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Here is practical aid for a pressing 1933 problem.

Mr. Douglas considers virtually all the problems involved in the drafting and administration of an unemployment insurance law.

After outlining the reasons which necessitate the adoption of unemployment insurance, this book questions whether voluntary action is enough and discusses in detail the features which should characterize the scope of the act, the conditions of eligibility for benefit, the amount and nature of the benefits, the contributions, the administrative and insurance problems involved.

The objections to insurance are also considered as well as the constitutional problems involved.

**STANDARDS OF UNEMPLOYMENT
INSURANCE**

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**STANDARDS OF
UNEMPLOYMENT INSURANCE**

By

PAUL H. DOUGLAS

Professor of Economics, The University of Chicago



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PREFACE

The severity of the present depression is causing Americans to consider unemployment insurance with a more concerned and open mind than was the case a few years ago. Despite the opposition which the proposal still arouses there are signs which indicate that there may be, within the next decade, a fairly extensive application of this principle by our state and national governments. It has seemed to me appropriate therefore to prepare this little book as a means both of outlining what a properly managed system of unemployment insurance would do and also of working out what the precise features of such a system should be. The legislative and administrative problems connected with unemployment insurance are indeed difficult but they do not seem to me to be insoluble and I hope that this book may make the issues involved clearer and at the same time may point to their solution.

It will be noticed that, in view of present conditions, I favor joint contributions by both employers and workers rather than by the employers alone as is provided in the pioneer Wisconsin act and that instead of separate plant reserves, as in that state, I strongly prefer a centralized non-profit making state fund jointly administered by representatives of the workers and employers. The reasons for this position are fully described in the text. But I should like to make it clear that I regard the Wisconsin act as very much better than nothing and that I believe that state is entitled to great credit for its readiness to pioneer. Interestingly enough, however, the report and recommended bill prepared by the Ohio Commission on Unemployment Insurance is along a substantially similar line to that which is advocated in this book.

I am indebted to many individuals and organizations for aid in gathering material and in clarifying the many issues involved. As Acting Director of the Swarthmore Unemployment Study in 1930, I profited greatly from my associations as I did also with the New York and Pennsylvania Committees on Unemployment, appointed

by Governors Roosevelt and Pinchot and with which I served as Economic Adviser and Secretary respectively. The John Simon Guggenheim Foundation was good enough to award me a travelling fellowship which enabled me to study on the ground the operation of most of the European systems. While abroad, I received unflinching and courteous cooperation from many individuals among whom I should particularly like to thank Mr. T. S. Chegwidden, of the British Ministry of Labour, Dr. Melchior Palyi, of the Deutsche Bank, Professor Corado Gini, of the University of Rome, and Drs. Faustio Pitigliani and Ernesto Campese, of Rome. I have been fortunate also in the aid which my colleagues, notably, Miss Mollie Ray Carroll, Miss Mary Gilson, and Professor Arthur H. Kent have given and for the criticism on certain portions of the manuscript by my friend and former student, Dr. N. A. Tolles of Mount Holyoke College. My assistant, Mrs. Erika Schoenberg has aided me in numerous ways, including the preparation of the index. Dean Edith Abbottt has been extremely kind in the encouragement which she has given in the preparation of the book and for aid in its publication. But most of all I am indebted to my wife for her constant encouragement and help.

PAUL H. DOUGLAS

Chicago, December 15, 1932

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CHAPTER I

THE CASE FOR UNEMPLOYMENT INSURANCE

We are now in the midst of what is quite clearly the most severe business depression which modern capitalistic civilization has as yet experienced. It is true that it has not yet reached the duration of the depression of 1873-78, and that so far as industry itself is concerned it may not be any more serious. But whereas sixty years ago we were primarily an agricultural and village society, today we are primarily an industrial and urban one. We do not have the protection, therefore, which a rural civilization has of being close to the soil and of being able to obtain its food even though the factories close. An industrial depression now works far more havoc upon the country than before because a far larger proportion of the community is now dependent upon the whole complex of modern industry for its support.

The modern world is properly disturbed at this creeping paralysis which has been spreading over the world. The spectacle of men and women starving in the midst of an industrial system which, if properly organized, might yield them all plenty is not one to be quietly accepted. For tailors to be out of work while multitudes are in rags, for bakers to be unemployed while men and women are famished for food, and for building craftsmen to have no work in the face of the slums which cry aloud for clearance and reconstruction, are indeed examples of the economics of Bedlam. Men and women everywhere need to probe far more keenly than they are now doing into the problems which society must solve in order to avert such cumulative breakdowns of production and of employment and to ensure mankind the steady utilization of the powers of science. Great social and economic changes are needed and in the crucible of time we may expect the coming decades to bring us improvements in the control of

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currency and credit, in the planning of industry, and in the economic structure of society itself.

These are perhaps the most fascinating questions of our time and upon their correct solution depends not only the happiness but the lives of millions. But it will at best take a considerable span of years before mankind does solve these problems, and in the meantime there is need for some way of lessening the present crushing hardships which fall upon those who lose their jobs in our society. This little book is designed to help suggest ways of meeting that need. It does not suggest methods of reconstructing society nor does it deal with the desirability and problems of a planned economy. But its function, though humble, may nevertheless be useful. For it aims to point out what can be done here and now and seeks to lay down a minimum program of protection upon which it would seem that all men and women of good-will whatever their ultimate differences, might agree if they could once bring themselves to think about the question.

That program, briefly stated, is one of unemployment insurance and the provision of additional reserves against unemployment. In a world where jobs are still extraordinarily unstable, a system is proposed whereby the incomes of the workers may be rendered somewhat more stable.

1. *The decline in employment and the great increase in unemployment.*—Even in the years of our much-vaunted prosperity there was a considerable volume of unemployment. Dr. Leo Wolman estimated that in 1927 there were at a minimum 2,055,000 unemployed workers.¹ The drop in employment during the first part of the depression was such that when the Census of Unemployment was taken in April 1930, there were 2,429,000 unemployed who fell into Class A, namely, those who were out of a job but were able to work and were looking for a job. There were 759,000 more who were listed in Class B as having “jobs but who were on lay-off without pay.”² Since most of these were

¹ *Recent Economic Changes*, II, 478. Dr. Wolman arrived at this figure by subtracting (1) the total number employed from (2) the total non-agricultural labor supply.

² United States Census (Fifteenth) 1930, *Unemployment*, I, 10.

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for all intents and purposes unemployed, the total of the two groups, or 3,188,000 may be taken as an approximate measure of minimum unemployment at that time. There were in addition several other classes out of work with the following numbers, some of whom should probably also have been labelled as "unemployed."³

Class	Definition	Number (in Thousands)
C	Out of a job and unable to work	172.6
D	Having jobs but idle on account of sickness or disability	273.6
E	Out of a job and not looking for work	88.0
F	Having jobs but voluntarily idle without pay	84.6
G	Having jobs and drawing pay, though not at work	82.3
Total.....	.....	701.1

A subsequent study by the Census of Unemployment in January 1931 in sixteen large American cities showed such an increase over the preceding April that the Census estimated that on this basis, the probable total number unemployed in Classes A and B was then approximately 6,050,000.⁴ It is probable, however, that this was something of an overstatement since a part of the increased unemployment in these cities had probably resulted from many of the unemployed moving out of the smaller towns and cities into the metropolitan areas.

We may, however, make an estimate of the total unemployed by measuring the relative decline in employment. Thus the index of employment in manufacturing, computed by the United States Bureau of Labor Statistics is shown by Table I.

This shows that in June of this year the numbers employed in the manufacturing establishments covered by the Bureau of Labor Statistics were 41 per cent less than in 1929 and 34 per cent less than in April of 1930.

³ *Ibid.*, p. 6.

⁴ *Monthly Labor Review*, XXXV (August 1932), 386.

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TABLE I
INDEX OF EMPLOYMENT IN MANUFACTURING, 1926-1932

Year	Relative Number Employed (1929=100)	Relative Number Employed (April 1930=100)
1926.....	103	113
1927.....	99	110
1928.....	96	107
1929.....	100	111
1930.....	87	97
1931.....	74	82
1932 (Jan.-June).....	64	71
June 1932.....	59	66

If we take the fourteen non-manufacturing industries covered by the Bureau, we find the following decreases in the numbers employed:⁵

TABLE II
INDEXES OF EMPLOYMENT IN FOURTEEN NON-MANUFACTURING INDUSTRIES, 1929-1932
(1929 = 100)

Industry	1929	1930	1931	Jan.-June 1932	June 1932
1. Anthracite Mining.....	100	93	81	69	53
2. Bituminous Mining.....	100	93	83	70	61
3. Metalliferous Mining.....	100	83	59	43	32
4. Quarrying and Non-Metallic Mining...	100	84	67	49	50
5. Crude Petroleum Producing.....	100	87	66	54	54
6. Telephone and Telegraph.....	100	98	87	81	80
7. Power and Light.....	100	103	96	86	83
8. Electric Railroad and motorbus.....	100	93	85	80	77
9. Wholesale Trade.....	100	96	87	79	77
10. Retail Trade.....	100	96	89	81	79
11. Hotels.....	100	99	92	82	78
12. Canning and Preserving.....	100	104	81	42	56
13. Laundries.....	100	...	89	82	81
14. Cleaning and Dyeing.....	100	...	93	83	85

The railroads, in turn, show the following decline in the numbers employed:⁶

Year	Index (1929=100)	Year	Index (1929=100)
1926.....	107	1930.....	89
1927.....	105	1931.....	75
1928.....	105	1932 (Jan.-May).....	65
1929.....	100	1932 (May).....	64

⁵ *Ibid.*, 392-94.

⁶ *Ibid.*, p. 405.

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If we now apply these decreases to the approximate number employed in 1929 we will obtain an estimate of the added number who have been thrown out of work in these lines since 1929:

Industry	Approximate Number Employed in 1929 (in Millions)	Percentage Decrease from 1929 to June 1932	Probable Addi- tional Number Thrown Out of Work (in Thousands)
1. Manufacturing.....	8.8	41	3610
2. Railroads.....	1.6	36	576
3. Anthracite Mining.....	.13	47	60
4. Bituminous Mining.....	.5	39	195
5. Metalliferous Mining.....	.12	68	82
6. Quarrying and Non-Metallic Mining..	.1	50	50
7. Crude Petroleum Producing.....	.1	46	46
8. Telephone and Telegraph.....	.5	20	100
9. Power and Light.....	.2	17	34
10. Electric Railway and Motorbus.....	.3	23	70
11. Wholesale Trade.....	1.6	23	368
12. Retail Trade.....	3.0	21	630
13. Hotels.....	.3	22	66
14. Laundries, Cleaning and Dyeing.....	.4	17	68
Total.....	...	..	6005

We thus arrive at an estimated decline in the numbers employed between 1929 and June of 1932 of approximately 6 millions. To these should be added the decrease in (1) the building trades, (2) domestic service, (3) construction of roads, etc., (4) clerical workers in manufacturing, insurance, the professions, etc., and (5) hired farm labor. Since the volume of construction in June of this year was probably less than a quarter of what it was in 1929, it is probable that our estimates would not be far afield if we assumed that at least three-fourths of the building craftsmen are now out of work, or approximately 1.4 million workers, which is probably not far from a million more than those out of work in 1929. The addition of the other omitted classes would in all probability add at least another million, which would make the increase in unemployment since 1929 one of at least 8 millions. If we estimate the probable number unemployed in 1929 at 2 millions or a little less, the total unemployed in June of this year was probably at a minimum approximately 10 million.

In addition to these there should be added those who have left

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school or college during the last three years but who have been unable to find work. With the supply of labor growing, a decline in the volume of employment means a greater increase in the numbers of the idle than is indicated by the employment figures alone.

Since the total number attached to wage-earning and salaried occupations including agriculture was in 1930 probably about 36 millions, this means that at the very least 28 per cent of the workers were unemployed in June of this year, while in the urban industries the minimum percentage was even higher than this. We should remember, moreover, that these are probably minimum figures and that the real quantity of unemployment may well have been somewhat more than this.

2. *The decline in the earnings of the workers.*—This increase in unemployment has been accompanied by an even greater decrease in the total amounts received in wages by the workers. Those who have remained at work have had their weekly pay checks reduced not only from cuts in their wage rates, but also from being compelled to work only part time. Some idea of the severity of this reduction in the total wages paid out in manufacturing is given by the following table which is based upon the returns made to the United States Bureau of Labor Statistics by some 16,000 establishments employing in December 1931 ap-

TABLE III
RELATIVE TOTAL AMOUNT PAID OUT IN WAGES BY MANUFACTURING ESTABLISHMENTS
REPORTING TO THE UNITED STATES BUREAU OF LABOR STATISTICS*
(1926 = 100)

Year	Relative Amount Paid Out in Wages
1926.....	100
1927.....	97
1928.....	95
1929.....	100
1930.....	80
1931.....	60
1932 (Jan.-June).....	46
1932 (June).....	39

* *Monthly Labor Review* (July, 1932), p. 202; *ibid.* (April, 1932), p. 277. The statistics up to and including 1931 are for 54 industries. That for January 1932 is for 89 industries and this has been adjusted to allow for the difference between the two sets of indexes in 1931.

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proximately 2.8 million workers and in 1929 not far from 4.2 million.

American manufacturing in 1931, therefore, distributed in wages 40 per cent less than it had in the piping years of prosperity of 1926 and 1929, while by the middle of 1932 it was paying out only about 40 per cent as much as it had then. Nor is this all. The drop in other lines was also sharp. Let us take first the statistics of total wage payments collected by the Bureau of Labor Statistics for a group of non-manufacturing industries, which taken in their entirety probably employed in 1929 not far from six million workers.⁷

TABLE IV
RELATIVE TOTAL AMOUNT PAID OUT IN WAGES AS COMPARED WITH 1929 BY CERTAIN
NON-MANUFACTURING INDUSTRIES IN 1930, 1931, AND THE FIRST PART OF 1932
(1929 = 100)

Industry	1930	1931	Average Jan.-June 1932	June 1932
1. Anthracite Mining.....	95	75	58	37
2. Bituminous Mining.....	81	58	39	27
3. Metalliferous Mining.....	78	45	26	20
4. Quarrying and Non-Metallic Mining.....	79	53	30	30
5. Crude Petroleum Producing.....	86	62	46	45
6. Telephone and Telegraph.....	103	94	86	82
7. Power and Light.....	104	97	85	81
8. Electric Railway and Motorbus.....	94	83	72	69
9. Wholesale Trade.....	96	84	71	66
10. Retail Trade.....	96	87	73	68
11. Hotels.....	99	85	70	64
12. Canning and Preserving.....	96	66	35	41
13. Laundries.....	...	84	72	69
14. Cleaning and Dyeing.....	...	80	65	66

These statistics also show a striking decline. While the wage payments in the telephone and electrical industry were only 6 and 3 per cent respectively less in 1931 than in 1929, the decrease was 13 per cent in the case of retail stores, 15 per cent for hotels, 16 per cent for wholesale trade, and 17 per cent for street railways. In the mining industries the decline was still sharper. The totals paid out in anthracite and bituminous coal mining were 25 and 42 per cent below what they had been in 1929, in the oil industry they were 38 per cent less, in quarrying 47 per cent less, and in

⁷ *Monthly Labor Review* (July, 1932), pp. 208-209; *ibid.* (April, 1932), p. 981.

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metalliferous mining 55 per cent less. In canning and preserving the payrolls were 34 per cent below their 1929 figures.

By June of this year the situation was of course still worse. For by then the electrical industry of the country was paying 19 per cent less in wages than it had in 1929, and the telephone and telegraph industry 18 per cent less. Total wages were down 32 per cent in retail trade and 34 per cent in wholesale trade, and 31 per cent in the operation of electric railroads and motor-busses. Laundries paid out 31 per cent less in wages, and cleaning and dyeing establishments 34 per cent. Hotels were paying 36 per cent less in wages than they had in 1929. In mining, the situation was far worse. Anthracite earnings were only 37 per cent of what they had been, or a fall of 63 per cent, while bituminous earnings were actually down 73 per cent, metalliferous mining with an index of 20 was paying out only one-fifth of what it had, and quarrying with an index of 30 was paying less than a third. Crude petroleum had an index of 45 or less than half of what it had been in 1929.

The other two major industries are the steam railroads and construction. In the former industry the totals which have been paid out in wages and salaries during the months of December of each year have been as follows:⁶

December	Total Paid Out in Wages and Salaries (in Millions of Dollars)	Relative Amounts Paid Out in Wages and Salaries (Dec. 1929=100)
1926.....	253	108
1927.....	236	101
1928.....	231	99
1929.....	234	100
1930.....	193	82
1931.....	154	66
1932 (April).....	126	54

In May, therefore, the total amount paid out in wages on the railroads was only slightly over half as much as in December 1929.

In so far as building operations are concerned, the total esti-

⁶ Compiled from the monthly bulletins on *Wage Statistics* issued by the Interstate Commerce Commission.

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mated expenditures for all types of construction during the years from 1926 on for 257 cities have been as follows:⁹

Year	Total Estimated Expenditures for Construction in 257 Cities (in Millions of Dollars)	Relative Expenditures (1926 = 100)
1926.....	3557	100
1927.....	3138	88
1928.....	2995	84
1929.....	2580	73
1930.....	1451	48
1931.....	1049	29

This year the decline in building has gone still further so that the vast majority of the building craftsmen are now out of work and are not receiving wages. It is probable that the total amount paid out to the building workers is now less than one-fifth of the corresponding amounts paid out in 1926 and not more than one-quarter of the amount so distributed in 1929.

The decline in the cost of living is of course an offsetting factor. If we take the average for 1929 as 100,¹⁰ then the average for 1930 according to the surveys of the Bureau of Labor Statistics, was 97 and for 1931 88.¹¹ By June of 1932 this index had, however, sunk to 80 or a fall of 20 per cent from the 1929 average.¹² If we divide the relative total amount paid out in wages by manufacturing industries during the period of the depression by this relative of living costs, we have an index of real income of 82 for 1930 and 68 for 1931. These were declines in real income, therefore, of 18 and 32 per cent respectively. By

⁹ *Monthly Labor Review* (April, 1932), p. 886. The total population of these 257 cities amounted in 1930 to 44,850,000.

¹⁰ The average for the surveys conducted by the United States Bureau of Labor Statistics for 32 cities in December 1928, and for June and December 1929. *Monthly Labor Review* (August, 1931), p. 451.

¹¹ The average for the year was found from the indexes of the preceding December, and for June and December of the current year on the assumption of even monetary changes between these surveys. An average of these twelve monthly indexes was then taken.

¹² See *Monthly Labor Review* (August, 1932), p. 423.

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June of 1932, with total money earnings in manufacturing only 39 per cent of what they had been in 1929, and with the cost of living relative at 80, this meant that the purchasing power of the amount distributed in wages was 49 per cent or slightly less than one-half of what it had been in 1929.

In a similar fashion, by dividing the relative totals which were paid out in wages in the other industries by the index of relative living costs, we obtain the approximate relative amounts which could be purchased with the wages actually received. These are indicated for mining, public utilities, retail trade, and miscellaneous trades in the following table:

TABLE V
RELATIVE TOTAL REAL WAGES PAID OUT IN CERTAIN NON-MANUFACTURING INDUSTRIES IN 1930, 1931 AND THE FIRST HALF OF 1932
(1928 = 100)

Industry	1930	1931	June 1932
1. Anthracite Mining.....	98	85	46
2. Bituminous Mining.....	84	66	34
3. Metalliferous Mining.....	80	51	25
4. Quarrying and Non-Metallic Mining.....	81	60	38
5. Crude Petroleum Producing.....	89	70	56
6. Telephone and Telegraph.....	106	107	102
7. Power, Light and Water.....	107	110	101
8. Operation and Maintenance of Electric Railways and Motorbuses.....	97	94	86
9. Wholesale Trade.....	99	95	82
10. Retail Trade.....	99	99	85
11. Hotels.....	102	97	80
12. Canning and Preserving.....	99	75	51
13. Laundries.....	...	95	86
14. Cleaning and Dyeing.....	...	91	82

So far as the steam railways are concerned, the purchasing power of the totals paid out in wages and salaries in December 1930 was 88 per cent or 12 per cent less than it had been during the previous December, and in December of the following year it was but 78 per cent or 22 per cent less than in December 1929.

If we were to take the relative total expenditure upon housing as an index of building wages, the purchasing power of the wages distributed in 1930 would have been only 68 per cent of the real amounts thus paid out in 1929, while in 1931 the index of total

real purchasing power paid out would have been but 45 per cent of the total of 1929.

3. *What protection do the unemployed have at present?*—The only protection for these workers who have had their incomes thus cut off has been: (1) their savings, and (2) public and private charity. Neither of these is adequate and the latter is in addition both humiliating and uncertain.

Despite the gains in real wages during the decade from 1919 to 1929, money wages even at the peak were for all except the skilled, inadequate to grant a decent standard of living for the workers and their families. There was, therefore, no very appreciable margin for saving in the vast majority of cases, and for the unskilled scarcely any at all. Thus in 1928, the average annual earnings of some fourteen million gainfully employed non-agricultural workers, according to studies which have been made by Miss Jennison and myself, were but \$1504 a year, or an average of about \$29 a week.¹³ In this group were included most of the officials in manufacturing, ministers, government employees, clerks, etc., and consequently the average for the manual workers alone was somewhat lower and probably indeed did not exceed \$1400 annually or \$27 a week. This would be subject to a still further deduction for the unemployment which existed even in those days of prosperity. The average weekly earnings of employed male workers in Illinois, according to the Illinois Department of Labor, were in October 1929, only \$32.58.¹⁴ When we remember that these figures are only averages, and that in practice probably more than half of the workers receive less than these sums,¹⁵ we obtain some idea of how difficult it is for the workers to make any appreciable savings.

This is of course particularly the case with unskilled labor. Their average starting rate for the country as a whole in July 1930, before the depression was really severe, was 43.1 cents an hour.¹⁶ If the unskilled were to work ten hours a day, this would

¹³ Douglas and Jennison, *The Movement of Money and Real Earnings, 1926-1928*, p. 27.

¹⁴ *Illinois Labor Bulletin* (November, 1929), p. 166.

¹⁵ This is due to the asymmetrical nature of the curve of wage differences.

¹⁶ *Monthly Labor Review* (November, 1930), p. 187.

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have netted them an average of \$4.31, and if they were employed for each and every one of the 306 working days in the year, the total yearly earnings would have averaged only \$1320. But the real average earnings were far less than this because the standard working week for the vast majority was less than 60 hours, and because further deductions would have to be made for time lost from illness, lost time within employment, and the unemployment from which the unskilled suffer even in prosperous years. Because of all these factors, it is probable that the unskilled workers do not on the average earn very much more than \$1000 even in boom years, while in years of depression they of course average very much less. Now while these sums are sufficient for a single man to support himself and perhaps to meet a portion of the cost of maintaining a wife, it is not possible in the larger cities adequately to support one, or certainly not two children.

That this in fact tends to be so is shown quite conclusively by a very able study by the late Dr. Leila Houghteling. Dr. Houghteling obtained from employers the full record of the earnings of 476 heads of Chicago families in the year 1924. These men were unskilled and semiskilled workers but they had been steadily employed throughout the year and consequently had not suffered from unemployment. It was found that in 69 per cent of the cases the total earnings of the head of the family were insufficient to support the actual members upon that scale which the Chicago Council of Social Agencies had carefully worked out as a minimum for relief cases.¹⁷ Even when all other sources of family income were added, there were still 45 per cent of the families where the total receipts were less than the amount needed to provide the actual members with the minimum budget used for charitable cases. The majority of these cases, indeed, fell short of the minimum by very appreciable amounts.

When we remember that these workers had not suffered from unemployment during the period in question, which was one of supposedly great prosperity, and that the minimum standard budget was very conservatively drawn, we can gain some idea of

¹⁷ Leila Houghteling, *The Income and Standard of Living of Unskilled Laborers in Chicago*, p. 80.

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how difficult it is for unskilled and semiskilled workers to save any appreciable amounts.

Saving was indeed made much more difficult for the American working class during the twenties by the widespread practice of installment selling which encouraged them to buy commodities such as radios, automobiles, etc., and which tended to leave a very large percentage of them at the end of a year in debt rather than with a surplus. Even those who saved have in a very considerable number of cases lost all they have accumulated while a still larger number have lost nearly all they possessed. One has only to mention here the number of bank failures which in the last twelve years have amounted to over 10,000 in number and which in the last three years have totaled nearly 4,000. In the city of Chicago, for example, where there were formerly 225 banks, three years ago, there are now but 72. In Toledo, there is but one principal bank which is operating, while the banks have largely disappeared from the steel towns of eastern Ohio. In all of these cases a train of ruin has followed the closing of the banks and has swept away the savings of hundreds of thousands.

Even more catastrophic has been the wiping out of the equities which the workers formerly possessed in stock and in their homes. The decade of the twenties was one in which the vast majority of corporations induced a very large percentage of their employees to purchase stock in their concerns. This was hailed by many as a new economic revolution,¹⁸ but its results have been disastrous to the American wage-earning class. For the stock which they purchased was overwhelmingly common stock, and this has in general so depreciated as to extinguish most, if not all, of the investments which they thus made. Notable examples

¹⁸ See Thomas N. Carver, *The Present Economic Revolution in the United States*; Robert S. Brookings, *Industrial Ownership*, and Vol. XI, No. 3, of the *American Academy of Political Science*, "Popular Ownership of Property." Without wishing to be self-laudatory, it is perhaps permissible for me to point out that I warned against this practise in the very midst of the stock selling furor on the ground that a worker should not in general endanger both his savings and his job in the same concern. See "The Movement of Real Wages and Its Economic Significance," *Supplement to American Economic Review* (March, 1926), p. 47.

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of this were those of the Insull companies where the employees were pressed not only to purchase stock in the operating companies but also in the shaky structure of holding companies which Mr. Insull had erected. Not only did the employees purchase these "securities" themselves but they also were induced to get their friends likewise to buy them. The complete collapse of these companies has deprived multitudes of the security which they thought was theirs. Almost equally bitter has been the experience of large numbers of workers in industrial companies, railroads, and public utility concerns. Similarly multitudes of workers who were attempting to pay for their homes have been unable to keep up their payments and have in consequence lost most, if not all, of what they had already paid in.^{18a}

From all these causes, therefore, it is doubtful whether the manual or clerical workers of the country now possess any large financial stake to protect them either against the continuance of this depression or against any future depression. In view of the relatively small earnings which the large majority of the workers make in comparison with actual living costs and in view of the burden of debt with which so many of them will be weighed down when they once again find employment, it is futile to expect that their voluntary savings will provide adequate protection against so great a risk as unemployment.

The unskilled and the semiskilled are, as a matter of fact, seldom able to build up a reserve for more than a few weeks of unemployment, and even a somewhat prolonged period of seasonal unemployment is likely to find them in want. The skilled workers can make greater savings, if installment selling permits, and provided that bank failures and stock depreciation do not sweep their accumulations away. But even here the sums are generally inadequate for a long period of unemployment resulting from a business depression or from technical and managerial changes.

^{18a} Thus in the five Ohio cities of Cleveland, Columbus, Cincinnati, Toledo and Youngstown there were 26,928 evictions in 1930, 27,670 in 1931, while the probable number for 1932 is estimated at 35,000. *Report of the Ohio Commission on Unemployment Insurance*, pp. 39-40.

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When the savings of the unemployed are exhausted, the only two forms of recourse which they now have is that of public and private charity, and borrowing. The amounts which have been distributed in public and private relief during the present depression may seem to be in absolute amounts large, but in comparison with the loss which the unemployed have experienced and the needs from which they have suffered, it has been shockingly inadequate. Thus in the first quarter of 1931, the total amount paid out in relief in the cities of over 30,000 amounted to approximately 56.7 millions of dollars.¹⁹ The number of families to whom relief was thus given in the cities of over 30,000 amounted to 1,288,000. This was an increase of \$40,000,000 and of 954,000 families over those aided by these same municipalities during the same period in 1929. It is interesting to note, however, that the sums thus distributed averaged only a little over \$15 per month for each family which was in all probability insufficient for even food alone. The total relief reported for the country as a whole, and including the localities of less than 30,000 population, were for these three months, 73.8 millions of dollars. Had these amounts of relief been maintained throughout the year (which they were not) the total amount thus distributed would only have been \$295,000,000. As a matter of fact, however, the reduction in the amounts granted for relief during the summer months probably brought the total down to not more than \$250,000,000.²⁰ This seems in the aggregate to be a large sum. But since there were on the average not less than 6,000,000 persons unemployed during 1931, and perhaps an average of 7,000,000, whose average earnings would have been around \$1500 in 1929, the minimum wage loss in that year from complete unemployment alone would have been 9 billions of dollars. If we add the losses from part-time, we have a total of at least 10 billions, while the real figures were probably greater. It is apparent, therefore, that the amounts distributed in relief by

¹⁹ U. S. Department of Commerce, *Relief Expenditures by Governmental and Private Organizations*, p. 6.

²⁰ Thus during the summer, the relief expenditures of 50 cities were one-third less than they had been during the winter. U. S. Children's Bureau, *Relief Expenditures*, January-September, 1931, p. 3.

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public and private charity were in 1931 less than 3 per cent of the actual wage loss suffered, and probably did not greatly exceed two per cent.

So far as 1932 is concerned, the statistics collected by the Children's Bureau from 976 reporting agencies in 123 cities of over 50,000 population showed a total expenditure for January of 23.0 millions, for February of 25.3 millions,²¹ and for March of 28.3 millions.²² This was an increase of approximately 65 per cent from the amounts distributed in these same cities during months of the previous year. In April and May, 123 cities distributed 23.8 and 22.3 millions respectively.²³ If we assume that these same ratios applied to the country as a whole, we would have a total expenditure for the first quarter of not far from \$120,000,000. We are, therefore, probably expending somewhere between 400 and 500 millions of dollars in relief to families. But even this is only about 3 per cent of the wage loss of somewhere around 15 billions of dollars which as we have seen the workers are suffering from unemployment.

Nor is the relief granted per family much more adequate than it was. For in February of this year, the average monthly allowance per family in the cities which reported such data was \$19.34.²⁴ Here again only the bare cost of a minimum standard of food could be provided a family with such a sum, together sometimes with a little coal. Frequently, indeed, not even this can be granted. Nothing can be provided for rent, only cast-off clothing can be given, and nothing for medicine, health, etc. The sums are, therefore, grossly inadequate in view of the real needs of the people. Thus in Chicago, where the scale of relief is not below the level of other cities, the average amounts thus given are approximately one-fifth of the sums which the Council of Social Agencies has itself set as the minimum standard of relief for a family of five.²⁵

²¹ U. S. Children's Bureau, *Monthly Relief Bulletin* (February, 1932), p. 2.

²² *Ibid.* (March, 1932), p. 1.

²³ *Ibid.* (May, 1932), p. 2.

²⁴ *Ibid.* (March), p. 2.

²⁵ See the *Chicago Standard Budget for Dependent Families* (1931 revision).

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Not only are the sums grossly inadequate but they are in addition humiliating. Charity at best is both unwelcome and detested by self-respecting workers. Many will starve rather than receive it, and others will undergo great privations before they ask for relief. In addition, however, the relief agencies in many localities have been compelled, because of the scantiness of their funds as compared with the need, to introduce a system of rations whereby the families are given food packages instead of orders upon groceries. In this way economies are realized from large scale purchase and distribution, but it is extremely humiliating to most workers to have their provisions doled out in this fashion. They are compelled to forego their scruples to feed their families and after a time they find that they have not only lost their scruples but much of their former pride of independence as well.

There is already clear evidence that the long period of relief has weakened the independence of many workers who, before the depression, would have scorned the idea of charity. Settlement and social workers seem to be unanimous in their testimony that men and women are now less reluctant to accept charity than they were and that with every added month that a family receives relief it tends to be less energetic and self-respecting.

Finally, such relief as is granted tends to be uncertain. The extra relief funds in 1930-31 were largely exhausted by the late spring of that year, and the total amounts given were greatly curtailed during the summer although unemployment itself was rapidly increasing and people were in fact getting more rather than less desperate. There has been an unfortunate tendency on the part of many to assume that because people were not in danger of freezing to death, they did not need to be protected from hunger and eviction.

This year the stoppage of relief in many cities has created great hardships. In St. Louis the dropping from the rolls of 13,000 families led to a riot in which the city hall itself was stormed. In Detroit the number of families being helped declined, according to Mauritz Hallgren, from 45,000 in the spring of 1931 to less than 25,000 in the spring of 1932, and the president of the Welfare Commission announced in July of the latter

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year that 18,000 of these would have to be dropped.²⁶ In Philadelphia, the state and local funds gave out in the middle of June and no further relief was distributed for ten weeks.²⁷ In New York City thousands of families who have been receiving emergency aid have been forced off the lists because of scanty funds. While no families have been dropped from relief in Chicago, many of the homeless men have been deprived of protection. Moreover, all those receiving relief have been continually alarmed that they would not be cared for when, with local funds exhausted, the city authorities were compelled to appeal to the state, and again when the bankers were slow in subscribing to the state warrants, and finally when with both state and local monies exhausted, federal aid was sought.

Nor are these cases untypical. Everywhere public and private charity has been grossly unequal to the strain and there has been constant fear that the stream of relief itself would dry up, as in a number of communities it has. Within communities the unemployed who have applied for relief have in many cases been shunted from one agency to another and have been compelled to transfer from one frail plank to another in the sea of misery. Not only has great anxiety been created by all this, but it has in many instances not been possible so to synchronize the efforts of the agencies as to give to all the families on the admitted list of the charities continuous and uninterrupted relief. Similar fears and gaps have developed as the private agencies within the towns and cities have been compelled to fall back upon their local governments and these in turn upon the state, and finally upon the federal government itself.

Since public and private charity has not met more than 3 per cent of the wage loss resulting from unemployment and part-time, how then has the remainder been met? In part, of course, by a greatly reduced standard of living on the part of the unem-

²⁶ Mauritz A. Hallgren, "Grave Danger in Detroit," *The Nation* (August 3, 1932), p. 100.

²⁷ The Reconstruction Finance Corporation in early August refused to advance funds to meet this situation on the alleged grounds that Pennsylvania itself should do more. See Ewan Clague, "When Relief Stops What Do They Eat?" *Survey* (November 15, 1932), pp. 583-85; *ibid.*, p. 614.

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ployed and their families. The diet is curtailed and the consumption of milk, fresh vegetables, meat, butter, sugar, etc., drastically reduced. The family moves to a cheaper locality or "doubles up" with relatives and friends, new clothing is not purchased, and less coal and wood are bought. The family neglects the care of its health and of its teeth, in order to save on doctors, dentists, and hospital bills. Savings are drawn on, insurance is borrowed upon,²⁸ and additional money is borrowed from friends and relatives. The corner grocer, the butcher, the doctor, etc., allow the bills to run in the hope that they will ultimately be repaid. The landlords, who are seldom allowed rent by the charities, carry large numbers of tenants who cannot pay. So far has this gone that in a number of cities of which I know there are numerous landlords, who, unable to collect rents themselves from their unemployed tenants, have been forced to apply to the charities themselves for relief.

The great burden of unemployment has, therefore, fallen upon the working class themselves and upon the lower middle class of storekeepers, landlords, and doctors in working class neighborhoods. This latter group has in turn been compelled to pay a disproportionately large share of the actual relief distribution. For between 60 and 65 per cent of the relief distributed has come from public funds²⁹ and of this the overwhelming share, up until the summer of 1932, had been borne by the municipalities and counties themselves. Since the local revenues are almost exclusively derived from the general property tax, under which intangible personal property such as stocks, bonds, and bank deposits escape, this means that the load for relief is thrown back upon the holders of real estate. Persons of meagre means tend to put their savings in this form and consequently have to

²⁸ By the early summer of this year (1932) ten billion dollars of life insurance policies had been surrendered within the last three years and three billion dollars had been borrowed on outstanding policies. Since the assets behind insurance are approximately one-fifth of the total face value, this was equivalent to borrowing to the full on about 15 billion dollars of policies. Through borrowings and surrender, therefore, the insured of the country had lost about one-fourth of the total policies outstanding. See *New Republic* (July 27, 1932), pp. 275-76.

²⁹ Children's Bureau, *Monthly Relief Bulletin* (February, 1932), p. 1; and the Bureau's *Relief Expenditures, January-September, 1931*, p. 2.

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bear a large share of the burden of relief. Landlords already badly crippled from the failure of the unemployed to pay rents are then taxed additional sums to provide them with food.

4. *What unemployment insurance would do.*—In place of the present humiliating, inadequate, and uncertain method of granting relief to the workers through public and private charity, unemployment insurance would provide a much more self-respecting type of protection. Under such a system those who were unemployed through no fault of their own would receive, under certain conditions, benefits which would be theirs by right and which would be definite in amount. Under any proper system, moreover, these benefits would be far more adequate than the meagre “doles” which are at present distributed from the inadequate funds available. A great saving of self-respect and a more decent provision for the fundamental needs of the unemployed and of their families would inevitably result.

It is indeed appropriate to inquire as to how much better off we would have been during this depression had American industry in 1922, as some of us then urged, universally adopted unemployment insurance as it was then coming out of the last great depression. The average sums paid out in wages to workers in all branches save agriculture, plus the amounts in salaries to all save those in agriculture and government service, amounted on the average for the years 1923-1928 inclusive, according to Dr. W. I. King,³⁰ to 40.6 billions of dollars a year. If we deduct 2.6 billions for salaries in excess of the minimum limit later suggested in this book, we would have an average of 38 billions a year. An average assessment of 3.75 per cent which is later suggested would have yielded approximately 1,425 millions of dollar a year. For the seven years from 1923 to 1929 inclusive, there would, therefore, have been collected a total of approximately 10 billion dollars. Had an average assessment of 3½ per cent been used, the average annual amount would have been

³⁰ King, *The National Income and Its Purchasing Power*, pp. 132-33, 138-39. The average in wages was 29.7 millions of dollars and in salaries 10.9. The amounts paid out by government were not given for 1928 but were estimated at 5.3 billions on the basis of the growth in the preceding year.

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approximately 1.34 billions of dollars or a total of about 9.4 billions.

The current claims for unemployment benefits would of course have had to be paid out of these sums. While there was a considerable amount of unemployment during these years, it seems to have been at least one-fifth less than the long-time general average which prevailed in the United States prior to the debacle which set in late in 1929.⁸¹

If this were the case, then it would seem that the claims upon the unemployment fund would have been somewhat less than four-fifths of the general average. This follows from the fact that the imposition of a waiting period will eliminate a larger percentage of the unemployed from benefits in a period of low unemployment when the difficulty is primarily seasonal than in a period of high unemployment when the difficulty is primarily cyclical.

It is probable, therefore, that not more than 75 per cent of the customary benefits would have had to be paid out during these years, leaving the remainder as a reserve. Assuming that an assessment of 3.75 per cent would be adequate in the long run to meet the claims, this would have meant that about 355 million dollars a year or 2.5 billions in the seven years could have been set aside as a nest egg for stormy times. If a 3½ per cent assessment had been levied, somewhere around 340 millions a year or about 2.3 billions would have been accumulated.^{81a}

Had such a system, therefore, been universally adopted in 1922 it would probably have been possible for it to have built up reserves of approximately two and a half billions of dollars during the seven years of comparative prosperity and hence for

⁸¹ Thus Wolman's index for the years 1923-27 shows an average of 8.4 per cent unemployed in manufacturing, mining, transportation, and construction (*Recent Economic Changes*, II, 469-78), while my index for these industries shows an average rate of 10.2 per cent for the years 1896-1926. (Douglas, *Real Wages in the United States, 1896-1926*, pp. 404-60).

^{81a} The Ohio Commission estimates that had a 3 per cent assessment been levied in that state beginning in 1923, the reserve by the end of 1929 would have been 104 millions of dollars. *Report Ohio Commission on Unemployment Insurance*, p. 37.

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it to have gone into the depression year of 1930 with approximately that sum to its credit.

Had this been done, the lot of the unemployed would have been far better during the present depression. There would have been added to this reserve the current assessments for the years of 1930, 1931 and 1932. Even with the decline in payrolls during these years, these should have netted somewhat over two billions of dollars, making the total amount available for distribution not far from five billions of dollars. This would have been approximately six times the amounts which have probably been distributed in the form of charity during these years. This would both have enabled very many more of the unemployed to have been cared for and at the same time would have furnished far more adequate benefits for those who were. The families of the unemployed would, therefore, have been protected much more effectively and there would have been much less suffering.

The presence of the reserve funds together with the current income from the assessments would, moreover, have enormously diminished the need for public and private "doles" of relief. Some relief would probably still have had to be given to take care of those who had not been covered by the system or who had exhausted their right to benefit. But the main mass of the workers would have been cared for on a self-respecting basis under the insurance system. They would have received the benefits as a right and their independence would not have been undermined by being compelled to ask, as now, for charity.

In addition, the unemployed would have been much more fully able to pay for their groceries, milk and meat, their rent, clothing, medical and dental care, etc. In this way the lot of those who have helped to carry the unemployed through the depression would have been much easier. The income of the lower middle class as well as of the wage earners and the clerks would accordingly have been stabilized to a much fuller degree.

In addition to all this, business itself would have been more stable than it has been. For there would have been available approximately two billions of dollars of resources in the unemployment reserve funds which would have been used to finance

the needs of the consumers. The purchasing power of the consumers would have been financed to that extent. This would not only have meant greater purchases from retail stores but larger orders by these stores from wholesalers, and directly or indirectly, from factories. This would in turn have meant that there would have been more employment than there has been and consequently less unemployment. The presence and use of this reserve would, therefore, have lessened somewhat the cumulative breakdown of prices, production, and employment which characterizes the depression phase of the business cycle and have provided a much needed source of stability.⁸²

There is a second way in which unemployment insurance would have introduced greater stability, namely, through the stimulation which its presence would have given towards greater spending on the part of those who still had jobs during the depression period. During the first part of the depression, the deposits in savings banks tended to increase steadily and appreciably. This was regarded by many as a sure proof that the depression was not severe and that there was not much suffering. For if men deposited more money in banks, it was asked, how could they be in greater want? It does not require much acquaintance with the lives of the workers, however, to discern what were the motives and forces which led the working classes to save more during the years of 1930 and 1931. When workmen see their fellows losing their jobs all around them and realize that the only sources of protection which those who are dismissed have, aside from charity, lie in their own savings, even the dullest of wit catches the point. Those who are fortunate enough to still have jobs begin to reduce their own expenditures and to put more money into the banks in order that they may have more of a stake if and when the dreaded blow of dismissal should fall. The gain in savings deposits came, in part therefore, not from

⁸² For a fuller treatment of the theoretical problems which are thus involved see P. W. Martin, *The Maintenance of Purchasing Power*, and my essay, "World Unemployment and Its Reduction through International Cooperation," in *Problems of Peace*, 6th series, George Allen and Unwin, pp. 26-50.

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any greater surplus in the hands of the workers, for the real condition was just the opposite, but rather from their increased fear of being turned adrift without adequate resources by our economic system.⁸⁸

But what harm did these increased savings do to industry? Had the economic world and the banking system behaved as the great majority of business men and economists formerly believed that it did, there would have been none. For it was a favorite tenet of the Victorian economists that savings did not result in any net diminution of purchasing power nor of employment and production. Less money was, to be sure, expended on consumers' goods, but since the banks were presumed to loan these funds out to industry almost immediately, more was said to be expended on producers' goods. There would thus have been merely a transfer but not a decrease of purchasing power. Savings would thus have provided more protection for the savers and have caused no detriment to business as a whole. It was consequently to be praised after the fashion of Samuel Smiles, if somewhat less ecstatically, and no source of evil was to be found in it.

But the world and the banking mechanism does in fact behave quite otherwise than the economists thought. For as J. M. Keynes has pointed out in his brilliant *Treatise on Money* and as the Swedish economist, Wicksell, pointed out before him, during a period of depression the banks do not invest in industry at anywhere near the rate at which individuals deposit savings in banks. In a period of depression, industry quite naturally does not wish to expand its capital equipment and therefore does not seek much new capital from the banks. The banks, moreover, are reluctant to invest in what they regard as dubious security. The result is that while savings deposits increase, investments actually decrease. Purchasing power is, therefore, impounded in banks and fails to find its normal outlet. The purchase of consumers' goods is decreased by this process of additional saving

⁸⁸ Part of this increase in the deposits of the savings banks was of course due to a transfer of funds from more speculative purposes.

but there is no increase in the demand for producers' goods. Workers are therefore forced out of the industries producing consumers' goods and their diminished purchasing power still further aggravates the situation. Furthermore, the decline in the demand for consumers' goods which directly and indirectly results from this process of added saving causes the quantity of machinery and of capital goods to decrease at a still more rapid rate⁸⁴ and in turn feeds the cumulative process of depression.

Unemployment insurance should somewhat lessen this vicious cycle. Under it the workers would be assured that even though they lost their jobs, their income would not wholly cease but that they would on the contrary receive benefits for a certain period at least. Unemployment would thus be robbed of many of its present terrors, and there would be less of the frenzied saving which at present in a period of depression merely results for society in a sterilization of an appreciable fraction of the available monetary purchasing power. There would thus be a better balance between spending and investment and the industries producing consumers' goods would be buoyed up more fully in a time of trial than is now the case. With this would go also a greater degree of industrial stability in the producers' goods industries. Unemployment insurance would in this way very definitely operate to reduce the volume of unemployment in the periods of depression.

5. *The building-up of unemployment reserves provides protection for labor which is essentially similar to that provided for capital by the reserve policies of corporations.*—We have seen the gigantic inroads which the present depression has made upon the real income and standard of life of the working classes. In sharp contrast with this has been the record of dividend and interest payments by American corporations during the first two years of the business depression. Thus the Standard Statistics Corporation, which has probably more complete data than any

⁸⁴ For the rationale of this greater fluctuation in the capital producing industries, see J. M. Clark, "Business Acceleration and the Law of Demand" *Journal of Political Economy* (1916), pp. 217-35.

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TABLE VI

TOTAL INTEREST AND DIVIDEND PAYMENTS BY AMERICAN CORPORATIONS BY YEARS, 1926-1931, ACCORDING TO THE STANDARD STATISTICS COMPANY

Year	Total Dividend and Interest Payments (in Millions of Dollars)	Relative Amounts (1926=100)
1926.....	4391.2	100
1927.....	5570.9	129
1928.....	6028.2	137
1929.....	7588.4	173
1930.....	8577.6	196
1931.....	8228.4	187
1932 (first 6 months).....	3768.4	...
1932 (approximate).....	7536.8*	172

* Since January is the heaviest month of payments, the totals of the first half year are generally heavier than for the second. The total rate of payments should, therefore, be a little less than the above. Perhaps 7400 millions would be closer but it seems best not to estimate.

other agency, reports the total interest and dividend payments by corporations to have been as follows for the years 1926-1931 inclusive:⁸⁵ The movement of the total payments by corporations to the owning classes is compared in Chart I with those pre-

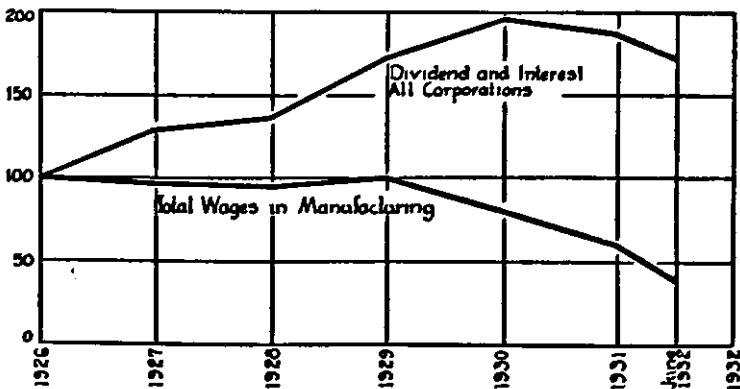


CHART I

THE RELATIVE MOVEMENT OF DIVIDEND AND INTEREST PAYMENTS AND TOTAL WAGES PAID OUT IN MANUFACTURING 1926-JUNE, 1932

viously cited in Table III of the total wage payments to the workers in manufacturing. This indicates that while total wages in manufacturing were in 1930 approximately 20 per cent below

⁸⁵ *Base Book, Standard Statistical Bulletin*, January, 1932 (Standard Statistics Company, Inc.), p. 47, and same for July, 1932, p. 6.

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their 1926 and 1929 level, dividend and interest payments were actually 97 per cent above this 1926 total and even 24 points and 14 per cent above the total distributed in 1929. In 1931, when total wages were 40 per cent less than they had been in either 1926 or 1929, dividends and interest were still 87 per cent above their 1926 total and still somewhat above that of 1929. Even though payments to owners began to decline during the first half of 1932, their total average for these six months was at approximately the 1929 rate. In startling contrast to this was the fact that the total wage payments to the workers in manufacturing industry were for the first five months of the year only 47 per cent as much as they had been in 1929, and for the month of June itself were only 39 per cent of their former total.

If we take dividends alone we find a similar increase as compared with 1926 evidenced by the following statistics³⁶ of the total amounts so distributed by corporations.

Year	Total Dividend Payments (in millions)	Relative Payments (1926=100)
1926.....	1691	100
1927.....	2099	124
1928.....	2326	138
1929.....	3449	204
1930.....	4203	249
1931.....	3675.6	217
1932 (first 6 months).....	1509.6	...
1932 (annual rate for first half).....	3029.2	178

According to these statistics, we find that the dividend payments in 1930 were virtually two and a half times what they had been in 1926, and 22 per cent more than in 1929. In 1931, they were still more than twice what they had been in 1926, and even during the first half of 1932 they were approximately 80 per cent more than they had been then.

Such statistics as these would indeed seem incredible were they not vouched for by the best statistical reporting agency in

³⁶ *Base Book, Standard Statistical Bulletin* (January, 1932), p. 47; and *ibid.* (July, 1932), p. 6.

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the country and one which because it serves business, cannot be accused of warping its figures to favor labor.

It is probable, however, that in fact the actual difference between the apparent maintenance of the income of the owning classes and the terrific slump in wages has not been quite as startling as that indicated by these figures. In the first place, the current income of the owners of industry has probably not been on quite as high a relative level as the dividend and interest payments indicated above. For the statistics given do not include building and real estate ventures which have fared on the whole much worse than the industrial and other companies, and which in general had not built up comparable reserves. The owners of unincorporated concerns have, moreover, had in all probability worse luck in maintaining their current income than have the holders of corporate securities, and this factor would somewhat lower the general average. On the other hand, as we have seen from the statistics given earlier in this chapter, the earnings of the workers in manufacturing have slumped somewhat more than the average of those outside of manufacturing.

Even after we make all of these necessary allowances, however, the difference between the way in which the owners of American industry have fared during the depression and the experience of the workers is sufficiently startling as to shock even the most complacent. It seems to be true that the American owners of capital as a class went through the first two years of the depression without at the most any very appreciable reduction in monetary income, and that they were very well cushioned even during the first part of 1932. To this should of course be added the further fact that the fall in prices made each of the dollars which they received worth more than before. While the owners of American industry have suffered a very great shrinkage in their paper wealth,²⁷ they have not until the present at least, experienced any very real decline in their money income. On the contrary, they apparently gained in real income during a

²⁷ The index of industrial stock prices fell from 216 in September, 1929, to 33.5 in June, 1932. *Statistical Bulletin* (Standard Statistics Co., Inc.), July, 1932, p. 6.

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period when the national income as such was being greatly reduced. So far as our urban and town population is concerned, it has therefore been the working class and those dependent upon them for support and patronage who have lost. And they, as we have seen, have suffered greatly.

The ability of the owners of industry to thus maintain their money incomes in the face of an unprecedented slump in business has, of course, been due to their policy of accumulating large reserves during the previous period of prosperity. The profits of industry were enormous during the years from 1923 to 1929. American corporations were, therefore, able not only to pay out greatly increased amounts in dividends, but also to lay aside vast sums as surplus and for reserves. These nest-eggs have been adequate up to now to maintain the previous income of the owners despite the fact that the current net income of the corporations themselves has of course appreciably decreased.

Two comments can be made to all this. The first is that it is highly dangerous to society for such an inflation of profits to occur as did actually happen during the seven years from 1923 to 1929 inclusive. For this great rise caused on the one hand the great speculative mania of those years which ultimately ruined so many as well as debasing our national standards in the meantime. On the other hand, it led to the expansion of capital equipment at such a rate that the increased quantity of consumers' goods when finally turned out could only be sold at such greatly reduced prices as to help precipitate the depression itself. It would ultimately have been far better for America had the profits of these years been greatly reduced, whether by an increase in money wages or by a slow decrease in prices.

The second moral which needs to be drawn is that it is manifestly grossly inequitable that only the owners of industry, who need such protection the least, should be protected in this fashion. The accumulation of reserves to stabilize the money incomes of the owning classes through bad times is in itself a perfectly correct policy. It has lessened the hardships which many small and middle class holders of property would otherwise have suffered from the cutting off of their incomes. By stabilizing their

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incomes it has, at the same time, introduced an element of greater stability into the industrial system as a whole. What is wrong is rather that such reserves are not also created to protect the income of the most necessitous class, the wage and lower-salaried workers, when they are thrown out of work and are deprived of their current earnings. A society in which one class is so well protected and in which the other is scarcely protected at all can scarcely pretend to much fairness or to any appreciable degree of sense. Unemployment insurance would serve to build up a collective reserve fund for labor in much the same way that individual corporations have built up reserves for the owners of their securities. It is, therefore, cruel irony for members of the comfortable classes whose own incomes have been appreciably stabilized by the reserve policies of corporations to object to the setting aside of similar reserves for labor. There is indeed but one feature more ironical, and that is the spectacle of people contributing small sums of money and cast-off clothing as charity to the unemployed and at the same time insisting that the latter should be protected from self-respecting insurance.

The question as to how these reserves can be best provided is one which we shall consider in the chapters which are to follow. Since we have seen that the wages of a very large fraction of workers, even in good times, are insufficient to enable them to provide individually for such reserves, it would seem as though some type of pooled protection would be necessary.

CHAPTER II

SHOULD THE SYSTEM OF UNEMPLOYMENT INSURANCE BE VOLUNTARY OR COMPULSORY?

If the necessity for some type of insurance or reserves against unemployment is admitted to be necessary, as a rapidly increasing number of persons are now admitting that it is, the question immediately arises as to how and through what agencies this should be carried into effect. Perhaps the majority of thinking persons, including most employers, now believe that something should be done to provide more adequate and less humiliating protection for the unemployed. The vast majority of American business men, nevertheless, do not now want to be compelled by the state to institute unemployment insurance but desire rather to be left free to establish it or not as they deem best. It is urged by their spokesmen that this will be a happier solution than a mandatory measure since the employers will feel more interested in a plan which they themselves initiate than in one which is forced upon them. It is also implied that the employers can be trusted to establish such plans to the degree to which they are economically sound and that no further action by the state as such is needed.

In view of the great human need and the pressing issues of industrial stability which are at stake, this preference of the employers for voluntary action should only be acceded to provided it offers a clear and definite prospect that it will rather speedily provide protection for the great mass of workers upon as adequate and safe terms as those which would be furnished under compulsory action. The workers and society should not, in other words, be sacrificed to the desire of the employers for voluntary action, and this should be granted only if it does not interfere with the legitimate interests of the worker. To a consideration of these various points we now turn.

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1. *Will the voluntary system come speedily to include any adequate number of establishments?*—A very comprehensive study of the extent and nature of voluntary insurance plans was published by the Industrial Relations Counsellors in 1930.¹ They found that in 1928 the three types of voluntary plans, namely, those initiated by individual employers, by trade unions, and by joint agreement between unions and employers, included the following number of workers:²

1. Individual Company Plans.....	10,900*
2. Trade Union Plans.....	34,700
3. Joint Agreement Plans.....	63,500
<hr/>	
Total.....	109,100

* These are the numbers employed. The numbers eligible for benefits were, as we shall see, somewhat less.

There were thus in 1928 only 109,000 workers who received any protection at all from organized systems of unemployment benefits. Since then to be sure, the General Electric Company³ has established such a system which has been accepted in virtually all of its plants, and a group of employers in Rochester, New York,⁴ employing approximately 27,000 workers have also voluntarily initiated such a system. There have also been experiments in Fond du Lac, Wisconsin, and the National Association of Electrical Manufacturers, of which the General Electric Company is the most important unit, has voted to establish in the future such a plan. There are not now, however, more than 90,000 workers who are employed by companies which have any formal system of unemployment insurance.⁵ If we add the joint plans and those of the trade unions, there would be in all proba-

¹ Bryce M. Stewart, *Unemployment Benefits in the United States*. Industrial Relations Counsellors, 1930, 727 pp.

² *Ibid.*, pp. 85-94.

³ For a description of the General Electric plan see, *Report of New York Committee on Stabilization of Industry*, pp. 82-88.

⁴ See E. B. Folsom, *Proceedings of Academy of Political Science* (1931); also, *The Rochester Unemployment Benefit Plan*, issued by the Rochester Chamber of Commerce.

⁵ There are of course informal systems of helping the workers thrown out of work through no fault of their own, of which one has only to mention company gardens, loans, and the policy of spreading work.

bility not more than 200,000 workers who are now covered by all types of voluntary plans.⁶

Now since there are approximately 31 million wage and salaried workers in occupations other than agriculture who need such protection, it is apparent therefore that fifteen years of voluntary experimentation by the employers⁷ has resulted in a coverage of only about two-thirds of one per cent of those exposed to such risks. While, as a statistician, I well realize the dangers of projecting a growth curve far into the future, the relative degree to which private initiative has met the need is perhaps clarified by the fact that *at this rate of growth* it would require 2,000 years to cover the entire working population! This is certainly too slow a rate. The truth of the matter is, therefore, that while the examples of Dennison and Company, the Columbia Conserve Company, Procter and Gamble, Leeds and Northrup, etc., are frequently cited by both speakers and writers, their influence has not, on the whole, "taken" amongst their fellow enterprisers. There has been no appreciable movement to follow their example and these companies, like the Zeiss optical works in Germany and the Rowntree and Cadbury plants in England, remain more or less isolated experiments and are in no sense typical of the overwhelming mass of business.

There is in fact good reason from the standpoint of individual management why the main mass of concerns have not voluntarily established unemployment insurance in the past and why they in general will not do so voluntarily in the future. For the adoption of unemployment insurance by any one plant saddles it with an added money cost which its competitors do not experience. It is, therefore, placed at a disadvantage in the fierce competitive struggle unless it is able to evoke by its action, such an amount of tangible good-will from its employees as will offset the apparent extra money cost. And even though such good-will

⁶ During the depression a number of unions have made levies upon their employed members to help those of their number who are unemployed. It is impossible, however, to tabulate the numbers covered and there is no evidence that these plans will continue once the present emergency is past.

⁷ The Dennison plan was inaugurated in 1916 and that of the Columbia Conserve Company in 1917.

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might be created, this is a venture of faith which the overwhelming number of industrial managers find it impossible to make. Uncertainty as to the ultimate cost of any such system is at least an equal deterrent. The average manager, particularly in these days, is not certain what the future of his enterprise is likely to be and he is reluctant to make commitments which some future turn of events may render onerous. This is particularly the case in view of the experience of industry with voluntary old age pension and stock ownership plans. The pension plans have in general involved the companies which have established them in far greater expense than was originally contemplated. This has necessitated in numerous cases either a discontinuance of the scheme or such a serious modification of it as has inevitably aroused much ill will on the part of those employees whom it was originally designed to benefit.⁸ In a similar fashion, the practice of employee stock ownership, which seemed so hopeful in the days of the bull market era, has proved very costly to most firms. In those cases where the employee-owners have not been protected against loss by the companies a great deal of hostility has been created, while in those cases where the workers have been so protected, the expense has been very heavy. Having burned their financial fingers by two such policies which were originally warmly advocated, the main mass of employers will naturally move with exceeding caution in the matter of insurance against unemployment.

It therefore seems idle to expect that any appreciable coverage of the workers will be effected by voluntary action on the part of the employers. The pioneers amongst this class have performed valuable service both in getting the public mind oriented to the problem and in accumulating a certain body of experience which will be valuable in any wider plan. But it would seem obvious that if the main mass of the workers who are affected by unemployment are to be protected, it must be by some form of mandatory action by the state which will make it obligatory upon industry to carry into effect such a system. Such also is the

⁸ See Luther Conant, *An Analysis of Industrial Pension Plans*.

opinion of the Industrial Relations Counsellors, a concern serving large business interests, which has declared:⁹

It would seem that a wide coverage of unemployment insurance, even in so far as it is an advantage to the individual business, will come only through legislation. Representatives of the company plan managements consulted in this investigation have expressed an almost unanimous view that while properly planned and administered schemes of unemployment insurance would be an aid to industry, their adoption would proceed slowly unless stimulated by legislation.

It should, moreover, be emphasized that there will still be room for experimentation by management in providing additional benefits above the minimum amounts prescribed in any state law. Miss Gilson, for example, in her study of British unemployment insurance found that thirteen British companies employing in all 62,000 eligible workers had installed by 1929 such additional schemes.¹⁰ This was then six times as many workers as were covered by voluntary company plans in this country and it is a slightly higher percentage of the total working population there than are even now included in such company plans on this side of the water. The absence of compulsory unemployment insurance in this country cannot, therefore, be said to have encouraged more voluntary initiative on the part of employers in furnishing such protection than has the compulsory system of Great Britain.

2. *Can company plans be depended upon to cover all of their employees?*—In examining the various company plans, one cannot but be impressed with the fact that a considerable proportion of the workers employed by these companies do not come under the scope of these schemes. Thus the Columbia Conserve Company, which has probably a more advanced policy than that of any American company, has not been able to extend its protection over the seasonal workers who are brought in for the peak period of canning. This is indeed the almost universal practice.

⁹ *Unemployment Benefits in the United States*, p. 221.

¹⁰ Mary B. Gilson and E. J. Riches, "Employers' Additional Unemployment Benefit Schemes in Great Britain," *International Labour Review* (March, 1930), pp. 348-94 and pp. 87-92 of Miss Gilson's excellent book on *Unemployment Insurance in Great Britain*.

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Every company (with the exception of Brown and Bailey) which has installed such a plan has excluded those who have been employed by them for less than a given period of time and has confined the benefits to the more permanent workers. The periods required for eligibility have been as follows:¹¹

Company	Period of Employment Required for Eligibility
Dennison Manufacturing Company.....	6 months
Dutchess Bleachery.....	12 months
United Diamond Works.....	6 months
Crocker-McElwain.....	5 years
John A. Manning Paper Co.....	12 months
S. C. Johnson and Son.....	6 months
Leeds and Northrup Co.....	3 months
Procter and Gamble Co.....	6 months plus purchase of stock in company equal to one year's wages*
American Cast Iron Pipe Co.....	1 year
Brown and Bailey.....	<i>no period required</i>
Consolidated Water Power Co.....	1 year
General Electric Co.....	1 year
Rochester Plan.....	1 year

* The terms upon which this stock is bought are, however, made relatively easy for the employees by reason of its combination with the long established profit-sharing plan of the company.

It will thus be seen that the majority of workers now covered by voluntary plans must be employed in the given concern for at least a year before they are eligible for benefits, while in the case of the Crocker-McElwain Company they must have been so employed for five years. It is perfectly understandable why the companies should seek to limit their liability by not covering short-time and seasonal workers. The result, however, is to exclude a considerable fraction of the employees who are thus not provided for under company plans. In 1928, for example, the Industrial Relations Counsellors found that 8,500 or 78 per cent of the 10,900 employees in companies with voluntary plans were eligible for benefits.¹² The ineligible, therefore, comprised no less than 22 per cent of the total numbers employed.

¹¹ See Stewart, *op. cit.*, pp. 464-562; *Less Unemployment, Report by Governor's Commission on Unemployment Problems for State of New York* (2d ed.), 1931, p. 119.

¹² Stewart, *op. cit.*, p. 96.

Even though all the firms in the country were, therefore, voluntarily to establish their own plans for unemployment insurance (which they will not do) there would still be a very considerable fraction of the workers who, though employed in industry as a whole, would slip through the mesh of such protection as the voluntary plans offered.

3. *How adequate are the benefits under voluntary plans?*—The company plans, for which statistics are available, paid out in unemployment benefits up to 1929 a total of only \$330,000 which represented only one-half of one per cent of their total pay-roll during the years in which the plans were in operation.¹³ It is probable indeed that the costs to the Industrial Relations Counsellors of studying the voluntary plans were greater than the actual amounts paid out under the company plans in 1928 and quite possibly more than the sums paid out in both 1927 and 1928.¹⁴ It cannot, therefore, be said that the companies have been able to provide up until the present sufficient protection to meet the full pressure of either extreme seasonal or cyclical unemployment.

It should, moreover, be noted that some of the plans provide protection only for those employees who are considered to be "regular" workers. If because of a decline in business or technical improvements it becomes necessary to reduce the working force of a company, the men who are thus permanently laid off necessarily tend to have a distinctly limited form of protection. Thus in the case of the distinctly liberal Dennison plan the workers who are dropped permanently because of lack of work are given two weeks' pay as a type of dismissal wage.¹⁵ This is, of course, more than that provided by most firms, but it is inadequate protection against any prolonged period of technological or cyclical unemployment. The General Electric Company also distinctly limits the benefits to be received by their "discharged" workers and this latter term seems to include those permanently

¹³ Stewart, *op. cit.*, p. 142. The contributions amounted to .7 of 1 per cent of the pay-roll.

¹⁴ The total amounts paid out by the companies in these two years were apparently something under \$35,000.

¹⁵ Stewart, *op. cit.*, p. 466.

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laid off because of lack of work as well as those dropped for personal inefficiency and insubordination. This is, therefore, an extremely vulnerable defect in most of the private plans.

4. *How certain are the workers under private plans that protection will be continued?*—The contributions of the companies are regarded by them as gratuities which can be discontinued at their pleasure. Furthermore, if the experience under private pension plans is any guide, they would be so treated by the courts themselves. The workers have, therefore, little security that if, in the judgment of the management, the continuance of these plans should become financially inadvisable, they would not be stopped. Thus the plan of the Rockland Finishing Company was discontinued in 1923 when the original fund created for this purpose was exhausted, while that of the American Cast Iron Pipe Company was stopped in 1926. The Consolidated Water Power and Paper Company of Wisconsin Rapids, Wisconsin, also discontinued its plan in 1929 shortly after it had been launched. The Dutchess Bleachery Company, after falling on more adverse times, was compelled appreciably to restrict benefits in order to conserve its original fund which was rapidly shrinking under the claims which were being made upon it and which could not, in the opinion of the management, be continued.

Most of the company plans, moreover, do not isolate the reserves against unemployment from their own resources and these, except where they are deposited under the care of separate trustees, are therefore not safeguarded against any sudden business reverse which may afflict the company.

Even for those included under the private plans, therefore, the protection tends to be assured only as long as the individual company remains solvent and only as long as financial conditions and the will of the management remain favorable. There is, therefore, not the degree of surety which a mandatory system under state supervision would furnish.¹⁶

¹⁶ The present depression has for example greatly weakened the protection given to the workers by three well-known private plans. Thus I am informed that the insurance fund of the Leeds and Northrup Company is exhausted and that no benefits have been paid since June of this year. The funds of the Dennison Manufacturing Company and of the Dutchess Bleachery are moreover extremely low.

5. *How adequate would be a system of individual savings reserves?*—There is a distinct tendency on the part of many employers and insurance companies to favor a program whereby the workers would build up, from compulsory savings during the periods in which they were employed, individual reserve accounts for the periods when they would lack a job. Under such a system as this, an employer would deduct from the pay of all of his workers a given percentage of their earnings which would then be credited with such additions as he might make, to the individual account of each of his workers.¹⁷ These sums would then be administered by some such body as an insurance company and when a worker became unemployed he could then draw upon this account up to the total of accumulated principal and interest. This system of forced saving and individual reserves will, it is urged, remove the necessity for mandatory unemployment insurance.

Were the employers to make any appreciable contributions towards these reserves there would, however, be little more surety that they would voluntarily adopt such a policy than they would any program of insurance as such. And if the employers did not make any contribution and let the full load fall upon the individual worker, then the weight of relieving unemployment would be openly and completely shifted to the class which can least afford the burden.

Furthermore, such a policy of building up individual reserves is the direct opposite of the principle of insurance. It would require each person to accumulate an individual stake against the possibility that he would be unemployed. Many would become unemployed so relatively soon after they began to lay aside a reserve that their savings would be almost totally inadequate to meet their needs. Some, on the other hand, would not become unemployed at all and would in consequence be compelled to cut down their current income appreciably for a long period of time in order to meet a risk which never materialized. Such a method would seem therefore to be far more wasteful than that of

¹⁷ The overtime or bonus earnings of the workers might also be added to these sums.

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insurance. No one would propose that each person should accumulate an individual savings account to meet the potential loss which he might experience from fire. The system of pooled protection which insurance affords greatly diminishes the amounts which each individual is compelled to lay aside and has proved superior as a method of meeting the risks attached to life and property. It is also superior as a method of meeting the risk of unemployment and it should not be side-tracked in favor of such an inferior method as individual reserve accounts.

It may of course be argued that these other risks cannot be enhanced by the actions of the insured persons themselves, whereas unemployment can, and that therefore different treatment in the case of the latter is justified. In further support of this contention, it is urged that the worker will be far less likely to malingering if it is his own reserve upon which he draws than if he were paid from a central fund. But this contention ignores at least two vital considerations: (1) That although fire insurance, for example, does in many cases actually increase the fire hazard through the stimulation which it gives to arson, no one proposes to substitute individual savings accounts for it, and the same type of superiority which pooled accumulation has over individualized accounts inheres in unemployment insurance as in that of fire, although naturally not to the same degree.¹⁸ (2) That, as we shall see, regulations and machinery can be established which will minimize the danger of malingering and of people obtaining benefit who really do not want to work.

6. *Should we adopt the Ghent system of subsidized voluntary insurance in preference to a mandatory plan?*—It may be asked, however, whether the Ghent plan does not provide a substitute for the mandatory system. This, as is well known, consists in the government's granting subsidies to voluntary associations which provide unemployment benefits. These subsidies are generally proportional to the benefits paid and are conditional both upon the associations themselves making liberal contributions and observing certain standard rules and regulations. This system is

¹⁸ It will not be to the same degree because a larger percentage will be unemployed than will have their houses or effects burned.

now practised in a number of European countries, including Belgium,¹⁹ Czechoslovakia, Denmark,²⁰ France, the Netherlands, and fourteen of the Swiss cantons.²¹ In these countries there are now approximately three million workers who are covered by such plans.²² The system is financed by contributions from the employees and the state, while the employers (save for a trifling exception in Denmark) are exempted from any such payments. The only section of the workers who can in practice take advantage of these subsidies are those already organized in unions, and the protection does not, therefore, extend to the class which needs it most, namely, to the poorer paid and unorganized workers.

The countries where such a system has chiefly flourished, namely, Belgium, the Netherlands, Denmark, and Czechoslovakia, are characterized by a high degree of unionization. Thus in Belgium, approximately one-half of the industrial workers belong to unions, while in Denmark about 60 per cent are members of the unions. Although from 80 to 85 per cent of the trade unionists in these two countries are in turn insured in this voluntary fashion, the result is that only about 37 per cent of the total number of industrial workers are insured in Belgium, and only slightly more than one-half in Denmark. Miss Kiehel, as a result of her careful review of the Belgian experience, concludes:²³

In view of the high ratio of public moneys in the total income, the experience would seem to afford a fair test of the force of a subsidized voluntary system to spread itself over the whole body of insurable workers. To gain this objective, some change will be necessary and that, according to the experience of other nations, lies in the direction of compulsion.

If the inability of a subsidized voluntary system to cover an adequate proportion of the employed workers has thus been demonstrated for such strongly unionized countries as these, the coverage in a country such as ours, where trade unionism is

¹⁹ See Constance Kiehel, *Unemployment Insurance in Belgium*, 1932, 509 pp.

²⁰ Douglas and Director, *The Problem of Unemployment*, pp. 385-400.

²¹ Spates and Rabinowitch, *Unemployment Insurance in Switzerland*, 276 pp.

²² *International Labour Review* (January, 1931), p. 3.

²³ Kiehel, *Unemployment Insurance in Belgium*, p. 288.

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weak, would be at best very much less. There are now not more than 3,400,000 organized unionists in this country and these comprise only about 11 per cent of the non-agricultural wage and salaried workers. Even if we exclude trade, the professions, etc., the remaining industries are only about one-sixth organized. Even if as large a percentage of the unionists were to go in for unemployment insurance here as in Belgium and Denmark, protection would be given to not more than 10 per cent of those who are exposed to the dangers of unemployment and even then, the groups which would be insured would be among those who needed it least.

But even this degree of coverage amongst the unionists would not in practice be attained. For American trade unions, in striking contrast to their European counterparts, have shown, on the whole, little inclination to provide unemployment insurance for their members. In 1928 only about one per cent of the union members were included in trade union plans, and only about 2 per cent in joint plans of unions and employers. Even though the adoption of the Ghent system would undoubtedly stimulate many unions which do not now have unemployment benefits to establish them, it is probably idle to hope that any such percentage as the European unions would install such a program within any moderate length of time. We could not depend, therefore, upon the union plans to cover even ten per cent of those who work for wages and salaries.

Were the subsidies to be granted to employers' plans as well, the coverage might be somewhat extended. It is more than doubtful, however, whether even this aid would be sufficient to induce any large fraction of the American employers to install any such set of rules as the public would necessarily insist upon as a prerequisite for the granting of such subsidies by the state.

There is moreover a further obstacle which needs to be considered. That is the fact that the Ghent system, if it is at all effective, necessarily imposes a rather heavy burden upon the states which must meet the expense of the subsidies. Since approximately two-thirds of the states do not have income taxes this would in all probability mean that the extra expenditure

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would largely rest upon the holders of tangible real property and would be collected through the general property tax. Since agriculture is already in an extremely depressed condition, it would be unfair to ask it heavily to subsidize urban industry. Certainly it would be futile to expect that many of our state legislatures, in which the farming regions now have a greatly disproportionate representation in terms of their relative population, would thus consent to taxing the farmers for the benefit of the cities. The Ghent plan is therefore as politically impracticable as it is socially undesirable.

It would seem clear, therefore, that it will be necessary to adopt some form of mandatory system if the American workers are to be provided with adequate protection against unemployment. It is this type of law which at present covers approximately 36 millions of workers in the countries of Great Britain, Germany, Italy, Poland, Austria, Ireland, nine Swiss cantons, and Queensland.²⁴ The experience of all social insurance seems indeed to indicate that such compulsion is necessary if protection is to be generalized. But it should be made clear from the very outset that although state action is needed to set up such a system, it is not necessary that the state as such should administer it. This function can instead be confided to a more autonomous body.

²⁴ *International Labour Review* (January, 1931), p. 3. The Russian system, including about 10 million workers, was then operative but it has since been suspended because of the low volume of unemployment.

CHAPTER III

THE PROPER SCOPE OF UNEMPLOYMENT INSURANCE ACTS

1. *The respective rôles of the state and national governments.*
—Under our constitution, which gives only delegated powers to the national government and which rests the residual powers with the states, the actual acts making unemployment insurance mandatory upon industry will in the main have to be passed by the states. But the national government need not and should not remain completely passive. It can instead function in at least four distinct directions.

(1) It can make unemployment insurance directly mandatory upon certain industries and occupations which because they are involved in inter-state commerce are beyond the control of the individual states as such. Thus the railroads, ocean shipping, and the motor bus, interstate telephone, telegraph, and express businesses are industries for the national and not the state governments to regulate and control. So too, if the decisions of the courts in workmen's compensation cases are any guide,¹ is long-shore work in ocean ports. If the workmen in these industries are to be furnished with insurance against unemployment, it will have to come, therefore, by action of the national government. Had unemployment insurance been proposed to the railway workers a few years ago, they would in all probability have rejected it because of their belief that they were sufficiently protected by the custom of seniority. This practice of laying off men in the inverse order in which they have been hired seemed to give almost complete security to those who had held their job for even a year or two. It is true that there was a peripheral fringe of workers who were not protected and whom the exemp-

¹ *Knickerbocker Ice Co. v. Stewart*, 253 U. S. 149; *State of Washington v. Dawson and Co.*, 264 U. S. 219.

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tion of the railroads from the scope of mandatory insurance would have left in a comparatively worse position than similar workers in manufacturing. But the main mass of the workers felt secure behind their seniority rights. The present depression coupled with the increase in the size of the average train on the one hand and the inroads made upon the railroads by the automobiles and motor busses on the other, has resulted in a dropping from employment of over 400,000 of the 1,500,000 workers who were formerly employed on the roads. Large numbers of men who fancied themselves so high on the list as to be beyond fear have found themselves out of a job and have learned that seniority was not enough. There is need, therefore, for unemployment insurance to protect those who may be thrown out of work because of seasonal, cyclical and technological causes.² There is consequently need for a system of federal unemployment insurance which will protect the workers in these and allied industries who would not come under state acts, and this need is particularly acute in the case of sailors³ and longshoremen.

(2) The national government should not, however, confine itself to merely providing insurance for industries which are outside state control. It should stimulate the states to take action and seek to introduce a minimum set of standards by providing a system of federal aid to those states which adopt unemployment insurance. This is needed in order that the protection afforded by insurance may be generalized as speedily as possible. This generalization of insurance will be difficult to obtain under our federal form of government where the initiative in actually passing legislation must rest with the states. The fear of interstate competition and of placing the industries of one state at a competitive disadvantage with those of the rest of the country will operate to hold back the legislatures of even the more progressive states. In this way, the lethargy of the less socially

² If contributions are in general required of the workers, those on the railroads might be modified so as to exempt those over 50 or 45 years of age whose status is probably so assured that they could survive even the severest business storm.

³ The insurance of sailors should probably be limited (1) to American vessels, and (2) to American citizens, and should apply of course only to unemployment in American ports.

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conscious states serves to restrain the movement in the more advanced and greatly to slacken the pace of progress.

It has been the experience of virtually all federal countries, such as our own, that federal grants-in-aid from the national government to the state units greatly speeds up the process and leads to much swifter action on the part of the states. The federal grant is made conditional upon some proportionate and appreciable contributions by the states. By making appropriations of their own for these purposes they receive additional federal funds. The way in which state action has thus been stimulated is well evidenced by the history of our federal grants-in-aid during the past two decades.⁴ Federal aid for road building was the chief stimulative force in the good roads movement which has finally dug America out of the mud and has built up an excellent system of interconnected highways. Federal aid for agricultural education has been responsible for the almost universal adoption of the county agent system, and similar aid for vocational education has caused large numbers of states to pass compulsory continuation school laws and to adopt other methods of industrial education. Federal aid for the prevention of forest fires has been the moving force in obtaining widespread state cooperation in guarding our forests and thus preserving our watersheds. Federal grants have also aided in the flood control work along the Mississippi and Sacramento Rivers, in stimulating the states to activity in the prevention of venereal disease, in promoting the health care of mothers and infants, and in making the state units of our National Guard much more efficient.

Similarly in Canada, the aid of the Dominion Government hastened the process of setting up a federated system of public employment offices and has led to the rapid growth of provincial systems of old age pensions. Finally, in Switzerland, a federal country where the residual powers as in the United States rest in the states or cantons, the adoption of compulsory unemploy-

⁴ For a discussion of federal aid in this country see my article, "The Development of a System of Grants in Aid," *Political Science Quarterly* (June and December, 1920), pp. 255-271; 522-41, and also McDonald, *Federal Aid*.

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ment insurance has been greatly facilitated and hastened by the provision of federal aid.⁵ There is every reason to believe, therefore, that similar action in the United States would result in a like extension of protection against unemployment. A more extended discussion of the problems of federal aid will be given in Chapter VI, when we shall discuss the sources of the funds to finance any such system.

(3) A third form which future action might take would be for the national government to exempt from taxation, as Senator Wagner has proposed, the income of corporations which is devoted to the payment of unemployment insurance premiums or benefits.

(4) A final way in which the federal government can ultimately function is in helping to make provision for those workers who because of inter-state migration find it impossible to qualify under state laws. The state laws will necessarily require prior periods of employment and residence in their particular states. This will disqualify many migratory workers and those who have acquired eligibility elsewhere. The problem of transferring eligibility from the accounts of one state to another will be difficult enough at best, but it can probably only be effected by some type of federal arrangement whereby certain sums will be provided for this purpose, together with the provision of machinery whereby the work and insurance records of the claimant's experience in other states may be put at the disposal of the administrative officers in the state where he is unemployed. Such a coordination of the insurance systems of the various states is clearly, however, one which need not and will not be taken until a very large proportion of the states have already adopted mandatory insurance laws. It is a capstone to and not a foundation stone of the insurance structure.

2. *What occupations should be covered by the state acts?*— Since the majority of the workers will have to be protected by state acts or not at all, the question of what occupations should

⁵ See the excellent description of the Swiss system in Spates and Rabinovitch: *Unemployment Insurance in Switzerland* (Industrial Relations Counselors, Inc.), pp. 83-164.

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be included or excluded in the state measures is of vital importance. It is in general terms desirable to frame the acts so that only the occupations specifically mentioned shall be excluded and so that all others will be presumed to be included. To a consideration of what these exempted occupations should be we now turn.

(1) *Agriculture*. It will probably be both advisable and necessary for political reasons to exempt agriculture. For if it were to be included in the draft of any such bill, the farming interests would almost certainly prevent its passage whereas they might be willing to grant such protection to the industrial wage earners provided that it cost them nothing to do so. It is well to be a realist in such matters, and to recognize the nature of economic and political forces. The owners of industry will tend overwhelmingly to oppose any such measure to an even greater degree than that by which they originally opposed the passage of the workmen's compensation laws. Their opposition can in time be overcome if they stand alone, but if they are able to unite the farmers with them, constructive action is likely to be indefinitely delayed. The exemption of agriculture is therefore virtually a political prerequisite for the inclusion of industry and one would be foolish indeed to press for a complete theoretical inclusion of all workers if the almost inevitable result would be the failure to include any. This exemption is all the more necessary in view of the over-representation as compared with relative population which the farming regions enjoy in the legislatures of most of our industrial states.

Nor does such a compromise involve any appreciable sacrifice of principle. The number of *bona fide* agricultural wage earners, aside from members of farm owners' families, does not exceed six per cent of the gainfully occupied.* Employment is, moreover, relatively steady for those who are employed on a year-round basis, while the administrative difficulties would be extremely great in the case of seasonal laborers hired during the harvest

* By the preliminary figures for the 1930 Census, the agricultural wage earners numbered 2.7 millions out of a total of 48.8 million who were gainfully occupied. See *Population Bulletin* (2d Series), *United States Summary*, p. 57.

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season by a number of perhaps widely distributed employers. It must be confessed, however, that some hardship would be occasioned by the failure to include those agricultural laborers who will be displaced because of the failure of demand to respond proportionately to the great increases in per capita productivity which are now taking place.

(2) *Domestic service.* Most of the European laws, as well as that of Wisconsin, exempt this occupation as well. Here again the reasons are in the main political and administrative. One solution would be: (a) to exempt domestic service in private households, but (b) to include those employed in commercial establishments such as hotels, restaurants, laundries, etc. This can be justified not only on grounds of expediency but also because there tends normally to be a relative scarcity rather than a surplus of domestic help. Unemployment, therefore, save in periods of great depression, is relatively slight among this class.

Once unemployment insurance becomes well-established and the initial opposition dies down, it may well be possible to extend the protection of the law to domestic servants as well as to those in industry but it would seem inadvisable to multiply the opponents of the measure during the early stages of the act and thereby to lose protection for the classes which need it most.⁷

It is possible that a compromise which would protect some household employees might be worked out even initially which would include all persons employed in households where there were more than two full-time employees. If the same provision were also applied to all the included occupations, there would be no discrimination practised against the domestic employees.

(3) *Home or contract workers.* It is impossible to determine whether those who work in their homes on work put out to them are in fact unemployed or the degree to which they are partially employed. Since evasion is in such cases so extraordi-

⁷ It should be noted, moreover, that both the farm laborers and the household employees would profit indirectly from unemployment insurance. The exclusion of these occupations from unemployment insurance would deter many from entering these lines of work and consequently would raise the wages in these occupations above the level at which they would otherwise rest.

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narly easy, it would, therefore, be wise to exclude this class of workers from the operation of the act.

(4) *Governmental officials.* The Wisconsin Act wisely excludes all elected and appointed public officers and all those employed by a governmental unit on an annual salary basis. All teachers hired for the regular term by a public or private school, college, or university are also excluded from the scope of the measure. This seems a sound measure which should be generally copied.

(5) *Avowed part-time workers.* There are some, particularly women, who wish to be employed for only a few hours per day or per week. Such persons as these are only casual and incidental members of the real labor supply and do not need or deserve the same protection as those who are fully dependent upon industry for employment. It would be well, therefore, to provide that those who register at a public employment office for less than half-time work should not fall under the act. In other words, those who are normally involved in industry for at least half of the standard working hours should come under unemployment insurance, but this should not be the case for those who have more than one leg in the home.

Aside from the excluded industries and workers an act should, therefore, include manufacturing, construction, mining, intrastate transportation, the utilities, trade, amusements, and domestic and personal services conducted for commercial sale.

3. *Should all establishments be included or only those above a given size?*—There are two principles which frequently conflict with each other in the framing of an unemployment insurance act. The first is the desire to protect adequately as many of those employed in industry as possible, while the second is the desire to make the system such that it can be administered without too great friction and cumbersomeness. All workers in small establishments as well as large are exposed to the danger of unemployment and need protection. On the other hand, it is much more difficult to collect contributions from small than from large employers. The small establishment is hard to locate and the employer can escape without detection for much longer than

the larger employer who is singled out by the very size of his plant.

Since the administration of the act will be difficult enough at best during the early stages of the measure, it is desirable to decrease the number of vexing problems during the initial years as much as is possible and consistent. It would seem wiser, therefore, to limit the scope of the measure for the first two or three years of the act to establishments which employ three or more workers and thus to exclude temporarily the one and the two man establishments. This will appreciably lighten the administrative load and at the same time not disqualify any large percentage of the workers. The initial act should, however, provide for an automatic extension of the system to all establishments after a period of not more than three years has elapsed.

4. *To what degree should salaried workers be included?*—The lower paid salaried employees as well as the manual workers need protection against unemployment. The question simply is how far up the scale this protection should extend. The present depression has thrown so many of the white-collared group out of their jobs and they have found their own resources so inadequate that there is justification for extending the upper limits beyond those which would have been thought advisable a few years ago. It would seem advisable, therefore, to include those salaried workers who receive less than \$60 a week. This would not only protect the clerks, stenographers, etc., but also the lower group of executives. Beyond this point it may be presumed that the individual should rely upon his savings.

5. *What should be the age groups covered?*—It has been shown by the English experience that the risk of unemployment tends to increase after maturity with age and that this is particularly the case after the 45th year has passed. It is especially heavy for those over 60 or 65 years of age. It is probable that a considerable percentage of those over the latter age, as well as some below it, are unable to obtain employment because they in fact are unable to perform it. As such, they should not be included in any strict classification of the unemployed since this should comprise only those who are able to work as well as

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those who are unsuccessfully seeking employment. Such persons who are disabled because of old age or infirmity should be protected by old age pensions and annuities or by invalidity insurance. They should not be made a charge upon the unemployment insurance funds themselves. For this reason, therefore, I would favor fixing the maximum age for those covered by unemployment insurance at 65 years.

It should be frankly admitted, however, that this creates a serious gap since at present most states do not have any old age pension laws at all, and since those that do almost uniformly fix 70 rather than 65 years as the minimum age for eligibility. But this should not make us load unemployment insurance with a burden which does not rightly belong to it. We should rather seek to perfect our system of old age pensions or insurance to cover such cases.

In so far as the lower age limits are concerned, it is desirable to have these coincide with the minimum age for entering industry and for the age at which children can legally leave school. The extension of unemployment insurance to these juveniles can, moreover, be used to induce them to seek placement through the public exchanges and to receive vocational and other training during their periods of unemployment. One of the most distressing features of the present depression is the way in which tens of thousands of boys have been forced by economic pressure to take to the road.⁸ Under a proper system of unemployment insurance, these boys and girls as well could be kept at home and furnished with training which would make them more rather than less fit to face the world.

6. *Should seasonal trades be included?*⁹—It is sometimes urged that unemployment insurance should not be applied to trades which are seasonal in their nature. The main objections which are raised against the inclusion of these trades are: (1) That the seasonal workers tend already to be compensated for their periodically recurring unemployment by higher wage rates

⁸ See the popular but substantially accurate article by Maxine Davis, "Homeless, Unwanted," in the *Ladies' Home Journal* for September, 1932.

⁹ For an able discussion of this problem see R. J. Meyers, "Seasonal Unemployment Insurance," *Am. Econ. Rev.*, XXI (September, 1931), pp. 410-26.

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when they are employed. To pay them unemployment benefits from sources other than their wages is therefore in reality to compensate them doubly for the same loss. (2) That the distribution of benefits will tend to mean that the workers will receive back again each year the money which they previously paid in, and that there will be little or no redistribution of these sums between individuals. Instead of such a system, therefore, being insurance, it is urged that it is merely a form of compulsory saving in which the workers are solemnly handed back that which they have previously paid in. It is indeed inferior to saving since the cost of administration is necessarily deducted from the contributions instead of interest being added. (3) That in practice the sums available will be exhausted for the payment of seasonal benefits leaving little or nothing for the far more serious inroads made by cyclical unemployment or occupational displacement.

These points are weighty and deserve close attention. The first criticism is really based upon the tacit assumption that the parties to the wage contract can foresee the future perfectly and are approximately equal in bargaining strength. Under such conditions there will be an addition to the hourly wage rate sufficient to compensate the workers on the average for the greater amount of unemployment in their trades than in society as a whole. That some such allowance is made in such industries as building, mining, and clothing is undeniable but it is more than doubtful whether such allowances are adequate for the general class of unskilled or semi-skilled workers whose employment fluctuates with the weather.

It should also be borne in mind that the incidence of seasonal fluctuation is in general not distributed evenly over a working force in the form of reduced employment for all, but commonly affects individual workers to a very differing degree. It is true that in the unionized branches of the men's clothing industry where there is equal division of slack work, unemployment insurance means the repayment to each individual in a given trade group of equal amounts. But this would not be so in other industries where such sharing of lost time does not exist. For in an

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industry where annually ten weeks are lost on the average during years of "good" trade, some men will be employed steadily throughout the year, some will be unemployed for less than the average, while others will be unemployed for fifteen and perhaps even for twenty-five weeks. The payment of unemployment benefits will not, therefore, be a return to each individual of what he has previously paid in or of increases which the employer might just as well have added to the hourly rate. It will instead be a redistribution of the amounts contributed by the group as a whole to the individuals who have suffered most.

Incidentally, the fact that seasonal unemployment is in general distributed unevenly is proof that the addition which is supposedly made for it to the daily wage does not protect those who suffer most. For since the precise individuals who are to be laid off cannot be known in advance, any loading which takes place must be in the form of an average addition to the base rate. This means that those who experience less than the average amount of seasonal unemployment will be overpaid. But this cannot compensate the workers who would suffer more than the average. For the excess payments which they receive while they are employed will not, on the most generous assumption, be adequate to meet the wage loss they experience from seasonal unemployment. The assumed wage premium for irregular employment is, therefore, as great a violation of the principle of insurance as was the bed of Procrustes of domestic comfort. It needs to be replaced by a system which will graduate the benefits in some ratio to the loss.

Unemployment insurance alone can do this. If it is provided, the same forces, moreover, which are relied upon in its absence to increase the basic wage by a loading for average seasonal unemployment would seem also to operate for the removal of the average premium, and hence for the disappearance of any gross double payment for the same loss.

The above discussion would seem to indicate the desirability of including seasonal trades in any insurance system. There are, in addition, two further reasons. It is not easy to identify the precise industries which should be included in any category of

seasonal occupations. Such a characteristic is more or less a matter of degree and while we have excellent guides in the studies of seasonal fluctuation which have been made by Dewhurst,¹⁰ Bursk,¹¹ and Miss Joy,¹² it would probably be inadvisable for the "coarse thumb and finger" of our legislatures to single out the specific groups for exemption. For in such a process, mistakes would almost inevitably be made and certainly not all of the seasonal industries would be exempted. There would therefore be substantial irregularity in the treatment of workers in different industries whose conditions might be closely similar.

Far more important than the above is, however, the fact that workers in seasonal industries suffer also from other than seasonal causes of unemployment. For while it is true that the most markedly seasonal industries in the field of manufacturing are those producing non-standardized consumers' goods, and that these are less affected by cyclical depressions than are those producing capital goods, it is nevertheless true that the business cycle causes appreciable hardship even here. Certainly building, which is one of the most seasonal of industries, also experiences great cyclical fluctuation, as do automobiles as well. The cyclical decline in the heavy industries and in railway traffic also decreases the demand for and the production of coal.

Many seasonal industries, moreover, are experiencing a contraction of their working forces because of technical or managerial changes, or because of shifts in consumers' demand. This is most clearly the case in the coal mining and clothing industries where the numbers employed have materially diminished. In such cases many workers are squeezed out of industries who suffer considerable periods of unemployment before they are able to find employment in other lines.

To exclude the so-called "seasonal industries" from insurance would, therefore, be to make the unsound assumption that the only causes for unemployment in them are seasonal fluctuations, and would deny all protection to those who within these indus-

¹⁰ J. F. Dewhurst, *Employment Fluctuations in Pennsylvania*.

¹¹ J. P. Bursk, *Seasonal Variations in Employment in Manufacturing Industries*.

¹² *Federal Reserve Bulletin* (November, 1930), pp. 706-16.

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tries suffer from technological and cyclical unemployment as well. This would be throwing the baby out with the bath with a vengeance. It would seem apparent, therefore, that industries or trades should not be excluded as such because they may have markedly seasonal fluctuations.

A better way of grappling with the problem in my opinion would be the imposition of a longer waiting period for the pronouncedly seasonal trades than for the main mass of industries. In this way those who are unemployed because of seasonal factors for more than the average amount will be protected as will also those thrown out of work from cyclical and technological causes. At the same time, those who are unemployed for appreciably less than the average will not receive a double payment (to the extent that other classes in the community help to bear the cost of the benefits) during the initial years. Such a limitation has been used in Germany¹⁸ for the pronouncedly seasonal trades and has much to commend it. It would probably be unwise for the act setting up the system of unemployment insurance to specify the particular industries to which the longer waiting periods should be applied or to lay out the precise length of these periods. Such matters should rather be left to the administrative body in charge of the act, subject to certain cautions fixing the maximum waiting period which could be required.

¹⁸ Mollie Ray Carroll, *Unemployment Insurance in Germany* (2d ed.), pp. 98-101, and *Report of the Advisory Commission Appointed by the Federal Government* and published and translated by the British Ministry of Labour under the title, *The Unemployment Problem in Germany*, pp. 88-91.

CHAPTER IV

THE CONDITIONS OF ELIGIBILITY FOR BENEFIT

1. *The period of prior employment.*—Since the term “unemployment” can properly be applied only to those who are customarily employed, some prior period of employment must be required before the employees out of work can legally claim unemployment benefits. This period should be long enough to exclude workers who enter industry for only one season a year but who are not primarily members of the permanent labor supply. For this reason, therefore, a requirement of 26 weeks prior employment in the two preceding years is hardly adequate, since this could, for example, be fulfilled by juveniles, married women, and old people who had entered industry as one-season workers in two successive years but had voluntarily withdrawn to their homes when the season was over. Such persons should not legitimately be entitled to unemployment benefits. It would be better, therefore, to require a total of 36 weeks of employment during the two years preceding the period of unemployment, or, of 22 weeks in the immediately preceding year. It should also be specified that only time spent in occupations covered by the act will be credited.

A further problem which arises is whether a residence requirement in the given state is to be imposed in addition to the period of prior employment. If only 20 weeks of prior employment in the preceding year were required, there would be some danger of more or less casual workers drifting into the states which pioneered with such legislation and obtaining from one employer or another the necessary number of weeks required for eligibility. The pioneering states would thus have saddled upon them the load of maintaining a part of the labor reserves which formerly served other states and would thus be loaded with both a labor supply and an expense which would not be properly theirs. While

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ultimately the labor reserve for the entire country should be taken care of, this cannot be allowed to rest on the few states which lead the movement. As a necessary means of self-protection, therefore, the state laws should initially require, as in Wisconsin, that the applicant should also have resided for at least two years in the state in which he is making application.¹ As the system becomes universalized through its adoption by other states and the danger of attracting excess supplies of labor is correspondingly reduced, this residence requirement can be lessened and as a qualification which is distinct from the period of prior employment in the state, can be removed. The Federal government, as we have pointed out, can also ultimately play a part by enabling the states through subsidies to pay benefits to claimants who, though unable to satisfy the residence and work requirements within that particular state, have nevertheless adequate credits in the form of residence and employment in other states.

2. *The problem of married women.*—Some very ticklish problems arise in the case of married women. Women who are and will be customarily employed in industry should of course be compensated for unemployment irrespective of whether or not they are married. But there would seem to be no legitimate claim for benefit in the two following cases:

(a) Where a married woman customarily supported by her husband's earnings entered industry for a brief period of time in order to meet some temporary emergency and after having acquired eligibility under the act, then retired to strictly family life. Such a person would not in fact be at that time a member of the real army of potential wage-workers and should not, therefore, be a charge upon industry. Many of these claims could be weeded out by the officials if in their judgment, these women refused "suitable employment." But since such officers naturally tend to be somewhat liberal in the standards which they impose on women with families, some added administrative power would seem from the British experience, to be necessary.

(b) Where a woman who was a genuine member of the labor

¹ Section 108.04, paragraph 8.

supply marries and upon leaving industry claims unemployment benefit although she in fact does not wish to continue in employment. Such a case becomes especially plausible where the woman upon marriage moves to a new locality where there are not many openings in her former line of work, and where, though she is ostensibly seeking work, it is in reality almost impossible for her to be so placed.

The passage of the Anomalies Act by the Labour Government in Great Britain and its enforcement by the judicial committees attached to the employment offices has disclosed a large number of abuses in the case of married women who were drawing benefits. Somewhere around 150,000 were dropped from the benefit roll as a result of this combing out and while the tests were perhaps too severe in some cases, the fact that apparently the majority of the women who were so dropped did not take the trouble to re-register for employment at the free public labor exchanges seems to furnish sufficient proof that these, at least, were not genuinely seeking work. While most of the difficulties in England arose from the fact that the requisite period of prior contributions had been greatly reduced because of the depression to one of only 8 weeks in the two preceding years, or 30 weeks throughout the past history of the claimant, it is still true that some such cases would arise even with the requirement which has been suggested of 36 weeks in the two preceding years or of 22 weeks in the last year. It would be well, therefore, to give the administrative authorities specific power to deal with such cases of married women and to exclude them if they really were no longer genuine members of the labor supply, and were not actually seeking employment. This power should not, however, be used as a cloak to discriminate against married women who are *bona fide* seekers for work.

3. *Strikes and lockouts.*—It is the purpose of unemployment insurance to protect the worker against involuntary unemployment. When men go out on strike, whatever may be the merits of their action, they cannot be said to be unemployed against their will. It is, on the contrary, by their own will that they collectively leave work. For this reason, therefore, workers who

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are on strike are ineligible for benefits in virtually every unemployment insurance system in the world, with the exception of the Belgian National Emergency Fund.²

If the sole test of unemployment is its involuntary character, it might well be argued that though the workers who were out on strike should be disqualified, that those thrown out of a job by means of an employer's lockout should be eligible. On the face of it, a lockout seems to be initiated solely by the employer and to be an act over which the workers themselves have no control. "Why then," it will be queried, "should not the workers receive benefits if the employer in a fit of anger shuts down his plant just as they do when in a fit of despondency over the low volume of business the employer closes his works."

But the apparent logic of this position is greatly shattered when one begins to investigate the actual difference between a strike and a lockout. There is in life no such sharp distinction between the two as their formal definitions would lead one to believe. Many lockouts occur simply because the employer knows that a strike is coming and gets there first. Similarly some strikes are waged because the workers are aware that if they do not do so, the employer will lock them out and they in consequence walk out in order to preserve the psychic value of attack. It would, therefore, in practise be about as difficult for an administrative body to determine which of the parties to an industrial conflict actually took the aggressive as it is for the body of world opinion to decide which of two sets of national combatants in war is guilty of "offensive" war and which is merely fighting a "defensive" war. Since we have not yet declared either internationally or internally that the party which will not submit the dispute to arbitration is to be judged the aggressor with all the implication in the direction of compulsory arbitration which this necessarily brings, we can therefore in practice hardly distinguish between the strike and the lockout. Under the circumstances, therefore, the most sensible policy to follow would seem

² For the very interesting situation by which under Socialist impetus this fund has included strikes and lockouts, see Kiehel, *Unemployment Insurance in Belgium*, pp. 195-98.

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to be a refusal to pay benefits for workers directly thrown out of work whether because of strikes or lockouts. In this way, the state as such would observe a formal neutrality in the case of strikes and lockouts. This is about all that a nation can do in internal conflicts in the absence of compulsory arbitration. If we are to be true to the tradition that the state as such should be "classless" when disputes occur between conflicting internal groups, it would also follow that it should keep from supporting either side when strikes or lockouts develop. The workers can, and if they are wise will, build up reserves to provide strike and lockout benefits when these are needed, but it would not seem any part of the function of the state to provide these for them out of funds which are designed for the purpose of aiding them against the impersonal forces of cyclical, seasonal, technological, and casual unemployment.

It should, however, be emphasized and constantly be borne in mind that this principle of neutrality by the state in the matter of denying benefits to those who strike or are locked out, demands in a reciprocal fashion that the state similarly should not play into the hands of the employers by requiring workers who are in receipt of benefits to take the jobs temporarily vacated by strikers and those locked out, on penalty that the unemployed shall lose their insurance benefits if they do not accept such openings. Neutrality in one direction should, therefore, carry with it neutrality in the other.²⁸

A knotty problem which arises in connection with the rule disqualifying those out on strike from benefits arises in the case of workers who though themselves not out on strike are nevertheless thrown out of work because of a strike or lockout in an interconnected trade or industry. Thus the strike of the stationary engineers in a factory will frequently close the factory because of the shutting off of power, while a prolonged coal strike by reducing the available reserves of coal will sometimes compel some industries either to cease or run on part-time. It might be

²⁸ The state might properly go even further and declare that a worker should not be deprived of benefits because he refused to sign a yellow-dog contract whereby he pledged himself not to join a union.

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thought that in such instances the workers should automatically be compensated for their loss of time because the causes seem to lie so far outside any possible control which they might exert. There are cases, however, where the workers in a plant would profit from having one of the crucial sections go out on strike and by thus tying up the plant ultimately obtain better conditions for all. In such a situation, the workers in the sections which are thrown out of work by the interruption of production may surreptitiously give their aid to those who are formally out on strike by contributing to pay them strike benefits. The payment of unemployment benefits to these workers might under such circumstances very well lead to a considerable proportion of the benefits being thus diverted to aid the strikers themselves and thus prolong the struggle. It would seem wise, therefore, not to pay the benefits to those who, thrown out of work by a strike, would directly and proximately profit from it. This in practice would mean that workers in the same factory and perhaps for the same company would under some circumstances be barred from receiving benefits. It would be very rare, however, that the workers in one industry would lose their benefits because of their close connections with those who were out on strike in another industry.

4. *The effect of the conditions under which the last employment was terminated upon eligibility for benefits.*—There are three main ways in which a worker may lose his job, namely: (1) by lay-off. This is where, though a worker's services have been satisfactory, he is nevertheless dropped from employment because of a decline in business which necessitates the employment of fewer men. (2) By voluntary separation. This is where a worker leaves his employment although he would still be employed were he to stay. (3) By discharge. This is where the worker is adjudged unsatisfactory by the management for one reason or another and is accordingly dropped from employment although there is still need for a workman in the given position.

If the employee loses his job for the first of these reasons, which by its very nature involves no fault of his own, it is only proper that he should be compensated during his succeeding

period of unemployment. The case is different, however, in the other two sets of circumstances. If he left his job without just cause then it cannot be said that his unemployment is purely involuntary. Similarly, if he were dismissed for a proper cause, he would at the very least be largely at fault. To pay unemployment benefits to these last two groups would, therefore, be to compensate them for a loss of time which in its origin at least was due to their initiative or fault. It would also weaken discipline within the workshop and would stimulate workmen to throw up their jobs without giving them a fair trial.

For all these reasons, therefore, some penalty should be applied to those who are justly discharged or who quit without just cause. The English system imposes a maximum disqualification of only six weeks in such cases, and the actual period may of course be very much less than this. The German maximum in turn is only four weeks. These seem to me to be quite inadequate penalties. While I would not favor permanent disqualification in all such cases, as is provided under the Wisconsin Act, it would nevertheless be well to provide far more stringent measures than are contained in the German and British laws. I would suggest, therefore, that a *minimum* disqualification for benefit should be imposed, in addition to the waiting period, of six weeks or a total of eight weeks and to prevent possible victimization of claimants, a maximum of twelve weeks.

These disqualifications should not of course apply to those who left their positions on adequate moral and hygienic grounds or for grave family reasons, nor to those who were unjustly discharged. The decisions of the umpires under the British Act have worked out with a great deal of precision the forms which a "just" cause for leaving a job may take and what are proper and improper grounds for discharge.* While this industrial common law should not be taken over bodily by the authorities who will administer our acts, it can at least furnish a basis for the decisions of our administrative authorities.

Industrialists who might at first thought take fright at the

* See the volumes of the *Decisions Given by the Umpire*, H. M. Stationery Office, London.

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prospect of creating outside machinery to decide whether a given discharge is justifiable should remember, however, that such bodies as these would have absolutely no power to compel them to take back the discharged workmen but would merely pass on the question as to whether the workmen in question should be disqualified from receiving unemployment benefits and if so, for how long.

If the premiums of the employers are graduated in some fashion according to the relative amount of unemployment among their employees, there will be a natural tendency on their part to allege that men who have been in reality laid off for lack of work were instead discharged for inefficiency or insubordination. It will be necessary to review such cases in order to prevent abuses such as these and to protect the workers against any possible deliberate victimization. In deciding whether the separation was indeed a "lay-off" or a "discharge" the administrative authorities can and should avail themselves of a very simple test, namely: did the employers try to fill the position of the worker? If they did, then support is lent to the claim that the worker was discharged. If they did not, and if the size of the working force was allowed to decline, then the presumption would be that the separation was a "lay-off" and hence was compensable. The reviewing authorities should, therefore, watch very closely the relative size of the working force of an establishment and of the efforts made by the latter to maintain it.

5. *The waiting period.*—A waiting period should be imposed in order to lessen administrative difficulties, permit the investigation of the statements of the claimants, and prevent the diffusion of funds upon cases where both the loss and the need is comparatively slight. During the first years of the measure it would probably be safer to make this general period at least two weeks or 12 working days.³² By the use of such a waiting period as this, the available funds would be concentrated upon the cases where the need was greatest. It is to be presumed that even unskilled workers should be able to accumulate enough to carry them over the initial two weeks of unemployment. Even if a worker had

³² The Ohio bill proposes a three-weeks waiting period.

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not accumulated such a stake, the prospect of obtaining benefits after the second week would enable him to be carried over the transitional period by his grocer, milkman, landlord, etc. No real damage would therefore be done and not only would the administrative work be simplified but the funds would be conserved to meet the cases of real need. This waiting period of two weeks should, moreover, be cumulative so that all the days during the year in which a worker is unemployed would be applied to this period. If a person were unemployed during the first part of the year for a week, this would be counted towards the waiting period and if he were later unemployed for another week this would be regarded as meeting the requirement for the waiting period as a whole.

As we have seen, probably the best way of dealing with the special insurance problems of the seasonal industries is to require a longer waiting period for them than for industry in general. As has been pointed out, these workers are already at least partially protected against such unemployment by a higher hourly rate and the needs of the seasonal workers are by no means as acute as those suffering from technological and cyclical unemployment. Perhaps the best way of treatment would be to divide these seasonal industries into three groups, namely: (*a*) those with moderate seasonal fluctuations where the average workers tend to be unemployed in good years for not much more than six weeks. The waiting period for this group could be fixed at four weeks or twenty-four working days. (*b*) Those with fairly pronounced seasonal fluctuations where the average amount of time lost in prosperous years ranged somewhere between six and eight weeks. An appropriate waiting period for these industries would be five to six weeks or from 30 to 36 working days. (*c*) Those with very sharp seasonal oscillations, which cause the workers on the average a loss of more than eight weeks a year. A waiting period of eight weeks could be imposed in these cases.

The statistical data necessary for any such classification already partially exist in the form of the studies of seasonal fluctuations in employment which have been made by the Federal

Reserve Board⁴ and J. F. Bursk⁵ for the country, and by Dr. Dewhurst⁶ for Pennsylvania. These norms of seasonal variation should be kept up to date with the aid of the statistics of unemployment and they can be applied in each state upon the basis of the data available. As important changes occur, the classification of the given industries should be altered to conform to the new conditions, while the proper administrative bodies can also use this system of classification in order to apply pressure upon industries more effectively to stabilize.

6. *The requirement of periodical registration at the public employment offices.*—In order to be certain that the claimant is really unemployed and does not have in fact other employment, it is essential that he should be required periodically to report at the offices which administer the system. This should be oftener than once a week but not so often as once a day. On the whole, three times a week seems to be a proper requirement. This is the general practice under the British system, although in some localities this has been reduced to twice a week.

If such registration is adequately to be provided for, various administrative reforms will need to be effected. The registrations should be "staggered" through the week, and during given periods within each day, in order to prevent the office from being flooded with the unemployed at certain times and left empty at others. By thus dividing the total number of the unemployed who are reporting to any given office into manageable sub-groups, an even flow of work in the offices can be obtained and any annoyance to the unemployed reduced to a minimum.

The administration of the registrations as well as of the actual placement of labor will, moreover, be made much more effective if the whole range of jobs in industry is classified according to some numerical system. Each industry and each trade will, therefore, have its number and within each group the workers can be, in turn, classified on an alphabetical basis.

⁴See the series worked out by Miss Aryness Joy and published in the *Federal Reserve Bulletin* (November, 1930), pp. 662-65.

⁵J. F. Bursk, *Seasonal Variations in Employment in Manufacturing Concerns* (1931).

⁶J. Frederick Dewhurst, *Employment Fluctuations in Pennsylvania*.

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7. *What is "suitable employment"? The question of the going rate of wages.*—If a worker who is receiving unemployment benefits refuses to accept "suitable employment" when it is offered him, he is of course deprived of benefit for either a shorter or a longer period of time. The difficulties which will arise, however, will concern the interpretations which are to be given to that phrase. Much of this material will have to be worked out by the administrative and judicial bodies which will operate under the act and which will build up a body of industrial common law in interpreting this phrase as well as that of "just cause" in separations.

Guiding principles should, however, be set up in the act itself in order to make the work of administration easier and more uniform and to establish on a correct basis some of the most fundamental features of the whole system. In formulating these principles the experience both of the foreign acts themselves and of the administrative common law which has developed under them should naturally be utilized to the full. There are two main sets of criteria which may be used to determine whether or not a proffered job is "suitable," namely, those relating to wages and those relating in a broad sense to working conditions. We shall deal with the first of these sets of criteria in this section and discuss the second in the section which immediately follows this.

The European acts universally provide that a job which is offered to a worker must in order to be "suitable" carry with it the going rate of wages for that trade and locality. If a person refuses such a job he is, if all other conditions are proper, disqualified from benefit and is no longer treated as being really "unemployed." If, however, the job which is offered him pays less than the going rate of wages for that type of labor in that locality, he can refuse it and yet continue to draw unemployment benefit. A job, in other words, which would pay less than the current rate is regarded as unsuitable and no pressure is put upon the worker to accept it.

It is apparent that such provisions as these serve to keep up the hourly wage rates as reckoned in terms of money. Workers who in the absence of unemployment insurance would be willing

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to take less than the going rate of wages rather than receive nothing as unemployed, are now given another alternative. They can refuse the job with the lower rate and receive unemployment benefits instead of getting nothing. This fact naturally stiffens their resistance to an undercutting of wage rates and makes it far more difficult for individual enterprises to recruit labor at rates underneath the market average. Wage reductions under such circumstances are therefore likely only to be made if employers, or the great majority of them combine together in an effort to reduce wages simultaneously and thus establish collectively a new market or going rate. But this, business men as a whole are naturally averse to doing since if the workers are at all well organized, it generally means a severe strike or lock-out. Even when the laborers are not strongly organized such a policy may arouse such opposition that it will lead into an industrial conflict of an open or guerrilla character. Business enterprises generally do not wish to provoke such a combat which is likely to be extremely costly and are therefore far more inclined under a system of unemployment insurance to maintain the existing wage rates than they would be were there no such system.

The truth of the matter is that wage rates under a free competitive system tend to move both upward and downward by a sort of capillary movement. If labor is relatively scarce relative to the demand for it, a few employers lead the way by offering wages which are above the prevailing average. They get the laborers and the other employers with more or less delay follow suit until a new prevailing rate is established at the given level of business and prices. Similarly under a free competitive system where the supply of labor is relatively plentiful in relation to the demand, a few employers will begin to "nibble" at the going rate by offering a wage which is below it. As they do and are able to obtain labor, then their fellow employers will also in general follow their lead with greater or less rapidity until the "prevailing" wage has drifted down to lower levels. Such is the rough mechanism by which money wage rates move upward and downward in that competitive society "free" from controls, which

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both the classical and the neo-classical economists tended to assume.

The system of unemployment insurance appreciably alters all this. The capillary movement operates upward but hardly downward. Wage rates, or the cost price of labor, tend to become "sticky" and somewhat frozen so far as their downward adjustments are concerned and an inflexible element is introduced into the price and wage structure.

The reasons why the going rate of wages has been taken in Europe as one of the surest stigmata of what is "suitable" employment are not only thoroughly understandable but spring indeed from the best of motives. It is feared, in the first place, that if such a clause were not inserted, then there would be some employers mercenary and cold-blooded enough to slash wages to the very bone and by utilizing the pressure of the unemployed, to reduce wages far below even the minimum standard of life. Even though the mass of employers might well be unwilling to go as far as this, some would, and these would tend to drag many others down to their level in the desperate fight to compete.⁷ By establishing this provision, however, this cut-throat competition of the unemployed is greatly lessened and the employers are prevented from taking unfair advantage of labor.

The second reason why the going rate has been adopted abroad as the criterion of suitability is the ardent desire of the trades-unions to protect their "standard." Trades-unions wage their struggles with their employers largely over the rate of pay. They feel that the employers are constantly seeking to force this rate down and they seek no less vigorously to at least maintain and if possible to raise it still further. Since it is the substance for which both sides contest, it naturally acquires in the mind of labor an emotional significance which makes it difficult for the workers to reason rationally about it. The wage rate is the sym-

⁷ Thus in the present depression, I know of a laundress who was formerly accustomed in 1929 and 1930 to be paid \$24.00 a week who was offered in the summer of 1932 a similar job for \$5.00 a week or at about 9 cents an hour. The Emergency Relief Administration in the city where this occurred threatened to drop the woman from unemployment relief unless she accepted this wage. It is this tendency which is feared by those who favor the standard rate as the test of "suitability."

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bol of their struggle and is regarded as the measure of their success. Other proposed policies are largely judged by the relative effect which it is presumed they will have upon the standard rate. If a measure operates indirectly to help maintain this standard, it is praised and supported but if it does not it is frequently looked upon with suspicion or with indifference. It is but natural, therefore, that the unionists and the labor groups in Europe should have insisted that the "going rate" should be accepted as the test for "suitability" and that this pressure was particularly strong in view of the tacit understanding that the union rates were in general to be accepted wherever possible as the "standard" or "going rate."

But much as we may appreciate the motives which have led to the use of the going rate as the evidence of "suitability," we must take cognizance of the probable effects which the partial freezing of money wages has tended to have upon business and industry in a world where there is fierce competition and shifting price levels. The maintenance of such relatively fixed money wages under our present capitalistic system tends to have at least two effects:

(1) It tends to put the employers in the state in question at something of a disadvantage as compared with their competitors in other states which do not have unemployment insurance. By the use of this system, money wage rates and consequently production costs tend to be held up in the state in question while if wage rates are falling in other states, where such protection is not offered, the competitors in these other states will be able to undersell the producers in the states with unemployment insurance. The result will be a partial loss of markets by the states with insurance and a consequent increase in unemployment. The system of unemployment insurance, by reinforcing the workers who do not wish to take less than the previous going rate, will therefore through the stress of interstate competition actually operate to create unemployment which is the very phenomenon which it was designed to alleviate.

It may, however, be argued that this result would occur only if the other states did not adopt such legislation and that if

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unemployment insurance were universalized, no one state would be exposed to competitive dangers. The remedy would then seem simply to be one of speeding up the process by which it was adopted by all of the other states and to constitute merely a further argument for liberal federal grants-in-aid to stimulate such action.

(2) But there is far more to the problem than this. Even were unemployment insurance to operate throughout a closed economy, the maintenance of fixed money wage rates during a period in which prices were falling, would subject capitalistic industry to a severe strain and would in all probability increase the volume of unemployment itself. This follows from the very nature of the economic process. Let us assume an industry where out of every \$100 of total cost, \$55 goes for cost of raw materials, \$30 for wages at given scales, and \$15 for relatively fixed costs such as taxes, interest on fixed debt, light, etc. Now let us assume that the goods produced by this company at an expense of \$100 sell for \$103 and thus give a net profit of 3 per cent on turnover. Let us furthermore assume that the length of the production process is six months. Now let a period of business depression set in during which the prices of these goods, as of all others, falls by at least one per cent a month. And it may be added that during the two and three-quarter years between the autumn of 1929 and the early summer of 1932 the wholesale price level fell by more than one per cent a month.

The goods formerly sold at \$103 will now sell for \$103—6% (6 months \times 1%) or for approximately \$97. A loss of 3 per cent on turnover will therefore replace the former profit of 3 per cent. This situation is difficult enough at best, even if the employer could reduce his costs commensurately with the current reduction in prices, because of the fact that by the time the goods were sold, they would sell at still lower price levels. Business is, therefore, troubled by the shrinkage in values during the process of manufacture. If it goes on, it does so at a loss, and by drawing on reserves. This no business man likes to do. Business managers are instead inclined to reduce the scale of operations even though this means further unemployment and a strengthening of the

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cumulative breakdown of employment, consumers' purchasing power, profits, and production which characterizes the depression phase of the business cycle.

But the situation is made still more acute by the fact that not all costs are flexible. Even though raw material prices tend to fall by more than the prices of finished goods and thus partially offset the fact that by the time they are fabricated into finished goods the prices of these latter will in turn have fallen still lower than they were at the time the raw material was purchased. But if wages remain at the same level as before whether because unemployment insurance has stiffened the resolution of the unemployed or because the doctrine that high wage rates keep up the workers purchasing power and hence the demand for goods, the profits of industry will tend to be ground out beneath the upper and nether millstone. The upper millstone will operate in the form of a reduced price for the product itself. The lower is the inflexibility of the wage rate. Between them profits may disappear or become a minus quantity. But since profits are the motivating force of capitalism, when this happens business will tend sooner or later to shut down or run on a greatly reduced scale. This inevitably is accompanied by an increase of unemployment.

The maintenance of wage rates in the face of falling prices is, therefore, a cause, although by no means the exclusive or necessarily the most important one, of the protracted nature of the present depression. To the degree to which unemployment insurance in Europe has served to keep up wage rates at uneconomical levels, it must therefore bear its share of the responsibility. Similarly in 1925-26 when England returned to the gold standard and the wholesale price level of goods selling in international trade fell by approximately 10 per cent, the failure of wage rates to fall appreciably not only greatly decreased profits but in the absence of a managed system of currency and credit and an improvement of industrial efficiency helped to create some of the additional unemployment which occurred after the restoration of the gold standard. Much the same sort of inflexibility has, to be sure, occurred in the United States because of the Ford-

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Hoover theory that the maintenance of wage rates was needed in order to keep up the purchasing power of the consumers. But so far as Europe is concerned, it has been unemployment insurance as well as trade unionism which has served to keep up the wage rates and if we were to adopt unemployment insurance and use the going rate as the test of suitability, we might experience a similar result.

This tendency towards a greater inflexibility of wage rates has, as we have seen, an adverse influence upon employment in a period when prices are falling with some degree of rapidity. It probably helps at such times to create that which it was designed to alleviate and to prevent. This strengthening of the rigidity of wage rates is in fact probably the most fundamental criticism which can be made against unemployment insurance as it has operated in Great Britain and on the continent of Europe.⁸

All this, however, is not an inevitable consequence of unemployment insurance but comes merely from the definition which is given to "suitable employment." It can be avoided if this term is interpreted in such a fashion as will make it more possible for wage rates to be more flexible than they now are. While the unemployed should be protected against exploitation by those employers who try to take gross advantage of their helplessness, it should not be part of a system of unemployment insurance to freeze wage rates. If by a system of managed currency and credit, we were able to prevent general prices from falling appreciably, then no real damage would be done by buttressing up existing wage scales. But we are not as yet able to control the price level either nationally or internationally and there is every prospect that it will be a long time before we are. During this period, and for as long as we wish to operate inside of capitalism, then it is almost suicidal in a period of falling prices to maintain

⁸ But the objections are probably somewhat exaggerated by Messrs. Figou, Beveridge and Rueff. A managed currency and an improvement of industrial efficiency would probably have been sufficient for example in England to have maintained money prices and relieved money costs sufficiently so as to maintain the margin of profits and thus keep capitalistic industry going without a resort to wage-cuts. Dr. Arnold Tolles has considered these points in an admirable doctoral dissertation which is on file at the University of Chicago.

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wage rates intact for to do so diminishes employment and production.⁹

It would seem, therefore, far better to have a neutral zone around the going rate of wages within which more purely economic forces may play. I should like to suggest, therefore, that any wage rate which is not more than 10 cent below the going rate should after the worker has been unemployed for six weeks be regarded as "suitable." The worker would in other words be given six weeks to get a job at his old rate or at the going rate of wages. Two of these weeks would be covered by the waiting period but during the remaining four he would be taken care of by the unemployment benefits. He would not however have an unlimited period of time in which to get work at the old or "going" rate. If, after the six weeks had expired, he was then offered a job which carried a wage which was more than 10 per cent under the general rate, the worker might still refuse it and yet continue to draw benefits, but he could not do so and still draw benefits if the proffered rate were 10 per cent or less beneath the going rate. He would of course be free to refuse such a job as the latter, but he would not be able both to do so and to draw benefits at the same time.

This will prevent the worse forms of exploitation and will give the unemployed a much greater degree of protection against sweating than they at present possess. It will at the same time give industry enough of a margin of flexibility to permit internal costs to be reduced sufficiently as prices go down. It will have to be a very severe depression to require a wage cut of more than 10 per cent. The flexibility of wages and the accumulation of reserves of purchasing power should, moreover, diminish both the intensity and the duration of the depressions. Even should a depression necessitate a further reduction in money rates of wages this can be carried through because by the time the going rate has drifted down to a new level, it will be possible for em-

⁹ I am, of course, aware of the fact that if the state makes large contributions to the unemployment fund that the higher wages of those who continue to be employed plus the benefits derived from income taxation and the like may outweigh the losses suffered by the unemployed.

ployers to offer work at rates which are lower, although not more than 10 per cent lower, than this. In this way, a zone or penumbra of moderate size is offered in which downward adjustments of wages can be made to keep pace with the movements of the price structure. Unemployment insurance will be used to protect those thrown out of work through no fault of their own but it will not be used to promote an end which was no part of the intention of its promoters, namely, to "freeze" the wage structure in times when other prices are rapidly "melting."

Some may urge that to define "suitable" wage rates in terms of a zone which extends below the standard rate rather than fixing it at the point of the standard will so arouse the opposition of the trades-unions that they will prevent such an insurance system from going into effect. But for the unions to adopt such an attitude of hostility would be to ignore the protection which, as has been pointed out, such a system would afford them against excessive wage cutting and which they do not now possess. The workers, moreover, stand to gain too much from unemployment insurance to justify them in rejecting such a measure merely because it does not throw the full weight of its protection behind the money wage rate.

If this feature is, therefore, included in the American laws it will obviate one of the difficulties which has characterized the operation of the European systems and will remove perhaps the strongest objection to unemployment insurance. Until, therefore, we have a managed currency and price level, or fundamentally change our economic system, this "zone of tolerance" should be included in our unemployment insurance laws.

8. *What is suitable employment? The question of working conditions.*—The determination of what wages a job pays is of course but one test of its suitability. The location of the place where the work is to be done and the conditions under which it must be performed must also be considered in determining whether or not it is suitable. Here it is probable that the main determination of the standards to be followed in adjudging these matters should be left to the administrative bodies. These alone can make the personal adjustments for which the "coarse thumb

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and finger" of a general rule can never satisfactorily provide. There should however be a general statement in the act that in order for a job to be adjudged suitable it must not put an undue strain upon the health, safety, morals, status, or reputation of the unemployed person or prove unduly disruptive of established family relationships. Thus a woman should be privileged to refuse a position in a morally shady restaurant, dance-hall or hotel and still continue to draw her unemployment benefit and if her hours of work were such that it would be necessary for her to traverse sections of a city which were of a dubious character at hours when she would be exposed to danger, she should be similarly privileged. Much the same protection should be thrown around juveniles and this should of course be particularly the case with young girls. If the work is of a strikingly dangerous character, such as caisson-work, then even male workers should be given some leeway in being able to refuse the job, provided they had not held it before.¹⁰ A worker should moreover also be privileged to refuse a job where he is required to sign or accept a "yellow-dog" contract binding him not to join a union.

9. *What is suitable employment? The prevention of undue pools of idle labor in decaying trades and localities.*—One of the most frequent charges against unemployment insurance is that it enables unemployed workers to attach themselves more than they otherwise would to decaying localities and industries and thus interferes with the free mobility of labor. This charge has been greatly exaggerated, as is evidenced by the fact that the number of workers attached to the coal mines in Wales and to the shipbuilding and textile industries of Scotland and the north have very appreciably decreased during the last few years despite the payment of unemployment benefits to those who remain. Every effort should however be made to prevent an undue accumulation of labor in jobs and places where the prospect for ul-

¹⁰ In cases also when the job, though located in the same urban area, is so far from the home of the worker that he would have to spend an undue amount of time traveling to and fro, the administrative authorities should have the power to make exceptions. In making these rulings, more consideration would naturally be shown for women than for men and for juveniles than for adults.

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timate placement is slight. The administrative authorities should therefore be given the power after the passage of a sufficient period of time (1) to require workers and particularly those without heavy family responsibilities and attachments to take suitable openings in other localities which may present themselves on penalty of losing their unemployment benefits, and (2) to require workers and particularly those without prolonged experience in a given craft, to accept suitable employment in other lines of work on penalty of losing their unemployment benefits.

These provisions should of course not be enforced immediately upon a worker becoming unemployed. He should instead be given an adequate opportunity to find work in his own trade and locality. But if, after a period of time, it should seem apparent that there was an abnormal surplus of labor attached to that particular industry or place and that there were opportunities elsewhere, then the unemployment insurance authorities should put pressure on those best qualified to make such a transfer. Single men should naturally be asked to take jobs in other localities before married men are called upon and the less skilled in a given trade who are naturally the most adjustable, should be moved out before those who have made the greatest investment in training and specific acquired skills. How long a period of grace should be given is difficult to determine with precision since it would naturally be dependent upon both the time and the conditions. But it would seem clear that: (1) The unemployed men receiving emergency benefits beyond the regular insurance period should not be entitled to demand their accustomed work as a right which if denied them made them automatically eligible for benefits. Instead those best qualified to move should be encouraged to seek suitable work elsewhere and if it developed and then if they refused it, they could do so only on penalty of losing their benefits. They would of course be free to make such a refusal but they could not do this and at the same time obtain benefits. They would thus be no worse off than they are at present, but they could not work the insurance system to obtain maintenance while helping to swell an excess labor reserve. (2) In the case of single men, it would seem that not

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more than three months at the outside should be given to the workers to establish themselves in similar work in the same locality. After this time, they (and particularly the less skilled amongst them) might well be asked to take suitable work which opened up elsewhere on penalty of losing their benefits.

The "suitability" of these other jobs should be appraised in terms of the conditions prevailing in the industry or locality into which labor is being asked to move rather than those in the industry or locality from which it is moving. Thus if the prevailing rate in Craft A is \$1.00 an hour and 80 cents in Craft B, then a worker for whom there seems no present prospect of obtaining work in Craft A (where he was formerly employed) may be asked to take work in Craft B, if the job then actually paid 80 cents an hour there (minus 10 per cent). If the new job however paid only 60 cents an hour, the worker in Craft B would be privileged to refuse it and still be eligible for benefits. The same general principle would apply in the case of shifts between localities.

By such methods as these, an undue accumulation of idle labor reserves can be avoided. To make this system of transfer most effective however, it will be necessary to provide for some form of vocational re-education and training to prepare workers for new jobs. Some general training may be given in the decaying localities but the more specific training will have to be given in the regions where the expanding industries are located. This has been practised in England to a limited extent and is capable of further development.

10. *Should the unemployed be liable to receive training or perform work of a public nature?*—There are two reasons why those receiving unemployment benefits should, so far as practicable, devote at least a part of their time either to receiving training or to performing productive work of a public nature. These are: (1) men are happier and more contented when they are kept usefully active than when they are idle, and (2) the otherwise idle time of the unemployed can then be turned into the production of socially necessary goods or into the improvement of the capacities of the workers themselves.

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The only barriers in the way of such a utilization of the energies of the unemployed are: (1) If the workers contribute to the funds from which benefits are paid, they will tend to feel that they will have purchased the rights to receive benefits by their own payments and that the state cannot then require them to take on additional activities as a pre-requisite for eligibility and (2) it may be difficult for the public authorities to develop a sufficiently varied program of work and training so as to meet the different capacities and needs of the unemployed. This difficulty will be aggravated by the fact that the composition of the unemployed group will normally be a rapidly changing one and that it will be difficult to get continuous service or attention from a large proportion of the unemployed.

On the whole therefore the following provisions seem advisable:

(1) Boys under 21 and girls under 18 years of age should be required, whether or not the system is contributory, to attend classes and receive training of a developmental nature. Classes should be set up for these juveniles which will give general training in such subjects as literature, science, hygiene, economics, history, etc. Specific short unit vocational courses should also be established. The juveniles should also be given corrective exercises and recreation should be organized for them. The juveniles should be required to report periodically, although not necessarily daily, at special centers which should be set up for the purpose. These centers can utilize public schools, settlements, church houses, etc., at but slight expense and the instruction and training can be given by qualified volunteers as well as by paid workers. The use of such juvenile training centers has been one of the best features of the work carried on by the British Ministry of Labour and is capable of much expansion. In the conduct of these courses the assistance of the educational authorities should of course be enlisted.

(2) If the workers contribute to the funds, it would probably be inadvisable to make either attendance at classes or work mandatory upon the employed during the standard period for which benefits are paid. Such training should however be volun-

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tary. Classes should be set up both on general subjects, such as those which have been mentioned for juveniles, and also for specific crafts and industries. Every effort should be made by the employment offices administering the system to get the unemployed to attend. The unemployed should also be encouraged to develop home gardens wherever possible by giving seed, etc., and when home gardens are impossible, if there are nearby tracts of idle land these should be sub-divided into small allotments where the unemployed can raise vegetables, etc. Stimulation should also be given to the establishment of workshops producing a variety of products which the unemployed can mutually exchange for each other by using a system of warehouse receipts as currency. In this way a barter economy with a different type of money would be built up outside the ordinary money-profit economy. The breakdown of the money-profit economy in periods of depression is a cumulative process which destroys production, employment and purchasing power. An increase of production in the barter economy would automatically increase the demand for goods in that economy and would furnish a substantial balance to the processes prevailing in the business world.¹¹

(3) If the system were non-contributory then the workers might be required to give work or take training even during the period when they received standard benefits. Thus some of the workers might be required to attend classes, the precise nature of which they might choose, while others would be asked to perform some work of a public nature. The latter group would only be required to perform a quantity of work equal in value to the benefits received. Thus if a worker received \$10 a week in benefits and worked as a common laborer upon a public project, then if the going rate for such work were 40 cents an hour, he would only be asked to perform 25 hours of work a week. If he

¹¹ This is substantially the proposal of Professor Frank D. Graham in his book *The Abolition of Unemployment* (1932). Such a system had been tried out on a small scale before the present depression in Kansas and California and a modification of it has been used in Seattle by the organized groups of the unemployed there. It is also quite widely practised in Upper Silesia at the present time and has been advocated in Europe by Gsell.

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were a skilled carpenter, the going rate for which was 90 cents an hour, then 11.1 hours of work weekly would, on the basis of \$10 weekly benefits, meet the requirements. If the benefits were \$18 a week however, 20 hours of such work would be required. The pay with which the workers would be credited would have to be according to the type of work then performed rather than that to which the unemployed person was formerly accustomed. Among the kinds of work which might be carried through would be the clearing and beautifying of waste lots, carrying on new work in public parks, acting as traffic policemen in front of schools, and most important of all, the elimination of grade crossings in the country and towns and the clearance of the slums and the construction of model homes and apartments in the cities.

(4) When the period of standard benefit is exhausted but the unemployed continue to receive either outright relief or a hybrid form of relief and insurance benefits, they should be required, irrespective of whether or not they have contributed towards the standard benefit, to perform such work or take such training if the authorities deem it practicable to make such a provision. The decision as to whether education or work should be chosen should not however be left exclusively in the hands of the unemployed but the insurance authorities should have the ultimate power to designate which persons should take which. The work provided should be of the type previously mentioned with perhaps the greatest emphasis being placed upon better housing and the elimination of grade crossings. These workers should be credited with the standard rates of remuneration and in the time which they do not work, they should be encouraged to study or learn a trade, and also to develop home gardens.

In periods of protracted unemployment, it may be desirable to enlist those single men who have deteriorated most because of lack of work in a kind of peace-time industrial army which will carry through road building, etc. Entrance into this army should however be voluntary rather than compulsory, but it may be found to be a means of building up the health and morale of the unemployed and of accomplishing a great deal of work of distinct social importance.

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11. *How much activity should be required from the unemployed in seeking work?*—Until 1930 the British law required the unemployed, before they could receive benefits to prove that they were themselves “genuinely seeking work.” This meant that they must not content themselves merely with registering at the public employment offices and then going to such jobs as the offices directed them, but that they must also in addition apply for work directly to various employers. In thus trying to prevent malingering the government created something of a paradox. On the one hand, it was administering a system of public employment offices where virtually all the unemployed men were already registered and it was seeking to induce the employers to place their applications for help with them. It was thus trying to become a centralized labor exchange where applications for men and jobs could be cleared in order to avoid the waste of the unemployed tramping wearily from shop to shop. Yet on the other hand, through the enforcement of the “genuinely seeking work” clause, the government was forcing the unemployed to do the very thing which it was one of the purposes of the employment exchanges to avoid. These personal applications for work moreover brought the labor supply in a sense to the employer’s door and lessened the necessity for his applying to the exchanges for work. At the same time, it exposed him to a large amount of duplicate soliciting on the part of the unemployed and bothered his business somewhat by thus making him a tacit part of the machinery to prevent malingering. It was also complained that in testing whether or not a claimant was seeking work, the glib liar who gave a list of the places where he had supposedly inquired for work had the distinct advantage over the honest but simple workman who painfully strove to remember the places where he had actually called.

By the act of the Labour Government, this clause was eliminated in 1930 and the burden of finding work for the unemployed was shifted to the labor exchanges. There are those who complain that this change has unduly decreased the interest and initiative of the unemployed in trying to get placed, and that since the exchanges are only notified of a little over one-quarter

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of the vacancies which the employers have, it is impossible for them to provide an adequate work-test for the unemployed. If it were obligatory upon the employers to notify the exchanges of all vacancies which they wanted filled (as the Labour Party has advocated) the exchanges would, of course, be able to refer the unemployed to a very much wider range of jobs than now and would thus be able to tell whether or not the applicants were really presenting themselves for the vacancies.

A review of all these considerations seems to indicate: (1) That when the system of public employment offices becomes so firmly established that it fills the major portion of the vacancies it would probably be best not to require the workers personally to seek work. If and when for example, the employers are required to notify the offices of all vacancies which they are seeking to fill, the offices will then have a complete record of all the available jobs and could send those registered to apply for them. This would largely remove the pressing necessity for the workers themselves to go about from place to place seeking work. (2) Until the public employment offices have been built up to such a point, it would however be a mistake to rely upon them alone as a means of preventing malingering. Since they will know directly of only a fraction of the jobs available, a real test of the willingness to work of the claimants cannot be afforded by holding the latter only to the jobs which they hear about in this way. Some independent initiative in seeking work should therefore be required of the claimants in the early periods of the act even though this may mar the logical symmetry of the assigned functions of the public employment offices.

CHAPTER V

BENEFITS

The problem of determining the benefits to be paid is of necessity interrelated at numerous points with the question of contributions and of how the system is to be financed. It also is vitally connected with the type of administration which is set up and the way in which the insurance is carried. It is therefore neither possible nor desirable to exclude all consideration of these topics when we are discussing the best system of benefits to institute. But we shall try in this chapter to discuss these other issues only incidentally and to concentrate our attention upon the problem of benefits itself.

1. *The general conditions which should govern the rate of benefit.*—The amounts which the unemployed receive in benefits should always be appreciably less than what they would earn if employed. There will thus be an appreciable financial advantage to the workmen in obtaining employment and the temptation to shun work in order to draw the benefit will be greatly reduced. It is probable indeed that the total benefits received by an unmarried workman should not amount to more than 60 per cent of his normal wage. A bit more leeway can safely be accorded married men with dependents because of the greater pressure of needs in comparison with income, and perhaps 70 per cent of the wage could be paid to these workers as a benefit without encouraging them to stay away from work.

If such are the maximum rates which ought not to be exceeded, what then is the minimum below which the benefits should not fall? They should be enough, in so far as is consistent with the purpose just stated, to maintain the physical existence of the worker and of his immediate dependents as well. Thus the Italian benefit scale of 3.7 liras (19 cents) a day¹ for the better

¹ See Ernesto Campese, *L'Assicurazione Contro la Disoccupazione in Italia*, Ministero Dell' Economia Nazionale, Roma, 1927, 439 pp.

paid workers is grossly inadequate even in terms of the relatively low standard of living which the workers of that country are able to obtain. Even with average hourly earnings in manufacturing amounting to only 2 liras (10 cents) an hour, the scale of benefits amounts to but slightly over 20 per cent of the average. This is palpably inadequate. There is a minimum of life, therefore, which must be defended by the system of benefits. These should be sufficient to avoid the necessity of the recipients, with the exception of those with many dependents, from receiving supplementary monetary grants from either public or private charity. The average monthly grants of relief paid out to families during the last winter amounted approximately to \$20 per month per family. This has been barely sufficient for food with virtually no allowance for rent, clothing, health, or incidentals. Under no circumstances therefore should the minimum be allowed to fall below this average and it should if possible be placed at a somewhat higher figure. If this were the minimum and if the benefits were graduated upward then the average benefit paid would be appreciably greater than the average grant of relief given during the present depression.

2. *Should the scale of benefits be on a flat-rate basis or be graduated according to earnings?*—As is well known, the British law provides a flat-rate benefit for all those in a given age and sex group irrespective of their individual earnings. The rates of benefit are, it is true, graduated between these age and sex groups in some rough correspondence to the average earnings of each, and to this extent therefore there is a very rough approximation to graduated payments. But there is no such distinction between individuals within any such group and the highly paid and skilled male craftsman receives no larger sum than the common laborer. This is also the case with the adult women.

The Wisconsin act, as well as the bill which has been drafted under the auspices of the American Association for Labor Legislation are essentially of the flat-rate variety. For they provide that the benefits are to be one-half of the full-time weekly wage-rate up to a maximum of \$10 a week. Since in practice nearly

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all the manual workers in the United States have a higher wage than \$20 for a full week's work, this provision is in effect tantamount to establishing a uniform weekly benefit of \$10 for the great majority of the unemployed.

In sharp contradistinction to these methods, stands the system of graduating the benefits in more close correspondence with the differences in earnings. Of this latter method, Germany is the most conspicuous example. For in that country, the workers covered by unemployment as well as by health insurance are divided into eleven wage categories. A basic wage is assumed for each category and the unemployed worker is paid a given percentage of this basic wage. The unemployment insurance bill which has been drafted by the Ohio Commission on Unemployment also provides for graduated benefits equal to 50 per cent of the workers' average weekly earnings. These benefits are not however to exceed \$15 a week. This bill therefore provides that benefits shall be computed upon the basis of actual earnings rather than upon standard wage rates and that the benefits shall vary directly with the variations in each individual's income. Instead of there being eleven weekly rates of benefit as in Germany, depending upon the wage category into which the worker falls, there is instead to be an enormous diversity in the actual benefits paid. There might for example be nearly a thousand or more different rates of weekly benefits paid out in a given pay period.

The one great merit of a flat-rate system is its greater ease of administration. Once the worker has been reported, he more or less stays "put" without any necessity for further reports from his employers. It is a very simple matter for the local office to determine how much he should be paid in benefits and an almost equally simple one for the central office to check these payments. Record keeping is thus reduced to a bare minimum.

But although the flat-rate system has the advantage of simplicity, it has two crucial defects which should lead to its avoidance whenever possible:

(1) The first of these is the fact that it makes no allowance for the higher living standards of the better paid workers. These

are menaced by unemployment just as much as the subsistence level of the unskilled. And yet in a flat-rate system the benefits in order to prevent malingering must always be appreciably less than what an unskilled man can earn. This means an almost ridiculously inadequate benefit to the highly skilled and better paid workers and is likely to seem to them to be relief rather than insurance.

(2) The second great defect of a flat-rate system is its lack of adaptability to changing economic conditions. As it is a fixed sum, its original relationship to real conditions continues only so long as the scale of prices and wages prevailing at the time of its inception remains unaltered. Let the cost of living and the trend of wages rise appreciably, as it did during the war, then the benefits become grossly inadequate for even the most poorly paid. If, however, prices and wages fall, as they have now been doing for more than three years, then a benefit which would originally have offered little or no inducement to malingering may come to present a great temptation to do so since it will form a much larger percentage of the basic wage. While theoretically such dangers could be avoided by changing the amount of the benefits whenever prices and wages change appreciably, this, as all the world should know by now, is extremely difficult to effect in practice. Not only do the forces of inertia help to maintain a scale which has lost its intended significance, but there are always mighty economic and political forces which seek to keep the monetary benefits from being altered. This is particularly the case when prices are falling and when it is believed that wages may soon follow suit. For such periods are likely to be characterized by widespread and prolonged unemployment which make great inroads upon the savings of the working-class. In such a situation the working-class movement will naturally oppose any suggestion to lower the rates of benefit since they feel that their needs have increased by more than the purchasing power of the benefits. In addition, considerations of wage policy will make even the employed workmen resolute in their opposition to a lowering of the benefits. They will fear, as did the British Trade-

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Union Council, that a slash in the rates of benefit will furnish the signal to the employers to institute a program of wage cuts. What is, therefore, largely an economic struggle is in part transferred to the political field and unemployment insurance becomes the inevitable football of group interests. It was upon this issue that the Labour Government of Great Britain was forced out in 1931, and the downward revision of the benefits was effected only at the price of splitting the Labour Party.

These dangers are largely averted if the amount of the benefits is made to depend on the rate of earnings. For then not only will the higher living standards of the better paid be protected more adequately, but a much easier adjustment to changing economic conditions will be provided. If prices and wages rise, the workers will in the main move up into higher categories and their benefits will automatically increase. Similarly, if prices begin to fall, there need be no struggle over whether the rates of benefits should similarly fall. To the degree to which the wages do actually fall, the workers will slip down into lower categories with a consequent automatic reduction of their benefits. The possibility of malingering will be no greater than before and the burden of supporting a fixed monetary charge will be obviated. What is perhaps even more important is the fact that there will be no struggle by the capitalistic interests to reduce, or by the worker's groups to maintain, the rates of benefit in order to use the precedent as a point of vantage in the economic struggle over wage rates. That struggle will, of course, still be waged, but it will be waged on the economic field alone. The amounts paid out in unemployment benefits will follow rather than in part determine the outcome of this struggle. The insurance system can therefore be guaranteed a relative degree of immunity from the conflict, and will, therefore, in a sense be above the battle.

For these reasons, therefore, the method of graduated benefits should be used if it is at all possible from the administrative standpoint. The proposed Ohio plan would seem to be too complicated in this respect and it would be much better to adopt the system of categories which has been successfully administered

both in the German unemployment and health insurance systems and the French system of social insurance. Since the chief complication which is feared from such a system is the complexity which it would introduce into the forms and records by the number and the changing of the categories, it would be advisable to simplify this wherever possible. Some of the methods of obtaining this greater simplification will be discussed in a later section.

3. *What should be the precise ratio of benefits in the various categories to wages?*—Not only should the scale of benefits be such as to protect the lowest paid workers from great privations when they are unemployed while always giving them a very strong incentive to seek work, but the number of wage categories into which the workers are to be divided for administrative reasons should be at once sufficiently numerous to provide flexibility² and yet should not be so minute as to be cumbersome.

The system which I should like to suggest is one of ten wage categories with benefits ranging from 60 per cent for the first group to 30 per cent for the tenth, and which would have the following scale.

TABLE VII
SUGGESTED SCALE OF BENEFITS

Category	Full-time Weekly Wage Rate	Basic Weekly Wage Rate for Category	Percentage of Principal Benefit	Amount of Weekly Benefit
I.....	Under \$10	\$ 8.50	60%	\$ 5.10
II.....	\$10-15	13.00	55	7.15
III.....	15-20	18.00	50	9.00
IV.....	20-25	23.00	46	10.60
V.....	25-30	28.00	42	11.75
VI.....	30-35	33.00	38	12.55
VII.....	35-40	38.00	35	13.30
VIII.....	40-45	42.00	33	13.86
IX.....	45-50	47.00	31	14.55
X.....	Over \$50	52.00	30	15.60

According to this scale, the lowest benefit which the workers could receive would be \$5.10 a week, and the maximum, \$15.60.

²In Italy, where there are but three wage categories, the overwhelming majority of the workers belong to the upper group and thus make the system one in effect of flat-rate benefits.

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In other words, although the assumed basic wage in Category X was over six times that of Category I, the benefit would only be about three times as much. The benefits would thus increase far more slowly than the wages.

This payment of a larger percentage to the poorly paid than to the more amply rewarded may be justified both by the more urgent needs of the lower wage groups and by the fact that private savings will be greater among the better paid. If it is objected that this violates the principle of insurance which it is urged should aim at stabilizing individual incomes irrespective of relative needs, then it can be replied that while this may be true in terms of individualistic insurance, it is not inconsistent with the principles of social insurance. For social insurance implies not only that: (1) society regards the purpose to be protected as so important that it refuses to leave the matter to individual choice but either makes such insurance mandatory or offers financial inducements to encourage individuals to take out such insurance; but also that (2) it regards the solidarity of society to be such that greater relative protection may be properly given to those in the greatest relative need. To this degree, therefore, some relative redistribution of income among all the contributors as a whole may be a very proper consequence. It may furthermore be pointed out that the additional protection given to the poorer paid workers need not come out of the pockets of their better paid fellows. It may instead be derived from any contributions which the employing classes and the tax-payers may make towards the expense of the system.

If however it is felt that the benefits should form approximately the same percentage of a workman's wage and that these proportions should not be graduated in favor of the more poorly paid, then the following provisions seem wise: (1) That benefits be set at approximately 50 per cent of the wage subject to a maximum limit which would be somewhat higher than under the scale which has just been recommended, and (2) that for the purposes of simplification the workers should be divided into approximately eight wage categories instead of the ten which have already been outlined and that for each of these a basic

point should be used for computing the benefits. There would therefore be eight different rates of weekly payment instead of the almost infinite variety which would occur were the benefits computed separately for each worker according to the wages or earnings of that specific person. This would enormously simplify the whole problem of administration.

In this event, the rates of benefit would be approximately as follows:

Category	Range in Dollars	Basic Wage in Dollars	Percentage of Benefit	Total Benefit	Relation to Previous Scale
I.....	Under \$10	8.50	50	\$ 4.25	\$ - .85
II.....	10-15	13.00	50	6.50	- .65
III.....	15-20	18.00	50	9.00	....
IV.....	20-25	23.00	50	11.50	+ .90
V.....	25-30	28.00	50	14.00	+ 2.25
VI.....	30-35	33.00	50	16.50	+ 3.20
VII.....	35-40	38.00	50	19.00	+ 5.70
VIII.....	Over 40	42.00	50	21.00	....

Under this scale the low paid workers in the first two classes would receive slightly less than they would under the suggested scale with graduated percentages. Those in Class III would receive the same amount while those in the remaining five classes would receive appreciably more than under the previous scale.

4. *Should the benefits be computed in terms of actual earnings or of standard wage rates and how frequently should the wage basis be revised?*—It would seem advisable to determine the wage category into which a worker falls by taking his full-time weekly wage rate rather than his actual weekly earnings. The latter is affected by absenteeism, short-time, overtime, bonuses and fines, and does not therefore measure that normal income which supposedly unemployment insurance should help to protect. It is of course a simple matter to find the full-time weekly earnings of workers who are paid on an hourly basis. It is more difficult, however, in the case of piece-rate workers. Perhaps the best way of dealing with this type of worker would be: (a) to multiply their average hourly earnings on piece-rates during the preceding week by the standard number of hours of work expected per week, or (b) if previous records of hourly earnings

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are absent, to take the usual time-rate for such work plus 10 per cent.

It would be highly inadvisable frequently to change the category to which a worker belonged. For if this were done, the system of payments would be frequently upset. Delays would multiply; administrative costs would rise and the system would be likely to fall into some popular disrepute. It would probably be best therefore to provide that the category to which a worker belonged should be determined on the basis of his wages during the one or two weeks preceding the beginning of the insurance year. In other words, the worker would belong to the same category throughout a year. This year might be coterminous with the calendar year but because of the Christmas rush in other lines it would probably be preferable to have it run from July 1 to July 1. In order to allow time for the proper category to be entered upon the individual record cards of the workers, at least a month should be allowed. The wage rates taken should therefore be those prevailing one month before the beginning of the insurance year. For piece-workers, the basis should be the average hourly earnings during the four weeks prior to this time or from the eighth to fourth week before the beginning of the insurance year. These hourly earnings would, as stated, be multiplied by the standard number of hours per week in order to obtain the weekly-wage.

Workers who first entered employment in an insurable employment within an insurance year would be assigned to that category which they had attained after two weeks of employment. All categories would however be revised annually according to the record during the weeks which have been mentioned. This revision would however take place only once a year when it would then be simultaneous.

5. *Should allowances for dependents be provided?*—It is now the almost universal custom for the unemployment insurance laws of virtually every country to provide some added benefit for such dependents as wives and children. This practice has been criticized by some as constituting a violation of true insurance principles since it gives greater benefits to the families of

men who have not paid larger contributions than their unmarried brethren.³

But such a criticism as this really ignores two vital considerations:

(1) In the first place, most of the single-men will ultimately be married and have dependent children of their own. Even though they may in their bachelor days receive less per amount paid in than their married compatriots, this will be largely redressed when they in turn come to have family responsibilities. An inequality existing at a given time is therefore largely ironed out over the course of a lifetime although of course some differences will still continue between the few individuals who remain bachelors all their lives and the remainder. There will also be minor differences among the married depending on the relative size of their families.

(2) The principle of human solidarity inherent in social insurance permits, as we have seen, of a graduation of benefits in accordance with need to a degree impossible in private voluntary insurance where the relative amount of contributions must determine the degree of protection afforded. As we have moreover pointed out, the contributions from non-working class sources may well be distributed in part according to relative need rather than according to the proportionate contributions of the workers themselves.

There is, therefore, every reason why a system of dependents allowances should ultimately be included in the system of unemployment insurance. But what is ultimately desirable need not be immediately advisable. The administrative difficulties connected with the inauguration of the act will be great enough at best. To add this further variable at the very beginning would appreciably complicate matters. It would, therefore, be better, in my opinion, to delay the adoption of such a feature until the staffs of both the local and central offices have reduced the system of checking and paying claims to such a smooth routine that this further variable may safely be added. By this time, too, some

³ See notably my esteemed colleague Miss Mary Gilson, in her very able and comprehensive, *British Unemployment Insurance*, p. 385.

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fairly clear idea of the fiscal adequacy of the system can be obtained and the degree of further burden which it can safely bear can then be more accurately estimated.

When the time comes, the best method for handling the allowances for dependents would seem to be to add 5 per cent of the basic wage of the given category for a dependent wife or child under 16 years, provided that allowances should not be paid for more than three children, and that the total of ordinary benefit and dependents allowances should not be allowed to exceed 70 per cent of the basic wage. This would mean that those in Category I could, under the sliding scale of benefits, receive allowances for a total of but two dependents, and in Category II for only three dependents. In the other categories, allowances for the full four dependents could be provided. By such a system the relative differences in benefits between the categories would be reduced for those with dependents. Thus, for those with four dependents, the benefits received by those in Category I would be 70 per cent of their basic wage as compared with 50 per cent for those in Category X. Since for those without dependents the relative percentages would be 60 and 30 respectively, the percentage difference would be reduced from a point where Class I would be given double the relative benefit for Class X to a point where it would receive an excess of only two-fifths.

Upon such a basis as this, it is possible to obtain fairly approximate estimates of the relative added cost which such allowances would entail. Since approximately 75 per cent of the adult males are married and since the average number of dependent children per occupied male is around 1.2, then it follows that the average number of dependents per gainfully employed adult male does not exceed 2.0 ($1.2 + .75$). The additional cost for the unemployed men of dependents allowances would not, therefore, at the most be more than 10 per cent of their respective basic wages. But this figure would be reduced for the system as a whole by deductions for the following classes:

(1) The gainfully employed wives of insured persons for whom no dependents allowance would be granted.

(2) Children beyond the third, in all families, and beyond the first and second in categories I and II respectively, for whom allowances would not be paid.

(3) The far smaller number of persons dependent, on the average, on women than on male workers.

(4) The very few dependent on the labor of the juveniles.

When all these facts are taken into consideration, with a rough allowance made for the importance of each factor, it would appear that the total added loading which such allowances would occasion would be somewhere around 6 or 7 per cent of the respective basic benefits. The proportionate addition which this would form to the cost of unemployment insurance is more difficult to estimate but is discussed in Chapter Six. In the beginning however it would be safer to omit such allowances and to pay the same benefits to all, regardless of the family conditions of the claimants.

6. *For how long should the standard benefits be paid?*—In order to ensure the relative solvency of the insurance system and to impose a maximum beyond which it should not be liable, some limit must be set to the number of weeks for which an unemployed person may draw standard benefits under the insurance system itself. The failure for a long time to draw any such distinction in England and the consequent loading of the insurance fund with the unemployed who had either exhausted or not qualified for the standard benefit has been responsible for a very large fraction of the debt of approximately one hundred million pounds with which that fund has been burdened.

It is well to provide, therefore, a maximum number of weeks within an insurance year for which benefits may be paid. This period in all probability should be not more than 26 nor less than 15 weeks. The former is the span now provided for standard benefit under the British system and was the length of time originally established under the German system,⁴ although within the last few months this period has been reduced in the latter

⁴ Mollie Ray Carroll, *German Unemployment Insurance*, pp. 56-57; International Labour Office, *German Unemployment Insurance Law*, Legislative Series, 1927, Germany.

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country to 20 weeks.⁵ On the whole, it would seem safest to commence the system with an initial maximum period of 20 weeks in an insurance year.^{6a} As the finances of the fund permit and as the need develops, this period of standard benefit may perhaps be lengthened until ultimately perhaps 26 weeks may be the maximum. But it is well to begin more cautiously.

7. *What ratio, if any, of contributions to benefits should be required?*—Another way of protecting the resources of the fund and of limiting the inroads which bad personal risks might make, is to limit the number of total weeks during which benefits may be paid a worker so that they shall not exceed a given proportion of the weeks during which contributions have been made for or by him. If it were required, for example, that at least three weekly contributions must normally have been paid in for each week of benefits drawn, then this would mean that over a period of years, a worker could not draw unemployment benefit for more than one-quarter of the total time, even though in a given insurance year he might receive the grant for the maximum standard period of 20 weeks or more.

Since the workers would naturally have had no opportunity of accumulating credit for employment prior to the passage of the act, the enforcement of this rule of "3 to 1" would have the effect of limiting the benefits to 13 weeks during the first year. Since good workers who chanced to have ill luck might suffer unduly from such a restriction, it would seem wise not to impose this limit for the two or three years. This would give the better workmen a chance to accumulate credits and hence to prevent their too early disqualification. The act should therefore be drawn so as to exempt the unemployed from such a ratio for this period of time but it should also provide for an application of this ratio after the transitional period had once been passed.

8. *Should refunds be given to individuals who by the end of their working life have paid in more in the form of contributions than they have drawn out in unemployment benefits?*—The incidence of unemployment is very unevenly distributed over the

⁵ *Ministry of Labour Gazette* (November, 1931), p. 420.

^{6a} The Ohio bill provides for 16 weeks of benefits.

working class population. Thus after five years of experience with the British system, it was found in 1925 that one-half of the contributors alone had drawn benefits and the remaining half had not drawn any.⁶ And two and a half years later, it was discovered that during this time⁷ "three-quarters of the insured claimed no benefit at all and only one-twelfth were recipients for really long spells." Such being the case, in the absence of a refund system, it may be complained that unemployment insurance, where the workers contribute, makes real inroads upon the income of the energetic and skilled workmen in order to help maintain the inefficient minority. A system of refunds, such as was provided by the original British act of 1911, whereby the workers on reaching the maximum age covered by the act would receive in a lump sum any excess of their contributions over the benefits drawn, would obviously remove any possible ground for criticism on this score. Should it then be adopted?

I do not believe that it should. But my opposition is not based on any supposed incompatibility between the principles of insurance and saving which was advanced as an objection by Mr. A. W. Watson, the actuary to the British Government, in his statement to the Geddes Economy Committee.⁸ It is instead grounded on the following points:

(1) That while the incidence of unemployment is less in the case of the more efficient workers, they are still exposed to considerable dangers against which they need insurance. The decline of an industry or a trade such as glass-blowing, carriage-making, or coal mining may serve to throw relatively competent men out of employment. In a fast changing world, therefore, even highly skilled men are not secure. The business cycle moreover is no respecter of persons and cuts down some of the just as well as the unjust. As old age comes on, men slow up and those who could always find work at 35 years of age may well find it difficult to obtain employment at 50. The fact that for any given

⁶ R. C. Davison, *What Is Wrong with Unemployment Insurance?* (1930), p. 22.

⁷ *Ibid.*, p. 23.

⁸ *First Interim Report, Committee on National Expenditure*, Cmd. 1581 (1922),

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period of years the majority of the workers have not drawn any appreciable benefits does not mean, therefore, that over the span of a lifetime this same proportion will obtain such a minor share. In large part, at least, the excess of contributions in the early years will tend to be counterbalanced for the same person by an excess of benefits in the latter portion of his working life. The inequality between individuals is therefore far less than appears at first sight.

(2) Since virtually every worker is therefore exposed to the risk of unemployment and if the contributory basis is accepted it would scarcely be in harmony with the principles of insurance to return to the insured all contributions in excess of cash benefits received. It is a principle of insurance that there shall be a pooling of risks. All give up a little in order that some may not lose much. In this way all the insured lessen their mental worries of what may happen should they be unlucky enough to experience the loss. Only a small minority of the houses insured against fire actually burn. But all their owners sleep more easily of nights because they know they are protected. To return the premiums of those whose houses do not burn would be tantamount to providing in a game of chance and uncertainty that whenever the head of a coin was turned, the policy-holder would win and whenever the tail came uppermost, the insurance fund would lose. And so, in some measure at least, would be the situation were the practice of refunds to be instituted in conjunction with unemployment insurance.

Behind and beneath all this lies moreover a still deeper problem, namely, the degree to which even the relatively inefficient can be held responsible for their unemployment. While inefficiency may determine the *incidence*, it certainly has little to do with the *amount* of unemployment. In a world characterized by seasonal fluctuations, technical and market changes, business depressions, and international conflicts of interests, there will inevitably be a large number of unemployed. The poor unfortunates upon whom the industrial gate closes can in general be no more held responsible for their plight than a scrawny tenth of an oriental population, killed at the whim of a tyrant who wished to

reduce his subjects by that proportion, can be said to have incurred this doom because of their malnutrition. If all the workers were in fact to become as industrious as the heroes of Samuel Smiles and as virtuous as the proverbial Galahad, then, if the industrial mechanism were to remain as it is, unemployment would be no less their portion.

(3) Finally the administrative difficulties connected with any system of refunds would be enormous. For not only would it be necessary to keep complete records for a worker's entire employed life of both the contributions he had made and the amount of benefits drawn, but if these were on other than a flat-rate basis, the process of computing the respective totals would be both complicated and expensive. Since the problem of administration will be difficult enough at best, the added outlay of energy and cost should, if at all possible, be avoided.

9. *What provision, if any, should be made for those who, while genuinely unemployed, have exhausted their claim to standard benefits or who have exceeded their ratio of prior contributions?*—Even in good times there will be some who, because of technological changes or advancing years, will still not be able to find employment after the 20 week period of standard benefit has expired. During periods of depression these numbers will be enormously increased. Under the strict rules of insurance, which I have suggested, these workers after having exhausted their claims for benefit would, in the absence of any further provision, be dropped from the roll and either thrown upon public or private charity or in large numbers into destitution. Such a proceeding will inevitably and properly arouse a storm of popular disapproval. For the public will not willingly permit good men who have been protected for a time to be dropped so completely when, through no fault of their own, they are still unable to find employment. Unless an adequate supplementary system of relief is built up which is not humiliating in character, there will be a strong movement for a further extension of benefits under the insurance system to those who have exhausted their standard claims. If the experience of the European countries is any guide this movement will be successful. The expense of unemployment

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insurance would under these circumstances rise appreciably above the amounts originally contemplated and the problem of financing the system would become much more difficult.

It is largely this difficulty which the business men of this country are in a confused way aware of and which is in part responsible for their opposition to the plan. Most of the advocates of unemployment insurance in the United States have, however, tended either consciously or unconsciously to avoid this problem which they have uneasily recognized as being the real skeleton in their financial closet. To bring this issue out into the open, they have feared, would still further frighten an already too timid public and would greatly retard the inauguration of this much-needed type of protection. It is better, they have implicitly reasoned, to slur over this issue as much as possible and to face it only after the act has been passed and an economic emergency arises.

Now this attitude, although lacking in perfect candor, is quite understandable and indeed compatible with honest propaganda. But neither the scientist nor the statesman can rest content with any such evasion of the issue. The problem is a real one and must sooner or later be faced. There is every reason, therefore, why it should be brought into the open and an answer sought.

If we turn to European experience we find that Germany and Great Britain originally adopted different methods for dealing with this class of unemployed. In Great Britain, those who had exhausted their claims to standard benefit came nevertheless to be carried by the insurance fund on what was successively termed "uncovenanted," "transitional" and "extended" benefit for almost unlimited periods of time. In Germany, on the other hand, after the period of standard benefit was exhausted, the unemployed were cared for, during a limited period of time, by an emergency benefit, the cost of which was borne by the national and local governments in the proportion of four-fifths and one-fifth. The length of this emergency benefit has gradually been extended as the unemployment crisis has become progressively more severe from 13 to 42 weeks.

In the last two years the differences between the two methods

have been greatly reduced by fundamental changes in the British law and in its administration. In 1930, the Labour Government transferred the cost of the "transitional" benefits from the insurance fund to the state itself. The second step was taken last autumn (1931) after the fall of the Labour Government and the formation of the first coalition ministry, when by an act, later supplemented by Orders-in-Council, the so-called "means test" was imposed. Workers who had received 26 weeks or more of benefit in a year, or who had not satisfied the statutory provisions concerning prior employment, were not carried more or less automatically on the transitional benefit but were subjected to examination by the local Poor Law authorities to determine whether or not they were in need of the full benefit and, if not, whether it should be reduced or abandoned.

Both the foreign experience and the logic of the situation would seem to indicate, therefore, that some provision must ultimately be made for those who have exhausted their standard benefits which should perhaps be of the following nature.

(a) The question then presents itself whether this supplementary aid should be extended under the insurance system or whether it should be given in the form of outright charitable relief. Despite all the dangers, there is good reason for utilizing the insurance mechanism for the actual disbursement of funds for this group. Thus it is desirable that these men should be saved for as long as possible from the humiliation of charity and from the dangers of pauperism. Then, too, the unemployment system would be far more able to administer the work test than would the charitable and relief agencies. It would seem best therefore to carry for a limited period of time the unemployed who have exhausted their standard benefits under a system which will really be a blending both of insurance and of relief. Thus the actual payments and the handling of the work test can best be administered by the insurance and the employment offices. In this way therefore the workers will not be humiliated by receiving relief from the charitable agencies and instead will receive their benefits from the same immediate source as the unemployed who are receiving standard benefits. They will therefore not lose caste

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among their fellows. On the other hand, the determination of how much these unemployed should receive would be lodged in committees separate from the insurance machinery and the benefits would not be automatic in nature or amount but should be graduated according to the need of the claimants and their families.

(b) The period of this emergency benefit should probably not exceed 13 weeks for those under the age of 40 except in periods of great depression when it might be lengthened to 18 weeks. Those over 40 might, in view of their greater difficulty in finding work, be given a somewhat longer period of protection which would range from 13 to 23 weeks.

(c) The administrative body in charge of the act should be given the power to confine the emergency benefits to certain localities and industries.

(d) The emergency benefits should, as intimated, only be granted to those in actual need of them. They should not, therefore, be a "right" as in insurance proper. In the interpretation of need, however, both the act and the administrative authorities should lay down definite standards and should not throw the local authorities upon their own unfettered discretion, as has been done in England by the Coalition government in its attempt to free the central government and the unemployment insurance system of all responsibility for the administration of the means test. Some general standards fairly liberal in nature should be issued by the central relief authorities to the local bodies who will administer the test on such points as: (1) the degree to which the earnings of other members of the family should be taken into account, (2) the degree to which the private savings and insurance of the workers should first be exhausted, (3) the deductions, if any, to be made for military pensions and bonuses, (4) the deductions, if any, to be made for home ownership, etc.⁸²

As a result of considering all of these factors, a considerable percentage of the claims for extended or emergency benefit

⁸² Since these lines were written, the British national government has promised to introduce more liberal and more uniform standards in the administration of the means test.

would be disallowed completely, while another large proportion would be granted only in part.

(e) The financing of the emergency benefits should properly be derived from public funds rather than from either private bodies or the insurance fund itself. While the insurance offices would pay out the money, the insurance fund would not pay for the emergency and supplementary grants.

(f) In order to obtain the revenues needed for these emergency benefits, state governments should assess progressively graduated taxes upon incomes and inheritances. The burden of these expenditures should not be thrown upon already overburdened real estate and tangible real property.

It would be wrong (as the present national administration has sought) to foist the burden of such relief upon the localities or even to confine it to the states. Some of the states do not have income and inheritance taxes and in these cases the principle of "local responsibility" will mean in effect that the cost will be saddled on the small property owners while the holders of large incomes will largely escape scot-free. Federal aid is necessary to ensure that those best able to pay shall bear their share of the total cost. A further reason for such federal aid lies in the fact that a big percentage of the large incomes are received in states other than those in which they were earned. Thus the capitalistic classes largely live in a narrow strip of land extending from Washington to Boston together with an area around Chicago. But the incomes which these classes receive are derived in part from railways, mines, etc., which lie west of the Mississippi and from industrial regions outside the state in which they live. Some national provision of funds is therefore needed to meet this divergence between the situs of the property and the reception of the income. Perhaps the fairest distribution of the expense of meeting these emergency benefits would be for the national government to contribute one-half and for the states to contribute the remainder.⁹ A system of federal aid would thus be built up

⁹ In those states such as Pennsylvania when there is a constitutional provision preventing the states from granting such relief directly, the state share will have to be met by the localities. But it is imperative that these constitutional restrictions

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which would enable the national surplus to meet what is after all a national need but which would at the same time preserve state responsibility and ensure the relatively economical expenditure of the funds.

What then, it will be queried, should be done for those who after exhausting their emergency benefits are nevertheless still unable to find work and are in need? Should these be continued in their quasi-insurance status or should they be transferred directly to an outright relief basis? There will be strong pressure to choose the former alternative. But even though the insurance system itself should be freed from all expenses connected with the emergency benefits, it would seem wise ultimately to transfer the unemployed to the outright relief funds. These funds should not however be derived exclusively from local property. There should be state grants-in-aid and federal grants as well. This broadening of the basis of financial support for outdoor relief should of course carry with it state and national supervision. These bodies should require the local authorities to put the personnel administering the aid on a non-political basis of appointment and tenure. Adequate civil service tests and protection should be imposed and a trained group of social service workers provided.

The present national emergency should compel us to abandon our present highly decentralized and localized method of caring for the unfortunates who are thrown into great need by unemployment and other social calamities. The real needs of men can never be met in that way. We need to overhaul our relief machinery to that end and this is one of the most pressing governmental issues of the day.

It will be noticed that the strictly insurance features which have been proposed to care for the unemployed could be instituted independently of the program for supplementary emergency benefits and subsequent relief. Insurance need not and should not wait upon such a reorganization. But it should be emphasized that unless these provisions for adequate and well-

should be eliminated as quickly as possible and that state income, inheritance, and corporation tax laws be levied.

supervised relief are instituted, then in the next period of great unemployment when needy men have exhausted their standard benefits, either one of these two dangerous courses is likely to be followed: (1) the cost of carrying the unemployed for these long periods will be saddled upon the insurance fund with the result that the resources of the system will not only be exhausted but it will be compelled to go into debt. This will cause the opponents of insurance to claim that the system will have broken down and the result will be a popular discrediting of the principle or (2) that if the insurance funds are maintained inviolate then those in need will be given grossly inadequate relief.

In order, therefore, to build up adequate second and third lines of defense against destitution, it is necessary to buttress the front line trench of insurance by emergency benefits and then by proper relief. The price of a solvent insurance system is therefore a decent provision for relief which will be financed, in periods of depression either from the surplus income of the nation or from the creation of additional monetary purchasing power.

10. *Should emergency benefits be granted to those who have not been able to fulfill the requisite conditions of prior employment?*—If we thus provide some added protection in the form of emergency benefits with a quasi-insurance status for those who have exhausted their claim for standard benefits, should we also make a similar provision for those who have not been able to acquire the necessary weeks of employment during the two preceding years to enable them to qualify for standard benefits. This will be urged by some as both logical and humane. For during a business depression or a prolonged period of technological displacement, honest workmen who are still part of the available working force may find it difficult to obtain the requisite minimum number of weeks of employment.

But however appealing individual cases may be, there is surely a difference between granting extra protection to those who by their employment record have shown that they may be considered members of the active labor supply and accepting on trust those who cannot give tangible evidence that they still have a place in industry. A letting down of the bars in this direction

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might swamp the insurance scheme with hordes of peripheral workers who, while able to find occasional employment, are not able to become regular workers. It would seem best, therefore, not to bring these workers under the protection of the intermediate form of emergency benefits but to have them cared for directly by public relief of that adequate character which has already been outlined in the previous section.

11. *Should the benefits begin immediately eligibility has been obtained or should a further initial delay be imposed in order to build up a reserve?*—The requirement that the unemployed claimant must have been employed in an insured occupation for at least 36 weeks during the two preceding years or 20 weeks in the preceding year will in itself ensure that no benefits will be paid out for five months after the act goes into effect. This will permit the accumulation of a moderate reserve fund and the development of a system of records and procedures for the administrative work.¹⁰ The financial solvency of the fund would be still further protected if it were also provided that no benefits were to be paid during the first year. Such a further delay would seem to be advisable if the act were passed in a period of prosperity or of so-called "normal business." If, however, the measure were to go into force during a business depression, so long a delay would inflict great hardships upon many innocent workers and under these circumstances, it would be better to have the benefits begin as soon as the unemployed had established their eligibility.

12. *Should the benefits granted by the system be limited by its resources or should the state guarantee and underwrite any deficit?*—In England the benefits provided are an absolute right of the workers who satisfy the necessary conditions. If the fund does not have the necessary resources, there is a moral obligation upon the part of the state, which it has thus far recognized, of advancing the needed sums to the fund. These advances have nominally taken the form of loans upon which the fund is charged 5 per cent interest. But since the debt now amounts to approximately

¹⁰ There will also be available for this latter purpose the time between the passage of the act and the date on which the contribution will begin.

100 million pounds there is little likelihood that this will be paid off in any predictable future, and ultimately it will probably have to be settled by the state expunging the debt and assuming the burden.

The draft prepared by the American Association for Labor Legislation and the bill actually passed by the Wisconsin Legislature on the other hand fix a maximum liability and scale the benefits down to prevent any added sum from being paid. The Wisconsin act provides that the total reserve set up by any employer need not exceed an average of \$75 per employee and that when this average reserve falls below \$50, then the maximum benefits which would otherwise be \$10 a week, are to be decreased by \$1 for each reduction of \$5 in the reserve ratio.¹¹ By the time, therefore, that the reserves were exhausted, the benefits would cease.

The original bill of the American Association for Labor Legislation provided that the board administering the plan for each industry should keep the fund always solvent. To do that, it was empowered to reduce the benefits and alter the periods of payment.¹²

This difference in approach has been largely caused by the difference in the political balance of power in England and Europe as compared with the United States. In the former countries, labor is politically powerful, while with us it is relatively weak. It follows, therefore, that while the European laws assure the workers that their benefits will be paid, American proponents are more anxious to assure the employers that their liabilities will be limited.

But while political considerations must necessarily be borne in mind, there are other factors which should not be neglected. If benefits are reduced for the genuinely unemployed during a period of depression, then the loss must largely be met out of either a greatly impaired standard of life or from private and

¹¹ See Wisconsin Statutes, Chapter 20, Laws of Special Session of 1931, Sections 108.06 and 108.18.

¹² See Section 24 of their bill: *An American Plan for Unemployment Reserve Funds*.

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public charity. The burden is, therefore, not so much reduced as transferred, and the good fiscal showing of the unemployment insurance funds may be attained at the expense of the unemployed, the philanthropic members of the community and the local tax-payers. It would therefore seem wise to provide the following sources of protection against any reduction in the rates of benefit: (1) In establishing the rates of contribution, liberal allowance should be made for the factor of cyclical unemployment and unduly optimistic judgments of the future avoided. (2) The body administering the system should be given the power in grave emergencies when funds are running low and a high degree of unemployment exists, to increase the assessments to a limited degree. I would personally favor a provision which would permit such a further assessment up to an amount equal to one-fifth of the normal rate of contribution. (3) Whether the state or national governments should then come to the aid of any set of state funds which were not able to meet the claims for standard benefit cannot be dogmatically determined in advance. If such aid is given, it should be treated strictly as a loan and repaid with interest.

There are many monetary theorists who believe that one of the remedial steps needed during a depression is for fresh monetary purchasing power to be pumped into circulation by the government. This, it is argued, would lessen and perhaps reverse the fall in the price-level, help to increase profit margins, and thus aid in starting production and employment upward. If this is so, and personally I believe that it is, then there is a social gain from action on the part of the national government in increasing the quantity of monetary purchasing power at such times. The financing of unemployment relief would be one of the most appropriate avenues through which this monetary purchasing power might get into circulation and affect trade. The maintenance of purchasing power would under such conditions be regarded as of more importance for industry itself than keeping the insurance funds free from federal subventions. Since it is probable, however, that the contributions of the federal government to industrial stability can best be made through aid in

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financing the emergency benefits and the out-door relief itself, it would seem advisable during the initial stages to limit the liability of the fund to the resources available and to give the administrative body the authority to reduce the benefits in order to ensure the fiscal solvency of the funds. If conditions should so develop that this would mean too stringent a reduction of benefits, then either (a) this limiting provision could be repealed and state and federal loans made to the funds or (b) relief grants could be made to supplement the insurance benefits for those who were in need.

CHAPTER VI

WHAT WOULD BE THE PROBABLE COST OF UNEMPLOYMENT INSURANCE?

One of the common objections to unemployment insurance is that we cannot foretell its volume and hence cannot fix the needed premium rates. The implication of this criticism is therefore that we should either abandon the idea of instituting such insurance or that we should wait until sufficient information has been accumulated to permit us to make precise actuarial calculations of the risk involved. In opposition to this point of view, the present chapter will take the position; first, that we already have sufficient information to estimate with an approximation to accuracy what the relative costs would be of an insurance system of the type which has been outlined and secondly, that even though there may be a margin of error in these original estimates, the experience which the system acquires as it goes on should enable the premium rates to be adjusted at a point which over a period of years will enable the income to balance the expenditures. There is indeed no practicable way of accumulating adequate actuarial experience without instituting such a system and as in every other form of insurance, the system can "buy experience" as it goes on. To delay installing such a plan until the necessary data have previously been accumulated is, therefore, in effect to wait forever and those who propose this policy are in practice giving the same hortatory advice as the mother who permitted her daughter to go in swimming on condition that she should never go near the water.¹

¹ As a matter of fact the Metropolitan Life Insurance Company in 1925 apparently felt that unemployment was sufficiently insurable so that it was ready to write such insurance. Thus the late Mr. Haley Fiske, the then president of that company declared, that it "is willing to experiment with unemployment insurance . . . and it already has formulated rough plans on which to work, once the Legislature has given us the requisite laws." Mr. R. A. Hohaus, the assistant actuary of

As a matter of fact, the estimate of relative cost is a result of the following sets of considerations: (1) The probable volume of unemployment on the basis of past experience, (2) the relative average ratio of benefits to wages, (3) the deductions to be made from maximum benefit payments because of the limitations imposed by the requirement of (a) a waiting period and the periods of prior employment, (b) the discontinuance of benefits after the expiration of the standard period and (c) the disqualification of claimants for leaving positions without "just cause" or refusing to accept "suitable employment," etc., (4) an estimate of the added expense which would be incurred by providing benefits for excessive short-time, (5) the probable added costs of administering the system, and (6) an estimate of the contingent allowance needed to meet errors in estimation, unexpected burdens, (7) an allowance for interest on balances. In the succeeding pages, these points will be taken up in sequence and then consideration will be given to the question as to whether the system cannot acquire sufficient added experience as it goes to meet any further actuarial problems in an adequate fashion.

1. *The probable average volume of unemployment.*—The best way of measuring the volume of unemployment is through periodic censuses of the unemployed and failing this through the registration of the unemployed which unemployment insurance entails. We have had such censuses in this country in 1890, 1900

the company, made the following statement in the same pamphlet, "It is granted that data available does not furnish statistics as complete as may be desired. However it is necessary to have insurance operating in order to collect the statistics. In the beginning, just as was done in life, health, and other branches of insurance, whatever data are available must be used. There are available today in the United States about as satisfactory data as was available in Great Britain in 1911 when its unemployment scheme was established." These quotations from pages 1 and 6 respectively of R. A. Hohaus, *A Practical Phase of Unemployment Insurance*, New York, Metropolitan Life Insurance Co., 1925, are taken from the *Report of the Ohio Commission on Unemployment Insurance* (1932), pp. 27-29.

Mr. Hohaus indeed concluded his pamphlet by stating that "at least one insurance company feels that the problems of writing unemployment insurance are not insurmountable and it is optimistic about the practicability of this type of insurance. As soon as the insurance laws are amended so that it may offer this type of coverage, it will do so."

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and 1930, and for the larger cities in January, 1931.^{1a} But this evidence is in itself alone too fragmentary to permit an adequate estimate of the relative volume over a period of years. Lacking this information which unemployment insurance and wide-spread trade union benefits would afford, we are thrown back therefore upon a more indirect and necessarily more inaccurate method of estimation. That method very briefly is to deduct (1) the estimated total number of persons employed in manufacturing, transportation, mining and construction from (2) the total number of persons constituting the labor supply from these industries, and then (3) to find the percentage which this residual formed of the total number previously seeking work in these lines. By such methods Mr. L. D. Stinebower and I computed the probable volume of unemployment in these four major industries for the thirty years from 1897 to 1926. This, according to our computations amounted to the following percentages:

TABLE VIII
ESTIMATED PERCENTAGES OF UNEMPLOYMENT IN MANUFACTURING, TRANSPORTATION,
BUILDING, TRADES AND MINING,* 1899-1926

Year	Percentage Unemployed	Year	Percentage Unemployed
1897.....	18.0	1912.....	7.0
1898.....	16.9	1913.....	8.2
1899.....	10.5	1914.....	16.4
1900.....	10.0	1915.....	15.5
1901.....	7.5	1916.....	6.3
1902.....	6.8	1917.....	6.0
1903.....	7.0	1918.....	5.5
1904.....	10.1	1919.....	6.9
1905.....	6.7	1920.....	7.2
1906.....	5.9	1921.....	23.1
1907.....	6.9	1922.....	18.3
1908.....	16.4	1923.....	7.9
1909.....	8.9	1924.....	12.0
1910.....	7.2	1925.....	8.9
1911.....	9.4	1926.....	7.5

* The methods followed are described in detail in my *Real Wages in the United States, 1890-1926*, pp. 430-460. The percentages of unemployment for the building trades were computed from the New York and Massachusetts statistics of trade union employment in those industries, while for coal mining they were computed from data of the U. S. Geological Survey on the number of days the mines were open in each year. The estimates for manufacturing and transportation were obtained by the methods outlined above.

^{1a} Such material was also collected in 1910 by the census but was never tabulated. There have also been local periodic censuses of unemployment in Columbus Ohio; Philadelphia; and Buffalo; but these have been too limited in their geographical scope to permit of any nation-wide estimate.

The annual average for the thirty years as a whole which was obtained by this method was 10.2 per cent. It should be understood however that since the above index does not include mercantile trade, domestic service, or the public utilities where the amount of unemployment is somewhat less than for the industries covered, the average for industry as a whole would be somewhat less than that indicated. The index also included the sick and disabled who were prevented from working for protracted periods of time and the deduction of this group would still further lower the average. If we make allowance for these factors, the average percentage during this period would probably be nearer 8 per cent than 10 per cent.

It is only fair to add that this method has been severely criticized by several economists on the ground that since it deals with residuals, slight errors in the absolute figures of the total labor supply or the numbers employed would produce greatly magnified errors in the result. This criticism is theoretically sound but a considerable corroboration of the estimates is given by an independent analysis of the censuses of unemployment for the years 1889 and 1899. In the first year, the average for manufacturing and transportation by our method was 5.6 per cent while the census average was 4.5 per cent, while in 1899 our average was 7.7 per cent and the census average 5.6 per cent. In view of the fact that our index included disabling illness while the census figures did not, the difference between these two sets of data is sufficiently close as to give some credence to our estimates. There is also a fairly close correspondence in 1915 between the results of the survey of the United States Bureau of Labor Statistics and our estimate. The Bureau's figure when adjusted for the year as a whole amounts to somewhere between 11 and 12 per cent for all industry whereas our results for manufacturing, the building trades, and transportation are 14.4 per cent.³ In spite therefore of the theoretical difficulties, we

³ One of the critics of our work, Dr. Leo Wolman, as a matter of fact used an identical method in computing a minimum estimate for Mr. Hoover's *Committee on Recent Economic Changes* for the years 1920-27. See *ibid.*, pp. 469-78. His work seemed so excellent that I adopted his results for the years 1920-26 in my study, which appeared some nine months subsequently. But Dr. Wolman then

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shall probably not be far wrong if we estimate the average percentage of unemployment during this thirty-year period at somewhere between 8 and 10 per cent. If we consider therefore only the experience prior to 1929, we would probably find that 10 per cent was a very generous allowance which would in itself contain some margin of safety. It will therefore be used as a basis at least for estimating the probable costs of unemployment benefits.

2. *The ratio of average benefits to wages.*—If the benefits are a uniform percentage of the wages, it is of course relatively easy to estimate the probable maximum of pay mounts. If 50 per cent were for example chosen, as is proposed in the Ohio bill, then the maximum cost would be approximately 5 per cent of the wages. That is, the 10 per cent of the unemployed would receive half wages. If the uniform percentage were 45 instead of 50 the maximum load would be 4.5 per cent. From this should be deducted, of course, the proportion of the wages received over any maximum amount which is protected. Thus under a 50 per cent benefit and a \$15 a week maximum payment, all wages over \$30 a week would have no further protection and this would mean a deduction from the total maximum cost. It is difficult to estimate how much this would amount to but an estimate of from one-half to three-quarters of one per cent would probably not be far from the facts.⁸ This percentage would in turn be decreased were the maximum benefits raised above the \$15 level.

If a sliding scale of varying percentages of benefit similar to that which has been proposed in the preceding chapter should be adopted, then the problem of computing the percentage cost would be somewhat more difficult. For we do not possess sufficient information about the relative number and proportion of the workers who would belong to each of the wage categories to determine with precision what the average of all these rates of benefit would be. We would probably not be far wrong however

attacked my method (see *New Republic*, August, 1930). So far as is known, however, Dr. Wolman has not recanted on the index he prepared for *Recent Economic Changes* although he used a virtually identical method and his results formed a part of mine.

⁸ This would be on the assumption that from one-tenth to one-sixth of the total income of the workers came from sums received in excess of \$30 a week.

if we were to take the average earnings of urban labor as furnishing the norm from which these computations could be made. Miss Jennison and I found that in 1928 the average annual earnings for the some fifteen million urban workers whom we covered in our study was \$1504.⁴ This would have amounted to average weekly earnings of \$28.86 which would have fallen into category V, and to which the average rate of attached benefit would be 42 per cent.

There are two further elements of uncertainty however in adopting such an estimate of the average benefit rate:

(1) The first is the fact that under the plan which I have proposed the benefits would be based on full-time weekly wages while the averages quoted were for actual weekly earnings. To the degree that there was a disparity between these two, we might find that the use of the former might cause the average category to be other than category V. Since short-time and absenteeism are customarily more important than overtime payments, it is probable that any error here would lie in putting the category at a lower point than in reality it would be. But it is highly improbable that this would have moved the average above category VI. This would have meant an average benefit rate of 38 per cent.

(2) The second uncertain factor is that of the relation of future wage levels to those of 1928. Wage rates have fallen during the last four years although of course not nearly as sharply as earnings. What their level will be after the depression is over is still conjectural. In view of the improbability that the price level will be anywhere near that of 1928, the most reasonable assumption seems to be that wage levels will ultimately be somewhat lower than they were. But that this fall will carry the average below the fifth category seems highly improbable and the best estimate would seem therefore to be that category five may probably be taken for purposes of computation as the norm. This would mean an average benefit at the rate of approximately

⁴ See Douglas and Jennison, *The Movement of Money and Real Earnings in the United States 1926-1928*, p. 27.

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42 per cent.⁶ This upon the basis of an average unemployment of 10 per cent would mean a 4.2 per cent maximum charge.

3. *What reductions in cost would be effected by the requirement of a waiting period?*—The estimate of an average cost of 4.2 per cent, which has just been made, assumes that all of the unemployed would be compensated for the entire period for which they were unemployed. But no system of unemployment insurance now in effect has any such sweeping provisions nor does the plan which I have suggested. There are instead at least three groups who will be disqualified from benefits for shorter or longer periods of time. These three groups are: (a) those who have not yet satisfied the requirements of the waiting period, (b) those who though still unemployed have exhausted their claim to standard benefits, and (c) those who though out of work are disqualified for benefit because they either left their past employment without "just cause" or have refused "suitable employment" which was available or perhaps have not shown sufficient personal activity in seeking work directly.

During the periods in which these persons are disqualified, no expense will be borne by the fund. The relative proportion therefore which these periods form of the total volume of unemployment should be deducted from the estimate which was made in the previous section. Some estimate of the relative size of the first two groups can be obtained from the 1930 census of unemployment which classified those out of work in April of that year according to the length of time for which they had been unemployed. The substance of these results is given in a note at the end of this chapter together with a short description of the methods followed in estimating the probable savings effected by waiting periods of varying durations and with varying lengths of benefit periods. The approximately 3.2 million workers who were unemployed in April of 1930 had lost, according to two different methods of computation which I have carried out, somewhere

⁶ Here again two somewhat offsetting forces will operate in the background (a) on the one hand, the skewness of wage distribution will give a larger percentage of workers below the average than above and hence increase the average rate of benefit (b) on the other hand, however, the failure to provide benefits for those receiving over \$55 a week will reduce the cost.

between 38.9 and 41.9 million weeks of employment since they had last had a job. This may be treated in our computations as roughly equal to 39 and 42 million weeks respectively.⁶ Of this amount approximately 0.9 million weeks had been lost by those who at the moment had been unemployed for less than two weeks while the enforcement of the two weeks waiting clause for those who had been unemployed for more than two weeks would have eliminated approximately 4.7 million more weeks from compensation. A total of 5.6 million weeks would thus have been removed from the payment of benefits. This would be 14.2 per cent or precisely one-seventh of the lower total figure of 38.9 million weeks. It would be 13.2 per cent of the larger estimated total of 41.9 million weeks. Since the gross charge for complete unemployment was estimated in the preceding section at 4.2 per cent of the payroll, it follows that the adoption of a two weeks waiting period would apparently have reduced the total cost by approximately one-seventh of this percentage or by about 0.6 per cent of the payroll. The estimate that the use of a two weeks waiting period would remove approximately one-seventh of the total unemployed time from compensation is strikingly corroborated by similar computations which I have made with the censuses of 1890 and 1900 and which are also explained in the note at the end of this chapter. According to these computations 14.9 and 14.0 per cent respectively of the total weeks of unemployment would have been included in the two weeks waiting period. These percentages were almost identical with the 14.2 per cent obtained for 1930.

Had a three weeks waiting period been imposed, as is provided in the Ohio bill, the total number of man-weeks for which benefits would have been eliminated would have been approximately 7.9 million.⁷ This would have been 20.3 per cent of the 39 million total and 18.9 per cent of the 42 million total.⁸ If we

⁶This, it should be emphasized, was not the total amount of unemployment suffered in the preceding year but only the amounts of which those 3.2 million workers had lost. Additional time was of course lost by others who although they had a job at the time had been idle during other periods of the preceding year.

⁷That is, under Method B as explained in the note at the end of the chapter.

⁸This would be under Method A.

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estimate the savings as 20 per cent of all unemployment this would be equivalent to a reduction of 0.84 per cent of the payroll. To these savings, should of course be added any extra reductions which might be effected through increasing the waiting period in certain highly seasonal industries, such as building, mining, the clothing industries, automobile manufacture and the like. Were the waiting period raised four weeks in these and similar industries, it is probable that a further reduction of 0.1 to 0.2 per cent of the payroll would be effected.

4. *What reductions in cost would be effected by the rules concerning "just cause" and "suitable employment?"*—It is not commonly appreciated how large a percentage of all separations results from discharges and from the worker voluntarily quitting. The claimant would be disqualified from benefits in these cases for at least a minimum of eight and for a possible maximum of fourteen weeks^{8a} unless he could prove that he was discharged without "just cause" or that he left for "just cause." This would greatly reduce the volume of payments by the fund.

Thus Brissenden and Frankel found in their extensive investigation for the United States Bureau of Labor Statistics⁹ that for the plants covered from 1910 to 1918 lay-offs accounted for only 11 per cent of all separations while discharges were responsible for 16 per cent and voluntary separations for 73 per cent. Had all of these last two classes been disqualified, either in whole or in part, from benefit, this would have meant that the benefits would have been concentrated upon only one-ninth of all those who lost their jobs. Since it is probable that those laid off were however unemployed for a longer average period of time than those who voluntarily quit, the proportion of unemployment which would have been compensated for would however have been more than one-ninth.

During periods of depression, however, the proportion which lay-offs form of the total separations does of course rise very greatly while that of voluntary separations falls. Thus during the second quarter of 1931, lay-offs comprised approximately 67 per cent of total separations while voluntary separations

^{8a} *I.e.*, including the waiting period.

⁹ Brissenden and Frankel, *Labor Turnover in Industry*, p. 80.

accounted for 26 and discharges for 7 per cent. By the second quarter of 1932 lay-offs had come to comprise approximately 83 per cent of the total, voluntary separations about 14 per cent and discharges about 3 per cent.¹⁰ This reversal of proportions was of course due to the fact that when unemployment is high men stick closely to such jobs as they have whereas during a period when employment is expanding and wages rising, they are ready to leave unsatisfactory jobs because they are confident that they can speedily find better ones.

It is somewhat difficult to determine from these widely varying percentages what the average proportion of these three classes of separations would be over a long time period. And it is still more difficult to estimate the proportion which would be disqualified. It would probably however be highly conservative to estimate that at least 30 per cent of the total separations would fall in these two classes,¹¹ and that from 20 to 25 per cent of the total unemployed time would be suffered by this group. The probabilities are indeed that the actual percentages comprised by these groups would in fact be larger. If we estimate that half of this unemployed time would be excluded from benefits, we would have a deduction of from one-tenth to one-eighth of the total unemployment and this would mean a reduction in cost of from 0.4 to 0.5 per cent of the payroll. This would seem to be a bed-rock minimum estimate of the reduction in cost with the probabilities all in the direction that the actual reduction would be appreciably more.

5. *What reductions in cost would be effected by the use of a standard benefit period?*—It will be remembered that according to the plan which has been outlined the unemployed would not be entitled to benefits from the insurance fund after the expiration of the period of standard benefit. The protection of the needy unemployed during this subsequent period should be a charge upon public (including federal) funds, but it would not be a

¹⁰ *Monthly Labor Review*, XXXV (August, 1932), p. 314.

¹¹ It will be remembered that even in the second quarter of 1931, the discharges and quits amounted to 33 per cent of the total while in the period 1910 to 1918, they amounted to no less than 89 per cent.

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charge upon the unemployment insurance funds as such. Now the total time in excess of the 20 weeks which we would have allowed for standard benefit, amounted among those unemployed in 1930 to 8.8 million weeks on one basis of computation and to 10.5 millions upon another. In the first case, this amounted to 22.7 per cent of its respective total while in the second it amounted to 25 per cent. It would therefore be approximately correct to estimate the reduction from total cost which would be effected by the use of a two weeks' waiting period as amounting to from 0.9 per cent to 1.0 per cent of the payroll.

If the period of standard benefit had been reduced to 18 weeks, this would have increased the number of excess weeks to 9.8 million on one basis and to 12.1 million on the other. The percentages which these formed of their respective totals were 25.1 and 28.8 per cent respectively. The savings would thus have ranged between 1.05 per cent of the payroll to approximately 1.2 per cent. Finally if only 15 weeks of standard benefit were granted, the total number of excess weeks of unemployment which would not be covered by the unemployment benefit would have amounted to somewhere between 12.1 and 14.4 million weeks. These were 31 and 34 per cent respectively of the estimated total number of weeks lost, and hence would have reduced the cost by from 1.3 to 1.4 per cent of the payroll.

The proportion of the time which would have been eliminated in 1930 by the use of standard benefit periods of these lengths would have been appreciably greater than the proportion eliminated by such periods in 1889 and 1899. This however is only what might be expected. Both 1889 and 1899 were years of marked prosperity, when most of the unemployed could find jobs without waiting too long. April 1930 was, on the contrary, in a period of depression and unemployment had been increasing throughout the six preceding months. Had the census been taken a year or two years later, the proportion of the unemployed time which would have been in excess of those benefit periods would undoubtedly have been greater than those shown by the 1930 census. In view therefore of the fact that the years of prosperity

would show a smaller proportion of total unemployment which would be removed from benefits in this fashion and the years of acute depression would show a larger percentage, the estimates which have been made above may probably be accepted as at least an approximation to the general average.

In addition to this, the enforcement of a "3 to 1" clause, whereby only one week's benefits would be paid for every three weeks' contribution, would also lessen the cost. How much this would reduce the expenses is unknown and no estimate of it is attempted. Its presence would however introduce a further margin of safety into the estimates of cost which we are making.

6. *What added allowance should be made for short time?*—The plan which I have proposed provides unemployment benefits for short-time when the actual working week is less than three-fourths of the standard and provided that the lost time is in the form of units of not less than a full day's duration. This provision would add somewhat to the total burden. In view of the incomplete statistics on the relative quantity of short-time worked it is difficult to frame any very accurate estimate of what the relative added cost would be. In view however of the fact (1) that benefits would not be paid until at least one-quarter of the working week was lost through reduced employment, (2) that a waiting period of 12 full days of unemployment would be required, and (3) that since there would be some tendency for the employers to shift a decline in man hours from outright unemployment for some workers to reduced unemployment for all,¹² the net added cost would in the nature of the case be less than it would otherwise be. For even in July, 1931, when the burden of the depression was heavy the average number of hours which Illinois industries operated weekly were 43.6.¹³ This

¹² The employers would tend to do this if their assessments were in part graduated according to the percentage of unemployment prevailing in their plant. For this would enable them to transfer part of the unemployment which after the expiration of the waiting period would otherwise be compensated for, back upon the uncompensated quarter of the working week. But this process, although increasing the ostensible cost of the part-time would, by the same sign, decrease the total cost.

¹³ *Illinois Labor Bulletin* (August, 1931), p. 29.

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was in all probability well over 80 per cent and probably not far from 85 per cent of the average length of the standard working week in these enterprises. This is indicated by the fact that in January, 1930, when the effects of the depression had only begun to be felt for some three months, the average length of the standard week was 49.9 hours.¹⁴ On this basis, the percentage of "operating" to "standard" hours would have been about 87. This was lower than it had been eighteen months earlier, in January, 1930, when the per cent of standard time which was thus utilized was 95.¹⁵

If the severity of the depression had not increased part-time above an average of 13 per cent by the summer of 1931, when business conditions were certainly far worse than the average, it may be surmised that the conditions attached to the payment of benefits for part-time will, save in times of extraordinary depression, keep them fairly low. While any estimate of the net added cost which they will occasion may be in the nature of the case something of a guess, it is hazarded that an allowance of one-half per cent (0.5 per cent) of the payroll would seem to be a fairly liberal allowance.

7. *What is likely to be the proportion of administrative costs?*
—The total cost of administering the system of unemployment insurance will of course include not merely the benefits paid out but also the cost of administering the system. The best information which we have upon the probable amount of these administrative costs is that furnished by foreign experience. During the first three years (1927–1930) of the operation of the German system of unemployment insurance, the administrative expenses amounted to 8 per cent of the total cost¹⁶ or to slightly less than 9 per cent of the benefits. In England, the administrative costs, including the expense of placing workers through the labor ex-

¹⁴ *Ibid.* (February, 1930), p. 126.

¹⁵ *Ibid.* (February, 1930), p. 126. The average weekly number of hours worked in this month was 47.6.

¹⁶ The total expenses were 3,574,000,000 marks while the administrative costs were 285,000,000 marks. See Douglas and Director, *The Problem of Unemployment*, p. 458.

changes, formed the following percentages of the total benefits paid out.¹⁷

Year	Percentage of Administrative Costs to Total Benefits	Year	Percentage of Administrative Costs to Total Benefits
1922.....	9.2	1927.....	9.3
1923.....	10.6	1928.....	13.5
1924.....	11.4	1929.....	10.9
1925.....	10.3	1930.....	12.1
1926.....	11.2	Av.	10.9

The English costs amounted therefore to 10.9, or virtually 11 per cent of the benefits for a nine-year period. They were slightly above the three-year German average. This was in all probability due to the fact that the German system utilizes the relatively unpaid services of employers and workers in the administration of its law whereas the British system is virtually entirely directed and administered by governmental civil servants. The German system moreover collects its assessments through the previously established health insurance societies whereas the British system, with the aid of the post-office, collects its money directly.

Administrative costs in the United States would be almost certain to be appreciably more than in Germany and because of the much lower efficiency of our governmental officials, would probably be higher than in England. It would seem on the whole to be fairly conservative if we were to set them at 12½ per cent, or one-eighth, of total benefits. This would be about 11 per cent of total expenditures. This, it should be understood, would include the cost of maintaining the free public employment offices and of placing workers irrespective as to whether they were or were not subject to unemployment insurance.

8. *An estimate of the total ordinary cost and a contingent allowance for unusual risks.*—We are now in a position to bring these various estimates together into a composite figure which will include them all. The most probable percentage which the

¹⁷ Computed from data in the *Twentieth Abstract of Labour Statistics of the United Kingdom, 1931*, p. 60.

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benefits will form of the payroll may therefore be expressed in an apparently complicated formula as follows:

(1) Relative Percentage of Unemployment \times (2) Ratio of Benefits to Wages
– (3) Proportion of Unemployed Time Covered by Waiting Period – (4) Proportion of Unemployed Time in Excess of Standard Period – (5) Proportionate Reduction Effected by “Just Cause” and “Suitable Employment” Provisions + (6) Extra Cost of Short-time Provisions + (7) Proportionate Costs of Administration = Percentage Cost of Payroll for Unemployment Benefit under Ordinary Conditions.

Assuming a two weeks waiting period and twenty weeks of standard benefit and utilizing the material already developed without making allowance for interest on surpluses, we arrive therefore at the following estimates of cost which we shall put in a series of steps in order to make them clearer.

* (1) 10% unemployment \times 42% benefit ratio to wages = 4.2% of wages as maximum ordinary cost for complete unemployment.

(2) Probable Reduction of time from waiting period = 1/7 or 0.6% plus added periods for seasonal industries = 0.7%

(3) Probable Reduction from Maximum Benefit Period = 0.9%

(4) Estimated Minimum Reduction from “Just Cause” and “Suitable Employment” clause = 0.5%

(5) Estimated average cost of Benefits for complete unemployment = 4.2%
– 0.7% – 0.9% – 0.5% = 2.1%

(6) Estimated added allowance for short-time = 0.5%

(7) Estimated complete costs of benefits for both complete unemployment and short-time = 2.1% + 0.5% = 2.6%

(8) Added administrative costs = 1/7 of benefits or 1/8 of total = 0.37%

(9) Estimated total average cost = 2.97%

It seems probable therefore that benefits of the type which have previously been outlined could be paid over a period of years at a cost which would not be far from 3 per cent. A waiting period of 3 weeks would reduce the most probable cost to 2.8 per cent. The use of an 18 weeks period of standard benefit and 2 weeks waiting period would reduce costs to 2.8 per cent and with a 3 weeks waiting period to 2.6 per cent. Finally 15 weeks benefit would cost about 2.6 per cent with a 2 weeks waiting period and 2.4 per cent with a waiting period of 3 weeks. It should be borne in mind in this connection that

the estimates which have been made have almost uniformly not minimized any expense which might occur and have on the contrary been very liberal in their nature. Thus 10 per cent is an extremely liberal estimate of average past unemployment and it is probable that more than an eighth of the unemployed would be disqualified because of the "just cause" and "suitable employment" provisions. We have moreover omitted to make any deduction for savings effected through the "1 to 3" clause.

It is believed therefore that were unemployment insurance of the type advocated to be established throughout the country during the revival phase of the business cycle the system would be solvent with an assessment of 3 per cent upon the total amounts paid out in wages and salaries, provided that we are not exposed to heavier relative unemployment in the future than we experienced in the three decades which preceded the great collapse of 1929. But there are three elements of uncertainty which might increase the cost and against which some provision should be made:

(1) The first of these is the fact that in some states where the industries are exposed to more than normal seasonal and cyclical fluctuations, the average costs would be heavier. Thus in New York where the clothing and the building trades are very important, the average volume of unemployment would probably range in good years somewhat above the general average although the presence of the amusement and luxury trades would be a stabilizing influence. Pennsylvania with steel, machinery and mining is likely to be a state with more than average unemployment as is Michigan with automobiles. Similarly Illinois with coal mining in the lower part of the state and with iron and steel, machinery, and clothing in the north, would probably experience higher relative unemployment than most states. In Oregon and Washington the basic industry is lumbering and this has pronounced fluctuations of both a seasonal and cyclical character. Connecticut, Iowa and New Jersey on the other hand would seem to have a better balanced set of industries and might therefore have lower unemployment rates than the typical industrial state.

(2) If the plan were not to be introduced until a late stage

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of the prosperity phase of the cycle and if a depression were therefore to come soon after, the assessment of 3 per cent would not suffice to accumulate adequate reserves for the full benefits to be paid. Some added allowance should be made for this factor of uncertainty since it is seldom possible for the majority to tell how far removed the depression phase may be.

(3) Finally, it may be asked, what assurance do we have that the past rate of unemployment will not be exceeded in the future? If this be indeed the twilight of the capitalistic system and if this depression is to continue for some years to come and then be followed after a brief period of revival by another severe slump, it is quite certain that 3 per cent will be quite inadequate to provide the benefits proposed. Whether or not such will be the course of future events is of course on the laps of the gods. We simply do not know what the next decade is likely to bring us. That there are certain foreboding signs in the prospective diminution of the annual additions to the world's gold supply and in the continued increase in tariffs and import restrictions is obvious. But whether the Prophets of Despair are more prescient than the Prophets of Hope is uncertain. It would be the path of wisdom however to provide a margin of safety against these possible contingencies so that we may not be caught completely off our guard.

In spite therefore of our already liberal estimate of probable expense; it will be wise to make a further allowance against these hazards. How much of an allowance this should be cannot be definitely determined. It would seem however that an addition of one-quarter to the estimate should provide for fairly adequate protection against the unknown.¹⁸ It is recommended therefore

¹⁸ It should be pointed out that the major portion of the financial difficulty of the British system has been caused by the unwillingness of the authorities to face present facts to say nothing of future contingencies. Thus when the insurance act was extended in 1920, the authorities were evidently depending on the continuance of the pre-war unemployment rate of 3 to 4 per cent. Even as late as 1927 the Government Actuary, Sir Alfred Watson, in his testimony before Bainesburgh Committee declared: "Taking the broad view of the problem to which I am limited by the actual conditions, I am led to conclude that in arranging the finances of the permanent scheme, it would be advisable to provide for a rate of unem-

that the average revenue of the system should be approximately 3.75 per cent of the payroll earned by the act.^{18a} In the case of some especially exposed states, this might be raised to 4.0 or 4.25 per cent while in the more sheltered states, the average might be decreased to 3.5 or 3.25 per cent. It would be dangerous however to go below this. If the maximum period of benefit is limited to fifteen weeks and if a three weeks waiting period is imposed then the proportionate allowance of 0.6 per cent for emergencies would, when added to the estimated cost of 2.4 per cent, give a total average of 3 per cent as the amount necessary to provide. If sixteen weeks of benefits are given, then with such a waiting period the total cost would be around 3.2 per cent.

Interestingly enough, strikingly similar results were obtained by the distinguished actuary I. M. Rubinow in the independent estimates which he made for the Ohio Commission on Unemployment Insurance in which he fixed the gross cost for sixteen weeks of benefit at 50 per cent of the wages accompanied by a three weeks waiting period to be 3.26 per cent. For twenty weeks of benefits accompanied by a two weeks waiting period Dr. Rubinow estimates the cost at 4.10 per cent or 0.35 per cent higher than our estimate. Most, if not all, of this difference is however caused by the fact that his computations are on the basis of benefits equal to 50 per cent of earnings (subject to a maximum figure) while mine are made upon a 42 per cent ratio.^{18a}

The close coincidence between these two independent estimates based upon somewhat different material should therefore

ployment of six per cent, on the average, throughout the whole of the period commonly regarded as a 'fiscal cycle.'" *Report of the Unemployment Insurance Committee, 1927*, I, 89. We are therefore taking a more realistic attitude towards what are the actual conditions than did the British and are also providing greater safe-guards against an unknown future.

^{18a} See *Report of Ohio Commission on Unemployment Insurance (1932)*, p. 34. This figure would be reduced, as Dr. Rubinow points out, by (1) the requirement that the premiums be paid for a certain period before the benefits could be claimed, (2) exclusion from benefits of those who lose less than 40 per cent of wages because of partial unemployment, (3) interest earned by the fund. Allowance was also made for the restriction upon the benefit rights of those who voluntarily leave their jobs.

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lend a very considerable reinforcement to the contention that unemployment is insurable. That there are still uncertainties left is obvious. But the calculations which have been made, necessarily imperfect as they are, distinctly reduce the zone of the unknown. It is not an unplumbed sea upon which we are asked to embark. Those moreover who are still fearful should remember two further factors. The first is that the administrative board should be given emergency powers to raise the rates of assessment by an amount not to exceed three-fourths of one per cent of the payroll. This gives still further protection against a severe and sudden rush of unemployment. The system can therefore "buy" experience as it goes along and increase its rates should this prove to be necessary.

Secondly, if the strain of the benefits should prove too severe upon the insurance fund the benefits may be reduced by the administrative authorities in order to keep the fund solvent. This curtailment of benefits should however be used not so much to diminish the total sums which the unemployed will receive for those will tend to be meagre enough at best, as to transfer from the insurance fund to the public relief those who are unemployed and are in need. In other words, any curtailment of insurance benefits should primarily serve to readjust the total expenditure rather than to reduce it.

By these methods therefore it is believed that the solvency of the fund can be assured without injury to the unemployed.

NOTE TO CHAPTER VI

ON METHODS OF COMPUTING THE PROBABLE REDUCTIONS IN COST EFFECTED BY THE USE OF VARYING WAITING PERIODS AND THE LIMITATION OF BENEFITS TO A STANDARD PERIOD

I. THE 1930 CENSUS OF UNEMPLOYMENT

1. *The duration of unemployment amongst those unemployed in April, 1930.*— Each of the persons who were out of work in April 1930 were asked how long it had been since they were employed and the results were tabulated in the following manner for Classes A and B.¹⁹

¹⁹ See *Fifteenth Census of the United States Unemployment*, I, 10, for the following classification of those out of work.

TABLE IX

THE DURATION OF UNEMPLOYMENT AMONGST THOSE UNEMPLOYED IN APRIL, 1930

Period of Idleness	Class A Persons Out of Work, Able to Work and Looking for a Job	Class B. Persons Having Jobs but on Lay-off without Pay Excluding Those Sick and Voluntarily Idle
Under 1 week	62,019	243,654
1- 2 weeks.....	311,893	153,000
3- 4 weeks.....	319,945	86,622
5- 8 weeks.....	306,707	74,426
9- 13 weeks.....	363,189	55,308
14- 17 weeks.....	240,998	34,883
18- 26 weeks.....	388,936	47,223
27- 39 weeks.....	132,116	10,098
40- 52 weeks.....	121,290	6,320
53-104 weeks.....	53,832	2,283
105 weeks and over.....	26,326	1,054
Not reported.....	41,811	43,714
Total	2,429,062	758,585

Since there was no vital distinction between Classes A and B, and members of both would have been eligible to benefits under unemployment insurance, these classes can and should be combined into one group.

In order to make the results intelligible, however, it is necessary to determine what was the most probable average duration of unemployment *within* each class. It was assumed that the unemployment of the second group (1 or 2 weeks) extended from 1.0 to 2.5 weeks; of the third group (3 and 4 weeks) extended from 2.5 to 4.5 weeks; of the fourth (5-8 weeks) from 4.5 to 8.5 weeks, and so on. Two estimates were then made of the probable average within each of the groups. The first, or Method A, assumed that the mid-point of each class interval was the average. Under this method therefore 1.75, 3.5, 6.5 etc. were taken as the averages. The second, or Method B, was somewhat more refined. The average was fixed within a class interval according to the relative numbers in the groups on either side of the group in question. Thus in dealing with the second group (1-2 weeks) the fact that 305.7 thousand had been unemployed for less than a week whereas 406.6 thousand had been employed for 3 or 4 weeks was taken to indicate that there were probably more in the lower part of this class interval than in the upper. Reduced to a weekly basis, the ratio in the first group to those in the upper was almost precisely that of 3 to 2. It was assumed therefore that three-fifths of the distribution within the 1.0 to 2.5 group tended to bring the average down from the upper limit of the class while two-fifths tended to bring it up from its lower limit. The probable average was therefore estimated by this method at 1.6 weeks. A similar method was followed in the case of the other groups. Since this could not be followed in the case of the first and last groups, it was assumed under both methods that the average for the first group was 0.5 weeks. The average

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for the last group (those unemployed for over 104 weeks) was set arbitrarily under Method A at 120 weeks and at 117 under Method B. The assumed averages under the two methods were then as follows:

Group	Class Interval (in Weeks)	Assumed Average under Method A (in Weeks)	Assumed Average under Method B (in Weeks)
Under 1 week.....	0 - 1.0	0.5	0.5
1- 2 weeks.....	1 - 2.5	1.75	1.6
3- 4 weeks.....	2.5- 4.5	3.5	3.2
5- 8 weeks.....	4.5- 8.5	6.5	6.2
9- 13 weeks.....	8.5- 13.5	11.0	10.4
14- 17 weeks.....	13.5- 17.5	15.5	15.0
18- 26 weeks.....	17.5- 26.5	22.0	20.5
27- 39 weeks.....	26.5- 39.5	33.0	30.0
40- 52 weeks.....	39.5- 52.5	46.0	43.0
53-104 weeks.....	52.5-104.5	78.5	65.0
105 weeks and over.....	Over 104.5	120.0	117.

It is probable that Method B, while somewhat more complicated, is somewhat more accurate since it gives greater weight to the large numbers who were unemployed for shorter rather than for longer periods of time. It will be noticed that because of this fact, it gives lower average figures.

The estimated average duration of unemployment for each group was then multiplied by the number of unemployed persons in each group and these products were then added together to obtain the estimated total number of

TABLE X
ESTIMATED TOTAL NUMBER OF WEEKS OF UNEMPLOYMENT OF THOSE UNEMPLOYED IN
APRIL 1930. RESULTS OBTAINED BY USE OF METHOD A

Group	Estimated Average Duration of Unem- ployment (in Weeks)	Total Number in Group	Estimated Total Weeks of Em- ployment Lost
(1)	(2)	(3)	(4 = 2 X 3)
Less than 1 week.....	0.5	305,673	152,837
1- 2 weeks.....	1.75	464,893	813,563
3- 4 weeks.....	3.5	406,567	1,422,985
5- 8 weeks.....	6.5	441,133	2,867,365
9- 13 weeks.....	11.0	418,497	4,603,467
14- 17 weeks.....	15.5	275,881	4,276,156
18- 26 weeks.....	22.0	436,159	9,595,498
27- 39 weeks.....	33.0	142,214	4,693,062
40- 52 weeks.....	46.0	127,610	5,870,060
53-104 weeks.....	78.5	56,115	4,405,028
105 and over.....	120.0	27,380	3,285,600
Total.....	41,985,621

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weeks lost since their last job by those who were unemployed at the time the 1930 census was taken. Table X shows the results obtained by Method A and Table XI by Method B.

TABLE XI
ESTIMATED TOTAL NUMBER OF WEEKS OF UNEMPLOYMENT OF THOSE UNEMPLOYED IN
APRIL 1930. RESULTS OBTAINED BY USE OF METHOD B

Group	Estimated Average Duration of Unem- ployment (in Weeks)	Total Number in Group	Estimated Total Weeks of Employment Lost
Less than 1 week.....	0.5	305,673	152,837
1- 2 weeks.....	1.6	464,893	743,829
3- 4 weeks.....	3.2	406,567	1,301,014
5- 8 weeks.....	6.2	441,133	2,735,025
9- 13 weeks.....	10.4	418,497	4,352,369
14- 17 weeks.....	15.0	275,881	4,138,215
18- 26 weeks.....	20.5	436,159	8,941,260
27- 39 weeks.....	30.0	142,214	4,266,420
40- 52 weeks.....	43.0	127,610	5,487,230
53-104 weeks.....	65.0	56,115	3,647,475
105 and over.....	117.0	27,380	3,203,460
Total.....	.....	.....	38,969,134

The total weeks of unemployment indicated by Method A was therefore 41,985,621 while that by Method B was 38,969,134. These may be treated as being virtually identical with 42 and 39 millions respectively.

2. *The proportion of the weeks of unemployment which would be eliminated by the use of a waiting period.*—From the above figures the approximate number of weeks of unemployment which would have been eliminated from benefit by waiting periods of given lengths can be computed. Thus if we take the two weeks period which has been recommended, the number of weeks which would have been excluded would have amounted to the following totals by classes: By this method we therefore reach an estimate of 5,559,778 weeks or roughly 5.6 million weeks as the most probable quantity of unemployment which would have been eliminated by a uniform waiting period of 2 weeks. This was 14.2 per cent of the total weeks of unemployment indicated by Method B.²⁰

If a uniform three weeks waiting period had been used, the total number of disqualified weeks would have been 7,891,334 or 20.3 per cent of the total.

3. *The proportion of the weeks during which benefits would not be paid because of the maximum or standard period of benefit.*—The probable average number of weeks during which each group would not have received benefit because of the imposition of a maximum benefit period can be found in a relatively simple fashion. From the average number of weeks each group was unemployed there

²⁰ According to Method A, the percentage was 13.5.

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TABLE XII

NUMBER OF WEEKS OF UNEMPLOYMENT WHICH WOULD HAVE BEEN ELIMINATED FROM BENEFIT AMONG THOSE UNEMPLOYED IN 1930 BY USE OF TWO WEEKS WAITING PERIOD

Group	No. of Weeks of Unemployment per Period Which Would Not Have Been Compensated for with 2 Weeks Waiting Period	Number in Group	Total Number of Weeks Uncompensated for
(1)	(2)	(3)	4 = (2) X (3)
Less than 1 week.....	0.5	305,673	152,837
1 or 2 weeks.....	1.6*	404,893	743,829
3- 4 weeks.....	2	406,567	813,134
5- 8 weeks.....	2	441,133	882,266
9- 13 weeks.....	2	418,497	836,994
14- 17 weeks.....	2	275,881	551,762
18- 26 weeks.....	2	436,159	872,318
27- 39 weeks.....	2	142,214	284,428
40- 52 weeks.....	2	127,610	255,220
53-104 weeks.....	2	56,115	112,230
105 and over.....	2	27,380	54,760
Total.....	.....	.....	5,559,778

* Since this class was assumed to include those who had been employed for 1.0 to 2.5 weeks there would have been some payments to the group unemployed for over 2.0 weeks. To that extent therefore the figures above slightly overstate the total number of weeks which would be excluded from benefit.

should be subtracted both the length of the waiting period and the period of standard benefit. Thus the average of the group who were unemployed for from 27 to 39 weeks was estimated by Method B at 30 weeks and by Method A at 33 weeks. With a waiting period of 2 weeks and a standard benefit period of 20, the unemployed would, according to Method B, have been thrown on resources other than the insurance fund after the standard benefit expired for 8 weeks (i.e. $30 - 2 - 20 = 8$). According to Method A, this period would have been 11 weeks (i.e. $33 - 2 - 20 = 11$).

Table XIII which follows shows the number of weeks for which benefits would not have been paid according to Method B had the maximum benefit period been fixed at 15, 18, and 20 weeks respectively.

The number of weeks which would therefore have been excluded according to Method B by these standard benefit periods and the percentages which they formed of the total were as follows:

Length of Maximum Benefit Period	Estimated Number of Excluded Weeks (in Millions)	Percentage of Total Weeks of Unemployment
15 weeks.....	12.1	31.1
18 weeks.....	9.8	25.0
20 weeks.....	8.8	22.7

TABLE XIII

NUMBER OF WEEKS OF UNEMPLOYMENT WHICH WOULD HAVE BEEN ELIMINATED FROM BENEFIT AMONG THOSE UNEMPLOYED IN 1930
BY USE OF MAXIMUM BENEFIT PERIODS OF 15, 18, AND 20 WEEKS

Group	Number	15 WEEKS PERIOD*		18 WEEKS PERIOD		20 WEEKS PERIOD	
		No. Weeks Excluded per Person	Total Weeks Excluded	No. Weeks Excluded per Person	Total Weeks Excluded	No. Weeks Excluded per Person	Total Weeks Excluded
18- 26 weeks.....	436,159	3.5	1,526,557	0.5	218,079	....	.....
27- 39 weeks.....	142,214	13	1,848,782	10.0	1,422,140	8	1,137,712
40- 52 weeks.....	127,610	26	3,317,860	23.0	2,935,030	21	2,679,810
53-104 weeks.....	56,115	48	2,693,520	45.0	2,525,175	43	2,412,945
105 and over.....	27,380	100	2,738,000	97.0	2,655,860	95	2,601,100
Total.....	.....	....	12,124,719	....	9,756,284	....	8,831,567

* In addition there would be some in the 14-17 week class who, under a maximum benefit period of 15 or 16 weeks would not be compensated for their full period of unemployment.

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The comparable results obtained by using the Method A set of figures may also be summarized.

Length of Maximum Benefit Period	Estimated Number of Excluded Weeks (in Millions)	Percentage of Total Weeks of Unemployment
15 weeks.....	14.4	34.4
18 weeks.....	12.1	28.7
20 weeks.....	10.5	25.0

II. A COMPARISON OF THE 1930 RESULTS WITH THOSE FOR 1899 AND 1889 AS GIVEN BY THE CENSUSES OF 1900 AND 1890

The censuses of 1890²¹ and 1900²² inquired of those gainfully occupied whether they had been unemployed in the preceding year and if so whether this period of unemployment had been from 1 to 3 months, 4 to 6 months, or 7 to 12 months. The results were tabulated and published in the censuses for those years although they have not received the public notice which should have been theirs. The probable average duration of unemployment within each of these three groups was estimated on the basis of the very detailed distribution of the unemployment of over 12,000 heads of families which was made by the United States Bureau of Labor in 1901.²³ The average periods estimated for each group were as follows:

Period of Unemployment	Average Number of Weeks Lost
1-3 weeks (1-3 months).....	6.1*
14-26 weeks (4-6 months).....	18.4
27-52 weeks (7-12 months).....	33.1

* In my *Real Wages in the United States, 1890-1926*, p. 410, this figure is misprinted as 3.1.

TABLE XIV

ESTIMATED TOTAL MAN-WEEKS OF UNEMPLOYMENT IN TRADE, TRANSPORTATION, MANUFACTURING, AND MECHANICAL PURSUITS IN 1889 AND 1899

Group	ESTIMATED AVERAGE LENGTH OF UNEMPLOYMENT	1889		1899	
		Number Unemployed during Year	Estimated Total Weeks of Unemployment	Number Unemployed during Year	Estimated Total Weeks of Unemployment
1-3 months..	6.1	696,728	4,250,041	1,198,572	8,311,289
3-6 months..	18.4	491,708	9,047,427	911,462	16,770,901
6-12 months..	33.1	142,839	4,727,971	324,536	10,742,142
Total....	....	1,331,275	18,025,439	2,434,570	34,824,332

²¹ *Eleventh Census of United States. Population, Part II, CXKXVII-CXLIII, 448 ff.*

²² *Special Reports of Twelfth Census, Volume on Occupations, pp. 70-76.*

²³ *Eighteenth Annual Report of the United States Commissioner of Labor, pp. 286-87.*

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By multiplying these estimated averages by the total number of persons occupied in trade, transportation, manufacturing and mechanical pursuits, we can obtain an estimate of the total number of weeks which had been lost in the preceding years by those attached to these industries. This has been done in Table XIV.

We may obtain from the foregoing material an estimate on the proportion of the unemployed time for which benefits would not have been paid had a two weeks waiting period been required in each of these years. These would have been as follows in each of the years:

GROUP ACCORDING TO LENGTH OF TIME UNEMPLOYED	NUMBER OF WEEKS OF UNEMPLOYMENT FOR WHICH BENEFITS WOULD NOT HAVE BEEN PAID WITH 2 WEEKS WAITING PERIOD	
	1889	1899
1- 3 months.....	1,395,456	2,397,144
4- 6 months.....	983,416	1,822,924
7-12 months.....	285,678	649,072
Total.....	2,662,550	4,869,140
Percentage of Total Unemployment.	14.8	14.0

It will be seen therefore that the 2 weeks waiting period would have eliminated almost precisely the same proportion of the total unemployed time in 1889 and 1899 as in 1930, namely 14.8 and 14.0 per cent as compared with the 1930 figure of 14.2 per cent. The estimate that the use of a two weeks waiting period would reduce the proportion of unemployment which would be compensated for under insurance by approximately one-seventh seems then to receive substantial corroboration from these two earlier censuses.

TABLE XV
PROPORTION OF UNEMPLOYED TIME WHICH WOULD HAVE BEEN UNCOMPENSATED FOR IN 1889 WITH BENEFIT PERIODS OF VARYING LENGTHS

Group	WEEKS IN EXCESS OF		
	20	18	15
1- 3 months.....	.....	.....	.....
4- 6 months.....	.....	.....	688,391
7-12 months.....	1,585,513	1,876,191	2,299,708
Total.....	1,585,513	1,876,191	2,988,099
Percentage of Total Weeks of Unemployment.....	8.8	10.4	16.6

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We can also estimate the probable percentage of the unemployed weeks which would have been eliminated by standard benefit periods of varying lengths. This is presented for 1889 and 1899 respectively.

TABLE XVI
PROPORTION OF UNEMPLOYED TIME WHICH WOULD HAVE BEEN UNCOMPENSATED FOR
IN 1899 WITH BENEFIT PERIODS OF VARYING LENGTHS

GROUP	WEEKS IN EXCESS OF		
	20	18	15
1- 3 months.....	.....	.....	.....
4- 6 months.....	.....	.....	1,276,047
7-12 months.....	3,602,350	4,251,422	5,225,030
Total.....	3,602,350	4,251,422	6,501,077
Percentage of Total Unemployed Time.	10.3	12.2	18.7

The proportion of the unemployed time which would have been eliminated by these maximum periods of standard benefit would therefore have been less in 1889 and 1899 than in 1930. This comparison of these three sets of results will be facilitated by bringing them together in tabular form.

LENGTH OF PERIOD OF MAXIMUM BENEFIT	PERCENTAGE OF TOTAL WEEKS IN EXCESS OF GIVEN PERIODS OF MAXIMUM BENEFIT		
	1889	1899	1930
20 weeks.....	8.8	10.3	22.7
18 weeks.....	10.4	12.2	25.0
15 weeks.....	16.6	18.7	31.1

The difference between these results is however only what would be expected since both 1889 and 1899 were years of industrial prosperity²⁴ while 1930 was a year of depression.

²⁴ See the description given of these years by Willard L. Thorp in his *Business Annals*, pp. 135 and 139.

CHAPTER VII

CONTRIBUTIONS

1. *The general arguments for contributions on the part of employers, workers, and the state.*—There is a wide difference both in practise and in opinion as to which particular groups should provide the funds for unemployment insurance and in what proportions. The potential sources are manifestly three, employers, workers and the state. In Europe we find varying combinations of these possibilities.¹ In the countries with the so-called Ghent system of subsidized voluntary insurance, the state and the workers are the contributors with the employers in general exempted from payment except for such slight contributions as they make in Denmark. In Italy, the employers and workers alone contribute under the compulsory law of that country. In Great Britain all three parties contribute to the cost of the standard benefits but the government now bears the total cost of the extended benefits which are paid after the twenty-sixth week to those in need.² In Germany the costs of the standard benefits are borne in theory by the workers and employers and the state bears the expense of the emergency benefits. Only in Russia is the exclusive cost of the benefits charged to the employers who in this instance are the various state trusts.

The discussion of this question in the United States during the last ten years has largely been shaped by Professor John R. Commons' proposal that the employers should be shouldered with the full burden of payments in order that they might then seek to reduce or abolish unemployment itself. This idea first expressed in Professor Commons' articles and addresses in

¹ For an analysis of the various systems see *Metropolitan Life Insurance Co. Unemployment Insurance*, Monograph I, Chart III A.

² And in addition benefits to those adjudged needy who have not been able to satisfy the requirement of the ratio of prior employment to weeks of benefit.

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1920-1921,³ and in the Huber bill,⁴ has since been largely taken over by the American Association for Labor Legislation⁵ and finally crystallized in the unemployment compensation law which was enacted in Wisconsin some months ago.⁶

Professor Commons is said to have derived this idea from observing the effect which the passage of workmen's compensation had in stimulating many companies to reduce industrial accidents. He concluded that if businesses could only be compelled to pay for part or all of the social costs of unemployment they would in turn be equally stimulated to reduce unemployment in order to cut down on their contributions. Since the European systems of unemployment insurance, with their uniform assessments of either so much a worker or a given percentage of the payroll, manifestly offered no such incentive to the employers, Professor Commons set out to devise a plan which would afford such a stimulus and the work in Wisconsin has been largely the result. This program of exclusive contributions by the employers has also been taken up by certain groups which were at the time naturally anxious to avoid the stigma which the European unemployment insurance systems had come, through mistaken propaganda, to possess in the public mind. It was therefore welcomed in these quarters as an "American plan" which would prevent its opponents from labelling it as "Un-American." As is the case with most popular movements, slogans and catchwords had therefore their part in rallying popular support to it.

While one may well be glad that Wisconsin has had the courage to experiment in this fashion, we should nevertheless be extremely careful in weighing the features of the Wisconsin act,

³ See John R. Commons, "Unemployment Compensation and Prevention," *Survey* (October 1, 1921), pp. 5-9.

⁴ See the text of the bill itself and the digest prepared by A. B. Forsberg which was published with the above article of Professor Commons and also in the pamphlet, *Unemployment Insurance, the Road to Prevention*, published by the Wisconsin Association for the Prevention of Unemployment.

⁵ *An American Plan for Unemployment Reserve Funds.*

⁶ See Wisconsin Industrial Commission, *Handbook on the Wisconsin Unemployment Compensation Act and Approved Voluntary Plans for Unemployment Benefits*, 1932, 96 pp. Also R. S. Hoar, *Unemployment Insurance in Wisconsin*, 101 pp., for an adverse view.

so that it will not be adopted unthinkingly by other states. For if there are better ways of obtaining the purposes sought, Professor Commons, with his characteristic devotion to truth, would be the first to recommend their adoption. We should, therefore, appraise the three chief arguments which are advanced in favor of exclusive contributions by the employers, namely: (1) that it will lead to the employers reducing or preventing unemployment; (2) that it will be passed on to the consumers in the form of higher prices; and (3) that the workers are already bearing the burden of decreased earnings and should not be asked to contribute further.

2. *Will exclusive payments by employers appreciably reduce unemployment?*—Professor Commons and his followers have throughout drawn a sharp distinction between the European systems of relief for unemployment and their program for the *prevention* of unemployment. They have pointed to well-known American firms which for some years were successful in stabilizing employment⁷ such as Dennison and Company, Hills Bros., etc., and have urged that what was needed was merely to generalize their experience. If business could only be given a monetary incentive it would then reduce unemployment. Professor Commons indeed wrote,⁸ “Modern business can stabilize seasonal employment if it is deemed worthwhile and can even stabilize the credit cycle.” Fundamentally therefore the advocates of exclusive contributions by the employers maintain that the responsibility for unemployment rests primarily upon the employers and since the workers are not responsible for it they should be exempted from contributions.

⁷ For the methods used by these and other firms see Feldman, *The Regularization of Employment*; Douglas and Director, *The Problem of Unemployment*, pp. 85-108; and Smith, *Reducing Seasonal Unemployment*. These may be briefly summarized as follows: (a) sales and market policies designed to obtain a more even rate of orders; (b) a planned program for sales and production during the year. This involves a budgeted estimate of total sales for the year and the production of one-twelfth of this total monthly. The surpluses produced over current sales during the off-season are then stored and sold during the busy seasons when orders exceed product; (c) the development of sidelines and fillers for the slack season; (d) the flexibility of working hours.

⁸ Commons, *op. cit.*

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If the various causes of unemployment are however carefully studied it becomes evident that individual business men, or even those in a given industry are not save in a most limited sense responsible for such unemployment as exists. To believe that they can by themselves either abolish or greatly reduce unemployment is in fact a greatly exaggerated idea.

Let us take up for example the apparently plausible analogy between industrial accidents and unemployment and the argument that because the employer provides the funds for compensation for the former he should do so for the latter as well. But industrial accidents occur inside the work-place and are caused by inside forces over which the employer as the supervisor of production has presumably a very large degree of control. Unemployment on the other hand is largely caused by forces which operate outside the industrial unit and over which the individual business man has little or no control.

This becomes quite apparent if we review the three major and the two minor causes of unemployment. The major causes may be described as (1) seasonal, (2) technological and (3) cyclical, while the two minor causes may be listed as (4) the maintenance of an excess supply of labor and (5) shifts in consumers demand, etc. The last of these causes is frequently interlaced with the second and for the sake of brevity may be considered along with it.

Seasonal unemployment is primarily caused by great variations in the climate and by changes in fashion. It is not caused by the employers and their power of reducing it is commonly greatly exaggerated. What for example can a manufacturer of women's clothing do to bridge the slack season and keep his workers employed? He cannot produce to stock in anticipation of what the demand will be because by the time the garments are ready to be sold the styles will in all probability have altered and the goods will be more or less left on his hands. And what is true of women's clothing tends also to be true of women's shoes and to a somewhat less degree of men's clothing and shoes as well. In commodities like these which are almost as perishable as green groceries the program of budgeted production at an even weekly

rate with a storing of the surplus produced in slack seasons over sales is virtually impossible. And it is worthy of note that most of the industries which show high seasonal fluctuations tend to be (1) consumers goods which are subject to great style changes, such as automobiles, millinery, etc., (2) commodities whose demand is greatly affected by the weather such as agricultural implements, confectionery, stoves, etc., or (3) goods, the raw material for which comes on the market in great waves such as vegetables, sugar and tobacco.

All this is not to say that some businesses by budgeting production may not be able to produce more steadily through the year but this will tend to be almost exclusively true of those producing standardized commodities. Virtually all of the firms which have succeeded in such a policy in the past have as a matter of fact produced just that type of goods. Here one has only to mention Procter and Gamble soap, the Packard automobile, Community Plate, Griffins' shoe polish and the like. But this policy is, as we have seen, impossible where the style factor is important.

Another method which, it is commonly urged, would greatly reduce seasonal fluctuations is that of developing side-lines and "fillers" for the off-season. As illustrations of this one may mention the historic partnership of coal and ice and the manufacture of palm beach suits to fill the summer gap in the clothing industry, etc. But such a policy as this is necessarily limited by the fact that the new product must in the main be one which can be made by the same machinery, worked upon with the approximate existing skills of the employees and sold by approximately the same selling force. These limitations necessarily greatly narrow the possibility of using the method of dove-tailing or developing seasonal "fillers" as a means of stabilizing production and employment.

It should furthermore be realized that there are already powerful financial incentives for the employers to eliminate or lessen the seasonal fluctuations in production and employment which already exist. Such regularization would enable the same plant and equipment to turn out a greatly increased product in the

course of the year or enable the same output to be produced with appreciably less fixed capital. In either case the fixed charges per unit would be reduced. Similarly the maintenance of a stable working force would largely remove the necessity for hiring any large number of "green" workers to meet the peak load and hence would eliminate the spoilage and diminished production which these green men almost inevitably bring. In the third place, the firm which is able to offer to its employees steady work throughout the year will be able to get them to work for less than the hourly wage rate prevailing in competitive establishments which do not furnish steady work. Seasonal regularization will, therefore, bring a reduction in direct labor costs as well as in indirect fixed charges. Finally if the workers are assured that their jobs will last throughout the year if they but make good at them, then the temptation for them "to go easy" in order to make the work last will be largely removed and the result should be an increase in output per worker and hence a general reduction in cost.

These mighty incentives to stabilize the present seasonal fluctuations already exist. And American business men in the main know them and would try to realize these economies if it were economically possible for them to do so. For it is a mistake to believe, as many advocates of stabilization do, that the great mass of American business managers are so ignorant of their own jobs as not to know of the reductions in cost which they could effect if only all other conditions were equal. The most important barrier in the way of effective seasonal stabilization is not so much the ignorance or indifference of management as the climatic, economic and social difficulties which lie in the way.

As we have pointed out weather fluctuations and changes in styles make the task extremely difficult. In spite of the development of new types of mortar and of other changes in building and construction technique it is still true that construction is slower and more expensive in the winter than it is in the summer. The on-rush of the seasonal crops necessarily makes canning and other such industries highly seasonal in nature while farm machinery and automobiles are subjected to a great seasonal ebb

and flow in their demand. And little more needs to be said about the way in which the style changes, induced by the competitive consumption which comes in the wake of a plutocratic society and by the mingled forces of sex rivalry and sex attraction, prevent stabilization in those industries.

In view of all these facts it scarcely seems reasonable to suppose that the slight added inducement to stabilize which unemployment benefits would bring would be sufficient to galvanize the main mass of American management into a successful program of stabilization. For it should be realized that even if the employers were compelled to lay aside 3.75 per cent of the payroll for such reserves, this would amount, in most industries, to less than one per cent of total costs. And if the maximum liability of the employers were only 2 per cent as in the case of the Wisconsin Act, the increase in relative total cost would of course be even less. Since only a portion of this expense would in turn be occasioned by seasonal unemployment, a program of seasonal stabilization would in consequence save for the employer only a fraction of the slight added cost which has been listed above. While the system of unemployment insurance of the type projected by the Wisconsin Act would therefore give a slight additional stimulus towards seasonal stabilization, this would be relatively weak in comparison with the economic forces already operating in the form of lower labor and overhead costs, etc. If these are not sufficient to induce the vast majority of present business managers to stabilize, can it be expected that this slight further stimulus will succeed where they have failed? About the most that can be hoped for in this direction is that the added costs attached to seasonal instability may economically push a certain number of firms over from the zone of indifference into the camp of the stabilizers and that the added publicity given to these costs which such a system would afford, might stimulate the imaginations of the more backward employers, who at present cannot visualize the economies which are already evident to the more intelligent. This would be something but we should not set too high hopes upon how pervasive it would be. The most that can probably be hoped for is that it would cause a certain

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percentage of firms producing standardized commodities to offer somewhat more regular employment than they have in the past. But the experience of most industries promises to approach more closely that which the men's clothing industry found after a full trial of what has been by all odds the most important and thoroughgoing voluntary system of unemployment in the country. This was succinctly stated by Earl Dean Howard of Hart-Schaffner and Marx and himself an advocate of unemployment insurance in the following words:⁹ "The fact that the company was obligated to contribute 1½ per cent of the total payroll into an unemployment fund was a factor of little consequence in determining the manufacturing and selling policy of the company."

If we turn now to technological unemployment, it is probable that the imposition of these added costs would probably somewhat reduce the tempo with which a plant might introduce new production changes and hence would make it possible to place somewhat more quickly the workmen who might be displaced by technical or administrative improvements. But in the cognate field of unemployment which is caused by shifts in consumers' demands and the general formation of industry it will surely not be argued that the textile industry could have averted or that unemployment insurance would have prevented that drift in popular taste from cottons and woollens to silk and rayon which has spelled unemployment and disaster for its New England sector. Nor can it be contended that the coal industry either should or could have prevented the economies in fuel burning, and in the generation of power or the increasing use of the gas engine which have diminished the demand for its product.

How could the carriage industry have resisted the coming of the automobile, or the shoe industry the greater wearing power of shoes now that driving rather than walking has become the

⁹ See *Unemployment in the United States* (Hearings before Committee on Education and Labor. U. S. Senate 70th Congress, 2d session. S. Res. 219), p. 257. Dr. B. M. Squires, the arbitrator in the clothing market expressed his skepticism as follows: "I am not prepared to state that the scheme has accomplished much in the way of regularizing production." *Ibid.*, p. 256.

chief means of locomotion for all above the subsistence level? Could the farmers have compelled the urban-dwelling Americans to return to their former practice of eating large quantities of cereals? Could the piano industry protect itself from the combined effects of the phonograph, the radio, the tendency toward apartment-house life, and the adoption by the middle class of other symbols of respectability and status?

Business, as Ernest Elmo Calkins once reminded us, has wings; and in a fast-changing world, where objective situations and internal desires lead to the adoption of new goods, the prosperous industry of today may be the derelict of tomorrow. And with this decline comes unemployment, since it takes time for labor to be transferred to new industries and new localities.

The claims which the advocates of exclusive contributions by the employers advance to prove that their particular system of insurance would prevent or greatly lessen cyclical depressions are moreover quite weak. Professor Commons has argued that the banks will see that an employer in hiring more workers during a period of prosperity is also assuming added liability for them if they are dropped and that the banks will therefore be loath to extend as much credit to their industrial customers as they otherwise would. In consequence of this diminution in the volume of credit, it is further contended that there will not be as much credit inflation and speculative over-development in the boom period as there would otherwise have been and that the depression and its attendant unemployment will therefore be less severe than it would be in the absence of such an exclusive contribution.

But this is an extremely over-simplified and optimistic view of the operations of the industrial and credit cycle. It should be realized in the first place that the banks will be making a very distinct profit from all of the additional credit which they create. Their fixed expenses will not increase to any commensurate degree as their loans expand and the added interest they receive will largely accrue as profit. They will not therefore tend to rein in their customers from such mutually lucrative loans merely because there may ultimately be an added liability. For it should

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be noted that the Commons proposal and the Wisconsin act provide for the prior accumulation of reserves and the limitation of the assessments upon the employers to a maximum of 2 per cent. Moreover as we shall see, if the reserves are insufficient to pay full benefits, the benefits are gradually reduced in order to make the reserves solvent and not to increase the burden upon business. A bank therefore does not endanger the security of its loan save in the most infinitesimal degree by extending credit to an expanding business. There will therefore be little or no added brake upon the expansion of credit and the cumulative processes will go on largely unchecked.

This process of expansion is cumulative for when a few banks begin to expand their loans by creating deposits upon which their borrowers can draw, the checks which are thus drawn largely find their way into other banks and thus increase the deposits of the latter. These banks with swelling deposits are then almost forced by the very laws of their own being to put these deposits to work by increasing their loans. But these loans are in turn largely checked out to expand the deposits of still further banks as well as of the group which started the expansion. A cumulative process of credit expansion inevitably results which in turn leads to the overdevelopment of certain lines of production within the economic system and hence to an ultimate depression during which credit contracts in an even more rapidly cumulative fashion than it expanded. Such powerful forces for instability as these which operate at the very center of our credit mechanism are not to be controlled in any such fashion as Professor Commons once hoped. In view, therefore, of the relatively slight possibilities which such a system of unemployment insurance offers of preventing unemployment we need to be on our guard lest we sacrifice adequate relief, sound administration and more stabilized purchasing power to the greatly overstressed opportunities for prevention by individual enterprises.

The most hopeful way of using unemployment insurance as an equilibrating force to lessen the fluctuation of the business cycle is by (1) transferring monetary purchasing power from

the period of prosperity when it is relatively superabundant to the period of depression when it is relatively scarce and (2) building up additional monetary purchasing power in the depression period itself. There is far more hope in these methods than in abortive attempts to use unemployment insurance as a check upon the expansionist tendencies of individual firms. The program which is suggested in this book aims, therefore, to proceed along these more fundamental grounds and it is believed offers more hope for the lessening of business depressions than the more or less atomistic efforts envisaged by the Wisconsin plan.

3. *Who will really pay for the employers' contributions?*—The second contention that the cost of unemployment insurance will be passed on to the consumer is in a sense inconsistent with the argument that the employers will seek to reduce the quantity of unemployment because in so doing they will reduce their costs. The two could, however, be reconciled were we to say that the cost which falls on the marginal firm would largely be passed on to the consumer¹⁰ but that costs in excess of this would fall upon the surpluses of other firms and that savings from lower costs would accrue to the concerns which enjoyed them.

It can, however, be contended, as by Professors H. G. Brown¹¹ and Dale Yoder,¹² that the contributions which are ostensibly made by the employers will in reality be shifted to the workers. Mr. Yoder succinctly states this analysis in the following terms:¹³ "The employer's forced contribution must be regarded by him as a premium to be paid for each worker hired. It thus reduces each worker's effective net productivity by that amount and must, therefore, result in the employment of fewer workers. Hence to the extent that conditions remain the same, this pre-

¹⁰ But this is only an approximate answer. If production is carried on under constant cost, the price would increase by approximately the added cost; if carried on under increasing cost, it would increase by less than the added cost at the margin and if under decreasing cost by more than the added cost at the margin.

¹¹ H. G. Brown, *The Economics of Taxation*, pp. 160-63.

¹² Dale Yoder, "Some Economic Implication of Unemployment Insurance," *Quarterly Journal of Economics*, XLV (August, 1931), pp. 622-39.

¹³ Yoder, *op. cit.*, pp. 635-36.

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mium acts to reduce employment. Ultimately wages tend to be reduced by the amount of the tax and employment to return to its former normal." Were economic life close to that state of economic equilibrium which economists generally posit, this line of reasoning would in fact tend to be true. The workmen would already be receiving the approximate amounts added to the social product by the last of their number. Levying an additional assessment upon the employers, based either upon the payroll or the numbers employed would cause the employers to undergo greater expense per worker than the yield of the last or marginal worker justified. They would accordingly lay off some of the workers and unemployment would in consequence be increased. The pressure of unemployment would then operate to reduce the wage-rates and this process would, if the economic theory of pure competition is remorselessly applied, go on until the new basic wage rate plus the per capita insurance contributions would equal the former basic wage without the insurance contribution.¹⁴ If such were to be the consequences then of course the inducements upon the employers to regularize production would be greatly lessened.

In practice economic life would not take so rigidly competitive a course. Some of the added expense might well be borne by the employers and this would be particularly the case with monopolies under a nation-wide system of unemployment insurance or if it were applied in only a few states to competitive concerns which, though doing an inter-state business, still had abundant profit margins. In some cases, a part at least of the costs might be shifted forward to the consumer. The precise ultimate incidence of the employers' contributions is therefore somewhat uncertain, but it would seem true that any ability to shift at least a part of their apparent burden would tend to diminish such incentives to reduce unemployment as the system might otherwise afford.

¹⁴ As a barrier to this reduction in the basic wage, would be the influence of the insurance benefits in keeping up the "standard rate" by lessening the tendency of the unemployed to work for less.

4. *Should the workers be exempted from contributions?*—The third argument in favor of exclusive contributions by the employers to the exclusion of the workers is in reality a double one. It is argued that in view of the fact that the unemployed would receive no compensation whatever during the waiting period and that their ordinary income would be greatly decreased even when they were compensated, the workers would in reality still be carrying the major portion of the loss occasioned them by unemployment. To heap an added load of contributions upon them would, it is argued, be too much. And this, it is urged is especially true in view of the comparatively low wages which the workers now receive. There is much in this contention when it is considered solely by itself. It may only be remarked: (1) that to the degree to which the contributions by the employers are shifted back to the workers in the form of reduced wages, then the exemption of the latter from contributions is in fact more apparent than not, (2) that there are certain very positive advantages which come from the workers making direct instead of indirect contributions. Although these are to be discussed later, the reader should perhaps be informed at this point that they are to follow so that he will not conclude that the argument will be allowed to go by default.

5. *What should the state contribute?*—Granted that we have a rational system of taxation, the case for exempting the workers from contributions would be much stronger were the government rather than the employers made the sole immediate source of funds. For if the necessary amounts were collected from the upper brackets of the income recipients or from the excess profits of the corporations, or from the taxation of bare land values, these sums would fall on economic surpluses rather than upon marginal producers or workers. No added expense would be occasioned either business or the workers and there would therefore be no discouragement to production. The expense would be borne by those most able to bear it and would not be shifted either forward to the consumer or backward to the workers. Waiving certain imponderables, the contention of the Socialist party that the government should bear at least half of

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the cost of the insurance seems, therefore, from the standpoint of economic theory to be fundamentally sound were our system of taxation an ideal one.

But that it most distinctly is not. As we have pointed out, in all save a few states, the main source of governmental income is the grossly inequitable general property tax. For the states to pay all or even a large fraction of the insurance costs would, therefore, mean, in the vast majority of cases, that the real estate owners would have to foot the bill. These groups are neither responsible for unemployment nor able to pay the costs involved. It would therefore be inequitable to have them meet the costs. It would moreover be the height of political inexpediency to require them to do so since if this were done, the farmers, small home-owners, and real estate men generally would be successful in defeating the measure. If unemployment insurance is therefore to be obtained, the state governments cannot at present, save possibly in a few states, be saddled with any very large proportion of the costs. And it is surely not desirable to hold up all efforts at installing unemployment insurance until the great mass of the states pass adequate income and corporation tax laws.

Finally, it may be remarked that there are positive and real advantages in having the two parties connected with industry actually make contributions toward the insurance and cooperate together in administering the system and in seeking to reduce the volume of unemployment itself. We need social protection against the risks of unemployment but it is surely better if this can be done with a minimum of governmentalized bureaucracy and with a maximum functioning of more or less autonomous economic units which though socialized in purpose and composition shall be as immune as possible from most types of state politics.

From all these considerations it would seem that the wisest course for the states to follow concerning financing would be: (1) In those states which have adequate income and corporation tax laws, a considerable proportion of the total expense should be borne by the states themselves and assessed upon those most able to pay. At the very least, in these states, the administrative

costs of the system or about one-eighth of the benefits should be carried by the state. (2) It is highly desirable that those states which do not now have income taxes should adopt them as speedily as possible and then aid in carrying some of the load. In the meantime, unless they are too hard-pressed financially, they should be willing to contribute to the system amounts equal to those which they now expend for their free public employment offices which would be taken over by the system itself. (3) The federal government should make some direct contributions to the funds themselves, not only for the cost of running the employment offices but also if possible for benefits as well. (4) Both state and federal governments should organize themselves financially so as to be able to give emergency benefits to those in need who have exhausted their standard benefits and to set up in addition adequately supervised relief for those in need who are finally dropped from the emergency benefits administered by the insurance system or who have not been able to qualify for the standard benefits themselves.

6. *The positive gains from contributions by the workers.*—We must therefore face the fact that by far the major proportion of the cost of the standard benefits must as a practical measure be borne by one or both of the parties to the wage contract. The issue then in practice narrows down to the question as to whether the employers should be the sole contributors or whether the workers should share in these direct contributions as well. We have already reviewed the arguments for exclusive contributions by the employers and have shown some of the misconceptions upon which they are based and some of the inherent weaknesses involved in any such system of financing. We shall now proceed to point out (1) that most of the distinctively good features which are claimed for the Wisconsin plan can also be realized under the system of joint contributions and (2) that the method of joint contributions will give in addition certain very distinct advantages which in practice can be obtained in no other manner.

It should be realized in the first place that the graduation of the employers' payments in some ratio to the amount of unemployment in their particular plant or industry is not contingent

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upon making them the sole contributors. It would still be possible for the employers' share to be graduated in some such fashion as this even though the workers were also contributors. It is not necessary therefore to confine the direct contributions to the employers in order to reap the possible stimulus to prevention which it is claimed such a system affords.

Moreover, in addition to all this, joint contributions by the workers will have the following distinct advantages, which to the author at least, seem fundamental: (1) they would ensure adequate benefits which in all probability would not otherwise be obtained, (2) they would reduce malingering and make the workers feel they were vital partners in the system and (3) they are needed to ensure joint administration of the system and thus to protect the legitimate rights of the workers. Let us take up each of these points in turn.

(1) Joint Contributions by the Workers are Needed to Ensure Adequate Benefits.

It is more than doubtful whether any legislature will be willing to assess the employers within a state more than 2 or at the most 2.5 per cent of their payroll expenditures. Any legislature is naturally fearful of exposing the industries of its state to undue competitive pressure from rival concerns in other states and will therefore seek to soften the strain. Even the progressive group in Wisconsin did not dare to make the maximum liability of an employer more than 2 per cent of the payroll plus a further allowance of one-tenth for administrative costs. The bill of the American Association for Labor Legislation was originally still more modest in that it only called for an assessment of 1.5 per cent¹⁵ and it is improbable that any legislature in the United States in the near future at least would go above 2.5 per cent, while they may not be willing to go much above the Wisconsin or the Association for Labor Legislation quotas.

Now, as we have seen, such assessments as these will not provide adequate benefits. As we have seen from our analysis in Chapter VI, from 3.0 to 3.75 per cent of the payroll is in all

¹⁵ Since then the rate of contribution has been raised to 2 per cent in the bill of the A. A. L. L.

probability needed to provide decent benefits of the type indicated. If we try to finance unemployment insurance upon total assessments of 1.5, 2.0 or even 2.5 per cent of the payroll, it will be absolutely necessary rigidly to restrict the benefits themselves. If we throw the whole direct cost upon the employers, we will therefore seriously impair the protection which can be given to the unemployed. That this is the almost inevitable consequence is evidenced by the meager benefits which are provided by the Wisconsin and Labor Legislation plans. Thus the maximum benefits which can be paid out in any year in Wisconsin to an unemployed worker is \$10 a week for 10 weeks or a total of \$100. The American Association for Labor Legislation is somewhat more liberal in allowing the same maximum weekly amount for a total of 13 weeks in the year or a total maximum yearly payment of \$130. Both of these amounts would be grossly inadequate in any period of prolonged unemployment and would furnish only the frailest protection at such a time. In contrast with this it should be pointed out that the maximum weekly benefit provided under the plan suggested in this book would be \$15.60 a week and that this would be provided for a total of 20 weeks, thus making a maximum annual benefit of \$312. These benefits which, it is believed, would be solvent financially on the basis of a 3.75 per cent assessment, would be over three times the Wisconsin maximum and two and a half times those provided in the plan of the American Association for Labor Legislation.

The inadequacy of the Wisconsin benefits is probably due in part to the failure to work out actuarial estimates of total cost and in part to the division of the funds into separate company pools. But it was also directly due to the fact that by making the employer the sole contributor they were unable to provide sufficient funds to enable adequate benefits to be paid. Moreover the belief that the employer should be stimulated to the fullest degree to reduce unemployment which caused him to be made the sole contributor also led to the creation of the establishment funds and hence also, as we shall see later, contributed to the failure to provide adequate benefits. The advocates of sole pay-

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ment by the employers should therefore realize that one of the prices of their policy has been and will be that of granting insufficient protection to the groups whom they are ostensibly seeking to aid. This has of course been no part of their intention but it has been and in all probability will be an almost inevitable consequence of their action.

It is better, according to the sound principles of insurance that all of the workers should make contributions than that those unemployed should receive grossly inadequate protection. Their contributions will not be merely transferring sums of money from the pockets of one set of workers to those of another. The added financial protection which the unemployed will receive plus the psychic reassurance which the presence of these added funds will bring will more than outweigh the slight diminutions in present income which the contributions will occasion. Any readjustment of income which tends to equalize the flow of group or individual income through time yields therefore a distinct psychic surplus.

(2) Joint Contributions by the Workers Are Needed to Ensure Joint Participation by Them in the Administration of the System.

If the employers are made the sole contributors, the tendency will be to lodge the control of administration in their hands. He who pays the piper is indeed generally privileged to call the tune. This tendency is evidenced by the fact that the original Huber bill in Wisconsin provided for an employers mutual insurance fund which was to be entirely under the control of the employers. The 1931 draft proposal of the American Association for Labor Legislation provided for the administration of the funds by boards representing a common industry or related industries and specified that of these boards "of not less than five members, at least three of whom shall be employers in such industries."¹⁶ While the Wisconsin Act as finally passed vests the administration of the system in the state Industrial Commission and while

¹⁶Section 24 of their draft bill. See *Alleviating Unemployment* (a report by the Pennsylvania Committee on Unemployment to Governor Finchot, 1931), p. 48.

the Association for Labor Legislation has since somewhat modified its position, the tendency will undoubtedly be for control to follow the sources of funds.

It would, however, be a mistake to vest the control over either the administrative or the insurance branches of the system in any one economic group. To turn the control over to the employers, as the American Association for Labor Legislation originally proposed, would not only deprive the system of the full cooperation of the workers but it would also tend to create biased decisions on points of policy and on the preliminary adjustment of claims. The decision, for example, as to whether a worker left his previous employment without just cause or whether he was properly discharged for misconduct or gross personal inefficiency, or whether a given job was "suitable" under such a set-up would at least originally be determined either by the representatives of the employers or by bodies upon which the latter had a majority. Even if the right of appeal from the decisions of these lower bodies were granted, as would in all justice be necessary, the position of the claimants would nevertheless be impaired by the fact that the preliminary hearings and decisions would be made by bodies under the control of the employers.

If the interests of the workers are to be adequately protected then the administration of the act must either be placed in the hands of a neutral and unpartisan body or in one upon which the workers will have equal representation with the employers. The only way to make quite certain that this will happen is to provide that the workers shall also be contributors. For if they are contributors it will be virtually impossible to deny them an equal share in the administration of the plan. This opportunity is worth so much to the workers that it would be worth their while to pay for it by contributing.

(3) Joint Contributions by the Workers Are Necessary in Order Fully to Prevent Malingering and to Make the Workers Realize That They Are Partners in the Plan.

If the working-class does not contribute directly and if the

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costs are entirely advanced by the employers or by the state, there will be a natural tendency for the workers to try to get as much from the fund as possible. Under such conditions, there would be a very real danger that in the administration of the fund and in the determination of policies, a sharp division would arise between the groups which paid and those which received. Working-class opinion would tend to look indulgently upon those who sought to obtain benefits without genuinely seeking work or who did not possess the actual qualifications which were supposedly required. The burden of detecting false claims would therefore be thrown back entirely upon the representatives of the employers and the state officials.

If, however, the workers themselves contributed towards the fund, they would be far more zealous in checking possible abuses in its expenditure. The malingerer would not be merely getting somebody else's money but he would also be appropriating their own. Working-class opinion could therefore be rallied against attempts to "milk" the funds. This would make it much easier to detect attempted fraud. The working-class members of the administrative committees would, as the English experience abundantly testifies, have not only the general will to weed out the false claimants but they would also be in such close contact with the realities of working-class life that it would be very difficult for them to be tricked. It is highly improbable that such extraordinary cooperation could have been obtained from the English workers had they not been contributors to the system. The sense that their funds were also at stake made them regard the system as a joint affair and made them earnest and valuable cooperators.

Those, who, like Miss Helen Hall, have mixed with the English working classes, report moreover that the unemployed take some pride in the fact that they have contributed themselves. The benefits are not therefore regarded as charity but as amounts which they themselves have helped to accumulate. Unemployment insurance is, therefore, something of which they are a cooperative part. Such a feeling would be infinitely more difficult

to obtain if the workers merely received benefits but did not of themselves make contributions.^{16a}

7. *How should the total rate of contributions be divided among the various parties?*—Perhaps the wisest way of dividing the relative sums paid in by employers and workers would be to have the former contribute approximately two-thirds and the latter one-third of the total direct contributions made by both parties. Thus if the total assessment were to be 3.75 per cent and if the state were to make no contribution, then the employers would contribute 2.5 per cent of the wages and salaries paid out to eligible workers while the workers would contribute 1.25 per cent. If the state were to bear the costs of administration, which would amount to approximately one-ninth of the total, or to about 0.4 per cent of the total wage and salary bill, then the total amount to be borne by workers and employers would be 3.3 per cent. This in turn would be divided on the basis of 2.2 per cent from the employers and 1.1 per cent from the workers. Finally, if because of a relatively favorable employment situation in any state or because of other reasons, it should not be desired to have the combined assessment upon workers and employers exceed 3 per cent then the basis of division would be 2 and 1 per cent respectively.^{16b}

It should be noted that under the plan recommended that the employers would contribute at least as much and preferably slightly more than they do under the Wisconsin Act. They would not be spared at the expense of the workers and much the same incentive could be given them to reduce unemployment that the Wisconsin plan affords. The benefits would however be far more adequate and while the contribution of the workers would not be heavy, it would interest them in the administration of the system itself.

8. *Should the contributions be graduated according to the rela-*

^{16a} To these advantages of contributions by the workers, the Ohio Commission adds the fact that it would make possible more adequate records of the previous employment of the worker.

^{16b} This is the ratio in Ohio where the benefits provided can in all probability be financed at an average cost of 3 per cent.

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*tive volume of unemployment, and if so, how?*¹⁷—It will be desirable to vary the contributions which the employers are to make in such a way as to afford a financial stimulus to such regularization as is within their powers. Even though one should have no exaggerated hopes of what can be accomplished in this fashion, it is desirable to do whatever can be done. It is indeed possible under the plan outlined to obtain virtually as great a stimulus to regularization as could be secured from the plans calling for exclusive contributions by the employers. It has, therefore, most of the advantages of those plans without their faults. There is, however, no need of varying the contributions of the workers since they have no power of reducing the amount of unemployment. Their premiums should therefore be uniform in all industries and establishments.

In the fixation of these variable rates a number of considerations need to be borne in mind. (1) It is desirable to fix by law a legal maximum and minimum above and below which the rate-fixing body should not go. This is necessary to give assurance to employers that their liability will be limited and will free them from the fear that they may be given a rating which will demand very high premiums. It would seem desirable, therefore, to provide that while the employers' rates should be such as to average approximately two or two and a half per cent, they might vary between a minimum of 1.0 or 1.2 per cent and a maximum of 4.0 per cent. This would mean that even in the industries with the lowest premiums the workers would never contribute more than the employers. There would at the same time be ample room for the stimulus to regularization to operate.¹⁸

(2) While the exact classes of the normal rates for each industry should largely be left to the body administering the act, it is desirable that the variations should not be so minute as to unduly complicate the administration nor so large as to make it difficult

¹⁷ In the discussion which follows, the conclusions which are reached in the next chapter about the best type of insurance unit are in a very real degree assumed. The author recognizes this logical difficulty but the arrangement of the chapters seems to make it inevitable.

¹⁸ The spread of 3 per cent would, for example, still be more than the total assessment called for by the Wisconsin Act.

to encourage firms to stabilize. On the whole it would seem best to have the rate classes vary by one-quarter of a per cent. There would thus be from ten to twelve classes along the way from one to four per cent and this should give the needed elasticity to the system without cumbering it with unnecessary variations.

(3) While the relative rating which is given to an industry should in general bear a fairly close degree to the relative amount of unemployment which its workers experience, this rule should nevertheless be tempered by the recognition that the disorganization of a given industry may be caused by developments outside of that industry for which it cannot be chargeable. It would be wrong, for example, to saddle industries where employment is declining because of shifts in demand and because of the rise of new industries, with the full burden of maintaining their workers. This is very properly a burden which should be borne by industry as a whole.

It is, moreover, true that the great cyclical fluctuations in production and employment in such capital producing industries as iron and steel, foundries and machine shops, and electrical machinery are derived from and caused by much smaller fluctuations in the production of consumers goods.

(4) Normal rates should be fixed for each industry with subdivisions above and below these into which individual firms may be classified according to their experience.

(5) A further question is created whether these differences in rating and in contributions should be established almost immediately upon the plan going into effect or whether there should not be a preliminary period during which a uniform rate of contributions would be collected from all employers but during which the necessary actuarial data would be collected to permit merit rating. The projected Ohio act follows the second of these alternatives and calls for a three year period of uniform contributions to be then followed by the application of varying rates by the administrative commission.

The arguments in favor of this second course are (*a*) that it would relieve the administrative authorities of a very perplexing task during a necessarily difficult period and would permit them

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to concentrate upon the many administrative problems which will inevitably arise in getting the system started, (b) that the later rating of the industries and firms would be much more accurate as a result of the accumulated experience than it could be at first in the absence of accurate unemployment data. The arguments in favor of immediate action in rating industries at least and possibly also individual firms are on the other hand: (a) that if these ratings are postponed any immediate stimulation towards regularization is lost, and (b) that the past employment records are sufficiently adequate both as regards seasonal and cyclical fluctuations to permit grouping the industries into rough categories according to the approximate incidence of unemployment. Despite these latter considerations, it would seem both simpler and safer to postpone the application of the differential rates for at least two and perhaps preferably for three years after the initiation of the act. The administrative authorities would then be able to gather their breath and would have more data to go on. Little would be lost in the way of prevention since the application of differing rates to individual concerns could hardly proceed more speedily. And it should be remembered that it is upon the efforts of individual concerns that the enthusiasts for regularization predominantly rely.

CHAPTER VIII

PROBLEMS OF INSURANCE AND ADMINISTRATION

Almost equally important with the problems of qualifications, benefits and contributions are those connected with the management of the insurance and reserve funds and the general administration of the act. A whole series of perplexing questions arise in this connection. Should for example each plant or company maintain its own separate and distinct unemployment reserve fund as is provided by the Wisconsin Act? Or should the insuring unit be the industry, as was contemplated in the original draft of the American Association for Labor Legislation? Is even this defective and should the insuring unit be as extensive as the state itself? A cognate problem is that of whether a number of outside insuring agencies such as commercial insurance companies and employers' mutuels should be permitted to compete for the business or whether there should be a compulsory unification of the insuring function? If there should be such unification, by whom should the fund be controlled? Should it be in the hands of the state, the employers or the workers or any combination of these interests? Should the same body administer the other features of the act or should the administering body be separate from the insuring body? How should the available reserve funds be invested? What should be the rôle of the employment offices? Should the federal government play any part in administration and should it also try to build up a reserve fund for depression-relief? These are all problems of policy and in addition to them there are the more technical questions connected with collecting contributions, handling claims, paying benefits, keeping records, etc. We shall attempt to consider all of these issues in the present chapter. The first of these topics which we shall consider is that of whether the carrying of insurance should be confined to non-

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profit making bodies or whether commercial companies should also be permitted to participate.

1. *Should private and profit-making insurance companies be permitted to write unemployment insurance?*—There is a strong underground movement to permit the private insurance companies to write unemployment insurance under any mandatory law.¹ It is argued that the private companies will be more efficient than any non-profit making institution and that at the very least they should be allowed to compete in a fair field with whatever other insurance agencies are set up. "Why," it is asked, "should the insurance companies be treated as pariahs and be refused an opportunity to show what they can do?"

But this appeal neglects at least four sets of factors:

(1) In the first place, the greater the number of insuring agencies which participate in the writing of policies, the more uneven will be the distribution of risks and the larger the relative reserves which will need to be built up. For if there are a number of competing insurance companies, it will be impossible for each to obtain an even distribution of risks. There will instead be a tendency for the business of each of the various companies to be more heavily weighted with workers in some industries than in others. It is much more difficult to forecast the probable percentage of unemployment in specific industries than it is for the field of employment taken as a whole. This means that an average assessment which would keep a unified fund solvent would cause some of the funds in a competitive system to show deficits. In order to protect themselves against this danger, therefore, it would be necessary for the competitive funds to devote a larger share of their receipts to the mere accumulation of reserves than would otherwise be the case. In the effort of the companies to protect themselves against losses, a smaller percentage of the premiums would be actually paid out to the unemployed than under a unified system of insurance. With

¹Thus the Metropolitan Life Insurance Co. was anxious from 1925 to 1930 to obtain authorization to write voluntary unemployment insurance. A bill granting such authorization was passed by the New York legislature in 1930 but was vetoed by Governor Roosevelt.

the same premiums, the benefit would be less, or with the same benefits, the premiums would have to average more.

(2) In addition the competitive expenses in which the various insurance companies would be involved in their efforts to sell unemployment insurance would inevitably increase the proportions of the receipts devoted to administration and decrease the proportion which the unemployed themselves would receive. Insurance agents would spend their time trying to get a firm to take out insurance with their company rather than with another, and the cost of the unsuccessful efforts at persuasion would necessarily be loaded onto the successes. In addition, duplicate advertising and central office expense would be incurred which could be eliminated under a unified and monopolistic system of insurance. We have seen in the field of workmen's compensation some of the differences in cost of the various types of funds. Thus, according to Carl Hookstadt, the average cost for administration in private competitive funds amounted to approximately 38 per cent of the premiums as compared with 20 per cent for the employers mutuals, 11 per cent in the case of the competitive state funds, and 4 per cent for the monopolistic state funds.^{1a} A part of this difference was probably due to the superior accident prevention work which was done by many of the private insurance companies, but the major portion represented extra competitive expense. It would be a mistake to waste the money contributed to help protect the income of the workers in expenditures of this kind.

(3) A third difficulty lies in the separation of the insuring and the administrative agencies which would result. The insurance companies would find it almost impossible to pay out the benefits from their own offices since they would not know at first hand whether the claimant was genuinely unemployed. To determine this, a system of free public employment offices is needed where the worker must register and which can impose a work-test. It might be thought that this difficulty could be overcome by having the employment offices certificate claimants to benefit for

^{1a} Bulletin 301. United States Bureau of Labor Statistics, *Comparison of Workmen's Compensation and Insurance and Administration*, p. 9.

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amounts which would then be payable by the insurance companies. But this would not only open the door to fraud, but would also greatly delay payment to the unemployed. This would be particularly the case where an insurance company did not maintain a disbursing office in the locality where an unemployed person lived. Time would be lost in the mailing of documents, in the follow-up work, and in the mailing of checks. But what an unemployed worker needs is a prompt and speedy payment of benefits in order that he may have an income for the current week. Delay in such matters is therefore fatal.

The payments must therefore be made through the public employment offices which will have the records of the workers and which, because of the fact that the unemployed must come there to register and to look for work, are the only logical disbursing agencies. But under a system of private insurance, the amounts thus paid to the workers would have to come from the various insurance companies. This would enormously complicate the work of administration since specific workers would have to be classified and identified in terms of the insurance company with which they were affiliated. The separation of insurance from the administrative functions would lead to unhappy results and to a jangling of cross-purposes in which delays would be common and the unemployed would necessarily suffer from the lack of coordination. It is just this multiplicity of the insuring agencies and their attendant separation from the local administrative agencies which has proved to be probably the weakest link in the system of British health insurance.

(4) The final objection against throwing the insurance into private hands is that it would cause the private companies unduly to fight claims. A company would be able to save money for itself by decreasing the amounts paid out in benefits to the unemployed. There would thus be a direct financial incentive to fight claims and the means would be ready at hand since it could always be alleged that a workman had been discharged for cause or had left without just cause, or was not genuinely seeking work, etc. That this suspicion is well grounded is indicated by the practices of many of the private casualty companies which oper-

ate under our workmen's compensation laws. For it is notorious that they, by means of lump-sum settlements, frequently pay seriously injured workmen and their families very much less than what the latter could obtain were they to go through the somewhat lengthy process of getting compensation through the regular channels. It is true that the individual sums at stake would be nowhere near as great under unemployment insurance as in the case of the deaths, or the severe injuries, which result from industrial accidents and that presumably the insurance companies would not therefore have the same tendency to fight unemployment claims and to cut down the benefits which the workers actually received. But there would still be some such incentive and where a considerable number of workers were laid off from the same plant, the insurance company could effect an appreciable reduction of payments by fighting the claims of the entire group and then if necessary compromising on a smaller rate of benefit. This the unemployed might well be inclined to accept in order to get something quickly. The record of many of the private companies under the workmen's compensation laws is indeed such as to lead us to believe that this would happen.

For all of these reasons, therefore, it would seem extremely unwise to permit private companies to enter the field of unemployment insurance. Where private companies have already established a hold in certain branches of social insurance during the time that they are still in the voluntary state, it may be politically necessary to permit them to continue when the whole system is universalized. But where they have not built up any such vested interests, it would be injudicious to throw open the door to them. Unemployment insurance is certainly one of the fields in which the whole system would be the better for the absence of the private companies.

2. *Should employers' mutuals be used as the predominant type of insurance unit?*—The Huber bill which was introduced into the Wisconsin legislature in 1921 set up an employers' mutual in each major industry which was to be the insuring agent. Such a system is superior to that of the profit-making insurance companies in that it reduces the competitive expense of obtaining

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business. Judging by the experience under the Massachusetts workmen's compensation act, this is true even when the mutuals are in direct competition with the private companies themselves. If they were to be given a monopoly of the business their costs would of course be still less.

The difficulty with employers' mutuals is that unless they are constructed on the basis of a state monopoly, they are subject to the same weaknesses which characterize all subdivisions of the insurance function. In addition, moreover, since they are controlled by the employers they will naturally want to reduce payments. There will be a strong temptation, therefore, for them to fight claims in order to reduce costs and enable a larger refund to be made to their members. It is desirable, therefore, that the administration of the funds should not be confided exclusively to the employers but should be more of a joint affair with at least an equal representation of the workers, and perhaps with some representation of the public as well.

3. *Should the insurance function be de-centralized or centralized? Employers' individual reserves versus a central fund.*—The Wisconsin plan provides that the contributions paid in by an individual employer shall only be used to pay benefits to those employed by him. The State Industrial Commission merely acts as trustee for his contributions and it ear-marks the specific payments by each employer into separate accounts which can be used solely for his own employees and for no others. According to the Wisconsin plan, these separate reserves are never to exceed \$75 per worker and when they rise above \$50 per worker, the employer's contributions are lowered from 2 to 1½ per cent. Every effort is made to protect the reserves so that when they fall below \$50 per capita, the maximum weekly benefit of \$10 is decreased by \$1 for each reduction of \$5 in the per capita reserve. Thus if the reserve is between \$45 and \$50 per worker, the maximum benefits are to be but \$9, and if the reserve is \$40 then the highest benefits that can be paid will be \$8, and so on. Thousands of water-tight insurance compartments are thus set up, none of which can be levied upon to meet deficits in others.

This is a natural consequence of the assumption behind the

Wisconsin act that an individual employer is responsible for the unemployment which exists in his own plant and that if he would, he could prevent it. Yet it should be realized that the unemployed in a firm which, because it produces capital goods, has been hard hit by a depression will have their benefits reduced and perhaps even cut to nothing at the very time when there will be large surpluses credited to the accounts of other firms which have suffered only slightly from the depression. Workers who have been laid off because the demand for the particular product upon which they have been employed has decreased as a result of the substitution by the consumers of a differing product, will have their compensation abridged although the coffers of the new and rising industry are full. And yet certainly the rise of the latter would be one of the causes for the fall of the former.

The splitting up of the insurance reserve into such a multitude of units is of course one of the reasons why the benefits under the Wisconsin act had to be limited to the totally inadequate sum of a maximum of \$10 a week for a maximum of 10 weeks and then to be scaled down as the reserve diminished. Because there is no pooling of reserves, it was necessary rigidly to restrict the benefits. The primary purpose of this feature of the Wisconsin law seems indeed to have been to protect the individual employer rather than fully to protect the worker.

The setting up of such separate individual accounts was probably necessary when unemployment insurance was introduced into the Chicago clothing market. For then individual employers would not agree that funds which they contributed should go to pay benefits to workers in other firms. The slogan of the employers was then that each firm should stand on its own feet. And since then it was necessary to get the consent of the employers before unemployment insurance could be put into effect at all in the market, this point was yielded to the employers. But where a compulsory system is being established there is not the same practical necessity for such a compromise. And it is surely a confusion of values when what can at best be only partially justified as a necessary expedient is exalted into a prin-

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ciple. As a matter of fact it is highly improbable that a system of separate employer reserves could survive a depression of any magnitude. For when the workers in the hard-pressed heavy industries find that their benefits are being slashed at the very time that many concerns have large surplus reserves which relatively speaking are not being touched, there will then be, in all probability, such a great popular demand for a pooling of reserves to meet the widespread social emergency that sooner or later the individual compartments will be torn away and a common fund created to cope with the common problem. And if such is the likelihood that a system of separate reserves will in a time of stress give way to a central pooled reserve, would it not be far better to adopt from the very beginning the method which seems ultimately and deservedly destined to become predominant?

4. *By whom should the centralized fund be administered? The problem of politics and the device of an independent board or corporation.*—It is necessary in nearly all states to prevent the fund from falling under the ordinary type of political control. If the members of the board were to be appointed without let or hindrance by the governors of the respective states, it is greatly to be feared that unless there is an unexpected purification of politics they would, in the majority of instances, be used to build up or retain political support rather than to ensure the efficient administration of the system. The result would tend to be a honeycombing of the system with politically minded officials and an attendant low level of efficiency and purposes. With the traditions and personnel of our public bureaus what they are, it would be unsafe for us to confide the administration of the system, as in England, to the state as such. England has a civil service which is protected from political pressure. The British administrators, protected by life tenure and the traditions of independence, are not dependent upon and do not fear the political leaders. They can therefore administer the affairs of their departments without fear or favor. Major questions of policy are to be sure decided, as they should be, by the elected representatives, but the personnel is chosen on grounds of efficiency rather

than of political influence and they are judged by essentially workmanlike standards.

Until, therefore, we have built up in this country a civil service which in some degree approaches that of either Germany or England, it will be wise to confide the administration to a body which is to the fullest degree possible immune from political control.

There are two chief methods of accomplishing this. The first is to put the administration of the system in the hands of a board which, while named by the governor, will represent in fact the accredited organizations of employers and employees of the state. It can for example be provided that the governor would have to select the appointees from lists submitted to him by the workers and employers organizations respectively. By this method of selection, it would be relatively ensured that the appointees would represent the economic groups which are concerned in the successful administration of the system. Probably not more than two and certainly not more than three should be selected from each side. A neutral chairman will, under such circumstances, have to be appointed to break deadlocks and to serve in general as presiding officer.

The above administrative set-up would undoubtedly greatly lessen the pressure from the professional political class. To my mind however a still better agency of administration would be that which was once suggested by Professor William L. Leiserson of Antioch College. Professor Leiserson proposed that an autonomous and non-political corporation should be set up which would have complete control over the fund and its administration. During the last fifteen years there has been a great development in the use of such corporations for public purposes of which one has only to mention the Emergency Fleet Corporation, the Grain Corporation, the Port of New York authority, etc.³ There can be no doubt that the separation of these functions from the ordi-

³ The development of state trusts in Russia has also lightened the administrative difficulties there and made possible a much more efficient administration of the economic activities of that society than when the industries were under governmental control as such.

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nary governmental machine greatly increased their effectiveness and there is solid merit in the proposal to carry through the administration of unemployment insurance in a similar manner. The directors of such a corporation would need of course to be selected on a non-political basis. Since they would not give full time to their work, they might be nine or eleven in number. They could then be selected by one of the three following ways:

(a) They could be designated directly by the various economic organizations themselves. Under such a plan as this, the manufacturers associations, the state chamber of commerce, and the employers associations would name a given number of directors. The trade-unions would in turn name others. Many employers would however bitterly object to permitting the unions to name all of the representatives of the workers. It is, of course, true that the unions do not include more than 13 to 15 per cent of the workers who would be eligible for inclusion under the act. Even if those covered by shop committees were also to be included, the total would not be raised by more than 5 or 6 per cent more.

"Why," it may be asked, "should this small minority be presumed to speak for the vast majority?" The answer is quite simple. There is no other body which can speak for the workers. Unorganized workers, because of their very lack of organization, have no association which represents them. Even the shop committees which probably do not represent more than another five or six per cent of the eligible workers are confined either to a single plant or to one company and hence have no inter-company connections. Since there is no federation of shop committees, there is no way in which their desire can be presented through one organization. If the panel of names from whom the members are to be selected is then to be drawn up by organizations representing labor, it can only be done by the state federation of the labor unions. There would of course still need to be a chairman of the board who would represent the public.

(b) A second method of selection would be for the employers and workers directly to elect their representatives. This would necessitate a system of nominations, of balloting in the various

workshops of the state and of governmental supervision of the election. While this is an ostensibly democratic method, it would in fact be an extremely cumbersome and expensive one.

(c) A final method would be for the act which established unemployment insurance to include in it the names of those who were to constitute the first board of directors of the corporation. It would be far more difficult to slip incompetents and corruptionists in under such conditions than it would be later by straight gubernatorial appointment after the act had been passed. The quality of the directors would have to be fairly high in order to ensure the passage of the act. Were the initial board of directors of the corporation to be named in this fashion, it would probably be desirable to give it the power to fill vacancies as they arose and to perpetuate itself during at least the first ten years. After that a different method of selection might safely be employed.

It is believed that this system of administration by representatives of the parties affected will ultimately prove more healthy than merely incorporating the unemployment insurance system within the state administrative apparatus. For it will permit those directly affected by the problem to cope with it. It will thus introduce a degree of cooperative self-government which is badly needed.

5. *What should be the rôle of the public employment office?*—The local administration of the unemployment insurance must of necessity rest upon the public employment offices and cannot be carried through without them. For there must be an agency to test whether or not the claimant is actually out of work, and whether he is genuinely looking for work. Only an employment office can administer the work test. The payments should therefore be made through the employment offices and the judicial machinery should be closely tied up with it as well. The day on which the benefits are paid can indeed be used as one of the three times during the week on which the workers are to sign the out-of-work register.

It is desirable that the vast majority of workers should not have to spend more than from one-half to three-quarters of an

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hour in travelling from their homes to the offices and that so far as possible this should not necessitate the payment of transportation fares. This means in practice that not only should many smaller cities which now lack a public employment office be provided with one, but that in the larger cities there should also be more offices than there are at present. These offices should be in charge of competent managers who, together with their subordinates, should be under civil service if the system were under the control of a commission of the type which has been described. If the administration were in the hands of a public corporation, then the formal rules of ordinary civil service might not as such apply. It should be provided, however, that the corporation, in consultation with the state civil service commission or some similar body, should work out rules for appointment, tenure, promotion, etc.

The employment offices should of course be active in their placement work and should, whenever possible, set up separate divisions for men, women and children. In the larger cities specialized separate exchanges should be established for those major industries which wish to enter into such a cooperative relationship. Local advisory boards should be established for each office and while control would rest with the joint commission or corporation, these local groups could be of great assistance in obtaining the cooperation of local employers and workers.

6. *How should the judicial function be performed?*—It is not enough to set up machinery for placement, for imposing the work-test, and for the actual payment of benefits, but it is almost equally necessary to provide an efficient and just method of determining whether the claimant is indeed entitled to benefits. There must be persons to pass on such questions as whether a worker was genuinely laid off, whether he left without "just cause" or was discharged "for cause," whether the employment which he may have refused was "suitable" and whether he was "genuinely seeking work." These are in a sense judicial questions and as such need a somewhat separate system of machinery if they are to be carried through adequately. There would seem to be three sets of officials who would be needed: (1) a local insur-

ance officer who would be attached to each employment exchange who would pass tentatively upon all claims for benefit. This officer in practice should probably be, as in England, the manager of the local employment office and the two functions could thus be combined in the one person. (2) A local committee composed of a worker, an employer, and a neutral who would consider cases appealed to them from the decision of the local insurance officer by either the worker or employer, or voluntarily referred to them by the insurance officer himself. (3) A state board of umpires which would take cases which were appealed from the local committees by either the claimant or any member of these committees, and upon the basis of the factual statements make rulings which would serve as the basis for the common law of the system.

If the system were under the direction of a representative state commission, then both the local committee and the state board of umpires should be under the general control of this commission and should be paid from its funds. The judicial expenses as well as those of the employment exchanges would then be properly items which might be charged against any state appropriation which might be made for administrative expenses.

It would be wiser, however, for the commission not to serve itself as the board of umpires. The work of many of our present industrial commissions has, for example, been hampered by the fascination which the delicate points in workmen's compensation have exercised upon their members. The judicial problems raised have all too frequently so engrossed the members of these commissions that they have become primarily judges rather than administrators. This has operated to the detriment of their other functions. There is a natural human tendency to prefer the judicial rôle to the administrative and there is danger that the members of the state commission might succumb to it. It would be better, therefore, for the commission to set up a separate umpire, or board of umpires, to take care of this work or to designate one of its members who would be charged with this responsibility. This member might, and indeed in the larger states

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should, have associates who would not be members of the commission to assist him in this work.

If the administration of the system is given to a corporation of the type recommended, it is probable that while the local insurance officers should still be the managers of the employment offices and as such should be paid by the corporation, the local judicial committees and the state board of umpires should not on the other hand, be under the control of the corporation itself. The corporation will tend to be primarily interested in preserving the fiscal solvency of the fund but the state should be primarily interested in seeing justice done. There will frequently be conflicts of interest between these two purposes. It would be wise, therefore, to have the upper branches of the judicial system under the control of the state and not of the corporation. These officials should in this case be selected by the state department of labor, or industrial commission, and should be paid by the state. They can tell the corporation what to pay and the latter can then bend its efforts to make these payments as efficiently and as economically as is possible.

7. *What agencies of administration should the federal government set up?*—Under the plan that has been outlined, the federal government will participate in the administration of unemployment insurance in two different ways. In the first place, it will cooperate with the states in furnishing some funds for placement work, insurance benefits, and a far larger amount for emergency benefits. To carry this through effectively, a skeleton force should be built up in Washington together with some field inspectors working in the same service. It would seem best to lodge this work in the Department of Labor and to make it part of the duties of a remodeled and more efficient Employment Service, which should also be renamed to indicate its added functions.

The second function of the federal government will concern those employers engaged in inter-state commerce who, because of this fact, will be outside the scope of state laws and can only be reached by federal legislation. Existing agencies of administration which at present deal with similar groups should so far

as possible be utilized as the bodies to administer such federal insurance. Thus the United States Compensation Commission which is at present administering workmen's compensation for longshoremen as well as for federal employees should be entrusted with the application of unemployment insurance to the former group and should also be given jurisdiction over the seamen, if and when the latter are included under the act.

The administration of unemployment insurance for the railway workers and those in the inter-state telephone, telegraph, express, airplane and bus services should probably come under the jurisdiction of the Interstate Commerce Commission which should set up a separate division to handle the issues involved. As is well known the railroads make elaborate statistical reports to the I. C. C. which, therefore, has already most of the information necessary to administer the act. It would be far better to utilize the existing machinery and knowledge of the I. C. C. than to set up new and duplicating machinery.

If employers engaged in the inter-state transmission of electric power are included under any federal unemployment insurance act, the question as to who should administer this feature of the act should largely depend upon the actual powers granted in other matters to the Federal Power Commission. If that commission largely remains as it is and if it is not given very appreciable powers in the utility field, it would probably be better to place the administration of the unemployment insurance funds in the hands of the Interstate Commerce Commission. If however the Federal Power Commission is given much more ample powers, it should probably also be entrusted with the handling of unemployment insurance.

It will be noticed that the type of administration contemplated for the industries covered by federal action is a decentralized one. Each group of industries is to have its unemployment insurance fund administered by some strong body which is already in existence and which already has statistical data and administrative experience. Because of the wide dissimilarity in risk between the industries, it would seem best in this instance for each industry to provide for its own risks.

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It should not be thought however that the federal agencies must necessarily maintain employment offices which will be completely separate from those of the various state services or that they will of themselves pay out all the benefits to the workers affected. In some seaboard harbors, it might be desirable for the federal compensation board to set up and manage the placement offices for dock labor and seamen. This might also well be the case in the more important railway centers. In other instances however the number of men to be placed in such work would not be large enough to justify the establishment of a separate office. In these cases, the placements could best be made through a section within a state employment office. The benefits in these cases could also be paid through these offices which would then be reimbursed by the proper federal fund for all such expenditures.

8. *How should the funds of the system be invested?*—One of the most important problems is that of how the reserves of the insurance funds should be invested. There are three criteria which should govern the choice of these investments and the regulations which should be made concerning them namely that: (1) The funds should be invested in such a manner as to be absolutely safe, (2) the securities purchased should be readily convertible into cash for the payment of benefits, and (3) the funds and securities should be handled in such a way that while no undue stimulation to expansion should be given in the periods of prosperity, there would be made available during the period of the depression a greater quantity of monetary purchasing power.

The Wisconsin Act and the Ohio bill aim at the first two of these purposes. Thus the Wisconsin law provides that the funds shall be invested³ "in the readily marketable obligations of the United States of America, of any of its forty-eight state governments and of any city, county, or other governmental sub-division of this state, all having a maturity of not over five years from the date of purchase." The Ohio bill has a somewhat more re-

³ Chapter 20, Wisconsin Laws of Special Session of 1931, Section 108.16, Clause 5.

stricted provision limiting the investment in state bonds to those of Ohio alone and providing that the purchase of bonds or interest bearing obligations of the local Ohio governments shall be only in those of such local sub-divisions as have not in the past defaulted on either the interest or the principal of their issues.⁴ On the other hand, according to the Ohio bill the bonds which are eligible for investment need not mature within five years and provision is also made for investment in the bonds of banks organized under the Federal Farm Loan Act of 1916.

These provisions are in the main sound although it is obvious that the security of the national and state bonds is greater than is that of the local governments.

But in addition to the necessity for security and liquidity, there is a further desirability that the funds, if possible, should be used in such a manner as to mitigate the course of the business cycle.

First, let us consider the criticism which is sometimes advanced against unemployment insurance as a force for mitigating business depressions. It is objected that the payments which are made directly or indirectly by the workers together with those made by the consumers will operate to decrease the purchasing power of the masses and to increase the amounts invested in productive equipment. For the purchase of bonds by the funds, it is urged, will release money in the investment market for industry itself. This greater expansion of productive power, accompanied by a reduction in monetary consuming power, will aggravate the disparity between the two so that when the factories turn out their greater flow of goods, the fall in prices which will be necessary to dispose of them will be greater than it would otherwise have been and the depression therefore more severe.

There is something to this criticism. It should on the other hand be observed that the decreased rate of growth of consumption will in itself lessen the demand by producers for capital and that this influence will be magnified by the fact that, as J. M. Clark has demonstrated, the demand for machinery and capital goods is in large part a function of the rate of growth in the

⁴ See Section 2, Clause d.

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demand for consumers' goods and not merely of the total demand. There will thus be a counteracting force which will at least partially offset the forces which have previously been described.

This counteracting influence would be still further heightened if the insurance system were to convert into cash a portion of the contributions paid in during the years of prosperity and then impound these sums and "sterilize" them in such a manner that they would not get into the reserves of the banks. This cash might be stored in the vaults of the state insurance funds themselves or in those of the various Federal Reserve Banks. In either event they would remove from circulation a considerable amount of currency which in turn would check in a still more magnified degree the amount of bank deposits which the banks could create. For it is well known that upon \$1 in cash, the banking system can probably create from \$8 to \$10 in credit. A contraction in the supply of currency available for banks would therefore lessen in approximately this ratio, the expansion possibilities of the banking system. This would serve as a real check therefore to the upward movement of prices and profits and lessen the speculative over-development which helps to create and to aggravate the depression which in turn almost inevitably follows.

The question as to how large a proportion of the receipts should be thus impounded is of course an open one. If we assume the credit expansion possibilities of the system to be eight times the amount of currency, then if one-eighth of the reserves were thus "sterilized," the maximum possible stimulation to over-lending would be at the very least neutralized. As a matter of fact such a sterilization when added to the slight diminution in the demand for consumers' goods and the necessarily greater decrease in the demand for capital goods would in all probability result in a surplus of stabilizing forces. By increasing the proportion of the unemployment reserves which would be impounded in cash and removed from the credit structure, the stabilizing forces would be still further strengthened although it should be realized that this would necessarily diminish the amounts of interest earned by the funds on their reserves. It can thus be

concluded that if the fund is properly administered, the system of insurance will actually decrease the expansion of credit during the periods of prosperity rather than augment it. It can thus be made of aid in helping to check the undue booms of business.

But its greatest usefulness as a business stabilizer would be in the periods of depression. For as we have seen one of the most important causes of the depression is the fall in prices, the cumulative contraction of credit and the slowing up in the velocity of circulation of both money and bank credit. The quantity of money and credit offered for goods decreases, therefore, faster than the index of production itself, and the inevitable result is a fall in prices which creates a further tendency towards a cumulative breakdown.

As we have already pointed out, what is needed at such a time is an increase in monetary purchasing power which will build up the demand for goods and either arrest the fall in prices or start them upward again. This would restore the profit margins of business men and give them the incentive to go on. It is here that unemployment insurance would help for it could be used as one of the instrumentalities by which this additional monetary purchasing power which is needed to finance consumption could be pumped into circulation.

That portion of the reserves which had been impounded in cash would, when paid out in benefits, constitute a net addition to the monetary purchasing power of the consumers and would at once build up their effective demand for commodities and help check the fall in prices. How to turn the government bonds, which would constitute the larger proportion of the reserves, into cash for the payment of benefits without harming industry would seem at first thought to be an extraordinarily difficult problem. For if the bonds were sold upon the securities market, the result of this "dumping" would, it is argued, greatly depress the price of government securities and generally injure conditions. For the insurance funds would on the one hand suffer from the fall in security prices and would thus lose a considerable fraction of the reserves which they had accumulated. The decline in security values would at the same time reduce the assets of

savings banks, insurance companies and private investors. On such grounds, therefore, the accumulation of a considerable reserve for unemployment is condemned by those whose first concern is the preservation of the bond market.

But in practise none of these consequences need follow. For the bonds held in reserve by the insurance funds should not and need not be sold on the open market. They should rather be used as security with which to obtain federal reserve notes which would then be paid out as benefits. What should happen would be for the insurance funds, as they needed the money, to put up with the federal reserve banks the government bonds which they held and then to receive in return federal reserve notes equal in amount to the face value of the national bonds. These notes would then be paid out in benefits with the result that the total supply of monetary purchasing power would be increased over what it would otherwise be. This would serve in part at least to counteract the shrinkage in bank credit and would thus be a distinct stabilizing force.

To make this possible only a slight amendment would be needed to the Glass-Steagall Act of 1932 which would give to the insurance funds the same privileges which are now possessed by the banks of obtaining notes in return for federal bonds. There is every reason why this should be granted. By such methods all the dangers of liquidating the bonds can be avoided and the system would function as a partial governor of the economic system and a builder up of monetary purchasing power at a time when that purchasing power is decreasing through the operation of both our industrial and our banking systems.

If and when such a policy is adopted, it would of course be desirable for the insurance funds to invest their reserves in the bonds of the national government rather than in those of the state and local governments since only the former could be used as security for the note issue.

9. *Should the government build up a reserve for emergency relief in the period of depression and, if so, how should it be managed?*—We have emphasized the need in addition to unemployment insurance as such for a system of (1) emergency

benefits, the cost of which is to be met by government and particularly by the federal government, and which would be designed to carry workers for a time after they have exhausted their insurance benefits as such, and (2) a further system of poor relief benefits which would be more adequately financed than now and more centralized and uniform in its administration.

During a depression of any magnitude, both of these types of relief will be needed to supplement the necessarily limited type of protection which the insurance system can afford. There is grave danger however that the state and national governments will not face this necessity until the depression is long under way and that they will then try to "muddle" through in the thoroughly inadequate and unsatisfactory manner in which they have behaved during the present crisis. Moreover if such relief is financed out of current taxation it will inevitably constitute a heavy burden upon a society whose resources are already depleted. It would be desirable, therefore, for the government to accumulate during the years of prosperity reserves for depression relief in the same fashion that the insurance funds themselves should do so.

It would seem wise, therefore, for the federal government to lay a tax upon profits of corporations which are appreciably in excess of a 6 per cent return and also to earmark for future relief purposes a fraction of the amounts received from the upper brackets of the income tax schedules. Appreciable sums would thus be raised during the years of prosperity and most of these amounts could then be invested in government bonds. A fraction of the total receipts should, however, as in the case of the insurance fund, be impounded in the form of cash in order to offset any undue increase in the flow of funds for the capital market.⁵ As the depression developed and the need for emergency benefits and outright relief increased, these bonds should also be deposited with the federal reserve banks which would issue federal

⁵ The proportion of the sums thus taken by the government which would otherwise have been invested by their recipients would of course be much greater than in the case of the insurance contributions. The net increase in social savings would, therefore, be less in this case than under unemployment insurance itself.

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reserve notes to the proper governmental agency. These in turn would be used to finance relief and to build up the monetary purchasing power of the consumers and thus to lend a further stabilizing force to that which unemployment insurance itself makes possible.

10. *What provision should be made for existing private unemployment insurance plans?*—As we have pointed out there are somewhat under 200,000 workers who are already covered in some fashion by the three types of existing unemployment insurance plans, namely, those fostered by employers, by trade-unions, and by employers and trade-unions jointly. There is no reason why these should be blotted out if they provide benefits which are approximately equal to those prescribed by the state law. It is recommended, therefore, that this privilege be extended to the voluntary plans which are in operation at the time the state act is passed. If the groups in question wished to take advantage of this they could, but if not, they would come within the state act. In the latter case they might either abandon their separate system or maintain it as supplementary to that of the state.

It is nevertheless true that there are extremely few plans which at present provide anywhere near as adequate benefits as those which have been outlined. If such an act as is recommended were to be enacted, it would be necessary, therefore, for nearly all of the private plans greatly to raise their standards if they were to obtain independence in administration. Thus it would in general be necessary for them: (1) to increase the scale of benefits, (2) to lengthen the period for which the benefits were to be paid, (3) to provide a somewhat more adequate method for ensuring that funds would be available for paying benefits during periods of depression, (4) to provide democratic control in the case of the employer plans, (5) to so increase the groups eligible for benefits that no more stringent standards for eligibility would be laid down than those prescribed by the states.

The American Association for Labor Legislation in its original draft bill, however, not only permitted existing private plans to continue but provided that in the future private organizations

which satisfied the main rules of the act in other respects might withdraw from the system and set up plans of their own.^{5a} Such a blanket provision as this is unwise since it would permit industries and firms with low seasonal and cyclical unemployment to withdraw from the general fund. They would thus reduce their costs at the expense of weakening the collective reserves for the collective danger of unemployment. Such a proposal is simply another consequence of the belief that individual employers are able to control unemployment and that if a firm has a low rate of unemployment it is a conclusive proof that the firm by its own efforts has effected it, and that in consequence it deserves a reward. Instead of viewing unemployment as being broadly rooted in the climates, conditions, consuming habits, the tempo of industrial change, and the feverish fluctuations of business, it regards the existence of unemployment primarily as an evidence of poor business management which could be abolished were the individual managers really determined to do so.

This view, as we have repeatedly emphasized, fails to plumb the real nature of unemployment. To allow individual businesses to separate themselves from the general fund would largely prevent that full pooling of reserves which we saw was necessary if the workers were to be assured of maximum benefits from a given rate of assessment. It would be an error, if after preventing the idea of separate reserves for each plant from entering the unemployment insurance system by the front door, we were then to permit it to enter surreptitiously from the rear.

11. *Methods of collecting contributions.*—There are fundamentally two different methods of making the contributions required and the type of forms to be used in claiming the unemployment benefits and much of the administrative procedure to be followed will largely depend upon which of these is adopted. These two ways of collection are:

(1) The method of the so-called "stamp book." This is the one which has been widely adopted in Europe. Under it, the employer affixes each week, in a separate book for each worker,

^{5a} Section 17 of their original bill.

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stamps representing both his own and the worker's contributions. These stamps are then marked with the date of payment. This book is in the possession of the employer as long as the worker is employed by him. When the latter becomes unemployed he takes it to the nearest public employment office where he deposits it. This at once serves as evidence that he is unemployed and at the same time furnishes the employment and insurance office with data on the number of weeks during the current year for which the worker was unemployed and the number during which contributions were paid. A central record office for the state will in turn have the unemployment books of each worker for all of the preceding years and can, therefore, furnish information as to how many weeks he has paid contributions for in the past, and under the 1 to 3 rule, for how many additional weeks he is entitled to claim benefits.

(2) The other method is to have the employer send to the central office a weekly statement which will list the names of each of the workers in the various wage categories and the total paid out in wages and salaries to those who came under the act. Accompanying this should of course be a check equal to the total contributions due from both the employer and the workers. The employer would then deduct from the weekly pay of each worker the amount of his specific contribution.

Under this method when the worker lost his job, the employer would sign a slip indicating for how long he had been employed and for what reason he had been dropped. The worker would present this when he appeared at the employment office to file claim for his unemployment benefit and to seek further employment. The collection of such slips would then furnish the insurance office with the necessary information as to the length of time worked and the weeks for which contributions were paid. A further check on these would also be furnished by the periodical reports made by the employers.

The strong points of the method of using the stamp books are fairly obvious. It is a fairly simple way of combining the collection of contributions with the automatic recording of the workers

employment record. The main arguments which can be used against it, and in favor of the lump contributions, are as follows:

(1) That the method of stamp books would entail too much labor on the part of the employers. It is urged that it would be a considerable bother for the employers to affix stamps weekly in the books of each of their workers. The computation of the total paid out in wages and salaries to the eligible workers would on the contrary be very easily obtained as an inevitable by-product of the process of paying the workers, and the making out of a weekly check for the proper percentage of this total would be a simple matter. It should be remembered, however, that since a worker would remain throughout an insurance year in the same insurance category, the same book would last an insured person for a year. There would be no changing of books within the year. The difficulty of affixing such stamps should not be great. Even at the comparatively slow rate of six to the minute, this would mean 360 to the hour. The stamp work for a plant of 1200 could, therefore, be taken care of with a half-day's work per week, while the maximum cost per worker would probably not exceed one-sixth of a cent a week.

Furthermore it would be quite possible to permit an alternative method of affixing the stamps which would still further reduce the effort on the part of the employers. At the request of employers with more than 250 or 500 workers, the stamp books might be lodged with the local insurance offices. The employers could in these cases then send weekly checks for the total contributions on behalf of their workers and the insurance offices could then affix the stamps directly.

(2) It is claimed that the American workers would strenuously object to the use of the books because of the necessity for carrying them from the employer's shop to the insurance offices and even more from a general feeling that they could be used to build up an official espionage record about each man which might then be used against him.

This objection would seem, however, to be greatly exaggerated. The present depression should have impressed the vast majority of the American workers with the great losses which they have

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suffered as a result of unemployment. They should not and commonly will not begrudge the very slight effort of taking the book to the insurance office. Certainly in any event they would have to present some evidence of prior employment and the reasons for the loss of their former position. The book will, therefore, cause them no more trouble than any other method.

What the workers really fear, however, is that with their records in a central collection it may be possible to blacklist them effectively. They tend, therefore, to shrink away from having any centralized place where their names and a continuous record of their industrial experience are contained. These fears can and need to be assuaged by giving the representatives of the workers an equal share in the administration of the system. This equality in control should reassure the workers and make them feel that they will be protected from the danger of having the records abused. Records will have to be kept in any case, but joint control is necessary to remove the fear of discrimination.

(3) A third objection which is advanced is that the administration of the system of stamp books would be unduly complicated where the workers are divided into a number of different classes with differing rates of contributions for each. There would have to be as many kinds of books as there were wage categories and every plant would have at least a majority of these groups among its number. Most plants would perhaps have all of the classes. This, it is urged, would make the task of affixing the stamps unduly cumbersome. But this is clearly not the case. The books for the various categories can be given a distinctive color and marking. Those for each group can be filed separately with the workers listed alphabetically under each. Since those within the same category will have the same stamp affixed, the existence of a number of categories will occasion little or no added effort. The British system, as a matter of fact, while not classifying the insured upon the basis of wages, does classify them according to sex and age and it has indeed no fewer than six separate classes of contributors each of which

pays a different contribution.⁶ The British employers have, therefore, in proportion approximately as much work to perform as would the American and little or no serious complaint has been made by them about any onerousness in affixing the stamps.

(4) A final argument which is sometimes adduced is that the frequency with which many workers change their names and the *noms de plumes* which are very often assigned to foreigners and negroes by their foremen will make it impossible to operate the system of stamp books. These changes and inaccuracies will beyond question make the task of administration, particularly of the permanent record offices, very much more difficult here than it is abroad. But these difficulties will be encountered whatever may be the particular method of collecting the contributions which may be used. For even if the stamp book is not used, it will still be necessary to find out for how many weeks the worker had previously been employed and for how many weeks he had paid benefits. The use of the book would, therefore, create no new troubles on this score.

As a matter of fact the introduction of unemployment insurance will probably tend, as a minor by-product, to lessen the readiness with which many workmen assume a different name. By building up equities which will be attached to a given name, a worker will be encouraged to retain it. This will be in itself a distinct gain.

From all of these considerations it would seem on the whole best, if joint administration is provided, to use the stamp book as the method of collecting the contributions. It is by all odds the simplest and best method, and if it is properly explained any legitimate popular opposition should be removed. There will, however, be one difficulty in this connection which European countries would not experience. There the countries which have

⁶ These classes and their contributions in pence are:

Age	Male d	Female d
Over 21.....	21	17½
18-21.....	18½	14½
16-18.....	20½	16

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enacted the system are, with the exception of Switzerland, national rather than federal in their political structure. The national governments which have passed the laws have, therefore, also had control over the post-office. It has been possible, in consequence, for some of them to use the latter as the sales agency for the unemployment and health insurance stamps.⁷ The large number of post offices in Great Britain, for example, has made it a comparatively easy matter for the employers to buy the requisite quantity of stamps. By this method of collection also many of the problems of financial administration are lifted from the shoulders of the unemployment insurance authorities and an independent check-up on the receipts of the system is provided.

Since it must be the states which will in the main pass such laws in this country, this power of utilizing the post offices may not be open to them. It would indeed be highly desirable for the federal government to enlist the post offices in the aid of the insurance funds but if this is not done the sale of the stamps will have to take place through the local employment and insurance offices and through the central office of the commission or corporation itself.

12. *Procedure in handling claims.*—The worker who has lost his job will present himself at the nearest employment office and there lodge his book. At the same time he should present a certificate from his last employer certifying to the separation and stating whether it was a lay-off, a discharge for cause, or a voluntary separation. This statement can in turn be followed up to verify its accuracy by either a telephone message or a return postcard. The claim of the worker for benefit should then be sent to the central record office for the state which will go over the record of the claimant as shown by weeks of past contributions, weeks of benefit received, etc. This office will then report back to the local office if the worker is entitled to benefit and if so, for how long. In the meantime the worker will be signing the register at least three times weekly. If his claim is approved, then payment will start after an initial two weeks waiting period.

⁷ The German system does not use stamps, however.

This will mean that the unemployed will in these cases receive their first payment three weeks after they have filed claim.

If the employer states that the worker was discharged for cause or left voluntarily without just cause, the worker shall be disqualified for benefit unless he appeals. If he does so, then the local insurance officer will pass on the case. If his decision is also unfavorable, the worker may appeal to the local judicial committee. Both the decisions of the insurance officer and that of the local judicial committee should be rendered within the two weeks waiting period. Within that time also the information from the central record office should come to the local office. The work at Kew, the corresponding English office,⁸ has been so systematized and placed on such a high level of efficiency that it seldom takes more than two or three days for the inquiries to travel by mail from the local office to Kew and for the necessary information to be then received. Telephonic inquiry by the local offices to Kew generally indeed brings an answer in a very few minutes.

If a worker, an employer, or an insurance official wishes to take an appeal to the judicial commission for the state, he may of course do so. Pending the decisions of this body, the rights of the claimant shall be those approved by the local judicial committee. If the claim has been allowed, then the worker would receive benefits during this interregnum. If, on the other hand, it had been rejected by the lower committee no benefits would be paid until the state judicial authority rendered its decision. If the ruling of the lower body is reversed, then payment should be made retroactively where the decision goes in favor of the unemployed worker, while he should be asked ultimately to repay any sums received on claims which are finally disallowed. There will undoubtedly be some losses in this latter connection, but it would seem preferable to experience them rather than to tie up all benefits to the claimant after the lower body had given its decision because an appeal had been filed.

13. *Some administrative suggestions.*—It would be both un-

⁸Kew, it should be remembered handles the records for all of Great Britain. The strain upon the central office in any American state would be much less.

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profitable and unduly tedious to outline many of the administrative procedures which should be set up to facilitate the work and to guard against fraud. The detailed instructions, for example, of the British Ministry of Labour on these points fill many volumes.⁹ But perhaps a few suggestions may clear up some of the difficulties involved.

(1) The work of signing the register and of paying benefits can best be routinized if definite periods are assigned for various sub-divisions of the unemployed. Thus if Friday is selected as the paying-off day for a week which ended on Wednesday, then the workers could be divided into two approximately equal classes, one of which would sign the register on Mondays and Fridays and the other on Tuesdays and Thursdays. Since they would all automatically sign the register on Friday, this would give the necessary three days during the week. Within each of these days, in turn, the workers should be divided into sub-groups and assigned a definite half-hour or hour during which they should appear. The basis for this sub-division might either be alphabetical, according to industrial classification, or according to numbers assigned. Individual workers should moreover be given specific numbers so that they will have a definite place within each sub-group and hence also a definite position in the lines which present themselves for benefit.

The assignment of definite hours will serve to distribute the burden of work fairly evenly over the day and week and coincidentally will save the unemployed much time which otherwise would be lost through standing in lines.

(2) The weekly list of benefits should be made up in advance¹⁰ on sheets corresponding to the numbers assigned specific workmen. Each pay clerk should be given a quantity of money equal to the totals called for on the sheets which he is to handle. The clerk who pays out money on a specific set of sheets should

⁹ See the very valuable series of handbooks prepared by the British Ministry of Labour on the administrative features of British unemployment insurance. *U.I. Code 5*, Sections A to S.

¹⁰ If the insurance week ends on Wednesday and the payments are made on Friday, then Thursday may be devoted to the making up of these sheets together with that part of Wednesday left after specific groups have signed the register.

not be the same as the one who makes up that set. Each unemployed worker who presents himself should of course sign a receipt which will be attached to the weekly slip for that particular worker and this signature should be compared by the paying clerk with that for preceding days in the same week. The paying clerks would then turn back the sheets from which payments were made and these would be compared with the total of receipts acknowledged. They would of course refund any surplus. By these means a check will be provided within the office on the work of each clerk.

(3) Each of the pay sheets, together with the corresponding receipts, should be made into a bundle and with its fellows be sent by each office to the central office for the state. This central office will then tabulate the receipts and see whether they correspond with the totals on the sheets. In this way the work of each office will be checked.

(4) The central record office for each state¹¹ should not only keep the records of individual insured workmen but also the experience record for individual employers and for separate industries. Periodical reports, preferably weekly or at the least monthly, should be made by each employer which will give the number of eligible workers on the payroll each week and the total amount paid out in wages and salaries to them. From these statistics it will be possible to compute the total number of man-weeks of employment, given by a particular industry or firm. The number of man-weeks of benefit, together with the total amount in dollars which were paid to those last employed by these specific firms and industries can be tabulated from the individual record sheets. The ratio of unemployment to employment and of the total amount paid out in benefits to the total amount paid out in wages and salaries can then be computed either annually or biennially. From the comparative ratios for the various companies and industries it will then be possible to work out the relative insurance premiums which the respective employers should pay. In preparing these ratios, due considera-

¹¹ Ultimately it is to be desired that there should be one record office for a group of states.

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tion should, however, be given to the fact that the metal trades and the industries producing capital goods will probably show a low volume of unemployment during the boom years of the business cycle. In fixing their rates of contribution, therefore, it should always be borne in mind that the ensuing period of business depression will in all probability hit these industries with especial severity.

(5) From the above discussion it is apparent that it will be necessary to work out two sets of classifications:

(a) A list of occupations with proper code numbers. This will of necessity be on a craft basis. It should, however, be so arranged that the consecutive listing of the various crafts will so far as possible follow industrial divisions. The code sequence can then be used to assign places in the registration lines if this is preferred, as it probably will be, to the alphabetical method of listing. It will of course also be used most of all in placement work, since it will put in the hands of the employment officials the information they need in order to fill the requests for workers which are placed with them.¹²

(b) A classification of industries for the purpose of fixing premium rates and encouraging stabilization work by employers. The classification of the Censuses of Manufactures, of Distribution, and of the Electrical Industries will be of great help here.

14. *Penalties.*—In order to be truly effective, the act should have teeth in it to punish violators. Thus employers who neglect to purchase and affix stamps for their contributions and for those of their employees should be liable to a fine of at least \$50 and which might be as high as \$1000 for each offense. There should also be a penalty attached to the failure to make a statistical report on the number employed and the total paid out in wages and salaries to the eligible workers.

Workers who defraud the fund by claiming benefits when they are not unemployed, and who practise any type of fraud in making application or receiving benefit should be liable to a jail sentence and such acts should, therefore be made felonies.

¹² See the *Index of Occupations* prepared by the British Ministry of Labour. (E.D. 526), 145 pp., for the type of work which can be done in this direction.

NOTE

IS UNEMPLOYMENT INSURANCE CONSTITUTIONAL?

Any unemployment insurance act will in all probability be attacked by employers as unconstitutional on the ground that it violates the provisions of the Fourteenth Amendment that life, liberty and property shall not be taken without "due process of law."¹ It will be argued that by assessing employers for unemployment, property is taken from them for losses which they have not caused and which they are largely powerless to prevent. This objection will be heightened if a central fund is established instead of separate company reserves. For it will then be urged that the contributions of each employer will be merged in a unified fund and used in part to pay benefits to workers employed in other concerns. The contributions of the workers will also be attacked on the ground that they too will lose their identity and be used to pay for general unemployment and not merely for the unemployment of the particular contributor.

All such action, it is urged, should be voluntary and not compulsory and that when the state makes it mandatory, it is a seizure of private property which is unconstitutional.

It is, however, an admitted principle of constitutional law that the due process clause is not a sufficient reason for outlawing legislation which in the opinion of reasonable persons is adjudged desirable as a means of protecting the public health, safety welfare, and morals. In a word, a state in order to protect these admittedly more fundamental purposes may impose certain limits under its "police power"² upon the so-called "rights" of property. It must be proved however that there is a legitimate connection between the acts of the legislature and its tacit or explicit pur-

¹ For an able review of this principle, see the learned and monumental treatise of my friend and colleague, Rodney L. Mott on *Due Process of Law* (1926).

² See Ernst Freund's classic treatise on *The Police Power* (1904) for a full analysis of this doctrine up to that date.

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pose. In the past the Supreme Court has generally held that this connection must be demonstrated to its satisfaction or to at least that of the majority of the court, although a minority, led by Ex-Justice Holmes, has maintained that it is not necessary for the court itself to believe that such would be the consequences but merely whether the legislature could be reasonably assumed to have believed that such a connection existed.

This principle has been quite explicitly stated in a number of cases. Thus in a leading decision on a compulsory workmen's compensation law of Washington, the court ruled:

We are clearly of the opinion that a state, in the exercise of its power to pass such legislation as reasonably is deemed to be necessary to promote the health, safety, and general welfare of its people, may regulate the carrying on of industrial occupations that frequently and inevitably produce personal injuries and disability, with consequent loss of earning power, among the men and women employed, . . . and may require that these human losses shall be charged against the industry either directly . . . or by publicly administering the compensation and distributing the cost among the industries affected by means of a reasonable system of occupation taxes.³

The Supreme Court has moreover clearly pointed out that workmen's compensation aimed to make industry as a whole make some financial provision for the inevitable losses occasioned by employment instead of ignoring those losses and compelling the public to meet it. Thus even so conservative a jurist as Ex-Justice Pitney in his guiding opinion in the Arizona cases swept aside the due process argument by declaring² that under it

the ultimate contention is that men have an indefeasible right to employ their fellow men to work under conditions where, as all parties know, from time to time some of the workmen inevitably will be killed or injured, but where nobody knows or can know in advance which particular man or how many will be the victims, or how serious will be the injuries, and hence no adequate compensation can be included in the wages; and to employ them thus with the legitimate object of making a profit above their wages if all goes well, but with immunity from particular loss if things go badly with the workmen through no fault of their own, and they suffer physical injury or death in the course of their employment.

³ *Mountain Timber Co. v. Washington*, 243 U.S. 219. See also *New York Central Railroad Company v. White*, 243 U.S. 188, and *Hawkins v. Bleakly*, 243 U.S. 210.

From these decisions, it would seem apparent that if it could be demonstrated to the satisfaction of the courts that unemployment is an inevitable risk of industry and that its costs are now either passed on to the public or allowed to rest on those unfortunates who are thrown out of work, and if the proposed measure were reasonably designed better to distribute these risks upon industry and society, then the act would be declared constitutional by the courts. Since such are but the sober facts, it is difficult to see how the courts could do otherwise than to uphold the constitutionality of unemployment insurance.

The contention that it is unconstitutional to merge the contributions by one employer into a fund from which payments are made to employees of other concerns seems moreover to be refuted by the decision of the Supreme Court in the case of the Oklahoma guarantee of bank deposits. Ex-Justice Holmes in handing down the opinion of the court ruled that:⁴

It may be said in a general way that the police power extends to all the great public needs. It may be put forth in aid of what is sanctioned by usage, or held by the prevailing morality or strong and preponderant opinion to be greatly and immediately necessary to the public welfare. Among matters of that sort probably few would doubt that both usage and preponderant opinion give their sanction to enforcing the primary conditions of successful commerce. One of these conditions at the present time is the possibility of payment by checks drawn against bank deposits, to such an extent do checks replace currency in daily business. If, then, the legislature of the state thinks that the public welfare requires the measure under consideration, analogy and principle are in favor of the power to enact it. Even the primary object of the required assessment is not a private benefit . . . but it is to make the currency of checks secure, and by the same stroke to make safe the almost compulsory resort of depositors to banks as the only available means for keeping money on hand.

It should be noted moreover that such an assessment for the guarantee of bank deposits is far more stringent in this direction than contributions for unemployment insurance. For some at least of the unemployment insurance contributions of a relatively stable firm will go to pay benefits to its own employees while all of the contributions of banks which remain solvent will go to

⁴ *Noble State Bank v. Haskell*, 219 U.S. 104.

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the depositors of banks which become insolvent. If such a law as that could, therefore, be held constitutional, there would seem to be no real ground for denying constitutionality on this score to unemployment insurance.

This presumption is moreover strengthened by the attitude of the courts in declaring constitutional laws which have required the owners of dogs to pay given amounts into a central fund out of which in turn damages have been paid to the owners of domestic animals which have been killed by dogs. As Professor Joseph P. Chamberlain succinctly points out⁵ these acts have been held constitutional "although the money was paid indiscriminately by the owners of dogs with no regard to the care which the owner used in watching his dog or the probability that the dog was of a breed which would be apt to worry domestic animals. The Pekingese and the Police dog pay an equal tax. The money once paid into the fund loses its identity, and damages are recoverable from the fund without proving what dog has occasioned the injury. Neither the fault of the dog owner nor any advantage to him as an individual is taken into consideration, but as a member of a class directly related to the loss caused, he is obliged to make his regular payment into the fund from which losses are compensated."

If contributions from the employers are held valid, as from the tenor of judicial decisions, it would seem logical that they should be, we would expect that contributions by the workers would also be approved. The workmen's compensation law of Oregon, as a matter of fact, provides for such contributions by the workers towards compensating for the financial losses of industrial accidents and the constitutionality of that law has not been denied. There is small likelihood therefore that the law would be held unconstitutional on this score.

Finally, the benefits proposed are most certainly not excessive or unreasonable so that on this account also such an act should be able successfully to run the judicial gauntlet.

In order to make the purposes of the legislature clear, how-

⁵ *Proceedings of the Conference on Unemployment and Other Interstate Industrial Problems* (Albany, N. Y., January 23-25, 1931), p. 94.

ever, it would be advisable for each act to state in a declaration of policy, such as that in the Wisconsin act and the Ohio bill, the precise reasons why the legislature deemed it important from the standpoints of health, safety, morals and welfare that such an act should be passed.

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APPENDIX A

THE WISCONSIN UNEMPLOYMENT COMPENSATION ACT OF 1931

CHAPTER 20, LAWS OF SPECIAL SESSION 1931

SECTION 1. LEGISLATIVE INTENT. (1) The legislature intends through this act to make it certain that by July 1, 1933, at least a majority of the employes of this state will enjoy the protection of fair and adequate systems of unemployment compensation. The largest organization of employers in the state having declared it to be the intention of its members voluntarily to establish unemployment fund systems, it is the intent of the legislature to give employers a fair opportunity to bring about the purposes of this act without legal compulsion. If by June 1, 1933, the employers of not less than one hundred seventy-five thousand employes have voluntarily established plans which comply with the standards prescribed in section 108.15 of this act, then the compulsory system provided for in section 2 shall not take effect; otherwise, it shall take effect July 1, 1933. Should this provision for any reason be held invalid it is the intent of the legislature that the compulsory plan shall take effect July 1, 1933.

SECTION 2. A new chapter and a new section are added to the statutes to read:

CHAPTER 108

UNEMPLOYMENT RESERVES AND COMPENSATION

108.01 PUBLIC POLICY DECLARATION. As a guide to the interpretation and application of this chapter the public policy of this state is declared as follows:

(1) Unemployment in Wisconsin has become an urgent public problem, gravely affecting the health, morals and welfare of the people of this state. The burden of irregular employment now falls directly and with crushing force on the unemployed worker and his family, and results also in an excessive drain on agencies for private charity and for public relief. The decreased and irregular purchasing power of wage earners in turn vitally affects the livelihood of farmers, merchants and manufacturers, results in a decreased demand for their products, and thus tends partially to paralyze the economic life of the entire state. In good times and in bad times unemployment is a heavy social cost, now paid mainly by wage earners. Industrial and business units in

Wisconsin should pay at least a part of this social cost, caused by their own irregular operations. To assure somewhat steadier work and wages to its own employes, a company can reasonably be required to build up a limited reserve for unemployment, and out of this to pay unemployment benefits to its workers, based on their wages and lengths of service.

(2) The economic burdens resulting from unemployment should not only be shared more fairly, but should also be decreased and prevented as far as possible. A sound system of unemployment reserves, contributions and benefits should induce and reward steady operations by each employer, since he is in a better position than any other agency to share in and to reduce the social costs of his own irregular employment. Employers and employes throughout the state should cooperate, in advisory committees under government supervision, to promote and encourage the steadiest possible employment. A more adequate system of free public employment offices should be provided, at the expense of employers, to place workers more efficiently and to shorten the periods between jobs. Education and retraining of workers during their unemployment should be encouraged. Governmental construction providing emergency relief through work and wages should be stimulated.

(3) A gradual and constructive solution of the unemployment problem along these lines has become an imperative public need.

108.02 DEFINITIONS. As used in this chapter:

(a) "Commission" shall mean the industrial commission.

(b) "Workmen's compensation act" shall mean sections 102.01 to 102.35.

(c) "Employe", except where the context clearly shows otherwise, shall mean any person who is employed by an employer and in an employment subject to this chapter, or who has been so employed within the last six months; provided, that an independent contractor shall be deemed an "employer", and that all persons employed by subcontractors under him shall be deemed his "employes" for the purposes of this chapter.

(d) "Employer", except where the context clearly shows otherwise, shall mean any person, partnership, association, corporation (or legal representative of a deceased person, or a receiver or trustee of a person, partnership, association or corporation), including this state and any municipal corporation or other political subdivision thereof, who or whose predecessor in interest has for four months or more within the preceding calendar year employed ten or more persons in employments subject to this chapter. There shall be included in such calculation all persons thus employed by the employer throughout the entire state, and all of the several places of employment maintained within Wisconsin by the employer shall be treated as a single "employer" for the purposes of this chapter; provided, moreover, that where any employer, either directly or through a holding company or otherwise, has a majority control or ownership of otherwise separate business enterprises employing persons in Wisconsin, all such enterprises shall be treated as a single "employer" for the purposes of this chapter.

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(e) An "employment," except where the context shows otherwise, shall mean any employment, during any week, in which all or the greater part of the person's work is performed within Wisconsin, under any contract of hire, express or implied, oral or written, including all contracts entered into by helpers and assistants of employes, whether paid by employer or employe, if employed with the knowledge actual or constructive of the employer; except that for the purposes of this chapter an "employment" shall not include:

1. Employment as a farm laborer;
2. Employment in the personal or domestic service of an employer at his home;
3. Employment on a governmental unemployment relief project, approved as such by the commission;
4. Employment as an elected or appointed public officer;
5. Employment by a governmental unit on an annual salary basis;
6. Employment as a teacher in a private or public school, college or university for the regular term for which such school, college or university is in session;
7. Employment of a person who is unable or unwilling to work normal full time and who, before accepting a part-time job, has registered at his district public employment office as a "part-time worker", in such written form as the commission may prescribe; provided, however, that for the purposes of this chapter no person shall be treated as a "part-time worker" who customarily works half or more than half the full-time hours per week which prevail in such establishment for full-time employes.
8. Employment by railroads engaged in interstate transportation and employment in logging operations.

(f) An employe's "weeks of employment" by an employer shall mean all those weeks during each of which the employe has performed any services at all for the employer.

(g) "Benefits" shall mean the money allowance payable to an employe as compensation for his wage losses due to unemployment as provided in this chapter.

(h) "Wages" shall mean what is customarily meant by the term, except that it shall include bonuses and the reasonable value of board, rent, housing, lodging, or similar advantage received from the employer.

(i) An employer's "full-time hours per week" shall be determined for each general class of his employes (classifying together all those usually employed on substantially the same schedule of weekly hours). The commission shall calculate an employer's full-time hours per week, applicable to all his employes of the given class, by averaging the weekly hours worked by the majority of such employes for each week during the preceding calendar year in which such prevailing hours were forty or more; provided that, in cases where it finds that the above method cannot reasonably and fairly be applied, the commission may adopt such other comparable method or methods of determining an em-

ployer's full-time hours per week as it deems reasonable and suitable under this chapter.

(j) An employe's "average weekly wage" shall mean the weekly earnings such employe would average from the particular employer if employed that number of full-time hours per week of such employer which is applicable to such employe. Accordingly each employe's "average weekly wage" shall be calculated by multiplying such applicable full-time hours per week by the employe's average earnings per hour from such employer. Each employe's earnings per hour (averaged for one hundred or more hours of employment, so far as possible) shall for this purpose be calculated at such times and in such manner and in accordance with such suitable rules as the commission may prescribe with a view to determining benefits under this chapter.

(k) "Fund" shall mean the unemployment reserve fund established in section 108.16.

(l) "Employer's account" shall mean the separate unemployment reserve account of an employer with the above fund.

(m) "Reserve per employe" shall refer to the status of an employer's account at the beginning of a calendar month. It shall be calculated by dividing the net amount such employer's account then has (or would have if all contributions due under this chapter had been paid) by the maximum number of employes subject to this chapter employed by such employer in any week during the preceding six months.

(n) "Administration fund" shall mean the fund established in section 108.20.

108.03 PAYMENT OF BENEFITS. (1) Benefits shall be paid by the commission to each unemployed employe from his employer's account in the fund under the conditions and in the amounts stated in this chapter; except that employers exempted under subsection (2) of section 108.15 shall pay benefits directly to their unemployed employes under the conditions and in the amounts stated in the plan approved by the commission as the basis for the exemption.

(2) No benefits shall become payable from any employer's account, nor shall any employer's benefit liability begin to accrue under section 108.06, until one year after he has begun to make the regular and continuing contributions required of him under this chapter, except as otherwise provided in subsection (5) of section 108.15 and subsection (8) of section 108.16; provided, that at the end of such year period each employer's benefit liability shall begin to accrue and benefits shall accordingly become payable from his account.

(3) The commission shall determine or approve the time and method of payment of benefits.

108.04 ELIGIBILITY FOR BENEFITS. (1) No employe shall be deemed eligible for benefits for partial or total unemployment unless he gives the notification of such unemployment required under subsection (1) of section

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108.08, or unless such notification is waived by the commission in accordance with such section.

(2) No employe shall be deemed eligible for benefits on account of either partial or total unemployment during any calendar week unless such employe was physically able to work and available for work whenever with due notice called on by his employer to report for work. Nor shall any employe be deemed eligible for benefits for total unemployment for any calendar week in which he has suitable employment, as defined in subsection (6) of this section; provided, that nothing in this section shall render an employe ineligible for total unemployment benefits for any calendar week on the ground that such employe is employed on a governmental unemployment relief project under section 108.25.

(3) An employe shall be deemed partially unemployed in any calendar week, and shall at once be eligible for benefits for such partial unemployment, whenever his week's wages are less than the amount of weekly benefit to which he would be entitled under this chapter if totally unemployed.

(4) An employe shall be deemed totally unemployed in any calendar week when he performs no services whatsoever for his current employer during such week. An employe thus unemployed shall be eligible for benefits for total unemployment for each week of total unemployment occurring subsequent to a waiting period of two such weeks. No benefit shall be or become payable for this required waiting period, but not more than two such weeks of waiting period per employer shall be required of any employe in any twelve months in order to establish his eligibility for total unemployment benefits under this section. The commission may approve, in an approved voluntary unemployment benefit plan, such longer or shorter waiting period as will comply with the requirements of subsection (2) of section 108.15.

(5) An employe shall not be deemed eligible for any benefits for total unemployment based on his past weeks of employment, and no such benefits shall be payable to the employe, under any of the following conditions:

- (a) If he has lost his employment through misconduct;
- (b) If he has left his employment voluntarily without good cause attributable to the employer;
- (c) During any period for which he has left and is out of employment because of a trade dispute still in active progress in the establishment in which he was employed;
- (d) For any period during which he is out of employment because of an act of God affecting his place of employment;
- (e) If he has received in wages fifteen hundred dollars or more during the twelve months preceding the date on which he became totally unemployed;
- (f) If he is ordinarily self-employed, but has been temporarily (for not more than five months) employed in an employment subject to this chapter and can, at the termination of such temporary employment, reasonably return to his self-employment;

(g) If he attended a school, college or university in the last preceding school term, and has been employed by his employer only during the customary summer vacation of schools, colleges and universities.

(6) A claimant shall no longer be eligible for total unemployment benefits and the liability of his past employers to pay him such benefits based on his past employment shall cease for any period after he has without good cause refused to accept suitable employment when offered to him, or has failed to apply for suitable employment when notified by the district public employment office. Suitable employment shall mean either employment in his usual employment or other employment for which he is reasonably fitted, regardless of whether it is subject to this chapter; provided such employment is in the vicinity of his residence or last employment, and gives him wages at least equal to his weekly benefit for total unemployment or provides him work for at least half the number of hours normally worked as full time in such occupation or establishment; and provided, further, that whenever in any specific case the commission finds that it is impracticable to apply any of the foregoing standards, the commission may apply any standard reasonably calculated to determine what is suitable employment.

(7) Nothing in this section shall require an employe to accept employment; nor shall any employe forfeit his right to benefits by refusing to accept employment under either or both of the following conditions:

(a) In a situation vacant in consequence of a stoppage of work due to a trade dispute;

(b) If the wages, hours and conditions offered be not those prevailing for similar work in the locality or are such as tend to depress wages and working conditions.

(8) No employe shall be deemed eligible to receive benefits under this chapter on account of any period of partial or total unemployment unless such employe has been a resident of Wisconsin for the two years preceding the beginning of such period of unemployment or has been gainfully employed in the state for forty weeks within such two-year period; provided, that an employe's ineligibility under this subsection shall modify his employer's benefit liability only as specifically provided in subsection (5) of section 108.06.

108.05 AMOUNT OF BENEFITS. (1) Each eligible employe shall be paid benefits for total unemployment at a rate of ten dollars a week or fifty per cent of his average weekly wage, whichever is lower; except that when fifty per cent of such wage is less than five dollars a benefit of five dollars a week shall be paid.

(2) The benefit payable for partial unemployment in any week shall be the difference between the eligible employe's actual wages for the week and the weekly benefit to which he would be entitled if totally unemployed.

(3) Benefits shall be paid to each employe for the calendar weeks during which he is totally or partially unemployed and eligible for benefits; but no employe shall ever receive in any calendar year more than ten weeks of benefit

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for total unemployment, nor more than an equivalent total amount of benefits either for partial unemployment or for partial and total unemployment combined.

(4) The amount of benefits payable to any eligible employe shall be limited also by the benefit liability of his employer's account, as provided in sections 108.06 and 108.07.

108.06 BENEFIT LIABILITY OF EMPLOYER'S ACCOUNT. (1) An employer's account shall be liable to pay benefits to an employe in the ratio of one week of total unemployment benefit (or an equivalent amount of partial unemployment benefit) to each four weeks of employment of such employe by such employer within the fifty-two weeks preceding the date on which such employe last performed services for such employer. But no liability for the payment of benefits to an employe shall accrue unless the employe has been employed more than two weeks by the particular employer within such preceding year, or, in the case of an employe employed on a fixed monthly salary, unless the employe has been employed more than one month by the particular employer within such preceding year.

(2) In no case shall an employer's account remain or be liable to pay benefits to an employe for any unemployment occurring more than six months after the date on which such employe last performed services for such employer.

(3) No employer's account shall at any time be liable to pay benefits beyond the current resources his account has, or would have if all contributions due under this chapter had been paid.

(4) The liability of any employer's account to pay benefits, for weeks of partial or total unemployment occurring within or mainly within any calendar month, may be reduced, depending on the adequacy of such account at the beginning of such month. Such adequacy shall be determined at the beginning of each month, on the basis of the net "reserve per employe" which the employer's account then has, or would have if all contributions due for payment under this chapter had been paid. (Whenever during any month the maximum benefit payable from an employer's account for any week of total unemployment is reduced hereunder, this reduced maximum shall also be observed in calculating the benefits payable from that account for partial unemployment during that month.) In each calendar month an employer's account shall be liable to pay the benefits otherwise due his eligible employes for their weeks of unemployment occurring within such month only in accordance with the following schedule:

(a) When its reserve at the beginning of the month amounts to fifty dollars or more per employe, the account shall be liable for and shall pay in full all valid benefit claims for unemployment during the month;

(b) When such reserve amounts to over forty-five dollars but less than fifty dollars, all such valid benefit claims shall be paid, except that no eligible claimant shall receive for total unemployment a benefit of more than nine dollars per week;

(c) When such reserve amounts to over forty dollars but less than forty-five dollars, no claimant shall receive a benefit of more than eight dollars per week;

(d) For each further periodic drop of five dollars in the reserve per employe, there shall be a corresponding further drop of one dollar in the maximum benefit per week payable to any claimant for total unemployment.

(5) Any employe who has neither been a resident of Wisconsin for the past two years nor been gainfully employed in the state for forty weeks within such two-year period, and who is, therefore, under subsection (8) of section 108.04 ineligible to receive benefits under this chapter, shall be known as "a nonqualified employe". Whenever such a nonqualified employe loses his employment, under conditions other than those enumerated in subsection (5) of section 108.04, his employer's account shall be at once liable to pay in lieu of benefits to such person a lump sum amount to the commission. This payment shall be made at the rate of five dollars for each four weeks of employment of such person by such employer during the period of employment just ended; but not more than five dollars shall be so payable for each five dollars reserve per employe in the employer's account at the beginning of the current calendar month. The employer's liability under this subsection shall be reported by him and shall be determined in amount in accordance with suitable rules to be prescribed by the commission. The amount found to be due shall in each such case be paid over from the employer's account into the administration fund established by section 108.20.

108.07 LIABILITY OF SUCCESSIVE EMPLOYERS. (1) When an employe is employed by more than one employer within any twelve-month period the payment of benefits due such employe for total unemployment shall be made from the successive employer's accounts in inverse order to such successive employments. Until the last employer liable shall have met or been unable further to meet his benefit liability to an eligible employe no previous employer shall be due to pay benefits to such employe.

(2) When an eligible employe becomes employed in an employment or by an employer not subject to this chapter, such employment, except as provided in section 108.25, shall postpone but not terminate the liability of any former employer to pay benefits to such employe; provided, however, that if the employe fails to return to regular work offered him in his former employment by the written request of his former employer, made in good faith and not inconsistent with subsection (7) of section 108.04, such employe's right to benefits from such former employer shall be extinguished.

108.08 NOTIFICATION. (1) Any claimant of benefits must give notice of his unemployment at the public employment office for the district in which he is or was last employed, within such time and in accordance with such rules as the commission may prescribe. Thereafter he shall give notice of the continuance of his unemployment as frequently and in such manner as the com-

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mission may prescribe. But the notification prescribed under this subsection may, as to any case or class of cases, be waived by the commission for good cause (including administrative feasibility), provided the commission finds that no party in interest will be prejudiced by such waiver.

(2) The commission may require from any or each employer notification of the partial or total unemployment of his employees, within such time, in such form, and in accordance with such rules as the commission may prescribe.

108.09 ESTABLISHMENT OF CLAIMS. (1) Claims for benefits shall be filed with the superintendent of the public employment office for the district in which the claimant is or was last employed, or with a deputy of the commission designated for the purpose. Claims shall be filed within such time and in such manner as the rules of the commission may prescribe.

(2) If a claim appears to the superintendent or deputy invalid he shall reject the claim; if it appears valid he shall state the amount of benefits apparently payable to the claimant while eligible. In either case he shall notify the claimant in writing, giving his reasons. If the claimant is dissatisfied he may, within a time limit after notification to be set by the commission, have recourse to the method set up in section 108.10 for settling disputed claims.

(3) If a claim appears to the superintendent or deputy valid he shall notify the liable employer in writing of the amount of benefits apparently payable thereunder. If the employer does not contest the claim, within a time limit after notification to be set by the commission, the amount of benefits stated by the superintendent or deputy shall, subject to the limitations set up in this chapter, become payable to the claimant from such employer's account and shall be so paid by the commission. If the employer wishes to contest the claim, he may, within a time limit to be set by the commission, have recourse to the method set up in section 108.10 for settling disputed claims.

108.10 METHOD OF SETTLING DISPUTED CLAIMS. (1) The manner in which disputed claims shall be presented, the reports thereon required from employers, and the conduct of hearings shall be governed by rules and regulations to be adopted by the industrial commission.

(2) Disputed claims, whether involving employers exempted under section 108.15 or those contributing to the fund, shall be decided in the first instance by the superintendent of the district public employment office or by a deputy of the commission designated for the purpose.

(3) Within a time limit after notification to be set by the commission either the employer or employe may take an appeal from any decision of the superintendent or deputy, to an appeal board to be appointed in each employment office district by the industrial commission. Such district appeal board shall consist of one employer or representative of employers, one employe or representative of employes, and one person who is not an employer, employe or representative of either.

(4) Decisions of a district appeal board shall be reviewable by the com-

mission or its representative upon appeal of either party within a time limit and in accordance with other rules and regulations to be laid down by the commission. The commission may authorize a commissioner or an examiner to hear such cases and to make decisions under rules to be adopted by the commission.

(5) Either party, if dissatisfied with the decision of such commissioner or examiner, may petition the industrial commission to review it as a commission. Such petition shall be in writing specifying in detail the particular errors alleged. If no such petition is filed within ten days from the date when a copy of the decision of the commissioner or examiner was mailed to the last known address of each party in interest such decision shall be considered the decision of the industrial commission, unless set aside, reversed or modified by such commissioner or examiner within such time. Within ten days after the filing of any such petition the commission shall, on the basis of the evidence previously submitted in such case, affirm, reverse, set aside or modify such decision, or direct the taking of additional testimony. Any decision made by the commission shall, if not modified or changed by it within twenty days, become the final decision of the commission and shall then be subject to judicial review on the same grounds and in the same manner as decisions of the industrial commission under the workmen's compensation act may be reviewed.

(6) The commission shall have the power to remove or transfer the proceedings pending before a commissioner or examiner; and may on its own motion set aside, modify or change any decision, whether made by a superintendent or deputy, by a district appeal board, by a commissioner or examiner, or by the commission as a body, at any time within twenty days of the date hereof if it shall discover any mistake therein or upon the grounds of newly discovered evidence.

(7) In the discharge of their duties under this section, the superintendent of any district public employment office, any member of a district appeal board, and any member, examiner or duly authorized employe of the industrial commission shall have power to administer oaths to persons appearing before them, and by subpoenas (served in the manner in which circuit court subpoenas are served) to compel attendance of witnesses and the production of books, papers, documents and records necessary or convenient to be used by them in connection with any disputed claim.

(8) A full and complete record shall be kept of all proceedings in connection with a disputed claim and all testimony shall be taken down by a stenographer appointed by the commission.

108.101 MODIFIED PROCEDURE. The commission may modify the procedure prescribed in sections 108.08, 108.09 and 108.10, with a view to such establishment and determination of claims against employers exempted under section 108.15, as will be suitable to such cases and fair to the parties in interest.

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108.11 AGREEMENT TO CONTRIBUTE BY EMPLOYEES VOID. (1) No agreement by an employe or by employes to pay any portion of the contributions required under this chapter from employers shall be valid. No employer shall make a deduction for such purpose from wages. Any employe claiming a violation of this provision may, to recover wage deductions wrongfully made, have recourse to the method set up in section 108.10 for settling disputed claims.

(2) But nothing in this chapter shall affect the validity of voluntary arrangements whereby employes freely agree to make contributions to a fund for the purpose of securing unemployment compensation additional to the benefits provided in this chapter.

108.12 WAIVER OF BENEFIT VOID. No agreement by an employe to waive his right to benefits or any other rights under this chapter shall be valid.

108.13 ASSIGNMENT. No claim for benefit under this chapter or under any approved voluntary unemployment benefit plan shall be assignable before payment, but this provision shall not affect the survival thereof; nor shall any claim for benefit awarded, adjudged, or paid, be subject to be taken for the debts of the party entitled thereto.

108.14 ADMINISTRATION. (1) This chapter shall be administered by the industrial commission.

(2) The commission shall have power and authority to adopt and enforce all rules and regulations which it finds necessary or suitable to carry out the provisions of this chapter. All such rules and regulations shall be published in the state's official newspaper and shall take effect ten days after such publication. A copy of such rules and regulations shall be delivered to every person making application therefor. The commission may require from employers, whether subject to this chapter or not, any reports on employment, wages, hours and related matters which it deems necessary to carry out the provisions of this chapter.

(3) The commission may appoint, employ and pay as many persons as it deems necessary to administer and to carry out the purposes of this chapter, and may make all other expenditures of any kind which it deems necessary or suitable to this end. But it shall not pay to any member of a district appeal board more than five dollars of compensation per day of services.

(4) The commission may create as many employment districts and district appeal boards and may establish and maintain as many free public employment offices as it deems necessary to carry out the provisions of this chapter. The commission shall have power to finance either partly or completely such public employment offices as it deems necessary under this chapter, from the funds appropriated to the commission for its expenses under this chapter, whether or not the political subdivision in which such office is located agrees to pay or does pay any part of the expenses of such office.

(5) The commission shall appoint advisory employment committees, by local districts or by industries or for the whole state, consisting in each case of one or more representatives each of employers, employes and the public, who shall assist the commission, without compensation but with reimbursement of necessary expenses, in administering and carrying out the purposes and provisions of this chapter.

(6) It shall be one of the purposes of this chapter to promote the regularization of employment in enterprises, localities, industries, and the state. The commission, with the advice and aid of its advisory employment committees, shall take all appropriate steps within its means to reduce and prevent unemployment. To this end the commission may employ experts, and may carry on and publish the results of any investigations and research which it deems relevant, whether or not directly related to the other purposes and specific provisions of this chapter. At least once a year the commission shall compile and publish a summary report stating the operations and status of each employer's account or other unemployment reserve and covering such other material as it deems significant in connection with the operations and purposes of this chapter.

108.15 EXEMPTION. (1) The commission shall exempt, from the provisions of this chapter, except sections 108.12, 108.14, 108.15, 108.19, 108.21, 108.22 and 108.24, any employer who guarantees, under a plan approved by the commission, to all his eligible employes (and to each new eligible employe who is continued in employment after a probationary period of one month), in advance for a stated one-year period, at least forty-two weeks of work or wages, for at least thirty-six hours in each such week, if satisfied that the employer can and will make good such promise under all circumstances. The words "eligible employe" in this subsection shall mean an employe who if unemployed would not be barred from eligibility for benefits by any of paragraphs (e), (f) and (g) of subsection (5) of section 108.04 or by subsection (8) of section 108.04.

(2) The commission shall exempt, from the provisions of this chapter, except sections 108.03, 108.04, 108.07, 108.101, 108.12, 108.13, 108.14, 108.15, 108.19, 108.21, 108.22, 108.23, 108.24, 108.25 and 108.26, any employer or group of employers submitting a plan for unemployment benefits which the commission finds: (a) makes eligible for benefits at least the employes who would be eligible for benefits under the compulsory features of this act; (b) provides that the proportion of the benefits to be financed by the employer or employers will on the whole be equal to or greater than the benefits which would be provided under the compulsory features of this act; and (c) is on the whole as beneficial in all other respects to such employes as the compulsory plan provided in this act. If under such a plan any contributions are made by employes, the accounts of the plan shall be so kept as to make clear what proportion of the benefits is financed by the employer or employers, and what proportion by the employes. If under such a plan any contributions are made by em-

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ployes, the commission may require that such employes be represented, by representatives of their own choosing, in the direct administration of such plan, and the commission may take any steps necessary and appropriate to assure such representation to contributing employes.

(3) No employer or group of employers exempted under this section shall be permitted to insure the liability to pay benefits or wages in any insurance company; and if such employer or employers enters or enter into an agreement for any form of insurance coverage such action shall automatically operate as a revocation of such exemption.

(4) As a condition of granting exemption, the commission may require the employer or group to furnish such security as the commission may deem sufficient to assure payment of all promised benefits or wages, including the setting up of proper reserves. Such reserves and other security and also the manner in which an exempted employer carries out his promises of benefits or employment shall be subject to inspection and investigation by the commission at any reasonable time. If the commission shall deem it necessary it may require an exempted employer to furnish additional security to assure fulfillment of his promises to his employes.

(5) If an exempted employer or group of employers fails to furnish security satisfactory to the commission, or fails to fulfill the promises made to employes, or wilfully fails to furnish any reports that the commission may require under this chapter, or otherwise to comply with the applicable portions of this chapter and the rules, regulations and orders of the commission pertaining to the administration thereof, the commission may, upon ten days' notice and the opportunity to be heard, revoke the exemption of such employer or group.¹

(8) The rules and regulations for the government of such plan must be submitted to and approved by the commission. A plan, so approved, shall when put into effect, constitute a contract between each employer and every other employer participating in that plan, and between the employer or employers on the one hand, and, on the other hand all employes who come under it; and shall not thereafter be abandoned or modified without the approval of the commission. Provided that, at any time after five years from and after the passage of this act, the commission may, on the petition of any interested party, or on its own motion, and after public hearing, modify any such plan to conform to the standards then provided by the law for approved voluntary unemployment benefit plans.

108.16 UNEMPLOYMENT RESERVE FUND. (1) For the purpose of carrying out the provisions of this chapter there is established a fund to be known as the "Unemployment Reserve Fund", to be administered by the state without liability on the part of the state beyond the amount of the fund. This fund shall consist of all contributions and moneys paid into and received

¹ Certain sentences which follow in the act are omitted here.

by the fund pursuant to this chapter and of properties and securities acquired by and through the use of moneys belonging to the fund.

(2) A separate account shall be kept by the industrial commission with each employer contributing to said fund, and this separate employer's account shall never be merged with any other account except as provided in subsection (3) of this section.

(3) Whenever two or more employers in the same industry or locality desire to pool their several accounts with the fund, with a view to regularizing their employment by cooperative activity, they may file with the commission a written application to merge their several accounts in a new joint account with the fund. If in its judgment the plan has merit, the commission shall establish such a joint account, provided that the several employers each accept such suitable rules and regulations not inconsistent with the provisions of this chapter as may be drawn up by the commission with reference to the conduct and dissolution of such joint accounts.

(4) All contributions payable to the unemployment reserve fund shall be paid to the industrial commission, and shall daily be paid over by the commission to the state treasurer and credited to the unemployment reserve fund. Payments from said fund shall be made upon vouchers of the industrial commission. The state treasurer shall be ex officio the treasurer and custodian of the unemployment reserve fund. He shall give a separate and additional bond conditioned upon his faithful performance of these duties.

(5) The unemployment reserve fund shall be invested by the annuity and investment board in the readily marketable obligations of the United States of America, of any of its forty-eight state governments including this state, and of any city, county or other governmental subdivision of this state, all having a maturity of not over five years from the date of purchase. The investments of the fund shall be so made that all the assets of the fund shall always be readily convertible into cash when needed. When so directed by the industrial commission, the board shall dispose of securities belonging to the fund to secure cash needed for the payment of benefits. All expenses of the annuity and investment board in the investment of the unemployment reserve fund shall be paid from the interest earnings of said fund, as provided in subsection (1) of section 20.725.

(6) All net earnings on moneys belonging to the unemployment reserve fund shall be credited thereto, and shall, at the close of each fiscal year, be apportioned by the commission equitably to the several employers' accounts.

(7) If any employer shall become exempted under section 208.15, or shall cease to be subject to this chapter, or shall permanently go out of business in this state (except as provided in subsection (8) of this section), such employer shall, upon the expiration of six months (or prior thereto if he shall furnish surety satisfactory to the commission for the payment of benefits becoming due under this chapter during the remainder of such six-month period) receive the balance then standing to his credit in the fund.

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(8) If any employer shall transfer his business in whole or in part or shall otherwise reorganize such business, the successor in interest is hereby required to take over (in proportion to the extent of such transfer, as determined for the purposes of this chapter by the commission) the resources and liabilities of such employer's account, and to continue without interruption the payment of all contributions and benefits which would have been due for payment under this chapter in case such employer had continued in business without such transfer or reorganization.

108.17 PAYMENT OF CONTRIBUTIONS. (1) On and after the first day of July, 1933, contributions shall accrue and shall become payable by each employer then subject to this chapter in accordance with its provisions. Thereafter contributions shall accrue and become payable by any employer on and after the date on which he becomes newly subject to this chapter.

(2) All contributions required under this chapter from employers shall be paid to the industrial commission, at such times and in such manner as the commission may prescribe, except as provided otherwise in the case of employers exempted under section 108.15.

108.18 CONTRIBUTIONS TO THE UNEMPLOYMENT RESERVE FUND. The contribution regularly payable by each employer into his account with the fund shall be an amount equal to two per cent per annum of his payroll. (In order that reserves shall be built up for all employes potentially eligible to benefits, "payroll" shall include all wages, salaries and remuneration paid to employes subject to this chapter; except that it shall not include the amount paid to an employe or officer employed on a contractual basis for a fixed period at a fixed monthly salary, which will aggregate at least fifteen hundred dollars if said period is less than twelve months, or amount to at least fifteen hundred dollars per annum if such period is twelve months or more, provided such contract is duly reported to the commission by the employer; nor shall it include any salary or wage of three hundred dollars or more per month.) During an employer's first two years of contribution payments, and whenever thereafter his account amounts to less than fifty-five dollars reserve per employe, the employer shall make contributions to the fund at the rate of two per cent per annum on his payroll. If the employer has been continuously subject to this chapter during the two preceding years, the rate of contributions may be reduced or suspended under the following conditions:

(1) Whenever the employer's account amounts to fifty-five dollars but less than seventy-five dollars reserve per employe, such employer shall pay contributions to the fund at the rate of one per cent per annum on his payroll.

(2) Whenever and while the employer's account has a reserve per employe of seventy-five dollars or more, no contributions to the unemployment reserve fund shall be required of such employer.

108.19 CONTRIBUTIONS TO THE ADMINISTRATION FUND. Each employer subject to this chapter, including every employer exempted under

section 108.15, shall regularly contribute to the unemployment administration fund created in section 108.20 at the rate of two-tenths of one per cent per annum on his payroll as defined in section 108.18. But the commission may prescribe at the close of any fiscal year such lower rates of contribution under this section, to apply to classes of employers throughout the ensuing fiscal year, as will in the commission's judgment adequately finance the administration of this chapter, and as will in the commission's judgment fairly represent the relative cost of the services rendered by the commission to each such class.

108.20 UNEMPLOYMENT ADMINISTRATION FUND AND APPROPRIATION. (1) To finance the administration of this chapter and to carry out its provisions and purposes there is established the "Unemployment Administration Fund." This fund shall consist of all contributions and moneys paid to the industrial commission for the administration fund as provided in subsection (5) of section 108.06, and in sections 108.19 and 108.22.

(2) All amounts received by the commission for such fund shall daily be paid over to the state treasurer and credited to the unemployment administration fund, and, as provided in section 20.573 of the statutes, are appropriated to the commission for the administration of this chapter.

108.21 RECORD AND AUDIT OF PAYROLLS. Every employer, whether exempted or not, shall keep a true and accurate employment record of all his employes, whether qualified and eligible to unemployment benefits or not, and of the hours worked for him by each and of the wages paid by him to each employe, and shall furnish to the commission upon demand a sworn statement of the same. Such record shall be open to inspection by the commission or its authorized representatives at any reasonable time.

108.22 COLLECTION OF CONTRIBUTIONS IN CASE OF DEFAULT. If any employer whether exempted or not shall default in any payment required of him under this chapter he shall become additionally liable for interest on such payment at twelve per cent per annum from the date such payment became due, such interest to be paid to the administration fund. If after due notice this payment plus interest at twelve per cent per annum is not made, it shall be collected by a civil action in the name of the state, the defaulting employer to pay the costs of such action. The payment originally due shall be paid to the commission, and credited, as may be proper in each case, either to the fund and to the defaulting employer's account or to the administration fund. The interest thus collected shall be paid to the administration fund.

108.23 BANKRUPTCY. In the event of bankruptcy or insolvency of any employer, unpaid claims for benefits and unpaid amounts due the fund under this chapter or to a fund or reserve under any approved voluntary unemployment benefit plan shall have the same preference as is accorded in subsection (1) of section 103.38 to unpaid claims for compensation or compensation insurance.

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108.24 PENALTIES. (1) Any person who wilfully makes a false statement or representation to obtain any benefit or payment under the provisions of this chapter, either for himself or for any other person, or to lower any contribution required of him, and any employer who makes a deduction from the wages of any employe in order to pay any portion of the contribution required of such employer under this chapter, shall upon conviction be deemed guilty of a misdemeanor and be punished by a fine of not less than twenty-five dollars nor more than one hundred dollars, or by imprisonment in the county jail not longer than thirty days, or by both such fine and imprisonment; and each such false statement and each such deduction from wages shall constitute a separate and distinct offense.

(2) Any employer who wilfully refuses or fails to pay any contribution required of him under this chapter, and any person who wilfully and unlawfully fails or neglects to appear or to testify or to produce books, papers and records, as required at any hearing under this chapter, shall upon conviction be deemed guilty of a misdemeanor and be fined not less than twenty-five dollars nor more than one hundred dollars, or be imprisoned in the county jail not longer than thirty days, or be punished by both such fine and imprisonment; and every day of such refusal, failure or neglect shall constitute a separate and distinct offense.

(3) On complaint of the commission the fines specified in this section may be collected by the state in an action for debt.

108.25 USE OF UNEMPLOYMENT RESERVE FOR PUBLIC WORKS.

(1) If the state or any of its political subdivisions during a period of unemployment either directly or through a contractor provides work which in the opinion of the commission is an unemployment relief measure and which conforms to standards of wages and conditions prescribed by the commission, such work shall be deemed suitable employment within the meaning and subject to the limitations of subsection (6) of section 108.04; provided, that an employe who accepts such work for any calendar week in which he would otherwise be totally unemployed and eligible for benefits shall be entitled to receive such benefits in the form of wages paid him for such governmental work. To this end the state or subdivision giving such work and wages to such employe in any calendar week shall receive his benefits for such week, for the purpose of partially financing such employe's work and wages on such governmental unemployment relief project.

(2) Benefits payable under this section to an employe in the form of wages from this state or a political subdivision for work on a relief project shall cease, as provided in subsection (6) of section 108.04, for any period after such employe has without good cause failed to apply for suitable employment other than such governmental work when notified, or has refused to accept suitable employment other than such governmental work when offered him.

108.26 VOCATIONAL EDUCATION. When any employe is unemployed and eligible for benefits under this chapter, he may be recommended by the superintendent of the district employment office to attend vocational or other school during his unemployment. If he attends school under conditions approved by such superintendent and does satisfactory work in his classes he shall be eligible for an additional benefit of one dollar per week, to be paid from the administration fund. The education shall be furnished at public expense and any fee which may customarily be charged for attendance at such classes must be paid by the town, village or city in which such employe resides.

108.27 SEPARABILITY OF PROVISIONS. If any provision of this chapter, or the application thereof to any person or circumstance, is held invalid, the remainder of the chapter and the application of such provision to other persons or circumstances shall not be affected thereby.

20.573 UNEMPLOYMENT ADMINISTRATION FUND. All moneys paid to the industrial commission and deposited by it with the state treasurer pursuant to section 108.20 are appropriated to the industrial commission for the performance of the functions of the commission under chapter 108 including its conduct of public employment offices and its other efforts to regularize employment; to pay the compensation and expenses of appeal boards and the expenses of advisory employment committees; and to pay allowances stimulating education during unemployment. Any balance remaining in this fund at the close of any fiscal year shall not lapse but shall remain available for the purposes herein specified.

SECTION 3. VOLUNTARY SYSTEMS OF UNEMPLOYMENT COMPENSATION. (1) In accordance with the legislative intent expressed in section 1 the compulsory features of section 2 and section 5 of this act shall not take effect until July 1, 1933, nor shall they take effect on that date if the commission finds that on or before June 1, 1933, employers then employing in the aggregate at least one hundred seventy-five thousand employes as defined in section 108.02 shall have established plans previously approved by the commission as plans which would be entitled to exemption under section 108.15 of the compulsory act.

(2) At any time after the taking effect of this act employers may submit to the industrial commission voluntary plans for guaranteed employment or for unemployment compensation. If, after investigation, the commission is satisfied that a plan thus submitted would be entitled to exemption under section 108.15 of the compulsory act, the commission shall give its written approval of such plan, and such approval shall apply for the purposes of the present section of this act.²

(5) If the compulsory plan shall not come into operation, the industrial commission shall continue its supervision over the voluntary plans of unem-

² Paragraphs 3 and 4 are omitted.

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ployment compensation established in this state. It shall be the duty of the commission to keep itself informed regarding the operations of such voluntary plans and it shall include pertinent statistics regarding such plans in its biennial reports.

SECTION 5.³ The industrial commission may establish such free employment offices as it may deem necessary to carry out the purposes of chapter 108. All expenses of such offices, or all expenses not defrayed by the county, city, town or village in which an office is located, shall be charged to the appropriation to the industrial commission provided in section 20.573.

Assembly: Ayes 63; Noes 15.

Senate: Ayes 19; Noes 9; Paired 2.

³ Sections 4 and 6 are omitted and also certain sentences in Section 5.

APPENDIX B

THE REPORT OF THE INTERSTATE COMMISSION ON UNEMPLOYMENT INSURANCE

The Interstate Commission on Unemployment Insurance, composed of the representatives of the Governors of the States of New York, Ohio, Massachusetts, Pennsylvania, New Jersey, and Connecticut, has the honor of presenting the following report of its findings and recommendations.

I. FINDINGS AND RECOMMENDATIONS

We regard unemployment as it exists in the United States today as a many-sided problem. It seems to us unlikely that any single measure now adopted, without further experimentation and experience, can cope successfully with all forms of unemployment, or with the total period of unemployment, or even with all of the unemployed. The most substantial progress in dealing with the total problem of unemployment consists, we believe, in making provision for the persistent unemployment and irregularity of operation which is so characteristic of American industry. By a general attack on the problem at this point it should prove possible to assess responsibility for avoidable irregularity and to afford ownership and management incentives for the regularization of production and, hence, the reduction of unemployment.

This method of approach to the problem of unemployment would rapidly yield comprehensive data on the relation between the numbers of regular working men, on the one hand, and, on the other, of casuals and unemployables. With such information at hand, the task of formulating a national unemployment program designed to meet the grave emergencies of prolonged depressions would become much more practicable than it is at the present time.

As the first important step in creating constructive unemployment machinery, we are strongly of the opinion that measures proposed should combine the greatest possible simplicity in principle and practice and should look forward to the progressive stabilization of conditions of employment. With this goal in mind we, therefore, recommend:

1. The compulsory establishment of State-wide systems of unemployment reserves.

We are not unmindful of the progress which individual firms and groups of employers have made in this country with plans of voluntary unemployment reserves. From their activities much has already been learned concerning the

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problems of unemployment compensation in American industry. But, in spite of this encouraging advance, the fact remains that the total of voluntary unemployment insurance now in force in the United States affects only a small fraction of the work force of the nation.

It is our conviction that no substantial increase in the coverage of employes and that no widespread adoption of insurance by the most unstable of our industries can be expected in the predictable future unless the establishment of reserve funds is made obligatory through legislation.

2. The payment by each employer of a contribution amounting to 2 per cent of his payroll.

We have canvassed carefully the arguments for and against the payment of contributions, or premiums, by employes; and we have in mind provisions for unemployment, in addition to those proposed here, which might well be financed in part by contributions from employes. But in view of the moderate terms of our proposal the greatest share of the burden of unemployment would still be borne by the workers whose benefits under the plan would be considerably less than the wages he would have continued to receive if employed. The employe should not, in our judgment, be required to reduce his earnings further by the payment of contributions into unemployment reserves. A further important reason for not recommending contributions by the employes is that a purpose of our proposal is to encourage the adoption of measures of prevention.

The employers' financial liability under our plan should operate as a continuous incentive to prevent unemployment so far as practicable. To reduce this liability, therefore, by placing part of the burden on his employes would likewise reduce the incentive to undertake preventive measures.

PAYMENTS BY EMPLOYERS

3. The payments made by each employer shall constitute the unemployment reserve of his firm and shall be so treated in the accounts.

This proposal differs radically from the European plans of unemployment insurance in which contributions from all employers and all industries flow into a single common pool. It has been widely recognized even by sympathetic critics of European practice that the pooling of reserves has had unfortunate results. The irregular industries enabled to draw benefits for their unemployed workmen from the common pool may be thus tempted to shift the responsibility and cost of their own unemployment to the more stable and profitable industries.

In so far, then, as unemployment is due to careless or indifferent management, or to the failure to take proper precautions for the future, the pooling of reserves may have the effect of perpetuating such uneconomic practice and may, in consequence, fail to offer the incentives to regularization for which many of the advocates of unemployment insurance had hoped. Many of these diffi-

culties may indeed be attacked by setting up industrial, in contrast to national, unemployment reserves and by adjusting the contributions of individual employers within each industry to their unemployment experience. While we recognize the merits of such a plan, in the interests of simplicity of administration and progress in stabilization, we propose that each company assume responsibility, limited by the amount of its contributions, for the unemployment of its own work force.

4. The maximum rate of benefit shall be 50 per cent of an employe's wage, or \$10 a week, whichever is lower; and the maximum period of benefit shall be ten weeks within any twelve months. Employes who suffer unemployment by reason of short-time employment shall be eligible for benefits whenever their week's wages are less than 60 per cent of their average weekly wage, but the benefit for partial unemployment shall not exceed the difference between the wage actually received and 60 per cent of the employe's average weekly wage. In no case, however, shall the benefit of a part-time employe exceed \$10 a week.
5. The financial responsibility of an employer shall be strictly limited by the amount of his unemployment reserve.

We regard this provision as a prerequisite to the sound development of any plan of compulsory unemployment insurance. Failure to limit liability of the reserve funds is the first and most radical departure from accepted insurance principles and constitutes an open invitation to supplement contributed funds with subsidies from the government or other sources. The adoption of such practices has been the rock on which foreign unemployment insurance schemes have split; and they have been responsible for the commingling of insurance and relief funds, which is now so universally deplored by all students of this problem.

To safeguard the principle of limited liability we propose further that, when the employers' reserve at the beginning of any month is less than \$50 per employe, the maximum rate of benefit be proportionately reduced.

RESERVE LIMITED

6. When the accumulated reserve per employe shall exceed \$50, the employer's contribution shall be reduced to 1 per cent of his payroll; and, when the reserve has reached \$75, he shall make no further contributions to the fund until the reserve again falls below \$75 per employe.

The purpose of this provision is to offer employers effective incentives for the exercise of control over fluctuations in employment. We have considered the advisability of providing for a system of experience rating, whereby the contributions of employers would from time to time be adjusted to their actual unemployment experience.

The immediate adoption of experience rating we regard as premature. Mod-

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erate and experimental incentives to regularization are afforded in our proposal to reduce the premium when the reserve per employe exceeds \$50. With the accumulation of experience and much more accurate data on unemployment rates than we now have, it should prove possible to use merit rating and refined methods of adjusting premiums to unemployment rates.

To further encourage experiments with the prevention and reduction of unemployment, we recommend exemption of firms or groups of firms which have set up reserve funds providing benefits equal to or greater than those enumerated in the foregoing proposals.

7. The State shall act as the custodian, investor and disbursing agent of the reserve funds.

For this purpose there should either be created an Unemployment Commission of three members, representing labor, industry, and the public, charged with establishing the system of unemployment reserves and with its continuing administration; or, where there already exists a State Industrial Commission similarly constituted, it should administer the unemployment compensation plan. The cost of administering the plan should, we believe, be assumed by the State. Expenses of the States would not be increased by the total cost of administration since the Unemployment Administration would take over functions now performed by existing agencies.

The cost, in particular, of collecting and publishing employment and other industrial statistics, and of administering the public employment offices is not additional, since it is now incurred by existing State agencies.

STATE SERVICE EXTENSION ASKED

8. The State shall take prompt steps to extend its public employment service.

No system of unemployment insurance can accomplish its purposes without a properly organized and efficiently operated system of employment exchanges. The States represented on this commission now have public employment offices. We recommend that the existing employment bureaus be put under the jurisdiction of the employment administration. In order, however, that the work of the employment exchanges be not hampered and the staff burdened with duties growing out of the payment of unemployment benefits, it is important that the employment exchanges be operated as a separate division coordinate with a division of insurance.

All of the staff of the employment bureaus should be under the classified civil service, with tenure not subject to political changes. Trade associations administering the unemployment reserves for their industries and organizations of employers and employes who maintain and operate approved unemployment insurance plans by collective agreements may operate their own employment bureaus and offices for the payment of benefits. Such industry

offices must be under the general supervision of the State employment service and subject to its general rules.

9. The unemployment authority shall create stabilization agencies.

The most effective measures for achieving greater stabilization of employment cannot obviously be accomplished by a single firm. Every effort should, therefore, be made by the unemployment administration to encourage co-operative action between firms and industries. To this end the unemployment administration should set up advisory committees of employers and employes and should have experts instructed to formulate plans to promote the regularization of employment in individual plants, localities, industries and the State.

II

The recommendations we have made constitute the principles on which, in our judgment, the features of a sound State unemployment compensation act should rest. The drafting of a model act we have regarded as beyond our province, since the specific acts proposed in several States may differ widely in detail, while adhering to the same underlying principles. In general, we urge the application of unemployment compensation to the largest possible number of employes, exclusive of agriculture and employes normally, earning more than \$200 a month. Efforts to regularize the employment of labor in small establishments are so important that we recommend including under the terms of the act all employers of six or more workers.

We have not attempted to summarize in this report the great literature which has grown up on European and American experience with many types of unemployment insurance and reserves. Useful summaries, descriptive and critical, are now readily available in this country for students of the problem and for all other interested persons. The well-known difficulties of insolvency and abandonment of basic contractual, insurance obligations which the European and some American schemes have encountered, particularly in the post-war phase of their history, have received our close attention and have been an important factor in directing our search for proper principles of unemployment compensation. We have been much influenced in our thinking by the profound and constructive interest among American business men in problems of stabilization and in forms of unemployment compensation which combine relief with incentives to prevention.

We are conscious of the fact that our proposals are extremely modest and moderate. It is not, in our judgment, sound to impose an onerous burden of cost on American industry. The measures adopted now can, we recognize, only incidentally serve to mitigate the effects of severe and prolonged industrial depression. It may well be that the unemployment of long depressions can be met only by the creation of extraordinary reserve funds raised from contributions by employers, labor and the Federal Government. We are clear, how-

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ever, that the type of measures we propose constitute a constructive attack on the problem.

SIMPLE SYSTEM ADVOCATED

Dealing with the chronic irregularity and unemployment of our industry will not only ameliorate the lot of the unemployed but will also, in time, point the way to further devices for strengthening the available machinery of unemployment relief and prevention. At the best, there will for some time remain a residuum of unemployed who must continue to look for assistance to the agencies of private and public charity. With the establishment and extension of unemployment compensation plans, however, we should be taking the first steps in reducing the wastes and damage to self-respect which characterize our present disorderly methods of handling the unemployed; and we should have put ourselves in the position of applying more scientific methods to the treatment of the total problem of unemployment.

Our subcommittee on the cost of unemployment insurance investigated the possible costs of various types of such insurance. It found that available unemployment data, particularly with reference to the frequency and duration of spells of unemployment, were so unsatisfactory that estimates of cost were virtually useless. With compensable unemployment strictly defined and circumscribed, as it is in the provisions submitted in this report, it is possible to estimate that the cost of unemployment compensation should not exceed a per cent of the pay roll.

We have finally explored the suggestion that there be created an interstate unemployment authority charged with setting up an interstate administration of unemployment compensation. It is our reasoned judgment on this matter that the best combined and separate interests of the States, participating in this inquiry, will be served by recommending to them the adoption of a practicable and simple type of unemployment compensation, whose cost should not seriously disturb the prevailing competitive relationship of industries doing business within the boundaries of those States.

The adoption by the six States of a system of unemployment reserves, similar to the plan here proposed, would constitute a great step forward in the joint consideration and handling of interstate industrial problems. The pressing need for an intelligent unemployment program, revealed once more by our experience during the past two years, should hasten the favorable consideration of a moderate and practicable proposal for constructive experiment.

INTERSTATE COMMISSION ON UNEMPLOYMENT INSURANCE
LEO WOLMAN, *Chairman*, New York
CHARLES R. BLUNT, New Jersey
A. LINCOLN FILENE, Massachusetts
C. A. KULP, Pennsylvania

APPENDIX B

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W. M. LEISELSON, Ohio
W. J. COUPER, Connecticut

RESERVATIONS BY W. M. LEISELSON

The representative of the Governor of Ohio has signed this report; but he takes exception to any implications in it that an insurance system with pooling of contributions may not be better than a plan of separate, plant reserves. In addition to the recommendations here contained he would recommend experiments with State unemployment insurance funds that included contributions from employes as well as from employers, and that pooled all the reserves after the manner of workmen's compensation insurance.

APPENDIX C

THE OHIO UNEMPLOYMENT INSURANCE BILL¹

Section 1. DECLARATION OF PUBLIC POLICY. As a guide to the interpretation and application of this act the public policy of the state is declared as follows:

a. Distress from unemployment has become a serious menace to the health, safety, morals and welfare of the people of the state of Ohio. Because insurance or reserves have not been provided in times of plentiful employment for the support of unemployed employees and their families during periods of unemployment and depression, poverty, distress and suffering have spread throughout the state; and the taxpayers have been unfairly burdened with the cost of supporting able-bodied workers laid off by their employers until such time as they would again be needed. Farmers and rural communities, particularly, are unjustly burdened with increased taxation for the support of industrial workers at the very times when agricultural incomes are reduced by lack of purchasing power in the urban markets. In years of prosperity, as well as depression, expenditures of private and public charity organizations for the relief of the unemployed and their families fluctuate according to the fluctuations in unemployment; and in every period of severe unemployment, private charity funds for the care of the unemployed are inadequate. Demands are, therefore, made and pressure exerted for the appropriation of funds from the treasuries of local and state governments. Increasing sums are appropriated and paid out in the form of the "dole" in order that suffering and starvation may be avoided, thereby unduly increasing the expenditure of said governments, making taxes unduly burdensome, and undermining and threatening to destroy the initiative, responsibility, self-reliance and self-respect of the individual unemployed and of their families.

b. As these grave dangers to the citizenship and to the state became increasingly evident, the general assembly (Session of 1931) authorized the governor to appoint a commission "to investigate the practicability and advisability of setting up unemployment reserves or insurance funds to provide against the risk of unemployment, and to recommend what form of legislation if any may be wise or suitable to Ohio . . . and which may seem to offer the best preventive remedy to avoid future distress and suffering such as is being undergone by our citizens who are unable to find work through no fault of their own." This commission after extended investigations found and reported:

¹ From the *Report of the Ohio Commission on Unemployment Insurance* (1932), pp. 67-80.

(1) That charities, both private and public, although helpful, are inadequate, inappropriate, unscientific methods of dealing with the distress of capable workers who are unemployed through no fault of their own;

(2) That public charitable support for such able-bodied unemployed and their families is unwise and unsound as a public policy because it means the payment of doles from public treasuries, makes such relief and doles a political issue, resulting in burdensome increases in governmental expenditures and weakening of the moral fibre of the population;

(3) That lack of voluntary provision by businesses, corporations and individuals for the eventuality of unemployment, and the exhaustion of such savings as are provided, bring about an unfair and unjust distribution of the inevitable costs of unemployment; that industry and commerce are relieved of the expense of maintaining their labor reserves, and this expense is met partly by diverting charity funds from the sick, the maimed, the mentally and physically defective, the widowed women and the orphaned children for whom such charity funds are properly intended, but mainly by shifting the burden to the taxpayers, and to landlords, grocers, butchers and other tradesmen who are under the necessity of carrying the unemployed; that in addition, great numbers of city industrial workers are forced out into the rural districts to live on their farm relatives or to produce agricultural commodities in competition with farmers who are already suffering from low prices caused by over-supplied markets;

(4) That, in spite of all such provisions for dealing with distress from unemployment as have been made, many families have been broken up and children taken from their parents to be placed in institutions and foster homes because of lack of employment of the breadwinners; other thousands are left without adequate food, clothing and shelter, and are forced to beg for the same in soup kitchens, bread lines, public relief depots and public lodging houses; that in many communities these conditions have led to protest demonstrations accompanied in some cases by rioting and violence;

(5) That these dangers to the peace, safety and health of the communities of the state are aggravated by the fear of those who have employment that they too will soon be without work and without resources, who therefore contract their purchases, which action in turn is reflected in additional unemployment and further reductions in consumption;

(6) That these dangers and fears cannot be avoided unless foresighted provision for the unemployed and their families is made in times of plentiful employment on a comprehensive scale by industry and commerce, as well as by individuals, in the form of compulsory

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insurance that will be state-wide in scope; that such insurance is the only method by which the number and the need of the employed can be accurately known and the available opportunities for re-employment reliably ascertained; and that such insurance, to which employees as well as employers contribute, is the most satisfactory method of avoiding distress from unemployment and preventing the weakening of individual character, self-reliance and self-respect.

c. In view of these findings of fact, the considered judgment of the general assembly is that the compelling power of the state must be used to secure the thrift and foresight that are necessary on the part of the whole working population, to induce industry and commerce to bear their fair share of the cost of idle labor as they do of idle property, and to establish, maintain and operate the system of unemployment insurance hereinafter provided for.

Section 2. UNEMPLOYMENT INSURANCE FUND.

a. There is hereby created an unemployment insurance fund (hereinafter called the fund) to be administered by the state of Ohio without liability on the part of the state beyond the amounts paid into and earned by the fund. This fund shall consist of all premiums and money paid into and received by the fund as provided by this act; of property and securities acquired by and through the use of moneys belonging to the fund; and of interest earned by the fund. The fund shall be used to pay benefits as provided by this act, the entire cost of administration including salaries, the cost of public employment bureaus and all other expenditures necessary for the proper execution of the provisions of this act.

b. Custodian. The treasurer of the state shall be the custodian of the fund and all disbursements therefrom shall be paid by him upon vouchers authorized by the unemployment insurance commission hereinafter provided for, and signed by any two members thereof; or, such vouchers may bear the facsimile signatures of the members of the commission printed thereon, and the signature of the deputy or other employee of the commission charged with the duty of keeping the account of the fund and with the preparation of vouchers for the payment of benefits to the persons entitled thereto. The treasurer of state shall give a separate and additional bond, in such amount as may be fixed by the governor, and with sureties to his approval, conditioned for the faithful performance of his duties as custodian of the fund. Such bond shall be deposited with the secretary of state and kept in his office.

c. Deposits. The treasurer of state is hereby authorized to deposit any portion of the fund not needed for immediate use, in the same manner and subject to all provisions of law with respect to the deposit of state funds by the treasurer; and all interest earned by such portion of the fund as may be deposited by the state treasurer in pursuance of authority herein given, shall be collected by him and placed to the credit of the fund.

d. Investments. The commission shall have the power to invest any of the surplus or reserve belonging to the fund in securities as follows:

(1) Bonds or other obligations of the United States or of the state of Ohio;

(2) Bonds or other interest bearing obligations of any county, city, village, school district or other legally constituted political taxing subdivision within the state of Ohio, provided such county, city, village, school district or other subdivision has never defaulted in the payment of the principal or interest of any of its bonds or other interest bearing obligations;

(3) Any bonds issued by any bank, organized under the provisions of the Act of Congress, known as the Federal Farm Loan Act, approved July 17, 1916, and amendments thereto;

that all securities so purchased shall forthwith be placed in the possession of the treasurer of state. The treasurer of state shall honor and pay all vouchers drawn on the fund by the commission for the payment of such securities upon delivery of said securities to him, provided there is attached to such vouchers a certified copy of a resolution of the commission authorizing the purchase of such securities. The commission may sell any of said securities and the treasurer of state shall make delivery thereof upon like resolution, and the proceeds of any such sale shall be paid by the purchaser to the treasurer of state upon delivery of said securities.

Section 3. PREMIUMS.

a. On and after the first day of January, 1934, premiums for insurance in the fund shall accrue and become payable by every employer and employee subject to this act and in accordance with its provisions. All premiums payable to the fund shall be paid to the commission, at such times and in such manner as the commission shall prescribe, and shall promptly be paid over by the commission to the treasurer of state who shall credit same to the fund.

b. Employers' Premiums. Every employer subject to this act shall in the month of January, 1934, and thereafter at such intervals as the commission may determine and require, pay into the fund the amount of premiums fixed by this act, and by the commission as authorized by this act, for the employment or occupation of the employer. Until January 1, 1937, the contributions or premiums regularly payable by every employer into the fund shall be an amount equal to two per cent per annum of his payroll. Thereafter the premium to be paid by each employer shall be determined by the classification, rules and rates made and published by the commission; and every employer shall thereafter pay at regular intervals fixed by the commission such premiums into the fund as may be ascertained to be due from him by applying the rules of the commission; provided that the premium for an employer shall in no case amount to

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less than one per cent per annum or more than three and one-half per cent per annum of such employer's payroll.

c. **Classifications of Employments.** For the purpose of establishing the premiums to be paid by employers on and after January 1, 1937, the commission shall investigate, group and classify employments, industries and occupations with respect to the degree of the hazard of unemployment in each, shall determine the risk of unemployment on the basis of the employment record and the fluctuations in the payroll of each employer, and shall fix the rate of premium to be paid by each employer on an actuarial rating at the lowest possible figures consistent with the maintenance of a solvent insurance fund with reasonable reserves and surplus, but within the limitations of maximum and minimum rates of contribution by employers stipulated in Section 3b. The commission shall have the power to apply that form of rating system which, in its judgment, is best calculated to merit or individually rate the risk most equitable for each employer, predicated upon the record of employment and the fluctuation in payrolls of such employer, and to encourage the prevention of unemployment; and shall develop fixed and equitable rules controlling same.

d. **Self-insuring Employers.** When the necessary investigations to establish risks of unemployment and classifications of employment as provided in the preceding paragraph have been made, and when premiums based on a merit rating system as therein prescribed have been fixed and published, the commission shall prepare a special report to the legislature on the question whether, in its judgment, it is desirable or not to permit individual employers to carry their own insurance against unemployment and to pay the benefits prescribed by this act directly to their unemployed employees without insuring such payments in the unemployment insurance fund. The statistical and other evidence on which the commission bases its judgment in the said special report shall be submitted with the report, together with recommendations of measures necessary to safeguard the contributions of employees, as well as to guarantee the benefits to be paid by employers in the event that self-insurance is permitted.

e. **Employees' Premiums.** Every employee whose employment is subject to the provisions of this act shall pay into the fund a sum equal to one per cent of all wages received by him in such employment, and the employer shall deduct such amount and shall pay the same into the fund under such regulations and at such intervals as the commission may determine and require. No agreement by an employee to pay any portion of the premium, or other payment required to be made by his employer for the purpose of providing benefits, shall be valid; and no employer shall make a deduction for such purpose from the wages or salary of any employee. But nothing in this act shall affect the validity of voluntary arrangements by which employees individually or collectively agree to make contributions for the purpose of securing benefits in addition to those provided by this act.

Section 4. BENEFITS. Every employee who has contributed to the fund the premiums provided for in this act shall be eligible to receive benefits as compensation for loss of wages due to total or partial unemployment, and benefits shall be paid by the commission in the amounts and subject to the conditions stipulated in this act.

a. Qualifications. No employee shall be entitled to any benefits unless he or she

(1) has been employed by employers subject to this act and has paid the premiums provided herein for a period of not less than twenty-six weeks within the twelve months preceding the date of the application for benefits, or unless he has been so employed and paid said premiums for a period of forty weeks during the two years preceding date of application;

(2) is capable of and available for employment, and unable to obtain work in his usual employment or any other employment for which he is reasonably fitted including employments not subject to this act, or is suffering loss of wages by reason of partial unemployment amounting to more than forty per cent of his average weekly wages;

(3) has registered at an employment office or other registration place maintained or designated by the commission, or has otherwise notified the commission of his unemployment in accordance with its rules respecting notification.

b. Disqualifications. No benefits shall be payable to any unemployed employee who has lost his employment or has left his employment by reason of a strike or lockout in the establishment in which he was employed, as long as such strike or lockout continues; or whose unemployment has been directly caused by an act of God; or who becomes unemployed by reason of commitment to any penal institution; or who fails or refuses to report to the commission or its designated agencies from time to time as required by its rules; or who refuses to accept an offer of employment for which he is reasonably fitted. Provided, however, that no unemployed employee otherwise qualified to receive benefits shall lose the right to benefits by reason of a refusal to accept employment if

(1) acceptance of such employment would deny to such employee his right to refrain from joining a labor organization or his right to retain membership in and observe the lawful rules of a labor organization; or

(2) there is a strike or lockout in the establishment in which the employment is offered; or

(3) the employment is at an unreasonable distance from his residence, having regard to the character of the work he has been accus-

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tomed to do, and travel to the place of employment involves expense substantially greater than that required for his former employment, unless the expense be provided for; or

(4) the wages, hours and conditions offered are substantially less favorable to the employee than those prevailing for similar work in the locality, or are such as tend to depress wages or working conditions.

c. **Waiting Period.** (1) An employee suffering total unemployment shall be eligible for benefits for unemployment occurring subsequent to a waiting period of three weeks and no benefits shall be or become payable during this required waiting period; but no more than three such weeks of waiting period shall be required of any employee in any twelve months in order to establish his eligibility for total unemployment benefits under this act; except that employees who have been discharged for just cause and those who have voluntarily quit their employment without just cause, and thereafter are unable to secure other employment, shall have a waiting period of six weeks during which no benefits shall be payable.

(2) An employee suffering partial unemployment shall be eligible for benefits for each week of such partial unemployment after a waiting period such that the loss of wages in such partial unemployment is equal to three weeks of total unemployment. No benefits shall be or become payable for this required waiting period, but no more than a total of three weeks in any twelve months shall be required as a waiting period for any such employee.

(3) The waiting period both for total and for partial unemployment shall commence on the day the employee registers as unemployed at an employment office or other place of registration maintained or designated by the commission or on the day that he has otherwise given notice of his unemployment in accordance with the rules of the commission.

d. **Amount of Benefits.** Benefits shall be payable on account of each week of total unemployment after the specified waiting period at the rate of fifty per cent of the employee's average weekly wages as shown by premiums paid by him, but not to exceed a maximum of fifteen dollars per week. In cases of partial unemployment where by reason of part-time employment there is loss of wages amounting to more than forty per cent of weekly wages, benefits shall be paid as in cases of total unemployment, except that the amount of such benefits shall be as follows:

where part time employment results in loss of weekly wages in excess of 40% but less than 55%,	benefits shall be 10% of average weekly wages
55% " " " 70%,	" " " 20% " " " "
70% " " " 85%,	" " " 30% " " " "
85% or more,	" " " 40% " " " "

In cases where average weekly wages amount to more than \$30 per week, these percentages shall be calculated on the basis of \$30.

e. **Limitations and Adjustment of Benefits.** The total benefits to which an employee shall be entitled in any consecutive twelve months whether for partial unemployment or total unemployment, or partial and total unemployment, shall not exceed sixteen times his benefit for one week of total unemployment. In the event of general and extended unemployment such that the reserve of the fund is reduced below a proper actuarial basis, the commission shall have authority to declare an emergency, and thereupon to borrow funds from whatever source obtainable on the security of the resources of the fund, and/or to adjust the benefits; either in their weekly amount or in the length of time for which they should be paid, until such time as the fund is restored to a sound and actuarial basis.

f. **Benefits Suspended.** When an employee eligible to benefits under this act becomes employed in an employment or by an employer not subject to this act, his right to benefits shall be suspended. If such employee becomes totally unemployed within six months of his employment by his last previous employer subject to this act, his right to benefits shall recommence upon registration and expiration of the waiting period. If an employee undertakes such uninsured employment during the three weeks waiting period it shall not affect the running of such period if such employment continues for two weeks or less.

g. **Invalid Waiver and Assignment.** No agreement by an employee to waive his right to benefits under this act shall be valid; nor shall benefits under this act be assigned, released or commuted, and such benefits shall be exempt from all claims of creditors and from levy, execution and attachment or other remedy for recovery or collection of a debt, which exemption may not be waived.

h. **Benefits in Seasonal Employment.** Whenever in any employment it is customary to operate only during a regularly recurring period or periods of less than one year in length, then the rights to benefits shall apply only to the longest seasonal period or periods which the best practice of such industry or class of employment will reasonably permit. The commission shall ascertain and determine, or redetermine after investigation and due notice, such seasonal period or periods for each such seasonal employment. Until such determination by the commission, no employment shall be deemed seasonal. When the commission has determined such seasonal period or periods, it shall also fix the proportionate number of weeks of employment and payment of premiums required to qualify for benefits in place of the 26 weeks stipulated in Section 4 a-1, and the proportionate number of weeks for which benefits may be paid.

i. **Casual or Short-time Employment.** Any employer desirous of employing additional employees for short-time work only, and without liability for premiums and benefits for such employees, may secure permission from the commission for such employment, which shall thereupon be deemed casual employment and exempted from the provisions of this act. The commission shall make and publish rules governing the exemption of such casual employ-

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ment. But no such employment shall be exempted from the provisions of this act by virtue of this section, unless express permission shall have been granted by the commission, nor in any case if the employment shall continue for a period of more than four weeks.

Section 5. ADMINISTRATION. This act shall be administered by the unemployment insurance commission of Ohio.

a. Unemployment Insurance Commission. (1) There is hereby created an unemployment insurance commission of Ohio, to be composed of three members appointed by the governor with the advice and consent of the senate. Not more than one of the appointees to such commission shall be a person who, on account of his previous vocation, employment or affiliations, can be classed as a representative of employers, and not more than one of such appointees shall be a person who, on account of his previous vocation, employment or affiliations, can be classed as a representative of employees; and not more than two of the members of said commission shall belong to the same political party. No commissioner shall hold any position of trust or profit, or engage in any occupation or business interfering or inconsistent with his duties as a member of said commission; and no commissioner shall serve on any committee of any political party.

(2) The members of the commission shall be appointed by the governor within thirty days after the date this act becomes effective; one of which members shall be appointed for the term of two years; one member for four years; and one member for six years; and thereafter as their terms expire the governor shall appoint one member for the term of six years. Vacancies shall be filled by appointment by the governor for the unexpired term. The governor at any time may remove any member of the commission for inefficiency, neglect of duty, malfeasance, misfeasance or nonfeasance in office.

(3) Each of the members of the commission shall receive an annual salary of six thousand dollars, payable in the same manner as the salaries of other state officers are paid. Before entering upon the duties of his office, each member shall take the constitutional oath of office and shall swear or affirm that he holds no position upon any committee of a political party, which oath or affirmation shall be filed in the office of the governor. Each member of the commission shall give a bond in the sum of ten thousand dollars, which bond shall be approved by the governor and filed with the treasurer of state. All employees or deputies of the commission receiving or disbursing funds shall give bond to the state in amounts and with surety to be approved by the commission.

(4) The commission shall choose one of its members as chairman. A majority of the commission shall constitute a quorum to transact business. No vacancy shall impair the rights of the remaining commissioners to exercise all of the powers of the commission, so long as a majority remain. Any investigation, inquiry or hearing which the commission is authorized to hold or undertake may be held or undertaken by or before any one member of the

commission, or by or before one of its deputies, and every order made by a member thereof, or by one of its duly authorized deputies, when approved and confirmed by a majority of the commissioners, and so shown on its record of proceedings, shall be deemed to be the order of the commission.

(5) The commission shall keep and maintain its principal office in the city of Columbus, and such branch offices in other cities of the state as it may find necessary, and shall provide suitable rooms, equipment, supplies, books, periodicals and maps for the same. . . . The commission may hold sessions in any place within the state of Ohio.

b. Duties and Powers of the Commission. In addition to all other duties imposed on the commission and powers granted by the provisions of this act, the commission shall have full power:

(1) To adopt and enforce reasonable rules and regulations relative to the exercise of its powers and authority, and proper rules to govern its proceedings and to regulate the mode and manner of all investigations and hearings; to prescribe the time, place and manner of making claims for benefits under this act, the kind and character of notices required thereunder, the procedure for investigating, hearing and deciding claims, the nature and extent of the proofs and evidence and the method of taking and furnishing same to establish the right to benefits, and the method and time within which adjudications and awards shall be made; to adopt rules and regulations with respect to the collection, maintenance and disbursements of the unemployment insurance funds; and to amend and modify any of its rules and regulations from time to time in such respects as it may find necessary or desirable;

(2) To employ secretaries, deputies, accountants, superintendents of employment districts and offices, clerks, stenographers and other assistants as may be required for the administration of the provisions of this act, and to determine their salaries and duties;

(3) To create such employment districts and to establish, maintain and operate such free employment offices and branch offices as may be necessary to provide for the registration of unemployed persons, for placing them in available employments, and for the proper administration of this act;

(4) To appoint advisors or advisory employment committees, by local districts, or by industries or for the whole state, who shall without compensation but with reimbursement of necessary expenses assist the commission in the execution of its duties;

(5) To require all employers, including employers not otherwise subject to the provisions of this act, to furnish to it from time to time information concerning the amount of wages paid, the number of employees employed, the regularity of their employment, the number of employees hired, laid off and discharged from time to time and the reasons therefor, and the numbers that quit voluntarily; and to require such employers to give other and further information respecting any other facts required for the proper administration of this act;

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(6) To classify generally industries, businesses, occupations and employments, and employers individually, as to the hazard of unemployment in each business, industry, occupation or employment, and as to the particular hazard of each employer, having special reference to the conditions of regularity and irregularity of the employment provided by such employer and of the fluctuations in payrolls of such employer;

(7) To determine, within the limits provided by this act, the premiums rates upon employers subject to this act; and to provide for the levy and collection from all employees and employers subject to this act, of the premiums required for the maintenance of the unemployment insurance fund;

(8) To receive, hear, and decide claims for unemployment benefits, and to provide for the payment of such claims as are allowed;

(9) To promote the regularization of employment and the prevention of unemployment; to encourage and assist in the adoption of practical methods of vocational training, retraining and vocational guidance; to investigate and recommend and advise and assist in the establishment and operation, by municipalities, counties, school districts and the state, of prosperity reserves of public works to be prosecuted in times of business depression and unemployment; to promote the re-employment of unemployed workers throughout the state in any other way that may be feasible, and to take all appropriate steps within its means to reduce and prevent unemployment; and to these ends to carry on and publish the results of any investigations and research which it deems relevant.

All duties and powers of the department of industrial relations and of the industrial commission relating to the establishment, maintenance and operation of free public employment offices, and particularly those powers granted to the industrial commission for such purposes under the provisions of Section 871-22 (9) of the general code, are hereby transferred to and vested in the unemployment insurance commission of Ohio.

c. Publication of Rules and Classifications. The commission shall cause to be printed in proper form for distribution to the public its classifications, rates, rules, regulations and rules of procedure and shall furnish the same to any person upon application therefor; and the fact that such classifications, rates, rules, regulations and rules of procedure are printed ready for distribution to all who apply for the same, shall be a sufficient publication of the same as required by this act.

d. Duties of Employers. (1) Every employer shall furnish the commission upon request all information required by it to carry out the purposes and provisions of this act. Every employer receiving from the commission any blank, with direction to fill out the same, shall cause the same to be properly filled out so as to answer fully and correctly all questions therein propounded, and to furnish all the information therein sought, or if unable to do so, he shall give the commission in writing good and sufficient reasons for such failure.

(2) The commission may require that the information herein required to be

furnished shall be verified under oath and returned to the commission within the period fixed by it or law. The commission or any member thereof, or any person employed by it for that purpose, shall have the right to examine under oath any employer, or the officer, agent or employee thereof, for the purpose of ascertaining any information which such employer is required by this act to furnish to the commission. Any employer who shall fail or refuse to furnish such information as may be required by the commission under authority of this section, shall be liable to a penalty of five hundred dollars, to be collected in a civil action brought against said employer in the name of the state. All such penalties, when collected, shall be paid into the fund and become a part thereof.

(3) The information furnished to the commission by employers in pursuance of the provisions of this section, shall be for the exclusive use and information of the commission in discharge of its duties, and shall not be open to the public nor be used in any court in any action or proceeding pending therein unless the commission is a party to such action or proceeding; but said information may be tabulated and published in statistical form, for the use and information of the state departments and the public. Any person in the employ of the commission who shall divulge any information secured by him while in the employ of the commission in respect to the transactions, property, business or mechanical, chemical or other industrial processes of any person, firm, corporation, association or co-partnership, to any person other than the members of the commission, shall be fined not less than one hundred dollars, nor more than one thousand dollars, and shall thereafter be disqualified from holding any appointment or employment by the commission.

(4) Every employer shall keep a true and accurate employment record of all his employees, whether qualified and eligible to benefits or not, and of the hours worked by each such employee and of the wages paid to each, and shall furnish to the commission upon demand a sworn statement of the same. Such record shall be open to inspection by the commission or its authorized representatives at any reasonable time.

(5) It shall be the duty of each member of a firm, and of the president, secretary, general manager and managing agent of every corporation subject to this act, to cause such firm or corporation to comply with the provisions of this act, and any person or any member of such firm or any officer of such corporation referred to in this section who shall neglect or fail to comply with the provisions of this act relating to the making of reports and the payment of premiums to the fund shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than five hundred dollars and the costs of prosecution. Such fine when collected shall be paid to the commission and placed in the fund. Each day's refusal on the part of such person, members of such firm or officers of such, to comply with the provisions of this act, after notice to said person, firm or corporation from the commission to comply with same, shall be deemed a separate offense and be punished as herein provided.

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All courts exercising jurisdiction in cases of misdemeanor, including justices of the peace, shall have final jurisdiction of offenses under this section.

e. **Duties of Employees.** Every employee whether totally or partially unemployed, in order to qualify for benefits under this act, must give notice of his unemployment by registering at a public employment office maintained by the commission, or in such other manner and within such time as the rules and regulations of the commission may prescribe. Thereafter he shall give notice of the continuance of his unemployment as frequently and in such manner as the commission may prescribe.

Section 6. ADJUDICATION OF CLAIMS FOR BENEFITS.

a. **Claims for benefits** shall be filed with the superintendent of the public employment office for the district in which the claimant is or was last employed, or with a deputy of the commission designated for the purpose. Such claims shall be in such form and shall be filed within such time and in such manner as the rules of the commission shall prescribe; and said rules shall also prescribe the form and manner of allowing or disallowing claims for benefits in the first instance, and the method and manner of serving notice of disputed or contested claims, of hearing and deciding the same, and of appealing and deciding appeals on all claims that are disputed or contested. The commission may provide for the hearing of disputed or contested claims by local boards consisting of one employer or representative of employers, one employee or representative of employees, and one person who is neither an employer nor an employee nor a representative of either. The members of such boards shall be appointed by the commission, and the commission shall make rules for the proceedings before such boards and for review or rehearing by the commission or by any commissioner or deputy authorized to hear or review claims under rules adopted by the commission as provided in this act.

b. Each member of the commission, its secretary and all deputies, or any duly authorized representative of the commission shall for the purpose contemplated by this act, have power to administer oaths, certify to official acts, take depositions, issue subpoenas, compel the attendance of witnesses and production of books, accounts, papers, records, documents and testimony.

Section 7. VIOLATIONS AND PENALTIES. If any employer, employee or other person shall violate any of the provisions of this act or shall do any act prohibited by this act or shall fail or refuse to perform any duty lawfully enjoined, within the time prescribed by the commission, for which no penalty has been specifically provided, or fail, neglect or refuse to obey any lawful order given or made by the commission, or any judgment or decree made by any court in connection with provisions of this act, for each such violation, failure or refusal such employer, employee, or other person shall be fined not less than fifty dollars, nor more than one thousand dollars for the first offense, and not less than one hundred nor more than five thousand dollars for each

subsequent offense. Every day during which any person, persons or corporation, or any officer, agent or employee thereof shall fail to observe and comply with any order of the commission or to perform any duty enjoined by this act shall constitute a separate and distinct violation of such order or section of this act, as the case may be.

a. Procedure in Cases of Violation. (1) If the commission finds that any person, firm, corporation or association is, or has been at any time after January 1, 1934, an employer subject to the provisions of this act and has failed to comply with the provisions of this act, it shall determine the period during which he or it was such an employer, which finding and determination shall for all purposes of this act be prima facie evidence thereof. The commission shall forthwith give notice of said action to the employer who shall immediately thereafter furnish the commission with a payroll covering the period included in said finding, and shall forthwith pay into the fund the amount of premium determined and fixed by the commission.

(2) If said employer fails, neglects or refuses to furnish such payroll and pay the premium for such period within ten days after receiving such notice, the commission shall then determine the amount of premium due from said employer for the period the commission found him or it to be subject to this act, and shall notify said employer of the amount thereof and shall order the same paid into said fund. If said amount is not paid within ten days after receiving notice, the commission shall certify the same to the attorney general, who shall forthwith institute a civil action against such employer in the name of the state for the collection of such premium. In such action it shall be sufficient for the plaintiff to set forth a copy of the finding of the commission relative to such employer as certified by the commission to the attorney general and to state that there is due to plaintiff on account of such finding of the commission a specified sum which plaintiff claims with interest. A certified copy of such finding relative to such employer shall be attached to the petition and shall constitute prima facie evidence of the truth of the facts therein contained. The answer or demurrer to such petition shall be filed within ten days, the reply or demurrer to the answer within twenty days, and the demurrer to the reply within thirty days after the return day of the summons or service by publication. All motions and demurrers shall be submitted to the court within ten days after the same are filed. As soon as the issues are made up in any such case, it shall be placed at the head of the trial docket and shall be first in order of trial.

(3) Unless said employer shall, within the ten days last aforesaid, execute a bond to the state, in double the amount so found and ordered paid by the commission, with sureties to the approval of the commission, conditioned that he or it shall pay any judgment and cost rendered against him or it for said premium, the court at the time of filing of the petition, and without notice, shall appoint a receiver for the property and business of such employer.¹

¹ Sections 4, 5, 6, and 7 are omitted.

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b. **Jurisdiction of Commission.** The commission shall have full power and authority to hear and determine all questions within its jurisdiction, and its decisions thereon in each claim shall be final. Provided, however, that any employer or employee aggrieved by an order or decision of the commission may, within fifteen days therefrom, appeal such order or decision to the court of common pleas of the county wherein said appellant is resident or was last employed; and said appeal shall be heard upon a transcript of the proceedings before the commission and said order shall not be modified or reversed unless said court shall find, upon consideration of the record, that it was unlawful or unreasonable. Either party shall have the right to prosecute error from the court of common pleas as in other civil cases.

Section 8. DEFINITIONS. As used in this act:

a. "Commission" means the unemployment insurance commission of Ohio.

b. "Employer," except where the context clearly shows otherwise, means any person, partnership, firm, association or corporation who (which) has three or more persons employed in any employment subject to this act. It shall not include the state of Ohio as an employer, nor any municipal or public corporation, nor any political subdivision; nor any farmer; nor any person, partnership, firm, association or corporation to which this act may not apply by reason of any provision of the constitution of the United States or any act of Congress.

c. "Employee," except where the context clearly shows otherwise, means any person, including aliens and minors, employed for hire by an employer in an employment subject to this act, except a person whose employment is not in the usual course of the trade, business, profession or occupation of the employer, and except further any person employed at other than manual labor at a rate of remuneration of two thousand dollars a year or more.

d. "An employment," except where the context clearly shows otherwise, means any employment in which all or the greater part of the employee's work is performed within the state of Ohio, under any contract of hire, express or implied, oral or written, including all contracts entered into by helpers and assistants of employee, whether paid by employer or employee, if employed with the knowledge actual or constructive of the employer; and shall include any trade, occupation, profession or process of manufacture, or any method of carrying on said trade, occupation, profession or method of manufacture in which any person may engage; except that for the purpose of this act it shall not include:

(1) Employment as a farm laborer.

(2) Employment in the personal or domestic service of an employer at his home.

(3) Employment in the service of a common carrier engaged in interstate commerce, subject to the laws of Congress and supervision of interstate commerce commission.

(4) Employment by any governmental unit, or municipal or public corporation, or any political subdivision; or in any employment in a private or parochial school or college where the contract of hire is on an annual salary basis.

(5) Employment as a short-time or casual laborer for a period of less than four weeks, provided that where such short-time or casual labor is employed during four successive weeks or more, it shall be deemed an employment within the scope of this act.

e. "Benefits" means money allowances payable to an employee as insurance or compensation for losses of wages due to unemployment as provided in this act.

f. "Wages" means what is customarily meant by the term, the money rate at which the employee is recompensed under the contract of hire, except that it shall include commissions and bonuses and the reasonable value of board, rent, housing, lodging or similar advantages received from the employer.

g. "Average Weekly Wages" means the weekly earnings that an employee subject to this act would average if he were employed full time, i. e. the full number of scheduled or customary working hours per week in the employment or employments in which he is or was engaged prior to applying for benefits under this act. The commission shall make suitable rules for the purpose of calculating the average wages on the basis of which benefits under the act are to be paid, and for this purpose may average full time earnings over a period of three months or more in order to include reasonable proportions of busy and slack weeks, and may adopt such method or methods of calculating the said average weekly wages as may be suitable and reasonable under this act.

h. "Payroll" means and shall include all wages, salaries and remuneration paid to employees subject to this act.

i. "Total Unemployment," except where the context clearly shows otherwise, means the condition caused by the inability of an employee, who is capable of and available for employment, to obtain work in his usual employment, or in another employment for which he is reasonably fitted, and whose lack of employment causes total loss of wages.

j. "Partial Unemployment" means part-time employment resulting in loss of wages amounting to forty per cent or more of an employee's average weekly wages.

Section 9. MISCELLANEOUS PROVISIONS.

a. This act shall take effect upon its passage and publication, but none of the premiums provided for shall be payable by employers or employees until on and after January 1, 1934.

b. The entire cost of the administration of this act, including salaries, cost of public employment bureaus and other expenditures required, shall be paid upon vouchers of the commission out of the unemployment insurance fund. The commission shall set up a separate account in the fund, not to exceed six

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per cent of the total annual income of the fund, to be known as the administrative account, to which all expenditures for the administration of this act shall be charged. Until January 1, 1934, the expense of the unemployment insurance commission in carrying out the provisions of this act shall be paid out of the general revenue of the state not otherwise appropriated. Such expense shall not exceed fifty thousand dollars, and the amount so expended shall be returned to the general revenue fund from the unemployment insurance fund not later than January 1, 1935.

c. The sections of this act and every part of such sections are hereby declared to be independent sections and parts of sections, and the holding of any section or part thereof to be void or ineffective shall not effect any other section or part thereof.

APPENDIX D

THE TEXT OF THE REPORT ON UNEMPLOYMENT INSURANCE SUBMITTED BY THE EXECUTIVE COUNCIL TO THE 1932 CONVENTION OF THE AMERICAN FEDERATION OF LABOR¹

It would be desirable, were it possible, to press for the enactment of one uniform measure for unemployment insurance applicable throughout the United States. But, due to the provisions and limitations of the United States Constitution as interpreted by the courts, since the regulation of manufacture and industry lies primarily within the province of State rather than Federal activity, it is practically impossible to enact constitutional Federal legislation adequately providing for unemployment insurance covering employes engaged in work in the different States.

The American Federation of Labor, therefore, advocates the passage of unemployment insurance legislation in each separate State, and the supplementing of such State legislation by Federal enactments; such, for instance, as bills covering employes engaged in interstate commerce or employed in the District of Columbia or in Federal territories, or such as the bill recently introduced into Congress by Senator Wagner, allowing corporations substantial income-tax credit on their Federal income taxes for such payments as they have made under State laws toward the creation of unemployment reserves.

It is evident that the local conditions of each State vary to such a marked degree that it would be unwise, even were it possible at the present time, to frame a single model bill to be enacted in every State. It is possible, nevertheless, to set forth certain general fundamental principles and standards to which such State legislation should conform. The American Federation of Labor, after mature consideration and discussion, has formulated the following principles which should guide in the framing of State unemployment insurance bills:

1. Every unemployment insurance act should contain specific provisions to protect union members from being obliged to accept work contrary to the rules and regulations of their organizations or employment under conditions such as tend to depress wages or working conditions.
2. Unemployment insurance legislation in this country should be carefully

¹ From the *New York Times* (November 21, 1932). The convention later endorsed this report.

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devised to promote its two primary objectives: (a) the stimulation of more regular employment, insofar as possible, and (b) the payment of unemployment compensation to those who are temporarily out of work through industry's failure to provide steady employment for its working forces.

3. The American Federation of Labor advocates a scheme of unemployment compensation made compulsory by law. Voluntary schemes are unlikely to pervade industry generally, and are frequently open to other serious objections. Only by compulsory legislation can workers be adequately protected.

4. Since unemployment is to a certain extent one of the inevitable incidents of production and must, therefore, be regarded as part of the inescapable cost of industry, it, like other costs of industry, should be paid by industry itself. It therefore follows that, as a matter of principle, no part of the contributions to support unemployment insurance should be paid out of the wages of labor, but the whole should be paid by management as part of the cost of production. The necessary funds should be raised as a charge on industry.

The amount of such contribution must depend upon the local conditions in each State. A minimum contribution must be required sufficient to cover (a) the building up of adequate reserves, (b) the cost of the benefits to be paid under the act and (c) the costs of administration. To cover these costs the American Federation of Labor believes that the contribution rate should be not less than 3 per cent of the total payroll.

The exact percentage, however, must vary in different States and will come to depend upon various actuarial data, which must be carefully collected as a basis for such determination from the experience gained both before and after the passage of the act.

The absence of complete data should not, however, prevent the passage of a law, since the liability of the fund is limited to the amount of the income provided by law. As experience is accumulated it will be possible to determine the income necessary to provide the benefits decided upon in the law.

5. At this time the American Federation of Labor deems it inadvisable to take an irrevocable stand as between the plant reserves system of unemployment insurance embodied in the Wisconsin law and an insurance system such as is under consideration in Ohio and in operation in many European countries.

Whatever plan is adopted, whether based on plant reserves or on a broader basis, we believe that it should be administered by the State and all reserve funds held and invested by the State. We are unalterably opposed to company-controlled unemployment reserves and believe that without State administration, plant reserves will prove but another "company union" device.

We are also of the opinion that, at least at the outset, it is advisable to have but a single unemployment insurance fund (with, if a plant reserves system is adopted, separate accounts for separate employers) and a flat rate of contributions by employers regardless of the industry in which they may be engaged.

Later on, after more accurate data is obtained, occupation, or enterprise

may be scaled according to the hazard of unemployment, but sufficient data are not now available to warrant such classifications at this time.

6. Sound public policy requires that no insurance company in this country be allowed to invade this new field of unemployment compensation. No insurance company is allowed under present State laws to write this class of insurance. The federation believes that this policy is wise and should in no case be abandoned.

7. All funds should be invested in Federal securities or in the bonds of State or municipalities such as have never defaulted in the payment of principal or interest.

8. Insurance in general should cover temporary and involuntary unemployment. Unemployment means the conditions caused by the inability of an employe who is capable of and available for employment to obtain work in his usual employment or in another for which he is reasonably fitted. Nothing in the unemployment compensation act should require an employe to accept employment, nor should any employe forfeit his right to benefits under the act by refusing to accept employment under any or all of the following conditions:

(a) In a situation vacant directly in consequence of a stoppage of work due to a trade dispute;

(b) If the wages, hours and conditions offered are less favorable to the employe than those prevailing for similar work in the locality, or are such as tend to depress wages and working conditions;

(c) If acceptance of such employment would abridge or limit the right of the employe either (1) to refrain from joining a labor organization or association of workmen, or (2) to retain membership in and observe the rules of any such organization or association.

(d) Workers who quit work without good cause or who are discharged for misconduct shall not thereby forfeit benefits beyond a reasonable period.

9. The coverage should be as wide as possible. It should include clerical as well as manual workers. There are, however, certain classes of employment which it may be necessary to exclude from the general operation of the act, and these classes will vary according to local conditions. It would seem that the legislation should approximate, insofar as practicable, the coverage of State workmen's compensation acts. As time goes on, the scope or coverage of the act may well be broadened.

10. The claim of employes to receive unemployment compensation as provided under the act should be clearly recognized as a legal right earned by previous employment within the State. Receipt of unemployment benefits shall in no way entail loss of suffrage or other civil rights. Persons not legal residents of the State and those not citizens of the United States shall not by reason of that fact be disqualified from receiving benefits.

The amount of benefits to be paid and the number of weeks during which they shall be paid must depend upon the local conditions in each State and

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upon the amount of contributions paid into the fund. We are informed, for instance, that under the conditions prevailing in Ohio, a contribution of 3 per cent of the total payroll makes is possible after a waiting period of three weeks per year to pay benefits for a maximum period of sixteen weeks in a year based upon 50 per cent of the normal weekly wages, but not to exceed \$15 a week.

It seems advisable to restrict the payment of benefits to unemployment occurring after a specified waiting period. The length of this waiting period will materially affect the amount of the benefits which can be paid and the length of time during which they can be paid.

Workers who are partially unemployed should receive unemployment compensation at a reduced rate. The exact amount of the reduction will presumably vary in different States. We suggest that a fair principle would be to pay for partial unemployment the amount of the benefit which would be payable in case of total unemployment reduced by subtracting one-half of the amount of the wages actually received.

(a) The administration of the scheme of unemployment compensation and the responsibility for the keeping and investment of the unemployment funds should be in the hands of a State commission. This should be either a special commission created for the specific purpose or an already existing State commission or department of labor.

(b) Both labor and management should have a voice in the administration of unemployment insurance. Advisory committees composed of an equal number of representatives of labor and management will prove very useful and, in some States, local appeal boards similarly constituted will be found desirable.

It should be recognized, however, that workingmen can have genuine representation only through labor organizations. Unless labor can, in effect, through its organization select its own representatives, pretended representation is but a farce.

(c) The cost of the administration of unemployment compensation should be met out of the unemployment fund itself.

(d) The operation of employment exchanges is closely and vitally connected with the administration of unemployment insurance. The commission should take over, supervise and expand public employment exchanges in States where these already exist or in States where none exists should create and operate such exchanges.

(e) The administration regulating the payment of benefits should be decentralized as far as possible. Payments should be made upon claims presented through local agencies, established and supervised by the commission and acting in close cooperation with the public employment offices. Appeals should be allowed to a central authority.

12. Regularization of Employment.—The whole scheme should be so construed as to induce and stimulate so far as possible the regularization and stabilization of employment. This may be effected in various possible ways;

as, for instance, by basing the amount of contributions payable upon some merit-rating scheme or in States not adopting an exclusive State fund by the establishment of separate industry or separate plant funds.

This statement embodies within it certain standards and principles that we believe should be incorporated in unemployment insurance legislation. We suggest, however, that a flexible policy be pursued in all States and that unemployment insurance legislation be secured which will maintain the above standards so far as possible and yet which will accommodate itself to the varying circumstances and conditions in each State. It is essential that the protection of the rights of citizenship and of union membership be maintained in all acts.

Pending the adoption of compulsory State insurance voluntary unemployment schemes should be subject to State regulation. We therefore believe it vital that suitable legislation be enacted to provide for State supervision of all such plans, including as a minimum the deposit of benefit funds in separate trust accounts, whether or not such funds include payments made from employes.

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