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Interstate Commission on
Unemployment Insurance

1932

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REPORT
OF THE
INTERSTATE COMMISSION ON
UNEMPLOYMENT INSURANCE

APPOINTED BY THE
GOVERNORS OF CONNECTICUT, MASSACHUSETTS,
NEW JERSEY, NEW YORK, OHIO, PENNSYLVANIA
AND RHODE ISLAND

MARCH, 1932

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REPORT OF THE INTERSTATE COMMISSION ON UNEMPLOYMENT INSURANCE

The Interstate Commission on Unemployment Insurance, composed of the representatives of the Governors of the States of New York, Ohio, Massachusetts, Pennsylvania, New Jersey, and Connecticut, has the honor of presenting the following report of its findings and recommendations. Mr. Daniel F. McLaughlin, appointed by the Governor of Rhode Island as his representative, did not attend the meetings of the Commission.

At its first meeting in New York in the spring of 1931, the Commission designated various of its members to inquire into the experience with voluntary and compulsory insurance in the United States and in Europe; to examine the administrative problems of compulsory insurance in this country; to appraise the many forms of state, federal and private unemployment insurance plans currently proposed in the United States; to inquire into the possibilities and problems of estimating the cost of different types of unemployment insurance; and to formulate standard principles of unemployment insurance best calculated to satisfy the requirements of American industry and political organization. The sub-committees, charged with these investigations, pursued their inquiries through the summer and early fall of 1931 and kept in touch with one another through correspondence and informal conference. In November, 1931, the full committee met again in New York for the consideration of the reports of sub-committees and for making a preliminary draft of its final report. The findings and recommendations here presented constitute the unanimous agreement of the members of the Interstate Commission. The representative of the Governor of Ohio signs this report with the reservations here included.

1. FINDINGS AND RECOMMENDATIONS

We regard unemployment as it exists in the United States today as a many sided problem. It seems to us unlikely that any single measure now adopted, without further experimentation and experience, can cope successfully with all forms of unemployment, or with the total period of unemployment, or even with all of the unemployed. The most substantial progress in dealing with the total problem of unemployment consists, we believe, in making provision for the persistent unemployment and irregularity of operation which is so characteristic of American industry. By a general attack on the problem at this point, it should prove possible to assess responsibility for avoidable irregularity and to afford ownership and management incentives for the regularization of production and, hence, the reduction of unemployment. This method of approach to the problem of unemployment would rapidly yield comprehensive data on the relation between the numbers of regular working men, on the one hand, and, on the other, of casuals and unemployables. With such information at hand, the task of formulating a national unemployment pro-

gram, designed to meet the grave emergencies of prolonged depressions, would become much more practicable than it is at the present time. As the first important step in creating constructive unemployment machinery, we are strongly of the opinion that measures proposed should combine the greatest possible simplicity in principle and practice and should look forward to the progressive stabilization of conditions of employment. With this goal in mind, we, therefore, recommend:

1. **The compulsory establishment of state-wide systems of unemployment reserves.** We are not unmindful of the progress which individual firms and groups of employers have made in this country with plans of voluntary unemployment reserves. From their activities much has already been learned concerning the problems of unemployment compensation in American industry. But, in spite of this encouraging advance, the fact remains that the total of voluntary unemployment insurance now in force in the United States affects only a small fraction of the work force of the nation. It is our conviction that no substantial increase in the coverage of employees and that no widespread adoption of insurance by the most unstable of our industries can be expected in the predictable future unless the establishment of reserve funds is made obligatory through legislation.

2. **The payment by each employer of a contribution amounting to two per cent of his payroll.** We have canvassed carefully the arguments for and against the payment of contributions, or premiums, by employees; and we have in mind provisions for unemployment, in addition to those proposed here, which might well be financed in part by contributions from employees. But in view of the moderate terms of our proposal, the greatest share of the burden of unemployment would still be borne by the workers whose benefits under the plan would be considerably less than the wages he would have continued to receive if employed. The employee should not, in our judgment, be required to reduce his earnings further by the payment of contributions into unemployment reserves. A further important reason for not recommending contributions by the employees is that a purpose of our proposal is to encourage the adoption of measures of prevention. The employers' financial liability under our plan should operate as a continuous incentive to prevent unemployment so far as practicable. To reduce his liability, therefore, by placing part of the burden on his employees would likewise reduce the incentive to undertake preventive measures.

3. **The payments made by each employer shall constitute the unemployment reserve of his firm and shall be so treated in the accounts.** This proposal differs radically from the European plans of unemployment insurance in which contributions from all employers and all industries flow into a single common pool. It has been widely recognized even by sympathetic critics of European practice that the pooling of reserves has had unfortunate results. The irregular industries enabled to draw benefits for their unemployed workmen from the common pool may be thus tempted to

shift the responsibility and cost of their own unemployment to the more stable and profitable industries. In so far then as unemployment is due to careless or indifferent management, or to the failure to take proper precautions for the future, the pooling of reserves may have the effect of perpetuating such uneconomic practice and may, in consequence, fail to offer the incentives to regularization for which many of the advocates of unemployment insurance had hoped. Many of these difficulties may indeed be attacked by setting up industrial, in contrast to national, unemployment reserves and by adjusting the contributions of individual employers within each industry to their unemployment experience. While we recognize the merits of such a plan, in the interests of simplicity of administration and progress in stabilization, we propose that each company assume responsibility, limited by the amount of its contributions, for the unemployment of its own work-force.

4. **The maximum rate of benefit shall be 50 per cent of an employee's wage or \$10 a week, whichever is lower; and the maximum period of benefit shall be 10 weeks within any twelve months.** Employees who suffer unemployment by reason of short time employment shall be eligible for benefits whenever their week's wages are less than 60 per cent of their average weekly wage, but the benefit for partial unemployment shall not exceed the difference between the wage actually received and 60 per cent of the employee's average weekly wage. In no case, however, shall the benefit of a part-time employee exceed \$10 a week.

5. **The financial responsibility of an employer shall be strictly limited by the amount of his unemployment reserve.** We regard this provision as a prerequisite to the sound development of any plan of compulsory unemployment insurance. Failure to limit liability of the reserve funds is the first and most radical departure from accepted insurance principles and constitutes an open invitation to supplement contributed funds with subsidies from the government or other sources. The adoption of such practices has been the rock on which foreign unemployment insurance schemes have split; and they have been responsible for the commingling of insurance and relief funds, which is now so universally deplored by all students of this problem. To safeguard the principle of limited liability we propose further that, when the employers' reserve at the beginning of any month, is less than \$50 per employee, the maximum rate of benefit be proportionately reduced.

6. **When the accumulated reserve per employee shall exceed \$50 the employer's contribution shall be reduced to 1 per cent of his payroll; and when the reserve has reached \$75, he shall make no further contributions to the fund until the reserve again falls below \$75 per employee.** The purpose of this provision is to offer employers effective incentives for the exercise of control over fluctuations in employment. We have considered the advisability of providing for a system of experience rating, whereby the contributions of employers would from time to time be adjusted to their

actual unemployment experience. The immediate adoption of experience rating we regard as premature. Moderate and experimental incentives to regularization are afforded in our proposal to reduce the premium when the reserve per employee exceeds \$50. With the accumulation of experience and much more accurate data on unemployment rates than we now have, it should prove possible to use merit rating and refined methods of adjusting premiums to unemployment rates. To further encourage experiments with the prevention and reduction of unemployment, we recommend exemption of firms or groups of firms which have set up reserve funds providing benefits equal to or greater than those enumerated in the foregoing proposals.

7. The state shall act as the custodian, investor and disbursing agent of the reserve funds. For this purpose there should either be created an Unemployment Commission of three members, representing labor, industry and the public, charged with establishing the system of unemployment reserves and with its continuing administration; or, where there already exists a State Industrial Commission similarly constituted, it should administer the unemployment compensation plan. The cost of administering the plan should, we believe, be assumed by the state. Expenses of the state would not be increased by the total cost of administration since the Unemployment Administration would take over functions now performed by existing state agencies. The cost, in particular, of collecting and publishing employment and other industrial statistics and of administering the public employment offices is not additional since it is now incurred by existing state agencies.

8. The state shall take prompt steps to extend its public employment service. No system of unemployment insurance can accomplish its purposes without a properly organized and efficiently operated system of employment exchanges. The states represented on this Commission now have public employment offices. We recommend that the existing employment bureaus be put under the jurisdiction of the Unemployment Administration. In order, however, that the work of the employment exchanges be not hampered and the staff burdened with duties growing out of the payment of unemployment benefits, it is important that the employment exchanges be operated as a separate division coordinate with a division of insurance. All of the staff of the employment bureaus should be under the classified civil service, with tenure not subject to political changes. Trade associations administering the unemployment reserves for their industries and organizations of employers and employees who maintain and operate approved unemployment insurance plans by collective agreements may operate their own employment bureaus and offices for the payment of benefits. Such industry offices must be under the general supervision of the state employment service and subject to its general rules.

9. The unemployment authority shall create stabilization agencies. The most effective measures for achieving greater stabilization of employment cannot obviously be accomplished by a single

firm. Every effort should, therefore, be made by the unemployment administration to encourage cooperative action between firms and industries. To this end the Unemployment Administration should set up advisory committees of employers and employees and should have experts instructed to formulate plans to promote the regularization of employment in individual plants, localities, industries, and the state.

II

The recommendations we have made constitute the principles on which, in our judgment, the features of a sound state unemployment compensation act should rest. The drafting of a model act we have regarded as beyond our province, since the specific acts proposed in several states may differ widely in detail, while adhering to the same underlying principles. In general, we urge the application of unemployment compensation to the largest possible number of employees, exclusive of agriculture and employees normally earning more than \$200 a month. Efforts to regularize the employment of labor in small establishments are so important, that we recommend including under the terms of the act, all employers of six or more workers.

We have not attempted to summarize in this report the great literature which has grown up on European and American experience with many types of unemployment insurance and reserves. Useful summaries, descriptive and critical, are now readily available in this country for students of the problem and for all other interested persons. The well-known difficulties of insolvency and abandonment of basic contractual, insurance obligations which the European and some American schemes have encountered, particularly in the post-war phase of their history, have received our close attention and have been an important factor in directing our search for proper principles of unemployment compensation. We have been much influenced in our thinking by the profound and constructive interest among American business men in problems of stabilization and in forms of unemployment compensation which combine relief with incentives to prevention.

We are conscious of the fact that our proposals are extremely modest and moderate. It is not, in our judgment, sound to impose an onerous burden of cost on American industry. The measures adopted now can, we recognize, only incidentally serve to mitigate the effects of severe and prolonged industrial depression. It may very well be that the unemployment of long depressions can be met only by the creation of extraordinary reserve funds raised from contributions by employers, labor, and the state or federal government. We are clear, however, that the type of measures we propose constitute a constructive attack on the problem. Dealing with the chronic irregularity and unemployment of our industry will not only ameliorate the lot of the unemployed but will also, in time, point the way to further devices for strengthening the available machinery of unemployment relief and prevention. At the best there will for some time remain a residuum of unemployed who must continue to look for assistance to the agencies of private and public charity. With the

establishment and extension of unemployment compensation plans, however, we should be taking the first steps in reducing the wastes and damage to self-respect which characterize our present disorderly methods of handling the unemployed; and we should have put ourselves in the position of applying more scientific methods to the treatment of the total problem of unemployment.

Our sub-committee on the cost of unemployment insurance investigated the possible cost of various types of such insurance. It found that available unemployment data, particularly with reference to the frequency and duration of spells of unemployment, were so unsatisfactory that estimates of cost were virtually useless. With compensable unemployment strictly defined and circumscribed, as it is in the provisions submitted in this report, it is possible to estimate that the cost of unemployment compensation should not exceed 2 per cent of the payroll.

We have finally explored the suggestion that there be created an Interstate Unemployment Authority charged with setting-up an interstate administration of unemployment compensation. It is our reasoned judgment on this matter that the best combined and separate interests of the states, participating in this inquiry, will be served by recommending to them the adoption of a practicable and simple type of unemployment compensation, whose cost should not seriously disturb the prevailing competitive relationship of industries doing business within the boundaries of those states. The adoption by the six states of a system of unemployment reserves, similar to the plan here proposed, would constitute a great step forward in the joint consideration and handling of interstate industrial problems. The pressing need for an intelligent unemployment program, revealed once more by our experience during the past two years, should hasten the favorable consideration of a moderate and practicable proposal for constructive experiment.

INTERSTATE COMMISSION ON UNEMPLOYMENT INSURANCE

LEO WOLMAN, *Chairman*, New York

CHARLES R. BLUNT, New Jersey

A. LINCOLN FILENE, Massachusetts

C. A. KULP, Pennsylvania

W. M. LEISERSON, Ohio

W. J. COUPER, Connecticut

Reservations by Mr. W. M. Leiserson

"The representative of the Governor of Ohio has signed this report; but he takes exception to any implications in it that an insurance system with pooling of contributions may not be better than a plan of separate, plant reserves. In addition to the recommendations here contained he would recommend experiments with state unemployment insurance funds that included contributions from employees as well as from employers, and that pooled all the reserves after the manner of workmen's compensation insurance."