NOTES ON ADEQUACY OF UNEMPLOYMENT COMPENSATION

DANIEL CREAMER and MARVIN BLOOM*

PRESSING QUESTIONS arise within the unemployment compensation program as to the extent to which the present provisions of State laws serve to afford protection to the groups now covered.[1] This protection may be measured by the proportion of these workers who are eligible for benefits when they become unemployed; by the amounts and durations of the benefits for which workers actually qualify; and by the extent to which these benefits serve to bridge the gap between the time when the worker loses his job and that at which he finds another. Further questions of particular interest concern the relation between benefit payments under State laws and the State funds available for such payments.

This article presents certain data now available for 46 States [2] on the adequacy of unemployment compensation for workers now covered by State laws in relation to State funds available for benefit payments. In order to compare experience in States which did not begin benefit payment on the same date, benefits paid from January 1 to November 30, 1939, have been expressed as a percentage of contributions collected for the same 11-month period. In table 1 the States are arrayed in order of the ratio of benefit payments to contributions collected for the first 11 months in 1939, starting with the lowest ratio, i. e., the highest reserve in relative terms.

Incidence of Unemployment

If all States had collected the same percent of pay rolls, and if the benefit formulas had been identical in all States and had yielded a weekly benefit amount that was uniformly proportional to the full-time wage, the variation in the volume of unemployment among the covered workers in the several States would have been the sole determinant of the differential rates of increase of the reserve funds among the several States. Since all but nine States have the same rate of contribution, the volume of unemployment probably remains the most important single factor affecting the reserve funds, although undoubtedly the variations in the benefit formulas have a significant bearing on the accumulation of reserves.

A close approximation of the incidence of compensable unemployment among covered workers in each State may be obtained by computing for each State the ratio of new authorizations from January 1 to November 30, 1939 (i. e., a close approximation of the number of different persons who drew benefits for at least 1 week during this period), to the number of covered workers. These ratios appear in column 3 of table 1. The median ratio is 15.7. Of the 23 States with the lowest ratio of expenditures to current income, all but 6 have had an unemployment ratio below the median, and in 3 of these 6 States employee contributions are collected. If these contributions had not been collected, these States would have a higher ratio of expenditures to current income. On the other hand, in 17 of the 23 States with the highest ratios of benefit expenditures, the unemployment ratio has equaled or exceeded the median.[3]

Benefit Amounts

The greater ratio of reserve accumulation in certain States is not, however, wholly the result of variations in the incidence of unemployment. Broadly speaking, the variation is also explained by the relative illiberality of the benefits paid in these States. For example, if a weekly benefit amount of $6 be assumed as a reasonable minimum, since it is almost 50 percent of the minimum wage for a 42-hour week established by the Fair Labor Standards Act, it is illuminating to compare the percent of all benefit payments for total unemployment of less than $6 that have been made in each State. These percentages, based on benefits paid in the quarter July–September 1939, appear in column 4 of table 1. Excluding California, New York, and Pennsylvania, where the minimum benefit amount exceeds $6, such payments ranged

*Bureau of Employment Security, Research and Statistics Division.

[1] A subsequent article will explore the role of unemployment compensation among all programs designed to prevent or offset distress occasioned by unemployment.

[2] Excludes Illinois and Montana where benefits were not payable until July 1939; South Dakota, where payments were suspended in the summer of 1939; Alaska and Hawaii.

[3] This relationship does not imply that contribution rates should be reduced in these States. In 9 of the 23 there has been only 1 year of benefit experience and that a year of revival in employment. State differentials in employment may well be altered in a year of recession.

from less than 1 percent of all payments for total unemployment in Michigan and Oregon to more than half the payments in Arkansas, Georgia, and Mississippi, and to two-thirds of the payments in North Carolina. The median percentage for such payments is 16.0. It is significant that in 16 of the 23 States with relatively large reserve accumulations the proportion of payments under $6 exceeded the median; in 16 of the other 23 States with relatively small accumulations, the proportion of payments under $6 was less than the median. In other words, most of the States that accumulated reserves at the highest rates during 1939 made the largest proportion of low weekly benefit payments in the third quarter of that year.

Despite the fact that many of the States which previously did not have an effective minimum benefit amount in their laws have introduced such minimums in an effort to eliminate low benefit payments, in many cases this minimum is still extremely low. In North Carolina, for example, the minimum benefit amount is $1.50; in 20 States the uniform or flexible minimum is less than $5, and in 3 States there are still no minimums. In 17 States, $5 has been set as the minimum. Since in many cases this $5 represents more than 50 percent of the full-time weekly wage, inadequacy on this score might be said to be a problem of the inadequacy of the wage structure in the United States rather than of the benefit structure in the unemployment compensation system, especially if the assumption is made that the existing relationship between benefits and wages shall be maintained. However, it may well be that benefits should be greater than 50 percent of the full-time weekly wage, especially for the low-paid worker.

Table 1.—*Ratio (percent) of unemployment benefits to contributions; of new authorizations to covered workers; of weekly payments under $6 to all payments for total unemployment; of workers exhausting wage credits monthly to average compensable continued claims; of covered workers earning less than qualifying minimum amount to all covered workers, for 46 States* [1]

States (ranked according to ratios in column 2)	Ratio (percent) of—					States (ranked according to ratios in column 2)	Ratio (percent) of—				
	Unemployment benefits to contributions January–November 1939 [2]	New authorizations January–November 1939 to covered workers [3]	Number of weekly payments under $6 to all payments for total unemployment July–September 1939	Workers exhausting wage credits monthly to average compensable continued claims June–November 1939 [4]	Workers with 1937 wages [5] below qualifying minimum [6] for unemployment benefits to all covered workers [5]		Unemployment benefits to contributions January–November 1939 [2]	New authorizations January–November 1939 to covered workers [3]	Number of weekly payments under $6 to all payments for total unemployment July–September 1939	Workers exhausting wage credits monthly to average compensable continued claims June–November 1939 [4]	Workers with 1937 wages [5] below qualifying minimum [6] for unemployment benefits to all covered workers [5]
(1)	(2)	(3)	(4)	(5)	(6)	(1)	(2)	(3)	(4)	(5)	(6)
Median	48.9	15.7	16.0	28.6		Tennessee	48.7	12.0	31.2	[9] 17.9	25
						North Dakota	49.1	16.2	8.0	26.9	33
District of Columbia	19.4	8.4	29.4	38.0		Arkansas	49.5	18.4	51.1	22.3	14
Wisconsin	22.7	9.8	4.0	[7] 50.4		Minnesota	49.6	12.7	6.2	23.3	20
Missouri	25.5	13.0	27.1	[7] 36.1		Florida	49.9	14.5	27.0	40.1	27
Delaware	27.9	18.0	18.3	32.1	21	South Carolina	50.6	16.1	48.1	[9] 14.3	26
Connecticut	29.1	16.2	3.3	33.7	10	Mississippi	51.9	15.7	57.4	[7] 29.0	
Nebraska	30.7	13.5	18.4	35.9	28	Washington	54.8	24.7	1.7	41.7	24
New Jersey	30.8	19.6	16.1	32.5	8	Rhode Island [8]	56.0	27.3	8.5	34.3	9
Vermont	34.3	9.9	20.3	18.9		Louisiana	57.4	15.4	39.7	[7] 30.4	16
Georgia	37.5	15.0	51.6	[7] 35.0		Oregon	58.3	18.6	.4	34.1	26
North Carolina	38.2	10.2	66.0	[9] 12.7	23	New York	59.1	15.7	([10])	[9] 30.6	12
Ohio	38.3	12.2	10.2	[9] 19.0		Utah	59.5	27.1	[11] 8.4	20.5	25
Kansas	39.5	14.0	16.8	42.7	19	Iowa	61.3	14.7	10.6	32.2	
West Virginia	41.8	15.6	37.4	[9] 24.3	16	Colorado	64.5	16.6	7.7	26.3	25
Virginia	42.0	13.3	34.0	30.0	9	Arizona	65.0	17.2	4.5	34.2	
Kentucky	42.3	17.5	28.5	[7] 26.8	30	Pennsylvania	66.8	20.1	([10])	[7] 38.4	10
Texas	44.0	14.6	31.6	48.2	21	Maine	68.0	20.9	39.4	[9] 11.1	23
Maryland	44.7	11.8	10.3	19.2	19	Oklahoma	69.3	15.2	8.4	38.7	
California [8]	45.3	19.3	([10])	25.8	30	Wyoming	76.6	21.6	4.0	28.3	24
New Hampshire	45.8	16.7	15.9	20.2	22	Nevada	77.7	19.0	1.9	21.3	26
Indiana	47.2	11.1	3.0	22.4	18	Michigan	78.9	22.1	.1	14.9	15
Alabama [8]	47.3	14.6	37.0	26.2	13	New Mexico	80.3	15.9	12.4	20.3	22
Massachusetts	47.7	13.3	10.3	75.0	13	Idaho	105.9	12.4	10.9	27.5	20

[1] All data derived from reports of State employment security agencies except column 6, which is derived from wage records for Federal old-age insurance.

[2] Employer contributions of 2.7 percent except for District of Columbia and Michigan, where rate is 3 percent; New York rate is 3 percent for employers subject to State law but not Federal law; employers subject to Federal law pay 2.7 percent. Adjusted for fact that 29 States collected contributions quarterly, 8 States monthly, and 9 States changed from monthly to quarterly basis. In all States numerator is benefits charged January–November 1939 and denominator is contributions collected with reference to wages earned October 1938–September 1939.

[3] Represents number of workers with wage credits as of June 30, 1939.

[4] For explanation, see text.

[5] Based on reported taxable wages for 1937 under title VIII of the Social Security Act, which differ from those reported under State unemployment compensation laws. (See text.) Excludes 10 States for which computations could not be made.

[6] Current qualifying provisions, State unemployment compensation laws.

[7] Redetermination of benefit rights may prolong receipt of benefits during the benefit year. Hence, ratio for this State is slightly higher than it would be were redeterminations not made.

[8] Employee contributions of 1.5 percent are collected in Rhode Island; 1 percent in Alabama, California, Kentucky, and New Jersey; and 0.5 percent in Louisiana.

[9] State law provides a flat duration for all eligible claimants.

[10] Minimum weekly benefit amount is more than $6.

[11] Payments for part-total unemployment included with payments for total unemployment.

It is important that the benefit amount for a week of unemployment be related in some way to the wage that the worker would have received had he been employed full time during that week and not to a wage which has already been lowered because of a decrease in working hours. In an effort to approximate a full-time weekly wage, 35 States have adopted a formula which computes this weekly benefit amount as a percentage of highest quarterly earnings (usually 1/20, 1/25, or 1/26), on the theory that the use of highest quarterly earnings, representing in most cases a period of full employment, would yield benefits related to the "full-time weekly wage." Four States (Maine, North Carolina, South Dakota, and West Virginia) have abandoned this principle, however, and compute the weekly benefit amount as a percentage of annual earnings. All available data indicate that most workers who file claims are not fully employed during the entire year preceding their period of unemployment, and therefore any weekly benefit amounts based upon annual earnings would, in fact, be governed by earnings which already include some unemployment. That is, use of annual earnings as the base has the effect of increasing the number of payments for smaller weekly benefit amounts.

This result is seen in the experience of these four States. In Maine, for example, weekly payments of less than $6 during the period July–September 1939, the first full quarter in which the annual-earnings basis was used, represented 39.4 percent of the total, in contrast to 20.6 percent in the first calendar quarter of 1939, and to 16.4 percent in the third quarter of 1938. The comparable percentage for payments for small weekly benefit amounts in North Carolina was 66.0, in contrast to 53.0; in South Dakota 23.0 percent, in contrast to 16.7; and in West Virginia 37.4 percent, in contrast to 10.6.

Benefit Duration

Illiberality of the benefit formulas of States with relatively large reserves is indicated also by the available data on the duration of benefits. Unfortunately, information is now available for only a few States on the proportion of claimants who have exhausted benefit rights within their benefit year and the number of weeks for which such claimants had received benefits in that year. It is important to note, however, that reports from Iowa and New Hampshire indicate that a very substantial proportion of claimants lose their rights to further benefits while still unemployed. Of the 20,729 claimants in Iowa who first received benefits in the 3-month period July–September 1938 (i. e., at the trough of the recession), 73.9 percent had exhausted their benefit rights within their benefit year. In New Hampshire 55 percent of the 25,813 claimants who first received benefits in the first 6 months of 1938, when the recession was deepening, exhausted their benefit rights in the ensuing benefit year; for these workers the median duration of benefits was 11.5 weeks.

Lacking such data for other States, we may use the expedient of an average monthly exhaustion rate which relates the number of exhaustions in the month to the average weekly number of compensable continued claims. Such a measure understates the proportion of workers who exhaust their benefits during a benefit year, since an average for a given time period is composed in part of those who have been drawing benefits for only a short period of time, i. e., those who only recently have been exposed to unemployment, a fact that reduces the chances of exhaustion. If, however, the varying time exposures to unemployment of recipients composing an average are about similar in each State, there is validity in State comparisons of the average monthly exhaustion rate. It is assumed that this condition is satisfied by an average of the compensable claims per week computed over a 6-month period beginning with June 1939, when all 46 States had at least 5 months of benefit experience. These rates are entered in column 5 of table 1.

It is clear that the higher the exhaustion rate [4] the greater is the inadequacy of the duration of benefits. Accordingly, it is significant that the States with the relatively large reserves tend to have the higher exhaustion rates:

Average monthly exhaustion rate (percent)	All States	States with relatively large reserves	States with relatively small reserves
Total	46	23	23
Under 25.0	16	8	8
25.0–34.9	18	7	11
35.0–44.9	9	5	4
45.0 and over	3	3	0

[4] It should be remembered that these exhaustion rates relate to a period of substantial business recovery.

Thus 8 of these 23 States had an average monthly exhaustion rate of 35 percent or more, and in 3 of these the rate exceeded 45 percent. This situation is to be compared with that in the 23 States with relatively small reserves; in this group only 4 States had an exhaustion rate of 35 percent or more and none had a rate exceeding 42 percent.

The effect of a uniform duration on the exhaustion rate is pertinent. For the 46 States the median exhaustion rate was 28.6 but in 5 States which pay benefits for a uniform duration of 16 weeks (Maine, North Carolina, Ohio, South Carolina, and Tennessee) the respective exhaustion rates were 11.1, 12.7, 19.0, 14.3, and 17.9. In West Virginia, with a uniform duration provision of 14 weeks, the exhaustion rate was 24.3; and in New York, with a uniform duration of 13 weeks effective July 1, the exhaustion rate was 30.6. While several factors condition this comparison, among the more important factors must be placed the provision of uniform duration.

Eligibility Provisions

The relative ease or difficulty in qualifying for benefits also bears on the problem of adequacy. In column 6 of table 1 is presented the percent which workers covered by old-age insurance in 1937, with reported taxable wages below the minimum qualifying amount for unemployment benefits on the basis of current eligibility provisions [5] of State laws, were of all workers receiving taxable wages in that year.[6]

Despite the conservative bias [7] in our calculations, it should be noted that in three-fourths of the States at least 15 percent of the covered workers could not have qualified for benefits on the basis of these reported earnings, and in one-third of the States 25 percent and more of covered workers would have been ineligible had they become unemployed. Of course, if the number excluded were related to the number of covered workers who become unemployed in a given period instead of to the total number of covered workers with earnings, the percent disqualified because of insufficient earnings would be much higher.[8]

Conclusion

It appears, then, that most State systems that are currently accumulating relatively large reserves have been less successful in meeting the social objectives of the program as measured in terms of the size of the weekly benefit and exhaustion rate than have the States with the relatively small reserve accumulations. In the States where the reserve is relatively large, consideration of a reduction of contribution rates is precluded by the inadequacy of the program both absolutely and relatively; and in the States where the program is more adequate, the possibilities of a reduction in the contribution rate are restricted because of the comparatively narrow margin between current income and expenditures. Moreover, even in the latter group of States, there is need for more adequate provisions in an absolute sense. These considerations, with the important additional consideration that the differences in the rate of increase in the reserve funds of the various States is primarily conditioned by the differences in the volume of unemployment, suggest not only the need to maintain existing contribution levels but also the desirability of such a measure as a national equalization fund to enable all States to provide an adequate program of unemployment compensation without incurring risks of insolvency.

[5] Excludes 10 States for which computations could not be made; in 7, the qualifying provisions are expressed in terms of earnings as a specified multiple of the weekly benefit amount, and a fixed minimum weekly benefit amount is not provided in these laws; in 3, eligibility is based upon weeks of employment.

[6] The difference between taxable wages reported to the Bureau of Old-Age and Survivors Insurance and those reported under State unemployment compensation laws is due largely to the fact that in most States unemployment compensation does not cover the smallest firms. This difference would affect the present comparison if, for a given occupation and industry, workers in the smallest firms were paid at a lower wage rate or sustained more unemployment than workers employed in the larger firms; or if, in industries in which the smallest firms predominate, annual wages per worker are less than in industries in which the larger firms predominate.

[7] Even for a year of relatively full employment, these computations minimize the percent of workers earning less than the qualifying amount in many States. This follows from the requirement of eligibility in 6 States that specified amounts had to be earned in 1 or more quarters of the base period; and in 24 States, where the qualifying amount has been computed as a multiple of the minimum weekly benefit amount. Doubtless there are some workers who are entitled to a weekly benefit amount above the minimum but have insufficient earnings to qualify for such benefits though they could have qualified if their weekly benefit amount had been less.

[8] Reported disallowances due to insufficient earnings give an inadequate measure, since in some States local offices are instructed to discourage the filing of such claims and in others local offices are instructed to encourage the filing of all claims. Further, as workers learn the requirements, they refrain from filing a claim when they know their earnings have been insufficient to qualify them.