

A STUDY OF THE ADEQUACY OF THE UNEMPLOYMENT
COMPENSATION TRUST FUND IN OKLAHOMA

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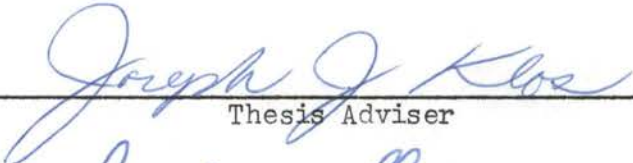
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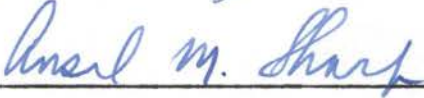
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PREFACE

In July 1959, an upward adjustment in the tax rate structure of unemployment insurance in the State of Oklahoma was passed by the 27th legislature in order to protect the solvency of the State trust fund. In June 1961, the upward adjustment of the tax rates of any one employer was limited to 1.0% per year to a maximum of 2.7%. The purpose of this thesis is (1) to give a "how and why" explanation for the necessity of these tax changes and (2) to attempt to forecast under various assumed conditions, how these tax changes will affect the status of the trust fund during the decade, 1961-1970.

The study was conducted under the supervision of Dr. Joseph J. Klos. I am sincerely grateful for his valuable suggestions, his generous grant of the use of his own reference materials, and the devotion of much of his time to reading the manuscript during the course of this study. Indebtedness is acknowledged to Dr. Ansel M. Sharp for his patient assistance during the preparation of this paper. A special word of appreciation is also extended to Mr. Robert C. Goodwin, Director of Bureau of Employment Security, Washington D.C. for his timely supply of information needed for this study.

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CHAPTER I

INTRODUCTION

Unemployment compensation in the United States, as Dr. Witte once stated, is a historical product, not a logical concept.¹ The Federal Social Security Act of 1935, which was designed to induce the States to establish the unemployment law, reflected the deep concern of the public about the unemployment problem as well as the need for unemployment compensation. Less than two years after the passage of the Social Security Act, unemployment compensation laws were on the statute books of all 51 jurisdictions (48 States, Alaska, Hawaii, and the District of Columbia).² Oklahoma's law was enacted in 1936.

Despite the heated controversies about its principle and its purposes during the early period of its establishment, unemployment compensation has become "an accepted part of the American way of life".³ Nowadays all discussion of it concerns its improvement, and little or nothing is heard as to whether it should be retained. But this does not mean that it is a finished institution; it is "likely to continue to undergo many changes"

¹Edwin E. Witte, "Development of Unemployment Compensation", Readings in Social Security, edited by W. Haber and W. J. Cohen (Prentice-Hall Inc., N.Y., 1948) p. 160.

²Both of Alaska and Hawaii were admitted to the statehood in the Union in 1959.

³Edwin E. Witte, *op. ct.*, p. 161.

and "clearly still needs to improve to realize its fullest possibility".⁴

Conceivably the "fullest possibility" implies many things, but within the limits of this study it implies an effort: (1) to maintain a minimum adequate level of benefit granted to the unemployed covered in the unemployment compensation program; and (2) to make a further improvement in the benefit level, but not to such an extent that the solvency of the trust fund is severely damaged. However, Oklahoma, in the course of realizing its "fullest possibility", has experienced a constantly downward trend in the trust fund in recent years; and in 1960 the solvency of the State fund reached a relatively unfavorable position. In order to protect the solvency of the trust fund a major change was made in the tax rate structure of unemployment insurance in Oklahoma in July 1959 and June, 1961.

Purpose of the Study

The purpose of the study is directed toward giving explanations for the necessity for these tax changes through two channels: (1) by tracing the financial development of the State unemployment insurance program, and (2) by comparing the financial position in Oklahoma with the national average. In brief, these tax changes provided for increases in the rates of most, in some cases all, covered employers when the fund fell below a certain ratio to annual benefit cost. (These changes are explained more fully in Chapter V.) In addition, as a subordinate purpose of this paper, the study is directed toward estimating the possible experience of the State fund during the decade 1961 - 1970 under the new tax structure. These estimates (turned out in Chapters IV and V), coupled

⁴Edwin E. Witte, op. ct., p. 161.

with the recent financial experiences, lead up to the ultimate objective, explaining why these tax changes made in 1959 were necessary.

Scope of the Study

This study concerns itself with the two central factors governing the size of the State Trust Fund, namely benefit liability and tax collection. It is confined to such matters as the changes in coverage, tax rates, benefit structure, benefit payments, experience rating and the status of the State Unemployment Trust Fund, which is financed from earmarked taxes or contributions paid by employers, and which provides the sources of benefits paid to the unemployed eligible. All other factors such as the legal as well as technical problems concerning the State program and the cost of administering the State program are excluded in this study.

Moreover, not all types of employment are covered by the unemployment compensation law. The State law provides that unemployment compensation does not apply to the agriculture labor, domestic services in private home, maritime workers, services performed for state or local governments, employments in most non-profit organizations, family employment and self-employment.⁵ Thus these types of unemployment are excluded from the category of unemployment which is investigated in this study.

Some concepts and ideas used in this study have some deviation from their general usage in economics. For instance, "unemployment" subject

⁵Effective January 1, 1955, civilian employees of the Federal Government were brought under the unemployment insurance system. However, the Federal Government will reimburse the State for benefit paid.

to the Oklahoma Employment Security Act is defined as follows:

"An individual shall be deemed "unemployed" with respect to any week during which he performs no services and with respect to which no wages are payable to him, or with respect to any week of less than full-time work if the wages payable to him with respect to such week are less than his weekly benefit amount plus Seven Dollars".

In this case it is not necessary normally to discern whether the particular unemployment is frictional, seasonal, technological or cyclical; it seems enough to bear in mind the above-mentioned definition for the present study.

Method and Organization of the Study

The approach used in this study is primarily a statistical analysis on the basis of historical facts concerning Oklahoma's unemployment insurance program. From the breakdown of its history a better understanding of the present status of the State Trust Fund will be forthcoming. In addition, inferences may then be derived as to the feasibility of the program corresponding to specific economic situations. In short, methodologically, this study is not only historical as well as statistical, but also deductive as well as inductive.

Corresponding to the method of reasoning used in this approach, this study is organized as follows: (1) major changes in the development of unemployment insurance program in Oklahoma are traced; (2) financial differences between the unemployment insurance experiences in Oklahoma and at the national level are investigated; (3) based on some assumptions as well as historical facts, forecasts of unemployment insurance costs during the decade 1961-1970 are made; (4) an effort is then made to explain how and why the change in the tax rate structure of unemployment

insurance in Oklahoma was made in July 1959 and in June 1961, and to evaluate present and future trends of the State fund under the new tax rate structure; (5) in conclusion, the important points in the previous chapters are summarized.

CHAPTER II

BACKGROUND DATA BEARING ON THE FINANCIAL STATUS OF UNEMPLOYMENT INSURANCE IN OKLAHOMA

The major changes in the State unemployment program which occurred prior to 1961, and their relation to benefit payment, duration of benefits costs, tax rates and the adequacy of the State Trust Fund are traced in this chapter.

Following the enactment of the Federal Social Security Act in 1935, the first State law, known as the Oklahoma Unemployment Compensation Law, was approved by a special session of the 16th legislature in 1936. In 1941, a new title, the Oklahoma Employment Security Act, came into being.

Since the inception of the State unemployment insurance program, revisions were passed by every legislature except the 23rd.¹ As a result of these amendments, many of the original provisions have been substantially altered. These changes will be set forth, especially as they have a bearing on the current financial status of the Oklahoma Unemployment Insurance program.

Changes in Coverage, Tax Rates and Benefit Structure

The changes in coverage, tax rates and requirement of experience

¹The last revisions were approved by the session ending on July 3, 1961.

rating are shown in Table 1. The State size-of-firm provisions have followed the Federal pattern. From 1936 to 1955 coverage was limited to employers of eight or more workers in 20 weeks. Since January 1, 1956, it has been lowered to employers of four or more in 20 weeks. The legal minimum tax rate has been repeatedly lowered by the State Legislature because favorable experience due to persistent full employment caused the Trust Fund to appear to the legislature to be excessive. Also competition by the State with other states in trying to attract new industry added to desire for the lowest possible tax rate. As shown in Table 1, the minimum rate fell from 2.7 in 1936 to 0.2 in 1953. The maximum tax rate, consistent with the provision of the Federal Unemployment Tax Act, was set at the rate of 2.7% with the exception of 4% in 1942.² Moreover,

TABLE 1
MAJOR CHANGES IN COVERAGE PROVISIONS AND TAX RATES

Year	Size of Firm (Minimum Number of Employees)	Minimum Tax Rate	Maximum Tax Rate	Required Compensation Experience for Reduced Rates
1936	8 in 20 weeks	2.7	2.7	--
1942	8 in 20 weeks	0.5	4.0	3 years
1943	8 in 20 weeks	0.5	2.7	3 years
1949	8 in 20 weeks	0.3	2.7	3 years
1953	8 in 20 weeks	0.2	2.7	3 years
1955	8 in 20 weeks	0.2	2.7	1 year
1956	4 in 20 weeks	0.2	2.7	1 year

²The Federal Unemployment Tax Act, which is now a part of the internal Revenue Code, lays a tax on employers at the rate of 3 percent of worker's pay in covered job, not counting anything over \$3,000 paid to a worker in a year. The employer can offset against as much as 90 percent of the tax the amount he has paid under an approved State unemployment insurance law or from which he has been excused under the experience rating provisions of the State law, in accordance with his experience with the unemployment risk. The remaining 0.3 percent of covered payroll (or 10% of the Federal tax) is collected by the Treasury and goes into General Federal revenues, but is appropriated by Congress back to the States to pay the cost of administering the program.

the required compensation experience in order to make an employer eligible for the reduced rate was reduced from 3 years to 1 year in 1955.

A detailed comparison of experience rates of eligible employers is shown in Table II. From this table we find that the percentage of employers taxed at the minimum rate out of the total number of eligible employers has shown an upward trend, and the percentage taxed at the maximum rate has been downward.

Table III shows the changes concerning benefit structure in the statutory provisions of the State program. The waiting period has been shortened from 2 weeks to one week since 1941. For the weekly benefit amount (WBA) for total unemployment, the fraction of high quarter wages in the base period was reduced from 1/20 in the period from 1941 to 1959, to 1/26 in 1959 and since. The increasing pressure on benefit payments resulting from the rising wage level might account for this adjustment. A more likely explanation, however, is that the State legislature desired to reduce the benefit formula in order to put the State in a more favorable position relative to other states in attracting new industry. Furthermore, most workers find their benefits limited by the \$32 upper limit, so that the change in benefit formula makes little practical difference. The other factors such as the minimum and maximum amount for weekly benefits, the duration in weeks of total unemployment, the total benefit amount entitled in a benefit year, and the earnings disregarded in computing weekly benefit for partial employment, have been increased to some extent. This indicates that the State legislature has been willing to make some progress, though the progress made still appears insufficient.

TABLE II
COMPARISON OF EXPERIENCE RATES OF
ELIGIBLE EMPLOYERS, 1942-1960

1942-June 30, 1949

Rate	Number of Employers							
	1942	1943	1944	1945	1946	1947	1948	1949 (Ist Half)
%								
0.5	1,068	1,118	1,974	3,341	4,452	2,883	2,183	2,046
1.0	676	1,052	1,168	668	148	1,362	1,519	1,168
1.5	649	585	443	261	29	353	569	738
2.0	398	428	257	134	12	211	302	460
2.5	349	369	188	75	8	45	185	310
3.0	186	188*	79*	21*	2*	26*	174*	210*
3.5	203	117*	62*	17*	6*	21*	57*	165*
4.0	662	437*	168*	59*	9*	46*	153*	285*
Total	4,191	4,294	4,339	4,576	4,666	4,947	5,142	5,382

July 1, 1949-June 30, 1953

Rate (Last Half)	Number of Employers				
	1949	1950	1951	1952	(Ist. Half) 1953
0.3	2,021	2,735	2,637	2,673	3,216
0.6	650	548	600	613	654
0.9	513	817	892	976	914
1.2	718	328	358	379	321
1.5	248	522	608	618	568
1.8	205	186	230	421	365
2.1	182	272	306	144	136
2.4	125	106	132	274	228
2.7	618	562	847	872	728
Total	5,280 ^{1/2}	6,076	6,610	6,970	7,130

(Continued on page 10.)

TABLE II (Continued)

July 1, 1953-1960

Rate %	Number of Employers							
	(Last Half) 1953	1954	1955	1956	1957	1958	1959	1960
0.2	3,207	3,788	3,483	3,819	4,276	8,580	7,480	4,561
0.4	361	643	894	477	485	573	638	3,075
0.6	290	532	747	426	437	527	562	650
0.8	909	431	659	1,357	1,368	1,709	1,025	637
1.0	167	355	470	288	235	282	924	1,078
1.2	152	250	421	210	211	245	706	471
1.4	562	414	323	392	423	518	620	465
1.6	194	80	271	331	163	197	271	798
1.8	168	84	210	269	163	192	247	633
2.0	135	245	168	239	525	700	411	585
2.2	137	101	82	93	80	127	198	439
2.4	84	74	79	73	98	112	180	182
2.6	83	52	133	183	156	223	313	189
2.7	595	506	1,134	1,345	1,504	1,990	2,719	3,086
Total	7,044 ^{1/}	7,555	9,074	9,502	10,124	15,975	16,294	16,849

Source: Oklahoma Employment Security Commission, Handbook of Employment Security Program Statistics, Oklahoma, 1939-1960. (Aug. 1961) P. 34.

^{1/} Less than the number of employers in the first half of the year because of termination of employer accounts.

* Reduced to 2.7% because of amendments setting maximum rate at 2.7%.

TABLE III

MAJOR CHANGES IN BENEFIT STRUCTURE

Year	Wage Qualification 1/	Initial Waiting Period Weeks	Weekly Benefit Amount for Total Unemployment Fraction of High Quarter			Earnings Disregarded in Computing Weekly Benefit for Partial Unemployment	Proportion of Base Period Wages Payable	Duration in Weeks of Total Unemployment	
			Wages	Min.	Max.			Min.	Max.
1936	16 x WBA	2	1/26	\$ 8	\$15	1/6 of earnings	1/6	2	16
1941	22 x WBA	1	1/20	6	16	\$2	1/3	7	16
1945	20 x WBA	1	1/20	6	18	2	1/3	6	20
1949	20 x WBA	1	1/20	6	22	2	1/3	6	22
1953	20 x WBA & Wages in 2 Quarters	1	1/20	10	28	7	1/3	6	22
1957	"	1	1/20	10	28	7	1/3	6	26
1959	30 x WBA & 1 1/2 high quarter wages 2/	1	1/26	10	32	7	1/3	10	39

1/ The 20 x WBA (weekly benefit amount) combined with the benefit fraction of 1/20 make the wage qualification equal 20 x the minimum benefit amount, or \$120 from 1945 to 1953 and \$200 from 1953 to 1958.

2/ Effective on July 1, 1959; since then these provisions have not been amended.

Wage and Benefit

A benefit amount sufficient to maintain an eligible claimant in modest circumstances is the original concept of an adequate program of unemployment compensation. However, the idea is rather obscure. So far we have not yet established an objective criterion for an adequate benefit level.³ In the light of the current benefit-wage relationship, it is considered desirable that a maximum benefit amount be near, but not in excess of 50 percent of average previous wages. The initial Oklahoma law set up a maximum payment of \$15 per week, and the ratio of benefits to average weekly wages was 41% (the first payment was made in 1941). The following years have shown a rapid increase in the average weekly wage. As a result, the legislature has enacted amendments to increase maximum weekly benefit amounts.

Table IV presents the relationship between average weekly benefit payment and average weekly wages in covered employment and the comparison of average benefit payments with maximum benefit payments from 1939 through 1960. Over the period the low of average weekly wages was \$24.77 in 1939, while the high was \$84.50 in 1960. Thus the difference between them was \$59.73 so that a gain of 241.2 percent was obtained.

In the same period the average taxable weekly wage increased 130.8 percent with a low of \$23.30 in 1940 and a high of \$53.78 in 1960, an increase far smaller than that for the average weekly wage. This resulted from the annual ceiling upon taxable wages. All annual earnings in excess

³Margaret S. Gordon & Ralph W. Amerson, "Unresolved Issues in Unemployment Insurance" (1957), Social Security Program, Problems and Policies, edited by William Haber & Wibbur J. Cohen (Richard Irwin Inc., Homewood Illinois 1960). P. 236.

TABLE IV

AVERAGE WEEKLY WAGE AND BENEFIT PAYMENTS
1939-1960

Year	Average Weekly Wage in Covered Employment		Average Weekly Benefit Payments		Maximum Weekly Benefits	Ratio of Average Weekly Benefit Payment for Total Unemployment to	
	Total	Taxable	All Unemployment	Total Unemployment		Average Weekly Total Wage (Percent)	Average Weekly Taxable Wage (Percent)
1939	\$24.77	\$24.77	\$ 9.74	\$10.15	\$15	41.0	41.0
1940	25.27	23.30	9.28	9.84	15	38.9	42.2
1941	26.48	24.45	9.59	10.07	16	38.0	41.2
1942	32.03	29.91	11.65	12.03	16	37.6	40.2
1943	36.50	34.02	13.52	14.17	16	38.8	41.7
1944	39.97	36.68	14.21	14.69	16	36.8	40.0
1945	41.62	37.95	17.28	17.43	18	41.9	45.9
1946	43.37	38.69	16.56	16.69	18	38.5	43.1
1947	48.11	41.60	15.55	15.74	18	32.7	37.8
1948	53.02	44.37	15.37	15.73	18	29.7	35.5
1949	55.02	45.37	16.51	16.85	22	30.6	37.1
1950	57.38	46.28	18.17	18.57	22	32.4	40.1
1951	62.08	48.38	17.98	18.40	22	29.6	38.0
1952	66.52	50.22	18.65	19.07	22	28.7	38.0
1953	69.74	51.14	19.84	20.26	28	29.1	39.6
1954	71.67	51.45	23.24	23.90	28	33.3	46.5
1955	74.23	52.09	23.28	24.12	28	32.5	46.3
1956	75.27	51.88	23.31	24.15	28	32.1	46.5
1957	77.88	52.26	23.84	24.70	28	31.7	47.3
1958	80.25	52.81	24.48	25.19	28	31.4	47.7
1959	82.98	53.39	24.44	25.19	32	30.4	47.2
1960	84.50	53.78	25.46	26.17	32	31.0	48.7

Source: Oklahoma Employment Security Commission, op. ct., p. 31

of \$3,000 for employee in a year are not taxable (see footnote 2). Since 1952, average taxable wages have remained relatively stable between \$50 and \$54 per week. This is equal to about \$2,600 to \$2,800 on a yearly basis. This means that taxable wages have tended to reach the legal summit, and consequently the question is raised: Should the annual ceiling upon taxable wages be increased? This question was highlighted when average wages climbed to a high of \$84.50 weekly in 1960, equal to approximately \$4,400 annually.

Five increases were made in maximum weekly benefit amount in the full period. It increased from \$15 to \$32 or 113.3%. Obviously, it has failed to advance at a rate comparable to either average weekly or average taxable wages.

In proportion to average weekly wages, the average weekly amount varied from a low of 28.7 percent in 1952 to a high of 41.9 percent in 1945 and showed a downward trend for the 22 years. In proportion to average weekly taxable wage, however, it varied from a low of 37.1 percent in 1949 to a high of 48.7 percent in 1960 and showed an upward trend. The former reflected a relatively favorable condition of the State economy prevailing in recent years; and the latter was determined by the annual ceiling upon taxable wages.

Duration of Benefit Payment

An aspect of benefit adequacy that cannot be neglected is the problem of duration of benefit. A maximum duration may be sufficient for one set of circumstances, but it may be inadequate after even a slight change in conditions. As economic conditions change, the percentage of claimants exhausting their benefit rights changes. The highest rate of exhaustion of benefits recorded in Oklahoma was 71.3 percent in 1940. The reconversion

year, 1946, ranked next with an exhaustion rate of 65.6%. In subsequent years the exhaustion rate has declined steadily with the exception of the recession periods of 1954 and of 1958-1959. In these years it remained around 43 percent.

If thirteen weeks had not been added to the maximum duration effective at mid-year of 1959, the exhaustion rate expected would have been higher than it was. The ending of the recession of 1959, together with the impact of increase in maximum duration effective in 1959, brought about a rapid drop in percentage of exhaustions in 1960. Table V presents duration and exhaustion data for 1939-1960.

The effects of economic conditions on the duration of benefits may be measured by many methods. Two of the most important methods are (1) to compare potential and actual duration and (2) to observe the variation in number of weeks of benefits received by exhaustees in various years. During the decade of 1947-1956, potential duration increased steadily with the exception of 1949. Since 1957 the upward trend has continued and has climbed to 27 weeks in 1960. In the same period, 1947-1956, actual duration fluctuated narrowly between 10.5 weeks in 1952 and 12.9 weeks in 1947. However, it has presented an upward trend since 1957. Expressed as a percent of potential duration the actual period ranged from a high of 89.5 percent in 1945 to a low of 53.2 percent in 1960 for the period, 1946-1960.

Average benefit duration of exhaustees ranged from a low of 7.7 weeks in 1941 to a high of 21.6 weeks in 1960. For years following World War II, 14.3 weeks in 1952 was the shortest. However, expressed as a percent of maximum duration, average benefit duration of exhaustees in 1960 represented the lowest, 55.4 percent, rather than 65 percent in 1952, though the year,

TABLE V

DURATION AND EXHAUSTION DATA
1939-1960

Year	Maximum Duration		Average Duration of Benefits (weeks)		Actual as Percent of Potential Duration	Percent of Beneficiaries Exhausting Benefits ^{2/}	Average Benefit Duration of Exhaustees (Weeks)	Average Duration of Exhaustees as Percent of Maximum Duration
	Weeks	Exhaustion Rate ^{1/}	Potential	Actual				
1939	16	--	--	8.2	--	63.2	--	--
1940	16	--	--	8.1	--	71.3	--	--
1941	16	--	--	8.0	--	58.5	7.7	48.1
1942	16	--	--	9.9	--	38.2	8.8	55.0
1943	16	--	--	7.3	--	19.5	12.6	78.7
1944	16	--	--	8.7	--	22.1	13.5	67.5
1945	20	--	--	8.6	--	15.6	13.7	68.5
1946	20	--	17.1	15.3	89.5	65.6	17.8	89.0
1947	20	--	16.3	12.9	79.1	54.9	15.8	79.5
1948	20	--	16.4	12.1	73.8	52.1	15.0	75.0
1949	22 ^{3/}	33.4	17.0	11.2	65.9	48.3	14.8	--
1950	22	26.2	16.5	12.6	76.4	47.7	14.9	67.7
1951	22	20.7	16.6	11.2	67.5	41.7	14.5	65.9
1952	22	18.5	17.0	10.5	61.8	39.0	14.3	65.0
1953	22	17.4	17.3	10.7	61.8	38.2	14.6	66.0
1954	22	23.9	17.8	12.2	68.5	43.2	15.6	70.9
1955	22	22.3	17.9	12.2	68.2	40.0	16.0	72.7
1956	22	21.6	17.9	11.3	63.1	39.1	15.8	71.8
1957	26 ^{4/}	14.5	19.5	11.8	60.5	37.5	16.3	--
1958	26	20.6	20.7	13.3	64.3	40.2	17.7	68.1
1959	39 ^{4/}	19.7	23.1	13.6	58.8	43.0	18.4	--
1960	39	11.3	26.9	14.3	53.2	31.1	21.6	55.4

Source: Oklahoma Employment Security Commission, op. ct., p.29

- 1/ Exhaustions for calendar years as percent of claimants determined eligible for maximum duration in 12-month periods ending six months earlier through 1959, and ending nine months earlier in 1960.
- 2/ Exhaustions for calendar years as percent of first payments for 12-month periods ending three months earlier from 1940 through 1959, and ending six months earlier in 1960.
- 3/ Effective in May, 1957.
- 4/ Effective at mid-year.

1960, showed the highest amount of average benefit duration of exhaustees numerically for the period. Obviously this relatively low percentage shown in 1960 was a direct result of the increase in maximum duration from 26 to 39 weeks at the mid-year of 1959.

It should be pointed out that maximum duration of benefits, as well as maximum weekly benefits, is mainly a legal factor affecting the benefit costs. This effect can be seen in the movement in average weekly benefit payments. As shown in column 5 in Table IV, two increases in maximum duration of benefits, from 22 to 26 weeks at the mid-year of 1956 and from 26 to 39 weeks at the mid-year of 1959, caused the yearly increase in average weekly benefit payments more rapid than other normal year. A half-year or more lag in this operation was seen.

Employment and Unemployment

Table VI depicts the average covered employment, and insured and compensable unemployment from 1939 to 1960. Over the period, average covered employment increased substantially with the exception of the re-conversion years following the ending of World War II and the recession of 1959. In 1939 average covered employment was 181,631; in 1960 it was 372,112 for an increase of 104% since 1939. Concurrently insured unemployment which consists of all persons filing continuous claims, including those waiting, disqualified or charged to other states, and the cost of benefit payments, have also increased as a result of the advance in number of covered workers. The percent of covered workers unemployed fluctuated from a high of 8.1 in 1946 to a low of 0.4 in 1944. Numerically the largest sum of covered unemployment appeared in 1958 with the total of 20,080 while 1946 came the next with 19,213 persons. However, in a ratio sense, the latter with 8.1 percent was higher than the former with 5.6 percent.

TABLE VI
UNEMPLOYMENT RATES, 1939-1960

Year	Average Covered Employment	Insured Unemployment ^{1/}		Compensable Unemployment ^{2/}	
		In Average Week	Rate (Percent of Average Covered Employment)	In Average Week	Rate (Percent of Average Covered Employment)
1939	181,631	12,003	6.6	8,379	4.6
1940	184,634	10,371	5.6	7,692	4.2
1941	207,415	6,988	3.4	5,261	2.5
1942	247,040	6,785	2.7	4,615	1.9
1943	272,610	1,401	.5	807	.3
1944	258,249	968	.4	515	.2
1945	243,874	6,856	2.8	3,719	1.5
1946	237,680	19,213	8.1	11,815	5.0
1947	254,598	9,587	3.8	6,860	2.7
1948	274,647	7,247	2.6	5,133	1.9
1949	274,149	13,311	4.9	9,584	3.5
1950	281,004	13,210	4.7	10,141	3.6
1951	294,807	8,018	2.7	6,278	2.1
1952	308,035	8,404	2.7	6,382	2.1
1953	315,575	9,749	3.1	7,042	2.2
1954	314,792	14,124	4.5	10,279	3.3
1955	326,669	10,678	3.3	7,700	2.4
1956	369,057 ^{3/}	10,021	2.7	7,369	2.0
1957	368,533	12,341	3.3	9,530	2.6
1958	358,687	20,080	5.6	15,281	4.3
1959	369,296	14,840	4.0	11,406	3.1
1960	372,117	17,280	4.8	13,475	3.6

Source: Oklahoma Employment Security Commission, op. ct., p.32

- 1/ Includes ~~all~~ persons filing continued claims for unemployment insurance in Oklahoma even though these persons are disqualified for unemployment insurance or are serving a waiting period, or are filing a claim against another state through the Oklahoma State Employment Service.
- 2/ Includes all persons receiving unemployment insurance benefit payments chargeable against the Oklahoma Unemployment Insurance Trust Fund. Some of these persons file claims for benefits in other states against Oklahoma. Excludes Oklahoma residents receiving benefits from other states.
- 3/ Includes ~~31,913~~ average employment of employers of 4 to 7 workers added to coverage in 1956.

Compensable unemployment, which consists of all persons receiving benefit payments from the Oklahoma Trust Fund, including those filing claims for benefit in other states against Oklahoma, moved in the same direction as insured unemployment. Its percentage in average covered employment varied in the range from a high of 5.0 in 1946 to a low of 0.2 in 1944. However, the largest sum of average compensable unemployment occurred in 1958 with 15,281 persons and 4.3 percent of average covered employment.

It will be helpful to observe the effect of the increase in covered wages and employment, the higher average benefit payment, and the changes in the number of the unemployed upon the cost of benefits for the years with the tax rate at 2.7 percent in 1942, 1951, 1952 and 1956. Table VII indicates this kind of effect. From 1942 to 1956, average covered employment increased 49.4 percent, and total taxable wages 159.1 percent. Over the same period, insured average weekly unemployment rose from 6,785 persons to 10,021, and the average weekly benefit payment from \$11.65 to \$23.31, an advance of 100.1 percent. These factors pushed the cost of benefits paid from \$2,795,344 in 1942 to \$8,931,331 in 1956, equivalent to a 219.5 percent rise. From these facts we know that, besides the important element of the unemployment rate, there are other factors having a considerable effect. It is these other elements that are largely responsible for the steadily increasing trend of benefit costs in Oklahoma.

TABLE VII
 INCREASE IN COST OF BENEFITS PAID AT A SIMILAR
 UNEMPLOYMENT RATE OF 2.7 PERCENT

Year	Average Covered Employment	Taxable Wages	Average Weekly Unemployment	Average Weekly Benefit Payment	Gross Benefit Payment ^{1/}
1942	240,040	\$384,277,632	6,785	\$11.65	\$2,795,344
1951	294,807	741,712,277	8,018	17.98	5,868,270
1952	308,035	804,443,215	8,404	18.65	6,190,917
1956	369,057	995,598,562	10,021	23.31	8,931,331

^{1/} Oklahoma Employment Security Commission, op. ct., p. 14.

Tax Rates

Oklahoma adopted experience rating for employers in 1942. As a consequence of continued full employment, tax rates were gradually reduced in ensuing years. The average tax rate dropped steadily during World War II and the immediate post war years. Eventually the tax rate reached a low of 0.81 percent for the year 1958. By 1960 it had increased to 1.20 percent. (Shown in Table IX, column 6) as a result of the automatic imposition of tax rate adjustment provided by 27th legislature ending July 1959. (Specific provisos are seen in Chapter V).

Note the function of a hypothetical average tax rate. A certain average rate could maintain the trust fund at a constant ratio with taxable wages. To maintain the ratio of the trust fund to taxable wages at 9.66 percent as in 1945 would have required an average tax rate of 1.88 percent.⁴ Had

⁴These computations are based on the assumption that the interest collected remains the same. Actually it would increase with an increase in contributions collected.

this rate been in effect from 1946 to 1960, the trust fund balance at the end of the period would have been about \$158,491,500.

A more normal proportion occurred in 1947. In that year the ratio of the trust fund to taxable wages was 7.75 percent, a favorable ratio in comparison with the national ratio of 5.57 existing in 1960. In order to have maintained the level of 7.75 percent, an average tax rate of 1.64 percent⁴ would have been required. With that rate in effect, a trust fund balance of about \$127,154,000 would have been achieved by 1960.

Table VIII gives covered employers, those eligible for experience rating, and the percent of employers qualified for the minimum tax rate from 1942 to 1960. The number of covered employers has increased rather steadily each year since 1942. In 1942 about 6,000 employers were covered; in 1960 about 18,500. An unusually large increase occurred from 1956 to 1957, primarily due to the change in coverage to include employers of four to seven persons.

Along with the increase in number of covered employers, the number receiving reduced tax rates was growing even more rapidly. This was due to the favorable employment experience of most employers during a period of protracted full employment.

The percent of covered employers eligible for an experience rate fluctuated from a low of 61 percent in 1957 to a high of 93 percent in 1959. This deviation between the extremes was partly due to the reduction in qualifying period for new employers from three years to one in 1955, and partly due to improved economic conditions.

During the period 1947-1959, the percent of qualified employers taxed at the minimum rate reached a high of 58 percent in 1947 and a low of 38 percent 1949, 1952 and 1955. In 1960 it fell to 27 percent, the lowest level since World War II, thus approaching the low level of 25 percent which occurred in 1942.

TABLE VIII
EXPERIENCE RATING DATA
1942-1960

Year	Total Number Active Employers	Employers Eligible for Experience Rate		Employers Receiving Reduced Rates		Percent Qualified Employers at Min. Rate ^{1/}
		Number	Percent	Number	Percent Eligible	
1942	5,956	4,191	70	3,140	75	25
1943	6,122	4,294	70	3,552	83	26
1944	6,235	4,339	70	4,030	93	45
1945	6,298	4,576	73	4,479	98	32
1946	6,436	4,666	72	4,649	99	95
1947	7,321	4,947	68	4,854	98	58
1948	8,016	5,142	64	4,758	93	42
1949	8,431	5,382	64	4,722	88	38
1950	8,701	6,706	70	5,154	91	45
1951	9,031	6,610	73	5,763	87	40
1952	9,034	6,970	75	6,098	87	38
1953	9,436	7,130	76	6,402	90	45
1954	9,766	7,555	77	7,049	93	50
1955	10,063	9,074 ^{2/}	90 ^{2/}	7,940	88	38
1956	10,797	9,502	88	8,157	86	40
1957	16,657 ^{3/}	10,124	61	8,620	85	42
1958	17,305	15,975 ^{4/}	92	13,985	88	54
1959	17,592	16,294	93	13,575	83	46
1960	18,468	16,849	91	13,763	82	27

Source: Oklahoma Employment Security Commission, op. ct., pp. 33-34

- 1/ Minimum tax rate was 0.5 from 1942 to mid-1949, 0.3 from last half 1949 to mid-1953 and 0.2 subsequently.
- 2/ Includes 7,792 employers rated at the start of the year, and 1,282 employers rated effective 4-1-55 under legislative amendment reducing experience rating qualifying time from three years of compensation experience to one year of compensation experience.
- 3/ Includes employers of 4 to 7 workers added to coverage in 1956 who were not eligible for 1957 experience rates.
- 4/ Includes employers of 4 to 7 workers added to coverage in 1956 who became eligible for experience rates for the first time.

Payments, Contributions and the Status
of Trust Fund

Table X shows tax contributions paid into, and interest earned by the Oklahoma Trust Fund, together with benefit payments out of fund, and the balance of fund as a multiple of average benefit cost of the past five years from 1937 to 1960. Net contributions received from covered employers showed a generally increasing trend over the full period. A record high amount of \$12,364,000 in collections was reached in 1960. Nevertheless, it was one of eight years, 1946, 1950, 1954, 1955, 1957, 1958, 1959 and 1960, showing disbursements over collections.

Total revenue received from the inception of taxation through December 31, 1960, was \$183,606,000; therefore, there was an excess of income over expenditure of \$15,008,000. The remainder of the trust fund balance at the end of 1960, \$21,990,000 was derived from earnings and other trust fund credits received under Title IX, Social Security Act as amended by the Reed Act. These earnings reached the highest amount in 1957 at \$2,005,000, an amount sufficient to offset the deficiency existing between collections and payments of \$1,851,000 for that year. Earnings in 1957 equaled 17 percent of total payments. This was about 4 percent greater than earnings as a proportion of total payments for any other year.

The Oklahoma Trust Fund gradually accumulated during the years 1937 through 1953 despite increasing benefit costs. During the period, 1954-1957, it held rather constant at about \$53,000,000. From then on, it has reflected a decreasing trend. By 1960 it had fallen to \$36,998,000, the lowest amount since World War II.

In Table IX, column 3, the Trust Fund as a percent of taxable wages is presented. This ratio has displayed a definite downward trend since World War II, ranging from a high of 9.66 percent in 1945 to a low of 3.56 percent in 1960.

The importance of the trust fund as a percent of taxable wages stems from the latter relation to potential liability. Following World War II, taxable wages have increased 116.3 percent while the trust fund has decreased by 20.4 percent.

This sizeable advance in taxable wages has developed as a direct result of the growing number of covered workers and the gradual growth in average weekly earnings. The full effect of the latter has not been realized because all the wages over \$3,000 received from the employers by each employee annually have been exempt from taxation. The amount of covered wages has increased more rapidly than taxable wages. In 1940, 92.2 percent of all covered wages was taxable. This percentage dropped to 89.2 in 1946 and to 63.6 in 1960.⁵

As payments for claims have increased, the trust fund has declined in relation to the amount of benefits paid in that year. Following the heavy disbursements of the reconversion period of 1946, the fund reached a position equivalent to 7.48 times payments in 1947. A few years later in 1952, it climbed to its highest recent level, 8.63. From that time on, it has been declining rapidly so that it dropped to a multiple approximately 2.1 times actual payments by 1960.

The importance of the trust fund data calculated as a multiple of

⁵Based on data from Handbook of Employment Security Program Statistics, Oklahoma, 1939-1961. (Oklahoma Employment Security Commission) Pp. 19-21.

average benefit costs lies in the fact that it may serve as an important measure of reserve adequacy. (More detailed discussion is made in Chapter V). As shown in Table X, column 7, the trust fund as a multiple of average cost of the past five years reflected a generally falling trend with a high of 23.99 in 1945 and a low of 2.56 in 1960. The continuation of this downward trend constituted a warning signal of possible trust fund inadequacy at some future time, and finally led to the major change made in 1959 in the tax rate structure of the State unemployment insurance in order to insure the solvency of the State fund. These tax changes are more fully explained in Chapter V.

* * * * *

In this chapter we have presented a discussion of background data bearing on the financial status of unemployment insurance in Oklahoma. During the first generation of the State program, many changes have been enacted in the State Unemployment Insurance Act. Despite these changes the advance in average weekly benefit amount has failed to parallel the gain in average weekly wages and costs have risen in relation to revenues. The latter condition has developed to a substantial degree, partly because of the decline of tax rates resulting from the operation of experience rating, partly because of the drastic rise in numbers of covered workers. In 1939 an average of 181,631 workers were covered by the program. This figure has increased to 372,117 in 1960.

During the same period, 1939-1960, the average tax rate decreased from a high of 2.7 percent to a low of 0.81 percent. For each of the ten year ending in 1960, it has been 1.2 percent or less of taxable wages, with approximately one-third to one-half of all employers receiving the minimum rate of 0.2 percent. Because of these circumstances, the relative position

of the Oklahoma Trust Fund has been declining in respect to taxable wages, potential liability, and actual cost. A long range continuation of this trend would place the solvency of the State fund in danger, unless some measures are taken to preclude this eventuality. This clearly indicates that the change in the tax rate structure of the State program made in 1959 were necessary in order to protect the solvency of the State fund.

TABLE IX
TAXABLE WAGES AND EFFECTS OF EXPERIENCE RATING
ON CONTRIBUTIONS AND THE TAX FUND

Year	Taxable Wages	Year End Reserve As a Percent of Taxable Wages	Tax Saving From Experience		Average Tax Rate (%)
			Amount	Percent 2.7% Max. Rate	
1939	\$ 233,974,012	5.93	\$ --	-	2.70
1940	233,675,017	7.49	--	-	2.70
1941	263,675,986	8.09	--	-	2.70
1942	384,277,632	6.67	3,865,776	37.3	1.69
1943	482,217,194	7.08	4,348,098	33.4	1.80
1944	492,607,348	8.58	6,142,181	46.2	1.45
1945	481,211,813	9.66	6,845,610	52.7	1.28
1946	478,148,401	8.70	8,067,096	62.5	1.01
1947	550,760,444	7.75	9,008,291	60.6	1.06
1948	633,592,366	7.40	9,331,013	54.5	1.23
1949	646,810,864	7.42	9,541,583	54.6	1.22
1950	676,296,558	6.85	11,282,651	61.8	1.03
1951	741,712,277	6.66	11,904,521	59.4	1.09
1952	804,443,215	6.63	12,642,820	58.2	1.13
1953	839,203,666	6.68	14,269,550	63.0	1.00
1954	842,308,315	6.20	15,631,524	68.7	.85
1955	884,785,190	5.83	16,410,374	68.7	.84
1956	995,598,562 ^{1/}	5.39	16,953,539	63.1	1.00
1957	1,001,500,036	5.38	17,358,254	64.2	.97
1958	985,059,520	4.52	18,576,784	69.8	.81
1959	1,025,298,016	4.03	17,634,518	63.7	.98
1960	1,040,699,781	3.56	15,648,862	55.7	1.20

Source: Oklahoma Employment Security Commission, op. ct., p. 36.

^{1/} Includes \$72,257,997 taxable wages of employers of 4 to 7 workers added to coverage in 1956.

TABLE X

RECORD OF THE OKLAHOMA UNEMPLOYMENT INSURANCE
TRUST FUND, 1937-1960 (in Thousands)

Year	Net Contributions Collected	Earnings and Other Trust Fund Credits	Total Receipts	Net Benefit Paid from Trust Fund	Balance in Trust Fund at End of Year	Fund Balance As a Multiple of Average Benefit of the Past Five Years
1937-38	\$12,182	\$ 319	\$12,501	\$ 71	\$12,430	-
1939	5,358	330	5,688	4,241	13,877	-
1940	6,193	398	6,592	3,707	16,762	-
1941	6,730	469	7,199	2,619	21,342	-
1942	6,526	541	7,067	2,786	25,623	-
1943	8,483	607	9,090	565	34,149	12.27
1944	7,755	726	8,481	379	42,450	21.01
1945	6,714	870	7,584	3,341	46,493	23.99
1946	4,508	792	5,300	10,183	41,610	12.06
1947	5,981	799	6,780	5,705	42,685	10.58
1948	7,408	915	8,323	4,098	46,909	9.89
1949	8,024	1,017	9,041	7,987	47,963	7.66
1950	6,939	989	7,927	9,559	46,331	6.17
1951	7,927	1,019	8,946	5,846	49,431	7.45
1952	8,946	1,134	10,080	6,175	53,336	7.92
1953	8,738	1,278	10,016	7,251	56,101	7.62
1954	7,315	1,256	8,572	12,408	52,265	6.34
1955	7,419	1,165	8,585	9,299	51,550	6.29
1956	9,542	1,534 ^{1/}	11,076	8,912	53,714	6.10
1957	9,939	2,005 ^{1/}	11,944	11,790	53,868	5.42
1958	8,527	1,558 ^{1/}	10,085	19,415	44,539	3.60
1959	10,087	1,123	11,210	14,452	41,298	3.23
1960	12,364	1,144	13,508	17,808	36,998	2.56

Source: Oklahoma Employment Security Commission, op. cit., pp. 35 and 37.

^{1/} Includes Federal funds received under Title IX, Social Security Act, as amended by the Reed Act.

CHAPTER III

FINANCIAL CONTRASTS BETWEEN OKLAHOMA AND NATIONAL UNEMPLOYMENT INSURANCE EXPERIENCE

Only slight variation in basic concepts of unemployment insurance exists from state to state. There are, however, many unlike provisions as to benefit amount, duration, tax rates, and claimant eligibility. As a result, the operating experience of the numerous states has shown considerable difference. This chapter presents certain contrasts between the financial experiences of Oklahoma and the average of all 51 jurisdictions. An emphasis is placed upon comparisons about benefit cost and reserve fund ratio, for they are most indicative of those varying provisions concerning the program. In addition, some comparisons will be designed to get a better insight into the relative position of Oklahoma among the other states.

Covered Employment, the Unemployment Rate and Taxable Wages

As shown in Table XI, covered employment in Oklahoma increased 104.9 percent between 1939-1960. This was considerably greater than the national gain, 88.0 percent. Over the same period, taxable wages in Oklahoma increased 601.2 percent, approximately double the advance of 319.8 percent at the national level.

The rate of insured unemployment in Oklahoma and in the nation is shown in Table XII. For the period 1947-1960, the rate of insured unemployment in Oklahoma fluctuated from a low of 2.6 percent in 1948 to a high of 5.6 percent in 1958 as compared with a low of 2.7 percent in 1953 and a high of 6.6 percent in 1958 for the nation. With the exception of three years, 1947, 1953 and 1960, all years showed a lower rate of unemployment in Oklahoma than at the national level. Figure 1 presents the same information graphically. The generally lower rate of unemployment in Oklahoma has helped to hold the State ratio of benefits to taxable wages and total benefit costs under those of many states.

TABLE XI

COMPARISONS OF COVERED EMPLOYMENT AND TAXABLE WAGES
OKLAHOMA AND UNITED STATES

Year	Covered Employment		Taxable Wages (in thousands)	
	Okla. ^{1/}	U. S. ^{2/}	Okla. ^{1/}	U. S. ^{2/}
1939	181,631	21,377,528	\$ 239,974	\$ 28,410,913
1960	372,117	40,192,972	1,640,700	119,260,273 ^{3/}
Change %	104.9	88.0	601.2	319.8

^{1/} Refer to Table VI and IX respectively

^{2/} Source: U.S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1960.

^{3/} \$3,000 tax base in all states except as follows: \$4,200 in Alaska, \$3,600 in Delaware, Oregon, Nevada and Rhode Island.

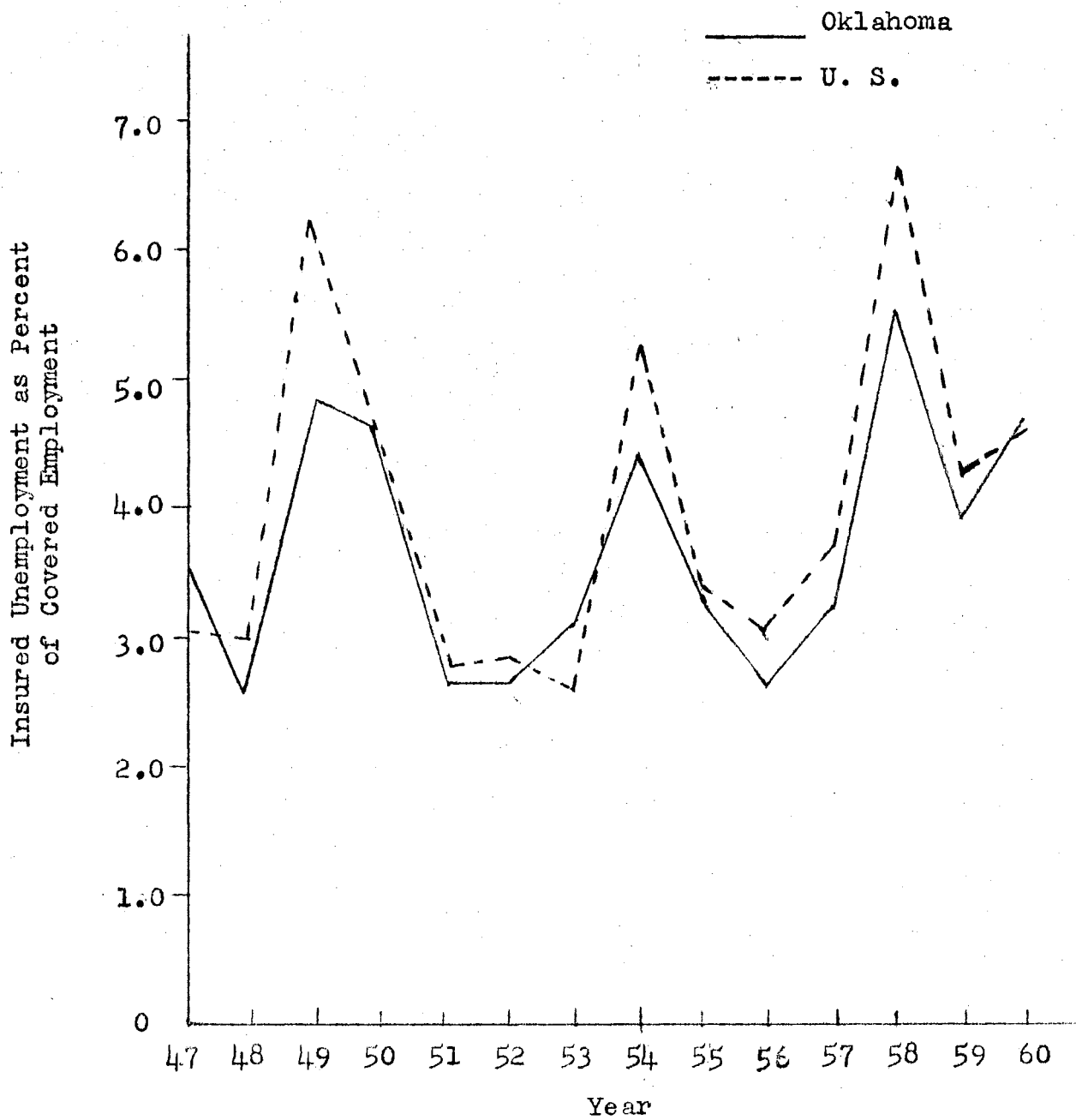
TABLE XII
 COMPARISON OF UNEMPLOYMENT RATE
 (Insured unemployment as per
 cent of covered employ-
 ment)

Year	Okla. ^{1/}	U. S. ^{2/}
1939	6.6	--
1940	5.6	--
1941	3.4	--
1942	2.7	--
1943	0.5	--
1944	0.4	--
1945	2.8	--
1946	8.1	--
1947	3.8	3.1
1948	2.6	3.0
1949	4.9	6.2
1950	4.7	4.6
1951	2.7	2.8
1952	2.7	2.9
1953	3.1	2.7
1954	4.5	5.3
1955	3.3	3.4
1956	2.7	3.1
1957	3.3	3.7
1958	5.6	6.6
1959	4.0	4.3
1960	4.8	4.7

^{1/} Refer to Table VI.

^{2/} Source: U. S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1960.

Fig. 1

Comparison of Unemployment Rate,
Oklahoma and the United States

Weekly Benefit Amount

Table XIII shows that the weekly benefit amount paid to the eligible State claimants was constantly below the national average during the period from 1938 to 1960 with the exception of 1942. Two factors were responsible for the development of this condition: (1) The lower average weekly wage in covered employment in Oklahoma and (2) the smaller ratio of the maximum weekly benefit amount granted to claimants to average wages for covered employment in Oklahoma than the average of all states and territories.

Data on taxable wages and average benefit amounts for years preceeding 1947 are not as comparable as the data for years succeeding 1946. This is so because the \$3,000 tax base was not used in all states until 1945. Also, the reconversion period of 1946 following World War II is generally considered as a special case. Thus comparisons in the chapter are for the most part based on data for the period of 1947-1960.

Between 1947-1960, the average weekly wage in covered employment in Oklahoma increased 75.6 percent against the national gain of 80.9 percent; numerically, the difference between the Oklahoma figure and the national figure increased from \$3.48 in 1947 to \$5.36 in 1960.

Concurrently the average weekly benefit amount in the State increased 66.3 percent from \$15.74 in 1947 to \$26.17 in 1960 against the advance of 84.4 percent at the national level from \$17.83 in 1947 to \$32.87 in 1960. Therefore, the variance between the two amounts increased from \$2.09 to \$6.70 per week. During the same period, the average weekly benefit payment in Oklahoma varied from a low of 82.5 percent of the similar figure for the nation in 1958 to a high of 96.3 percent in 1955. At the end of the period, it equaled 79.6 percent of the national figure. For the entire period of 1947-1960, the average benefit amount for total unemployment

TABLE XIII

COMPARISON OF OKLAHOMA AND UNITED STATES
AVERAGE WEEKLY BENEFIT AMOUNTS

Year	Average Weekly Benefit Amount for Total Unemployment		Percent Okla. W. B. A. of U. S. W. B. A.	Average Weekly Wage for Covered Employment				Percent Average Benefit Amount for Total Unemployment of			
	Okla.	U.S. ^{1/}		Total		Taxable		Average Weekly Total Wage		Average Weekly Taxable Wage	
			Okla.	U.S.	Okla.	U.S.	Okla.	U.S.	Okla.	U.S.	
1938	\$10.57	\$10.94	96.6	\$25.11	\$25.28	\$25.11	\$24.77	42.1	41.3	43.3	44.2
1939	10.15	10.66	95.2	24.77	26.15	24.77	25.56	41.0	40.8	40.8	41.8
1940	9.84	10.56	93.2	25.27	27.02	23.30	25.07	38.9	39.1	42.2	42.1
1941	10.07	11.06	91.1	26.48	30.23	24.45	27.74	38.0	36.6	41.2	39.8
1942	12.03	12.66	95.0	32.03	35.90	29.92	32.58	37.5	35.3	40.2	38.9
1943	14.17	13.84	102.4	36.50	41.24	34.02	36.84	38.8	33.6	41.7	37.6
1944	14.69	15.90	92.4	39.97	44.25	26.66	38.81	36.8	35.9	40.1	41.0
1945	17.43	18.77	92.9	41.62	45.11	37.95	39.63	41.9	41.6	45.9	47.4
1946	16.69	18.50	90.2	43.37	46.69	38.69	40.51	38.5	39.6	43.1	47.8
1947	15.74	17.83	88.3	48.11	51.59	41.60	43.48	32.7	34.6	37.8	41.0
1948	15.73	19.03	82.7	53.02	55.85	44.37	45.65	29.7	34.1	35.5	41.7
1949	16.85	20.48	82.3	55.02	56.95	45.37	46.28	30.6	36.0	37.1	44.3
1950	18.57	20.76	89.5	57.38	60.31	46.28	47.68	32.4	34.4	40.1	43.5
1951	18.40	21.09	87.2	62.08	65.50	48.38	49.79	29.6	32.2	38.0	42.4
1952	19.07	22.79	83.7	66.52	69.09	50.22	51.17	28.7	33.0	38.0	44.5
1953	20.26	23.58	85.9	69.74	72.98	51.14	52.25	29.1	32.3	39.6	45.1
1954	23.90	24.93	95.9	71.67	74.52	51.45	52.49	33.3	33.5	46.5	47.5
1955	24.12	25.04	96.3	74.23	78.12	52.09	53.39	32.5	32.1	46.3	46.9
1956	24.15	27.02	89.4	75.27	81.16	51.88	54.21	32.1	33.3	46.5	49.8
1957	24.70	28.17	87.7	77.88	84.18	52.26	54.69	31.7	33.5	47.3	51.5
1958	25.19	32.54	82.5	80.25	86.56	52.81	55.08	31.4	35.3	47.7	55.5
1959	25.21	30.40	82.9	82.98	90.90	53.39	56.00	32.4	33.4	47.2	54.3
1960	26.17	32.87	79.6	79.6	93.34	53.78	57.06	31.0	35.2	48.7	57.6

Source: Oklahoma data: Refer to Table IV.

U.S. data: U.S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1960.

1/ Total wages for all year in all states except Michigan and New York where \$3,000 tax base was in effect, 1938; Delaware, Michigan, New York, South Carolina: \$3,000 tax base in effect all year in Michigan and New York, from July in South Carolina from October in Delaware, 1939. Total wages for all year in 9 states; \$3,000 tax base in effect all year in 37 states, for part of the year in 5 states, 1940. Total wages for all year in Idaho and Nevada, 1941-42. \$3,000 tax base in effect all year in 48 states and from October in Texas 1941 and 49 states 1942. Total wages for all year in Nevada. \$3,000 tax base in effect all year in the other 50 states, 1943-44. \$3,000 tax base in effect in all states 1945-1953. \$3,600 tax base in effect in Nevada 1954; Alaska, Delaware, Nevada in 1955; Oregon and Rhode Island were added in 1956. \$4,200 tax base in Alaska, \$3,600 in other 4 states, 1957-1959. \$7,200 in Alaska, \$3,800 in Oregon, \$3,600 in California, Delaware, Nevada, and Rhode Island, 1960.

2/ Average for 23 states where benefit were paid for the full year 1938; 49 states, 1939. Including dependant's allowances in District of Columbia, 1940-44; 4 states, 1945; 5 states, 1946-48; 11 states, 1949-58; 13 states, 1959; 12 states, 1960.

in the State averaged 31.1 percent of the average weekly wage while the national average benefit was 33.7 percent of average wages.

Duration of Benefit

Table XIV shows a comparison of duration of benefits in Oklahoma with duration of benefits in the nation. During the period of 1947-1956, average potential duration of benefit payments in the State was considerably below that of the nation. It was confined within the limit of 16.3 to 17.9 weeks in Oklahoma as compared with the span of 19.5 to 23.0 weeks at the national level. The average for the decade was 17.1 weeks in Oklahoma and 21.7 weeks for all states and territories. Since 1957, however, the average in Oklahoma has shown a rapid rise. In 1960 it rose to 26.9 weeks and exceed by 2.9 weeks the average for the nation.

One factor has exercised considerable effect upon the State's position compared to the nation. There were two increases in maximum duration in the State: from 22 to 26 weeks in 1957; and from 26 to 39 weeks in 1959. The maximum legal benefit duration is now greater in Oklahoma than in any other state in the nation.

During the period, 1947-1960, the average actual duration of benefit payment in Oklahoma varied from a low of 10.5 weeks in 1952 to a high of 14.3 weeks in 1960 against the national confines of 10.1 weeks in 1951 to 14.8 weeks in 1958. The fourteen-year period showed the average actual duration in Oklahoma slightly in excess of that of the nation, 12.1 weeks against 11.8. Comparing both average potential and actual duration, the former in Oklahoma was equal to 83.8 percent of all states and territories, while the latter exceeded very slightly that prevailing in the nation. The financial effects of the recent extension to 39 weeks legal duration remain to be seen.

TABLE XIV
COMPARISON OF OKLAHOMA AND UNITED STATES
DURATION MEASURE

Year	Average Potential Duration(Weeks) ^{1/}		Average Actual Duration(Week)		Average Actual Duration for Exhaustees(Weeks)		Percent Okla. of U.S.
	Okla.	U.S.	Okla.	U.S.	Okla.	U.S. ^{3/}	
1940			8.1	9.8			
1941			8.0	9.4	7.1	12.1	63.6
1942			9.9	10.0	8.8	12.6	69.8
1943			7.3	9.0	12.6	14.3	88.1
1944			8.7	7.7	13.5	13.8	97.8
1945			8.6	8.5	13.7	14.5 ^{3/}	94.5
1946	17.1	19.8	15.3	13.4	17.8	18.5	96.3
1947	16.3	19.5	12.9	11.1	15.8	17.8	88.8
1948	16.4	21.1	12.1	10.7	15.0	18.0 ^{3/}	83.3
1949	17.0	21.4 ^{2/}	11.2	11.8	14.8	18.7 ^{3/}	79.1
1950	16.5	21.1	12.6	13.0	14.9	19.3	77.2
1951	16.6	21.4	11.2	10.1	14.5	17.9	81.0
1952	17.0	22.0	10.5	10.4	14.3	19.3	74.1
1953	17.3	22.1 ^{1/}	10.7	10.1	14.6	19.2	76.0
1954	17.8	22.4	12.2	12.8	15.6	20.0	78.0
1955	17.9	22.7	12.2	12.4	16.0	20.3	78.8
1956	17.9	23.0	11.3	11.4	15.8	20.0	79.0
1957	19.5	23.4	11.8	11.6	16.3	20.5	79.5
1958	20.7	23.5	13.3	14.8	17.7	21.7	81.6
1959	23.1	23.6	13.6	13.1	18.4	21.7	84.8
1960	26.9	24.0	14.3	12.7	21.6	21.4	100.9

Source: Oklahoma data; Refer to Table V.

U.S. data: U.S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1960.

^{1/} Excludes Wisconsin. ^{2/} Excludes Connecticut and Michigan in 1942 and January in 1953. ^{3/} Excludes 12 states 1945; 2 states 1948-1949.

During the same period, 1947-1960, the average actual duration of those claimants exhausting all benefits in Oklahoma was considerably below that of the nation with the exception of 1960. In Oklahoma the average actual duration of benefits of exhaustees fluctuated from 14.3 weeks in 1952 to 21.6 weeks in 1960; for the nation the limits were from 17.8 weeks in 1947 to 21.7 weeks in 1958 and 1959. Throughout the fourteen-year period, this figure averaged 16.1 weeks in Oklahoma against 19.7 weeks in the nation.

Significant Measures---Ratios of Benefits, Reserves,
and Contributions to Taxable Wages

Table XV compares the ratios of benefits, reserves and contributions to taxable wages between Oklahoma and the national average. The proportion of benefits to taxable wages (generally referred to as "cost rate") in Oklahoma has been more stable than the same ratio for the nation. During the period 1947-1960, it fluctuated in the range of 0.65 percent in 1948 to 1.97 percent in 1958. Nationally the span ranged from 0.93 percent in 1951 to 2.29 percent in 1960. The 1947-1960 average ratio of benefits to taxable wages in the State was 1.18 percent against 1.62 percent at the national level.¹

During the very early period of the Oklahoma Unemployment Compensation Act, the ratios of reserves to taxable wages were ~~higher~~ than those of the nation. However, the position has reversed since 1942. For the period

¹The favorable unemployment cost rate, as stated earlier, was one factor contributing to holding the State percent of benefits to taxable wages constantly below that for the nation; another two factors were differences in duration of benefits and the relationship between the average weekly benefit amount and average wage.

TABLE XV

OKLAHOMA AND UNITED STATES COMPARISON
OF SIGNIFICANT MEASURES

Year	Benefits as a Percent of Taxable Wages			Reserves as a Percent of Taxable Wages			Employer Contribution Rate		
	Okla.	U. S.	Percent Okla. of U. S.	Okla.	U. S.	Percent Okla. of U. S.	Okla.	U. S.	Percent Okla. of U. S.
1938	0.03	2.18	13.8 ^{1/2}	5.65	4.33	130.5	--	2.70 ^{1/2}	
1939	1.81	1.59	113.8 ^{2/2}	5.93	5.41	109.61	2.70	2.72 ^{1/2}	99.3
1940	1.66	1.72	96.5	7.49	6.04	124.0	2.70	2.69	100.4
1941	0.99	0.89	111.2	8.09	6.53	123.9	2.70	2.58	104.7
1942	0.72	0.69	104.4	6.67	6.81	97.9	1.69	2.19	77.2
1943	0.12	0.13	92.3	7.08	7.99	88.6	1.80	2.09 ^{2/2}	86.1
1944	0.08	0.10	80.0	8.58	10.01	85.7	1.45	1.92 ^{2/2}	75.5
1945	0.69	0.76	90.8	9.66	11.81	81.8	1.28	1.71 ^{2/2}	74.9
1946	2.13	1.72	123.8	8.70	10.77	80.8	1.01	1.43 ^{2/2}	70.6
1947	1.04	1.06	98.1	7.75	10.01	77.4	1.06	1.41	75.2
1948	0.65	1.01	63.4	7.40	9.68	76.4	1.23	1.24	99.2
1949	1.23	2.28	53.9	7.42	9.19	80.6	1.22	1.31	93.1
1950	1.41	1.68	83.9	6.85	8.55	80.1	1.03	1.50	68.7
1951	0.79	0.93	84.9	6.66	8.62	77.3	1.09	1.58	69.0
1952	0.77	1.05	79.0	6.63	8.80	75.3	1.13	1.45	77.9
1953	0.86	0.97	88.7	6.69	8.95	74.6	1.00	1.30	76.9
1954	1.47	2.10	70.0	6.21	8.51	72.9	0.85	1.12	75.0
1955	1.05	1.33	79.0	5.83	8.14	71.5	0.84	1.18	72.0
1956	0.91	1.26	71.4	5.46	7.81	69.1	1.00	1.32	75.8
1957	1.18	1.54	76.6	5.38	7.68	70.1	0.97	1.31	74.1
1958	1.97	3.22	61.2	4.52	6.37	71.0	0.81	1.32	61.4

Source: Oklahoma data: Refer to Tables IX and X; U.S. data: U.S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1960.

1/ Standard rate in Michigan was 3.0 percent before 1952; beginning with 1952 the standard was 2.7 percent for all nonseasonal employers and 3.0 percent for seasonal employers. In 1938 and 1939, standard rate was 3.0 percent in New York and District of Columbia except for employers covered by the Federal Act.

2/ Included effect of War risk contributions..

1947-1960, both of the ratios for Oklahoma and the national average showed a generally declining trend; however, Oklahoma's ratio declined at a more rapidly falling rate, and the difference between the two has become more pronounced in recent years.

Experience rating began to operate in Oklahoma in 1942. During the period, 1942-1960, the proportion of contributions to taxable wages (commonly called as "contribution rate") in Oklahoma was consistently below the national rate. The amount of difference has varied from a ratio, state to nation, of 99.2 percent in 1948 to 57.3 in 1959. In recent years, this ratio was around 60 percent.

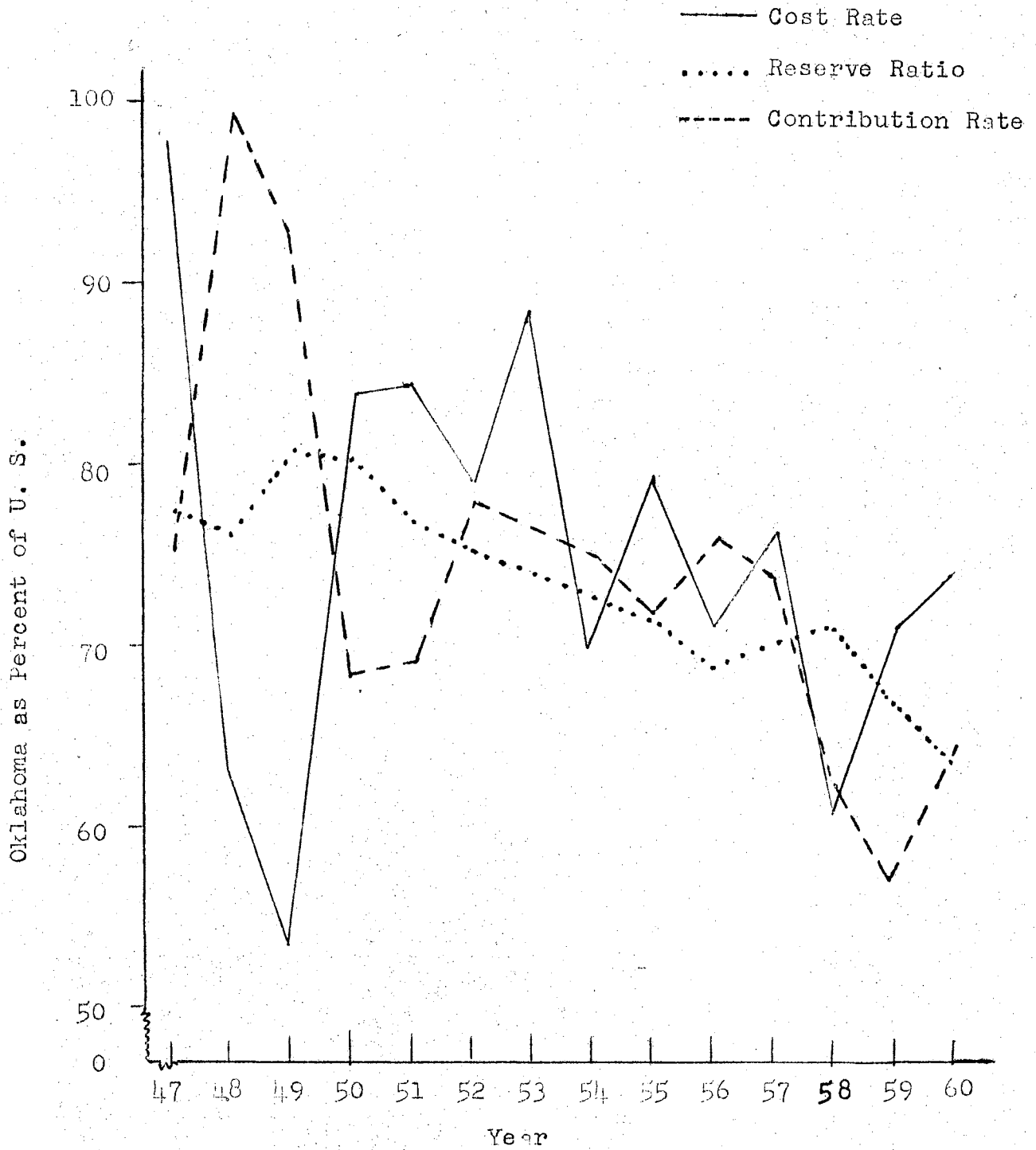
Over the same period, 1942-1960, both the contribution rate for Oklahoma and the nation showed a generally downward trend; Oklahoma declined at a steeper rate as compared to the nation. The State rate fell from the legal summit of 2.70 percent in the years, 1939-1941, preceeding the operating of experience rating in the State, to 0.81 percent in 1958. For the nation the contribution rate declined from a high of 2.72 in 1939² to a low of 1.12 percent in 1954. The steeper downward trend of the contribution rate in the State was clearly reflected in the falling ratio, State to nation, of the contribution rate.

During the period 1947-1960, the State tax rate averaged 1.03 percent of taxable wages while the national rate was 1.40 percent; the State rate was about two-thirds of the national figure.

Figure 2 shows the State's positions of cost rate, reserve ratio, and contribution rate computed as a percentage of those in the nation. All three rates in Oklahoma were below those for the nation

²Several states adopted the standard rate of 3.0 percent. Refer to footnote 1 under Table XV.

Fig. 2
 Oklahoma's Positions of Cost Rate, Reserve
 Ratio and Contribution Rate in the United States



during the period of 1947-1960, since all are listed at less than 100%. Furthermore, as an inspection of the figure will show, all three series of data show a generally downward trend. This indicates that Oklahoma's program has been somewhat under-financed relative to the national average, and has become more so with the passage of time.

Current Benefit Provisions

Comparisons concerning the trend of past experience between Oklahoma and the national average have been made; the remainder of this chapter will deal with the current (1960) position of Oklahoma among the states. Emphasis will be placed on the number of states having different benefits from those of Oklahoma. In addition, attention will be paid to the relative position of the State among the group in respect to the various indicators of trust fund status.

Table XVI indicates Oklahoma's position in the various states in regard to the provisions concerning the minimum size of firm, benefit payments, and duration as of January 1, 1960. As shown in this table, Oklahoma and 26 other states provided minimum coverage to firm of four or more workers. The remainder of the states included 4 states covering workers in firms with 3 or more workers, and 20 states covering employers with 1 or more workers. In addition, 19 states required the specified number of workers for a period shorter than 20 weeks. Seven of these states covered services in firms employing one or more workers "at any time". Eight states did not specify any time but required a minimum payroll.³ These additional qualifications, however, are of secondary

³U. S. Department of Labor, Comparison of State Unemployment Insurance Laws as of January 1, 1960, P. 3.

importance in determining the size of the covered firm; they primarily serve to set a minimum period of employment.

The minimum weekly benefits in State laws varied from \$3 to \$17. Oklahoma and 28 other states granted a similar amount of minimum weekly payment but Oklahoma was lower than 9 states and higher than 13 states.⁴ However, the State had a shorter minimum duration than most of the group. The maximum weekly benefit amount varied from \$26 to \$55. The Oklahoma's amount was below those of most states. Thirty-four states of the group paid a maximum weekly benefit in excess of the State, 5 were similar, 11 were in a lesser amount than the State.⁵ The maximum duration in Oklahoma, however, was much longer than all other states. (The maximum weeks of benefits varied from 18 to 39 weeks in the states.)⁶ This marked a big stride legally in the improvement of the State program.

In the 51 states the maximum potential benefit in a benefit year varied from \$504 to \$1,598. This payment in Oklahoma was \$1,248, which was higher than those of 44 states and lower than those of 6 other states.⁷

⁴Ibid., p. 64.

⁵Ibid., p. 64.

⁶Ibid., pp. 75-76.

⁷U. S. Department of Labor, op. ct., p. 76.

TABLE XVI
 OKLAHOMA AND UNITED STATES COMPARISON OF SELECTED
 PROVISIONS OF UNEMPLOYMENT INSURANCE LAW
 AS OF JANUARY 1, 1960

	Minimum Number of Workers: Employers Covered	Weekly Benefit Amount		Duration (Weeks)	
		Min.	Max.	Min.	Max.
Oklahoma ^{1/}	4	\$10	\$32	10	39
No. States Higher	0	9	34	37	0
No. States Lower	24	13	11	4	50
No. States Similar	26	28	5	9	0

Source: U. S. Department of Labor, Comparison of State Unemployment Insurance Laws as January 1, 1960.

^{1/} These provisions of Oklahoma remained the same in the last legislature in 1961.

Current Financial Data

Data for 1960 only are shown in Table XVII. For 1960, Oklahoma had a higher proportion than the national average in respect to the ratio of benefit payments to collections, namely the amount of benefits paid for each dollar collected. A total of \$1.31 for every dollar collected was dispersed in Oklahoma. Nationally, the amount of benefits equaled \$1.10 on the dollar. Numerically only 10 states paid out a higher rate; one a similar rate; all other states, 39, shared a smaller proportion of collections.

The contribution rate in Oklahoma in 1960 was below that of the nation. The employers in Oklahoma paid 1.20 percent while the average for the group was 1.88 percent. Thirty-six states had a higher rate and 14 states a lower rate. The difference of the contribution rate from the ratio of collections to taxable wages comes from two sources: (a) the collection ratio reflects taxes paid by workers in those states which

require employee contributions, and (b) the collection ratio reflects the time lag between the period for which taxes are due and the date on which such taxes are actually collected.⁸

In regard to the cost rate, namely the ratio of benefits paid to taxable wages, Oklahoma held a more advantageous position for this period. The costs equaled 1.71 percent of taxable wages while the national average was 2.29 percent. The State ratio was below those of 31 states, above 18 and equal one. Two factors have mainly contributed to this situation: (1) Oklahoma has had a comparatively small proportion of covered employment in seasonal industries or types highly susceptible to fluctuations in the economic cycle;⁹ and (2), Oklahoma has granted a relatively smaller maximum weekly benefit payment than the great majority of states.

While Oklahoma compared favorably in some respects in 1960, it held an inferior position relative to the national average for both funds available as percent of taxable wages and funds available as a multiple of benefits paid. Ending December 31, 1960, the trust fund in Oklahoma equaled 3.56 percent of taxable wages, whereas the national average was 5.57 percent. Only 6 states held a position below Oklahoma. A sizeable majority, 44, had a superior position.

In regard to the reserves as the multiple of benefits paid in 1960, the figure for Oklahoma was not up to the average for all of the group, but it was, nevertheless, in somewhat more favorable position. On

⁸U. S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1960. Sec. 3, p. 3.

⁹U. S. Department of Labor, The Labor Market and Employment Security; Oklahoma Employment Security Commission, Oklahoma Labor Market.

December 31, 1960, funds available in the State equaled 2.08 times disbursements in that year, or 85.3 percent of the national multiple, 2.44. This was below those of 37 states, above 12 and equal to one state.

In respect to the reserve ratio as of December 31, 1960 as a multiple of highest 12-month benefits in the past ten years, 1951-1960, the relative position of the State fund appears more favorable. The multiple in Oklahoma was 1.7 which was exactly equal to that of the national average. Numerically 30 states had a higher multiple than that of Oklahoma, 18 lower and 2 equal.¹⁰ Generally this multiple is designed to measure the adequacy of funds for benefit payments in bad years. Oklahoma's relatively more favorable position as shown in these statistics is likely due to more severe unemployment in more highly industrialized states in recession years.

* * * * *

So far comparisons which give some insight into the unemployment insurance program and experience of Oklahoma as compared with other states have been presented. The individual data, however, are of limited importance owing to the divergent conditions existing in the various states. Nevertheless, the findings from those comparisons, together with those from the tracing of trends in the State program in Chapter II, may serve as a basis on which estimates of long-range benefit costs can be made. In addition, the relatively inferior position of the State fund among the other states called for remedial measures to improve the status of the State fund; and the tax changes made in 1959 were largely based on this consideration.

¹⁰U. S. Department of Labor, Unemployment Insurance: State Laws and Experience. (United States Government Printing Office, Washington)p.24.

TABLE XVII
 OKLAHOMA AND UNITED STATES COMPARISON
 OF SELECTED FINANCIAL DATA
 December 31, 1960

	U.S. Average	Oklahoma	Number of States		
			Higher	Lower	Similar
Average Employer Contribution Rate ^{1/}	1.88	1.20	36	14	0
Ratio of Benefits to Collections ^{2/}	1.10	1.31	10	39	1
Ratio of Benefits to Taxable Wages ^{1/}	2.29	1.71	31	18	1
Ratio of Funds to Taxable Wages ^{1/}	5.57	3.56	44	6	0
Funds Available as Multiple of Benefits Paid ^{1/}	2.44	2.08	37	12	1
Reserve Ratio as Multiple of Highest 12- month Benefits 1951-1960 ^{3/}	1.70	1.70	30	18	2

Sources: ^{1/} U. S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1960.

^{2/} Based on data from the Labor Market and Employment Security, (U.S. Department of Labor) Feb., 1962, p. 62.

^{3/} U.S. Department of Labor, Unemployment Insurance State Laws and Experience, April, 1961. p. 24.

CHAPTER IV

FORECAST OF LONG RANGE BENEFIT COSTS

IN OKLAHOMA

In order to forecast the possible costs of the State unemployment insurance program for the decade, 1961-1970, three sets of assumptions are required: (1) Basic assumptions concerning the national economy, (2) three economic patterns, favorable, median and unfavorable,¹ and (3) alternate benefit assumptions. These assumptions are based on recent experience in the economy and other newly developing or empirical factors considered relevant to future State conditions.

Basic Assumptions

These assumptions are national in scope. It is assumed that:

1. The Federal government will continue its high level of spending in the interest of national defense;
2. Mild inflation will be the dominant trend of the next ten years;
3. Technological advances will continue to be forthcoming at a rate commensurate with recent years.
4. Prolonged periods of heavy unemployment will not occur.

These national conditions are expected to reflect themselves in the

¹W. B. Jessee, Long Range Cost Estimates of Unemployment Insurance in Oklahoma, Oklahoma Employment Security Commission, 1949, p. 7.

behavior of the economy of the State of Oklahoma, though the State's reaction to change is traditionally somewhat slower than the national average, and the peaks and troughs of activity have not been as pronounced.² Another supposition is that the growth rate of the labor force in the State will mainly be determined by job opportunities presented in the future, and that this will be approximately the same as the past ten years.

Three Alternative Economic Patterns

The great multitude of conditions affecting the economy make it nearly impossible to form a definite pattern for a short run period. Therefore, three different economic patterns, favorable, median and unfavorable, are designed. They will be developed in the order of the median, favorable, and unfavorable business conditions. The reason for the priority of consideration assigned to median conditions is that this is expected to be the pattern most likely to prevail in the coming decade.

Median Business Conditions

Median conditions assume a national pattern of activity similar to that existing in the decade of the 1960's. Two periods of recessions occurred during that decade, one in 1953-1954, the other in 1957-1958. Such recessions in origin, duration, and severity, serve mainly to retard the growth of the overall economy only in the affected years.³ At the

²This statement is supported by a series of yearly comparisons of trends of non-farm employment between Oklahoma and the nation in the Annual Report to the Governor, 1951-1960.

³W. S. and E. S. Woytinsky, Lessons of the Recessions, (Public Affairs Institute, Washington, D.C. 1959) p. 4.

termination of such recessions, "bull markets" prevail, and new highs of activity are attained. The annual rate of economic growth is expected to be about 3 percent.⁴ Economic growth during such a period results from the increased demand of the growing population for goods and services, from improvements in productivity, from government stimulation, and from other factors. During the median period, the economy of Oklahoma is expected to closely parallel developments in the nation. The general level of activity in the State leads to a considerable number of opportunities for additional employment in the covered labor force.

Based on these assumptions as well as the actual figures in the past decade, 1951-1960,⁵ the amount of covered employment, rate of insured unemployment, average weekly wages and taxable wages for the high, low and average year of median conditions are estimated in Table XVIII.⁶

⁴Ibid., p. 2.

⁵All actual figures in the past decade, 1951-1960, can be found in Chapter 11. These actual figures for the average year are listed as follows at the risk of repetition:

Covered employment: 338,757; rate of insured unemployment: 3.7; average weekly wages: \$74.51; average taxable wages: \$51.74; taxable wages: \$9,166,000,000; rate of unemployment compensable: 2.8.

⁶Some words for "the high or low year" are needed to be free from possible confusion. "The high or low year" does not mean the particular year having high or low activity of business; instead it literally represents the year showing high or low figures of data concerned.

TABLE XVIII

ECONOMIC ASSUMPTIONS OF EMPLOYMENT, UNEMPLOYMENT,
AND WAGES IN MEDIAN BUSINESS CONDITIONS

	Covered Employment	Rate of Insured Unemployment	Average Weekly Wages	Taxable Wages
High Year	424,000	5.7	\$106.50	\$1,237,000,000
Low Year	364,000	3.3	85.70	1,018,000,000
Average	392,000	4.0	96.50	1,118,000,000

During the decade the covered labor force increases by approximately 50,000 persons. This sum is about equal to 70 percent of the gain in the past decade, or to the increase of population for the period, 1950-1959.⁷ Generally, throughout the decade opportunities for employment develop at a rate sufficient to provide work for the majority of increasing numbers seeking to enter the covered labor force. Covered employment, the major segment of the covered labor force, attains a high of 424,000 after a low of 364,000 persons. The average for the entire period is 392,000. Insured unemployment, which consists of all persons filing continued claims, including those waiting, disqualified or charged to other states, fluctuates between 3.3 to 5.7 percent of covered employment. Unemployment actually compensable averages 3.1 percent of covered employment.

In this period, the union holds a good bargaining position, though some resistance to wage demands is encountered. Average weekly wages are assumed to increase from \$77.88 in 1960, the year prior to the start of the decade, to \$106.50 in 1970, the year at the close of the period. Average taxable wages rise, but to a much smaller degree as a result of

⁷Oklahoma Employment Security Commission, Annual Report to The Governor, 1959, p. 15.

limitation of \$3,000 tax base. The average for the period is \$54.84. When these figures are applied to the assumed covered employment, total covered wages increases from the actual figure of \$1,635,000,000 in 1960 to \$2,348,000,000 in 1970. The average for the decade is put at \$1,967,000,000. Total taxable wages for the same years are \$1,041,000,000 and \$1,237,000,000 while the average for the era is \$1,118,000,000.

Favorable Business Conditions

A period of favorable business conditions presumes the existence of a generally high national level of economic activity throughout the decade. Some fluctuations occur in the level of activity, but no pronounced recession appears. The annual rate of growth is assumed to average approximately 5 percent;⁸ the economy is operating within the full-employment range with perhaps 3-6 percent of its resources unemployed.⁹ During the course of the decade Oklahoma is assumed to fare as well or better than most members of the union as a result of appearance of many new industries and expansion of the existing industries. Consequently the opportunities for employment are greatly increased.

The covered labor force increases by approximately 100,000 persons during the favorable period. Covered employment varies from a low of 365,000 persons to a high of 480,000 during the decade. It is assumed that there is a year to year increase in the size of the covered labor force, but that covered employment might decline in any given year.

⁸The Commission on Money and Credit, Money and Credit--Their Influence on Jobs, Price and Growth (Prentice-Hall Inc., Englewood Cliff, N.J. 1961) p. 31.

⁹Maurice W. Lee, Economic Fluctuations: Growth and Stability (Richard D. Irwin Inc., Homewood, Illinois, 1959) p. 400.

The rate of insured unemployment varies from 2.7 to 4.4 percent. Compensable unemployment averages 2.7 percent of covered employment. Under favorable business conditions, employers reluctantly yield to the organized effort for higher wages, and therefore average weekly wages increase more rapidly than during median conditions. Average wages range from \$84.50 in the year prior to the beginning of this era to approximately \$119.00 at the end of the period. Concurrently taxable wages increase from \$53.78 to \$56.88 while the average for the decade is \$55.32. Total covered wages increase from the actual figure of \$1,635,000,000 in 1960 to approximately \$2,977,000,000 in 1970. The average for the decade is \$2,291,000,000. Taxable wages for the same years is \$1,021,000,000 and approximately \$1,419,000,000 while the average for this period is \$1,219,000,000.

TABLE XIX

ECONOMIC ASSUMPTIONS OF EMPLOYMENT, UNEMPLOYMENT
AND WAGES IN FAVORABLE BUSINESS CONDITIONS

	Covered Employment	Rate of Insured Unemployment	Average Weekly Wages	Taxable Wages
High Year	480,000	4.4	\$119.50	\$1,419,000,000
Low Year	365,000	2.7	86.50	1,021,000,000
Average	424,000	3.4	103.92	1,219,000,000

Unfavorable Business Conditions

Under an assumption of unfavorable business conditions recession, depression, and revival may be expected. The national economy gradually abates from a moderate level to a low level of activity. This generally adverse cycle is the outgrowth of a number of factors occurring over a period of years. These include a gradual accumulation of inventories

to a high level, and increasingly severe competition in the domestic market by foreign producers. An easing of world tension, a consequent reduction in Federal government expenditures, and a decline in private expenditures for new plant and equipment worsen the business slump. During the unfavorable period, Oklahoma fares only as well or worse than the national average. In the late stage of the contraction, natural forces, augmented by extensive government measures, bring about a trend of revival for the State and the nation.

These unfavorable factors in this era curtail participation in the covered labor force of Oklahoma. During this decade, there is an increase of 25,000 persons. This sum is equal to about 30 percent of the numerical gain of the preceding decade. Covered employment drops from a high of 389,000 to a low of 350,000 persons. The average for this era is 370,000 persons. The estimates of covered employment, rate of unemployment, average and taxable wages for the high, low and average year of the unfavorable business conditions are listed in Table XX. Unemployment reaches a high of 11 percent of covered employment a few years after a low of 3.8 percent. The average for the entire period is 6.5 percent of covered employment. Compensable unemployment is 4.7 percent of the group during the era.

TABLE XX

ECONOMIC ASSUMPTIONS OF EMPLOYMENT, UNEMPLOYMENT
AND WAGES IN UNFAVORABLE BUSINESS CONDITIONS

	Covered Employment	Rate of Insured Unemployment	Average Weekly Wages	Taxable Wages
High Year	389,000	11.0	\$95.80	\$1,094,000,000
Low Year	350,000	3.8	84.20	979,000,000
Average	370,000	6.5	86.80	1,038,000,000

Under the assumption of unfavorable business conditions wage increases are limited to the more favorable years. For the most part, labor unions have little bargaining power, and resistance to wage increases is stronger. Nevertheless, weekly wages grow to \$95.80 while averaging \$86.80 for the full period. As a result, average taxable wages advance from \$53.78 in 1960 to \$54.08 in 1970 and average \$53.93 overall. Total taxable wages in this period do not increase substantially, but fluctuate sharply in relation to employment and wages. The highest annual total attained in the decade is \$1,094,000,000 while the lowest sum is \$979,000,000; the average for the era, \$1,038,000,000, is only slightly below the figure for 1960. Average covered wages are \$1,670,000,000 during this unfavorable period.

These assumptions are not designed to be definite predictions. However, they present a range of conditions which could possibly prevail in the next decade. All three of the economic patterns necessarily do not take into consideration the effects of possible extension of coverage to include additional groups of workers not now under the program. The extension of coverage to include two large groups, the employees of the firms having one to three employees and those persons working under state and local government, would greatly change the assumed estimates. These groups could be added at any time by federal or state legislative action.

Alternate Benefit Assumptions

In order to make any satisfactory estimate of future costs, it is necessary to consider many of the possible benefit formulas that would be adopted during the course of the next ten years. A benefit formula is mainly determined by three elements: (1) the maximum weekly benefit

amount and benefit fraction; (2) the maximum duration and duration fraction; and (3) wage qualifications. A change in any one of them would result in a different benefit formula. Before going into the various benefit formulas studied, it is necessary to define several of the factors that control benefit payments. These items are defined differently in various states. In Oklahoma they are as follows;

- a. Base period - The first four of the last five completed quarters prior to the date of the initial filing of a valid claim.
- b. High quarter - The calendar quarter of the claimant's base period in which he received the most wages.
- c. Benefit fraction - That fraction of a claimant's high quarter earnings he or she may receive in weekly benefits. Currently this is $1/26$ up to an amount not exceeding \$32.
- d. Duration fraction - That fraction of claimant's total base period wages that he or she may receive in a benefit year. Currently, this is $1/3$ not to exceed payment for 39 weeks.

Six different benefit plans were designed on the basis of historical evidence of the State program, the conclusions deriving from the comparison of current provisions of the State and the national average and the possible trend of the State economy. They are presented in the belief that they represent a large range of possible benefit costs likely to be encountered in the coming decade. In the six plans, there are 24 possible combinations of benefit formulas in conjunction with five separate periods of duration and three assumptions as to the level of business activity, favorable, median and unfavorable. This may result in 360 ($24 \times 5 \times 3$) different combinations of computations. For brevity, six representatives of these possibilities are presented in terms of percent of taxable wages in Table XXI.

The estimated benefit cost as a percent of taxable wages can be derived from the following formula:¹⁰

$$\frac{\text{Average compensable unemployment} \times \text{Average weekly benefit payment}}{\text{Average covered employment} \times \text{Average taxable weekly wages}} = \frac{\text{Cost of benefit}}{\text{Taxable wages}} = \text{Cost as a percent of taxable wages}$$

In addition, the computations are based on the following assumptions:

- a. Benefit plan number one is identical to the current benefit provisions. The average actual weekly benefit is assumed to be 80 percent of the maximum weekly benefit in median business conditions. 75 percent in favorable business conditions and 85 percent in unfavorable business conditions.
- b. The second benefit plan differs from the first to the extent that it changes the limitation on annual benefits by raising the fraction of base period wages from 1/3 to 1/2 for annual benefits. Therefore, actual weekly benefits as a percent of maximum weekly benefits are expected to rise to 81 percent, 76 percent and 86 percent in median, favorable and unfavorable business conditions respectively.
- c. The only difference in the third benefit plan from the previous two is that it provides for an uniform duration of 39 weekly payments. In other words the duration fraction as a limitation on annual benefits is completely eliminated.

¹⁰W. B. Jesse, op. ct., p. 13.

Therefore average actual weekly benefits as percent of maximum weekly benefits is further increased. It is assumed to be 81.5 percent, 76.5 percent and 86.5 percent in median, favorable and unfavorable business conditions respectively.

- d. Number four of the various possible plans presents a complete change in provisions for wages qualifications, weekly benefit amount and duration. All the changes except wage qualifications lead to the actual weekly benefits becoming a greater percentage of maximum weekly benefits. The increase in earning requirements from \$300 and $1\frac{1}{2}$ times high quarter wages to \$450 and $1\frac{1}{2}$ times high quarter wages makes this percentage smaller owing to its effect of eliminating many claims with little permanent attachment to the labor force. This includes some workers with highly seasonal occupations of short duration. The net effect, as a result of the operation of the two opposing forces, is expected to be a reduction in the percentage that average actual weekly benefits are of maximum weekly benefits. It is assumed to be 70 percent, 65 percent and 75 percent in median, favorable and unfavorable business conditions respectively.
- e. In the fifth plan the wage qualification is set at \$400 and $1\frac{1}{2}$ times high quarter earnings, the maximum duration of benefits is put at a uniform 42 weeks, and the maximum weekly benefit amount is put at \$45. For these reasons, average actual weekly benefits as a percentage of maximum

weekly benefits are assumed to be 76%, 71% and 81% in median, favorable, and unfavorable business conditions respectively.

- f. The final plan is identical to the current one in all particulars except the increase in maximum weekly benefit amount from \$32 to \$55. The average actual weekly benefit as a percent of maximum weekly benefit is assumed to be the same as under the current formula, namely 80 percent, 75 percent and 85 percent in median, favorable and unfavorable business conditions respectively.

These estimates of cost as a percent of taxable wages deriving from these assumptions listed in Table XXI may be compared to the actual figures in Oklahoma during the period, 1951-1960 (refer to Table XV). These cost estimates, especially for median business conditions, seem reasonable when compared to actual experience.

TABLE XXI

SELECTED ALTERNATE BENEFIT ASSUMPTIONS AND THEIR COST
AS A PERCENT OF TAXABLE WAGES

Benefit Plan Number	Wage Requirements	Weekly Benefit Amount		Duration		Benefit Cost as a Percent of Taxable Wages		
		Fraction of High Quarter Earnings	Maximum Weekly Benefit Amount	Fraction of Base Period Wages	Maximum in Weeks	Median Business Conditions	Favorable Business Conditions	Unfavorable Business Conditions
1	\$300 and $1\frac{1}{2}$ x high quarter wages	1/26	\$32	1/3	39	1.46	1.17	2.28
2	\$300 and $1\frac{1}{2}$ x high quarter wages	1/26	32	1/2	39	1.48	1.16	2.40
3	\$300 and $1\frac{1}{2}$ x high quarter wages	1/26	32	Uniform	39	1.49	1.20	2.41
4	\$450 and $1\frac{1}{2}$ x high quarter wages	1/20	35	1/3	42	1.35	1.11	1.91
5	\$400 and $1\frac{1}{2}$ x high quarter wages	1/20	45	Uniform	42	1.95	1.56	3.18
6	\$300 and $1\frac{1}{2}$ x high quarter wages	1/26	55	1/3	39	2.51	2.01	4.07

Forecast of Benefit Costs

The ten-year costs for 1961-1970 can be computed for the current and possible alternate benefit plans from the following formula:

$$\text{Compensable unemployment} \times \text{Average weekly payment} \times 52 \text{ (weeks)} \\ \times 10 \text{ (years)} = \text{Ten year cost.}$$

Table XXII indicates the six plans, the costs of each, and the amount and percent of change from the existing provisions for the median business conditions.

TABLE XXII
ESTIMATED COST OF SELECTED ALTERNATE
BENEFIT ASSUMPTIONS UNDER MEDIAN
ECONOMIC CONDITIONS

Benefit Plan Number	Estimated Ten Year Cost 1961-1970	Percent of Change From Plan 1	Estimated Dollar Change From Plan 1
1	\$163,099,000	--	--
2	165,137,000	+ 1.2	+ 2,038,000
3	166,157,000	+ 1.9	+ 3,058,000
4	156,091,000	- 4.3	- 7,008,000
5	217,889,000	+ 33.0	+ 54,790,000
6	280,326,000	+ 72.5	+ 117,227,000

The cost estimates are presented in terms of a ten-year period. This is a necessary result of the inadvisability of attempting to differentiate between individual years. In addition, it seems advisable to make a comparison of current and alternate formulas.

For the decade ending in 1970 the cost of current provisions is estimated to be approximately \$163,000,000. Benefit formula number four of various possible plans is the least costly of the possibilities considered. It yields a ten-year saving of about \$7,000,000 when compared to the current

provisions, and reduces costs 4.3 percent. This stems from the increase in wage qualifications to \$450 and base period wage equal to $1\frac{1}{2}$ times high quarter wages. Both benefit formulas two and three have a cost slightly above, 1.2 percent and 1.9 percent respectively, that of existing provisions. This dollar increase of these two plans, if adopted, approximates \$2,000,000 and \$3,100,000 in a decade, respectively. These slight increases in costs result from the change in the limitation to the fraction of base period wages from $\frac{1}{3}$ to $\frac{1}{2}$ and to uniform duration of 39 weeks respectively.

Plan number five has stipulations which advance costs to a point well above those of present provisions despite the increase in wage qualifications to \$400 and base period wages equal to $1\frac{1}{2}$ times high quarter wages. These stipulations include the grant of a maximum weekly benefit amount of \$45 for a uniform period of 42 weeks. As a result, this plan increases expenditure by approximately \$5,500,000 annually, and by 33 percent when compared to those of the current provisions.

The provisions in the final plan are identical to the current provisions except that the maximum weekly benefit amount is increased to \$55. This makes this plan the most expensive of these six possible plans. This plan requires an expenditure approximately \$117,000,000, or 72.5 percent, above that of the present formula.

All cost estimates of the various possible plans indicate an upward trend during the decade 1961-1970. The total costs for the period, 1951-1960 amounted to \$113,350,000 as seen in Table X. As compared to this actual figure, the estimated costs under the least costly plan (number four) and the most expensive plan (number six) increase by \$42,741,000 or 38 percent and by \$166,976,000 or 147 percent respectively.

* * * * *

A number of estimates for benefit costs in the coming decade corresponding to the various alternate provisions applied to the median business conditions have been studied. Although the plans presented heretofore are only a small portion of the almost unlimited number that might be proposed, they are considered to be indicative of the most likely possibilities. The following chapter deals with a principal problem involved in financing: the determination of what constitutes an adequate trust fund. Measures for maintaining an adequate trust fund, which were adopted by the State in 1959, are presented. In addition, the position of the State fund will be indicated when some of cost data developed in this chapter are applied under a new tax structure in various conditions.

CHAPTER V

ADEQUACY OF THE OKLAHOMA TRUST FUND

This chapter deals with three topics, as follows: (1) criteria of fund adequacy, (2) measures for maintaining an adequate fund in Oklahoma, and (3) evaluation of the current and future trends of the State fund.

Criteria of Fund Adequacy

An analysis of the adequacy of reserves may be approached from a multitude of directions. Generally there are three types of measures: (1) A certain dollar amount is adopted as being the minimum adequate point. One major drawback of this type of standard is that it can hardly match the growth of potential liability, and therefore, with the passage of time it is likely to become unrealistic. (2) A given ratio of trust fund balance to taxable wages may be used. This type of measure has long been regarded as an excellent criterion. However, it is limited by the current ceiling on taxable wages of \$3,000 for each employee, per employer, per year, and it becomes less indicative while there is a steady gain in average wages. (3) The minimum adequate point may be set at a certain multiple of the cost of benefits for a definite past period. This measure is free from the demerits mentioned above, and it is a currently accepted criterion.

criterion.¹

However, the last type of criterion, like any measure for fund adequacy, is somewhat arbitrary in nature. Nevertheless, a commonly accepted standard is that an unemployment insurance trust fund should at all times be sufficient to meet two years of benefit costs for any type of business conditions that might prevail.² This is necessary in order to greatly reduce the possibility of exhaustion of reserves and avoid the necessity of increasing taxes in the midst of an unfavorable period. Since the amount of potential liability is continually growing, the measure of a satisfactory fund should be tied to a factor that reflects a similarly growing trend.

One method of doing this is to define the minimum adequate fund as a multiple of average past five-year costs. For any given year the minimum acceptable amount for the trust fund can be derived from a multiple of the moving average of the previous five-year costs. The selection of average past five-year costs is based on two considerations: (1) A five-year period appears sufficient to remain in close enough proximity to the year considered, and to be of adequate duration; (2) excessive emphasis upon one or two particularly favorable or adverse years can be eliminated. However, if a number of similar years occurs in succession, the standard will be affected. This likelihood is small, but can not be totally dismissed.

For example, Oklahoma's experience for the five-year period, 1956-1960,

¹John G. Turnbull, C. Arthur Williams, Jr. and Earl F. Cheit, Economic and Social Security (the Ronald Press Co., N. Y. 1962). p. 216.

²J. G. Turnbull etc. put it in this way: "The fund should be between one and one-half and two times the largest amount of benefits paid in any previous twelve-month period." op. ct., p. 216.

shows that the sum of benefit costs of the highest two years was equal to nearly three times the annual average disbursement. This amounted to an expenditure of about \$37,223,000 for the two highest benefit years, against about \$43,425,000 for three years at the average outlay. (Refer to Table X.). From these figures it can be determined that the balance of the fund should be approximately three times the average annual cost of the past five years in order to equal the outlay of two adverse years. However, a measure set at this point is risky because (1) it does not appear to grant sufficient margin for a series of bad years and (2) no allowance is made for changes in laws or other factors that may cause a rapid increase in cost. For these reasons the State has adopted a relatively safe formula that the reserve fund should be maintained at the level of 3.5 times average cost of the past five years. A more detailed discussion of this follows.

Measures for Maintaining An Adequate Trust Fund in Oklahoma

Before dealing with measures for maintaining the adequate fund in Oklahoma, some recounting of the past trends of the State fund and its relationships are necessary.

The Past Trends of the State Fund

In Chapter II, it was indicated that the trust fund was constantly declining in relation to both taxable wages and costs. This happened despite the fact that the reserve gradually increased in amount through 1953. More recently the fund has been falling in total as well as in the more relative measures. At the close of 1960, the reserve balance was approximately \$37,000,000. This was a drop of about \$19,000,000 or 34 percent

from the high point attained in 1953. In relation to cost the fund was equal to 7.48 times annual payments in 1947. Thirteen years later, in 1960, this factor had dropped to 2.08. Expressed as a multiple of average previous five-year benefits, the fund in 1960 was equal to 2.56 times the average annual expenditure of the period, 1956-1960.

Two elements, the tax rate structure and employers' eligibility for experience rating, are largely responsible for the continuing decline in the relative status of the fund and in the more recently developing drop in dollar amount. Under experience rating, the trend of tax rates has been downward. Further, the reduction in the qualification period for new firms since 1955, from three years to one year of benefit experience before becoming qualified to receive contribution rates below the maximum of 2.7 percent of taxable wages, has added a force, though comparatively weak, in accelerating the downward trend of the tax rates. Thus the entire tax rate structure has been set at too low a level relative to the cost level.

Theoretically the tax rate should at least equal the cost rate since both cost and taxes are referred to as a percent of taxable wages; actually the contribution rate should be slightly higher to allow for the steady advance in potential liability. Unfortunately, however, in recent years the cost rate has exceeded the tax rate. The result has been an under-collection of funds despite the appearance of two counterbalancing factors: (1) The establishment each year of new firms not yet qualified for experience rating; and (2) the increase in taxable wages. The second factor is becoming less of an advantage due to the limitation of tax base to \$3,000. The ceiling is causing revenue to lag progressively further behind the steady increase in potential benefit costs.

These considerations indicated to the legislature that the long

range trend of the trust fund balance would be downward owing to the low level of the tax rate structure relative to the cost level. Therefore what was needed was an adjustment of the entire tax rate structure upward. This in effect was provided for by the amendments adopted by the legislation of July, 1959.

Measures for Maintaining an Adequate Fund in Oklahoma

Generally, there are three alternatives open in order to keep the fund at a given level: (1) Benefits may be cut. Actually this can hardly be done; on the contrary, an increase in benefits can be forecast for the future. (2) Interest-free loans may be secured from the Federal Unemployment Account. But this merely serves as a temporary measure rather than a constructive solution; also it is subject to some legal and actual limits. (3) The tax rate may be increased. This method seems most desirable and workable at this time.³

In order to halt the downward trend of the State fund, the State in July, 1959, adopted the last alternative. The stated objective was to keep the fund at around the level of 3.5 times average annual cost of the past five years. This new formula for financing the State fund within the limits of a tax rate of 2.7 percent was passed by the 27th legislature. In June 1961, the 28th legislature added a provision that the upward adjustment of the tax rate of any one employer shall be limited to 1% per year to a maximum of 2.7%. The essence of the new provision may be stated as follows: 0.1 percent of the total cost of the fund shall be added to the benefit if the fund at the end of the previous year is less than 3.5 times, but not less than 3.0 times average cost of the past five years,

³John G. Turnbull etc., op. cit., p. 217.

tax rates shall increase by 0.2 percent for all rated employers except those having no benefit wages.

b. If the fund at the end of the previous year is less than 3 times, but not less than $2\frac{1}{2}$ times average cost of the past five years, the rate shall increase by:

- (1) 0.2 percent for rated employers with benefit wage ratio less than 1.0 percent; no increase for those having no benefit wages;
- (2) 0.4 percent for all employers with benefit wage ratio of 1.0 percent or more.

c. If the fund at the end of the previous year is less than $2\frac{1}{2}$ times, but not less than 2 times average cost of the past five years, the tax rate shall increase by:

- (1) 0.2 percent for employers having no benefit wages;
- (2) 0.4 percent for employers with benefit wage ratio of less than 1.0 percent;
- (3) 0.6 percent for employers with benefit wage ratio of 1.0 percent or more.

d. If the fund at the end of the previous year is less than 2 times average cost of the past five years, all tax rates shall be set at 2.7 percent of taxable wages. However, the tax rate of each employer shall not be increased by more than 1% per year until 2.7 rate is reached.

One major merit of the supplementary tax system lies in its flexibility and its adaptability to various possible conditions. The possible effects of these new tax rate provisos upon the State fund are investigated in the section which follows.

⁴Session Law of Oklahoma, 1961, p. 284.

Evaluation of the Current and Future Trends
of The State Fund

The adequacy of the State fund is indicated when its current and future trends are evaluated.

Table XXIII gives the estimates of ten-year receipts and expenditures under the new tax rate structure and the current benefit provisions for each of the assumed business conditions, median, favorable and unfavorable. In addition, the table shows the projected balance of the fund at the close of the period for each assumption.

The estimated figures of benefit payments are derived from the formula mentioned in Chapter IV (p. 65). The estimates of revenues, in the event of no necessity for imposing the added tax rates, are based on the assumptions that total revenues are set at 1.2 percent, 1.0 percent and 1.3 percent of taxable wages in median, favorable and unfavorable business conditions respectively. These assumptions are derived from two facts: (1) the actual average of this percentage was 1.14 percent for the period, 1951-1960 (based on data in Table IX, column 6); (2) the experience rating system has resulted in a cutting of taxes when employment is high and in raising rates when unemployment is heavy.⁵

However, the actual situation of the State fund in recent years indicates a case for the implementation of the new tax stipulations in future years and therefore additional assumptions are needed for the estimates of revenues of the State fund corresponding to the various stipulations for tax rates.

⁵Eveline M. Burns, Social Security and Public Policy, (McGraw-Hill Book Co., Inc., N. Y. 1956) pp. 170 and 209.

Under favorable business conditions, free of adverse years, these new stipulations for increasing tax rates are not expected to be necessary. But in the event of some adverse years during generally favorable business conditions, at least occasional implementation of stipulation (a) or (b) would be necessary. Under stipulations (a) and (b) the average tax rate is estimated to increase by 0.18 percent and 0.32 percent of taxable wages respectively. It is assumed, under favorable business conditions during the decade, 1961-1970, that the tax rate is increased by .25 percent of taxable wages, an average of the two increases under stipulation (a) and (b).

Under median business conditions, the State fund is expected to be in the situation stated by stipulation (b) or (c). Under (b) and (c), the average tax rate is estimated to increase by 0.32 and 0.50 percent respectively of taxable wages. An average increase of the two rates, 0.41 percent of taxable wages, is expected under the median business conditions during the coming decade.

The existence of unfavorable business conditions calls for the implementation of the stipulation (d), which sets each employer's actual rate to be his earned experience rate per year plus 1.0 percent, to a maximum of 2.7 percent of taxable wages. The amount of advance resulting from the implementation of the last step varies with the difference between the rate existing at the time the increase is invoked and the maximum of 2.7 percent of taxable wages. It is estimated that in the most unfavorable business conditions this would approximate a gain of 0.80 percent of taxable wages.

Thus through the two sets of assumptions mentioned above (one set of assumptions postulating no necessity for imposing added tax rates, and the other set of assumptions postulating the implementation of the new tax

rate stipulations), the average tax rate is set at 1.61 percent, 1.25 percent and 2.1 percent of taxable wages in median, favorable, and unfavorable business conditions⁶ respectively.

As shown in the table, revenues in median business conditions are expected to exceed the cost of benefits by \$16,889,000, and the balance of the fund is expected to increase to \$51,887,000 at the close of the decade, 1961-1970. This sum would be equal to 4.64 percent of the estimated taxable wages for the final year and equal to 3.14 times the average cost of the preceding five years. These estimates compare with figures existing at the start of the period of 3.56 and 2.56 times respectively.

The assumption of favorable business conditions gives a smaller difference between revenues and expenditures. The difference is estimated to be about \$9,504,000 and the balance of fund increases to about \$44,502,000. This balance is equal to 3.66 percent of taxable wages at the termination of the decade and 3.21 times the average cost of the previous five years.

In the event unfavorable conditions prevail during the decade, 1961-1970, there will exist an excess of benefit payments over revenues of approximately \$18,629,000. This reduces the State fund by about 50% from the current balance in 1960, to approximately \$18,369,000. This sum is equal to 1.77 percent of taxable wages, a much smaller percentage than those under the other two possible conditions. As a multiple of the average cost of the past five years, the State fund reduces to a lower

⁶According to the official estimate, the average tax rate in 1962 is expected to be between 1.8 and 1.9 percent. Annual Report to the Governor 1961. (Oklahoma Employment Security Commission) p. 27.

level, 1.29 times.⁷

Three things should be pointed out: (1) In the three projected conditions, the fund as a percent of taxable wages fluctuated from 1.77 to 4.64 percent while the fund as a multiple of the average cost of the past five years ranges more narrowly from 1.29⁸ to 3.21 times. Moreover, the former under favorable conditions is much below that under median conditions whereas the latter takes a reverse position, remaining at almost the same level of around 3.2 times under these two projected conditions. This strengthens the earlier statement that the more acceptable criterion for fund adequacy is the fund as a multiple of the average cost of the past five years. (2) Under each one of the first two assumptions as to business conditions, stipulation (a), namely the tax rate shall increase by 0.2 percent for all rated employers except those having no benefit wages, appears to be required. (3) Even after suffering from an absorption of a succession of adverse business conditions, the State fund will remain solvent, though in a weak position. This indicates that the change in the tax rate structure made in 1959 was necessary and sufficient to insure the adequacy of the State fund under most foreseeable conditions, but that the change made in 1961 might weaken the position of the fund, especially in the event of a series of bad years.

⁷One other observation may be made at this point. This concerns the wisdom of the experience rating device, especially in connection with unfavorable business conditions. As noted above, unfavorable conditions would likely lead to the implementation of stipulation (d) providing for a uniform tax rate of 2.7% of taxable wages. Thus the highest tax rate would occur during the most depressed economic conditions, an arrangement exactly contrary to the principles of compensatory fiscal policy. Arguments for and against the experience rating device were considered to be beyond the scope of this thesis.

⁸This multiple in 1961 was 1.82 times. Annual Report to the Governor, 1961. (Oklahoma Employment Security Commission) p. 27.

TABLE XXIII

PROJECTED FUND BALANCE UNDER CURRENT PROVISIONS FOR
VARIOUS ECONOMIC CONDITIONS, 1961-1970

Business Conditions	Ten Year Benefit Cost	Ten Year Receipts	Variance Between Cost and Receipts	Balance in Fund at Close of Period	Fund as a Percent of Taxable Wages		Fund as Multiple of Average Five Year Cost	
					Start of Period	End of Period	Start of Period	End of Period
Median	\$163,099,000	\$179,998,000	\$16,889,000	\$51,887,000	3.56	4.64	2.56	3.14
Favorable	142,871,000	152,375,000	9,504,000	44,502,000	3.56	3.66	2.56	3.21
Unfavorable	236,609,000	217,980,000	-18,629,000	18,369,000	3.56	1.77	2.56	1.29

CHAPTER VI

SUMMARY AND CONCLUSIONS

It is now appropriate to present an overall summary of the entire study. The first chapter presents the importance of the unemployment compensation program, defines the purpose and scope of the thesis, and introduces the method and organization of the study.

Unemployment compensation in the United States, as Dr. Witte once pointed out, is "a historical product", and "an accepted part of American way of life", but "still needs to improve to realize its fullest possibility". The maintenance and improvement of the program as presently constituted, depends on the adequacy of the trust fund, which is financed from earmarked taxes or contributions paid by employers, and which provides the source of funds for benefits paid to the eligible unemployed.

The status of the Oklahoma unemployment compensation trust fund has gradually deteriorated in recent years. In 1960 the State trust fund reached a position so unfavorable that it was deemed necessary to make a major change in the tax rate structure. This change was made in July 1959.

The purpose of this thesis was to explain the necessity of these tax changes through three channels: (1) by tracing the financial development of the State unemployment insurance program; (2) by comparing the financial position in Oklahoma with the national average; and (3) by estimating the long range trend of the State fund through the forecast of costs and revenues.

In analyzing the background data bearing on the financial status of unemployment insurance in Oklahoma, it was pointed out in Chapter II that the relative position of the trust fund in Oklahoma has declined in respect to taxable wages, potential liability and actual cost, despite many changes in the State unemployment compensation act. This stemmed from two facts: (1) the decline of tax rates resulting from the operation of experience rating. During the period, 1939-1960, the average tax rate decreased from a high of 2.7 percent to a low of 0.81 percent of taxable wages. In recent years it was kept at about 1.0 percent of taxable wages; (2) the increase in benefit costs due to the rapid rise in number of covered workers eligible for benefits.

In making the financial contrast between Oklahoma and national unemployment experience, several points were found in Chapter III: (1) Three significant measures--cost rate, contribution rate, and the fund as a percent of taxable wages, both in Oklahoma and in the nation, have shown a generally downward trend; however, Oklahoma's program has been somewhat underfinanced relative to the national average. (2) In 1960 Oklahoma held an inferior position relative to the national average for both funds available as a percent of taxable wages and funds available as a multiple of benefits paid, though the State compared favorably in some respects. Ending December 31, 1960, the trust fund in Oklahoma equaled 3.56 percent of taxable wages, whereas the national average was 5.57 percent. Concurrently, funds available in the State equaled 2.08 times disbursements in 1960 compared to the national multiple 2.44.

Based on three sets of assumptions of prospective business conditions and on assumptions of other newly developing or empirical factors considered relevant to future State conditions, estimates of the cost of benefits in

the State during the current decade made in Chapter IV. Three alternative economic patterns, median, favorable, and unfavorable, were projected. Six alternate formulas of benefit were selected from 360 different combinations of possibilities.

The cost estimates for the six representatives of benefit formulas were presented in terms of a ten-year period under median business conditions, which are expected to most likely prevail in the coming decade. Benefit formula number 1 is a statement of the current Oklahoma provisions. Assuming that these provisions remain in effect, the ten-year costs ending in 1970 were estimated to be approximately \$163,000,000. Among the various possible plans, benefit formula number four is the least costly; the final plan is the most costly. As compared to the estimated costs under the current provisions, the plan number four reduces costs by 4.3 percent, whereas plan number six increases expenditures by 72.5 percent.

All cost estimates of the various possible plans indicate an upward trend during the decade 1961-1970 as compared to the actual figures in the period 1951-1960. The estimated expenditures increase by 38 percent under the least costly plan (No. 4) and by 147 percent under the most expensive plan (No. 6).

All events considered in Chapter II through V gave evidence of a need for remedial legislation in order to preclude the exhaustion of the State fund.

A measure for maintaining the adequacy of the State fund was adopted by the State in July 1959. This measure specified certain stipulations providing for conditional tax rate increases. (These tax rate changes, as well as a discussion of various criteria for fund adequacy, are presented in Chapter V). These stipulations provide for increases in the

rates of most, in some case all, covered employers when the fund falls below a certain level. The degree of increase in tax rates depends on the level of the fund existing at the end of the previous year. A minimum level for fund adequacy in Oklahoma is set at 3.5 times average cost of the past five years.

In the evaluation of the current and future trends of the State fund under the new tax rate structure and the current benefit provisions for each of the assumed conditions, median, favorable and unfavorable, it was found that, under the first two business conditions, the fund as a multiple of the average cost of the past five years may be expected to remain at a level in excess of 3.0 at the end of 1970. However, under unfavorable conditions, this multiple reduces to a level of 1.30. This indicates that the change in the tax rate structure made in 1959 was necessary and sufficient to insure the adequacy of the State fund under most foreseeable conditions, but that the change made in 1961 might weaken the position of the fund, especially in the event of a series of bad years.

In short, the tax changes made in 1959 and 1961 are sufficient to protect the adequacy of the State fund under median and favorable conditions. The change made in 1961, however, may weaken the position of the State fund in the event of unfavorable business conditions, but not to such an extent that the solvency of the trust fund is beyond control. In addition, median business conditions, rather than unfavorable business conditions, appear to be more likely to prevail in the coming decade. Therefore, it appears safe to conclude that, for the future, these tax changes should protect the solvency of the State fund so that the State program might be improved to realize its "full possibility".

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