

# Beginning the Unemployment Insurance Program — An Oral History

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Unemployment Insurance  
Occasional Paper 85-5

U.S. Department of Labor  
Employment and Training Administration

# UI

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U.S. Department of Labor  
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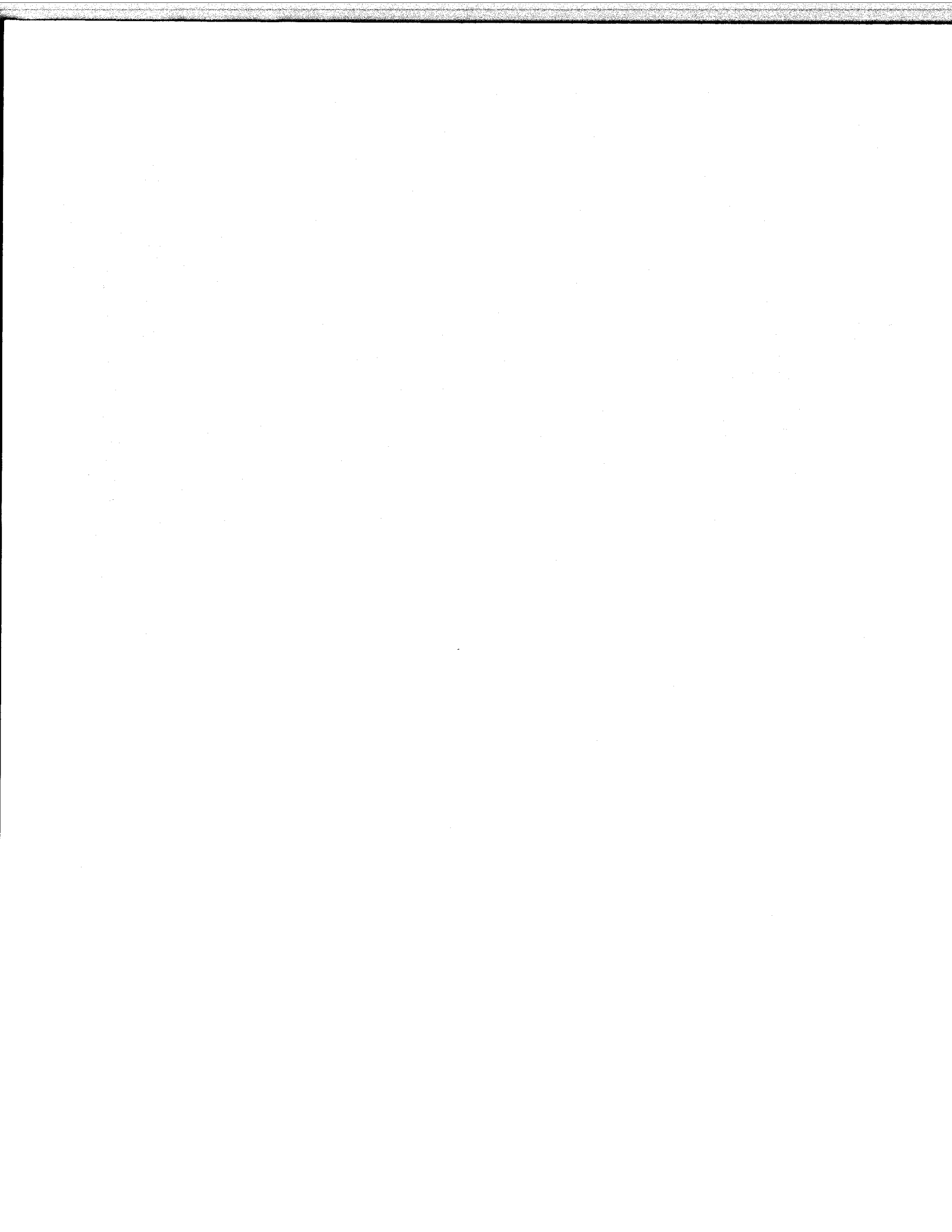
Unemployment Insurance Service  
1985

This publication was prepared and edited by Helen Manheimer of the Unemployment Insurance Service, and Evangeline Cooper of Region III, Employment and Training Administration, Department of Labor.

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The views expressed in this publication do not necessarily reflect the official position of the Department of Labor.

The UIOP Series presents research findings and analyses dealing with unemployment insurance issues. Papers are prepared by research contractors, staff members of the unemployment insurance system, or individual researchers. Manuscripts and comments from interested individuals are welcomed. All correspondence should be sent to UI Occasional Papers, Unemployment Insurance Service, Patrick Henry Building, Room 7422, 601 D Street, NW, Washington, D.C. 20213.



## FOREWORD

A 1980-81 Arthur J. Altmeyer Fellowship in Unemployment Insurance was awarded to Evangeline W. Cooper, then an employee in the Unemployment Insurance Service of the U.S. Department of Labor. One of Ms. Cooper's fellowship projects was the creation of an oral history of the unemployment insurance program in the United States. A goal of the project was to preserve, for historical purposes, the remembered experiences of "old-timers" in the UI system. In a series of individual interviews conducted by Ms. Cooper or her associate, Shirley Riordan, 27 people with significant roles in the development of the UI program discussed program objectives, features, changes and problems, as well as their own satisfactions and frustrations while working in the system.

Having been research advisor to Ms. Cooper during her Fellowship, I knew of the wealth of historical material contained in some of these oral history interviews. The occasion of the 50th anniversary of the unemployment insurance program in August 1985 provided the impetus to produce a publication of recollections of the beginnings of the unemployment insurance program half a century ago.

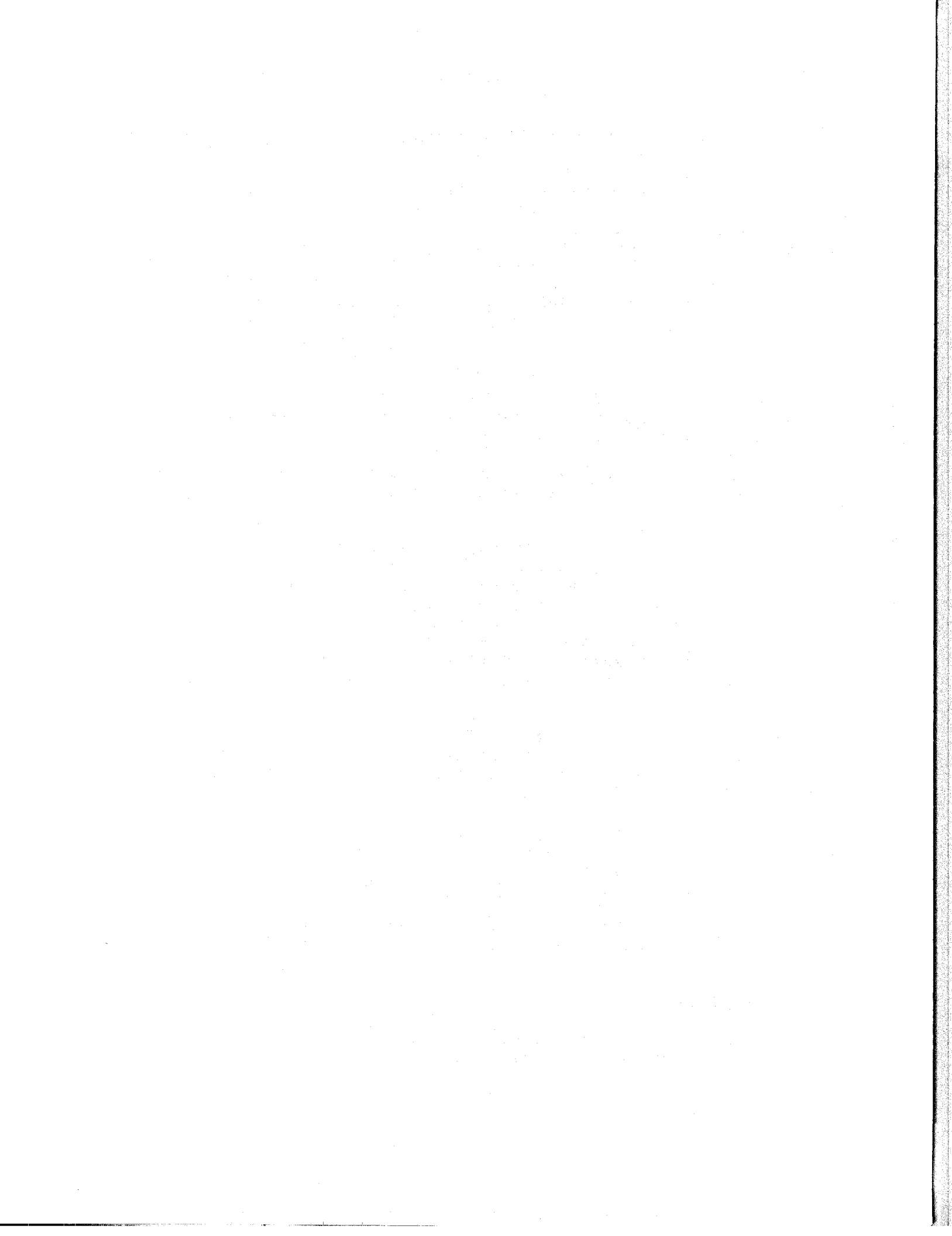
This volume sketches the early history of unemployment insurance as recalled by individuals who held key roles in the system during its formative years. The editors have selected particular sections of 16 interviews pertaining to the early history and conceptual foundations of the program. The volume consists of excerpts from the recollections of the individuals quoted, arranged by subject matter. It is not intended to be a comprehensive, systematic presentation of early unemployment insurance history.

The document has been minimally edited to preserve its oral history character. Insertions within the text are placed in brackets. Questions asked by the interviewer are included only when needed to provide continuity and understanding; they are in italics.

Once again, I want to thank the individuals who participated in the interviews from which this oral history was drawn and those who provided us with releases for publication.

I hope that this volume will help to preserve remembrances about the program that might otherwise be lost to the public.

Stephen A. Wandner  
Deputy Director  
Office of Legislation and Actuarial Services  
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## OBJECTIVES AND MISSION

### Ewan Clague

The Roosevelt Administration ran into a lot of problems. In the welfare field the States and local governments, which had been handling the unemployed as well as all these welfare cases, didn't have any unemployment insurance. There wasn't any kind of help for these people; a lot of them were absolutely helpless. They stayed in their homes; couldn't pay rent. Housing went to pot. The whole economy just went to a disaster. And these local governments handled all of that, at first. It finally shifted to the State governments, because the local governments couldn't raise the money. Well, they had a lot of the unemployed on their hands.

What happened then is that the local authorities began to come to Washington and say, "Can't you do something down here to help us?" And the Republican Administration had passed a bill providing that, under careful inspection, the Federal Government might loan some money to a State, one State or another. A few of them got a little bit of money, a million dollars or so. Negligible amount. But, in the meantime, the money was running out of the welfare agencies so that they couldn't pay for the welfare cases anymore. So in April 1933, the Roosevelt Administration brought the whole financial problem right down to Washington. Harry Hopkins was in charge. Harry Hopkins then used Federal money to pay out to the State and local governments to take care of the unemployed. And that continued for the next couple of years, until the Federal Government finally established the Social Security System and took care of this problem in another way. I'm trying to emphasize here that the Federal Government now took care of the unemployed in the United States under the Roosevelt Administration.

### Curtis Harding

Remember that the program came into being in the late Thirties as a part of the Social Security Act and as a part of a reform that was needed in order that the free enterprise system might continue healthy, maybe redeem its health and operate. . . .

There was recognition at that time that in this business world, particularly in the working world, people found employment and they lost employment. The business community was operating in



such a manner that as we'd meet these periods of high employment, low employment (in other words, recession and non-recessionary periods), they would take care of their plant, their equipment, machinery; should there have been a few animals connected with the operation, they'd see that they were taken care of, but not the people. As soon as they ran into some of these negative times where they couldn't operate at full capacity, the people would be laid off. And once they were laid off, their income stopped.

There was a lot of discussion about that program. I well remember when I was in school; I graduated from BYU [Brigham Young University] in 1932. We were talking then about (well, actually some of us just chatting to each other) the stupidity of a society organizing in such a manner that they wouldn't set aside part of the funds during a period of time when the funds are available, to use them during a period of time when they were not available. The idea that finally got legislated into the unemployment insurance system wasn't exactly that. On the other hand, it did carry that philosophy quite a bit forward.

There is no reason at all why, during this period of time, while you're working, there shouldn't be a little bit of money set aside for you to use while you're not working. We were always talking about, at that time, the people themselves doing it. You don't know who is going to continue working. You didn't know who was going to lose his job. At that time, unemployment was running in the neighborhood of 25 percent, and we thought that if there were going to be as many as one out of four people that were going to lose their jobs, lose their income, it would sure make a lot better sense to save 10 to 15 percent of it and then have it available to draw on when you are not working.

So the unemployment insurance program, I think, was built upon that concept of a society organizing itself in such a manner that you would set aside some dollars for those that lose their jobs. During the time we have had an unemployment insurance system, I don't think there's been any more than 2 to 5 percent of the total labor force that have collected benefits at any given time. So if you can set aside those dollars, you can provide some type of protection to the worker. And the worker has to have protection.

As our society was developing, we were beginning to spend (every worker) all the dollars that he had within a period of a week to two weeks. Lose his job and the worker was absolutely destitute. Prior to the social security system, we didn't have a cushion to fall back on; we didn't have the welfare system; we didn't have the unemployment insurance system. When you lost your job, you

were just really out; you were in a bad way. So that was one of the purposes, I think, prevailing concepts at that time.

And the other one, as I suggested, had to do with this idea that business, industry itself, our economy, ought to provide some type of protection to the workers.

And another concept was that the workers were a very important, a very valuable asset so far as the business organization was concerned. There should be some protection to that work force. If they were to completely disintegrate, and the plant, the mine, whatever it happened to be wanted to open up and begin operating, the employer had to go out and recruit, start from ground zero. It was expensive; it was difficult; they had training programs to enter into. So the general consensus was, that it made good sense to protect the worker a little bit, protect the employer a bit, and to continue some type of purchasing power within the various communities.

Prior to the recession--that's the recession of the Thirties--communities would just fold one after the other as employment within those communities began to deteriorate, and people were laid off, as their capability to purchase goods and services disappeared because they'd lost their employment. It was really a bad situation. I don't believe that you can really appreciate it in today's world. You just don't know what it's like.

Now we don't know what it's like not to have an organized society providing for income for the good of the community, for the good of the employer, and the good of the worker. That's what unemployment insurance was designed to do.

### Eveline Burns

In the early days before the Social Security Act was passed, and even before the Committee on Economic Security was appointed, there was a great deal of difference of opinion about the objectives. One objective was employment stabilization. And that somehow in this way of doing it, putting taxes on employers, you could encourage them to stabilize their employment. There is enormous literature on how wonderful it was if you could really do something that would encourage--the preventive approach--encourage people. Of course it was a lot of nonsense in the middle of depression to be talking that way, but that was the belief. And a number of the employers were very enthusiastic about that, and so

were many of the people connected with the American Association for Labor Legislation. But I had a much naiver view about unemployment insurance. I thought the problem of unemployment insurance was to provide some income for people who were unemployed. But this was far too simplistic for a great many people, although a group of people were of the same mind.

. . . . .

. . . They were seeing unemployment insurance in the same way, namely as something to provide income. But after all, you can see how clear the emphasis was when you recall that the very first Wisconsin Unemployment Insurance Act, as I recall, had benefits of a dollar a day. The benefits side of it was incidental, you see. It was perhaps a way of enlisting interest, as they thought, of the labor people. But the whole emphasis was bringing pressure on employers to stabilize employment. . . .

Unemployment insurance can help to maintain purchasing power, which indeed it does. Though I don't recall that initially that was very prominent among the arguments in favor of unemployment insurance.

*So that just became a justification after the fact?*

That's right. That's it.

Leonard Lesser

To my mind, the great value was first to provide some measure of economic security to unemployed workers. Prior to the enactment of unemployment compensation, if a worker became unemployed, his income dropped from whatever his earnings were to zero. At that point he used up all his savings or he went on welfare if he had no savings or whatever, or he lived on private charity. Unemployment compensation provided a measure of security which, certainly in cases of short-term unemployment, permitted a worker to go along until his layoff was over and he was called back to work. Even today where we have long-term unemployment, I think--and it's a pretty high rate of unemployment, 7 percent and over for the last several years--you don't hear any great outcry. And I think that that's largely due to the fact that unemployment compensation takes away some of the misery of unemployment. So to my mind, the biggest value is the security and the help and relief it gives to a worker and a worker's family when a worker loses a job.

Secondly, I think it has a tremendous economic impact on a community. A worker who is unemployed continues to buy milk. He may not be able to buy the same cuts of meat that he bought when he was working and receiving full wages, but he is able to buy food to keep his family. He is able to buy some clothing. So it has not only an impact on his own security, but it keeps up the purchasing power to some extent so that you don't get the ripple effect of retail stores and other places having to lay off workers. And it is of economic benefit to the whole community. I know that is always one of the stated values, but it amazes me--it used to amaze me even more so--when you see the retail federation coming in and opposing increases in unemployment compensation benefits, because every dollar of increase--well, it wasn't going to be put aside in savings, it was just going to be spent, and mostly spent with retail merchants.

Robert Goodwin

I think that, largely because of my introduction to the program and what was happening in my formative years on UI, my interest was primarily from the standpoint of a program that met the needs of the unemployed. I have seen, from time to time, other points of view that stress the interest of employers, and of course I can appreciate that, but if we hadn't had this tremendous unemployment we never would have, well, we wouldn't have had unemployment insurance, for a long time, at any rate. And I've always felt that the most important objective was to have an adequate program from the standpoint of those that were unemployed; that's why the program was set up, and that was the most important item.

. . . . .

It [the program] helped to meet minimum needs of the unemployed and relieved the suffering brought on by loss of income.

. . . . .

One thing that is extremely important with the program is that it does not require proof of need. You've got the possibility of individuals retaining their independence and self-respect. This is in contrast to some of the other programs. . . . This is one of the things that distinguishes the program now, [which] I think is extremely important. It's based on a presumed need, but not on individual need--not one that requires individual justification for need.

. . . . .

*And the other objectives are really secondary? Things like helping the economy by getting money into . . .*

Well, that's important. That's important. But I would say that would be definitely a secondary objective. It does help to maintain purchasing power, and it does give an underpinning of the economy which is very important, I think.

*You said you thought the program was set up to benefit the worker. Do you believe that it also helps the employer?*

Yes, to a lesser extent, and probably somewhat more spotty in terms of the employers that were helped and those that weren't. But I know that employers that really wanted to avoid layoffs sometimes kept people on after it was economically sound to do it, and unemployment insurance met that need. And it also made it possible for employers to retain their work force. In a great many situations, they were laid off for a short period of time. They are carried on UI, and they continue with that employer. A lot of employers think that's very important.

#### William Papier

The original philosophy was--and I personally subscribe to the original philosophy--that unemployment compensation is designed to tide over temporarily individuals who normally work on a year-round basis and who want and seek year-round, full-time employment; that their benefits should be geared to their prior earnings, at least one-half; and that benefits shall be paid solely as a matter of right, and without regard to need.

#### Ewan Clague

I'd say in the beginning there was just no question about it; [the unemployment insurance program] was of inestimable value because what it meant was that workers dropped from a job and then finding themselves out of work, after being paid the last pay check would be entitled to unemployment benefits. The question is: Where do you get any help? Well, if the worker has some savings, theoretically he can use them. If he hasn't, he then has to consider going to a welfare agency. And that meant the exhaustion of family finances. What was done in the 1930's was to avoid putting workers and families into welfare. What was urgently needed was to have a simple system of taking care of the unemployed until they could find another job.

Wilbur Cohen

You have to go back and realize that with the Great Depression of 1929-33, and with 25 percent of the labor market unemployed, there were people who were concerned that America was on the verge of some kind of an internal revolution. And there were all kinds of nostrums--the Townsend Plan, and Huey Long's "every man a king", and so on. And so the people who came to work for social security and unemployment insurance had, underneath this all, a conception that they were grappling with a great rejuvenation of the social order, and that they were, in a sense, helping to maintain a fabric against social disintegration, socio-political disintegration. And this had a great unifying and emotional impact in a cohesive manner.

And when you had such a leader like Mr. Altmeyer, along with Mr. Winant and along with people like Mr. Witte and many others, the attention span, the emotional attachment, the sincerity, the dedication of those people was simply tremendous. And of course it was not a job to them. It was not work. It was a dedication to an attempt to make a reality of what some of the people in various religious movements--you know, the living wage, the just wage, the just society, the refashioning of the social fabric to ward off this socio-economic disintegration which people could see--starving children and humiliation and degradation. So people like Altmeyer, who were the leaders of it, became the essence of a--I don't want to say a religious, it wasn't that, but I mean in the emotional sense of dedication to an idea that you were doing something that was monumentally important. . . . There were a whole number of people in this program who were people of idealism and compassion and understanding. . . . They were people who felt that institutional program changes would make changes in the quality of life. And maybe that's the best way I could put it. These people were dedicated because they believed unemployment insurance and social security would improve the quality of life in America. Therefore, the impetus for working . . . I mean working 16, 18 hours a day during that period of time was accepted as a normal fashion.

Ralph Altman

It wasn't necessary with the early generations of people working in the Unemployment Insurance Service to explain what kind of effect unemployment might have on the lives of people and their families. You didn't have to draw pictures for them about impacts on sense of personal worth, upon sense of identity, of actual

physical effects of unemployment--not in the sense, necessarily, of starvation, but the physical effects unemployment can have. People still managed to eat, to have adequate shelter, sufficient clothing, but nonetheless were unemployed. These were things you knew at first hand by observation because you experienced it either yourself or vicariously through your relatives, your friends, or simply by looking at the people around you that you knew. And those things did not have to be conveyed to us. Or the sense of desperation that unemployment can breed. Nobody had to explain this to me, for example, after watching the march of the unemployed across the Parker Dunn Memorial Bridge over the Hudson and seeing the struggle between them and State troopers, some of whom then proceeded to throw a couple of them into the river from there. You didn't have to explain to me how desperate unemployed people could be. Nor did you have to explain to any of the others in my generation. We knew it; and if we hadn't experienced it ourselves, we had come close enough.

#### Robert Goodwin

A tremendous percentage of the working people were out of work at that time [1935]. There weren't very good statistics then, but the estimates went all the way up to 50 percent of the work force out of work. And after we got over the worst part, there were still in the neighborhood of 25 percent that were out of work. While I was Director of Welfare in Cincinnati and Hamilton County [Ohio], we had about 100,000 individuals that were on relief. That was out of a total population at that time of about 600,000. My attitude towards the need for a program to take care of unemployment was certainly shaped by that experience.

#### George Roche

People were recruited in the 1930's when you had 20, 25 percent unemployment some of the time, and a job was a scarce thing. I took a job as a junior research technician. I took the examination down in Los Angeles, and there were about 700, 750 people sitting in the room taking that examination, and I suppose there must have been that many more between Sacramento and San Francisco. And three people were hired off that list. . . . You got people like Maury Gershenson and people like Ralph Currie only out of a tough economic situation. And they stayed and were appreciated and worked.

PRINCIPLES, ISSUES, DECISIONS

PROPOSED TYPES OF SYSTEM

Margaret Dahm

. . . there were times when that [a State versus a Federal system] was a major issue in the policy discussions. One of the arguments for a State system is that you can vary provisions in relation to the economy of the State. It's easier to try an experiment on a State basis than it would be for a whole Federal system.

William Haber

Paul [Raushenbush] took the position, very understandable, a position that I was taught by Professor Commons, that the beauty of the American system of government is that each State can experiment and the others can learn by their mistakes and by their successes, and thereby improve everybody.

Marion Williamson

They were interested in getting it as a State program, because it could be a trial program for all of the different ways to do things.

Eveline Burns

The American Association for Labor Legislation and the other adherents of the Wisconsin point of view did not want a Federal system, because they were afraid that a Federal system would set one pattern for the country as a whole, and it might be the wrong pattern as far as they were concerned.

So when the Committee on Economic Security was formed in 1934 . . . the Committee was absolutely torn to pieces between the ones that wanted the experience rating or individual reserves, a State system or Federal-State, and the ones that wanted a national Federal system.

. . . . .



*Why did you want it to be wholly Federal?*

Well, largely I suppose, because it seemed to me that unemployment was a national problem; and it was indeed unevenly divided among some States--some of them had it much heavier than others. But if it was a sort of general national depression, it seemed unfair that some States would be burdened with a heavy cost of maintaining the unemployed and others would have practically nothing at all. Added to which, I think at that time many of us had more confidence in the Federal Government than we did in a number of the States.

. . . . .

Of course, Arthur Altmeyer, you've got to remember, was a Wisconsin man, as was Witte. And therefore, they were pushing all the time for a State system, to begin with, and I think fundamentally, because the State system therefore meant the Federal Government wouldn't have too much say in what was going on.

FINANCING THE SYSTEM

Grant-in-Aid Versus Tax Offset

Eveline Burns

The point of view that was presented by the group that I belonged to [was that] if it has to be a State system, we would like to have a grant-in-aid program rather than the tax offset. . . . One of the purposes that appealed about the tax offset people to the Wisconsin oriented group was the fact that in a tax system there would be very little in the way of Federal standards. I think there'd been some judgment in the court some time ago about that, that you couldn't do that [impose Federal standards], whereas on a grant-in-aid, the courts had held that if the Federal Government was giving money away, it could lay down the conditions under which it would give the money away.

So the fight then turned into a fight as to would you have tax offset, or would you have grant-in-aid. And in other words, there would be a tax levied, I suppose, on the various employers, but it would be kept quite separate from the conditions under which the government gave money away, just, for example, as when they started in with old age insurance. You remember it was Title II which provided the benefits, and that was a long way away from that title in the Act that subsequently became part of the [Internal Revenue Code] that levied the taxes. The theory was, there was no connection between the two at all, so the Federal Government wasn't laying down conditions about taxes or anything of that sort. But it was; in Title II it was able to decide under what circumstances money would be available to all the people.

## Individual Reserves Versus General Fund

### Eveline Burns

Of course Wisconsin had been acting, . . . what was it, about '31 or '32, something like that, and Abe Epstein's organization took up this whole question of unemployment insurance. And it very soon developed there was a great split among the people who wanted unemployment insurance, or something called unemployment insurance, between the people who liked the Wisconsin system--that was individual employer reserves, or if they didn't like that, they wanted experience rating, and so forth--and the people who wanted a general fund. Well, Epstein and most of the people who were connected with his organization were strongly in favor of a general fund, as exemplified by the bills, as I recall, at that time that were being introduced in Ohio.

Meanwhile, there was an organization called the American Association for Labor Legislation which was at odds with Abe Epstein's organization, because they were much closer to the Wisconsin approach. Well, they did want the experience rating type of system, and they were pushing bills here and there. And for a long time, until they set up the Committee on Economic Security, that was 1934, very little got done, particularly because there was this conflict between the two groups of people who were supposedly speaking for unemployment insurance but couldn't agree among themselves as to what kind of a system to have.

### William Papier

There was a battle in the early days between the so-called Wisconsin plan and the Ohio plan. The Ohio plan was by far the more liberal, in that it established a pooled system of benefits. Parts of the Commission's draft bill were incorporated in the original Ohio Unemployment Compensation Law, passed several years later. The Wisconsin plan was essentially an employer reserve plan which subsequently lost out in the competition of ideas. Wisconsin, however, was the first State to enact an unemployment compensation law before the Social Security Act was passed. Incidentally, a historian by the name of [Daniel] Nelson published an excellent study of unemployment compensation in those early years, 1915 to 1935. He goes into detail concerning the Ohio-Wisconsin battle.

Margaret Dahm

The individual employer account provisions were used.

. . . Individual employer accounts mean that each covered employer has an individual bank account into which his contributions go. That account is used only to pay benefits to his former workers, and nobody else's. And, nobody else's account can be used to pay his workers. So if his account has no money in it, his workers get no benefits. Under this system, the workers laid off by small employers--and the law covered those who had four workers for 20 weeks in a year--were not likely to get much in the way of benefits. The maximum contribution for one worker for a year was 81 dollars. The maximum weekly benefit in most States was 15 dollars. So the contribution on one worker's wages could pay those benefits for a little over 5 weeks.

Some States started out with individual employer account laws. In one State, [the account of] one of the largest employers in the State went broke. There was plenty of money in the fund, but that particular account went broke. And the agency administrators and governor decided that this was a situation that was intolerable for a variety of political . . . [reasons]. You couldn't do that. So they paid benefits anyway, and got the law changed retroactively. Probably nobody knows, even people in the State; I'm not sure too much record was made of it, and I'm not going to say what State it was. But then there was a modification, in which there were individual employer accounts, but there was a pooled backstop.

But the most common kind--and States have changed, so it was the most common to start with and it's even more the pattern now--is the pooled fund, in which on the benefit end there's a pool. And as long as there's any money there--and now, as long as they can borrow money--workers get paid benefits. The account is a bookkeeping account only. You keep track of the employer's contributions and you keep track of the benefits that are charged to him, and you vary his rate according to formulas relating those two. There are other measures that are used. They sound more different than they really are.

There were some that really were different, but I don't think anybody uses that exclusively anymore. That was the so-called payroll variation, in which your rate depended not on the amount of benefits that were paid but on the extent to which your payroll declined from one quarter to the next. Now there were adjustments for seasonal [employment]. But that didn't have the same appeal as where you have the control over the benefits.

Experience Rating

Margaret Dahm

You know, the Congressional decision to include experience rating in the Social Security Act was greatly influenced by the fact that experience rating was provided in the Wisconsin law, and Mr. Altmeyer, who came from the Wisconsin experience, had an important role in the Social Security Act.

. . . . .

Before the Social Security Act was even proposed, some employers had developed plans to help their workers. Some of the plans were called "guaranteed employment plans". Without getting into a technical and accurate description, they assured a central core of workers a certain amount of work, or wages, over the course of a year. Also before the Social Security Act, the Wisconsin law had become operative, and it provided experience rating through its system of individual employer accounts.

So when the Federal law was being worked out, there were lots of arguments about what the best kind of law would be, with respect to a great many of its provisions, not just those on tax rates. As it came out in final form, the law included some very complicated provisions for experience rating, including specific provisions for individual employer accounts and for guaranteed employment plans.

Curtis Harding

Once you've determined the amount of dollars that you are going to have, you have to determine how you are going to collect those dollars. And experience rating has been with the system from the beginning of time. A lot of it was patterned after Wisconsin's law; the Wisconsin law drew a lot on the experience of Workmen's Compensation.

Under Workmen's Compensation, you are responsible for, supposedly, the injuries inflicted upon your workers. You can also think about the unemployment insurance program wherein there's a responsibility on the part of the employer, and that he is responsible for the unemployment of his worker. If he is responsible for the unemployment of the worker, then he should provide the funds which are needed to pay his former worker

benefits until such time as they can find employment. This ties in as one of the foundations, one of the principles under which experience rating was founded, plus the fact that if it costs the employer money, he is going to be a lot more concerned about keeping the individual employed if he possibly can. He is going to be a lot more concerned about finding employment or having that man return to his employment if he can.

### Marion Williamson

Paul Raushenbush added a lot to this program. His wife [Elizabeth Brandeis] was Justice Brandeis' daughter, and they played a big part in the first unemployment compensation bill [in Wisconsin]. And they insisted on experience rating; they insisted that the program be sound and not go off paying big benefits for a long period of time till we knew that it could be done without going insolvent. They were sure if they have experience rating to get employer interest in the program, financially, and to get the information about those malingerers.

. . . . .

. . . Jay Hormel and the American Legion . . . endorsed the experience rating to get employer interest so we could get job orders from them and make them interested in unemployment compensation with respect to misconduct and firings and other things, so that only those that were willing to work would get the money.

### Philip Booth

I remember two jobs that I was involved in over a period of years. One was a paper on the principles underlying "merit rating," as experience rating was called in the beginning. This already looked as though it was going to be a major area of work in the program. It was treated differently in the first State laws, and I had to look all this up. The Federal law, of course, permitted States to vary employers' rates depending on their experience, i.e., their employees' experience with unemployment. And Wisconsin was the first State law enacted. This idea was central to the Wisconsin system, that really was a scheme for promoting employment stabilization by varying the tax on employers, with the higher taxes being assessed on those employers who were the least stable, at least in terms of turnover of their former employees.

The States had a variety of merit rating plans. A few of them had no specific provision. Others had something about merit rating in the laws, but no scheme for varying taxes, and consequently we classified these as States that were to make studies. There were about a dozen such States that were going to study what kind of a system of merit rating they should adopt, if any. And we looked at this idea, which many of the people in the organization at that time regarded rather skeptically, with respect to whether or not any system of variation of taxes could be effective in leading to stabilization of employment.

. . . . .

"Merit Rating and Unemployment Compensation" by Karl Pribram and Philip Booth, assisted by Bernard Fishman, who did some of the statistical tables, contained some legislative material on the various types of State law provisions which were analyzed in some detail. And we developed a number of proposals in the monograph as to what kind of studies might be made, and what were the choices that States might make and their advantages and disadvantages.

This was a service. Much of the work that we did in those days was aimed at assisting the States in setting up programs, drafting legislation, suggesting choices, a variety of choices, available to them as to which way to go. And this was one of . . . the things where there wasn't much else available. That was what you were doing in many cases. There wasn't anything on many of the subjects on which advice was needed by the States, whether it was in terms of administrative organization or statutory provisions.

At any rate, later, for some time, experience rating became my full-time job. I followed the changes in legislation in the States, helped the States make studies, et cetera, et cetera. At one time I didn't know if I was really supposed to be promoting experience rating or the opposite. This became the point of a good deal of joshing with my friends.

Tax Rates and Tax Base

Ewan Clague

The firms covered by the program were to pay taxes of 1 percent on employee wages in the first year, followed by 2 percent and finally 3 percent in succeeding years. These taxes were payable to the Federal Treasury until the State passed a UI law, whereupon the State agency collected 90 percent of the amount [for benefits], with the remaining 10 percent still coming to the Federal Government. The Federal UI administration then distributed this 10 percent among the States to cover their costs of administering the program.

Curtis Harding

Most of the States have tried to work within this initial concept of 3 percent. That 3 percent started out on total wages. It was changed after, I forget, one or two years, to tie in the Social Security Act, and made applicable to a ceiling of \$3,000 because that's the way the Social Security Act started out. And we have suffered ever since that time by having a wage base; and as the wage level continued to go higher and higher and higher, and more particularly as a result of inflation--and inflation has been with us since 1930 on a livable rate up until the last few years--but as the total wages continued to rise and we continued to tax only the subject wages, we have developed a very severe problem we now have of not having enough dollars to finance the programs.

Robert Goodwin

I think one of the most frustrating things we had to deal with was the question of the wage base and what was happening there. Of course, one of the results was it gave us very inadequate funds for administration. It wasn't changed for 20 years or so, and we tried many, many times to get that changed. . . . This has been an exasperating thing. The large employers fought it. They tend to have employees that are paid higher wages, and it costs them money; every time the base is expanded, it costs them money. They favored, as an alternative, raising the rate instead of the base, and the rate was raised a couple of times in line with that position.



William Norwood

. . . I'm impressed by the fact that the original concepts were valid; that even the original estimates of cost were, if anything, conservative. Three percent of total payroll, which is what they were talking about, is still more than adequate to finance the kind of program that we have today. As I say, the real problem that happened was the taxable wage base being stuck at an unrealistic level for an extended period of time. Had that not been the case, I don't believe that we would have experienced nearly the degree of solvency problem that occurred out of '74 and '75, because the tax rate on a larger wage base would have been more responsive. And 0.3 percent of total wages would have been tremendously more than adequate to have afforded a proper degree of administration or level of administration, which is now suffering.

Saul Blaustein

How the tax base issue arose is what's interesting to me, as a matter of historical perspective. When we started out, you know, we didn't have a restricted tax base for UI. We did for social security contributions. It was \$3,000 right from the beginning. That \$3,000, back in 1937, '38, '39, was practically all wages; it was all for most people. I think something like 98 percent of all payrolls were accounted for by the \$3,000 tax base--practically total wages. UI didn't have a restricted wage base; it taxed total wages and the change was made in 1939 in the amendments to the Social Security Act that year. And the major motivation for adopting the \$3,000 tax base for UI was to make it easier on employers. The same employer had to figure out a payroll tax for social security and a payroll tax for UI. In one case, he had a \$3,000 tax base; in the other case, the tax base was total wages paid. So the thought was that, let's make it easy--he can just figure both taxes on the same basis, and so the same base was adopted for UI.

There were other factors involved. Somebody once told me--George Roche, I think it was--that was not the only factor; there were a number of people in Hollywood who made big fat wages and salaries in those days compared to everybody else. Their employers raised objections to taxing total wages. For somebody making ten, twenty, thirty thousand dollars or more a year, it would be kind of crazy to apply a social security tax to all of that. He would never see any of that reflected in his pension. Roche felt that was another source of pressure.

But anyway, UI started with total wages, and in '39, it had a \$3,000 tax base. Well, what happened in subsequent years, affecting both UI and social security but particularly UI, was that we got into a war period. Even before the war, many saw that the tax was generating revenues well beyond what was needed for UI benefits. Then they realized what had happened. The designers of UI at the outset had been too conservative, you see. With the war, there was hardly any unemployment--no benefits paid out to speak of--the funds began to swell. And the Federal law at that time said that a State may not reduce its UI tax rates below 2.7 percent of wages except through experience rating.

So there is another reason why the taxable wage base was kept down where it was, even though wages were beginning to go up and the wage base over the years came to account for a much smaller proportion of total wages. It was a way of keeping the revenues down. Why raise the wage base when you already have more than enough funds? So keeping the base at \$3,000 went on for a long period of time, and I think it got to be a habit. If it wasn't for that factor, all States would have continued to build big surplus funds.

Employee Tax

William Haber

One member of the legislature, the Chairman of the Senate Judiciary Committee, the late D. Hale Brake, a very distinguished attorney from western Michigan, a man of character and intellectual weight, could not quite understand why we did not have a tax paid for by the employees also. Well, he never studied with John R. Commons, who felt that if the employer paid the tax, he would have a greater incentive to make sure that nobody was laid off unless they really had to, and that work was reorganized so that layoffs don't take place, because at that time the work was regularized--that's a term I don't think I've used for 40 years--and that seasonal industries are made unseasonal.

Eveline Burns

. . . the one condition under which the labor movement finally withdrew its opposition to unemployment insurance was on condition that the whole costs were paid by the employer.

Repayment of Loans

Curtis Harding

We couldn't resolve this one problem as to what type of policing there should be. Should we charge interest on the money that was borrowed, or should we set up some type of repayment provisions which would really be hard and cruel so that if a State didn't take action to pay it back--should you have both an interest charge and a repayment provision? We ended up by saying that we would have a very effective and severe repayment provision. There's no need of making the problem of the State any worse if the State does exhaust its trust fund, by tacking interest on top of it and making a bad situation worse.

On the other hand, unless we had some mandated system of paying the monies into the State, somebody might get the idea that they could go on and not have to finance their own benefit payments. So we opted with the severe repayment provision. Talked a lot about it. We ended up with our recommendations, Interstate Conference [Interstate Conference of Employment Security Agencies], that they continue to be severe and the State be given a reasonable period of time--and we didn't at that time decide what was a reasonable period of time--but they'd give them a reasonable period of time to do what they could to increase the revenue coming into the program. And if they weren't doing it, there'd be an automatic assessment through the Federal program through collection of the FUTA [Federal Unemployment Tax Act] tax, where they would increase the tax on employers in that State and the additional monies collected would be returned to the State and would go into the Trust Fund.

BENEFITS

Benefit Amount

Wage-Related Benefit and Wage Replacement Ratio

Margaret Dahm

When we first started, there wasn't much precedent. We drew very heavily, in developing the original State legislation, on the British system. But benefits were paid, under the British system, in amounts which related to the age, sex and marital status, and dependent status of the individual, and had no relation to past wages. That kind of system, it was decided early, wouldn't really work in the United States, because even within a State (leaving aside variations in wage levels between States), even within a State the variations in wage levels between parts of the State and between different industries and occupations were so great--remember this preceded the enactment of minimum wage legislation--that a flat benefit amount which was reasonable for a large group of workers would have been as much as the wages of other workers. So, a decision was made very early that the benefits should be related to wages--the individual's past wages. And the initial laws tried very hard to get individual equity.

The individual's benefit was 50 percent of his customary weekly wage. . . . There's no documentation that we've been able to find, really, of why 50 percent, except that a number of the people who worked on the program and who worked on the development of it, had a background in Workmen's Compensation. And Workmen's Compensation used two-thirds of the wage. There was just a kind of a feeling [that for] the individual who was able to work you wanted a real incentive difference between the benefits and the wage. It was thought it was more important for the individual who was able to work than for the Workmen's Compensation claimant, where, at least in most cases, there is a more or less outside objective test that can be applied as to whether he is able to work or not. That's my belief as to how it came. But there is no real documentation as to why 50 percent, except the concept that you needed a differential between wages and benefits.

Saul Blaustein

. . . I learned about this "tradition" of 50 percent as the appropriate ratio. And the question was--well, we're talking about adequacy--what do you mean by adequacy? Does 50 percent give you what's adequate? That was the issue. Where did the 50 percent idea come from? Why is it 50 percent? Nobody knew. There were all kinds of conjectures, but there was nothing in the literature that I could find (and I read a lot of the literature) that explained it.

Well, about 10 years ago, when I was in the midst of putting together a series of studies on UI that the Institute [W.E. Upjohn Institute for Employment Research] turned out over the years, one of the studies which I planned but never really got to write, because managing that series got to be much bigger than I thought, was on the weekly benefit amount, all aspects of that. One of the questions I was determined to answer was where did we get 50 percent; where did it come from? Well, I went back to the literature of the period when unemployment insurance began and just before then. Of course the first national program was the one in Great Britain,\* which provided a flat-rate benefit. Everybody got the same amount, regardless; wages didn't matter. And that became fairly general; other UI programs had that approach. Why didn't we use that idea in this country? Well, one of the reasons is that wages vary a great deal in this country, more so than in some of the other countries with UI. So in a big country like ours, you can't just have a flat rate; even within a State there's a good deal of range in wage levels.

Well, why 50 percent? One of the lines I traced was in Wisconsin. Wisconsin had the first UI law in the U.S. The Wisconsin people who developed UI there were very important in unemployment insurance beginnings. John Commons was one of the most significant of this group--he pretty well established much of the philosophy of the program, from which we developed experience rating, for example. Well, Wisconsin had a UI bill introduced every year, or every two years during the 1920's; it was Commons' bill. He had his ideas in that bill. In that bill he had a flat benefit rate. It was a dollar a day, and that was what everyone would get when unemployed. In those days, I guess many people made about \$10 a week; that was it. But regardless of what you made, the benefit was a dollar a day, a flat rate. And that continued all through the Twenties. Every bill introduced was like that.

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\*First enacted in 1911.

Then around 1929 or 1930, Commons was getting old and he retired from the scene. But his students were still around, and they carried on his work. They included Paul Raushenbush, Elizabeth Brandeis, and Harold Groves. They were members of the faculty at the University of Wisconsin and had been students of Commons. They took over his effort for UI, but they changed some things in the bill. The bill that was next introduced, in 1930, switched from a flat rate to a 50-percent-of-wage rate. And that was the bill that eventually passed. Wisconsin passed the first law in the country back in 1931, you see. There was nothing that I ever read that talked about why the benefit rate changed, what happened.

Well, about 10 years ago, Paul Raushenbush was still alive. He had been retired for some time already from running the Wisconsin program. So I wrote to him, and I said something like the following: "I noticed this change in the benefit provision in the bill that was introduced in 1930, and nowhere have I found any discussion of why the change to 50 percent of the wage." Well, he acknowledged my letter. He thought that was a very interesting question. He couldn't remember exactly, but he had files, and if I would give him time, he would dig into the files.

Well, 2 weeks later I got about a 25-page, hand-written letter and I have heard from people since that he really enjoyed doing that. He went back into the file; he found minutes of meetings that his colleagues had in 1930 as they talked about what they should do. And he said that there really wasn't much discussion of this point, but the feeling was pretty well agreed that they couldn't go on with the flat rate, and they would rather have it wage related because some workers made low wages and one dollar a day when unemployed might be too much. They were concerned about the incentive issue, you see. And the feeling was, well, if unemployed workers were going to get a benefit that was pretty close to their wages, that was not going to go down. The public was not going to buy that. And so they felt that the benefit needed to be wage related. Then the question was: What should the ratio be?

Well, the only thing they had to guide them was Workmen's Compensation, which was a strong program in Wisconsin then. And that program provided wage-related compensation. But that program paid two-thirds of the injured worker's average wage, and that's what is generally paid in Workers' Compensation even today. As they talked about this, well, maybe that's what ought to be used for UI. But the discussion considered whether two-thirds would be too close to the wage for unemployed people. For somebody who was

hurt on the job, there was sympathy for him--he couldn't help himself, and there was not as much concern about him malingering, because he really can't work; so two-thirds was okay. But for an unemployed person who is perfectly able to work, two-thirds seemed high; they presumed people wouldn't buy it in those days. So they asked: What's the next logical figure? The answer was half. You can't go to 60 percent; nobody knows anything about 60 percent. Half is understandable. That's how it came about.



### Minimum Weekly Benefit Amount

#### Margaret Dahm

The minimum benefit amount ought to be high enough to be some use. That was a concept we didn't start out with either. Paid benefits of 50 cents. I am reminded that originally there was no minimum weekly benefit amount, and benefits were paid at whatever figure was produced by the computations, which might be less than 50 cents. In one State, the system paid a 10 cent check for a full week of unemployment; one of the UI staff members wrote up a little note on that fact and sold it to The New Yorker magazine. But 50 cents stayed as the statutory minimum in one State for a number of years--I believe it was after World War II when the change came. Now 50 cents was a lot bigger then, but nevertheless, it was kind of silly to pay 50 cents. Your minimum amount ought to be enough to be useful. Then it ought to have some relation to the wage of the lowest paid workers you cover.

## Benefit Formula

### Margaret Dahm

And they tried to set up and keep records in great detail, as to what the individual's wage had been. What his full-time wage would have been. The employer had to report it. Well, they didn't. They couldn't. Computers came along in the future. Actually, the social security system had a great deal to do with the development of computers. The need for record keeping, mass record keeping in detail, spurred the development of IBM punch cards. But the system was very complicated.

Tried to devise the individual's full-time weekly wage during a base period. And the original standard base period provision was a period beginning with the first day of the eighth completed calendar quarter preceding the day on which the individual filed his initial claim, and ending with the last day of the most recent completed calendar quarter preceding the week for which he was filing a claim. So your base period started out with 8 quarters, and ended up with 11 quarters. And that got complicated.

After benefits had been paid for a while, there was a great effort, referred to as the Simplification of the UI System.\* And that's when the formulas, the fraction of high quarter wages, came into being. Now, if you're going to pay an individual 50 percent of his wage--up to a maximum, and there've always been maximums--then if he worked all of a quarter, if you pay him 1/26 of his earnings in that quarter, you have paid him 50 percent of his weekly wage. But even at the time the Simplification Program was working, there was still a lot of unemployment and underemployment, less than full-time work for a week. So the fractions of 1/23, 1/24, 1/20, were developed and proposed as a way of meeting the fact that 1/26 of his high quarter wages was not necessarily half his weekly wage.

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\*See later section on Wisconsin program.

And the formulas got complicated in a different way. The people lost sight of what they were intended to be. They bargained this way and that way. And in some of the States, it was  $1/27$  of the high quarter wage, on a sliding scale. I don't think anybody ever used  $1/27$  flat, but quite a few States--California is the only one I can remember specifically, but it was not the only one--used a sliding scale, where at the low end of the wage bracket you used  $1/20$  or some other fraction, and when you got to the maximum then you used  $1/27$ .

It was also intended that benefits were paid only to an individual who had a substantial attachment [to the labor force]. What does that mean? Well, it started out in terms of how many weeks he had to have worked. But that involved additional record keeping for the employer, and record keeping for the agency in reporting. So when you went to a fraction of high quarter wages for the weekly benefits, that was accompanied by a dollar amount formula for determining attachment. And again, you can arrive at whatever number weeks of work you want. On a rough basis, if you worked 13 weeks in the high quarter, then your benefit amount is 50 percent of your wages. So if you have to earn 30 times your weekly benefit amount, you have to have worked in 15 weeks. And again, that got lost sight of in the legislative bargaining. After you went to that, then people lost sight of the concept behind the formula, and bargained over what the multiple should be.

## Benefit Duration

### George Roche

[The unemployment insurance program] was intended originally to be short-term. If you think back, in the Thirties you either had a job or you were unemployed long-term. You were earning wage credits only if you had a job. A very large number--in '35 it was around 20 percent of the labor force, which at that time was basically male--were excluded from unemployment insurance de facto by not being able to accumulate wage credits. So that it was a short-term program, and you had WPA [Works Progress Administration] and things like that taking care of the long-term people until the war started, which changed everything, totally.

### Margaret Dahm

In the duration, it was always agreed by most people--there were some people who thought that you ought to pay benefits as long as the individual was unemployed--but most people in the program always felt that you needed a limit somewhere. Just what that limit should be was a matter of discussion. The original durations were set at 16 weeks on the basis of an actuarial edict that you couldn't pay more than a maximum of 15 dollars a week for 16 weeks for 3 percent of wages. Well, the actuaries were way off. But we got stuck with the benefit limits. Sixteen weeks stayed the limit for a long time, and then gradually it worked up.

There was probably more disagreement on duration than on a lot of things. Originally, it was strongly felt that duration should be uniform, that it should not vary by the length of time you had worked. When you buy a life insurance policy, you decide how much you are going to be reimbursed, your survivors are going to be reimbursed, what your life is worth, and it doesn't matter whether you've made one payment on that policy or whether you've been paying on it for 20 years. You get the amount that was agreed on. And the same with fire insurance. So there was a feeling that if you're going to get 50 percent of your wages, then once you've met the qualifying requirement for the length of time you've worked, you ought to get the amount--the [full] duration--provided, of course, that you are unemployed that many weeks.

Ewan Clague

The standard duration established in the original legislation was 16 weeks of unemployment benefits for workers who had been employed for 20 weeks or more during the year. . . . The future concerned what ought to be done about the benefit duration--it was 16 weeks. Some of the States began to take stock. The war was on, and it was during that war period when we in the Bureau [of Employment Security] were doing a lot of thinking: What about the post-war world? So then we began planning for extension of benefits. Some of the States moved up to 20 weeks. Then a little later, in the early 1950's, they moved up to 26 weeks. The post-war period had experienced quite a volume of unemployment, but it was not as bad as most officials thought.

Curtis Harding

It was a long struggle. I don't know whether it's over yet. The difference of philosophy between uniform duration and variable duration. I think in the beginning, it wasn't quite 50/50, but a little less than half the States had uniform duration; the balance of these had variable duration. Today . . . most of the States have variable duration, again tying into the insurance principle--like your weekly benefit amount is based upon a percentage of your full-time weekly wage. The total amount of benefits that you receive is a percentage of your earnings during your base year. . . . quite a few of the formulas started out with a concept, well, we'll give them one week of benefits for each two weeks they worked in the base year. Depending upon the philosophy of quite a few different people, different States, different legislative concepts and reactions, they would vary that formula.

Some of the philosophy in some legislative bodies was that the duration formula should be slanted in the direction of the short-term worker getting, in effect, longer duration and the longer-term worker getting less. What that would mean [is] that if you worked for 20 weeks, maybe you ought to get 12 to 15 weeks of benefits in duration for 20 weeks worked rather than just the 10 which would be on a straight 50/50 basis. If you had worked for 40 weeks, maybe you wouldn't get quite 20 weeks, but it would begin to give recognition to the short-term worker.

That was one philosophy. There was another philosophy that looked at the labor force and thought that the really solidly attached

worker, one that had good labor market attachment, was really entitled to more duration than the one that had the short labor market attachment. In other words, the seasonal worker--you shouldn't give him any more than one week of benefits for two weeks of work. When you get to the top end and you're no longer dealing with the seasonal workers, but you're dealing with your firmly attached workers, you ought to be a little more liberal with them. So your variable duration formulas differed.

Eligibility and Disqualification

William Norwood

One of the things [you see] as you look at the program now and what it has achieved and its setting at the present time, as against what it was conceived to be in the very troublous economic setting in which it came into being, is that the labor force has just changed tremendously. And such things as the relationship of gross pay to take-home pay have changed tremendously because of both the withholding, both for social security and for income tax purposes, and the fringe benefit aspect of salaries and wages as against what it was in a much more simplistic kind of economy when wages was about it, really, at the beginning of the program. And the dual wage earner or multiple wage earner family composition is substantially different than what it was conceived to be and [what] was, to an appreciable extent, true at the beginning of the program.

You had the typical situation of primary wage earner and several dependents, and you were trying to replace that primary wage loss during a period of unemployment. And you had to believe that economic pressures were going to force that primary wage earner to take any reasonable job offer that came along. You wanted to afford him some period of time to avoid having to take the first thing that came along and taking something that didn't utilize his experience and skills, and I say "his" because the picture those days was a male head of family, primary wage earner with maybe some little supplemental odd job kinds of income, but a real belief that economic pressures would terminate the drawing of unemployment insurance, and that they would in fact go back to work.

. . . . .

One of the things that I began to realize is that the early concept of availability for work had somehow gotten distorted into instant availability. That [when] you came to the office to file your claim for that week, you theoretically ought to have the tools of the trade with you, you ought to be dressed to go out on immediate job referral if one was there. And while that's valid for some types of occupation, it's foolish for some. In some instances, what we really ought to have been doing was encouraging people to be entering training, rather than to be immediately available for the first job that came along. To upgrade their skills, take advantage of the time between jobs to move up in the occupational hierarchy.

So I guess I was one of the early ones that started trying to get across the notion that what availability really meant was what a reasonably prudent individual ought to do in order to reenter the labor market and get a job. And that that certainly ought to encompass the notion of taking training.

Ralph Altman

Inherently, it [unemployment insurance] is a controversial program in our kind of society. It will always be. Inherently, unemployment insurance offers a system to do what Americans with their background don't readily swallow--pay people because they're unemployed, which is viewed by so many as paying people for not working. That's very difficult for people in our kind of society to accept. Despite any claims of the advance of a counter-culture, I think we remain a society that identifies itself by gainful employment. The next question you ask after you ask the stranger's name is, "Well, what do you do?" By which you mean, "What do you do for a living? What is your work?" And a people that identifies itself in this way will always question a program that pays individuals when they're not working, consider it a payment for not working. That's item number one, the basic item in making unemployment insurance a continually controversial program.

It's inherently controversial as well in our society because it is putting itself in as an arbiter of workers' job separations. Unemployment insurance presumes to decide who is right: Was there good cause for quitting? Was there misconduct that was responsible for the discharge of the employee? Is it the employer who really is responsible for this unemployment, either because he picked the wrong person for the job or because he is failing to supply the worker with work, henceforth discharging him? And even in the areas where unemployment insurance historically, at least most States so purport, tries to be neutral--labor dispute areas--it's a hard-fought and very difficult neutrality to maintain.

Now you could not have an unemployment insurance program in this country without decisions on those rights and wrongs. It wouldn't be tolerated. You have to have those disqualifications for the program to be acceptable, although there have been people that felt that there should not be disqualifications at all, Winston Churchill among them. Churchill first presented, in 1911, an



unemployment insurance bill to Parliament. He proposed to have no disqualifications for misconduct; none at all. So what if he was drunk; anything wrong with that? And he was beaten down. Couldn't even make it in Great Britain, and certainly it was impossible in the United States. And in those States where almost by happenstance one of the standard disqualifications was missing in the early laws, and this happened, they were in effect read into the law. For example, we had States that missed out on having a misconduct disqualification by accident, States that missed out on a voluntary quit disqualification by accident; and they were read into the law by construction in actual operation.

### Philip Booth

The other thing I did with Pribram was develop what turned into three or four monographs on the principles underlying the disqualification provisions. What were the principles to guide the States in making determinations on whether or not a person [should be disqualified] who had refused an offer of work, of suitable work (as the statute provided), or had left his job voluntarily, or had been dismissed for misconduct, or who was out of work because of a labor dispute? These were the four major disqualifications, and we wrote a monograph on each of them.

Again, here is where we used the umpires' decisions, because that was the major source available. Pribram contributed the continental experience in this area, although the laws were not the same as the British. We, in this area and many other areas, depended heavily on the British experience--our system of law being so substantially drawn from Britain. The people who were our founding fathers in social security and unemployment insurance knew the German system or the British system or something of both. But this is our heritage, so far as this program is concerned.

### Ralph Altman

The theory of the flat period of disqualification has always been that this in general spells out the point at which unemployment begins to be the result of labor market forces rather than his own act, and that the period generally corresponds to the average spell of unemployment, and that after the average spell unemployment is the result of labor market forces.

## Waiting Week

### Leonard Lesser

The original draft proposed that there be a waiting week for 3 weeks before people could get benefits. The reason for that, primarily, was they didn't think they could get wage records and find out what an individual's prior wage was short of that period. The administrative difficulties would be too great.

They were also concerned about the actuarial basis--whether or not a 2.7 [percent] tax rate could support benefits for more than 13 weeks, even with the 3-week waiting period. You notice I say an average rate of 2.7 [percent] . . . . That's clear legislative history. Well, then most States put in, some put in a 2-week waiting period; most put in a 1-week. And some States decided to abolish their waiting week.

### George Roche

While the idea of a 4-week waiting period was an idea of co-insurance on the surface, it was also geared to an administrative system that couldn't turn out a benefit determination in less than 4 weeks. We [California] did have Hollerith cards. You had keypunch, you had sorters, and you had collators, but that was the end of data processing except what was done in ledgers with pencil and paper. The benefit determinations and eligibility determinations, as you can imagine, were made in the local office from records gotten from Central Office, but they were done by pencil and paper. It was not the efficient system that we visualized. There was a tremendous mechanical problem.

COVERAGE

Ralph Altman

There was no provision in the Federal law explicitly for a hearing for an employer. However, the draft acts which were prepared for State use at the time the Social Security Act was passed included provisions for appeals by employers on benefit issues. Many of the States in their early legislation went beyond that, and most States have them today, providing provisions for administrative hearings for employers as to status and tax issues. The original draft act, as I recall it, did not have provision for such administrative hearings, leaving employers to their court remedies on status issues.

The issue of employer coverage--who was an employer, what is employment, who was an employee--resulted in so many administrative appeals that it created a backlog that required me to be hired; me and somebody else. I wasn't the only one. It was temporary because those cases had piled up. When I came to work in 1941, the cases I was reviewing and summarizing at that time in the employer/employee category were coverage cases, and most of them were dated 1938 or '39. They were a couple of years behind in reading those, so many had been accumulated. And all the initial issues as to the definition of employment for unemployment insurance provisions were hotly contested. They were difficult.

The draft acts, the early State legislation, contained what were called ABC provisions. These were provisions that were designed to expand the traditional master/servant relationship in establishing the concept of employment. And because they were new as concepts, and because they subjected more employers to coverage and taxation than would have been encompassed by the traditional master/servant definition of employment, the issue was very hotly contested. There were innumerable appeals and cases that went to court ultimately, and a lot of landmark litigation was initiated through that process. We haven't had as much of it in all the years since the early Forties as we had in those first few years.

Philip Booth

Let me talk about coverage extension. I don't know that there had been much coverage extension from the beginning until the Forties and the early Fifties, when the program moved from coverage of employers of eight or more to employers of four or more. Of course, when I say it that way, what I'm really saying is when the Federal act extended coverage to smaller employers. But by that time, as was the history in the relationship between Federal and State law, many States had moved ahead. Some States from the beginning covered all employers, and others covered employers of six, of four, of two. And by the time the Federal act moved from employers of eight to employers of four, more than half the States, two-thirds perhaps, covered smaller employers. And this was one of the political problems involved in State legislation, that States didn't want to be forced to change their laws.

When most of the States had put in a certain kind of provision, then it was much easier to put this into Federal law and bring the others into line. Arguments could be made on the basis of administrative convenience, and then with respect to employers who operated nationwide, it could be pointed out that the employers had problems. And they'd point it out, in that their units in one State might be covered, and units in other States not; and people moved from one State to another, and in one State they might be under unemployment insurance and in others not.

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That way the argument for broadening the base was accepted more readily by the congressional committees that didn't want to be put in the position of pushing the agencies and the States they came from into doing things that for one reason or another they felt they didn't want to do.

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At the end of World War II, there had been a temporary extension--something called the "52-20 Club". The Congress provided . . . \$20 a week for up to 52 weeks for people who were separated from military service. And that was a temporary program. It didn't really involve very much in the way of new philosophy of policy development. It was felt that for many veterans, it was just extra money. They may or may not have had the intention to go back to work right away, and \$20 a week was, well, what you could get out of a part-time job. And the people who went back to the farm or back to occupations in rural areas, many thought that the program was abused. But many believed that "the boys" were entitled to something in the way of beneficence from the Federal Government.

INTERGOVERNMENTAL RELATIONS

Interstate Benefits

Marion Williamson

Well, at that time [after World War II] every State agency in the country was loaded with claims, with all the defense workers and all of their suppliers . . . and unemployed veterans coming in from the Pacific and the European theater. So I--at that time I was a staunch States' righter--I figured up that the Social Security Act and our State acts provided for a contract between the States if they wanted to, so I advocated that we have an agreement between the States to let the UC [unemployment compensation] claimants file a claim in the State in which they were living and refer it to the State in which they had wage credits, and let the [second] State then decide whether or not they had wage credits enough for so many weeks and at such and such a price.

So we got opinions from the attorney generals of slightly over half the States that the States could do it. So they called that the Williamson Plan. The Federal Government went along with me. I don't know whether there were ulterior reasons or not, but it was a cogent thing to do at that time, because claims were piled up and [we] weren't paying benefits when due. That was adopted by most of the States, and then with the end of the month they'd send a bill to the liable State for the benefits they'd paid out. And that liable State would send them a check. It worked fine.

Russell Hibbard

*Let me ask you a question about the Interstate Conference [of Employment Security Agencies]. Did that begin with the beginning of the Federal program?*

No, not immediately with the beginning. It began, I would say, as a response. A couple of far-sighted, second-level administrators--Stan Rector, who was head of the UBA [Unemployment Benefit Advisors] until he died, and was the chief counsel of the Wisconsin agency at that time; and the chief counsel of California, whose name unfortunately escapes me for the moment--decided that the most vulnerable point of the State systems was the fact that there was no way for an individual who moved across the State line to realize on his unemployment benefit

entitlement, and that unless the States could come up with a solution to the problem, the Federal Government would. I think those two, and some others that were fellow travelers with them, evolved the whole concept of the agency relationship between States. When I came in, it was to put the flesh on the bones. They developed the idea, and probably the only constitutional way that the States could have operated this kind of a system. So that's how it got started.

Appeals to Conformity Decisions

Robert Goodwin

There was an argument for many, many years between the Federal Government and the States over the handling of appeals to Federal conformity decisions. The States initially had no appeal rights, and in the 1970 amendments we reached agreement with the States and wrote in a provision providing for appeal to courts.

INITIATING STATE PROGRAMS  
PROBLEMS IN GETTING STARTED

Eveline Burns

The problem at that time was that half the States had given no thought at all to unemployment insurance. They didn't know what it was all about. All they knew was that come the following year there was going to be a Federal tax imposed, and if they didn't enact some damn thing called unemployment insurance in accordance with what the Federal Government wanted, the money would go to the Federal Treasury and it wouldn't go back to their States, you see. And frankly, that was the pressure on, I would say, most of the States. And I can still remember as the end of the year approached, all these States started coming to the then Social Security Board and said, "Tell us what we have to do. Give us a bill; give us a bill, because we want to know what to do."

And the Social Security Board was very impartial in its position as between these different types of programs, and they developed three model bills. And they handed them out to these chaps, you see, and said, "Now, here you are. Here is a choice. You can choose. Here they are."

Well, if you will look at the nature of some of the unemployment insurance laws in the early days, absolutely a riot, because the States didn't realize that the bills represented different principles. So they'd take a bit from this one and a bit from that one and a bit from that one, you see. It really was ironic the way those things went through at that time. And I say, the concern of most of the States: Make sure the Federal Government doesn't keep that money; we want to get it back. And of course there was a lot of uncertainty, I suppose. I mean the Federal Government, you see, or the Social Security Board, didn't feel like saying that this is the best thing to do. They were keeping it sort of optional with the States.

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Of course one of the things you have to remember--it seems so unreal now--is that when the Social Security Act was passed and the taxes were to go into effect, and the Social Security Board had to set up offices all over the country, give information, et cetera, who was going to staff these offices? Because there was nobody except some few people in Wisconsin . . . . But apart from



Wisconsin and people who might have been working in Workmen's Compensation, which was thought to be somewhat the same kind of thing, there was nobody with any experience in administering social insurance. And the first job that had to be done by the Social Security Board was to educate the staff, and train the people who were going to be regional reps in the States--that was a whole bunch of programs, you see, not only just one--and the people who were going to be the general counsel in the States, and so on. Let alone people who were going to head up the unemployment insurance part of it, and the public assistance parts of it and so on. You see, it was all very new.

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What they did was to pick out people who had had some experience with Federal administration in a variety of agencies, or one or two of them in States had had some experience, in at least a related field. We brought them down to Washington for three weeks. They didn't know the difference between public assistance and social insurance; they'd no idea what reserves were for, anything of this sort. And what the administration had been doing first of all, was getting people like Eleanor Dulles, who was an expert on the old age reserves, and Jane Hoey, who was the head of the public assistance department. And they would get them to come and talk to these poor, bemused people, going into such technical detail on their part of it when, as I say, the people didn't know the first thing about what you were talking about, and what the program was. Of course, in those days it was lovely because the Social Security Act was 19 pages long, and so it wasn't too bad to grasp it all in the end.

So, what I used to do, I called it preaching on the Act. And I'd just go through, first of all, telling them what the program was, and then explain to them: So that's why section 5(A) has this requirement in it, and that's why there's this part, and that's why there's this part. And of course these chaps knew--there was just one woman--a very extremely able labor arbitrator in New York; all the rest were men--and they all knew that in 3 weeks' time they were going to be out in Podunk having to answer all the questions about the Social Security Act. So they really were excellent, excellent students.

Ewan Claque

The UI agency had quite a time getting the States to join. One State, Illinois, didn't join until 1939. The U.S. Treasury taxed employers 1 percent, 2 percent, 3 percent of the wages--[in] 1936, '37, '38 [respectively]. Illinois didn't join until 1939, when they saw no hope. They had to join, or else their employers would keep losing all this money. So at last every State was in unemployment insurance.

## SPECIFIC STATE PROGRAMS

### Wisconsin

#### Ewan Clague

I first became acquainted with the program in 1933 when the Roosevelt Administration came into power. I should explain that, as a graduate student at the University of Wisconsin, I had connections with Professor John R. Commons, who was very much interested in the 1921 depression in starting an unemployment insurance program in the State of Wisconsin. They actually had some legislation introduced which I believe actually passed the [Wisconsin] House of Representatives there, but my memory is not sure about that. At any rate, it never got passed by the Senate and didn't get handled by the Governor, with the result that with the revival of business prosperity in 1923, the whole idea got dropped.

When the depression came again in 1929, '30, '31, with the vast volume of unemployment, the State of Wisconsin was very much interested in trying to deal again with this question. Professor Commons was still a key professor in the University, and he had very good relations with the legislature. He was called on by them from time to time to advise them on a great many economic problems. What happened is that members of his staff proceeded to try and develop an unemployment insurance program beginning in 1931, '32.

#### Russell Hibbard

In Wisconsin--and this is an old story and it's still repeated in reference to proposed new labor legislation--one of the main arguments that employers advanced against the enactment of a compulsory unemployment insurance law was that employers were already extending unemployment benefit coverage to their employees on a private basis, and that if left alone, they would do an adequate job. So the framers of the legislation put an effective date clause in the proposed unemployment insurance law saying that it would not take effect if by the time the number of workers gainfully employed in productive industry in Wisconsin had reached a specified figure--I think it was about 140,000--if, by that time, more than half of the workers in the State had been covered by private plans, the law would not take effect. And employers accepted that compromise, not realizing that they were employers

and they had a business interest concern. They found themselves in a situation where, if they established plans that would prevent the law from taking effect, they would let their competitors off the hook. And so the law did take general, compulsory effect. That was a rather neat gambit, I thought at the time, and I still do.

Ewan Clague

Harold Groves was the member who, in the [Wisconsin] legislature, now proceeded to produce the unemployment insurance program. And he had as his supporter, Paul Raushenbush. . . . those two produced legislation which became the Wisconsin unemployment insurance system. And that was the first system that operated in the United States. It was passed, I believe, in 1932. It's possible that it was early 1933.\* But at any rate, it was to go for a year with an employer tax only to see whether they would get the legislation, and whether it would be needed. Since, of course, the unemployment continued to be bad, at the end of the year the administration was set up, and my friend, Paul Raushenbush, became Administrator of the Wisconsin system. And Groves, who was in the legislature at the time, was one of those who would be watching legislation that would assist the program.

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Professor Commons of the University of Wisconsin thought of this program as something that the individual employer would do for his workers. So Commons devised a system in which the employer paid in the money and set aside a fund for his own workers. He was to pay him for 16 weeks. Commons' first bill was set at 10 weeks in 1921, but that was moved to 16 weeks in the 1930's. The employer idea was that he would take care of his employee until the latter could go and find another job elsewhere. With those benefits the worker gets a chance to explore and look around for job openings.

Russell Hibbard

When we in Wisconsin started paying benefits, we continued our record of doing it the wrong way. There, the decision was made to follow the pattern of Workmen's Compensation, and nothing could have been wronger. What they did was to establish what they called a docket for each claim, and every time a continued claim was filed, we had to go to the file, pull out the folder with the

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\*Signed by the Governor on January 29, 1932.

claimant's docket, and take it to the "computer" (a clerk), who would compute the proper amount of benefits, authorize the payment. Then we would take the docket to the check-writing machine and write the check, and put the docket back in the folder, and put the folder back in the file. Well, it wasn't long before . . . well, the first time we got behind, we got really behind and nobody did anything about it because, I guess, they were willing to make allowances for a freshman operation. And the second time, I was getting pretty concerned.

I happened to be over at the Commission, which was in a different building from the Unemployment Compensation Department, on some other business, and the Commissioners got to talking about complaints they were getting. And they said, "What's the matter over there?" I said, "We can't get the stuff back in files as fast as the complaints come in, and we're just chasing files all over the building." . . . We solved that one by putting more people in, but the problem with procedure persisted.

A committee was formed (I think I was chairman, I'm not sure) to work out a new procedure. And we went around looking at new machine operations. This was before the days when computers, even IBM, were really used in UC [unemployment compensation] operations. And we looked at various machines. I happened to see a check-signing machine in one of the buildings in Milwaukee, and those checks were scooting through there! I thought, "Oh my gracious, if we could just get the checks out like that!" Well, as I mulled around with that problem, several ideas developed.

Number one, a large part of the time was spent with typing and re-typing the name and address and the employee number on these documents. And I was . . . charge-a-plates had become popular in the stores at that time, so I started out with the idea that we'd issue each claimant a charge-a-plate with his claim number and his name and address, and his chargeable employer. This is one thing that's characteristic about Wisconsin, that never changed, that is, every check that was issued to a claimant told the claimant what employer was paying for his benefits, which we thought was sound, because it is an employer-financed program. Anyway, that's what was on the plate.

When the initial claim was filed, we would send it down to our graphotype unit, would emboss the plate, and put the plate in a little card holder with an imprint, and send it out in a window envelope to the claimant, and say, "Every time you go to the branch office, take this plate with you to speed up the claim".

Well, that way, the checks came in, and the only remaining things that had to be put on the check were the week number covered and the amount of the check, and I think the number of credit weeks remaining, which could all go on one line of the bookkeeping machine. So, instead of typing the whole check in an Underwood flatbed machine where you moved the typewriter all over the workspace, you put it in an accounting machine, all numerical, on one line, and, oh, the speed was just tremendous, compared to what it used to be. Nothing compared to the computer operations now, but quite a revolution then. And we never really had a problem with delayed payment after that. The so-called dockets, where we maintained a ledger of the payments, never were taken out of file. The bookkeeping machine operator had a tray of dockets brought to her with the claim forms. Put the docket in the bookkeeping machine, the check on top, put the one line in, and put the thing right back in file, right there, instead of carting it off and filing it in a separate operation. I was quite pleased with that, and I still am. Within the scope of available operating machines, that was about as good as I think could have been done at the time.

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It's amazing what Wisconsin got away with at the start, in terms of the burdens they imposed on the employers. Just absolutely amazing! It's unthinkable that any agency could do it these days. But when they started paying benefits, they told employers that they would have to sit down once a year and calculate, in advance, the weekly benefit rate for each and every one of their employees. And then [they would have to] scan their payroll records for each pay period, and see which employees had not earned their weekly benefit rate, and keep a record of how many weeks this occurred, so that when their waiting period had been satisfied, they would automatically send in an authorization to pay, to the State, to pay for one week after the waiting period. And that accumulation went on, also, for people who were separated from the payroll. Can you imagine employers being asked to do that?

Now, one of the things that I got rid of was the first calculation. For the first claims, the calculated weekly benefit rate was based on the concept of a full-time weekly wage. I don't mean some approximation, like a percentage of high quarter earnings. I mean the actual full-time weekly wage. And that meant the employers had to classify their employees. Hours were all over the lot in those days. You didn't have a wage and hour

law. They had to classify their employees by their scheduled hours of work, and establish, subject to review, what were the full-time hours, and multiply that by the hourly rate, which produced the full-time weekly wage. Then they went to the law's formula and set the benefit rate, and handed the employee a notice: "This is your benefit rate for next year." It's amazing, really, when I look back on it, that the whole operation didn't fall flat on its face. We asked so much, so unreasonably much, of employers.

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Well, one of the things I got rid of was the full-time weekly wage process. I suggested, and the suggestion was adopted, that we base benefit rates on the average weekly wage for the weeks in which the employee worked. And that, in turn, was easily derived from the report that the employer was required to file when an employee filed a claim. The predetermination of benefit weeks just fell of its own weight. Nobody suggested that; we were just spending too much time writing to ask for the reports. The average weekly wage, I think was, well, it solved the full-time weekly wage problem.

It also solved the problem of customary part-time workers. You see, with a full-time weekly wage, the people who were scheduled less than 20 hours were automatically unemployed when they were working a normal work schedule, because the benefit was based on full-time work. You take an average weekly [wage], and you get a realistic benefit related to the work pattern of the individual. So it seemed logical, and it worked out very well. It was a great simplification. It eliminated a lot of reporting, not only the . . . oh, incidentally, I neglected to say that the employer not only had to give the employee notice of his weekly benefit rate, but he had to send the agency a copy of the notice, and we had the problem of filing them.

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I think one reason that the high quarter formula was thought of and became the rule was the fact that Wisconsin was host for the second annual meeting of the Interstate Conference of Employment

Security Agencies.\* At that time we proudly trotted out all of our procedures and displayed them, and horror was rampant. And I think everybody left determined that they were not going to do it the way Wisconsin was doing it. And the high quarter formula was derived from that. I don't think the way we solved the problem was better than the high quarter formula. I think the average weekly wage was a better answer, because it's closer to what you're trying to insure. But the high quarter formula was the best one that the horrified people could come up with at the time.

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\*An Interstate Conference on Unemployment Compensation was held in Madison, Wisconsin in October 1936.



Michigan

William Haber

The State had to pass a law by December 31, 1936, in order for the employers' unemployment insurance tax to qualify to be set aside for the payment of benefits instead of going to the Federal Treasury for such purposes as would be used in Washington. So the Governor-elect asked--he was not to be inaugurated until after the first of the year, but the law had to be passed before the end of the year--and he asked the then Governor, the late Frank Fitzgerald, to designate a committee whose names he gave to Governor Fitzgerald to draft a law, and that I should be designated as chairman of that committee. So I had the task of a very good committee, a strong GM representative, Stephen DeBriel, representatives of Michigan Retailers Association, the president of the State Federation of Labor, John Reed, and people of that responsibility and men of great qualifications.

But as an aside, separate and apart from my committee, which had a research staff--one of my own assistants, the late Paul Stanchfield was heading it--I turned the project over to my class on Social Security, the first class taught on that subject at the University of Michigan. And that class helped write the unemployment insurance law. The class got itself divided into a committee on contribution, a committee on the employment service, and so on. And I had the great pleasure, on December 21, 1936, to sit with that committee in the gallery of the legislature while this bill was being debated--a bill in which they were all involved. And it's not without note to recall that at least twelve members of that class got jobs with the Michigan Unemployment Compensation Commission, as it was then called, to administer that law. And one of these young men and women, one of these men, Edward Cushman, later became Director of the Michigan Unemployment Compensation Commission.

Utah

Curtis Harding

I joined the agency as an Internal Auditor. Within a few days I was given responsibility of somehow or other determining how we were going to locate the employers, establish the necessary records and begin collecting the contributions in preparation for paying benefits, expectations being that we would start paying benefits sometime in 1937. So that's the way I started with the agency in charge of--they call them tax operations now; we called them, at that time, the Employer Unit Status Section.

There were three of us in the section. I didn't know anything about how files should be established, but it seems that what I dreamed up, I guess is as good as anything would be. Decided as we discovered employers we would index then numerically, set up an alphabetical index that refers to the numerical index, and the files are still being operated on that basis today. And I worked in that unit for some time.

We got the accounts established. When we got all of the accounts established, we ended up with approximately 3,000 subject employer accounts. Coverage of Utah law at that time was four or more in 1 day of each of 20 different weeks during the calendar year.

As things progressed and we began to look forward to paying benefits in 1937, we looked at the provisions of the law. Bill Burnett was the chief accountant for whom I was working. He sat down and decided to make a benefit determination under provisions contained in the law that had been enacted. He gave me the same responsibility, and I sat down in the morning trying to go through what was needed to make a benefit determination. And by the end of the day I hadn't completed it. He did get his completed--he was a little bit better and faster than I was--but we concluded that there was no way that we could pay benefits under the provisions of the law. So our first responsibility was to get the law changed--adopt some type of a benefit formula which was practical, one [with] which you could make a determination in at least less than a day.

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When we first started the program, we thought it was going to cost us 3 percent to pay very little benefits. Most of the projections were based upon the unemployment that pertained during the

recessionary periods and, as I say, we couldn't get a handle on it. We didn't have any good statistics, but we knew it was running in the neighborhood of 25, 30, 35 percent. And those that fashioned the law I thought, we all thought, were very, very optimistic to think that 3 percent of the total payroll would provide enough funds to meet the needs of the unemployed. So we started out with low weekly benefit amounts; we started out with very low duration.

As things began to change, as the Forties progressed and we got into the Fifties, we found out that the amount of money from that 3 percent tax, 90 percent of which went into the State Trust Fund, was adequate to pay more benefits--pay a better weekly benefit amount, and pay more duration.

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As far as we were concerned in our own State out in Utah, we have a tremendous amount of seasonal unemployment. Early in the program we made a study as to how long it took the average worker to get back on his job. We found out that in our economy, the type of industrial base we have, it took--well, let's put it this way--seasonal employment mostly was completed within 19 weeks. That's the way it read when the Utah law was written, and it still does. It provides for 19 weeks of employment to make you eligible. Most of your seasonal workers have employment less than 19 weeks.

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All of the States have gone through the same process of analyzing their economy, finding out what the needs of the unemployed are, and tried to tailor their formulas so that they can, to the maximum extent possible, meet those needs. Of course, you've got to also recognize what it cost to pay these benefits.

Florida

William Norwood

When I first went with the Florida Industrial Commission in 1938, we had a piece of legislation which had been only partially implemented. After the passage of the Social Security Act in 1935, the State legislatures were left with the job of passing enabling legislation that met the conditions of the Social Security Act, particularly Title III. The Florida legislature in 1937 had passed a piece of draft legislation that had apparently been put together by people who knew that they had to pass some legislation, but weren't quite sure what all it needed to consist of. So what we found is that, in putting together the draft legislation, there were some peculiar kinds of provisions in the Florida statute, then on the books, that had to be implemented because we had to begin the payment of benefits January 1, 1939. We had a relatively short period of time to get on line.

One of the curious things in Florida was that at the time I came on board in June of '38 we did not have a Florida State Employment Service, and this was a requirement since the Social Security Act had been interpreted that UI payments would be made through State employment services. We had to get an Employment Service established and under way.

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The chief of the Research and Statistics Department that I had joined as statistician took on the job of structuring the Employment Service, decided where local offices would be located, developed the first State plan which is called for under the Wagner-Peyser Act. I was given an assignment of heading up an internal committee that was putting together the first procedures for the payment of benefits. So I was very fortunate, as a new staffer, to be involved in the very earliest days of putting together a plan for how we would pay benefits.

These two paths crossed in late December with hiring personnel to staff the local offices, training key personnel in what they would do when they opened the offices and started taking claims. We positioned people in all of the local offices. As I recall, we had 26 local offices in the State of Florida to start off with at that time, and their very first act after opening their doors on January 2, 1939, was to take unemployment insurance claims. All of the Employment Service activities were a follow-on, frankly, to the fact that legally we had to have an Employment Service structure in place for the purpose of serving as claims-taking

offices beginning January 1939. . . . And we were struggling at the last minute to get the claims forms out, in place. We didn't have furniture in some of the offices at the time, and they actually literally used boxes and orange crates to take claims on in the very early days.

We found we had some very peculiar things that were the result of having put together a piece of legislation the way it was. One of the things that they had left out in the process of drafting the legislation was a minimum weekly benefit amount. They had just overlooked this thing, so that since there was no minimum weekly benefit amount we actually did grind out some checks for 2 cents and 1 cent, so on and so forth, that never were cashed. They became, you know, much more collectors' items than anything of intrinsic value. And we, in the 1939 session of the legislature, rushed through a package of things like establishing a minimum weekly benefit amount and establishing an interval. There was no rounding to the nearest dollar, or anything like that, either, in the legislation. So we quickly rushed through the legislation in early '39--the legislature didn't convene until April--to do such things as establishing a minimum weekly benefit amount of 3 dollars and weekly benefit interval at 50 cents. So that made things a little easier administratively.

We also had what was called in those days a galloping base period. The minimum length of a base period was the first 3 out of the last 4 completed calendar quarters, but it could be expandable to as long as 12 out of the last 13 completed calendar quarters; and that obviously wasn't a very feasible approach. So we did, early on, get an amendment that would make it the first 4 out of the last 5 completed calendar quarters, which was used from then on. But originally contemplated was a recalculation with the turn of each calendar quarter, the serving of an additional waiting period at the beginning of each calendar quarter, and a lot of complexities that may have been good concepts but really would not have worked out as far as practical administration was concerned.

Well, we learned some things the hard way in the beginning, such as the fact that you do need a minimum, you do need some kind of an interval for the calculation of benefits. We did not have, as most States didn't at the outset, any experience rating provisions. We did have a provision in the 1939 amendment for a study leading to the establishment of an experience rating system by the 1941 session; Florida, like most States in those days, had biennial sessions only. So we did subsequently establish an experience rating system.

One of the first things that we ran head on into was seasonality. In fact, we opened our doors in our Tampa local office and immediately had panic-type calls from the local office down there with an assumption that the hand-rolled cigar industry, which was then a fairly important one, was completely going out of business. Well actually, what they were doing was experiencing a semi-annual shut-down, which had been going on for 10 these many years, but we were not aware of it until we actually got to the payment of benefits. But they had long lines wrapping around the block in Tampa with all of the cigar makers lined up to come in to file for benefits. What we subsequently discovered was that this was a long-standing pattern with two complete shut-downs of anywhere from 2 to 3 weeks a year, one after the completion of hand-made cigars for the Christmas market--this would be in late December and early January--and the other one would be in June and July. There were reasons for this. The plants had to be closed down for health and safety conditions, for complete fumigation of the plant. So we came face to face with seasonality the very first day we opened the office.

We had, as you would expect in Florida, a resort-oriented kind of an economy with a winter season in the southern part of the State, and a complete closedown of the resort hotels, and a citrus industry with closedown of canning plants and packing plants during the summer season. So early on, we began trying to decide what to do about establishing seasonality determinations and limiting benefits during periods of time that were characteristically periods of unemployment. Quite soon we found that in the cigar industry they didn't want any limitation and seasonality provisions. They wanted to keep intact a labor force and they were not interested, as far as the industry was concerned, in any limitation during those periods.

However, the citrus industry took a different view to start off with. Now packing was not originally covered because it was considered to be non-covered employment because it was assembling of farm produce. We subsequently did take action in Florida to cover packing house workers earlier than Federal amendments covered them. Canning, however, was covered from the beginning, and their original belief was--the industry standpoint--that benefits should not be paid during a very predictable period of time when the plants were generally closed. But they did rely on local labor and subsequently changed their view that they should in fact pay benefits in order to stabilize the work force and have the workers there when they need them.

Our original maximum weekly benefit amount was 15 dollars, which was not uncommon. This was sort of a suggested maximum weekly benefit amount in most of the draft language that was ground out and furnished to the States for consideration by State legislatures. We found ourselves with a weekly benefit amount that was realistic at that time because very few people really qualified for a maximum as high as 15 dollars. It was curious to look back in retrospect and realize that our average weekly wage in covered employment was somewhere between 18 dollars and 19 dollars at that time, and nobody was horrified that you were going to pay as much as 15 dollars because it was geared to 50 percent of the individual's average weekly wage.

*When this program was brand new, how did the people find out about it? Was there a lot of advance publicity?*

There was considerable advance publicity before the payment of benefits. Actually, we had a real problem in terms of getting the word out to employers that they were in fact liable, you know, starting with eight or more in 20 different weeks. It was difficult, and we had situations of people just honestly not knowing that they were liable for the tax until 3 or 4 years after they had incurred a tax liability that was substantial. It was very difficult getting this concept across. It was not quite as difficult to cover the State with publicity that indicated that benefits were now payable for the first time.

[We used] newspaper, radio, unions, which were not nearly as pervasive or complete in their coverage of the work force in those days. We did discover there was a union already, for instance in the cigar industry. We found that there were unions being formed in citrus canning; but this was much less the case in the resort and service industries which were of course a very substantial part of the Florida economy. Gradually the word of mouth got around, but we did have to resort fairly substantially to radio and newspapers. Obviously, there wasn't any TV in those days. There was a growing awareness, but there really was a considerable gap in terms of trying to locate liable employers. Frequently the source was people who became unemployed wandering in and saying, "Am I entitled?" And the claimstaker said, "We don't have any record. Whom did you work for?" And there were many more cases of following up on liability determinations arising out of the filing of benefit claims in those days.

But gradually, we got to be a little bit more sophisticated about some of these things than the way we started out. In spite of all these well-laid plans about benefit procedures, when the first claims began to flow in and had to be processed through the data processing unit, it was like the panic button had been hit for the first time, and we ground down to a halt. We had a 3-week waiting period at the beginning; and it was a real blot on our escutcheon, I thought, that we were not able to make a single benefit payment during the month of January 1939. We finally got the first ones out, but they were dated in February. We began to close the loop, but right away as soon as benefit payments procedures went into effect, we found that they weren't flowing quite as easily as they should. Well, we had a brand new bunch of claimants, a brand new bunch of employees, and a brand new bunch of procedures, so I guess it wasn't surprising that we had our difficulties.

But in the early days one of the things that really impressed me was that we started with these assumptions, such as 15 dollars for a maximum, and once we got stuck with that notion, it was extremely difficult in the State of Florida for us to break the 15 dollar barrier after it became ridiculously low in terms of increase in wages after the War. But we did get good, reasonably well structured from a programmatic standpoint, procedures in place and running, before World War II. There was a pretty high level of unemployment. The recession of '39 was on, and we had some pretty heavy payments, particularly resulting from some of the early defense build-up efforts.

Camp Blanding was one of the first defense installations, started in 1940, and we had a lot of out-of-State contractors that brought out-of-State workers, attracted them in there, and we began to experience liable State claims for the first time of any sizeable volume in 1940, really. We began to be acquainted with some of the very early interstate benefits problems which were characteristic of Florida because of the nature of the resort industry. For instance, we found a lot of people who work in New York in summer resort areas and then come to Florida to work in winter resort areas generally have gaps between those two periods of time. So we early on began to have New York, particularly, as both a liable and an agent State that was involved with us in that time.



[The year] 1940 was a time of build-up as far as defense installations and so on and so forth were concerned, spilling on over into 1941. In '41 we had another session of the legislature and considered an experience rating system, and in Florida adopted one which was benefit ratio system, which [makes] us a little bit different than the reserve ratio States which are very much in the majority as far as a method of handling is concerned. But I had become Chief of Research and Statistics in the interim, and I left to go on active duty in '41, so I missed the period of time when there were very low claims loads during the war years and a corresponding increase in the benefit trust funds, and a very high degree of solvency. But we were quite fearful that in the post-war period there would be a sudden surge, and it was an assumption that when there was a demobilization and a conversion back to peacetime activities from all the wartime efforts, that there would be a very, very heavy impact on the trust funds.

In fact, there were some periods of very high claims loads during those periods of time. For instance, they closed down the Panama City Shipyard, just as an illustration, in '45 and '46 and we just hired temporary people and went out to the shipyards and took mass claims and began to try to process them. And at that same time the State agencies had all entered into agreements to handle the Servicemen's Readjustment Act, the so-called "52-20 Club", and we had extremely heavy claim loads to handle in that regard. I had gone back to the agency in early '46 as Chief of Research and Statistics, and I became UI Director in December of 1946. We were still handling very heavy claim loads, particularly for SRA at that time. We'd had a very short, high claim load of people dislocated as a result of the war industries, but frankly, there was a boom that came right after World War II and a disproportionate part of our load really were the servicemen. And we phased that on through, and went back to business as usual, more or less, still stuck with a 15 dollar maximum weekly benefit amount in Florida. It really was a long time before we caught up with the parade.

Now most of the States had recognized what had happened to wage structures and had moved much faster than we were able to in Florida to ever break that 15 dollar barrier. That was one of my very first experiences, I guess, with an advisory council. We had an advisory council, which of course had been required, each State to have one, from the beginning. It really was a Wagner-Peyser requirement. And we worked very diligently with the State Advisory Council finally to achieve a breakthrough in the weekly benefit amount. I don't remember whether it was 1949 or '51 that we finally achieved this, but quite honestly it was also my first experience with the belief that at least the threat of a Federal

benefit standard was a necessary part of persuading State legislatures to be responsive to what was happening in the economy. I think it was a combination of the awareness that if State legislatures did not finally respond to an upward spiral in wage structures and an increase in the maximum weekly benefit amount the Congress might, and an examination of the issue involved by the State Advisory Council. A combination of those two things is what finally brought about an awareness on the part of the State legislature that they did in fact have to increase the maximum weekly benefit amount. We jumped from 15 dollars and a 16-week variable duration provision to a so-called "20-20" package of a 20 dollar maximum and variable duration up to 20 weeks--20 dollar maximum for up to 20 weeks on a variable duration basis. That's got us up to the early Fifties.

Experience rating was now becoming much more a fact of life in terms of employers being much more active in terms of contesting claims, because of the impact on the experience rating accounts.

About that time the notion of non-charging benefits first began to develop, I guess, as a means of trying to satisfy concurrently two separate notions. One is, if an employee left under disqualifying circumstances, either had been fired for misconduct or had voluntarily quit without good cause, that for some immediate period after that happened his unemployment could certainly be assumed to be attributable to his own actions. But after the passage of some time, his continued unemployment really was not that directly attributable to the immediate cause for the unemployment and came to be more nearly dependent upon the economy in general. Therefore, he shouldn't be penalized forever as a result of maybe a bad judgment on his part that brought about his unemployment. So you could argue that after some period of time the benefits ought to be paid. On the other hand, from the employer's standpoint, he had a job that was either abandoned or from which he had to release somebody because of failure to follow company practices or rules, and if the person ever did draw benefits there was no particular reason why his account should be charged with any benefits that were paid.

So the notion gradually evolved, well, can't we find some middle ground here, so that we can pick up and pay the claimant, but at the same time not charge the employer's account, because there's a valid reason not to. And so then this whole area of non-charging benefits, if a person actually was separated under disqualifying circumstances, came to be. And it obviously had had a substantial impact on the program, beginning as an attempt to try to resolve a

need of paying benefits [while] at the same time still not charging an employer's account.

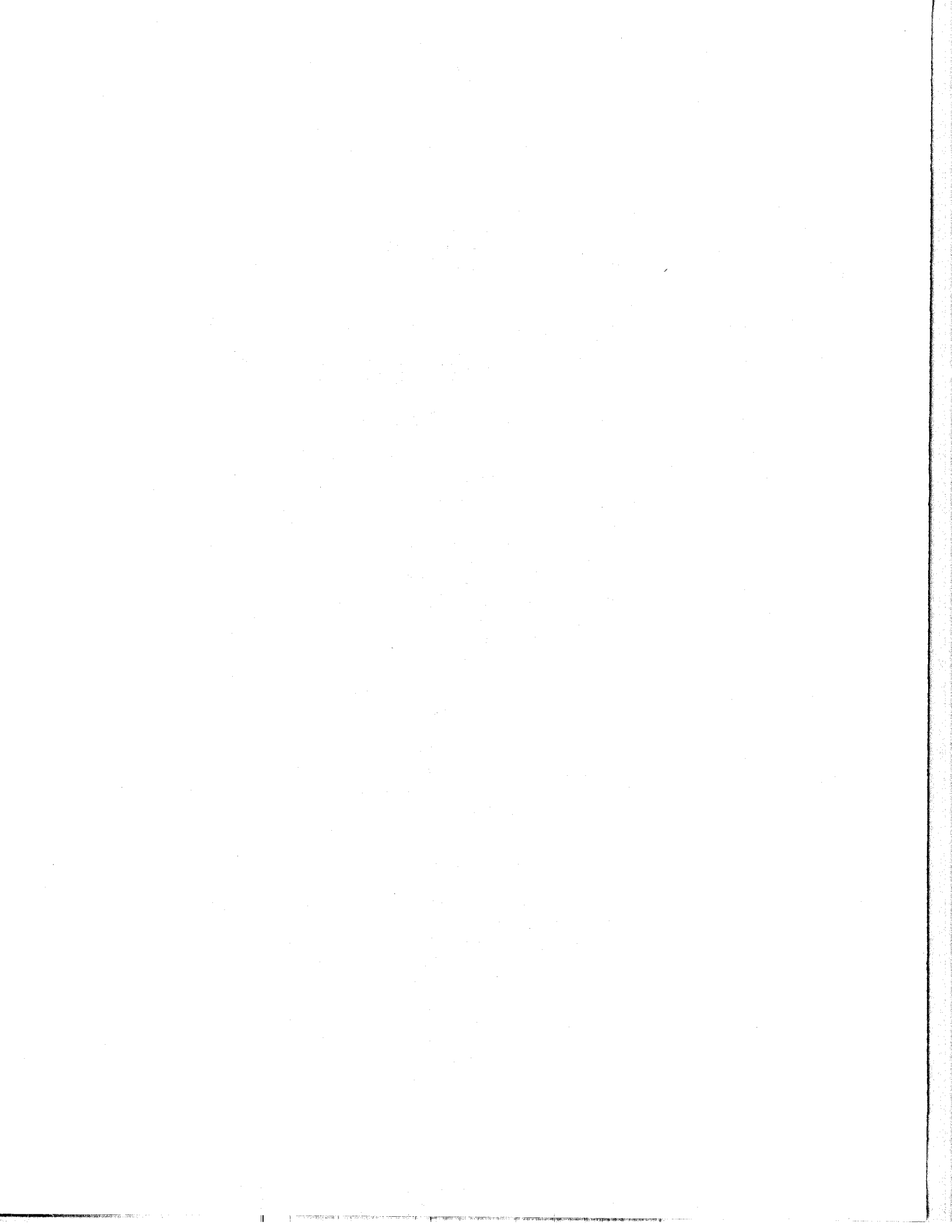
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One of the other things that we sort of made a mistake on, I think--I think it was understandable, but probably regrettable--we began to establish some solvency requirements in individual State laws. In Florida, we set up a series of rate tables which would apply depending upon the level of money in the fund so that you would not raise more money than you really needed by applying individual employer experience to establish an individual employer rate. So we had levels of amounts of money in the fund that would trigger different rate schedules on or off. Unfortunately, we set it in dollar amounts rather than in ratio amounts in relationship to taxable payroll or some other kind of measure, and we began to build up potential liability that was beginning to be alarming. So that we began to try to start educating people why it was necessary to have a higher threshold, for instance than \$10 million, in the State trust fund as a condition to having a particular set of rate tables in effect.

So I remember very well going on a series of public forums in which we were trying to explain why we needed to change the provision. And I would almost invariably be introduced as the man who wanted to explain why it was that we were going broke in the State trust fund with a balance of \$10 million. Ten million dollars in those days was a lot of money, but it was even then becoming apparent that it was not the way to establish a level or measure as to the fund adequacy in the State. Well, after hammering away on it over a period of 2 years, we finally did break away from a reliance on a flat dollar figure, and began to establish it in a relationship of a percentage of taxable payroll. But it was not easy, not an easy concept to get across.

Unfortunately the tax base did not seem to get the same degree of attention. And in my judgment the \$3,000 taxable wage base with which we were stuck for so many years became to be an Achilles' heel in terms of fund solvency, adequate administrative funding and a whole raft of other problems that flowed directly from the failure to recognize and move the taxable wage base early enough to have prevented some other things that subsequently happened. But that's where we are, and that's been one of the shortcomings, I think, in terms of the manner in which the program has evolved.

**APPENDIX**



## INDIVIDUALS INTERVIEWED

The following information identifies individuals' roles in the unemployment insurance program and related fields. The information, which is not exhaustive, has been drawn from a variety of sources including the oral history interviews.

Ralph Altman. Chief, Analysis Unit, Unemployment Insurance Division, Bureau of Employment Security; various positions in Unemployment Insurance Service. Retired as Deputy Administrator. Member, Upjohn Research Advisory Committee.

Saul Blaustein. Various positions in Unemployment Insurance Service. Left as Chief, Division of Program Research. Senior Staff Economist, W.E. Upjohn Institute for Employment Research; Chairman, W.E. Upjohn Research Advisory Committee; Consultant, National Commission on Unemployment Compensation.

Philip Booth. Research Analyst, Social Security Board; various positions in Unemployment Insurance Service; Associate Professor, Professor Emeritus of Social Work, University of Michigan; Principal Member, Division of Social Security, International Labor Office. Member, W.E. Upjohn Research Advisory Committee; Consultant, Unemployment Insurance Service, W.E. Upjohn Institute for Employment Research, National Commission on Unemployment Compensation.

Eveline Burns. Lecturer, Economics, Columbia University; Staff Member, Committee on Economic Security; Senior Staff Member, Committee on Social Security, Social Science Research Council; Chief, Economic Security and Health Section, National Resources Planning Board. Consultant to various governmental bodies; Member, W.E. Upjohn Research Advisory Committee; Member and Committee Chairman, Federal Advisory Council on Employment Security.

Ewan Clague. Assistant Economist and Statistician, Bureau of Labor Statistics; Professor of Social Research, School of Social Work, University of Pennsylvania; Director, Bureau of Research and Statistics, Social Security Board; Administrator, Unemployment Insurance System, Social Security Board; Commissioner of Labor Statistics. Consultant, U.S. Department of Labor.

Wilbur Cohen. Research Assistant to Executive Director, Committee on Economic Security; Technical Advisor, Social Security Administration; Professor of Public Welfare Administration, University of Michigan; Assistant Director and Director, Division of Research and Statistics, Social Security Board; Chairman, President's Task Force on Health and Social Security; Secretary, Under Secretary, and Assistant Secretary, Department of Health, Education and Welfare; Chairman, National Commission on Unemployment Compensation.

Margaret Dahm. Various positions in Unemployment Insurance Service. Retired as Director, Office of Program Legislation and Research. Research Consultant on Unemployment Insurance.

Robert Goodwin. Supervisor, Cincinnati Public Employment Service; Director, Cincinnati and Hamilton County (Ohio) Work Relief Program; Director, Hamilton County Department of Public Welfare; Regional Representative, Bureau of Public Assistance, Social Security Board, San Antonio, Texas; Regional Director, Social Security Board, States of Ohio, Michigan, Kentucky; Executive Director, War Manpower Commission; Director, U.S. Employment Service; Administrator, Bureau of Employment Security; Administrator, Unemployment Insurance Service; Associate Vice President, ICESA. Consultant for Administrative Studies, National Commission on Unemployment Compensation.

William Haber. Professor of Economics, University of Michigan; Michigan Emergency Relief Administrator; Deputy Director, Works Progress Administration; Director of Planning, War Manpower Commission; Chairman, Michigan Social Security Study Committee; Committee on Social Security, Social Science Research Council. Chairman, Federal Advisory Council on Employment Security; Consultant, Social Security Board and U.S. Department of Labor.

Curtis Harding. Various positions in Utah Department of Employment Security. Retired as Administrator. Member and Chairman of numerous committees and President, ICESA; Member, W.E. Upjohn Research Advisory Committee; Consultant, Unemployment Insurance Service.

Russell Hibbard. Various positions in Unemployment Compensation Department, Wisconsin Industrial Commission. Left as Assistant Director. Director, Unemployment and Workmen's Compensation Activities, Industrial Relations Staff, General Motors Corporation. Chairman, various ICESA committees; Chairman, various employer organization committees on unemployment compensation; Member, Federal Advisory Council on Employment Security; Consultant, Michigan Employers' Unemployment Compensation Council.

Leonard Lesser. Principal Attorney, Office of the General Counsel of the Federal Security Agency; Principal Attorney, Office of the Solicitor, U.S. Department of Labor. Legal Counsel to the Social Security Department, United Automobile Workers; General Counsel and Administrative Assistant to the President of the Industrial Union Department of the AFL-CIO. Member, Michigan State Advisory Council, Advisory Council on Public Welfare, Federal Advisory Council on Employment Security.

William Norwood. Statistician and Chief of Research and Statistics, Florida Industrial Commission; Director, Florida State Unemployment Insurance Service; Director, Florida State Employment Service. Director, U.S. Employment Service; Director, Unemployment Insurance Service; Regional Administrator, Manpower Administration, Region IV. Chairman, Federal Advisory Council on Unemployment Insurance.

William Papier. Statistical Supervisor, Ohio State Employment Service; Director, Research and Statistics, Ohio Bureau of Employment Services. Secretary, State Advisory Council for Employment Security; Cooperating Representative for Ohio, U.S. Bureau of Labor Statistics.

George Roche. Instructor, Economics, Duquesne University; Professor, Economics, The Dominican College of San Rafael; Technical Consultant, State Relief Administration, California; Chief of Research, War Manpower Commission, California. Various positions in California State Department of Employment. Retired as Chief of Research and Statistics. Member, W.E. Upjohn Unemployment Insurance Research Advisory Committee; Consultant on unemployment insurance and labor market problems.

Marion Williamson. Chief of Referees, Director of Bureau of Unemployment Compensation, and Director of Employment Security Agency, Georgia Department of Labor. Legislative Chairman and President, ICESA.



IDENTIFICATION OF NAMES CITED IN TEXT

Arthur J. Altmeyer. Second Assistant Secretary of Labor; Member, Social Security Board; Chairman after John Winant resigned; Chairman Technical Advisory Board, Committee on Economic Security; Secretary, Wisconsin Industrial Commission.

John R. Commons. Professor of Economics, University of Wisconsin.

Abraham Epstein. Executive Secretary, American Association for Social Security.

Harold Groves. Professor of Economics, University of Wisconsin; Member, Wisconsin State Legislature.

Harry Hopkins. Special Assistant to President Franklin Delano Roosevelt; Administrator, Federal Emergency Relief Administration, Civil Works Administration, Works Progress Administration; Member, Committee on Economic Security.

Jay Hormel. Member, Economic Commission of American Legion.

Karl Pribram. Authority on European social insurance; Staff Member, Social Security Board.

Paul A. Raushenbush. Director, Unemployment Compensation Division, Industrial Commission of Wisconsin.

John G. Winant. Member, Advisory Committee to Committee on Economic Security; Chairman, Social Security Board; Director, International Labor Office.

Edwin E. Witte. Consultant to Social Security Board; Director, Committee on Economic Security; Chairman, Department of Economics, University of Wisconsin.

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SOURCE MATERIAL

Tape recordings and transcripts of the oral history interviews are maintained by the Historical Office of the U.S. Department of Labor. Copies of the transcripts are among the collections of the State Historical Society of Wisconsin and Columbia University. All materials are available for research purposes; however, in some cases reproduction of the tapes or transcripts is subject to conditions set by the interviewees.

The following table provides information about each interview.

<u>Interviewee</u>	<u>Pages in Transcript</u>	<u>Restricted Use</u>
Ralph Altman	71	X
Joseph Becker, S.J.	77	X
Geraldine Beideman	47	
Saul Blaustein	113	X
Philip Booth	65	
Eveline Burns	53	
Ewan Clague	99	
Wilbur Cohen	39	
Edward Cushman	45	
Margaret Dahm	77	
Robert Edwards	87	
Robert Goodwin	55	X
William Haber	30	
Curtis Harding	97	
Russell Hibbard	76	X
J. Eldred Hill, Jr.	41	X

<u>Interviewee</u>	<u>Pages in Transcript</u>	<u>Restricted Use</u>
Edward Keenan	66	X
Leonard Lesser	57	X
Wilbur Mills	16	
William Norwood	56	
William Papier	62	
Beman Pound	41	X
George Roche	83	
James Rosbrow	56	
Harold Rosemont	31	
Murray Rubin	65	
Marion Williamson	93	

