

R E P O R T
of
UNEMPLOYMENT INSURANCE
COMMITTEE
to
THE INDUSTRIAL
ADVISORY BOARD



June 18, 1934

Washington, D. C.,

June 18th, 1934.

Mr. George H. Mead,
Chairman Industrial Advisory Board,
Washington, D. C.

Dear Mr. Mead:

Complying with the request of the Industrial Advisory Board that we act as a committee to make a study of unemployment insurance systems, and submit a plan for consideration of the Board, we respectfully submit the following data.

The report has been somewhat delayed on account of the magnitude and complexity of the subject. In organizing our work we came to the conclusion that the proper method of procedure was to begin at the bottom, without any preconceived convictions, and develop the subject by testing—as far as possible—every element about which there could be the least doubt.

The idea is a new one in America, so we had to proceed without having any tangible body of past American experience to guide us. There has been much difficulty in getting even the census figures properly correlated, as the census has been compiled without any thought of unemployment insurance. But we have been helped greatly by surveys made during the present depression by independent organizations.

We are particularly indebted to Mr. Warren Jay Vinton, Director of Research of the American Association for Social Security. He has given much time to the Committee, and has furnished us with a mass of pertinent facts and figures.

In the course of our investigation we have consulted most of the leading American authorities on the subject, all of whom have willingly been of service. Among them are Dr. Alvin H. Hansen, Professor of Economics at the University of Minnesota; Dr. Evelyn Burns, of Columbia University; Mr. Abraham Epstein, of the American Association for Old Age Security; and Dr. I. M. Rubinow, the actuary of the Ohio Unemployment Insurance Commission.

Your committee also wishes to express its appreciation of the co-operation of Mr. Albert L. Deane, vice-president of the General Motors Acceptance Corporation.

Yours truly,

W. E. Woodward

Robert G. Elbert,

Committee.

Preface

Unemployment insurance—or compensation—is so flexible in its mechanism that it may take any one of several different forms. It may take the form of a company plan, each concern considered as a unit, both as to contributions and benefits. Or it may be self-insurance by the members of a trade union; or a state-wide plan, or a national plan under government supervision.

One of the duties of the committee has been to examine every plan that is sponsored by well-informed people with the object of determining a set of principles on which a scientific and socially useful scheme of unemployment insurance should be based.

We shall say here, in anticipation of what we shall say farther on, that our studies of this subject have convinced us that—

1. In any well-conceived plan both the employer and the employee should contribute. The state (or the nation) should not contribute.
2. It should be compulsory on all workers in insured industries up to a certain wage limit.
3. The benefits should be paid to the unemployed as a right, and not as a charity.
4. Benefits to an unemployed worker should be paid only for a definitely fixed number of weeks.
5. Funds should be pooled, including all industries and all employers and workers in the same field.
6. There should be a labor bureau or exchange: with numerous branch offices, throughout the country, for the purpose of finding jobs for the unemployed, and for administering the insurance system.

The government should not be required to contribute for the reason that a large proportion of the people (farmers, for instance) will receive no benefit from the system. Furthermore, the people as a whole will necessarily pay a share of the cost through the slightly increased prices of commodities.

Our calculations have convinced us that four per cent of the workers' wages will be sufficient to carry on a satisfactory plan—of this, three per cent to be paid by the employer and one per cent by the worker.

No plan will be satisfactory, in the end, unless its income is sufficiently large to take care not only of transient unemployment but to set up, also, a body of reserves which may be used in case of serious depressions.

UNEMPLOYMENT INSURANCE

Report of the Unemployment Insurance Committee
of the Industrial Advisory Board

PART I.

We shall not take up the time of the Board in discussing the desirability of unemployment insurance of some kind or other. Our appointment as a committee to devise a sound plan presupposed an acceptance of the principles of unemployment compensation.

Unemployment insurance, under any plan whatever, is based on the idea that a reserve fund will be accumulated in normal times to meet the contingency of unemployment in eras of depression. It should also carry the insured over out-of-work periods in normal times. All insurance is necessarily limited in the extent of its compensation. If you die and leave an insurance policy for \$10,000 the insurance company will pay that amount and no more; you cannot expect the company to support your widow and family to the end of their days. The same thing is true of unemployment insurance. It is intended to carry the unemployed worker for a certain length of time, and no longer.

The term "insurance" as applied to unemployment is misleading. There is really no such thing as **unemployment insurance** if we accept the word "insurance" according to its definition by insurance companies. Insurance can be applied only to future hazards which have an actuarial basis of probability so clearly defined that it is possible to predict their occurrence and extent with reasonable accuracy.

Frederick H. Ecker, president of the Metropolitan Life Insurance Company, says:

"In view of the many and changing causes of employment variation and the fact that such a large proportion of ordinary employment is the result of voluntary human actions, it appears that the application of insurance principles to the individual risk of unemployment is absolutely hopeless."

That is doubtless true; but the principle of "compensation" for unemployment, within certain limits of money and time, is practical and sound. We recommend that the word "insurance"—as used in this connection—be dropped and "Unemployment Compensation Fund" be used instead.

WHAT ARE WE TRYING TO DO?

It is always well to have a definite objective; to know what we are trying to do before we start. Now, as we conceive it, the reserve fund should be accumulated with three objectives:

I. The primary object of unemployment insurance is to afford a guaranteed income to workers when they are unable to find jobs.

(a) In times of general prosperity there is always a certain amount of unemployment due to seasonal variations, technological changes in industry, etc. Unemployment insurance up to 26 weeks will cover practically all individual unemployment during general prosperity.

(b) In times of general depression workers will be guaranteed an income during the first twenty-six weeks of their unemployment after a waiting period of four weeks. Unemployment insurance will not, however, be able to care for the whole problem during a major depression. The proportion of the unemployed receiving benefits will decrease as the depression is prolonged. Those who have exhausted their right to benefit must be cared for by governmental relief in a major depression.

II. In connection with the administration of unemployment insurance a series of labor exchanges will have to be set up. These will, both in good times and bad, serve to bring workers into contact with jobs. They will do much to smooth out and regularize the supply of labor.

III. Unemployment insurance will have an important economic effect in stabilizing industry.

(a) The amounts paid out as benefits will sustain the purchasing power of workers who are without jobs and thus help prevent the disastrous curtailment of consumption which now marks both major and minor depressions.

(b) Under present conditions at the onset of a depression even the workers who have jobs curtail their expenditures for

fear of becoming unemployed. If they are guaranteed an income of at least twenty-six weeks when unemployed, this hectic saving will be much reduced. This will further tend to stabilize consumption, especially at the onset of a depression, and keep it from developing as far as it otherwise would.

(c) Premiums are to be paid by industry and by the workers during good times and saved for consumption purposes in bad times. If investment is carefully made the effect of these funds will be to somewhat reduce consumption in good times and expand it in bad times and thus aid in smoothing out the business cycle.

(d) If a system of unemployment insurance is in effect production can be immediately curtailed at the beginning of a depression without too much hardship on the workers. At the beginning of the present depression President Hoover for humanitarian reasons urged industry to avoid laying off men. As a result over-production was continued, and the conditions which led to the depression were not corrected quickly enough. Had unemployment insurance been in force, production could at once have been curtailed, while at the same time the unemployed workers would have received some income and have continued consuming more or less normally. The depression would have been of much shorter duration with a more rapid return to economic balance, provided the Federal Reserve Banks had co-operated efficiently by open market operations and other means within their power.

PART II.

THE PLAN WE PROPOSE

We have drafted this plan as a Federal measure, but we are aware of its possible unconstitutionality. In case it is considered unconstitutional we recommend that similar standards be required from the states to qualify under the Wagner-Lewis bill.

Compulsory and National.

The plan should apply to the whole country uniformly; and every employer and worker who falls within its provisions ought to be made to go into it.

Coverage includes:

All employees in industrial and manufacturing establishments that employ three or more people.

All transportation systems: Railroads, buses, street railways, steamship lines; and also all systems of communication, such as telegraph, telephone and radio.

All workers in mines.

All workers in forestry (except those employed by the government), such as timber-cutters—if three or more are hired by one employer. All workers in fisheries, etc.

All clerical labor—in establishments where three or more persons are employed.

All workers in stores—wholesale and retail—if three or more persons are employed.

Coverage excludes:

Farm laborers.

Domestic servants—but not servants in hotels and restaurants.

Professional people, such as physicians, lawyers, engineers. But it should not exclude their employees.

All employees of the Federal, state, county and city governments, except in cases where the major portion of the income of the individual comes from an employer other than the government, in an establishment that employs three or more people. Casual workers for the government should not be excluded.

School teachers in public schools, but not those in private schools operated for profit.

The near relatives of the proprietor or manager in any business, such as sons and daughters, brothers, sisters, nephews and nieces.

Contributions.

Four per cent of the total payroll (of those on the payroll entitled to protection under this plan)—of which three per cent is to be paid by the employer, and one per cent by the worker. The contributions are to be sent to the Treasurer of the Unemployment Compensation Fund and pooled into one large reserve.

Eligibility.

Any insurable person who has worked one hundred days in the past fifty-two weeks, or one hundred and sixty days in the past one hundred and four weeks, is qualified for benefits.

The weekly payment of benefits should be limited on the ratio of one week's benefit to three weeks of insured employment during the past two years; that is, one weekly benefit payment to every three weeks of work, but in no case should the weekly benefit payments exceed twenty-six in one year.

The idea here is to restrict the benefits that would be received by idlers who merely work enough to qualify for unemployment insurance. A man who has worked less than one hundred days in the past year, or one hundred and sixty days in the past two years, gets nothing.

The real worker, who works right along, can get twenty-six weekly payments when out of a job.

The time a man has worked in the past year (or two years) is not to be counted by weeks, but by days. The requisite one hundred days of employment may run along two or three days a week instead of being five days a week for twenty weeks.

Waiting Period.

An employee who loses his job must report within three days to the local Federal employment office. In the cities this will be a regularly equipped office with a manager whose whole time is given to the matter of looking for jobs for the unemployed. In smaller places some other arrangement will have to be made; the employment official might well be the postmaster.

The unemployed worker's name is registered and an effort is

made to get him a job, and he is expected to look for one himself. He should report three times a week to the unemployment office.

He does not get any unemployment benefits until he has been out of work for four weeks. Prof. Paul H. Douglas, who has made extensive first-hand studies of unemployment, says that even in normal times five to ten per cent of the total number of wage-earners are out of employment; but, he says, more than half of them find jobs in less than four weeks. By making the waiting period four, instead of two weeks, funds are conserved for the more serious cases of unemployment.

After a waiting period of four weeks an insured person goes on the benefit payroll. He continues to report to the unemployment office three times a week.

The waiting period of those who are discharged for misconduct should be extended to eight weeks. Then they should be on the same basis as others who are unemployed. An employee who quits his job voluntarily ought to be made to wait for eight weeks also.

Amount of Benefits.

The weekly benefit should be varied according to the number of dependents of the jobless worker. We propose this scale, tentatively:

	Percentage of Weekly Wage
Adult, without dependents	40 per cent
Adult, with one dependent.....	50 per cent
Adult, with two dependents.....	60 per cent
Adult, with three or more dependents.....	65 per cent
Young men and girls, under 21, who live with their parents, and whose parents are not dependent on them.....	30 per cent

The benefits paid to an adult (out of a job and qualifying) who has earned thirty dollars a week would vary from twelve dollars a week—if he is unmarried and without dependents—to twenty-one dollars a week if he has a wife (also unemployed) and two or more children.

A stenographer who has been employed at twenty dollars a week in an office, and who lives with her parents (not dependent on her) would receive thirty per cent of her former pay, or six dollars a week.

In calculating former wages on which to base the benefits the weekly salary or wages of the last six months should be averaged.

Most of the plans that we have studied have a top limit of salary or wages for insurable persons. It seems to us that anyone earning up to \$60 should be included; indeed, we think it would be better to take in anyone earning any amount as wages or salary, as long as they were taken in on a \$60-a-week basis. Why not include a man who gets \$100 a week, but let him make his contributions on a \$60-a-week basis, and receive benefits on the same scale when he is out of work? The inclusion of anyone earning more than \$60 a week would, of course, be voluntary.

No benefits should be paid until the plan has been in operation one year.

COMMENTS

Now, the question arises as to how much the three per cent tax on the payroll would increase the cost of goods to the consumer. It is extremely difficult, if not impossible, to say, on account of the lack of data. The raw materials used in some establishments go through three, or four, or even more processes in other establishments before they are assembled for final completion.

As a working basis we may take the relation of labor costs in manufacturing to value of product for the year 1929, as given out by the Census Bureau.

(The following figures cover "manufacturing" only, and are taken because the census gives the value of the product. The number of persons employed in manufacturing and mechanical industries is much larger: about 14,000,000.)

Wage-earners in manufacturing establishments.....	8,838,743
Wages paid during year.....	\$11,620,973,254
Cost of materials.....	\$38,549,579,732
Value of products.....	\$70,434,863,443

It appears that the relation of wage-cost to value of product over the whole field of manufacturing is 16.5 per cent. The average yearly wage is \$1314.80. (The average wage would undoubtedly be lower for 1933, and the proportionate labor cost, in relation to value of product, would be higher.)

Three per cent of the total sum of wages is \$348,626,196. Compare this with the value of the completed product, and we see that the relation of unemployment compensation cost, paid by the employer, is .48 per cent (forty-eight hundredths of one per cent).

That is not all, however. There are the materials and some of them were created, or handled, by insurable labor, and that charge must be added. We can only guess, but as a guess we may say that the increased cost of materials owing to unemployment contributions may be one-half as much—or .24 per cent. These two charges together make .72 per cent. Then comes the transportation of the finished product, and its sale. These operations may add another .24 per cent. The total comes to .96 per cent, which we think (as a guess) is somewhere close to being correct. By that we mean it would be correct for the whole assembly of industries—undoubtedly so, if the census figures are right—but there would be, nevertheless, great variations.

Some of the variations are shown in the following list:

Percentage Cost of Labor to Value of Product

	Per Cent
Boots and Shoes (not rubber).....	22.0
Iron and Steel products (not including machinery).....	19.2
Printing, publishing and allied industries.....	19.8
Textiles	18.8
Rubber products	17.2
Motor vehicles	9.9
Chemicals and allied products.....	9.3
Fertilizers	7.9
Cigars and cigarettes	7.8
Paints and varnishes	7.4
Products of petroleum and coal.....	6.2
Sugar refining (cane sugar).....	3.5

There are individual variations that are remarkable. For instance, in 1929 the entire electrical industry produced goods valued at \$2,300,916,000 and paid \$456,000,000 in wages. The labor cost—in comparison to product value—was 19.8 per cent.

That same year the General Electric Company's labor cost (including wages and salaries) amounted to 38.8 per cent of the value of the company's product.

For the past three years the reports of the General Electric Company give these figures:

	Net Sales	Wages and Salaries
1931	\$263,275,000	\$106,656,000
1932	147,162,000	61,414,000
1933	136,637,000	55,287,000
Total	\$547,074,000	\$223,357,000

It is not possible to differentiate between salaries and wages, as they are both considered as one item in the company's annual reports, but the total outlay for labor amounts to 41 per cent, as compared with the value of the product. Even if we assume that one-fourth of the total expenditure should be put under the head of salaries the remainder (given to wages) is far in excess of the usual average percentage.

This example is brought in here for the purpose of showing the difficulty of ascertaining the cost of wages in proportion to product except by taking industry as a whole.

A tax of three per cent for unemployment compensation would certainly make little difference to a sugar refiner, whose labor cost figures out only 3.5 per cent of the value of his product; but it would be a matter of some importance to the General Electric Company, where the labor cost is as high as 30 per cent or more.

NUMBER OF WORKERS UNDER THE PLAN

How many workers will be covered by insurance under this plan? Our estimate is that about 22,000,000 people are insurable, and of course all of them will be included under a compulsory scheme. The average wage seems (according to our data) to be about twenty dollars a week, or a total of \$440,000,000 weekly.

Let us assume, then, that 22,000,000 are insured under this plan, and that in normal times six per cent of them—say 1,320,000—are unemployed.

Not more than four per cent, or 880,000, of the unemployed, will be entitled to benefits in normal times—owing to the four weeks' waiting period. Two per cent of them, at least, will be provided with jobs before the four weeks have passed. The average benefit will probably be twelve dollars a week. It should be understood that all this is guesswork. It is as intelligent a guess as we are able to make, with the data at hand.

Weekly contribution from 22 millions at \$20 a week or 440 million dollars in all, at 4 per cent.....	\$17,600,000
Paid out to 880,000 unemployed weekly at \$12 a week	10,560,000
Added to reserve—weekly.....	\$ 7,040,000
Annual addition to reserve.....	\$366,080,000

In five good years, while industry is moving upward, the reserve ought to accumulate about \$1,800,000,000.

A sensible plan should be devised to take care of this large money reserve. If deposited in banks it will lead to inflation. Investment in securities is not advisable, in our opinion, for the reason that an investment of this proportion will unduly raise their prices in normal times, when prices are going up, anyway; and in the downward turn of the industrial cycle the selling of these stocks and bonds (to provide funds for unemployment benefits) will have a depressing effect.

The fund might be deposited in the Federal Reserve under a special arrangement whereby it would be sterilized and not used for credit expansion.

Another way of managing the fund would be to invest it in a special issue of Federal government bonds, paying (let us say) two per cent. These bonds should be sold to the Unemployed Compensation Fund, and be non-transferable; and the Treasury should redeem them on demand.

Employment Offices

One of the vitally important factors in this proposed system is a nationally co-ordinated network of "labor exchanges" or employment offices. All the unemployed who are covered by insurance will be registered. The employment system will be in constant contact with the labor situation, with the flow of supply and demand. Needless to say, this would tend to reduce unemployment, and to shorten the period of being without work from months to weeks, and from weeks to days.

Mr. Ralph E. Flanders says, in an illuminating paper on unemployment, which he read at the Hot Springs meeting of the Board: "To this institution (the employment office) must go every one who would draw on his unemployment reserve and every one who seeks subsistence employment. It should also serve as the logical (though

not exclusive) recruiting station for labor required on great construction works, whether private or public.

"Such a system would give us definite information at any given moment as to the amount, location, kind and duration of unemployment. For no one should be deemed as unemployed who does not register. Registration will be inevitable on the part of the honest and needy worker, for due and respectable relief comes to him through that act. Non-workers who will not apply are pathological or criminal rather than economic problems. They will by this means be readily recognized and should not be numbered among the respectable unemployed. This system will give us, for the first time, a definite knowledge of the size and character of our problem and we can attack its solution by logical process. Our ignorance hitherto has been fundamental. There are no reliable unemployment statistics in this country. There is no substitute for the practice of gathering them at the point where relief is offered."

FEDERAL LAW

It seems to us that it would be much better for any plan of unemployment insurance to be Federal rather than state.

But in case the Constitution makes it impossible to have a Federal law we think the present plan might be made an amendment to the Wagner-Lewis bill. The bill, as it now reads, provides certain conditions with which a state must comply in order to have its excise tax refunded. The conditions are that the state sets up employment insurance, and the Wagner-Lewis bill insists that certain features be adopted in the insurance scheme.

The entire plan which we have outlined here might be included in the bill as an amendment, as a condition with which the states must comply to get their money back.

In that case the excise tax of five per cent (according to the Wagner-Lewis bill) would be brought down to three per cent, and an amendment to that effect would be necessary.

THE BRITISH SYSTEM

Unemployment insurance on a large scale began in Great Britain. The British unemployment insurance system is credited by English economists with being one of the most potent factors in keeping up the buying power of the nation during the years of depression. The Royal Commission on Unemployment Insurance, after an exhaustive study in 1932, said in this connection:

Since 1929 . . . unemployment in this country, although worse, has not increased to the extent and in the degree that it has in the United States and other countries. This difference may in part be due to the maintenance of working class spending by unemployment relief, when spending generally was contracting and investment in new enterprises drying up . . . One of the advantages of self-supporting insurance scheme is that if properly controlled it accumulates reserves when spending is active and employment is good, to disburse them automatically at the time when trade is depressed and spending needs to be stimulated in order to give employment. (Final Report, p. 103.)

Unemployment Insurance in Great Britain was started in July, 1912, and applied to a limited number of industries. In 1920 it was extended to practically its present coverage. In the beginning the system more than paid its way, and at the commencement of 1921 had a reserve of over £22,000,000. In 1921, due to the extensive unemployment, it was decided to pay not only the regular benefits but also so-called extended benefits to workers who had exhausted their right to benefit. These extended benefits should never have been paid out of the insurance scheme, for the premiums had not been arranged to provide for them. As a result of this mistaken policy the British system ran a large deficit for a number of years.

In 1931 it was finally decided to treat extended benefits as relief rather than insurance. They are still administered by the unemployment insurance offices, but are paid only to those in need, and their entire cost is borne by the exchequer. As a result, the British system is now self-sustaining despite the extended unemployment in that country. The results of the system in 1933 and for the first four months of 1934 are as follows:

	1933	1934 Jan. 1-Apr. 28
Receipts for Premiums.....	£58,835,000	£19,596,000
Disbursements		
Benefit Payments	£43,335,000	£12,592,000
Administrative Cost	3,797,000	1,263,000
Interest on Old Deficit.....	5,338,000	1,643,000
Miscellaneous	240,000	97,000
Total Disbursements from Insurance Fund.....	£52,710,000	£15,595,000
Extended Benefit, paid by the Exchequer.....	£54,310,000	£16,310,000

Note that the British system is paying interest on the advances made by the Exchequer, and expects to liquidate this debt.

The British system is compulsory and covers all manual workers and all non-manual workers receiving less than £250 per year. The following occupations are excluded: Agricultural workers, domestic servants, permanent employees on the railways and public utilities, certain classes of government employees, and persons employed by their husbands or wives.

Equal premiums are paid by the employer, by the worker and by the government. The weekly rates prevailing today in American money (at present exchange, £1 = \$5.04) are as follows:

	Men	Women
Employer	21c	18.9c
Worker	21c	18.9c
Government	21c	18.9c
Total	63c	56.7c

Lower rates are paid by boys and girls under 21 years of age.

Benefits are limited to 156 days. The following are the present weekly rates of benefit in American money:

	Weekly Rate
Men 21 to 65 years.....	\$3.81
Women 21 to 65 years.....	3.40
Additional Benefit for Dependents—	
For an adult dependent.....	2.02
For a dependent child.....	.51

Lower benefits are paid to boys and girls under twenty-one years of age.

Workers are qualified for benefits when premiums in respect to them have been paid for not less than thirty weeks in the preceding two years. Benefits begin after a waiting period of six days. In the case of workers who have lost their employment through misconduct or voluntary quitting the waiting period is increased to six weeks. No benefits are paid for loss of employment during a trade dispute in the worker's own establishment.

THE GERMAN SYSTEM

The facts concerning the German system are not quite up-to-date, but we give what we have.

The German insurance system was started on October 1, 1927. It includes two kinds of benefits: (a) regular benefits which are paid out of the premiums of the workers and their employers; and (b) emergency benefits which are paid by the government, and which

are for those who have exhausted their right to regular benefit. In the first years of the system contributions were set at too low a rate and, as a result, the system ran up a large deficit. At the present time, due to the increased rate of premium and to the fact that a very large per cent of the unemployed have exhausted their right to regular benefits, the regular system is much more than self-sustaining. Its surplus is now being used to aid in the payment of emergency benefits.

The German system, like the English, is compulsory. Its coverage is now similar to that of the English system. Agricultural workers and domestics were formerly covered, but have recently been excluded. Manual workers earning over 3,600 marks per year and non-manual workers earning over 8,400 marks per year are excluded.

Unlike the English system, both premiums and benefits vary with the worker's earnings. For this purpose all workers are divided into eleven wage groups, and for each group a basic wage is set.

Premiums are shared equally by the workers and employers, each paying 3½ per cent of the basic wage, making a total of 6½ per cent. No premiums are paid by the Government for regular insurance, its contribution being limited to the cost of emergency benefits.

Regular benefits are limited to 20 weeks. The benefits vary according to the wage class of the worker and are set at varying per cents of the basic wage. The lowest-paid workers, those in Class I, receive 75 per cent of the basic wage, and the percentage decreases until in Class XI the highest-paid workers receive 35 per cent of the basic wage. There are additional allowances for dependents.

Workers are qualified for benefit after fifty-two weeks' employment in the previous two years. The waiting period is fourteen days for workers with no dependents, seven days for those with one to three dependents, and three days for those with four or more dependents.

Emergency benefits, financed by the government, are paid only to those in need. Their duration has been repeatedly changed, and varies for different classes of persons.

Because of the great length and severity of the depression in Germany regular insurance benefits paid out of premiums have taken care of only a small fraction of the unemployed. The remainder have been forced to rely on emergency benefits paid by the government and on poor relief paid by the local authorities.

PART III.

THE WISCONSIN PLAN

Wisconsin is the only state in which an unemployment insurance law has been enacted. It will go into effect on July 1, 1934. Following is a skeleton outline of the Wisconsin Plan:

Covers workers in establishments employing ten or more persons, also all workers whose wage is not more than \$1500 a year. All that is needed to qualify for benefit payments is that the worker has been employed for two weeks, but the benefit is limited to one weekly benefit for each four weeks of employment—and not more than ten weeks of benefit as a maximum.

Excludes domestic servants, public officers, farm laborers, interstate railroad employees, school teachers.

Fund is contributed by **employers only**. Workers pay nothing. Employers pay 2 per cent of payroll until a fund of \$55 a worker has been established; thereafter 1 per cent until the fund (for that one corporation or concern) amounts to \$75 a worker. After that nobody contributes anything until—and if—the reserve falls below \$75 a worker.

Segregation of funds under the names of the contributors, though all the funds are **administered** by the state industrial commission. This means that a worker on the benefit register must depend on the fund contributed by his employer. Whenever that is exhausted he receives no more benefits.

Waiting period is two weeks. That is, a worker who is laid off gets no benefit for two weeks thereafter.

Benefits are \$10 a week or 50 per cent of average weekly wage, whichever is lower. That is to say, if an employe has a \$29-a-week salary (the high limit under the plan), and is laid off, his weekly benefit will be \$10 instead of \$14.50. If the employer's fund is unable to meet these payments they may be reduced. All factory workers who have worked two weeks—and all salaried employees who have worked one month—are covered.

Maximum duration of benefits is ten weeks in one year, but no benefit shall be paid out of an employer's fund if the worker has not been employed by him during the past six months.

Eligibility. If a man quits his job voluntarily he is not entitled to the benefits. No payment when a man is discharged for misconduct or inefficiency—nor when he refuses to accept "suitable employment" after losing his job. But it is provided that the beneficiary

has a right to refuse a new job if "the wages, hours and conditions are not those prevailing in similar work in the locality."

Exemptions. Companies which guarantee 42 weeks employment in a year to their workers are exempted from payments. Also concerns which have a plan of their own that is approved by the state industrial commission.

DR. HANSEN'S OPINION

Dr. Alvin H. Hansen, Professor of Economics in the University of Minnesota, has made a detailed study of the Wisconsin Plan, and of the motives of its creators. He says:

It was the primary purpose of the Wisconsin bill to serve as an incentive for stabilization of employment rather than to serve as a means of alleviating unemployment.

It provides that when an employer has built up a reserve of \$55 per employee his contributions may be reduced to 1 per cent, and may cease when the reserve reaches \$75 per employee. Having once built up this reserve, the cost to the employer would be in direct proportion to the stability of his employment.

It was recognized that the small benefit of a maximum of \$10 a week for ten weeks would go only a little way toward relieving the distress growing out of unemployment, but it was believed that the establishment of company reserves would be an effective means of causing the employer to stabilize employment.

COMMENTS ON THE WISCONSIN PLAN

We consider the segregation of reserves by companies, as embodied in the Wisconsin Plan, a fundamental defect. We are opposed to any form of segregation of funds or of benefits, either by companies, industries or associations.

Unemployment compensation is, primarily, a social service. It does not make a bit of difference, as far as the social order is concerned, who employed a man before he got out of a job.

We advocate the pooling of all unemployment funds—the benefits to be paid out of a common reserve.

As to the pooling of reserves, a study of the records of fourteen Ohio concerns from 1923 to 1931 was used in estimating the cost of an individual establishment unemployment plan. The esti-

mated costs for the different companies varied from 0.3 per cent to 3.4 per cent of payroll. Another estimate showed a variation in cost from 0.5 per cent to 6.7 per cent. If contributions of 3 per cent had been required, eight out of the fourteen companies would have been unable to pay full benefits if they had held their funds in separate reserves. On the other hand, if the contributions had been pooled the average cost would have been only 2.5 per cent. The required benefits could have been paid and the fund would have remained solvent.

It seems to us that some method might be devised for the grading of industrial concerns in respect to the permanency of employment in their plants. To grade them in classes, such as A, B, C and D would be a simple matter of statistics. One company employing 1000 workers at the beginning of last year, let us say, laid off or discharged—for one reason or another—100 workers in the course of the year. Its labor turnover (or its loss of employing power) was 10 per cent. Another company, in the same line of industry, had 1000 employees and laid off or discharged 500 of them, or 50 per cent.

It may be possible to grade them in this way and set up a varying scale of payments into the fund, starting off with 1 per cent—or some other small percentage—for Class A, and up as high as 4 per cent for Class D.

The Ohio Commission on Unemployment recommended the creation of a state pooled insurance fund. However, because of the variations in the rate of unemployment in different establishments, it provided that after a plan had been in operation for three years, the contributions should be varied for each employer within the limits of 1 per cent and 3.5 per cent of payroll.

The Wisconsin law declares that no benefits shall be paid to a worker who is discharged "for misconduct." We do not approve of this provision because it will certainly lead to grave abuses.

Misconduct is a vague term: a charge of misconduct can be brought up against almost anybody. This provision will certainly be held as a whip over workers that the employer does not like. In many cases labor union officials will be dismissed for "misconduct" without hope of unemployment compensation.

It would be better, in our judgment, merely to increase the waiting period, in case of discharge for misconduct, from two weeks to four or five weeks. In England it is raised from one week to six weeks when a worker is discharged for misconduct. That ought to be sufficient penalty.

THE WAGNER-LEWIS BILL

This measure is now before Congress. All the members of the Board are no doubt familiar with its provisions, so we shall set down here only the barest outline as a matter of record.

It is proposed to levy a Federal excise tax of five per cent on employers' payrolls throughout the United States—on employers who have ten persons or more in their employ. In paying the tax the employer may omit the wages of:

1. Agricultural laborers.
2. Domestic servants.
3. Teachers in schools, colleges and universities.
4. Physicians, surgeons, hospital attendants, etc.
5. Physically handicapped people employed by charitable institutions.
6. Wife, children, father and mother of the employer.
7. All employees of common carriers.
8. Any employee for whom unemployment compensation is provided directly by Act of Congress.
9. All persons who earn \$250 or more a month.

The five per cent excise tax where collected will go into the Federal Treasury. Employers in states with approved systems of unemployment insurance will be entitled to a rebate on the tax equal to their contributions to the state system.

Employers in Wisconsin, for example, will pay five per cent of their payrolls to the Federal government (if Senator Wagner's bill becomes a law), less the two per cent they shall be assessed under the Wisconsin law; in short, they will pay three per cent to the United States and two per cent to Wisconsin.

The state to qualify must set up an unemployment insurance law, requiring contributions from employers. Every employer who pays a contribution under the state law is entitled to credit the amount of that contribution against the Federal excise tax levied under the Wagner act.

The purpose of the bill is to encourage state action, and it will probably do it, as all states will naturally pass an unemployment insurance law merely to keep the money at home, if nothing else.

Note that the Wagner bill says nothing about contributions from the worker.

The bill sets forth some few specifications for an unemployment law to be passed by the states, and which will be acceptable, but we think the specifications are inadequate.

Eligibility. It specifies that an applicant for benefits need not

show a record of having worked for more than ten weeks for his last employer in the past calendar year.

Benefits. Seven dollars or more a week, as a minimum, or else the employee's average wages for twenty hours of a week. (This, in most cases, would mean half his weekly wage.) Benefits are to continue for ten weeks, generally speaking. There is a complicated provision which permits employees of long service to receive fifteen weekly benefits.

No employee receiving benefit payments shall be required to act as a strike-breaker; or to accept new employment if the wages, hours and other conditions are less favorable than those prevailing for similar work in the locality; or if acceptance of such employment would either require him to join a company union or interfere with his "joining or retaining membership in any bona fide labor organization."

COMMENTS ON THE WAGNER-LEWIS BILL

We are opposed to the five per cent tax; it is unnecessarily high. Our own calculations lead us to a conviction that four per cent is quite enough, and of that the worker should pay one per cent, leaving three per cent to be paid by the employer.

This committee is not in favor of any plan to which the worker does not contribute something. All European systems require worker contributions. The employee ought to be sufficiently interested in his own welfare to contribute a part. Besides, his payments would increase his self-respect and dignity. He would realize that he had done his share instead of being a passive recipient of the benefits as a gift.

It is possible that some of the states—in case the Wagner-Lewis bill becomes a law—may put into effect an unemployment insurance plan which will call for contributions from the worker; but, even in that case, the employer would have to pay his five per cent just the same. It seems to us that Senator Wagner's bill might be amended so as to require all state systems to provide for workers' contributions.

The American Federation of Labor is strongly opposed to any contribution from employees, and no doubt that influenced Senator Wagner in drawing his bill. In England the British Trade Union Council was also against the inclusion of workers' payments, but they consented to it eventually.

Respectfully submitted,

W. E. WOODWARD

ROBERT G. ELBERT

Committee.

PART IV.

Appendix A

A number of industrial concerns have unemployment insurance plans of their own. Some of the trade unions have also put in operation various schemes to relieve their unemployed members. These have worked out with varying degrees of success. Most of the trade union plans have no fixed scale of contributions or of benefits. They assess their members from time to time for whatever is needed in the way of funds.

THE GENERAL ELECTRIC COMPANY

In 1930 the General Electric Company devised a plan for employment assurance to apply to the plants or departments manufacturing incandescent lamps. It was not unemployment insurance at all, but a guarantee of employment. It began on January 1, 1931. Under the plan fifty weeks' work of not less than thirty hours each week was proposed for 1931. All employees with two or more years of service were eligible.

When an employee goes into this plan he agrees that the company withhold one per cent of his weekly earnings; the amount withheld is credited to him, with five per cent interest. If he leaves the employ of the company, principal and interest are given to him; if he dies, his heirs get the money.

The General Electric Company has, in addition, a plan of unemployment insurance which is operating, but not in the incandescent lamp department. Mr. Swope said, on March 25, 1934, in his testimony before the subcommittee of the Ways and Means Committee of the House:

The results have been highly satisfactory. Since the plan's adoption in June 1930 normal contributions, half by the employees and half by the company, with interest, amounted to almost \$400,000, and is retained in a trust fund. The emergency provisions of the plan went into effect December 1, 1930.

From that date to March 1, 1934, \$4,877,000 was contributed. Of this amount, and I want you to get these figures, because it seems to me these are very significant, of this total amount of almost \$5,000,000, approximately \$1,160,000 was contributed by the people who are eligible to benefits, and \$1,151,000 from

other employees who are not eligible, and \$2,311,000 from the company. \$3,561,000 has been disbursed, leaving an unexpended balance of \$1,316,000 in the unemployment emergency fund on March 1, 1934. The plan is still functioning.

The contributions are about one per cent from employees and the same amount from the company. There is a curious provision in respect to an "unemployment emergency." In the event of an unemployment emergency one per cent of everybody's salary is taken, no matter whether he is in the insurance system or not. Everybody's salary, from Mr. Swope down. These contributions have made a very material addition to the fund.

The experiences of the General Electric Company are interesting, but we do not think they contribute a great deal toward the formulation of a nation-wide plan of unemployment insurance. The company is in a strong financial position; it is excellently managed; its employees are above the ordinary level of manual workers in intelligence, thrift, and steadiness. In short, the General Electric Company is not a typical industrial concern. A nation-wide plan must include all sorts of establishments and workers of every grade.

Mr. Swope advocates the segregation of insurance funds by companies; that is, each concern to do its own insuring, in combination with its employees. His own experience shows that it works out very well with his own company, but would it not turn out badly in the case of most concerns?

Appendix B

DENNISON MANUFACTURING COMPANY

One of the earliest of company plans of unemployment insurance is that of the Dennison Manufacturing Company. The company started it in 1916. It has been financed entirely by the company, which has made contributions to the fund from time to time.

The characteristics of this plan are: 1. Only permanent employees benefit. 2. A permanent employee is one who has had six months' continuous service with the company. 3. Unemployed persons, without dependents, receive fifty per cent of their normal pay (but not more than \$18 nor less than \$8); employees with dependents receive seventy per cent of their normal pay (but not more than \$24 a week nor less than \$8). 4. The plan is administered by an unemployment relief committee; half of the members are appointed by the company and half are elected by the employees.

In 1929 the total payroll was \$3,780,000 and the total benefits paid were \$10,646. In 1930, with a payroll of \$3,308,000, the benefits ran up sharply to \$58,325. Since then it has been necessary to lay off an unusually large number of employees. By June, 1932, the fund had been reduced to about \$15,000. It was decided then to withhold payments until Fall, as it was felt they would be of more value during the Winter months.

In the Fall of 1932, when the matter was again considered, it was the recommendation of the works committee that payments be indefinitely suspended and be resumed upon two weeks' notice from the works committee. Since that time the fund has been entirely inactive.

One of the defects of the Dennison plan is the irregular method of financing. It started off with a fund of \$147,000 in 1919, and only a few contributions have been made since, in irregular amounts. It would have been better, in all probability, if the company's contributions to the fund had borne some definite relation to the annual payroll.

The whole scheme, though bearing witness to the company's generosity, is quite unscientific as a plan of unemployment insurance.

THE SOCIAL SECURITY BILL

The American Association for Social Security has prepared a model bill similar to that of the Ohio Commission. This was drafted in the summer of 1933 by a committee of experts including two of those who prepared the Ohio bill. It is based on the principle of a state pooled fund.

Coverage. Employees of establishments having three or more employees, including employees of the state or political subdivisions thereof. Excludes non-manual workers with salaries of \$3,000 per year or more; farm laborers; domestic servants where less than two are kept; workers in interstate commerce; government employees and teachers on an annual salary basis; and the spouse, parent, or child of the employer.

Premiums. Employers, two per cent of payrolls, subject to adjustment after three years. Workers, one per cent of wages; state, one per cent.

Adjustment of Employers' Premiums. After three years experience the employers' premiums are to be adjusted with respect to the hazards of unemployment in the various establishments. No premiums are to be less than one per cent nor more than four per cent of payrolls. There is to be no adjustment of workers' or state premiums.

Benefits for Total Unemployment. Single worker, forty per cent of full-time wages, not to exceed \$10 per week. Additional for dependent spouse, ten per cent of wages, not to exceed \$2.50 per week. If one dependent child, an additional five per cent of wages, not to exceed \$1.25; or if two or more dependent children, an additional ten per cent of wages, not to exceed \$2.50.

Benefits for Partial Unemployment. When the loss of wages in partial unemployment exceeds twenty per cent of full-time wages, benefits are paid equal to fifty per cent of the loss in excess of said twenty per cent, plus supplements for dependents. This benefit scale is designed to encourage the acceptance of partial employment. The total of earnings and benefits during partial employment always exceeds the benefit for total unemployment and always increases as the percentage of employment increases.

Duration of Benefits. In any consecutive fifty-two weeks the total benefits shall not exceed twenty-six times the benefit for one week of total unemployment. After exhaustion of benefits, no further benefit shall be paid until the worker has had sixty days of unemployment and also satisfies the qualifications mentioned in the next paragraph.

Qualifications for Benefit. To be entitled to benefits a worker must have had one hundred and four days of insured employment within the preceding twelve months, or (alternatively) one hundred and sixty days of insured employment in the preceding twenty-four months. No benefits are paid during a strike or lockout.

Waiting Period. No benefits are paid until the wage loss equals four weeks full-time wages. Such loss need not be consecutive but may be accumulated over a twelve months period. Only such waiting period shall be required in any twelve months. The waiting period is doubled for an employee who has lost his employment for misconduct or has voluntarily quit without just cause.

Seasonal Industries. In seasonal industries the right to benefit shall apply only to the longest seasonal period which the best practice of such industry will reasonably permit. The commission is to determine such seasonal period and fix the proportionate number of weeks required for qualification and the proportionate number of weeks for which benefits may be paid.

Insurance Fund. All contributions are pooled in one fund from which benefits, the expenses of administration, and the cost of free public employment bureaus are to be paid.

Administration. An Unemployment Insurance Commission of three members is provided to administer the system. There is also to be a State Advisory Council of nine members. District offices, if necessary, and local free employment offices are provided. Appeals from decisions of local managers may be taken to district appeal boards and then to the commission. Only when questions of law are involved can an appeal be taken to the courts.

COMMENTS

The benefits are quite small.

The provision for paying benefits on account of part-time employment is worth considering, though we are not prepared at present to endorse it.

Appendix D

THE OHIO COMMISSION BILL

The General Assembly of Ohio, on April 9, 1931, created an Unemployment Insurance Commission, whose nine members were appointed by the Governor. This commission reported on October 26, 1932. Their report includes a thorough survey of the entire question and actuarial estimates on the cost of unemployment insurance.

The commission drafted a bill based on the principle of a state pooled fund. This bill was introduced in the legislature in 1933 and was passed by the House but failed of passage in the Senate.

Coverage. Employees of establishments having three or more employees. Excludes non-manual workers with salaries of \$2,000 per year or more; farm laborers; domestic servants; workers in interstate commerce; government employees; and short-time or casual laborers for a period of less than four weeks.

Premiums. Employers, two per cent of payrolls, subject to adjustment after three years. Workers, one per cent. No state contribution.

Adjustment of Employers' Premiums. After three years experience, employers' premiums are to be adjusted with respect to the hazards of unemployment in the various establishments. No premiums are to be less than one per cent nor more than three and a half per cent of payrolls. There is to be no adjustment of workers' premiums.

Benefits of Total Unemployment. Benefits are to be fifty per cent of full-time wages, not to exceed \$15 per week. No supplement for dependents.

Benefits for Partial Unemployment. Where the loss in wages in partial unemployment exceeds forty per cent of full-time wages, benefits are to be paid on the following scale:

Loss—40% - 55%	Benefit—10% of full-time wages
" 55% - 70%	" 20% " " "
" 70% - 85%	" 30% " " "
" 85% or over	" 40% " " "

Where full-time wages amount to more than \$30, these percentages are to be calculated on \$30 only.

Duration of Benefits. In any consecutive twelve months the total benefits shall not exceed sixteen times the benefit for one week of total unemployment.

Qualifications for Benefits. To be entitled to benefits, the worker must have had twenty-six weeks of insured employment within the preceding twelve months, or (alternatively) forty weeks of insured employment in the preceding twenty-four months.

Waiting Period. No benefits are paid until the wage loss equals three weeks full-time wages. Only one such waiting period shall be required in any twelve months. The waiting period is doubled for an employee who has been discharged for just cause or has voluntarily quit without just cause.

Seasonal Industries. In seasonal industries the right to benefit shall apply only to the longest seasonal period which the best practice of such industry will reasonably permit. The commission is to determine such seasonal period and fix the proportionate number of weeks required for qualification and the proportionate number of weeks for which benefits may be paid.

Insurance Fund. All contributions are pooled in one fund from which benefits, the expenses of administration and the cost of free public employment bureaus are to be paid.

Administration. An Unemployment Commission of three members is provided to administer the system. Branch offices and local free employment offices are provided. Appeals from decisions of local managers may be taken to local appeal boards and then to the commission. An appeal may be taken from the decision of the commission to the court of common pleas.