LIBERALIZING UNEMPLOYMENT COMPENSATION

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UNEMPLOYMENT COMPENSATION is now a Nation-wide program. The year 1940 marks the first year in which benefits are payable in all States for a full year. It is important, therefore, that we review our progress in the light of basic principles and past experience in order to determine the extent to which the system performs the function for which it was designed.

Basic Principles

Unemployment compensation is—and should be—more directly related to economic and business conditions than any other form of social insurance. The very purpose of unemployment compensation is to build up funds during periods of relatively good employment to be available for the payment of benefits when industry fails to maintain employment. However, it must always be kept in mind that unemployment compensation is a form of *social* insurance—a form of *social* security—and that the primary objective of unemployment compensation is to pay benefits to unemployed workers. The collection of contributions and related tasks are the means by which this important objective is accomplished.

Unemployment compensation is a method of safeguarding individuals against distress for a certain period of time after they become unemployed. It is designed to compensate only employable persons who are able and willing to work and who are unemployed through no fault of their own. Instead of requiring that the individual's manner of living spiral downward until he has exhausted the last shred of his savings, credit, and the generosity of his relatives and friends and so reaches a point of destitution at which he is eligible for relief, unemployment compensation sets aside contributions during periods of employment and provides the qualified individual with benefits as an automatic right when he becomes unemployed.

The purpose of unemployment compensation is to provide some minimum protection when workers who are ordinarily employed become unemployed. It is not "relief" nor is it intended to meet all unemployment under all conditions. The prime objective of unemployment compensation is to provide benefits to persons who become unemployed in normal times through ordinary changes in business conditions and also to provide the first line of defense during periods of unusual unemployment and severe business depression.

Unemployment compensation reserves are not designed to remain intact throughout the duration of a major depression of sharp intensity and long duration. In this respect unemployment compensation differs from old-age, survivors, or disability insurance. The life hazards (as distinguished from the unemployment hazard) must be looked at—from the standpoint of both contributions and benefits—over a long period of time. Unemployment compensation should not be financed or benefits paid with this concept of a "life time" in view. Unemployment insurance should operate in such a manner that over the period of the ordinary shorter swings of the business cycle income and outgo should balance. Of course, proper caution must be exercised in working out the interrelationships between contributions and benefits so that there is a safe margin of reserves to take care of unforeseen contingencies. Reasonable regard must be had for unusual developments and special circumstances in particular States because of economic and industrial variations. Nevertheless, there remains the fundamental necessity for all States to maintain a minimum set of benefit standards and for the progressive liberalization of all State laws.

Tax Reduction and Benefit Changes

During the last session of Congress there was a good deal of discussion concerning the possibilities of a reduction in the Federal unemployment tax. Sentiment for such tax reduction had developed because of the increasing accumulation of reserves in the State unemployment compensation funds.

The benefit formulas incorporated in the early State laws do not represent what were considered to be adequate unemployment compensation benefits to covered eligible workers for the duration of their unemployment, but represent benefits which it was estimated a 3-percent tax could

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carry. In an effort to assure solvency of State funds, much too large a safety factor was used in the benefit formulas. As a result, the benefit formulas devised in those early days were exceedingly conservative. Despite the fact that a recession occurred in the early months of 1938, benefit payments, except in a few States, were therefore lower than had been anticipated, and surpluses began to pile up in the State funds. If this early conservatism evidenced in the benefit formulas in State laws were to result in the freezing of these benefit formulas and the accumulated surplus funds were now used as an argument for tax reduction rather than as justification for liberalization of benefit payments, the very purpose of the unemployment compensation system would be nullified.

If the objectives of unemployment compensation are to be achieved there is no doubt that first and foremost benefits must be liberalized. Liberalization would result in more adequate benefit payments to individual workers and in larger total disbursements at the downswing of the business cycle. It is for these reasons that I should like to outline very briefly some of the more important changes which I believe should be made in the existing unemployment compensation laws of States whose revenues are sufficient to finance them. It should be borne in mind, however, that these suggested standards are not to be considered ideal but rather suggestions which may be immediately and practically considered. States with sufficient reserves and current income could well consider making their benefits still more adequate.

Suggestions Concerning Increased Benefits Under State Laws

1. *The waiting period should be reduced.*—In most States the waiting period is 2 weeks but in some States it is longer. This is a longer period than is required by any foreign unemployment insurance law. A 2-week waiting period means that the worker receives his first payment about the middle of the fourth week because the third week is the first compensable period. Now that the States have overcome most administrative difficulties in the handling of claims, the waiting period can well be reduced to 1 week. Available estimates indicate that a change from a 2-week to a 1-week waiting period would lead to an increase of from 5 to 10 percent in benefit costs over a period of years. Every State, therefore, should be able to shorten its waiting period.

2. *A higher minimum benefit should be provided.*—In nearly half the States a minimum rate of less than $5 is provided by law. This provision has resulted in some very small weekly payments for workers who have had limited earnings. In one State, for instance, two-thirds of all payments for total unemployment over a 3-month period were less than $6 per week. It would be socially desirable to provide a minimum payment for total unemployment of at least $5 per week in all States.

3. *The benefit rate should be increased.*—The benefit rate should reflect full-time earnings rather than earnings which are low because of past unemployment. A number of States are now using formulas for determining the individual wage basis which definitely tend to understate a worker's earnings for a week of full employment. This tendency should be corrected. Most State laws provide benefits approximating 50 percent of wages up to $30 per week. In States in which funds are available, the rate might well be increased to 66⅔ percent, a rate which is in common use in workmen's accident compensation. The maximum weekly benefit rate might also be raised to at least $20.

4. *The duration of benefits should be lengthened.*—Most State laws now provide that benefits will be paid for a period related to the past employment experience, with 16 weeks in any year as a maximum. At the outset it was thought necessary to limit duration in this way to avoid the risk of insolvency of some State funds. Recent experience, however, shows that the existing duration provisions of the State laws are greatly restricting the length of time during which benefits are payable. In one Middle Western State more than 75 percent of the claimants exhausted their benefits before obtaining reemployment. If experience in any State shows that sufficient funds are available, benefits might well be paid to eligible workers for a uniform maximum period of at least 16 weeks. There are undoubtedly other States which can pay benefits for an even longer period of time. In Great Britain the unemployment insurance system pays benefits for 26 weeks in any year to those who are eligible. *The duration of benefits is the most*

important single element in the benefit structure, and States which have large available reserves and excess income can well afford to concentrate their attention on this aspect of their benefit provisions.

5. *Partial unemployment benefits should be paid.*—As of January 1, 1940, benefits for partial unemployment were not payable in six States although in one State, Massachusetts, such payments begin in October 1940. In many other States the payment of partial unemployment benefits is still in the preliminary stages. Unless such benefits are paid there is ample opportunity for the evasion of payments for total unemployment by providing inconsiderable part-time work. Every effort should be made to see that partial unemployment benefits are paid throughout the Nation.

6. *The eligibility and disqualification provisions should be reexamined.*—Recent experience indicates that certain aspects of the eligibility and disqualification provisions of the State laws have had the effect of seriously delaying and often limiting the payment of benefits. One of the great advantages of unemployment insurance is the quick and effective payment of benefits. Complicated formulas and various provisions which tend to delay prompt payment ought to be eliminated as experience shows instances in which simplification may be achieved.

Future Developments

If our achievements are to be turned to advantage, we must continue not only to improve our techniques and administration but also to enlarge the scope of our operations.

The only permanent long-range program on the statute books today which attempts to cope with the problem of unemployment is the Federal-State system of employment security embodied in the social security program. It is imperative, therefore, that we strengthen and improve this permanent part of our program so that we can be building a stronger and better bulwark against the ravages of unemployment.

Important and far-reaching changes directed toward more socially desirable objectives were made in 1939 in the Federal old-age insurance program. The next immediate step in the evolution of our social insurance legislation is the improvement and liberalization of our unemployment compensation laws.