issues are old-ones--avoidance of work disincentives on the one hand and provision of adequate support on the other. If it could be shown that benefits do, in fact, subsidize a more effective job-search, which might be possible where quality manpower services were applied in a tight labor market, then the conflict in objectives could be reduced. There are sources of work disincentives in the unemployment insurance program other than the weekly amount and duration of benefits, and needless ones at that; prime examples are the partial benefit schedules and retroactive waiting weeks.

Elimination of Poverty

When the abolition of poverty was made a national goal in the 1960s, most of the proposals were for "opportunity" rather than income-maintenance programs. A few changes were made in old-age insurance to the advantage of low-income

persons, but in general the social insurance programs remained as they were. In considering unemployment insurance in this context, a difficult question is posed: How much should unemployment insurance be tailored to the "equity" considerations of wage insurance, and how much to the "adequacy" criteria of poverty alleviation? Although unemployment benefits are related to wages, unemployment programs make four kinds of concessions to low-income workers: (1) there are maximum benefit amounts, the presumption being that higher paid workers are better able than are lower paid workers to tighten their belts and that they may have some savings to draw upon during periods of unemployment; (2) similarly, nine states compromise the half-of-wage-loss principle by providing that lower paid workers shall receive a larger fraction of their lost wages in benefits; (3) eleven states adjust the benefit amount according to family size; and (4) nine states provide uniform duration so that persons with low earnings in their base year can draw more in total benefits than can low earners in other states.

Despite these compromises in the interest of the poor, it is estimated that in normal years no more than one-fifth of all unemployment insurance payments go to the poor households and only 16 percent of all households receiving payments are poor households.[36] This estimate, of course, says nothing about the dynamic role of benefits in preventing those poor families from entering a cycle of demoralization and joblessness. But the fact remains that a great many beneficiaries are not poor and a great many poor are not beneficiaries. Unemployment insurance is not for those who have obligations that prevent them from being in the labor market, nor is it sufficient for those with earnings far below their minimum needs. A strategy for abolishing poverty must work through broadly based programs directed toward families with the lowest incomes.

What are the possible relationships between broad-based income-maintenance plans and unemployment insurance? The first decision to be made is whether unemployment insurance (and other social security systems) should be replaced by the new plan or whether the new plan should be integreted with the old. A strategy that involves substituting a new income-maintenance plan for existing programs would have trouble gaining support. For example, a proposal to abolish unemployment insurance in the interest, say, of a negative income tax or demogrant must take account of the very fundamental character of unemployment insurance as a social contract between capital and labor, and it would have to recognize that at a stage in the growth of modern industrial societies an exchange was made--the unfettered movement of capital for a sharing of the burden of unemployment. Such an "agreement" with wage earners could not be abrogated lightly. The substitution question may be put in different ways, but it boils down to whether wage earners as a group would lose or gain as a result of the change, and determining gain or loss involves attempting to measure the intangible value of being insured--that is, protected--as well as the economic return to wage earners as beneficiaries. The alternative is to integrate an income-maintenance plan with existing social-insurance programs. Here it makes an enormous difference what type of plan is to be integrated--whether it should be an income-tested type such as a guaranteed income or negative income tax, or demogrants such as flat benefits for the aged, children's allowances, or income-tax credits. Actually, integration with a demogrant would serve to relieve unemployment insurance in its difficult policy areas of long-term unemployment and wage-qualifying requirements, and would free it to perform its wage-insurance mission more effectively.

Until income-maintenance plans are again under consideration, unemployment insurance can be improved in its wage insurance, manpower, and anti-poverty objectives. Standards should be set to assure the effectiveness

of the maximum benefits and to prevent the grosser kinds of limitations on duration of benefits. Work disincentives associated with partial benefit schedules and retroactive waiting weeks should be eliminated, and effective labor-market services should be offered. For greater impact on low-income persons, coverage could be extended to agricultural and domestic workers, and dependents' benefits could be enacted to provide a flat amount per dependent. If written in this form, such provisions could be easily removed should Congress enact an income-maintenance plan in which family size was a factor in determining the amount of payments.

Underfinancing and Fiscal Integrity

The 1970s recession has had a severe impact on the financial structure of the unemployment insurance program. Benefit payments in 1976, as in 1975, will be about twice the income expected from payroll taxes, and more than half the states have exhausted their reserves. By the end of 1975, 15 states were in a deficit position and had to borrow $1-1.4 billion. By the end of 1976, an estimated 28 states will need to borrow about $4.5 billion in order to continue the flow of benefits.

Part of the difficulty lies in the fact that the intensity of the recession was unexpected, in light of experiences since World War II. In addition, many states entered the 1970s with low reserves after a number of high-employment years during which they could have built up their funds. The tax rates and reserve levels of states that had to borrow during 1975 are shown in Table 8 and indicate in every case a tax yield well below the 2.7 percent of payroll originally contemplated as an acceptable cost rate. The reserve levels attained by the end of 1969 in all cases except Vermont and Washington were below the two to three times "reserve multiple" regarded as prudent practice. Responsibility

Table 8

Tax Rates, 1964-1969, and "Reserve Multiple," 1969, of States That Borrowed or Applied for Loans from the Federal Loan Fund by 1975

	Average Tax Rates[a]							"Reserve Multiple" End of 1969[b]
	1963	1964	1965	1966	1967	1968	1969	
Arkansas	1.04	1.04	1.07	1.06	.81	.77	.75	1.53
Connecticut	1.12	1.09	1.08	1.03	.86	.94	.86	1.56
Delaware	1.35	1.22	.96	.56	.48	.43	.42	1.28
Hawaii	1.21	1.51	1.32	1.20	1.13	1.12	1.10	1.96
Maine	1.41	1.29	1.09	.91	.73	.78	.77	1.27
Massachusetts	1.61	1.68	1.59	1.49	1.18	1.16	1.02	1.79
Michigan	1.66	1.44	1.22	1.12	.80	.63	.65	.89
Minnesota	.78	.72	.73	.88	.81	.74	.70	1.17
Montana	.97	.95	.95	.89	.89	.88	.86	1.20
Nevada	1.77	1.71	1.27	1.24	1.26	1.22	1.13	1.37
New Jersey	1.29	1.21	1.18	1.12	1.05	1.07	1.04	1.21
Oregon	1.86	1.54	1.23	1.20	1.16	.87	.84	1.46
Pennsylvania	1.79	1.89	1.78	1.61	1.40	.78	.73	1.30
Rhode Island	1.87	1.82	1.77	1.45	1.38	1.23	1.21	1.82
Vermont	1.13	1.33	1.54	1.89	1.55	1.20	1.00	2.02
Washington	1.48	1.44	1.42	1.24	1.18	1.01	.81	2.54

[a]Total tax paid as a percentage of total wages.

[b]Reserve ratio (percent of total wages) as a multiple of highest 12-month benefit cost rate since Jan. 1, 1958.

for the chronic underfinancing that characterizes many states can probably be attributed to three factors: the effects of experience-rating in undermining employer-taxpayer responsibility, outmoded concepts of reserve financing, and the existence of separate state funds without any pooling of risk.

The original rationale for experience-rating as a tax incentive to induce employment-stabilizing behavior has all but vanished because of Keynesian economics and the principles established in the Full Employment Act of 1946. Responsibility for the vigor of the economy rests on taxing, spending, and the counsel of monetary authorities. Experience-rating persists, nevertheless, and not just as a monument to the quaint ideas of the past. It now has new justifications and apologists. It is widely believed in the business-taxpayer community that experience-rating is the only way this kind of tax can be kept low, and a low tax continues to be the main concern of large segments of the business community. Thirteen states have even pushed the minimum experience-rate to zero, and another 17 states have minimum rates at one-tenth of 1 percent or less.

The desire to perpetuate low rates has also encouraged certain questionable practices in fund management, one of which is allowing optional contributions in order to secure a lower rate on a given schedule. Another is using a previous year's benefit-cost rate, some multiple of it, or an average of recent years rather than a past high-cost period as the solvency standard. Still another is delaying fund recoupment too long to handle recessions that quickly follow one after another. Finally, a number of states still fail to use "total payrolls" as the base for calculating the "trigger" for higher tax rates, depending instead on flat dollar amounts or taxable payrolls, each of which becomes ineffective in time.

In the early 1960s, an important innovation in fund management was the use of an array of rates to produce a predetermined yield. The desired yield, when expressed as a proportion of the taxable wage base, becomes the central rate; other rates of the schedule fall above and below in such a manner that the distribution of rates produces the desired yield. This approach concentrates attention on essentials--the revenue-raising capacity of each schedule. Despite its advantages, this method has not been widely adopted by the states.

Imprudent fund management is a matter of neglect in some states, but others are suspected to follow an out-and-out policy of brinksmanship in which the objective is to keep reserves low as one way of resisting demands for higher benefits.

Finally, and this is perhaps the most obvious cause of underfinancing, there is the structure of state-by-state underwriting, in which each state assumes all the risk within its borders and shares none outside. Total risk is necessarily greater with such a system. State economies differ, and a recession in one state is not necessarily matched by one in every other one. One of the lessons of the 1970s recession is that in order to achieve solvency, it will be necessary in the future to have either larger or more effective reserves. The cheaper course is more effective reserves, which could be obtained through some system of pooling of high-cost experience.

5. Conclusion

The jobless-pay program established in the thirties has been monitored chiefly by its labor beneficiaries and its employer taxpayers. Although there has been a modest liberalization even with the moving wage levels, the program still falls short, particularly from the perspectives of manpower

and poverty policy and the insufficiency of its financing. It would appear desirable to infuse more public-interest participation in policy-making in order to supplement the constituent roles.

Labor called attention early to the dangers of hinging the financing structure to purposes other than underwriting benefits. While there are other objectives that may be of interest, such as stimulating stable employment practices, maximizing countercyclical effects, or placing the cost burden consistent with the most productive economic incentives, and while any of these and other objectives can be legitimately claimed, the primary aim should be to assure adequate and continuimg payments. The present fiscal crisis of the system is mute testimony that this objective has not been achieved. Confusion in objectives would, of course, be a defeat in a more centralized system, but had the federal government taken more of a role in shaping the program, the subversion of goals could not have occurred in the shadows of 52 state legislatures where there usually is not even written record of what transpires. If one lesson emerges from this history, it is the danger of establishing a decentralized system with no explicit hierarchy of purposes.

Footnotes

[1]This section and the next draw heavily on the accounts in William Haber and Merrill G. Murray, Unemployment Insurance in the American Economy (Homewood, Ill.: Richard D. Irwin, 1966), and Daniel Nelson, Unemployment Insurance, The American Experience 1915-1935 (Madison: University of Wisconsin Press, 1969).

[2]U.S. Department of Labor, Unemployment Benefit Plans in the United States and Unemployment Insurance in Foreign Countries, BLS Bull. No. 544 (Washington: U.S. Government Printing Office, July 1931).

[3]The largest plans were those of the Amalgamated Clothing Workers in Chicago, New York, and Rochester (33,000 participants) and the American Federation of Full-Fashioned Hosiery Workers (15,000 participants).

[4]U.S. Department of Labor, Unemployment Benefit Plans. . . .

[5]At the 1922 ILGWU convention, the delegates were told such funds would "put the workers in a position of greater dependence upon the employers." In a discussion of joint plans of any kind at the 1924 convention, a leftist leader said with disdain, "Now we are in the life insurance business and later we are going to build houses and railroads. Our problem is organizing the shop." But by 1928 when the Communists were no longer in control, the convention urged that unemployment funds be part of every agreement. See Raymond Munts, "Welfare History of the I.L.G.W.U.," Labor History, vol. 9, Special Supp. (Spring 1968), pp. 87-88.

[6]Best known among the guaranteed employment plans was Proctor and Gamble's; among the benefit plans, that of the Rochester group of firms; among the individual plans, that of J.I. Case in Wisconsin.

[7]Judge Elbert H. Gary, as quoted in Nelson, Unemployment Insurance, p. 12.

[8]In Nelson, Unemployment Insurance.

[9]Among such men were Marion B. Folsom, treasurer of the Eastman Kodak Company; Gerald Swope, president of General Electric; Morris Leeds, president of Leeds & Northrup; Sam Lewisohn, vice president of Miami Copper Company; Walter C. Teagle, president of the Standard Oil Company of New Jersey.

[10]Among the early students of unemployment insurance were Henry R. Seager, Charles R. Henderson, William M. Leiserson, Louis Brandeis, John R. Commons, Isaac M. Rubinow, and John B. Andrews.

[11]As quoted by Philip Taft, The A.F. of L. in the Time of Gompers (New York: Harper, 1957), p. 365.

[12]Taft, p. 365 ff.

[13]U.S. Senate, Causes of Unemployment, Rep. No. 2072, 70th Cong., 2d Sess. (Washington: U.S. Government Printing Office, Feb. 29, 1929), p. xv, as quoted by Haber and Murray, p. 71.

[14]The reluctance of states to step out alone explains the resolutions of the Maine, Minnesota, Montana, and Wisconsin legislatures in 1933 urging Congress to enact unemployment insurance legislation.

[15]Not all top AFL leaders or even all members of the Executive Council agreed with Green; Vice President Wharton and Dan Tobin did not. See Taft, pp. 29-40.

[16]Taft, pp. 29-40.

[17]Arthur J. Altmeyer, The Formative Years of Social Security (Madison: Univeristy of Wisconsin Press, 1966), pp. 18 ff.

[18]Steward Machine Co. v. Davis, 301 U.S. 548 (1937).

[19]Edwin E. Witte, The Development of the Social Security Act (Madison: University of Wisconsin Press, 1962), p. 54.

[20]William Green; George M. Harrison, president of the Brotherhood of Railway and Steamship Clerks; Paul Scharrenberg, secretary-treasurer of the California State Federation of Labor; and Henry Ohl, Jr., president of the Wisconsin State Federation of Labor.

[21]Taft, p. 282.

[22]Altmeyer, p. 33.

[23]Taft, p. 282.

[24]Green, in 1931 when he was still opposing unemployment insurance, argued that an application of the reserve principle to labor would assure workers either stable employment or income over the business cycle. "By allotting some of the income to a wage reserve, wages could be taken care of in business depression in the same way as dividends and interest. We believe that the practice of wage reserves can be established in much the same way as were other reserves. There is involved the development of intangible rights, the acceptance of the right of a wage earner to his job, the obligation of industry to conserve and advance the investment the wage earner makes in the industry." Taft, p. 32.

[25]There is also a program for railroad workers, one for federal government employees, and one for ex-servicemen. These last two are administered by the states as agents for the federal government, and for our purposes will be subsumed under the federal-state system.

[26]Paul Raushenbush has explained the Wisconsin use of the half-of-wages approach as follows: "No one claimed, in 1930-31, so far as I recall, that U.S. weekly benefits should be high enough to cover every jobless worker's 'cost-of-living' or 'non-deferable expenses.' They would help of course; but maybe saving or even 'relief' might have to supplement U.C. in some cases. More basically, we were sure that 50 percent benefits would be more acceptable to the public than a higher percentage of wages. The public, and legislators--both then and now--feel that a W.C. claimant should draw a good deal more than a U.C. claimant. That's partly because most folks are far more sympathetic to an injured worker than to a physically-able jobless worker. But that feeling is probably mainly due to the common notion or conviction that benefits for a jobless worker should not be high enough to encourage 'malingering.'" From letter to Saul J. Blaustein, December 1970.

[27]Nine states set their sliding maximum at 66 2/3 percent of the average weekly wage; six at 60 percent, and the rest (seventeen) range from 57.5 percent to 50 percent.

[28]The program is "triggered in" during periods of high unemployment at either the state or national level. Nationally, the "on" indicator is reached when the seasonally adjusted rate of insured unemployment equals or exceeds 4.5 percent in each of the three most recent months, and the "off" indicator occurs when the unemployment rate drops below 4.5 percent in each of three consecutive months.

The state indicator is "on" for any individual state when the state's insured unemployment rate averages 4 percent for any 13 consecutive-week period and is 20 percent higher than the average rate for the corresponding 13-week period in each of the two preceding years. The state extended-benefit period ends when either of these conditions is not met.

An extended-benefit period begins with the third week after a week for which there was a national "on" indicator or a state "on" indicator, whichever occurs first. The period ends with the third week after the first week for which there are both national and state "off" indicators. However, an extended-benefit period must last for not less than 13 consecutive weeks and cannot be started again on the basis of a state indicator for another 13 weeks.

[29]One might think there was a persuasive argument for keeping the waiting weeks and using the savings to extend the benefit and help the long-term unemployed. This has not figured as an acceptable policy trade-off because of the original gross overestimates of program costs.

[30]Support for this view lies in the fact that no state has ever experimented with giving benefits to new entrants to the labor force on the grounds that their benefits have not been funded. For discharged veterans, the cost is paid by the federal government.

[31]The distributions by cause vary somewhat with roles of unemployment; those given here are for 1969.

[32]Leonard P. Adams, Public Attitudes Toward Unemployment Insurance (Washington: W.E. Upjohn Institute for Employment Research, 1971), Table 5, p. 73.

[33]There are two different ways of looking at national experience with unemployment benefits: the program approach and the state policy approach. The program approach weighs each state according to how many covered workers are in the state or what proportion of the total experience that state represents. The state-policy approach has no weighting for the size of the state. For example, there is a difference between the national average weekly benefit amount and the average of the state average weekly benefit amounts. The Department of Labor uses the program perspective in reporting national trends, but in this paper the state-policy perspective is used throughout.

[34]The method of constructing the index and its use in analyzing trends and variation is described in a separate paper by this author that is available on request. Essentially, it uses the cost rate developed by actuaries to predict annual benefit payments and standardizes them by assuming a 4.5 percent covered employment rate in every state for every year. This "standardized benefit ratio" serves to measure the value of benefits for covered workers. It holds both unemployment and the size of the program constant, so it is useful for cross-section as well as historical analysis of state programs.

[35]The index figures here may be interpreted to mean that if unemployment had been 4.5 percent in each state in 1972, this much (in hundredths of a cent) would have been paid out for each dollar of wages and salaries in covered employment.

[36]Ben Gillingham, Cash Transfers: How Much Do They Help the Poor, Special Report Series (Madison: Institute for Research on Poverty, University of Wisconsin, January 1971).