

A STUDY OF TEMPORARY EXTENDED BENEFITS,
UNDER THE UNEMPLOYMENT
INSURANCE PROGRAM

By

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CHAPTER I

INTRODUCTION

Economic insecurity is a problem in any economic system. However, this problem becomes magnified in the capitalist order where periodic business recessions occur. Because of these recessions, severe hardships are placed on the worker whose sole means of livelihood is derived from employment in the industrial complex.

During times of prosperity, most people will be employed. The problem of economic insecurity remains, however, for those few who are unemployed. Furthermore, when the industrial complex, because of a general economic downturn, cannot provide employment for a large majority of those actively seeking work, the insecurity problem becomes greatly magnified.

There are two basic solutions to the problem. The first "solution", which has been proposed by a few, is to change the type of economic system. Since this action is highly impractical, the alternate solution has been to try to solve the problem within the existing social and economic framework and, at the same time, to try to make the solution compatible with the objectives of the existing system.

The American solution has been unemployment insurance. This plan, generally, meets the criteria outlined above. We can formulate broad principles upon which the program should rest. But these principles, like all other things, are subject to change. We expect certain results

from programs designed to alleviate a specific problem. Do they achieve their objectives?

In 1958 and, again, in 1961, the Federal Government was of the belief that the unemployment insurance system was not achieving its objectives during recessionary periods. The result of this thinking was the passage of two acts, the Temporary Unemployment Compensation Act of 1958 and the Temporary Extended Unemployment Compensation Act of 1961, designed to relieve the problem of a high number of workers exhausting unemployment insurance benefits.

The purpose of this thesis is twofold. The first purpose is to examine the two temporary acts, given that they were necessary, and come to a conclusion as to which act was the most effective in terms of benefits paid, coverage, financing, and other related factors.

The second purpose is to expose the ideas of different people and groups concerning the temporary extension of benefits. Do temporary extensions conform to generally accepted concepts of unemployment insurance? Does the extension of benefits turn the unemployment insurance program into a relief measure?

In Chapter II, a brief sketch of the rise of the unemployment insurance concept in the United States is presented. The latter part of Chapter II is concerned with the main provisions of the Federal Social Security Act of 1935 and the manner in which States have developed their own unemployment insurance laws. In summary, some of the principles and characteristics that have developed as a result of our particular social insurance program will be discussed.

Benefit duration provisions of State unemployment insurance laws are discussed in the first part of Chapter III. The last part of

Chapter III is devoted to a discussion of whether extended benefits violate the unemployment insurance concept.

Both the Temporary Unemployment Compensation Act of 1958 and the Temporary Extended Unemployment Compensation Act of 1961 are reviewed in Chapter IV. The economic factors leading up to the two acts, the provisions of the acts, and the results of the two temporary measures are investigated. Finally, the TUC Act and the TEUC Act are compared as to their relative effectiveness in combating the problem for which they were designed.

Chapter V presents the various arguments of pressure groups for and against either the proposed measures in their entirety or various provisions of the proposed legislation. Chapter VI presents the conclusions derived from this paper.

CHAPTER II

UNEMPLOYMENT INSURANCE IN THE UNITED STATES

Development of the Unemployment Insurance Concept

The problem of economic insecurity resulting from unemployment was largely unrecognized in the United States until 1930. For almost 300 years, from 1600 to 1890, "unemployment was in this country regarded as a problem of poverty and poor relief."¹ Even after 1890, and up until the time of the great depression, "unemployment insurance was definitely in an academic or discussion stage."² However, the severity of the great depression in 1929 awakened responsible people to the need for a more sophisticated approach to the unemployment problem.

A discussion of the evolution of the unemployment insurance concept will necessarily involve a summary of early relief measures, although these early measures did not deal specifically with the unemployment problem alone.

Social thought concerning the victims of poverty in the United States was largely influenced by English custom and practice. Principles established by the (English) Elizabethan Poor Law of 1601 were largely

¹Domenico Gagliardo, American Social Insurance (2d. ed. rev.; New York: Harper and Brothers Publishers, 1955), p. 226.

²Earl E. Muntz, Growth and Trends in Social Security (New York: National Industrial Conference Board, Inc., 1949), p. 10.

carried over to the American Colonies. By today's standards, these principles are the very antithesis of desired goals in present relief measures. Friedlander describes the colonial system in the following way:

Every town made provisions for the maintenance of the poor, supplying food, clothing, firewood, and household essentials. They [the recipients of relief] had to be residents for a statutory period, varying between three months and five years. Following English tradition, newcomers often were "warned out," that is, ordered to leave the community unless they could provide security by bond of a resident in good standing. If members of such a family were found begging, they were whipped in the market place and forcibly returned to their former residence . . .

Poor relief was given mainly in two forms: (1) either as "outdoor relief" in kind (food, clothes, fuel), or (2) by "farming out" or "selling out" the pauper to the lowest bidder . . .³

The philosophy underlying this sort of thought was that the pauper was a "morally deficient" person--a person who had created his own poverty and who should be punished. Yet poor relief also implied a public acceptance of responsibility for the indigent, and a belief that the indigent should not be permitted to starve.

In addition to public relief on the part of towns and villages, other forms of relief were operative during the colonial period. Church charities, which provided relief for their own members, National Benevolent Societies formed by various nationality groups, and philanthropic associations for aiding special needy groups supplemented the public effort.⁴

These same general principles continued to influence American thought down to the 1930's, although this is perhaps not surprising.

³Walter A. Friedlander, Introduction to Social Welfare (Englewood Cliffs: Prentice-Hall Inc., 1961), p. 68.

⁴Ibid., p. 70.

American independence was hard won. The expansion of new frontiers and the hardship of early American life bred a national sense of self-reliance. Basic to the American philosophy was that an individual is responsible for his own prosperity. The unfortunate person who could not attain enough for subsistence was thought to be shiftless and lazy. Riches and wealth came only to the industrious.

However, it is misleading to infer that no action was taken to alleviate the problem of unemployment before 1930. Labor unions were not entirely inactive. In fact, "the earliest American efforts toward unemployment insurance were sporadic schemes by labor organizations to provide out-of-work benefits for their members from union funds."⁵ The earliest American example of a union paying out-of-work benefits dates back to 1831.⁶

The characteristics of these programs may be summarized as follows: (1) a minimum length of service was required as a condition of eligibility, (2) a waiting period must elapse before benefits could be drawn, (3) the amount of weekly benefits was stipulated with minimum and maximum rates specified, (4) the duration of benefits was strictly limited, and (5) some provision for management of the unemployment fund was made.⁷ All of these ideas were later incorporated in the Social Security Act of 1935.

Also, some interest in unemployment insurance was shown by various States. Several bills were introduced in the legislatures of Wisconsin,

⁵Muntz, Growth and Trends _____, p. 10.

⁶Gagliardo, American Social Insurance, p. 227.

⁷Muntz, Growth and Trends _____, p. 11.

California, Minnesota, New York, Pennsylvania, and Massachusetts, largely as a result of unemployment created by the depression of 1920. These bills were introduced throughout the 1920's and all failed to pass.⁸

Cyclical Fluctuations.--The philosophy described above was easier to justify before the industrial revolution. Before the early 1800's, American industry was in an infant stage. The primary source of employment was in the farming sector of the economy. "Until about the 1890's, free land was to be had for the claiming."⁹ Consequently, ours was an agrarian society with small towns and villages. This type of life not only strengthened personal ties within communities; it was conducive to strengthening family relations. A destitute person, either a member of the community or family group, could rely upon support from other group members. Self-sufficiency was less difficult in an agrarian society. The farm family could raise its own food, make its own clothes, and, if necessary, provide for less fortunate families or community members.

This way of life diminished in importance as industrialization began to spread. Migration from farm to city tended to loosen family ties. Service trades accompanied urbanization. More and more people became dependent on uncertain employment in the industrial complex while the growth of services replaced tasks which families formerly had done for themselves. The self-sufficiency of early American life gave way to

⁸Gagliardo, American Social Insurance, p. 230.

⁹U.S., Social Security Administration, Social Security in the United States, (1959), p. 2.

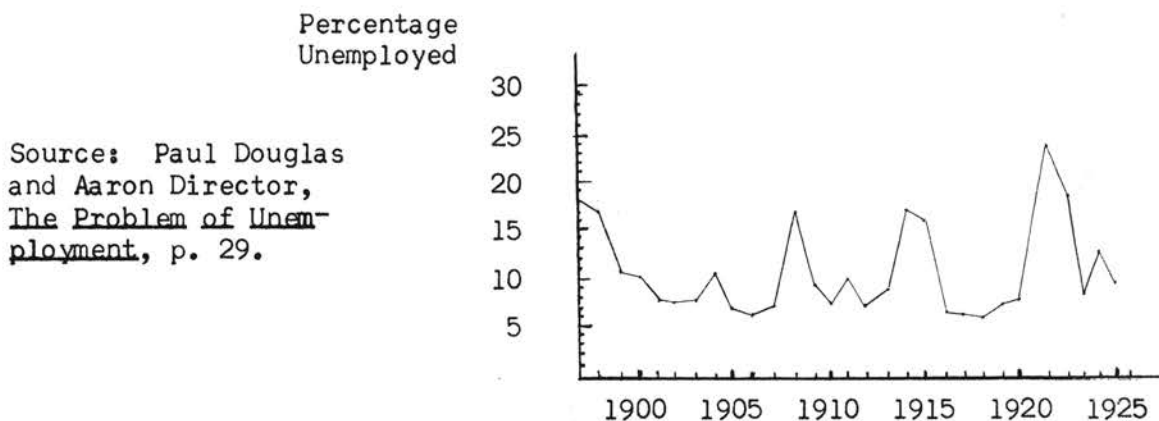
the increasing interdependence that characterizes our life today.

Concomitant with industrialization came the cyclical swings in business activity that are characteristic of the unregulated capitalist order. Periodic recessions caused the loss of income associated with involuntary unemployment. Paul Douglas is of the opinion that:

In an economy where each family or minute group consumed what it produced there would be little scope for such fluctuation but the case is otherwise in a society characterized by large scale enterprise, the division of labor, and extensive markets.¹⁰

These cyclical fluctuations are reflected in unemployment estimates prepared by Douglas for the years, 1897-1926. As shown in Figure 1,

Figure 1



severe increases in the unemployment rate were recorded for 1908, 1914-15, and 1921-22. Although this estimate does not cover all industrial employment categories, it should provide a picture of the fluctuations in unemployment.

We have seen that there was some thought concerning unemployment insurance before 1930. The discussion relating to such programs would

¹⁰Paul H. Douglas and Aaron Director, The Problem of Unemployment (New York: The MacMillan Company, 1931), p. 167.

reach its height during recessionary periods, and then the following prosperity would suddenly stifle the discussion as quickly as it had started.

The Depression of 1929.--All of the relevant economic indicators turned downward shortly before the stock market crash of 1929 or immediately thereafter. Gross National Product, as shown in Table 1, dropped

Table 1
SELECTED ECONOMIC INDICATORS, 1929-34

Indicator	1929	1930	1931	1932	1933	1934
Gross National Product (Billions)	104.4	91.1	76.3	58.5	56.0	65.0
Wage and Salary Dis- bursements (Billions)	50.4	46.2	39.1	30.5	29.0	33.7
Per Capita Disposable Income (Dollars)	682	604	514	390	364	411
Saving as a Percentage of Disposable Income	5.1	4.6	3.9	-1.2	-1.3	0.2
Corporate Profits Before Taxes and Inventory Val- uation Adjustment (Billions)	10.1	6.6	1.6	-2.0	-2.0	1.1
Rate of Unemployment	3.2	8.7	15.9	23.6	24.9	21.7
Average Weekly Hours Worked	44.2	42.1	40.5	38.3	38.1	34.6
Average Weekly Earnings (Dollars)	24.76	23.00	20.64	16.89	16.65	18.20

Source: Compiled from, U. S., Office of Statistical Standards, 1962 Supplement to Economic Indicators--Historical and Descriptive Background.

from 104.4 billion dollars in 1929 to 56.0 billion dollars in 1933--a decline of over 46 per cent. Over the same period of time, Per Capita Disposable Income declined 46 per cent while Wage and Salary Disbursements were down 42 per cent.

After 1929, unemployment rose rapidly and did not start to decline until 1934. During 1933, 24.9 per cent of the labor force was unemployed. It was not until 1941, when America entered World War II, that the rate fell below 10 per cent.

The increase in unemployment is vividly reflected in the Savings as a Percentage of Disposable Income figure. As unemployment mounted, more and more people had to rely on past savings, borrowing, and relief to survive. By 1932, the nation, in the aggregate, was spending more than its disposable personal income. Saving as a Percentage of Disposable Personal Income was -1.2 and -1.3 per cent in 1932 and 1933 respectively.

Also, savings, as a "cushion" against loss of income, was infringed upon by the severe losses taken in the stock market. Almost overnight, billions of dollars of "paper wealth" was destroyed by the decline in stock prices. Added to this misfortune was the failure of many banks and the subsequent defaults on demand deposits and savings accounts.

The wage earner was in a severe plight. Instead of getting better, business conditions continued their downward movement. For most wage and salaried people, their accumulated savings were not enough for any protracted period of unemployment. Not only were personal reserves inadequate, but the resources of local governments, kinship groups, and private charitable organizations were quickly exhausted.

As mentioned earlier, some workers were protected by various union, employer, and union-employer plans. However, the coverage was very

limited. "In 1934, about 100,000 workers were covered by trade union plans and about 65,000 by joint union-management plans . . . Another 70,000 were covered by voluntary company plans . . ." ¹¹ Compared to the number of workers unemployed during 1934 (11,340,000), those covered by these plans constituted only 2.07 per cent of the total unemployed.

Duration of Unemployment, 1929-33.--Perhaps the most vivid illustration of the hardship created by prolonged recessionary periods is found in data relating to the duration of unemployment among unemployed persons. As one might expect, duration of unemployment rises sharply during recessionary periods and then declines when business conditions improve.

Data from a Buffalo, New York survey show the trend in unemployment duration of males for the years, 1929-33. The two extreme length-of-duration classifications (Under Two Weeks and Fifty-two Weeks and Over) best portray the change that occurred from 1929 through 1933. In 1929, only 9.3 per cent of the unemployed were jobless 52 weeks or over. However, a steady increase was noted for each year until 68.2 per cent of unemployed persons had been jobless for one year or more in 1933. It is evident that as the depression progressed, a larger and larger proportion of the unemployed moved from the short-term unemployment category to the long-term category.

The severity of the depression again stimulated State interest in unemployment compensation. Numerous bills were presented to State legislatures in the 1930's. "In 1933, for example, 83 bills were introduced in 23 States but none was enacted." ¹² Bills had passed one house of the

¹¹U. S., Bureau of Employment Security, Employment Security Review, XXII (August, 1955), p. 5.

¹²Ibid., p. 6.

Table 2

DURATION OF UNEMPLOYMENT OF ALL MALES ABLE AND WILLING TO
WORK BUT UNABLE TO FIND JOBS, BUFFALO, NEW YORK, 1929-33

Duration of Unemployment	Per Cent of Unemployed				
	1929	1930	1931	1932	1933
Under Two Weeks	15.8	4.3	2.6	1.4	2.7
Two to Four Weeks	22.2	7.9	5.0	2.7	5.2
Four to Ten Weeks	30.4	21.0	12.7	6.3	10.1
Ten to Twenty Weeks	12.3	17.9	13.4	7.8	5.7
Twenty to Thirty Weeks	6.2	14.3	11.7	10.7	4.4
Thirty to Forty Weeks	3.1	7.9	6.4	5.9	2.3
Forty to Fifty-two Weeks	0.7	5.6	5.2	5.1	1.4
Fifty-two Weeks and Over	9.3	21.6	43.0	60.1	68.2

Source: U. S., Bureau of Labor Statistics, Monthly Labor Review, XXXVIII (1934), p. 526.

legislature in several States, but were defeated in the other house as a result of opposition on the part of employer groups. In their arguments, they maintained that the cost of unemployment insurance would be too high in the midst of the depression and that the increased costs would place them at a competitive disadvantage with employers of other States.¹³

These bills were proposed because of the depression. However, a precedent had been set. In January, 1932, the Wisconsin legislature enacted the first unemployment compensation law, largely through the efforts

¹³Ibid.

of Professor John R. Commons. It was not until 1935 that six other States, acting in anticipation of the Social Security Act, passed unemployment insurance laws.¹⁴

The Federal Social Security Act of 1935

Wisconsin paved the way for a more comprehensive approach to the unemployment problem via social insurance. The Federal Government became increasingly aware that the unemployment problem was national in scope and should be handled under the auspices of the central government.

In 1933, the Federal Emergency Relief Act was passed. This act provided the first direct Federal grants to States for unemployment relief. Later, in 1934, the Committee on Economic Security was created by the President to study problems and recommend legislation on economic security. The Committee reported on January 17, 1935 and, at that time, the Economic Security Bill was introduced. In April, the Economic Security Bill was replaced by the Social Security Bill. After passing both houses, the bill was signed into law by President Roosevelt on August 14, 1935.¹⁵ The Social Security Act was a measure:

To provide for the general welfare by establishing a system of Federal old-age benefits, and by enabling the several States to make more adequate provision for aged persons, blind persons, dependent and crippled children, maternal and child welfare, public health, and the administration of their unemployment compensation laws; to establish a Social Security Board; to raise revenue; and for other purposes.¹⁶

¹⁴Ibid.

¹⁵Social Security Administration, Social Security in the United States, p. 42.

¹⁶The above and summary of the Social Security Act that follows are taken, unless otherwise noted, from: U. S., Congress, Senate, Compilation of the Social Security Laws, 84th Cong., 2d Sess., 1957, Document 156.

We will be concerned solely with the unemployment insurance provisions.

The Federal-State Relationship.--The unemployment insurance provisions of the Social Security Act allowed considerably more latitude on the part of States than did other aspects of the program. Loose guidelines were established within which States could operate relatively unhampered.

An employer was defined as a person who employed eight or more workers on each of 20 or more days in the year, each day being in a different calendar week.¹⁷ However, certain classes of employees were not covered. Excluded from coverage were agricultural laborers; domestic servants; Federal, State, and local government employees; employees of non-profit, charitable, educational, literary, scientific, humane, or religious organizations; persons working for their son, daughter, or spouse; children under 21 years of age working for their father or mother; maritime workers; and other miscellaneous worker groups.¹⁸

Starting January 1, 1936, a tax of one per cent on the first \$3000 of an individual employee's wages was levied on all employers. This tax rate increased to two per cent in 1937, and was maintained at three per cent for years after 1937. However, a stimulus was provided to the States to enact individual unemployment insurance laws through the tax offset device. Employers could be exempt from 90 per cent of the Federal tax by paying unemployment taxes to the State government, providing the State had an approved unemployment insurance law.

¹⁷As of January 1, 1955, the number of employees was reduced from eight to four.

¹⁸Federal civilian employees, war veterans, and maritime workers are now covered under the law. These groups are subject to State regulations. However, States are reimbursed by the Federal Government for benefit costs paid to Federal civilian employees and war veterans.

Administrative expenses incurred on the part of States would be paid by the Federal Government out of the portion of the unemployment tax employers pay directly to the Federal Government. The amount of money allocated to each State for administrative expenses was determined by the Secretary of Labor and was based on the population of the State, an estimate of the covered employment in the State, and other relevant factors.

It is evident that a State would want to comply with the Federal law. In effect, if a State did not comply, all revenues collected from employers within the State would go into the Federal unemployment account. Consequently, no reciprocal benefits would accrue to a State without an unemployment insurance law.

The Federal law made compliance relatively easy. Several conditions were established for compliance. The State law was required to have provision for: (1) a method of benefit payment that was reasonably calculated to insure full payment of unemployment compensation when due, (2) payment of unemployment compensation solely through public employment offices, (3) opportunity for appeal by a person denied benefits, (4) a method whereby payments received in the unemployment fund of a State would immediately be paid to the credit of the Federal unemployment trust fund, (5) the expenditure of all money withdrawn from the unemployment fund solely for payments of unemployment compensation, exclusive of administrative expenses and erroneous credits and debits, and (6) non-denial of compensation to an otherwise eligible individual for refusing to accept new work if the position is vacant due directly to a strike, lockout, or other labor dispute, if the wages, hours, or other conditions of the work offered are substantially less favorable to the individual than those prevailing for similar work in the locality, and, if as a

condition of being employed, the individual would be required to join a company union or refrain from joining or resign from a bona fide labor union.

A trust fund known as the unemployment trust fund was established in the Treasury. All revenues collected by States in connection with their unemployment compensation laws are paid into the fund. However, the funds of each State are earmarked for payment of benefits within that State. Provision is made for the investment of "surplus" funds (funds over and above expected withdrawals) in interest-bearing securities of the Federal Government. Interest receipts accruing from this investment are allocated to State accounts on the basis of a State's average daily balance.

Also, a Federal unemployment account was established within the fund. The excess of Federal unemployment taxes collected over and above administrative expenditures are credited to this account.

As noted, States were required under law to transfer tax collections to their account in the Federal trust fund. Also, withdrawals are made only for the purpose of benefit payments. An arrangement such as this safeguarded the financial responsibility of such a system.

State Unemployment Insurance Laws¹⁹

Shortly before the Social Security Act was approved, six States, acting in anticipation of the Social Security Bill, passed unemployment

¹⁹The discussion of State unemployment insurance laws will tend to center around recent (as of January 1, 1962) provisions of these laws. Generally speaking, since the inception of these laws, provisions regarding coverage, benefit amounts, and benefit duration have been liberalized. Any discussion of trends in these, or other provisions in this chapter will be limited.

insurance laws. In 1936, the Wisconsin law was modified to fit into the Federal law. Also, the first unemployment benefit check was issued by Wisconsin on August 17, 1936. By July, 1937, all 48 States and the District of Columbia, Alaska, and Hawaii, had enacted unemployment laws conforming to the Federal code. By July, 1939, all of the above States were paying unemployment benefits.²⁰

The broad provisions of the Federal Social Security Act of 1935 have been outlined above. Within the framework of the Federal law, States maintain a high degree of autonomy. First, we will look at the general provisions of State laws and then inspect the principles that have evolved as a result of the American unemployment insurance system.

Coverage.--For purposes of Federal taxation, the Social Security Act specified that employers with eight or more employees on at least one day of each of 20 weeks would be subject to the unemployment tax. Later, in 1956, the number of employees was changed to four or more on at least one day of each of 20 weeks in a calendar year. State laws tend to follow the precedent set by the Federal Government. All States now have laws that provide for coverage of employers of four or more employees.²¹ Some States provide for coverage for firms with less than four employees. Twenty-eight States cover employers with four or more employees, four States specify coverage for firms with three or more employees, and 20 States cover employers with one or more employees.

The types of employment excluded from coverage under the Federal law

²⁰Bureau of Employment Security, Employment Security Review, (August, 1955), pp. 8-10.

²¹U. S., Bureau of Employment Security, Comparison of State Unemployment Insurance Laws as of January 1, 1962, (1962), p. 1.

are generally excluded by States. Agricultural labor is exempt in all States, except Hawaii and the District of Columbia, where agricultural employment on large farms is covered.²³ With the exception of New York, domestic servants are excluded from coverage. Also, most States do not cover employees of non-profit, humanitarian organizations.

Employees excluded from the original Social Security Act (Federal civilian employees, maritime workers, and war veterans), and later brought under the act, are also covered by the States. The Federal civilian employees and war veterans are subject to the provisions of the respective State laws. States are later reimbursed by the Federal Government for the cost of benefits paid to these groups.

Employees of State or local governments are now covered by 32 States. State and local government workers were excluded from coverage under the Social Security Act since the Federal Government cannot tax State or local governments or their instrumentalities.²⁴

Financing.--Trust fund arrangements and financing provisions of the Social Security Act have been discussed above.

The Federal Government, after 1937, taxed employers at the rate of three per cent on the first \$3000 earned by each employee. Employers, by contributing to the unemployment fund of a State with an approved unemployment insurance law, can be forgiven 90 per cent of the Federal tax. Therefore, employers are liable for Federal taxes amounting to

²³Bureau of Employment Security, Comparison of State , p. 9.

²⁴Ibid., p. 12.

0.3 per cent of their taxable payrolls.²⁵ Only three States require employee contributions.

The percentage of taxable payroll that an employer pays to a State fund varies with the employer's past employment record. Employers having a record of stable employment "earn" a lower contribution rate.²⁶

The range of minimum State contribution rates varies from 0.0 per cent to 1.5 per cent, while maximum State rates range from 2.7 per cent to 4.4 per cent. Over 1/2 the States have a minimum rate of either 0.0 per cent or 0.1 per cent. The most frequently occurring maximum rate is 2.7 per cent.²⁷ Average employer contribution rates as a percentage of taxable wages are shown in Table 3 for the years, 1938-59. Generally, there has been a gradual decline in the average rate since 1938. But since 1954, the trend appears to have been reversed and a gradual increase has set in.

Benefits.--No Federal standards were created for benefit amounts in the Social Security Act. As a result, States have developed their own formulas for computing benefits to be received by unemployed workers.

Nearly all States determine the weekly benefit amount by taking some fraction of the worker's high-quarter earnings in the base period. A base period is the 52 weeks preceding either application for or receipt

²⁵The Federal payroll tax increased to 0.4 per cent, effective January 1, 1961. A temporary increase to 0.8 per cent of taxable payroll is in effect for 1962 and 1963 as a result of financing the Temporary Extended Unemployment Compensation Act of 1961.

²⁶For a discussion of the various types of formulas used to compute the contribution rate, see: Bureau of Employment Security, Comparison of State _____, p. 22.

²⁷Bureau of Employment Security, Comparison of State _____, p. 22.

Table 3
 AVERAGE EMPLOYER CONTRIBUTION RATE AS A PERCENTAGE OF
 TAXABLE WAGES, NATIONAL AVERAGE, 1938-59

Year	Rate	Year	Rate	Year	Rate
1938	2.70	1946	1.43	1953	1.30
1939	2.72	1947	1.41	1954	1.12
1940	2.69	1948	1.24	1955	1.18
1941	2.58	1949	1.31	1956	1.32
1942	2.19	1950	1.50	1957	1.31
1943	2.09	1951	1.58	1958	1.32
1944	1.92	1952	1.45	1959	1.70
1945	1.70	----	----	----	----

Source: Bureau of Employment Security, Handbook of Unemployment Insurance Financial Data, 1938-61.

of benefits, depending on the respective State law.

To qualify for benefits, a worker must have earned a specified minimum amount of wages, worked a specified period of time, or both, during the base period. The qualifying formula in most States is some multiple of either high-quarter wages (in the base period) or the weekly benefit amount.²⁸ The purpose of such provisions is to require a certain degree of attachment to the labor force on the part of the benefit recipient.

In addition to providing benefits according to a benefit formula based on high-quarter earnings (or other formulas), all States have

²⁸Ibid., pp. 49-53.

established maximum and minimum weekly benefit amounts. The minimum benefit amount ranges from \$3.00 to \$17.00, while over 1/2 the States pay \$10.00 as a minimum.²⁹ Maximum benefits range from a low of \$30.00 per week to a high of \$55.00 per week.³⁰ Most of the maximum benefit amounts fall in the range of 32-40 dollars per week.

The intention of State legislatures was to provide for benefits that would compensate for approximately 50 per cent of the loss of wages due to unemployment. For example, assuming there are 13 full weeks to a quarter and there is no unemployment during the quarter, a formula granting 1/26 of high-quarter wages will yield a benefit amount that is approximately 50 per cent of the weekly wage. However, if the maximum benefit allowed does not keep pace with the increase in wage rates, the 50 per cent criterion is destroyed. The trend is explained as follows:

The rise in average weekly wages has been relatively greater than the increase in the maximum weekly benefits. As a result, the proportion of average weekly wages represented by the maximum weekly benefit has declined. In December 1939, for example, the maximum weekly benefit in 49 States was 50 per cent or more of the average weekly wage; in 15 of these States it was 71 per cent or more. By December of 1945, the maximum weekly benefit was 50 per cent or more of the average weekly wage in only 12 States . . . By June 1955, despite the increase in the maximum weekly benefit in 28 States this year 1955, the maximum weekly benefit was 50 per cent or more of average weekly wages paid in 1954 in only 7 States . . .³¹

Several States have increased their maximum weekly benefits since 1955. As of May 1, 1960, 12 States have maximum benefit amounts that

²⁹Some States provide an extra amount for persons with dependents. The data used applies to persons without dependents.

³⁰Ibid. (Puerto Rico has a maximum of \$16.00).

³¹Bureau of Employment Security, Employment Security Review, (August, 1955), p. 33.

are equal to or exceed 50 per cent of the average weekly wage.³²

Another indicator that expresses the adequacy of benefit amounts is the ratio of average weekly benefits to average weekly wages. Although the expansion of base-period earnings of claimants has caused the average weekly benefit amount to rise steadily since 1939, the increase in average weekly wages increased at a more rapid rate. The ratio of benefits to wages has fallen from 42 per cent in 1939 to 35 per cent in 1959 --a trend that further accentuates the need for more liberal benefit provisions.³³

Benefit duration provisions are inextricably linked to past earnings and, consequently, benefit amounts. However, discussion of the different aspects and problems of benefit duration is reserved for Chapter III, and, in a sense, the remainder of the paper.

Principles and Characteristics of Our Unemployment Insurance System

Gradually, as the unemployment insurance system has grown, some features of the program have been established on a seemingly permanent basis. A set of clearly defined objectives, however, has not been established. Although certain general criteria are advocated, modifications of the program tend to respond "to the demands of pressure groups or to the needs of administrative considerations."³⁴ Pressure group influence is

³²U. S., Bureau of Employment Security, Employment Security Review, XXVII (August, 1960), p. 13.

³³Ibid., p. 12.

³⁴William Haber and Wilbur J. Cohen, "The Present Status of Unemployment Insurance in the United States," Social Security: Programs, Problems, and Policies, ed. Haber and Cohen (Homewood, Illinois: Richard D. Irwin, Inc., 1960), p. 240.

treated in a subsequent chapter of this paper. The following discussion will center around some of the avowed objectives and "permanent" features of unemployment insurance. The reader should keep in mind that the following criteria are subject to discussion and diverse opinion.

Statement of Purpose.--A formal statement of the purpose of unemployment insurance is provided by the Bureau of Employment Security:

Unemployment insurance is a program of short-term insurance for the payment of benefits to workers as a matter of right during unemployment which is beyond their control. The program is designed to provide protection only to workers who are ordinarily employed, who are currently unemployed due to lack of suitable work, and who are ready, willing, and able to accept such work. The primary objective of benefit payments is to replace enough of the current wage loss of unemployed workers who meet the program's requirements so that most such workers need not turn to other programs for aid, under normal and recession conditions . . .³⁵

Notice that unemployment insurance, as defined, is definitely a short-term concept, "inadequate to deal with serious economic depressions or with joblessness in 'depressed' areas suffering from chronic unemployment."³⁶ Furthermore, "the program is [also] designed . . . for wage earners whose regular and recent attachment to the labor market is clearly established."³⁷ Generally, a wage earner whose unemployment extends for a long period of time should receive aid in forms other than unemployment compensation.

Benefits.--Closely related to the insurance principle is the payment of benefits as a right as opposed to payment on the basis of need. The justification for this approach is subjective and directly involves the

³⁵U. S., Bureau of Employment Security, Unemployment Insurance: Purposes and Principles (December, 1950), p. 1.

³⁶Haber and Cohen, "The Present Status . . .," Social Security . . ., p. 255.

³⁷Ibid.

pride and self-respect of the worker. To maintain this important element in unemployment insurance, benefits are tied to past earnings. As a result, benefit payments reflect, to some degree, the past productivity of the benefit recipient.

Benefit amounts, as we have seen, should compensate for at least 50 per cent of the wage loss due to unemployment. This amount should be enough to pay for certain nondeferrable expenses of the insured person. However, among low wage and salary groups, these nondeferrable items may constitute 70 per cent or more of the worker's income.³⁸ Here, the problem emerges as to what level benefit payments can rise before they discourage or destroy the incentive to work.

Coverage.--Unemployment insurance, if it is to fully accomplish its purpose, must provide benefits to every worker "who is normally attached to the labor force, who has a basic and continuing interest in employment, and who is subject to the risk of unemployment."³⁹ Only persons who, due to administrative or other reasons, are difficult to cover can "legitimately" be excluded from the program. The most likely areas for future expansion of coverage exist among employers with less than four employees, State and local government employees, and workers for non-profit organizations and large farms who show substantial attachment to the labor force.

State Autonomy.--Within the loose framework of the Federal law, States are allowed a large amount of discretion in the administration of their laws. Originally, the Federalization of unemployment compensation

³⁸Bureau of Employment Security, Unemployment Insurance: Purposes, p. 255.

³⁹Ibid., p. 2.

was not "pushed" as a result of the fears that a Federal system would be declared unconstitutional. However, decisions of the Supreme Court since the inception of the Social Security Act have removed the constitutional question. This leaves the advocates of nationalization a clear area for action. In the meantime, however, we continue to retain a system of unemployment insurance administered largely by individual States. Moreover, any proposed infringement on the rights of States to administer and finance their own programs brings into play powerful, opposing forces.

Experience Rating.--Money inflows to State unemployment trust funds come from taxes levied on covered State employers. These taxes vary from employer to employer, depending on the particular employer's past experience in stabilizing his employment. A higher tax rate is assigned to employers with a poor record of employment stabilization whereas employers maintaining a good record are "rewarded" with a low tax rate.

The original purpose of this tax arrangement was to encourage employment stabilization. An employer with stable employment could reduce his costs of production. Whether experience rating succeeds in this respect is still a matter that is widely argued. Nevertheless, experience rating has become a part of the system and will likely remain intact in the future.

CHAPTER III

BENEFIT DURATION

Before proceeding to the specific measures extending unemployment benefits beyond those provided by State laws, a brief discussion of State benefit duration provisions is now in order. Following this discussion, general principles relating to benefit duration will be covered. These two aspects of benefit duration should provide the necessary background for a more detailed discussion of the measures to temporarily extend benefits during recessionary periods.

State Benefit Duration Provisions

Early State laws provided that the duration of benefits would be based on past weeks of work. The Committee on Economic Security and the Social Security Board "suggested 1 week of benefits for each 4 weeks of work within 2 years up to a maximum of 12 to 16 weeks in a 1 year period." In addition, "with the smaller figure 12 weeks, extended benefits in the ratio of 1 week of benefits to each 20 uncharged weeks of work within 5 years were recommended (subject to a maximum limitation) and were provided in some States." ¹ States adopting these resolutions later repealed them for basically two reasons: (1) The extension of

¹Bureau of Employment Security, Employment Security Review, (August, 1955), p. 36.

benefits would not become effective for a period of years and, (2) long, overlapping base periods were difficult to administrate. The repeal process continued over a period of years until 1951 when the last two-year base period was eliminated.²

States, at the present time,³ have two major types of benefit duration provisions--uniform potential duration and variable duration. Uniform potential duration is provided in 12 States while 40 States prefer a variable duration arrangement.⁴

Uniform potential duration laws simply provide for benefits to be drawn for a specified length of time. Potential benefits allowable to any one person are equal to his computed weekly benefit amount multiplied by the duration specified by the State. Duration of benefits ranges from 12 weeks in Puerto Rico to 30 weeks in Pennsylvania. Eight of the 12 States provide for 26 weeks of benefits, one State specifies 24 weeks, and one State provides for 22 weeks.

Variable duration is similar to uniform duration in that the maximum potential duration of benefits in a benefit year is equal to a multiple of the weekly benefit amount. However, a restriction is placed on duration by placing a limit on benefits paid--a restriction equal to either a fraction of base-period wages, a weighted fraction of base-period wages, or a fraction of weeks worked in the base period. Twenty-eight States limit benefits paid to a fraction of base-period earnings. The various percentages are shown in Table 4. In 16 of the 28 States,

²Ibid.

³As of January 1, 1962.

⁴Puerto Rico and the District of Columbia are included as States.

Table 4

PERCENTAGE OF BASE-PERIOD EARNINGS LIMITATION
ON DURATION OF BENEFITS BY NUMBER OF STATES

Per Cent	Number of States	Per Cent	Number of States
100	1	36	1
60	1	33	16
50	2	30	1
40	1	27	1
37	1	25	3

Source: U. S., Bureau of Employment Security, Comparison of State Unemployment Insurance Laws as of January 1, 1962, p. 71.

benefits paid during the benefit year cannot exceed $1/3$ of the base-period wages. Other percentages vary from 100 per cent to 25 per cent.

In five States a weighted fraction is used to compute the benefit ceiling. Also, in five States, benefits cannot be paid longer than some fraction of the weeks of employment in the base period.

Considering both types of duration provisions (uniform and variable), maximum benefit duration ranges from a low of 12 weeks in Puerto Rico to a high of 39 weeks in Oklahoma. The modal period is 26 weeks with 37 States having maximum duration for this length of time. Table 5 shows the distribution of States with respect to maximum weeks of benefits. Notice that six States still have a maximum of less than 26 weeks.

Needless to say, many benefit recipients are not eligible to draw benefits for the maximum number of weeks. In general, workers with

Table 5
 FREQUENCY DISTRIBUTION OF STATES
 BY MAXIMUM WEEKS OF BENEFITS, 1962

Maximum Weeks of Benefits	Number of States	Maximum Weeks of Benefits	Number of States
12.0	1	30.0	4
20.0	1	32.5	1
22.0	2	34.0	1
24.0	2	36.0	1
26.0	37	39.0	1
28.0	1	----	----

Source: U.S., Bureau of Employment Security, Comparison of State Unemployment Insurance Laws as of January 1, 1962, p. 74.

substantial attachment to the labor force, and, therefore, relatively greater base period earnings, will be eligible for benefits paid over a longer period of time. On the other hand, workers with sporadic employment, workers in low-wage industries, and other, similar workers will find that their benefit duration is limited by low base-period earnings.

Table 6 shows, on a national basis, both average potential duration and average actual duration of unemployment insurance claimants for the years, 1946-61. A general increase in the average potential duration of claimants will be noticed since 1946. This increase is largely due to more liberal duration provisions in State laws and, to a certain extent, increases in wage rates over a period of years.

Table 6

AVERAGE BENEFIT DURATION IN WEEKS OF
UNEMPLOYMENT INSURANCE CLAIMANTS,
UNITED STATES AVERAGE, 1946-61

Year	Average Potential Duration	Average Actual Duration	Year	Average Potential Duration	Average Actual Duration
1946	19.8	13.4	1954	22.4	12.8
1947	19.5	11.1	1955	22.7	12.4
1948	21.1	10.7	1956	23.0	11.4
1949	21.4	11.8	1957	23.4	11.6
1950	21.1	13.0	1958	23.5	14.8
1951	22.4	10.1	1959	23.6	13.1
1952	22.0	10.4	1960	24.0	12.7
1953	22.1	10.1	1961	23.9	14.7

Source: Compiled from, U.S., Bureau of Employment Security, Handbook of Unemployment Insurance Financial Data, 1938-61.

Average actual duration measures the number of weeks of employment for which the worker receives benefits during the year. This figure will be considerably below the potential duration figure as many benefit recipients find employment before their benefits expire. In recessionary periods, however, the length of time a person is unemployed tends to increase. This increase, of course, is reflected in the average actual duration figure.

Extension of Benefits and the Unemployment Insurance Concept

How long should benefits be paid? At what point does the benefit become a dole or relief payment? Does the extension of benefit duration violate the insurance principle? These, and other questions arise when benefit duration is discussed. Although these questions do not and cannot have specific answers, some attempt must be made to answer them.

The Bureau of Employment Security is of the opinion that "the duration of benefits should be sufficient to enable the great majority of insured workers to find suitable work before exhausting their benefit rights, under normal or recession conditions."⁵ They go on to state that "no more than 25 per cent of the beneficiaries [should] exhaust benefits under normal or recession conditions."⁶ We will see in Chapter IV that in four of the six years from 1956 through 1961, the exhaustion rate exceeded 25 per cent.

These high exhaustion rates imply that State benefit duration provisions have not been adequate to deal with the length of unemployment experienced in four of the six years just mentioned. However, the extension of benefits raises some vital questions. The main argument is that benefit duration, in accordance with the insurance principle, should only be for short periods of time and should be in some ratio to past earnings and, therefore, contributions. Burns questions this argument:

Once, however it is granted that unemployment insurance is a social insurance rather than an ordinary insurance program, it is clear that the selection of appropriate duration periods must be determined by

⁵Bureau of Employment Security, Unemployment Insurance: Purposes, p. 7.

⁶Ibid.

broader economic and social considerations and in particular by the function which the community desires the program to fulfill, and this fact has been recognized by many systems.⁷

Social insurance programs are, she explains, different in many ways from private insurance. She points out that:

The usual social insurance formula today weights the payment in favor of the lower-paid worker, and the programs usually provide a minimum benefit and very frequently also additional payments for persons dependent on the beneficiary, although no differential contribution is charged against workers with family responsibilities.⁸

Moreover, unemployment insurance "depart[s] from strict insurance principles in regard to duration of benefits."⁹ Some States provide for uniform "benefit duration for all eligible workers or, where the ratio rule is retained, specify a statutory minimum duration . . ."¹⁰

Burns also discusses other ways in which social insurance differs from private insurance. Briefly, social insurance: (1) is compulsory whereas private insurance is not, (2) provides for little or no classification of insured groups into groups having similar risks, (3) does not cost individual groups as much proportionally as the risks incurred by these groups, (4) is not an immutable contract between a corporation and an individual, but a social contract that is changed by legislation, and (5) provides for upward revisions in compensation in light of cost of living increases.¹¹

⁷Evaline Burns, Social Security and Public Policy (New York: McGraw-Hill Book Company, Inc., 1956), p. 113.

⁸Ibid., p. 31.

⁹Ibid.

¹⁰Ibid.

¹¹Ibid., pp. 32, 34.

Whether social insurance is or is not "insurance" depends on the definition we apply to the word. In any case, she concludes, we should not let a strict definition of insurance blind us to the greater social and economic problems to be attacked by our social insurance program.

Becker also believes that different principles are applicable to unemployment insurance, depending on whether we are in a period of normal unemployment or in a period of rising or high unemployment. In normal periods we could and should rely on the competitive concept--one that emphasizes individual responsibility for the payment of benefits. He believes that:

In periods of normal unemployment, the characteristics of the regular program make good sense on both the tax and benefit sides. In such periods the individual States are generally able to finance their own programs and do not need outside help . . . Employers . . . generally are able to pay the variable taxes imposed by experience rating . . .

In such periods, also, practically all the regular members of the labor force will have a record of substantial work in at least one of the four quarters of the preceding year and hence will qualify for unemployment benefits . . . During periods of high employment relatively few of the regular members of the labor force will need much more than 26 weeks in which to find another job . . .¹²

However, during periods of abnormal unemployment, Becker tends to lean more toward the welfare concept--the concept of collective responsibility and action:

In situations of abnormal unemployment, however, these same characteristics of the regular program make less sense . . . An extension of benefits sufficient to meet the needs of all abnormal situations . . . would make it very difficult . . . to retain . . . State responsibility and experience rating. A few States and many

¹²Rev. Joseph M. Becker, "Unemployment Benefits in Periods of Normal and Abnormal Employment," U.S., Congress, House, Committee on Ways and Means, Hearings, on the Subject of Proposed Amendments to the Federal Laws on Unemployment Compensation, 86th Cong., 1st Sess., 1959, p. 552.

individual employers would find the burden of adequate benefits too great in abnormal periods. In such periods, the burden ought to be shared more widely; the competitive emphasis ought to yield to the welfare emphasis.¹³

Becker goes on to say that the feasible approach would be to supplement the existing program of unemployment insurance. Some students of unemployment insurance would not go as far as Becker in his suggestion that the extension of benefits be accompanied with liberalized qualification requirements. Others, however, would change the program even more radically. For instance, Professor Galbraith would propose "Cyclically Graduated Compensation" whereby benefit amounts would increase as unemployment increases and decline as full employment is approached.¹⁴

Employer groups, as we shall see in Chapter V, include in their arguments the charge that changes such as Becker and Galbraith propose would tend to reduce unemployment insurance to a welfare or relief program. However, an analysis such as that presented by Becker relies strongly on the argument, as Evaline Burns did, that other considerations may override the strictly defined insurance concept.

With these facts in mind, we will examine in the next chapter the 1958 and 1961 acts dealing with extension of benefit payments during the recessions of 1957-58 and 1960-61.

¹³Ibid., p. 553.

¹⁴John Kenneth Galbraith, The Affluent Society (Boston: Houghton Mifflin Company, 1958), Chapter 12. Professor Galbraith would retain the present State programs and let the basic unemployment benefit be paid under these programs. However, the supplement would be paid by the Federal Government. This supplement "would take the form of a specified fraction of the difference between the worker's weekly earnings over a period in his last employment and his entitlement under established unemployment compensation." As unemployment would reach higher and higher levels, the fraction would also increase. When relatively large numbers of people become unemployed, total benefit amounts would approach the unemployed person's "normal" wages. Of course, as unemployment declined, benefit amounts would also decline.

CHAPTER IV

PROGRAMS TO EXTEND BENEFIT DURATION

Evaline Burns points out that "much more important in influencing decisions as to duration of unemployment benefits has been (and is likely to be) the incidence and severity of the risk of unemployment."¹ In times of prosperity or the upswing of the business cycle, little agitation is noticed for programs to alleviate the plight of the worker who has exhausted his benefits. On the other hand, when unemployment is rising, and, consequently, the exhaustion rate, more interest is taken in the problem. We have already noted the same general type of action--that of expediency--in connection with the passage of the Social Security Act of 1935.

Such was the case in 1958 and 1961. The recessions of these years caused unemployment and the exhaustion rate to reach much higher levels than under normal conditions. The Temporary Unemployment Compensation Act of 1958 and the Temporary Extended Unemployment Compensation Act of 1961 were measures to alleviate the immediate problem of large numbers of persons exhausting benefit payments.

Ernest J. Eberling has the following comment about the recent developments in extension of benefits:

¹Burns, Social Security, p. 113.

It is not difficult to understand why the UI system has been subjected recently to increasing pressure to make provision for extended duration periods. Repeated recessions with higher rates of unemployment following each one, the existence of many distressed areas, the threat to jobs caused by automation, and the persistence and increase of long-term unemployment account largely for this development.²

The discussion for the remainder of the chapter will deal with the economic factors giving rise to the two temporary measures, the principle features and results of the measures, and a summary of their comparative effectiveness.

The Temporary Unemployment Compensation Act of 1958
(Public Law 85-441)

The Recession of 1957-58.--The Temporary Unemployment Compensation Act of 1958 was a result of the sharp increase in unemployment in December, 1957 and the subsequent increase in exhaustion rates as unemployment increased. Table 7 shows the monthly rate of insured unemployment for the period from January, 1957 through December, 1959. The insured unemployment rate increased from 3.6 per cent in November, 1957 to 5.1 per cent in December of the same year. A steady increase in unemployment through the early part of 1958 reached its peak in March and April at a rate of 7.9 per cent. It was not until May, 1959 that the rate of insured unemployment dropped below 4.0 per cent.

The rise in unemployment is, of course, accompanied by an increase in initial claims for unemployment benefits. Lagging behind these two indicators is the number of people exhausting benefit rights.

²Ernest J. Eberling, "Extension of Benefit Payments," U.S., Bureau of Employment Security, Employment Security Review, XXIX (December, 1962), p. 12.

Table 7

INSURED UNEMPLOYMENT AS A PER CENT OF COVERED EMPLOYMENT
UNDER STATE PROGRAMS, BY MONTHS, 1957-59

Month	Rate			Month	Rate		
	1957	1958	1959		1957	1958	1959
January	4.4	6.9	6.0	July	3.1	6.0	3.5
February	4.3	7.6	5.7	August	2.8	5.2	3.4
March	4.0	7.9	5.0	September	2.8	4.5	3.1
April	3.6	7.9	4.4	October	3.0	4.1	3.4
May	3.3	7.1	3.6	November	3.6	4.3	4.4
June	3.0	6.3	3.3	December	5.1	5.1	4.7

Source: Compiled from, U.S., Council of Economic Advisors, Economic Indicators, January, 1958; January, 1959; and January, 1960.

Table 8 illustrates a number of the more pertinent indicators of the problem. The weekly average of initial claims increased from 268,000 in 1957 to 370,000 in 1958, an increase of over 38 per cent. During the same period, the weekly average of benefit exhaustions jumped from 23,000 to 50,000, an increase of 117 per cent.

In the previous chapter, the Bureau of Employment Security was quoted as saying that no more than 25 per cent of initial claimants should exhaust benefit rights under an effective program of unemployment insurance. This rate was exceeded by six per cent in 1958 and remained above 25 per cent from 1958 through 1961.

Also, average actual duration closely follows the fluctuations in the rate of insured unemployment. An increase of 3.2 weeks over the 1957

Table 8
SELECTED UNEMPLOYMENT INSURANCE DATA, 1956-61

Year	<u>Weekly Average, Thousands</u>		Per Cent of Claimants Drawing First Payments That Exhausted Benefits	Insured Unemployment as a Per Cent of Covered Employment	<u>Duration of Benefits</u>	
	Initial Claims	Exhaustions			Average Actual	Average Actual for Exhaustees
1956	226	20	21.5	3.2	11.4	20.0
1957	268	23	22.7	3.6	11.6	20.5
1958	370	50	31.0	6.4	14.8	21.7
1959	281	33	29.6	4.4	13.1	21.7
1960	331	31	26.1	4.8	12.7	21.4
1961	350	46	30.4	5.6	14.7	21.8

Source: Compiled from, U.S., Bureau of the Budget, 1962 Supplement to Economic Indicators and U.S., Bureau of Employment Security, Handbook of Unemployment Insurance Financial Data, 1938-61.

average actual duration figure is noted for 1958. We might expect the average duration to increase during periods of high employment since more people are expected to draw the maximum amount of benefits.

Long-term unemployment also increased in 1958. In 1957, 8.1 per cent of the unemployed were out of work 27 weeks or more. However, in 1958, the rate increased to 14.2 per cent, a gain of over 75 per cent.³

In light of the downturn in business activity, President Eisenhower transmitted a message to the Congress on March 25, 1958 recommending legislation for the purpose of temporarily extending benefits to eligible persons who had exhausted their benefits under State and Federal laws.⁴ The result of this message was the passage of Public Law 85-441--the Temporary Unemployment Compensation Act of 1958.

Provisions.⁵—On June 4, 1958, President Eisenhower signed into law the Temporary Unemployment Compensation Act of 1958. As a result, 15 days after the signing of the law, workers who had exhausted benefits under State unemployment insurance programs became eligible to draw additional, temporary unemployment benefits. The act provided for retroactive payments to persons exhausting benefits as far back as June 30, 1957, or, a later date if a participating State so desired. Benefits were paid for

³Richard A. Lester, "Is Unemployment Insurance Geared to Today's Unemployment Risks?" Institute of Labor and Industrial Relations, Proceedings of the Fourth Annual Social Security Conference (Kalamazoo, Michigan, 1962), p. 115.

⁴U.S., Congress, Senate, Committee on Finance, Hearings, on H.R. 12065, An Act to Provide for Temporary Additional Unemployment Compensation, 85th Cong., 2nd Sess., 1958, p. 86.

⁵Unless otherwise noted, provisions are taken from: U. S., Congress, Public Law 85-441, 85th Cong., 1958.

weeks of unemployment starting with the date the State officially agreed to participate in the program until the expiration date of the TUC law-- April 1, 1959. Later, in March 1959, Congress extended the expiration date to July 1, 1959 so that workers who had established a claim before April 1, 1959 could continue to receive benefits.⁶ Therefore, benefits were paid under the program from June 19, 1958 through June 30, 1959, a period of just over one year.

The benefit recipient was eligible to receive additional weekly benefits equal to 50 per cent of his basic entitlement allowed by the State law under which he last exhausted benefit rights. Also, the weekly benefit amount was equal to the benefit amount allowed by the State program under which the benefit recipient last exhausted benefit rights. In other words, exhaustees were eligible for a 50 per cent extension of regular benefit payments. The unemployment compensation otherwise payable to an individual under State law could not be denied or reduced as a result of the individual's eligibility for temporary extended payments. If benefits were denied, the person's right to a hearing was the same as provided for in the Social Security Act.

The Federal act did not compel any State to join the program. Participation in the program was completely voluntary. States could participate either fully or partially with respect to State and Federal (UCFE, UCV, UCX)⁷ programs. One, all, or any combination of the programs could be

⁶April 1 was the termination date if the State paid benefits on the basis of flexible weeks, April 5 if benefits were paid on the basis of calendar weeks, and April 7 if benefits were paid on the basis of payroll weeks.

⁷UCFE: Federal civilian employees; UCV: Korea veterans; UCX: Ex-servicemen.

elected on the part of the participating State.

The extension of benefits was financed out of advances made by the Federal Government to State unemployment accounts. These advances were, however, considered as loans rather than grants. Each State will ultimately pay not only the cost of extra benefits granted to that State's exhaustees, but will also pay a proportionate share of the administrative costs connected with the TUC program. The procedure for repaying the advances is outlined under Title XII of the Social Security Act. If repayment has not been accomplished by January 1, 1963, a reduction in the 90 per cent credit allowed against the Federal unemployment tax goes into effect.⁸ This reduction is, of course, to insure repayment of the advance.

Results.--The TUC program went into effect on June 19, 1958. At this time, "unemployment totaled about 5.4 million" and "only about half of these people were receiving unemployment benefits, including those under the railroad insurance program."⁹ Since the act did provide benefits to persons who exhausted benefits as far back as June 30, 1957, a large backlog of initial claims for extended benefits existed. "During June and July of 1958, nearly 1 million initial claims were filed under the temporary programs . . ."¹⁰ Out of a total of 2,465,715 claims filed under all programs for the duration of the act, over 40 per cent were filed during the first one and one-half months.

⁸As of January 1, 1963, none of the States had repaid with the exception of the District of Columbia.

⁹U.S., Congress, House, Committee on Ways and Means, Hearings, Temporary Unemployment Compensation and Aid to Dependent Children of Unemployed Parents, 87th Cong., 1st Sess., 1961, p. 77.

¹⁰Ibid.

Since the TUC Act was of a voluntary nature, all States did not elect to pay extended benefits. A total of 17 States participated in all programs (regular State programs, UCFE, UCX, and UCV) while 12 States chose to pay benefits only under the regular Federal programs. In addition, five States enacted temporary extended duration programs "for exhaustees under their State programs, which resulted in extended duration for their UCFE and later their UCX exhaustees."¹¹ However, they participated only for UCV exhaustees under the TUC Act.¹² Therefore, 34 States paid extended benefits under various programs during the 1957-58 recession. Partial participation existed in 12 States and 22 States participated fully. Benefits of various kinds were paid in 29 States directly as a result of the TUC Act. States participating in the various programs are listed in Table 9.

Although all States did not participate in the TUC program, a large proportion of covered workers under regular unemployment insurance programs were eligible for extended benefits. The 17 States that participated fully in the TUC program and the five States with independent programs "accounted for about 70 per cent of all covered workers and also of all exhaustees to whom these programs were directed."¹³ The large proportion results from the fact that the large industrial States elected to participate under the TUC Act.¹⁴

¹¹U. S., Bureau of Employment Security, The Labor Market and Employment Security, (September, 1959), p. 38. All States except Colorado extended benefits by 50 per cent. Additional benefits in Colorado were limited to no more than 25 per cent of past benefits.

¹²Bureau of Employment Security, The Labor Market and Employment Security, (September, 1959), p. 38.

¹³House Committee on Ways and Means, Temporary Unemployment Compensation Hearings, 1961, p. 76.

¹⁴*Ibid.*, p. 77.

Table 9
STATES PARTICIPATING IN TEMPORARY
PROGRAMS, 1958-59

<u>Fully Participating States:</u>	<u>Partially Participating States:</u>
Alabama	Arizona
Alaska	Florida
Arkansas	Hawaii
California	Idaho
Delaware	Kentucky
District of Columbia	Nebraska
Indiana	New Mexico
Maryland	North Dakota
Massachusetts	Oregon
Michigan	South Carolina
Minnesota	Texas
Nevada	Washington
New Jersey	
New York	<u>States with Independent Programs:</u>
Pennsylvania	Colorado
Rhode Island	Connecticut
West Virginia	Illinois
---	Ohio
---	Wisconsin

Source: Compiled from, U. S., Bureau of Employment Security, The Labor Market and Employment Security, August, 1959, p. 81; and House Committee on Ways and Means, Temporary Unemployment Compensation Hearings, 1961, p. 83.

Table 10 summarizes the results of the various programs under the TUC Act. Over 2.4 million initial claims were filed under all programs before the TUC program expired. The 12 partially participating States and the five States with separate programs comprised a relatively minor part of the total while the 17 fully participating States accounted for the large remainder. Since, in all categories, a majority of the activity occurred in the fully participating States, the discussion will center around the data describing the total of all programs. The reader can keep

Table 10

SELECTED DATA ON THE TEMPORARY PROGRAMS, JUNE, 1958 TO JULY, 1959

Program	Initial Claims	First Payments	Final Payments (Exhaustions)	Total Benefits Paid	Average Weekly Benefit Amount	Average Duration (Weeks)	Total Weeks Compensated
Total, All Programs	2,465,715	2,013,349	1,203,308	\$600,706,000	\$30.44	9.8	19,736,779
Total, TUC Program	1,973,216	1,574,022	940,782	473,544,000	30.41	9.9	15,573,439
Total, 12 Partially Participating States	80,879	28,280	18,677	7,766,000	-----	---	292,800
Total, 17 Fully Participating States	1,892,337	1,545,742	922,105	465,778,000	30.48	9.9	15,280,639
Total, TED Programs (5 States)	492,499	439,327	262,526	127,162,000	30.54	9.5	4,163,340

Source: Compiled from, U.S., Congress, House, Committee on Ways and Means, Hearings, Temporary Unemployment Compensation and Aid to Dependent Children of Unemployed Parents, 87th Cong., 1st Sess., 1961, Appendix A, Table 1, p. 82. Total Weeks Compensated computed from U.S., Bureau of Employment Security, The Labor Market and Employment Security, September, 1959, p. 62.

in mind that a large proportion of the total is due to the 17 States just described.

A large number of final payments indicates that many recipients exhausted their rights to extended benefits. In fact, if the number of exhaustions is divided by the number of first payments, we find that nearly 60 per cent of the recipients exhausted their extended benefits.

The average duration of benefits drawn under the TUC program was 9.8 weeks. Since the average weekly benefit amount was \$30.44, the average recipient received \$298.31 in total extended benefits. Over \$600.7 million was paid out in extended benefits over the one-year period. During the same period, 2,013,349 recipients were compensated for a total of 19,736,779 weeks of unemployment.

In summary we can say that the TUC program was helpful not only to the unemployed during the 1957-58 recession; also, the benefits paid created a small amount of new purchasing power within the economy. The total benefits paid under the act amounted to only .135 per cent of the 1958 Gross National Product. However, much of this money flowed initially to sectors of the economy that most needed it--the large industrial areas and industrial States and then, because of respending, throughout the economy. Recipients were those people who, because of their particular situation, were likely to have a high marginal propensity to spend. As a result, it is likely that aggregate demand was stimulated slightly by this new injection of purchasing power.

The timing of the act was also important. The TUC Act became effective on June 19, 1958 at the end of the second quarter of that year. Benefit exhaustions for that quarter totaled 721,972. The number of exhaustions climbed to 777,912 during the third quarter of 1958--the highest

number of exhaustions of any quarter during the period from the middle of 1957 through the first half of 1959.¹⁵ From the above data, we can see that the Temporary Unemployment Compensation Act of 1958 became effective just as exhaustions under regular unemployment programs reached their peak.

Temporary Extended Benefits: State Laws

The TUC Act expired June 30, 1959. However, during 1959 several States liberalized their duration provisions while six States provided for automatic extension of benefits during periods of high unemployment.

Maximum duration provisions were liberalized in 16 States, excluding the six States enacting extension of benefit provisions. In all except two States, the new maximum was at least 26 weeks. In six States, maximum duration was set at 30 weeks or above. Oklahoma was the only State to provide a maximum duration of 39 weeks.¹⁶

California, Connecticut, Idaho, Illinois, North Carolina, and Vermont now provide for an extension of benefits when unemployment within the State reaches a specified level. North Carolina provides for a uniform duration of 26 weeks and extends benefits for eight weeks during periods of high unemployment. The other uniform duration State, Vermont, allows 26 weeks of benefits with an extension of 13 weeks. California, Connecticut, Idaho, and Illinois have variable duration provisions allowing a potential maximum duration of 26 weeks with a potential extension of 13 weeks. In other words, benefits are extended 50 per cent when the program is triggered

¹⁵Ibid., p. 76.

¹⁶Ibid., p. 81.

into operation.¹⁷

The Temporary Extended Unemployment Compensation Act of 1961
(Public Law 87-6)

The Recession of 1960-61.--The recessions of 1957-58 and 1960-61 occurred almost back to back. Table 11 shows the rate of insured

Table 11

INSURED UNEMPLOYMENT AS A PER CENT OF COVERED EMPLOYMENT
UNDER STATE PROGRAMS, BY MONTHS, 1958-60

Month	Rate			Month	Rate		
	1958	1959	1960		1958	1959	1960
January	6.9	6.0	5.6	July	6.0	3.5	4.3
February	7.6	5.7	5.5	August	5.2	3.4	4.2
March	7.9	5.0	5.7	September	4.5	3.1	4.0
April	7.9	4.4	4.9	October	4.1	3.4	4.2
May	7.1	3.6	4.3	November	4.3	4.4	5.1
June	6.3	3.3	4.0	December	5.1	4.7	6.6

Source: U.S., Council of Economic Advisors, Economic Indicators, March, 1959; January, 1960; and February, 1961.

unemployment under State programs by month for the period from January, 1959 through December, 1960. The rate of insured unemployment remained above 4.0 per cent during 1958 and did not drop below 4.0 per cent until May, 1959. The rate of less than 4.0 per cent lasted only six months and, again, in November, 1959, exceeded 4.0 per cent. Insured unemployment

¹⁷Bureau of Employment Security, Comparison of State . . . , p. 80.

remained above 4.0 per cent of the covered labor force until September, 1961. Only six months in the two-year period from January, 1959 through December, 1960 showed an unemployment rate of less than 5.0 per cent. The lowest rate recorded in 1960 was 4.0 per cent in June and September.

We can come to the conclusion that there is no clear dividing line between the two recessions. Both 1959 and 1960 show relatively high unemployment rates for the first four and the last two months of the year while unemployment seasonally declines during the summer and early autumn months.

The impetus for the TEUC Act of 1961 was provided by the abnormally high monthly unemployment rates starting in November, 1960 and continuing through the early part of 1961. By February, 1961, 8.4 per cent of the covered labor force was unemployed. Table 12 shows selected unemployment insurance data for the fourteen-month period from August, 1960 through September, 1961. Insured unemployment increased steadily starting in September, 1960 and reached a maximum in February, 1961. Initial claims, following the same trend, reached a maximum in January, 1961. Benefit exhaustions, lagging behind the insured unemployment rate, started moving upward in September, 1960 and reached a maximum in April of the following year. The average actual duration of benefits increased from 12.7 weeks in 1960 to 14.7 weeks in 1961.¹⁸ At the same time, 30.4 per cent of the claimants drawing first benefits in 1961 exhausted these benefits as opposed to 26.1 per cent exhausting in 1960.¹⁹

In response to the growing volume of exhaustions, Congress passed the Temporary Extended Unemployment Compensation Act of 1961. President Kennedy

¹⁸See Table 8.

¹⁹Ibid.

Table 12

SELECTED UNEMPLOYMENT INSURANCE DATA
AUGUST, 1960-SEPTEMBER, 1961

Period	State Programs			Insured Unemployment as a Per Cent of Covered Employment
	Weekly Average, Thousands			
	Insured Unemployment	Initial Claims	Exhaustions	
1960:				
August	1657	306	28	4.2
September	1598	274	27	4.0
October	1678	332	29	4.2
November	2039	396	31	5.1
December	2639	494	36	6.6
1961:				
January	3266	541	44	8.1
February	3394	480	49	8.4
March	3168	372	53	7.8
April	2779	367	58	6.8
May	2328	297	54	5.7
June	1991	279	53	4.9
July	1958	357	50	4.8
August	1744	271	44	4.3
September	1558	260	38	3.8

Source: U.S., Council of Economic Advisors, Economic Indicators, October, 1961.

signed the bill into law on March 24, 1961.

Provisions.²⁰---The TEUC Act became effective on April 8, 1961, 15 days after the bill was signed into law. An insured person exhausting unemployment benefits was entitled to extended benefits equal to 50 per cent of the basic entitlement allowed by the State law under which benefit rights were last exhausted. The weekly benefit amount was the same as that provided under the State law. However, no person could receive extended benefits longer than 13 weeks. In addition, no recipient could draw more than 39 times the weekly benefit amount in a continuous compensation period when both regular and extended benefits were considered. If a claimant received weekly payments from a retirement pension or annuity under a public or private retirement plan contributed to by any base-period employer, the weekly benefit amount drawn under TEUC could be reduced by the amount received.

Although the TEUC bill took effect on April 8, 1961, workers exhausting benefits as far back as June 30, 1960 were eligible for extended benefits. Benefits were paid until June 30, 1962 for valid claims filed before March 31, 1962. Weeks of unemployment beyond March 31, 1962 were not compensable under the TEUC Act.

The TEUC Act, unlike the TUC Act of 1958, was financed by the Federal Government. States were reimbursed for extended benefits up to 13 weeks paid to eligible claimants under the act. In States that paid regular benefits longer than 26 weeks, the Federal Government would compensate the State for the difference between the regular duration and 26 weeks plus the amount necessary to extend the total compensation period to 39

²⁰Unless otherwise noted, provisions are taken from: U.S., Congress, Public Law 87-6, 87th Cong., 1961.

weeks. In other words, States with provisions allowing more than 26 weeks of regular benefits were not penalized. They were still reimbursed for 13 weeks of extended benefit payments.

Administrative costs of the program were also absorbed by the Federal Government. The costs incurred by each State in connection with the TEUC program were handled as conventional unemployment insurance administrative costs. The Federal Government reimburses the States for administrative expenses as provided under Title III of the Social Security Act.

Technically, an account was established in the unemployment trust fund known as the Federal extended compensation account. Treasury revenues were transferred to this account for the purpose of reimbursing States for payments to exhaustees under the TEUC Act. The Treasury will be reimbursed through an increase in the Federal unemployment tax from 0.4 per cent to 0.8 per cent. The increased tax rate is effective for the calendar years of 1962 and 1963.

As a result of the increase in the Federal unemployment tax, all States were "forced" to join the TEUC program. Employers in all States were subject to the increased tax. Therefore, employers in a State not entering into an agreement with the Federal Government would be paying for extended benefits while workers within the State would not be eligible for the extension.

Since all States (including Puerto Rico, the District of Columbia, and the Virgin Islands) participated in the TEUC program, 100 per cent coverage of insured workers was accomplished. Extended benefits were paid to employees covered by both State and Federal laws. Also, provision was made in the act for the collection of statistics, on a sample basis, pertaining to the characteristics of the TEUC claimants.

Comparison of the Provisions and Results of the
TUC Act of 1958 and the TEUC Act of 1961

Benefits were paid under the TUC Act from June 19, 1958 to July 1, 1959, a period of 12 $\frac{1}{3}$ months. The TEUC Act provided for benefits to be drawn between April 8, 1961 and June 30, 1962, a period of 14 $\frac{2}{3}$ months. Therefore, if we confine our comparison to the length of time benefits were paid under the two acts, the TEUC Act paid out benefits approximately 2 $\frac{1}{3}$ months longer than the 1958 act. However, both acts provided payments to workers exhausting benefits before the acts became effective. In the case of the TUC Act, this backlog period was about 11 $\frac{2}{3}$ months. In the case of the TEUC Act, the backlog period was 9 $\frac{1}{4}$ months. When the backlog period is added to the actual benefit payment period for both acts, we find that this time period is approximately 24 months for both acts.

June 30, 1959 and June 30, 1962 were the dates on which benefits were stopped for the TUC Act and TEUC Act respectively. But, claimants had to file for weeks of unemployment that occurred before April 1 in both 1959 and 1961. Therefore, both acts, when the backlog periods are considered, allowed compensable exhaustions over a 21 month period.

Perhaps the widest divergence between the TUC and TEUC Acts was in the financing provisions of these acts. Under the TUC Act, States were required to finance the additional benefits paid in the State plus the cost of administration. Repayment to the Federal Government for advances made in connection with the program would be made out of a State's unemployment account in the unemployment trust fund. This repayment would be made at the discretion of the Governor of the State concerned. However, if the advance was not repaid by January 1, 1963, the 90 per cent

credit allowed against the Federal tax on the taxable wage base of a debtor State would be reduced. In any case, the cost of the program was borne by the States and the cost was directly proportional to the unemployment benefits paid to employees within the State.

The TEUC Act provided that the cost of the program would be met on a nation-wide rather than on a State-by-State basis. By financing extended benefits initially out of general Treasury revenues, and later, out of a uniform increase in the Federal unemployment tax on all employers, the cost of the program was spread among all the States. The relative merits and arguments for both types of financing will be reserved for Chapter V.

The difference in total coverage of the two acts is evident. Since the TUC Act was not compulsory, only 17 States fully participated in the program. In addition, 12 States participated partially, paying benefits under the UCFE, UCX, and UCV programs and five States enacted temporary programs independently of the TUC program. The 17 fully participating and the five States with independent programs accounted for about 70 per cent of the total number of insured workers in the country. On the other hand, if the five States with independent programs are excluded and only those States which fully or partially participated in the TUC program are counted, we can expect that considerably less than 70 per cent of the insured labor force was technically eligible for extended benefits.

Because of the greater number of workers eligible for extended benefits under the TEUC Act, the total amount of benefits paid out under the 1961 act exceeded the amount paid out under the 1958 act. Table 13 summarizes the final effects of the TEUC program. Total benefits paid under the 1961 program amounted to \$769,124,620--.138 per cent of the 1962 Gross National Product. This total was \$295,580,620 more than the

Table 13

SELECTED DATA ON THE TEUC ACT OF 1961
APRIL 8, 1961--JUNE 30, 1962

Total Benefits Paid.....	\$769,124,620
Additional Reimbursement to States with Laws Provi- ding Regular Duration of More Than 26 Weeks.....	48,000,000
Average Weekly Benefit.....	\$30.48
Average Duration of Extended Benefits.....	9 Weeks
Total First Payments.....	2,763,199
Total Final Payments.....	1,738,076
Per Cent Exhausting Extended Benefits.....	62.9

Source: U.S., Bureau of Employment Security, The Labor Market and Employment Security, August, 1962, pp. 1, 2, 56.

total benefits paid out under the TUC program of 1958. Also, the total benefits paid under the 1961 act exceeded the amount of benefits paid under all the 1958 programs by \$168,418,620.

Another advantage of the 1961 act was the fact that statistics were gathered concerning the characteristics of the TEUC claimants. In a sense, the whole case for extension of benefits rests on these characteristics. If benefits were paid to large numbers of people who are classified as the "hard-core" unemployed, then it becomes questionable as to whether these people should be aided through the unemployment insurance program.

The average weekly benefit amount under both programs was nearly the same. The average payment in 1958 was \$30.41 while an average payment of \$30.93 per week was drawn under the 1961 program.

However, the average duration of benefits dropped from 9.9 weeks under the TUC Act to 9.0 weeks under the TEUC Act. This decline is due largely to the different provisions of the two acts relating to the maximum duration that extended benefits could be drawn. There was no stipulation as to the maximum number of weeks extended benefits could be paid under the 1958 program, whereas a 13 week limitation was placed on these benefits under the 1961 act.

By multiplying the average duration of benefits by the average weekly benefit amount, we find that an average exhaustee received \$278.37 in total extended benefits under the 1961 program. Therefore, the average total payment was almost \$20.00 less under the TEUC Act than under the TUC Act.

Almost 63.0 per cent of the TEUC claimants exhausted benefit rights, an absolute increase of 3.0 per cent over the 60.0 per cent exhausting under the TUC Act.

CHAPTER V

THE VIEWS OF SPECIAL INTEREST GROUPS

Economic legislation, in any form, will normally stir up controversy. Various provisions of any bill commonly are to the advantage of one group and to the disadvantage, real or imagined, of another. Additionally, the proposed changes may raise questions involving the philosophy behind the entire program. Such is the case when the unemployment insurance system is subject to modification.

So that the various groups involved may have a voice in proposed legislation, hearings are provided before Congressional committees that handle the particular legislation under consideration. Unemployment compensation legislation is handled by the Committee on Ways and Means in the House of Representatives and by the Committee on Finance in the Senate. The bulk of this chapter will be devoted to the arguments of interest groups before the Committee on Ways and Means preceding the passage of the Temporary Extended Unemployment Compensation Act of 1961. The primary reason for centering the discussion around the 1961 act is that arguments preceding both the 1961 and 1958 acts tended to follow the same lines of reasoning.

It is difficult to draw a clear line between the philosophies of the different groups described in this and the preceding chapter. However, one point clearly emerges when the arguments of these groups are examined: Employer organizations are generally more conservative in

their views than either organized labor or the Department of Labor.

Evaline Burns explains the employers' particular philosophy in the area of experience rating:

Employers, who in general strongly favor experience-rating, continue to maintain that the assessment of costs against employers alone must rest in large measure on the theory that unemployment is a responsibility of the employer . . . Carried to its logical conclusion, this theory opposes any socializing of the costs of unemployment.¹

She continues and points out that "labor's opposition to experience rating has been based largely on the alleged consequences of this financial device, and notably on the importance which current formulas attach to compensable employment."²

Richard Lester points out, as we have seen in the final form of the TEUC bill, that "trade unionism has not been too effective politically in the area of unemployment compensation."³ He attributes this fact, not to any fault of unionism, but to several other factors. At the State level, employer groups wield the most power. Also, the interstate-competition argument (the effort to attract new industry by low tax rates) is very effective. At the national level, the House Ways and Means Committee and the Senate Finance Committee "are dominated by Southerners and conservative Northerners."⁴

Until 1958, the relationship between the Federal Government and the States in the unemployment insurance program had remained relatively

¹ Burns, Social Security, p. 168.

² Ibid., p. 169.

³ Richard A. Lester, The Economics of Unemployment Compensation (Princeton: Princeton University, Industrial Relations Section, 1962), p. 104.

⁴ Ibid.

static. In fact, "the temporary program [of 1958] represented the first time that Federal action had been taken affecting the total amount or duration of benefits paid under State laws."⁵ As a result, the proposed act was vigorously opposed. The various positions taken by opponents and proponents of the bill are summarized as follows:

Those opposed to such action raised the issue of the invasion of States rights and argued that the States were in a better position than the Federal Government to judge their own needs in this area. Those in favor of Federal action emphasized that the seriousness of the exhaustion situation constituted a national problem and therefore this was a valid area for the Federal Government to act in; when the situation improved, the Federal program would cease.(78)

As we have seen, the resulting compromise was a voluntary program assisted by the Federal Government.

The many arguments presented by different interest groups will be presented in the following sections which deal exclusively with the TEUC Act of 1961. The basic philosophy of these organizations does not change radically from year to year. Hence, essentially the same philosophy toward modification in the unemployment insurance program will be found in 1961 as was found in 1958.

Financing: An Increase in the Taxable Wage Base Versus an Increase in the Federal Unemployment Tax Rate

With one exception, the proposals brought before the Committee on Ways and Means by Secretary of Labor Goldberg were drafted into the final bill with only slight modification. The one exception was in the method of financing the proposed legislation.

⁵House Committee on Ways and Means, Temporary Unemployment Compensation Hearings, 1961, p. 78. Since a major part of this chapter is taken from the above source, hereafter reference will be made to the source by page number in the text.

Secretary Goldberg proposed to finance the bill by permanently increasing the wage base subject to the Federal unemployment tax from \$3000 to \$4800. The main controversy concerned this feature of the bill. Lester cites three factors which explain the difference in opinion concerning the proper way to finance unemployment compensation:

1. Unemployment taxes levied on employers vary widely (a) between States, (b) within particular industries within a State, and (c) from year to year for many employers.
2. Unemployment taxation in addition to financing benefits, is designed to achieve a number of other objectives--employment stabilization, cost allocation according to presumed risk, employer policing of benefits, reduced taxes for employers, etc.
3. Inadequate knowledge (370)

He also points out that the question of a higher tax base or higher tax rates is "essentially . . . a question as to which employers should pay any increased tax burden and how that burden should be allocated among them." (379) It is evident that an increase in the tax base would throw the heaviest burden on industries paying high wages while industries with an average wage of close to \$3000 would suffer relatively little from the widened base. Employers said that increasing the tax base was discriminatory on these grounds. They tended to associate high-wage industries to those who provide stable employment. The National Association of Manufacturers believed that:

This action would tend to penalize the employer who conducts his operations in such a manner as to provide stable employment. The increased amount of taxes required as a result of extending the wage base will fall most heavily on the stable employer whose employees work regularly and earn upward of \$4800 a year. (412)

The Ohio Chamber of Commerce and other, related groups concurred in this opinion.

However, Secretary Goldberg, in a prepared statement, related that:
. . . an increase in the rate of the Federal unemployment tax, whatever

it may be, will fall more heavily on industries paying \$3000 or less than on industries paying more than \$3000, if the tax base is left at \$3000.(16)

When State reserves have gone down, the pressure has generally been for an increase in maximum rates, rather than for an increase in the tax base. This has been based on the false assumption that unstable, high-benefit cost employers are also low-wage employers. To the contrary, I need only mention such industries as construction, steel, automobiles, as examples of high-wage industries whose benefit costs are high. But there is a practical limit to how far such increases may go. To the extent that a State cannot, or will not, raise the maximum rate beyond this limit, the burden must be shared by all employers, including those who would otherwise be entitled to lower rates. (15)

Experience Rating.--Employer groups also maintained that a wider tax base would destroy or seriously impair experience rating. Russell Bartley of the Illinois Manufacturers Association said that "a serious result of Federal standards would be the destruction of experience rating and the incentive for employers to stabilize their employment."(169) He added that "the experience rating formulas, which have been established through years of experience, would have to be completely changed by means of legislation in each of the States."(172)

Robert Ewens, speaking on behalf of the Conference of State Manufacturers Associations, maintained that:

Enactment of H.R. 3864 will tend to eliminate from an employer's consideration a genuine desire to retain his work force. He will know that his financial obligations may increase regardless of any employment stabilization efforts he desires.(247)

The NAM added that because of increasing weekly benefits and low maximum tax rates, a wider tax base would only further narrow the experience rating tax range.(412)

Arthur Goldberg anticipated these arguments. He took the opposite view as to the effects of a wider tax base on experience rating:

In my opinion, increasing the tax base will preserve and make experience rating more effective. With a higher tax base, it is possible to have a wider range of tax rates for individual employers to more adequately reflect their individual cost experience. In this way, experience rating

with the higher tax base can yield the same income and, at the same time, more realistically reflect costs of individual employers to the system.(16)

Both Secretary Goldberg and the employer groups were trying to predict the reaction of the States to an increased taxable wage base. If States did lower their tax rates in order to compensate for the increased taxable wage base, then the employer groups would have a valid argument. If, however, compensating measures were not taken on the part of the States, Goldberg's argument would have some merit.

Competitive Disadvantage Arguments.--One of the alleged barriers to State unemployment compensation laws during the 1920's was the argument that employers in States enacting unemployment compensation laws would be placed at a competitive disadvantage with respect to employers in States not having these laws, and that the State itself would be at a disadvantage in the effort to attract new industry. Therefore, it was argued, a Federal law was needed so that all States would be taxed. However, in the years since the passage of the Social Security Act, States have developed a system of experience rating taxes that are widely varied among the States. Thus, the basic Federal law has been largely circumvented by the existence of differential benefit provisions and tax rates. In addition, this development in experience rating provides a strong argument for Federal standards in the taxation area.

The competitive-disadvantage argument cropped up again in connection with the increased tax base. Secretary Goldberg argued that individual States have been reluctant to increase the tax base as a result of the fear that their State would be placed at a disadvantage in interstate competition for new industry.(15) R. L. Coffman, of the Texas Employment Commission, countered that "raising the tax base does not necessarily

get everybody on an equal basis because the State still has the right and privilege to adjust the tax rate . . ." (181) Coffman, however, along with five other directors of employment commissions, was not in opposition to the basic objectives of the TEUC bill. The Ohio Chamber of Commerce also argued that States could adjust their tax rates thereby negating the purpose of the tax base increase. (117) In reply to this argument it could be argued that the entire system of experience rating should be abolished.

Low State Reserves.--At the time of the 1961 hearings, none of the 17 States participating in the TUC Act of 1958 had repaid the Federal loans associated with financing the program. Goldberg used this as a reason for financing the 1961 program on a national basis through a widening of the tax base. He argued that several States were annoyed with a serious unemployment problem while their unemployment reserves were quite low. (51) The increased base "would afford the States an opportunity to approach the problems of inadequate reserves and benefits in a more realistic manner." (16) If their reserves were adequate, there was nothing to stop a State from readjusting its tax rates. (56) Professor Sommers, representing the Americans for Democratic Action, added that "it would be unrealistic and fiscally unsound to expect such States the 17 participating States under the 1958 act to borrow once again." (225)

The opposing argument was simple: A State could produce added revenue by increasing its tax base, tax rate, or both. The Federal Government does not need to enforce an increase in the tax base. Whether or not the States would in fact do these things was left unsaid.

The Ratio of Taxable Wages to Total Covered Wages.--Perhaps the

strongest of the administration's arguments for an increased tax base concerned the ratio of taxable wages to total covered wages. Goldberg pointed out that when the \$3000 limit was established in 1939, 97 per cent of total covered wages were included by the \$3000 limit. Since then, covered wages have increased so that, at the present time, only 60 per cent of these wages are included in the \$3000 limit. The \$3000 limit was imposed in 1939 to achieve technical conformity to the wage base of the OASDI tax.⁽¹⁵⁾ The counter-argument by the Ohio Chamber of Commerce was:

If the 1939 relationship between the wage base and the percentage of payroll covered by that base were to be maintained, a wage base in excess of \$10,000 would be required. Any increase in the wage base of less than that figure must be purely arbitrary. A wage base of \$4800 has no more justification than any other amount between \$3000 and \$10,000.

There is no relation between the wage base for OASDI purposes and the base used for unemployment compensation purposes.⁽¹¹⁶⁾

In addition to the strong employer opposition as described above, other⁶ groups did not feel that temporary legislation should be financed by a permanent tax feature. In any case, as we have seen in Chapter IV, this particular provision failed to materialize in the final draft of the bill.

The AFL-CIO supported the administration measure, including the financing provision. They advocated, however, certain liberalizing changes in the bill and in the basic unemployment insurance program. Employer groups, on the other hand, sometimes questioned the need for a recession measure at all, and, in general, took a far more conservative

⁶The Illinois, Texas, and Michigan Manufacturers Associations; the Texas Employment Commission; and the Associated Industries of New York, Inc. were opposed to a permanent tax feature tied to a temporary program.

stand in their arguments concerning unemployment compensation. The employer arguments will be presented in the next section. Following this section, organized labor will be given equal space.

Employer Opposition

The administration stated the argument for financing the TEUC program through the Federal Government as follows:

Since no State is a self-contained economic unit, we should not expect a State to carry alone the crushing burden of long duration unemployment. This is especially so when the causes of prolonged unemployment cross State lines. The proposed financing would pool the risks and costs of recessionary unemployment, which is more a national than a State problem.(14)

Generally, all employers organizations took a strong stand on the preservation of State autonomy. The NAM clearly stated "that all unemployment compensation programs, emergency or otherwise, should be State programs." Also, "they should be administered by the States and the funds to support them raised within the individual States."(410)

Federalization of the program was feared by the Illinois Manufacturers Association "because the payment of benefits by the Federal Government is a radical departure from the established concept of benefit payments."(169)

The Conference of State Manufacturers Associations pointed out that an indicator of the States being aware of their own problems was the 15 States that provided maximum duration of more than 26 weeks after the expiration of the 1958 TUC Act.(246)

Spokemen for employer groups were also skeptical as to whether the temporary extension of benefits conformed to the unemployment insurance philosophy. The Michigan Manufacturers Association believed that the

TEUC provisions were "destructive of the basic philosophy of a system of State unemployment compensation laws, each adjusted to the particular needs of its own people."(415) The extension of benefits also would destroy the insurance principle:

The pending proposal would change the unemployment compensation system from an insurance plan, where benefits are payable as of right based on past earnings, to a scheme for subsistence payments, something like welfare payments, but without a means test . . . (415)

Arguments made by the NAM and the Conference of State Manufacturers Associations were essentially the same as the above statement. The NAM argued that unemployment insurance "cannot do the job Congress intended it to do if in the interest of expediency, it is converted into a pseudo relief program to take care of temporary recessions."(410) Likewise, the Conference of State Manufacturers Associations was of the belief that the TEUC Act would "convert what was always considered an insurance program, financed by employers only, into a giant relief measure that throws into discard insurance principles of long standing."(246)

The coverage provided by the act was also attacked. It was charged that an increase in duration would benefit those persons no longer in the labor market more than those regularly attached to the labor force. (415) Also, it was argued, persons still in the labor force such as seasonal workers, part-time workers, and secondary wage earners comprised a large part of the exhaustees.

Various other arguments related to the increasing cost burden through taxes placed on the employer. At the same time, an inflationary argument was used, implying that the added tax cost would be passed on to the consumer in higher prices.

Generally we can say, then, that the business sector of the economy

took a more conservative view and sometimes a purely negative view toward extended benefits under the unemployment compensation program. Aside from a "leave-it-to-the-States" recommendation, business groups often fail to offer solutions which will come to grips with the basic problem.

The Support of Organized Labor

In the preceding section we found that employer groups took a strong States rights stand in regard to the unemployment insurance program. At the other extreme, labor unions, we will find, press for Federal standards in the unemployment insurance program. However, the labor and employer arguments are alike in one respect; they both tend to emphasize certain aspects of the basic unemployment insurance system rather than the proposed modification. Management, on the one hand, emphasized the need to maintain the status quo. Labor, on the other hand, was more interested in the basic reform of the unemployment compensation program.

Nelson Cruikshank, speaking for the AFL-CIO, emphasized one of the basic policy issues involved in H. R. 3864:

. . . there is the series of problems that arise when a temporary measure such as this is considered separately from permanent improvements in the Federal-State system and thus necessarily tailored to the pattern of the existing program with all the deficiencies and shortcomings that program contains.(291-92)

The essence of Cruikshank's argument was that Federal standards were needed in the program. By not having these standards, the Federal Government perpetuates and condones inequities in State laws. He charged that "the pattern of Federal aid in supplementing inadequate State unemployment insurance" tends to make States delay on improvements in their

laws and take a "wait-and-see" attitude in regard to Federal action. Furthermore, the Federal Government becomes a party to inequities in State laws by tying duration to the length of benefits under State laws and by accepting State eligibility provisions. Temporary extensions of benefits have to conform easily to State laws; therefore, the Federal Government becomes a supporter of the inequities of these laws.

He also pointed out the disadvantage of a temporary program with respect to the amount and timing of benefit payments as opposed to a good, permanent program.(293) He added that the need for temporary programs emphasizes the need for basic improvements in our present system.

However, the AFL-CIO supported the TEUC bill. The greatest improvement of the 1961 act over the 1958 act, they claimed, was the financing arrangement of the bill. They used essentially the same arguments in support of the widened tax base as the administration. The AFL-CIO did, however, recommend a federally prescribed minimum tax rate below which the State tax rates could not fall.(295)

Only one other major objection was voiced by labor. Instead of letting the extension of benefits vary up to a maximum of 13 weeks, they would provide a flat thirteen-week extension to all exhaustees on the grounds that there wasn't "any justification in recession conditions of drawing any relationship between base year earnings and the length of entitlement to Federal benefits."(294) This view is closely analogous to Becker's welfare and competitive concepts of unemployment insurance as discussed in Chapter III.

In conclusion, it is clear that organized labor is definitely concerned with permanent unemployment insurance reform. Perhaps Cohen is

close to the truth when he states that "the present attitude of organized labor toward social security is that a successful first step has been taken,"⁷ but that much more needs to be done.

⁷Wilbur J. Cohen, "Attitude of Organized Groups Toward Social Insurance," Readings in Social Security, ed. William Haber and Wilbur J. Cohen (New York: Prentice-Hall, Inc., 1948), p. 131.

CHAPTER VI

CONCLUSIONS

A strong case can be made for the temporary extension of benefits. The rates of exhaustion under the regular program of unemployment insurance were abnormally high during the relatively mild recessions of 1958 and 1961. Many months during these two periods had an exhaustion rate in excess of 25 per cent. This one fact implies that State duration provisions are not adequate during recessionary periods.

Does the temporary extension of benefits conform to generally accepted social insurance principles? A strong case can also be presented on the affirmative side. As Burns has pointed out,¹ there is a great deal of difference between the objectives and principles of private and social insurance. Also, the benefits drawn under the 1958 and 1961 programs were still far removed from relief as we know it today. The temporary measures are even farther removed from the early measures (before 1935) designed to aid the destitute. Furthermore, it is difficult to conclude that the extended benefits were paid on the basis of need rather than as an earned right. Duration provisions of State laws are arbitrary and vary widely. Can we say that 26 weeks of benefits conforms to the insurance principle and then say that the last 13 weeks of benefits drawn under the Oklahoma law are relief payments? I think not.

¹See pages 31, 32, 33.

Benefits were still paid, under both temporary programs, according to the benefit formula established in each State. These formulas are, in turn, based on base-period earnings. Given the benefit formulas and the arbitrariness of duration provisions, it seems to follow that extended benefits still reflect the past productivity of the worker.

On the basis of the contents of Chapter IV, the TEUC Act of 1961 was somewhat more effective than the 1958 TUC Act. This fact is derived from the wider coverage of the act. Since more people were covered, given that the other provisions of the two acts were generally the same, it follows that more benefits were paid to a greater number of exhaustees.

Also, in Chapter V, we found that various interest groups play an important and powerful role in the shaping of economic legislation. If we can classify groups into "liberal" and "conservative" elements, we find that, generally, employer groups take a much more conservative stand on legislation of this type than does organized labor. As a result of the powerful influence of employer groups, the most controversial feature of the 1961 bill (financing) conformed to employer demands. On the other hand, when we consider the various provisions of the bill rather than the bill itself, organized labor did not exert any appreciable influence on the final form of the legislation. However, the legislation itself probably would not have been passed without the active support of organized labor.

Another important factor also emerges as a result of this paper. The fact that "stop-gap" programs were needed during the two recessions suggests that permanent revisions are needed in the unemployment insurance program, especially in the areas of benefit amounts and benefit duration. Assuming that complete federalization is not feasible at this

time, either one of the following two approaches is preferable to temporary measures: (1) A system of State programs (with 100 per cent participation) designed along the same lines as the "trigger mechanisms" enacted on the part of the five States mentioned earlier in this paper, or (2) a Federal program of extended benefits to be "triggered" into effect when the national rate of insured unemployment reaches a specified level.

Under either program, the timing of the extended benefits could be superior to that in an emergency program. From a humanitarian standpoint, exhaustees would likely be provided with benefits more quickly than under emergency programs. From an economic standpoint, benefits could be channeled into the spending stream at the early stages of an economic downturn, thereby tending to modify periodic cyclical fluctuations.

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