

# The Employment Security Program in a Changing Economic Situation

*The Federal Advisory Council of the Bureau of Employment Security at its meeting this past September adopted resolutions, given in full in the following pages, on the employment service and on unemployment insurance. The conference, which was the Council's first since the Bureau's transfer from the Social Security Administration to the Department of Labor, heard brief statements from the Secretary and the Under Secretary of Labor, as well as from Arthur J. Altmeyer, Commissioner for Social Security, and Robert C. Goodwin, Director of the Bureau of Employment Security. A summary of Mr. Altmeyer's statement follows the recommendations.*

**T**HE Federal Advisory Council of the Bureau of Employment Security met in Washington on September 14 and 15, 1949. The Council, established under the Wagner-Peyser Act, has 35 members, who represent business, labor, veterans' groups, and the general public. Since the adoption of the President's Reorganization Plan No. 2 of 1949, transferring the Bureau of Employment Security to the Department of Labor, the Council has responsibility for advising the Secretary of Labor and the Bureau on all matters related to the public employment service and unemployment insurance.

It was the consensus of the Council that the unemployment insurance payments to unemployed covered workers during the past several months have contributed to checking a possible recession and that, with other complementary measures, they have helped to "firm up" the economic situation to a considerable extent.

The following resolutions were adopted by the Council, which will meet again in late November to take up items carried over from the September meeting and to consider other important policy questions.

## The Council's Resolutions

### The Employment Service

1. *Providing leadership in community employment planning.*

The Council commends the activi-

ties of the Employment Service to date in providing leadership in community employment planning.

In addition, it recommends that State and local "maximum employment committees" be established to bring the entire resources of the community together to meet critical unemployment situations where they exist.

Business, labor, civic, veteran, and welfare organizations should be called upon to cooperate fully in the work of the committees.

The local employment offices should stimulate the establishment of these committees and perform planning, staff, and informational services for them when they are established.

The Bureau of Employment Security should further this effort by meeting with national representatives of national organizations in Washington and request their cooperation in furthering this program throughout their memberships.

2. *Special problems of veterans in a period of increased unemployment.*

Careful attention is invited to the report of the Committee on Veterans Employment, as adopted by the Federal Advisory Council September 17 and 18, 1948, all of the recommendations of which we specifically reaffirm. A report on the progress made toward the attainment of each specific recommendation should be made by the Bureau of Employment Security to the members of the Federal Advisory Council at or prior to its next meeting.

It is particularly distressing to note

that, during the last 3 years, congressional appropriations for the operational functions of the United States Employment Service and the Veterans Employment Service have necessitated drastic curtailment of personnel of both services, with a consequent drastic reduction in the counseling, job development, placement, and other essential activities of the United States Employment Service and the Veterans Employment Service.

It is absolutely essential that adequate appropriations be made by Congress for these purposes, if the promise set forth in the Servicemen's Readjustment Act that "there shall be an effective job counseling and employment placement service for veterans . . . so as to provide for them the maximum of job opportunity in the field of gainful employment" shall be effectuated.

An equal opportunity for the gainful employment of veterans and disabled veterans—handicapped by less seniority and less job experience—can be afforded them only by an intensive application of these operational functions, which, unfortunately, cannot be adequately performed if it is impossible to hire adequate personnel because of inadequate appropriations.

The Council recommends that the Secretary of Labor, the Director of the Bureau of Employment Security, and the Chief of the Veterans Employment Service jointly request supplemental appropriation to restore personnel, previously released due to inadequate appropriations, so that the United States Employment Service and the Veterans Employment Service will be able to fulfill the obligations set forth by Congress in the Servicemen's Readjustment Act of 1944.

3. *Collection and use of labor market information.*

The Council recommends that labor market information collected by the Employment Service include data pertaining to employment opportuni-

ties for youthful job seekers. This has reference to facts on the supply and demand for workers in entry jobs as well as occupations suitable for college graduates. The importance of this kind of information lies in the fact that young people are likely to be among the most disadvantaged elements in the labor force in the years ahead and that many thousands of G. I.'s and others will be graduating from colleges and universities in 1950, 1951, and 1952 in a job market difficult for professional workers.

The Committee recommends the restoration of basic industry information, including current supplements. Such information would furnish a useful resource in counseling and placement.

The Committee recommends that the Bureau of Employment Security emphasize to the State agencies the importance of wide dissemination of labor market information. The Bureau of Employment Security should also release information regularly on labor market conditions from a national point of view and should expand its mailing lists to national organizations concerned with public affairs and to industry and trade journals.

Local offices in collecting and analyzing labor market information should take special account of employment, particularly if it is reflected in short hours of work, and thus bring about a more comprehensive interpretation of the extent of total and partial unemployment in the area.

*4. Establishing a systematic approach to employer relations and job development. Emphasis on the job development in the "major market."*

The policy developed by the Bureau of Employment Security, whereby local office personnel regularly visit employer establishments representing the greatest job opening potentials, to the extent made possible by limited appropriations and personnel, is commendable.

Recognizing the fact that the large majority of small employers have comparatively few potential job openings, the use of such devices as the telephone, radio broadcasts, and of direct mail solicitation, accompanied by labor market information bulletins, should continue to be utilized.

The Council nevertheless believes it would be highly desirable that such additional personnel as might be required to further develop the job opening possibilities among smaller establishments be made available through increased congressional appropriations.

Greater penetration by the Employment Service in the placement of employables into the labor market is deemed highly desirable, for the mutual convenience of employers and potential employees.

*5. Clarifying policies concerning the employment of Puerto Rican and foreign agricultural labor.*

Your Employment Service Committee feels that insufficient information, background, and time precluded a policy recommendation on this item and recommends that this subject be put on the agenda for consideration at the next meeting of the Council.

## *Unemployment Insurance*

*1. Extension of coverage to small employers.*

While the original social security legislation excluded from protection employees of firms with fewer than eight workers, primarily because of the administrative difficulties of obtaining reports and auditing records of such firms, there is general agreement today that these considerations no longer apply. About 3.5 million workers, in an average week, would be added to the coverage of the program if this restriction was removed; this understates the number of workers who would benefit by the change, since many workers move from small to large firms and back again during the course of a year. The council notes that the experience of the 17 States which cover employers with one worker has demonstrated the absence of serious administrative difficulties, as well as the removal of inequities which are hard to explain to the public. Coverage of one or more employees will establish the same coverage for unemployment insurance as for old-age and survivors insurance.

After careful consideration of these factors, the Council unanimously recommends the extension of the Unemployment Tax Act to employers of one or more employees.

*2. Removal of exclusion of coverage of nonprofit organizations.*

At the present time, about 600,000 jobs are outside the protection of the unemployment insurance program because of the present exclusion of nonprofit organizations from the Unemployment Tax Act. The original exclusion of this group was based upon the fear of government control, and anxiety lest its tax-exempt status might be jeopardized. There is general agreement today that workers employed by these organizations are discriminated against since they do not receive the same protection as privately employed workers in the same occupations with whom they share the same risk of unemployment, and that lifting this exemption need not affect the special legal status of religious and other nonprofit organizations. This has been found to be the case in Hawaii, where nonprofit organizations are covered, and in the six other States where some parts of this group are covered. The Senate Advisory Council recommended coverage of nonprofit organizations in its report to the Senate Finance Committee in the fall of 1948.

In the light of these considerations, the Council unanimously recommends extension of the Unemployment Tax Act to all employees of nonprofit organizations except to ministers and members of religious orders and to part-time workers who earn less than \$45 per quarter, or whatever figure may be approved for old-age and survivors insurance.

*3. Wage base.*

The Council recommends that the wage base for unemployment taxes be brought to the same point that the wage base may be brought to in old-age and survivors insurance and that the uniform base be substantially raised.

*4. Studies on benefit financing.*

The Council endorses and urges the Bureau of Employment Security to prosecute vigorously studies on the financial soundness of the several State unemployment insurance systems; on methods of revising the present financing scheme in order to avoid the existing factors that impose high tax rates during depressions and low tax rates during prosperity; that such studies explore the extent to which

covered workers exhaust their benefits before their unemployment has ended; the extent to which their unemployment continues after benefits are exhausted; and related issues designed to throw light on the extent to which unemployment insurance is meeting the objectives of providing benefits to involuntarily unemployed people.

#### 5. *Administrative financing.*

The effective operation of the unemployment insurance program depends in large part on the adequacy of congressional appropriations for administration. The program has had a long record of inadequate appropriations. During the last 14 years it has been necessary to request 12 deficiency appropriations. Adequate funds should be provided in advance of the fiscal year in order that both the Bureau of Employment Security and the State agencies may plan their activities for a full fiscal year. These funds should be adequate to assure full and prompt payment of benefits; the maintenance of procedures for preventing abuses of the program and for assuring public understanding of the program. The Bureau of Employment Security should be staffed to provide leadership to the States in all these areas and to supply current information on the effect of the existing system on the stabilization of employment, on providing for wage loss due to involuntary unemployment, and on sound fiscal policies.

The Council therefore recommends that the Federal authorities take all actions necessary to provide funds for both State and Federal administration adequate for proper administration and for the development of the unemployment insurance program.

#### 6. *Federal proceeds of Federal unemployment tax.*

The Council recommends that the Federal proceeds of the Federal unemployment tax be automatically appropriated to the Federal unemployment account for Federal and State administrative expenses and for reinsurance purposes; and for continuation of the provision for a contingency fund to supplement basic grants to the States for administrative purposes. It further recommends that the contingency fund be made sufficiently large to cover probable needs;

and that, when necessary, Congress be requested to appropriate additional funds for administrative purposes from the general funds of the Treasury to supplement the proceeds of the tax.

## Unemployment Insurance Trends and Developing Problems

Mr. Altmeyer, in his talk before the Advisory Council, pointed to the fact that as yet the unemployment insurance program had not faced a real test of its efficacy in a major depression. The Social Security Act was passed in 1935, but unemployment insurance payments were not available until the depression was on its way out, when persons who were unemployed had, for the most part, not developed benefit rights.

Then came the war and full employment, followed by the reconversion period when unemployment was far below the level some persons had predicted. The recent rise in unemployment has been met without endangering the State reserves, even though in June 1949 the reserves had dropped from the preceding year's totals in a number of States. There have been few criticisms of the program in the press recently; in fact, the part unemployment insurance payments have played in bolstering local purchasing power has been termed "constructive." Currently, employment is rising nationally, though it is still spotty in some places and unemployment may again increase.

The adequacy of the present program for the worker and the country should be judged from the point of view of the proportion of wage loss it is compensating. Mr. Altmeyer cited the case of Muskegon, Michigan, where in the first 5 months of 1949 there was a wage loss of some \$12 million and unemployment insurance benefit payments of \$2.4 million—roughly 20 percent of the wage loss. Many unemployed workers received nothing because their earnings were insufficient to give them protection or they had previously exhausted their benefit rights.

*Coverage.*—At present 7 out of 10 workers are covered under unemploy-

ment insurance. Eight million could be brought into the system overnight without causing the slightest upset to State or Federal administration. These would include employees of small firms and of nonprofit organizations, Federal employees, and workers in industrialized agriculture. The change in coverage, from firms with eight or more employees to those with one or more, could be made without additional State legislation because most States have an automatic clause which calls for such change if it is made in the Federal law; other States permit voluntary coverage. To include domestic and agricultural labor would present some, but not insuperable, difficulties.

*Benefit rates.*—Under various formulas, benefit payments are meeting, on the average, about one-third of weekly earnings, far less than the proportion met by workmen's compensation. The percentages vary widely from State to State, indicating that there is no consistent relationship between the benefit rate and wage levels. Eleven States are now providing dependents' allowances. Sixty percent of the unemployed workers receiving benefits are drawing the maximum, which means that we are in fact approaching a flat weekly rate.

Thirty percent of these workers are exhausting their benefits before reemployment. In some States the percentage runs as high as 50 percent.

*Harsh disqualifications.*—While we all agree that benefits should be paid only to workers who are involuntarily unemployed, the harsh disqualifications imposed by some States vitiate that principle. In other words, "voluntary quit not attributable to the employer" means that the worker in such States must prove it is the employer's fault if he leaves his job—a requirement inconsistent with the principle of the workmen's compensation programs which were established to eliminate the necessity of proving the employer's fault in case of injury to a workman on the job; inconsistent with the principle of our free enterprise system because it disqualifies a worker if he leaves his job to take a better one. Further, when a worker is disqualified because he refuses to take any job offered, even though it is at lower wages, the

worker loses purchasing power and the employer loses the worker's skills. Lastly, a worker must now prove (in the majority of States) that he is "actively seeking work," which is all right as a general principle but unfair and unrealistic in its application in individual cases.

**Administrative problems.**—The States have no reason to be proud of their postwar record for prompt payment of claims. In States with bi-weekly payments only 46 percent of the first payments during the fiscal year 1949 were made within 2 weeks. Only 35 percent of interstate claims were paid within 2 weeks.

In the meantime, the cost of administration is constantly rising. States are spending more, relatively and in dollar amounts, than ever before. Greater promptness in payment could be achieved by decentralizing claims determination and payments to local offices. Most States are tightly centralized in both respects. At present only 28 States have decentralized the adjudicating of claims; in four of these States—California, Michigan, Minnesota, and Rhode Island—benefits are actually paid in the local office.

**Pay-roll reporting.**—Quarterly pay-roll reporting, required now in all but five States, is a burden on employers

and on State agencies since so few wage records are ever referred to. These could easily be obtained on request when claims are actually filed. Significant savings in administration would be effected if quarterly wage reporting were to be abolished by all the States.

**Financing benefits.**—Unemployment insurance reserves are adequate in every State for at least the next 2 years even if present State laws are liberalized.

**Federal tax rate.**—Admittedly the original 3-percent tax on employers was too high. Therefore, the law should allow State-wide rate reductions if that rate is retained.

There are arguments against 100-percent Federal grants for State administration, among them the fact that State governments are not so immediately concerned with an agency's administrative efficiency if State funds are not appropriated to help meet the cost of operations.

**Relation to other programs.**—Mr. Altmeyer brought out that unemployment insurance must be considered in its relation to temporary and permanent disability insurance, and also to public assistance and possible work programs. He said he favored a comprehensive contributory social insurance program because he was opposed

to a "hand-out" system of social security.

**Grants-in-aid.**—In advocating a Federal grants-in-aid system for operation of unemployment insurance, Mr. Altmeyer read the summary of a report made in April 1935 by the Business Advisory Council for the Department of Commerce, which pointed up some of the advantages of such a system. The summary of the report follows:

"It is believed that the grant-in-aid type of legislation would have advantages: In dealing on a Nation-wide basis with situations which cross and transcend State boundaries; in establishing and maintaining throughout this country the essential minimum standards; in removing all obstacles to bring the reserve funds into Federal control; in that it would run less risk of unconstitutionality compared with the Wagner-Lewis type of legislation when the latter is equally equipped with provisions of minimum standards for the States; in that Federal collection and Federal control of funds through the power to allow or disallow grants, would be an important element in national control; and in that it would lend itself more readily to developing a national system should that become advisable."

## Notes and Brief Reports

### Dependents' Allowances in Unemployment Insurance

Amendments to six State unemployment insurance laws during 1949 brought to 11 the total number of States with provisions for dependents' allowances. The new provisions enacted in Alaska, Arizona, Maryland, North Dakota, and Ohio had all become effective by September; Wyoming's provision is to be effective January 1, 1950.

#### Operations, January-March 1949

With six additional States paying dependents' allowances, operating

data for the five older systems<sup>1</sup> of this type during the first quarter of 1949 might well be examined for the answers to such pertinent questions as: How many beneficiaries receive allowances for dependents? What type of dependents do they have? What proportion receive the maximum payment? How much more do they receive than other beneficiaries? How much does it cost?

Of the 217,749 new beneficiaries of unemployment insurance in these five States during January-March 1949, 72.3 percent had no dependents on whose behalf they could draw payments (table 1). Only 27.7 percent

<sup>1</sup> Connecticut, the District of Columbia, Massachusetts, Michigan, and Nevada.

drew augmented benefits for dependents: 11.2 percent for only one dependent, 8.2 percent for two dependents, 4.5 percent for three, 3.3 percent for four, and 0.4 percent for five or more dependents.

Of the male beneficiaries, 38.4 percent had dependents and received dependents' allowances; for female beneficiaries, this group represented only 5.1 percent. Most of the men who received augmented payments received them for more than one dependent. Of the women receiving unemployment insurance benefits, more than half of the 5.1 percent with augmented payments received them for one dependent only.

The smallest percentage of beneficiaries having dependents' allowances was in the District of Columbia (10 percent), the highest in Michigan (36 percent). One factor in the large