

UNEMPLOYMENT INSURANCE: TRENDS AND ISSUES

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FOREWORD

Various developments during the past decade led to vast changes in the Federal-state unemployment insurance system, which was established more than four decades ago as the major governmental program of aid for the temporarily unemployed. The system underwent heavy financial drains as a result of the 1973-1975 recession, the deepest in the program's history, coupled with the effects of Federal and state policies generally liberalizing benefits without making appropriate provision for the associated cost increases. By the late 1970s, the Federal government and a number of states found it necessary to borrow from the Federal treasury in order to meet their commitments under the system.

As the financial problems were developing, the unemployment compensation program came under increasing criticism for its alleged adverse effects in encouraging unemployment by creating work disincentives for both unemployed workers and employers.

Apparently reflecting these concerns, and in the face of a new commitment to control Federal budget costs, Congress in 1980 and 1981 enacted measures imposing some restraints on the unemployment insurance program, the finances of which are a part of the unified Federal budget. At the same time, many states moved to shore up their own finances through cost-saving measures and/or increases in employer payroll taxes.

In the fall of 1981, there were growing signs that a new economic recession was under way, again posing questions as to the future solvency of the unemployment compensation system and its appropriate role as one of the nation's major Federal-state social programs.

This study was designed to provide background on these and other issues. It covers the historical background of unemployment insurance programs in the United States and abroad, long-run trends in the magnitude of the program, financing and benefit provisions of the state programs, experience during the business cycle, financing problems of the 1970s, and the pros and cons of major unresolved issues in the system.

Elsie M. Watters, Director of Research, had primary responsibility for this study. An earlier draft was prepared by Betty Deranian, a former Senior Research Analyst on the staff, who also drafted much of the tabular material.

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I.

UNEMPLOYMENT INSURANCE: THE BEGINNINGS

Just as the adult only approximately resembles the infant from whom he has grown, so today's system of unemployment insurance is scarcely recognizable as the same entity that was created in the 1930s. In a period when nearly all workers are covered by the program, and the big questions involve such matters as how to temper the program's effect on the Federal budget, how to handle debts accumulated under the program by the states and the national government, and whether the present system may actually encourage idleness on the part of some beneficiaries, it is hard to realize that the program began on a modest scale (1).

Perhaps because of the nation's grounding in rugged individualism, the United States took a comparatively long time to accept the viewpoint that unemployment either was or should be an insurable risk. It was not until 1935 that Federal legislation, assuring that all of the states would establish their own unemployment insurance programs, was passed. By that time, some 19 European countries as well as Canada and Australia already had unemployment insurance plans in operation, in some cases for a considerable number of years.

At the turn of the century, the onus of unemployment commonly fell on the worker himself; it was widely presumed that if a man was not holding a job, it was his own fault, that somehow more than temporary or transitional unemployment sprang from any one of a number of personal vices such as laziness, tendencies to drink, a history as a poor worker, etc. One economist of the period flatly stated: "Nothing could more effectively demoralize the laborer than the idea that he need not 'hustle' for himself" (2).

1. Historical material in this section was drawn from a variety of sources, but primarily based on data from Daniel Nelson, Unemployment Insurance, the American Experience 1915-1935, University of Wisconsin Press, Madison, 1969 and a summary article, "Twenty Years of Unemployment Insurance in the USA 1935-1955," Employment Security Review, Vol. 22, No. 8 (August 1955).
2. Thomas Nixon Carver, quoted in Daniel Nelson, op. cit., p. 4.

Suggestions for combatting unemployment went in many directions. In the 1870s the Greenback Party put forward the idea of providing free transportation to the West for the unemployed. Some union leaders wanted immigration restriction and public works; socialists clamored for nothing short of restructuring society. Others advocated currency and tariff reform, returning workers to farms, shorter work days, and industrial education. In general, the emphasis lay on prevention of unemployment more than on amelioration of the problems of the worker without a job.

The European Experience

The earliest known plan for unemployment insurance was established in Basle Town, Switzerland in 1789. The plan, however, was short-lived, and nothing further was attempted until the middle of the nineteenth century when a few trade unions, mutual benefit societies, and fraternal societies provided unemployment benefits for their members. Dijon, France, was the first municipality to subsidize the voluntary plans, beginning in 1896. The following year Liege, Belgium, initiated a similar arrangement, providing an annual subsidy based on benefits paid in the prior year, and the general arrangement soon spread widely to cities in Germany, Switzerland, Italy, the Netherlands, Norway, Denmark, Finland, and Great Britain, as well as in Belgium and France. Eventually some provinces and cantons as well as national governments supplemented the municipal subsidies.

The Swiss commune of St. Gall established the first compulsory unemployment insurance plan in 1894. The system became defunct in 1897 when workers with steady employment began to move to other areas in order to avoid making contributions to the plan.

Great Britain established the first national compulsory unemployment insurance program in 1911. Italy followed suit in 1919, and during the 1920s Australia, Austria, Bulgaria, Germany, Irish Free State, Poland, and Switzerland introduced compulsory systems. The most extensive plans were found in Great Britain and in Germany.

The Experience in the States

Attitudes today make it difficult to comprehend that one of the staunch opponents of unemployment insurance in the United States was the labor movement. Samuel Gompers, who

served as president of the American Federation of Labor for nearly forty years, acted as one of the most outspoken agents of that opposition. He took the position that workers should cope with their own problems, including unemployment. The AFL advanced a threefold approach to the problem of unemployment: 1) a shorter workday, which was expected to spread employment automatically; 2) opposition to the view that wages and employment should be related to production levels, again with the idea of prolonging available work; and 3) relief for the jobless, preferably in the form of public works jobs, but also relief provided from union funds. Government assistance, except for creation of public works jobs, was regarded as interference and a threat to union independence.

The Great Depression marked the turning point in the general public attitude toward unemployment insurance. The magnitude of that experience, and its excessive duration, caused many to believe in the validity of income related to willingness to work, and not merely the availability of jobs. An atmosphere in which the unemployment rate eventually (in 1933) approximated 25 percent of the civilian labor force made it difficult to hew to the previously espoused idea that correct effort on the part of unions and/or businesses could deal with the problem of unemployment. The atmosphere of the depression consequently led to a changed view of the purpose of unemployment insurance. Whereas in the 1920s the emphasis had been placed on the stabilization of production and hence employment, the depression shifted the focus to the provision of benefits for the jobless worker.

Wisconsin acted as the pioneer state, passing an unemployment insurance law in January 1932. This historic act covered employers of ten or more workers; 2 percent of the employer's payroll went into a state-controlled individual fund until \$55 per employee had been accumulated, and thereafter the rate dropped to 1 percent until \$75 had been accumulated. Employees were entitled to 10 benefit weeks annually at a rate of 50 percent of their average weekly wage (not to exceed \$10 per week).

In 1931 Franklin D. Roosevelt, then governor of New York, called a conference of governors of six northeastern states, which resulted in an Interstate Commission on Unemployment Insurance. This commission unanimously recommended legislation of the Wisconsin type. Other commissions were subsequently established and many bills were introduced in numerous states, but no definitive action was forthcoming until 1935. In April of that year, New York became the second state to enact

unemployment insurance. An important difference from the Wisconsin legislation, and a point over which there had been acrimonious debate, was the abandonment of individual employer funds in favor of a pooled fund. California, Massachusetts, New Hampshire, Utah, and Washington also passed unemployment insurance legislation in 1935; but such programs became widespread only after Federal legislation made them financially attractive for all states.

The Federal Experience

Until the Great Depression, the Federal government took little notice of problems of unemployment. An occasional hearing on a bill or a conference (3) was the extent of the action. In general, the view prevailed that any public unemployment insurance plans should be left to the domain of the states.

As the depression worsened, however, Congress became more involved in the problem. Senator Robert F. Wagner spearheaded the first step of significance, a Senate resolution establishing a Select Committee on Unemployment Insurance. Extensive hearings were held; a detailed report concluded that a Federal plan for unemployment insurance would be both unconstitutional and undesirable. The Committee recommended that Federal support be confined to tax advantages for employers who maintained private unemployment reserves, conceding that voluntary plans might develop so slowly that compulsory state legislation might be necessary.

While President Roosevelt and most of Congress concentrated on the problem of reemploying the jobless, Senator Wagner continued to push for unemployment insurance, introducing measures that attracted little support. In early 1934, however, Senator Wagner and Representative David J. Lewis introduced a bill based on an idea originating with Supreme Court Justice Brandeis. The Wagner-Lewis bill imposed a 5 percent excise tax on payrolls for purposes of funding unemployment insurance, but included a credit against taxes paid toward state unemployment plans (under terms that allowed for a variety of types of state systems), with a view to inducing states to set up their own programs rather than establishing a Federal unemployment insurance system. The battle over the detail of this bill raged

3. One of these was a national conference on unemployment called by President Warren G. Harding in 1921, with then Secretary of Commerce Herbert C. Hoover as Chairman.

until mid-1934, when the bill died in the House Ways and Means Committee. The problem was then turned over to a committee formed for the purpose of developing a comprehensive plan of social insurance, including such matters as help for the aged, the handicapped, and those with health problems. Ultimately a bill representing the compromises worked out by this special committee, including a somewhat modified version of the original Wagner-Lewis bill, was introduced in 1935 by Senator Wagner and Representatives Lewis and Robert L. Doughton. The bill met opposition from many quarters and on widely differing bases, but was kept afloat (though considerably modified) by the vigorous efforts of supporters, notably Secretary of Labor Frances Perkins and, finally, the President. On August 14, 1935, the bill was signed into law, and a mechanism for the establishment of a Federal-state system of unemployment insurance became a reality.

Provisions of the Original Federal Law

The Social Security Act of 1935 spelled out the provisions for unemployment compensation. Title IX provided for the employer tax, specified exclusions from coverage, established standards that state systems must meet in order to be approved for tax offset purposes, and set up rules with regard to experience rating; Title III was concerned with administration.

An excise tax in the amount of 1 percent of total (4) payroll in 1936, 2 percent in 1937, and 3 percent in 1938, was imposed on employers of 8 or more persons in 20 or more weeks in a year. The law specifically excluded from coverage agricultural labor; domestic service in a private home; certain specified immediate members of the family of the employer; Federal, state, and local employees; crews of vessels on navigable waters of the United States; and employees of certain nonprofit organizations.

Title IX provided that employers could receive up to 90 percent credit against their Federal tax for taxes paid to approved state unemployment compensation systems. Additional credit was made available in the case of an employer with a lower experience rating, provided certain basic safeguards spelled out in the law were met.

4. Until 1939, Federal law did not specify a maximum taxable base, although some few states did so.

Qualified plans were required to deposit all taxes collected into the Federal Unemployment Trust Fund, where the amounts were to be credited to each state's account separately. Money withdrawn from the fund could be used only for the payment of unemployment compensation; administrative costs were met from grants from the Social Security Board paid from the Federal portion of the tax.

Applicants were expected to take jobs if available. However, approved state plans were not permitted to deny benefits, if an applicant was otherwise qualified, when he refused to accept a new job under certain conditions: if the new job were available because of a labor dispute; if the wages, hours, or other conditions were substantially less favorable than those for similar work in the locality; if the applicant would be required to join a company union or resign from or refrain from joining any legitimate labor organization.

Subsequent years have seen considerable modification of the original framework. The step-by-step changes are detailed in Table 1; the following section gives an overview of the program as it exists today.

Table 1

HIGHLIGHTS OF FEDERAL UNEMPLOYMENT INSURANCE
LEGISLATION, 1935-1981

1935	Social Security Act established basic framework for Federal/state unemployment insurance system (see text). Federal tax rate was 1% of total payroll in 1936, 2% in 1937, and 3% in 1938.
1938	Railroad Retirement Act set up separate Federal program for unemployment insurance of railroad industry employees.
1939	Substantial parts of Title IX of Social Security Act (the taxing provisions) repealed and reenacted as Federal Unemployment Tax Act in Internal Revenue Code. Tax base limited to \$3,000 of covered workers' wages. Small changes in extent of coverage, excluding some small groups (e.g., newsboys under 18) and adding others.
1944	Serviceman's Readjustment Act of 1944 ("GI Bill of Rights") provided benefits for unemployed veterans. Financed by Federal government, with states serving as agencies. Mobilization and Reconversion Act established fund for loans to states whose funds might be depleted by anticipated increases in payments related to conversion to peacetime conditions. Fund was never used.
1946	Coverage extended to maritime service.
1948	Legislation restricted definition of "employee" to the common law rule of "master-servant" relation, thus removing from coverage some half-million persons, including outside salesmen.

(continued)

Table 1 (continued)

HIGHLIGHTS OF FEDERAL UNEMPLOYMENT INSURANCE
LEGISLATION, 1935-1981

1952 Unemployment benefits provided for veterans of Korean Conflict.

1954 Employment Security Administrative Financing Act provided for earmarking of excess of Federal unemployment taxes over administrative expenditure. Created (interest-free) loan fund for states with low reserves.
Coverage extended to Federal civilian employees, subject to state benefit formulas but financed by Federal funds (effective 1955).
Coverage extended to employers of four (previously eight) or more workers in 20 weeks (effective 1956).

1958 Temporary Unemployment Compensation Act extended benefits by 13 weeks beyond the regular 26-week benefit period. Payment was half the regular amount for individuals who had exhausted benefits. Program expired in 1959. Program financed by Federal loans to participating states, which were to repay by reducing tax offset for 1963 and thereafter (if not paid before that date).

1960 Loans from Federal loan fund limited to states unable to meet benefits claims in current or following month.

1961 Coverage extended to Puerto Rico and certain quasi-Federal instrumentalities (i.e., Federal Reserve banks, etc.)
Federal payroll tax increased from 3.0% to 3.1%. Offset provision remained at 2.7%, thus increasing Federal share. Excess over administrative costs to

(continued)

Table 1 (continued)

HIGHLIGHTS OF FEDERAL UNEMPLOYMENT INSURANCE
LEGISLATION, 1935-1981

build up loan fund to a balance of \$550 million or 0.4% of taxable payrolls. Excess over this ceiling to be returned to states.

Temporary Extended Unemployment Compensation Act provided extended benefits of one-half the regular amount to individuals who had exhausted benefits. Program expired in 1962, limited extended benefits to 13 weeks, and reimbursed states for benefits paid after 26 weeks. Financed by temporary additional Federal employment tax of 0.4% in 1962 and 0.25% in 1963.

1962. Coverage extended to various small groups, such as nonprofit organizations not exempt from income tax.

1970 Unemployment tax increased to 3.2%, 0.5% for Federal fund.

Small groups excluded from coverage (e.g., workers in hospitals in which they are patients).

Permanent program to extend benefit duration by 13 weeks during recession established, effective 1972 nationwide. Program triggered into effect in all states when seasonally adjusted insured unemployment rate nationwide was 4.5% or more for three consecutive months. States permitted to institute programs after October 1970 when state rate averaged 4% or more for 13 consecutive weeks, if rate was 20% higher than corresponding period in 2 preceding years. Federal government pays half the benefit cost. Financed in 1970 and 1971 by 0.1% increase in Federal unemployment tax; thereafter by one-tenth of Federal tax receipts. Account established with \$750 million ceiling or 0.125% percent of total covered wages.

(continued)

Table 1 (continued)

HIGHLIGHTS OF FEDERAL UNEMPLOYMENT INSURANCE
LEGISLATION, 1935-1981

	Coverage extended to employers of one or more in a calendar year or with a quarterly payroll of \$1,500, to nonprofit organizations of four or more, religious organizations, state hospitals, state institutions of higher education, outside salesmen and the like, and several small groups (effective 1972).
	Taxable wage base increased to \$4,200. Benefits may not be denied workers in approved training programs (effective 1972).
1971- 1972	New temporary program, for up to 13 weeks of additional extended benefits, established beginning January 1, 1972. Operational when insured unemployment rate (adjusted for exhaustees) was 6.5% or more and the trigger under the permanent program was either in effect or terminated only because the rule for measuring the state's unemployment against the prior 2 years could not be met. Program financed entirely by Federal government. Tax for 1973 increased from 3.2% to 3.28%, of which 0.58% was the Federal share. Program expired March 1973.
1973	Trigger "on" and "off" requirements under permanent extended program waived until 1974. States permitted to begin new extended benefit period without 13-weeks wait since last extended benefit period.
1974	Emergency Unemployment Compensation Act provided up to 13 additional weeks of wholly Federally financed supplemental benefits for 13 additional weeks, over and above the 13 weeks of extended benefits available under prior programs, for a total of up to 52 weeks. Benefits were payable on basis of same triggers as extended benefit program. Emergency Jobs and Unemployment Assistance Act provided up to 26 weeks of bene-

(continued)

Table 1 (continued)

HIGHLIGHTS OF FEDERAL UNEMPLOYMENT INSURANCE
LEGISLATION, 1935-1981

fits for unemployed workers previously employed in jobs not covered by unemployment insurance. This program was fully financed by the Federal government from general revenues; program terminated July 1, 1978.

1975 Duration of extended and supplemental benefits increased from 26 to 39 weeks; program extended through March 1977 (for a maximum of 65 weeks of regular and extended benefits). Tax credit reduction for borrowing states deferred for 3 years provided specified conditions are met.

1976 Taxable wage base increased to \$6,000, effective January 1978. Federal share of tax increased to 0.7%, effective January 1977. States required to extend permanent coverage to state and local government employees and certain agricultural and domestic workers, effective January 1978. Virgin Islands added to Federal system. Other changes were concerned with qualification for benefits. Trigger provisions in the extended benefits program modified by permitting the 120% factor to be waived by state law whenever the state's insured unemployment rate was 5% or higher. Provided for Federal reimbursement to states for UI paid to individuals separated from public service jobs.

Required states to prohibit payment of benefits between successive seasons to professional athletes who have "reasonable assurance" of reemployment and to aliens not legally admitted to the country for permanent residence; reduced (after September 1979--later extended to April 1, 1980) UI benefits for retirees by the amount of any pension payments.

(continued)

Table 1 (continued)

HIGHLIGHTS OF FEDERAL UNEMPLOYMENT INSURANCE
LEGISLATION, 1935-1981

Established a 13-member National Commission on Unemployment Compensation to study and evaluate the present programs, to assess long-range needs, and recommend changes. Members were to represent labor, industry, the Federal government, local government, and small business. Seven members were appointed by the President, and three each by the President Pro Tempore of the Senate and the Speaker of the House of Representatives. An interim report was to be submitted by March 31, 1978, and a final report by January 1, 1979. (Dates subsequently extended so that final report was due June 30, 1980.)

Extended two additional years (until 1980) the deferral of the Federal tax credit reduction for borrowing states.

1978 Revenue Act imposed a tax on unemployment benefits for those whose total income exceeds prescribed amounts.

1980 Omnibus Budget Reconciliation Act terminated special Federal funding of unemployment benefits paid to CETA workers; denied extended benefits to those who fail to meet certain requirements related to work, and eliminated the Federal share (50%) of the cost of the first week of extended benefits for states which do not withhold payments for a waiting week. A separate law increased to 365 days the period of active duty military personnel must serve for unemployment compensation purposes.

1981 Omnibus Budget Reconciliation Act eliminated the national trigger under the extended benefits program (effective July 1, 1981); raised from 4% to 5% (plus the 120% factor) the insured unemployment rate at

(continued)

Table 1 (continued)

HIGHLIGHTS OF FEDERAL UNEMPLOYMENT INSURANCE
LEGISLATION, 1935-1981

which extended benefits will be payable in a state; and raised the optional trigger state rate from 5% to 6% (effective after September 25, 1982). The law also excluded extended benefits claimants in the computation of unemployment rate for the extended benefit trigger; required 20 weeks of work or equivalent wages for extended benefits; and disqualified for unemployment compensation exservicemembers who leave the military at the end of a term of enlistment and are eligible to re-enlist.

The same law requires that interest be charged on UI loans to states received between April 1, 1982 and December 31, 1987, and reduces the tax penalty resulting from outstanding Federal loans for states meeting prescribed solvency, tax effort, and other standards.

Provisions for the Trade Adjustment Assistance program were significantly modified.

Source: "Twenty Years of Unemployment Insurance in the USA 1935-1955," Employment Security Review, Vol. 22, No. 8 (August 1955); New York Department of Labor, A History of Unemployment Insurance Legislation in the United States and New York State 1935-1973, Albany, N.Y., 1973; Council of Economic Advisors, Annual Report, 1974, 1975, 1976, 1977; Department of Labor, Employment and Training Report of the President, 1977; and relevant public laws.

II.

UNEMPLOYMENT INSURANCE TODAY

Institutions, like people, rarely remain static. The unemployment insurance system, while bearing a familial resemblance to the framework set up 45 years ago, has gradually changed from a modest instrument to today's all-pervasive--some say potentially overpowering--superstructure.

As will be shown in tabular material later in this section, since the beginning days all dimensions of the unemployment insurance program have expanded: coverage, tax base, tax collections, benefit amounts, and duration. Some of these changes are more nominal than real--the taxable wage base, for instance, has doubled in dollar amounts but is now a much smaller fraction of total wages than initially. Other changes, such as size of firm and industries covered and the relatively new concept of extended benefits, represent unmistakable expansions in the scope--and therefore in the absolute costs and various effects--of the program.

Coverage and Tax Collections

An important element in the expansion of the unemployment insurance system has been the steady increase in the number of employees covered. Three factors lie behind the rise: gradual reduction in the size of firm covered from eight-employee firms to one-employee firms, addition of various industries and categories of workers to the covered group (Table 2), and rising total employment.

In 1978 covered taxable employment under the Federal-state UI program totaled close to 69 million, nearly triple the 23 million included in the program in 1940 (Table 3). During the same period, the nation's total employment doubled, rising from 48 million to about 96 million. Taxable UI employment thus rose from just under one-half of total U.S. employment in 1940 to more than 70 percent of the total in 1978 (1). All UI cov-

1. UI taxable employment does not reflect all covered employment, because some employers--public and nonprofit organizations--do not pay taxes into the system but reimburse the state funds for unemployment benefits of their previous employees. Also outside the state UI financing systems are

ered employment--taxable and reimbursable--totaled 83.2 million in 1978, or 95 percent of all wage and salary workers (2).

Rising covered employment, real average wages, and inflation, together with increases in the minimum taxable wage base, have contributed to substantial increases in taxable wages over the years. The Federally required minimum tax base per employee, \$3,000 in 1940, was raised to \$4,200 in 1972 and to \$6,000 in 1978. Total taxable wages grew nearly 14-fold--from \$30 billion in 1940 to \$412 billion in 1978. Despite increases in the Federal taxable base, the share of taxable as opposed to total wages in covered employment dropped from almost 93 percent in 1940 to around 50 percent in 1978. The 1978 increase in the tax base, however, raised this proportion, at least temporarily.

Given the taxable wage base, the course of UI tax collections has been determined by the tax rates in effect over the years. Any discussion of tax rates must take into account at least three elements: the Federal rate, the range of average state rates, and the actual rates paid by specific employers based on their experience rating (3).

The Federal tax rate has risen from the original 1 percent on total wages to the present 3.4 percent on a \$6,000 base (4). If the states had not set up UI programs conforming to Federal laws, the Federal government could in effect tax employers up to \$204 per covered employee (i.e., 3.4 percent times the \$6,000 taxable wage base). However, employers subject to the state laws may satisfy their Federal tax liability by paying a Federal tax of 0.7 percent of taxable payrolls. (All states have adopted such enabling legislation.) Thus employers are allowed a credit, or offset, against the Federal tax of 2.7 percentage points. The "standard" state tax rate is generally 2.7 percent (although higher in a few states), but rates of individual employers may range widely under experience-rating systems, which generally permit lower rates for firms with a stable employment record.

unemployment programs for Federal civilian employees and ex-servicemen, paid out of Federal general funds; and for railroad employees, financed separately.

2. Based on data reported in the Economic Report of the President, January 1981, pp. 264 and 272.
3. Experience rating is discussed in Section IV.
4. Total wages averaged about \$1,300 per worker in 1938.

Table 2

EXTENSIONS OF UNEMPLOYMENT INSURANCE COVERAGE^a

1946 - 1978

Date	Groups added
1946	Maritime services
1954	Federal civilian employees
1956	Firms employing four or more persons (previously eight or more)
1961	Puerto Rico, certain quasi-Federal institutions
1962	Nonprofit organizations, other small groups
1972	Firms employing one or more persons, religious organizations, state hospitals, state institutions of higher education, various small groups
1978	State and local government employees, certain agricultural and domestic workers, Virgin Islands

a. Excluded here are special programs for groups of workers adversely affected by certain acts of Congress or special economic circumstances; e.g., the trade-adjustment program (for workers adversely affected by increases in imports); railroad reorganization; airline deregulation; national park legislation; and disaster relief. These programs are financed from Federal general revenues and typically have more liberal benefit allowances than are available under the Federal-state UI system.

Source: Table 1.

Table 3
TRENDS IN COVERAGE OF STATE PROGRAMS
Selected Years, 1940 - 1978

Year	Average monthly covered employment ^a (thousands)	Annual taxable wages in covered employment (billions)	Taxable as a percent of total wages	Minimum wage base
1940.....	23,092	\$ 30.1	92.8	\$3,000
1950.....	32,887	81.5	79.1	3,000
1960.....	40,198	119.2	61.1	3,000
1970.....	52,168	182.7	47.7	3,000
1971.....	52,080	182.8	45.3	3,000
1972.....	56,622	236.4	51.7	4,200
1973.....	59,915	254.9	50.0	4,200
1974.....	60,904	265.4	47.5	4,200
1975.....	58,571	261.9	45.2	4,200
1976.....	61,077	301.0	46.5	4,200
1977.....	63,565	324.2	45.1	4,200
1978.....	68,533	411.9	49.6	6,000

a. Taxable only; excludes reimbursable programs. In 1978, an additional 14.7 million persons, with wages totaling \$164.5 billion, were covered under programs--largely public--through which employers reimburse the UI account for benefits paid.

Source: U.S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1976 and supplements.

While it may have little significance for individual firms, one overall measure of effective tax rates is represented by total tax collections as a percentage of total wages in covered employment. These rates, together with state tax collections for the United States since the early days of the program, are shown for selected years in Table 4.

Over the period from 1940 to 1970, average tax rates as related to total wages (as well as taxable wages) dropped substantially, but this pattern was reversed during the 1970s. State UI taxes fell from 2.5 percent of total wages in 1940 to 0.64 percent in 1970, then gradually increased, reaching 1.37 percent in 1978. Thus the effective rate of the tax, applied to total wages, more than doubled in the period from 1970 to 1978.

Changes in the effective tax rate per employee have also been significant. The average state tax per covered employee was \$48 in 1970 and had risen to \$164 by 1978.

The Federal tax per employee also rose sharply during the 1970s, from a maximum of \$15 in 1970 (0.5 percent on a \$3,000 wage base) to \$42 currently (0.7 percent on a \$6,000 base) (5).

Under such influences, it is not surprising that state tax collections have grown enormously since the initial years of the program, as well as in more recent years. Tax collections of \$11.2 billion in 1978 were 13 times as large as in 1940, for example. But the most pronounced growth has occurred in the period since 1970. In the three decades from 1940 to 1970 tax collections almost tripled, growing at an annual rate of 3.7 percent. In the ensuing eight years alone, however (1970 to 1978), tax collections more than quadrupled, rising at annual rates of more than 20 percent.

Benefits

Because of UI financing arrangements, the trends in taxes, discussed above, reflect the course of benefit payments. The all-time high of \$11.8 billion paid in regular benefits in

5. According to the Department of Commerce, Federal UI tax collections totaled \$854 million in 1970 and \$2,850 million in 1978. (Survey of Current Business, July 1979, and National Income And Product Accounts of the United States, 1929-1974.)

Table 4

TRENDS IN STATE UNEMPLOYMENT TAX COLLECTIONS
Selected Years, 1940 - 1978

Year	Total state tax collections (millions)	Average state tax per covered employee	State tax as percent of	
			Total wages	Taxable wages
1940.....	\$ 854	\$ 37	2.50	2.70
1950.....	1,191	36	1.18	1.50
1960.....	2,288	56	1.15	1.88
1970.....	2,506	48	.64	1.34
1971.....	2,637	51	.64	1.41
1972.....	3,898	69	.88	1.70
1973.....	4,996	84	.99	1.99
1974.....	5,220	86	.94	2.00
1975.....	5,210	90	.89	1.98
1976.....	7,532	123	1.20	2.58
1977.....	9,170	144	1.29	2.85
1978.....	11,212	164	1.37	2.77

Source: U.S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1976 and supplements.

1975 dwarfs the 1940 total of just over half a billion (Table 5) (6). Since weeks compensated for unemployment of more than 175 million in that year were the highest in the history of the program, 1975 may make an inappropriate year for comparison. But even three years later, when weeks compensated had dropped to 101 million, total benefits were 15 times as high as in 1940.

The rise in total benefits stems from a variety of factors. Increased coverage has inevitably led to higher total benefits, especially with the relatively high rates of unemployment characterizing some recent periods. But rising average benefits and longer benefit periods also have had an effect. Average weekly benefits have grown to eight times their 1940 level. The average duration of benefits also has gone up, though not so steadily or dramatically as the benefit amount, moving from 9.8 weeks in 1940 to a high of 15.7 weeks in 1975 and dropping back in later years (7).

Benefits have generally kept pace with the rise in average wages (8). Although not as high as in the early years of the UI program, benefits as a percent of weekly wages have in fact climbed from about 34 percent in 1950 to about 37 percent in recent years.

Much of the increase in the dollar amount of weekly benefits (as well as wages) reflects increases in prices. What about the buying power of weekly benefits as compared to earlier years? Table 6 presents data on average weekly and annual unemployment insurance in constant dollars. On this inflation-adjusted basis, it is seen that the purchasing power of an average weekly benefit rose about 70 percent from 1940 to 1978, from \$49 to \$84 (both in constant 1978 dollars). Much of the

6. These figures do not include various special programs of extended and emergency benefits, which are examined in Section V.
7. These trends in actual duration appear to be influenced by characteristics of the unemployed and the stage of the business cycle. The states have in fact raised the average potential duration of benefits--from 19.8 weeks in 1946 (earliest available) to 24.1 weeks in 1977.
8. Comparisons of average benefits with average wages underestimate the wage-replacement ratio because unemployment benefits have not been subject to Federal income tax, whereas wages are. Other limitations to the comparison are discussed below.

Table 5

TRENDS IN UNEMPLOYMENT BENEFITS UNDER STATE PROGRAMS^a
Selected Years, 1940 - 1978

Year	Total benefits paid ^b (millions)	Average weekly benefit ^c		Weeks compensated ^c (millions)	Average duration of benefits ^c (weeks)
		Amount	As percent of weekly wage ^d		
1940.....	\$ 519	\$10.56	39.1	51.1	9.8
1950.....	1,373	20.76	34.4	67.9	13.0
1960.....	2,727	32.87	35.2	85.6	12.7
1970.....	3,847	50.31	35.7	78.8	12.3
1971.....	4,952	54.35	36.5	95.4	14.4
1972.....	4,484	55.82	36.1	81.1	14.0
1973.....	4,006	59.00	36.1	71.2	13.4
1974.....	5,978	64.25	36.5	97.8	12.7
1975.....	11,754	70.23	37.1	175.3	15.7
1976.....	8,973	75.16	37.1	124.4	14.9
1977.....	8,345	78.71	36.4	113.2	14.2
1978.....	7,710	83.67	36.4	101.0	13.3

a. Excludes extended benefits.

b. Under taxable programs only.

c. Includes taxable and reimbursable programs.

d. As noted in the text, these ratios do not reflect wage-replacement ratios for several reasons, including the income tax-free status of UI benefits.

Source: U.S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1976 and supplements.

Table 6

AVERAGE WEEKLY AND ANNUAL UNEMPLOYMENT INSURANCE
 BENEFITS IN CONSTANT DOLLARS
 Selected Years, 1940 - 1978

Year	Average weekly benefit in constant 1978 dollars	Average annual benefit in constant 1978 dollars ^a	Exhibit: Consumer price index 1978 = 100
1940.....	\$49.14	\$ 482	21.49
1950.....	56.26	731	36.90
1960.....	72.42	920	45.39
1970.....	84.53	1,040	59.52
1975.....	85.13	1,336	82.50
1976.....	86.13	1,283	87.26
1977.....	84.73	1,203	92.89
1978.....	83.67	1,113	100.00

a. Average weekly benefit times average duration of benefits (see Table 5 for average duration). Excludes extended benefits.

Source: Computations based on data in Table 5, and consumer price index from Bureau of Labor Statistics, U.S. Department of Labor.