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A Brief History of
Unemployment Insurance

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A Brief History of UI

THREE DECADES OF UNEMPLOYMENT INSURANCE

Thirty years have passed since President Franklin D. Roosevelt signed the Social Security Act creating the Federal-State system of Unemployment Insurance as a part of a broad social program aimed at developing basic protection for wage earners and the Nation against economic adversity. Over these three decades the unemployment insurance system has made vitally important contributions to the security of wage earners insured under the Federal and State programs. It also has contributed strongly and repeatedly to the Nation's economic health.

Though an innovation in the United States, unemployment insurance was not a new type of social legislation in other parts of the world. Its history dates back to the mid-nineteenth century in Europe when trade unions organized private unemployment insurance systems to protect members against the risk of job losses.

The first recognized system was established in 1893, in Berne, Switzerland, and was followed by similar insurance plans in other parts of Europe. In 1901 the Belgian city of Ghent established a system of municipal grants to supplement the funds of trade unions. This "Ghent System" later spread to other cities.

Following these voluntary and subsidized plans, attempts were made to institute a national system of unemployment insurance. The first significant breakthrough came in 1911 when Great Britain established the world's first national compulsory unemployment insurance system. By 1935 compulsory unemployment insurance laws were in operation in Australia, Austria, Bulgaria, Germany, Great Britain, the Irish Free State, Italy, Poland, parts of Switzerland, and Yugoslavia covering more than 35.5 million workers. In addition, at least 10 other nations had enacted voluntary unemployment insurance laws offering protection to another 4.1 million employees.

THE RISE OF UNEMPLOYMENT INSURANCE
IN THE UNITED STATES

Though the economic disaster which hit the United States in the 1930's certainly provided impetus to the trend toward unemployment insurance on a nationwide basis, there were several voluntary plans of income protection in existence in this country long before that period. Like their European counterparts, the early American systems were the product of trade unions. As early as 1831 modified forms of income insurance were adopted. These programs were limited in the number of employees they covered, but they were workable plans nonetheless. Later, a few companies set up income protection programs, but these were limited too.

The first effort to enact an unemployment insurance law sponsored by a governmental body in the United States came in 1916 when a bill, largely modeled after the British Act of 1911, was introduced in the Massachusetts legislature. No significant action was taken on the bill, and it was at least another four years before any other statewide efforts were made. Between 1920 and 1922 similar bills were introduced into the legislatures of six States calling for an unemployment tax to be paid by the employer in order to encourage him to stabilize employment. None of the bills was enacted.

In 1931 widespread interest in unemployment insurance caused 52 bills to be introduced in 17 States. The first to be enacted was a Wisconsin bill which became law on January 29, 1932. This unemployment insurance law greatly influenced subsequent legislation leading to the establishment of a national compulsory unemployment insurance system.

On a national level, efforts to institute a system of unemployment insurance were also started in 1916. In that year a resolution to create a committee to draft a national unemployment insurance law was introduced in Congress. The resolution did not pass, and interest in the program subsided. In 1928 and again in 1931, the Senate Committee on Education and Labor held hearings on the problem of unemployment.

Senator Robert Wagner of New York, who later supported fully the Social Security Act of 1935, made a full investigation of European insurance plans in 1931 and introduced several bills in Congress in 1932, but none ever came to a vote.

In 1934 Senator Wagner and Congressman Lewis of Maryland joined in introducing an unemployment insurance bill on which hearings were conducted by a sub-committee of the House Ways and Means Committee. This bill was "hailed with great enthusiasm by advocates of unemployment insurance and endorsed in strongest terms in hearings conducted before a subcommittee of the House Ways and Means Committee." Such leading specialists as Dr. I. M. Rubinow, Ohio Unemployment Commission and author; Paul Douglas, Consumer's Advisory Council, National Recovery Administration (now U. S. Senator from Illinois); John B. Andrews, American Association for Labor Legislation and William Green of the A. F. of L. supported the bill. Nevertheless the Wagner Bill was not passed nor even reported.

In a special message to Congress on June 8, 1934, without mentioning the pending Wagner-Lewis Bill, the President, in effect, promised the country that he would present to the new Congress, to convene in January, a program for "furthering the security of the citizen and his family through social insurance" which would "provide at once security against several of the great disturbing factors in life--- especially those which relate to unemployment insurance and old age."

In mid 1934 an estimated 11 million people were jobless. State relief programs had begun to falter, and a series of Federal programs such as CCC, PWA, and WPA had been established or were being planned. Against this economic background, President Roosevelt appointed a Committee on Economic Security to study the problem of unemployment. The Committee was organized in June, 1934, with Secretary of Labor Frances Perkins as its chairman. In January, 1935 the Committee sent its report to Congress recommending, among other things, an immediate program of unemployment insurance.

The President's recommended legislation went to Congress on January 19. The House Ways and Means Committee approved a bill on April 6. Thirteen days later on April 19 the House passed the bill and sent it to the Senate. It was two months later before the Senate passed a bill and almost another two months before House and Senate conferees on Social Security legislation agreed on an acceptable bill. On August 10 the Senate approved the conference report and the Social Security bill went to the White House. The bill became law on August 14.

Edwin E. Witte, Professor of Economics at the University of Wisconsin and often referred to as the "Father of Social Security", discussed the delay in the passage of Social Security legislation in a speech in Washington in 1955. He said:

I should say something about the long delay in the enactment of this (Social Security) legislation. The overwhelming majorities for passage in both houses (of Congress) are deceptive. For months there was real doubt whether any social security legislation would be enacted and still more about what sort of a measure would emerge.

Part of the difficulties were traceable to the continued depression. The depression at one and the same time made the passage of the Social Security Act possible and made its enactment difficult. Because we were in the midst of a deep depression, the Administration and the Congress were very anxious to avoid placing too great a burden on business and also adding to Government deficits. It was these considerations which resulted in the low beginning social security tax rates and the step-plan for the introduction of both old-age and unemployment insurance; also, in the establishment of completely self-financed social insurance programs, without Government contributions, which to this day is a distinctive feature of social insurance in the country.

The Social Security Act, embodying the Federal-State Unemployment Insurance system, was signed into law on August 14, 1935. The Unemployment Insurance law was contained in title III, "Grants to the States for Unemployment Compensation Administration," and title IX, "Tax on Employers of Eight or More."

CONCEPT OF THE UNEMPLOYMENT INSURANCE PROGRAM

These titles made it possible for the individual States to establish their own systems by removing the major obstacle of interstate competition. Before 1935 one

of the strong arguments against State-supported programs was the belief that employers in States with an unemployment insurance law would be at a competitive disadvantage with employers in States where no law existed. Even before passage of the Social Security Act, many States reported that they were awaiting congressional action. The unemployment insurance provisions of the Social Security Act helped meet this problem.

The Social Security Act gave the States broad authority in setting up their own unemployment insurance systems to best serve their own individual needs.

PROVISIONS OF THE INITIAL UNEMPLOYMENT INSURANCE LAW

The Federal Act levied a tax on employers in commerce and industry with eight or more workers in at least 20 weeks in a year. The law provided, however, that when a State had enacted an acceptable unemployment insurance law, its employers could credit the taxes it paid to the State against 90 percent of the Federal tax. This was known as a "tax offset."

The tax was set at 1 percent in 1936, 2 percent in 1937, and 3 percent in 1938 and after. The tax was based on the wages paid insured workers and was collected by the Bureau of Internal Revenue of the Treasury Department.

Not all workers were protected by the Federal-State Unemployment Insurance program. The Federal law excluded workers in agriculture, domestic service in the private home, shipping on the navigable waters of the United States, family employment, agencies operated on a nonprofit basis, Federal, State, and municipal government workers.

To qualify for Federal participation, States had to meet certain requirements which were established to insure the operation of a genuine unemployment insurance law as distinguished from relief, to safeguard the solvency of funds and prohibit use of unemployment insurance funds for other purposes. The more important

questions of whom should be covered, the amount and duration of benefits, and requirements for eligibility were all left to the States.

Federal requirements for participation included provisions that:

- (1) "All benefits shall be paid through public employment offices, or such other agencies as the Board may approve;
- (2) "No benefits shall be paid for unemployment occurring within 2 years after the first day with respect to which contributions are first required;
- (3) "All contributions to the State fund shall be immediately transferred to the unemployment trust fund of the United States;
- (4) "Money withdrawn from the unemployment trust fund shall be used only for the payment of benefits;
- (5) "Benefits shall not be denied any otherwise eligible individual for refusing to accept any work vacant due directly to a trade dispute; if the wages, hours, or other conditions are substantially below those prevailing for similar work in the locality; if as a condition of being employed a worker has to resign from or refrain from joining a labor organization or would be required to join a company union;
- (6) "The State law must provide that no vested rights are created which prevent modification or repeal of the State law."

Recognizing that the cost of administering the various State programs had been a major obstacle before passage of the Social Security Act, Congress provided in title III of the Act to have the cost paid by the Federal Government out of the general funds of the Treasury if the State laws were administered properly. In order to receive administrative grants, the State laws had to be approved by the Social Security Board under title IX, and also provide:

- (1) "Such methods of administration as are calculated to insure full payment of benefits when due;

- (2) "Opportunity for a fair hearing before an impartial tribunal for all whose claims to benefits have been denied; and
- (3) "Full and complete reports to the Social Security Board on activities under the State laws, and requested information to other Federal agencies engaged in the administration of public works or assistance."

THE UNEMPLOYMENT INSURANCE PROGRAM BECOMES OPERATIVE

After Wisconsin passed its unemployment insurance law in 1932, no other State passed an unemployment insurance law until it was certain that the Federal Government would act, then in 1935 Utah, Washington, New York, New Hampshire, California, and Massachusetts all enacted unemployment compensation laws before the Social Security Act was passed by Congress.

Following the passage of the Social Security Act, two States and the District of Columbia enacted laws in 1935, and 28 States passed laws a year later. By the end of 1936, 35 States and the District of Columbia had approved laws, and by 1937 all the States had enacted approved unemployment insurance laws.

Since there was a mandatory waiting period between the time a State enacted its unemployment insurance law and the beginning of insurance payments, it was not until 1939 that all the State laws were fully operative and paying benefits to eligible claimants. The Nation's first unemployment insurance check was sent to Neils B. Ruud of Madison, Wisconsin. The \$15 check was issued in August, 1936 from a \$14 million fund which employers in the State had built up by tax contributions over the period since the law had gone into effect four years earlier.

Even before all the laws were operative, the constitutionality of both the State and the Federal laws were being challenged in the courts. Soon after payroll taxes became payable in January, 1936 cases were filed in State courts in New York. The New York Court of Appeals declared the State unemployment insurance law valid in May 1936 and the U. S. Supreme Court upheld the State Court's decision in November of the same year.

The legality of the Federal and State laws were finally settled in a series of suits filed by the State of Alabama. More than 19 cases, in behalf of 638 subject employers, were filed in the Circuit Court of Montgomery County, Alabama, and in the District Court of the United States. In each case the courts granted temporary injunctions preventing the State Unemployment Compensation Commission from collecting payroll contributions.

The legality of both the Social Security Act and the Alabama State unemployment insurance law was established by a decision of the U. S. Supreme Court on May 24, 1937, ending further litigation concerning the basic constitutionality of the unemployment insurance system.

THE FEDERAL UNEMPLOYMENT TAX ACT (FUTA)

With the legal questions resolved, taxes again were collected under authority of title IX. During the four year period between 1935 and 1939 other problems concerning coverage, personnel, and accounting plagued the program. On February 10, 1939, much of title IX was repealed and re-enacted as the Federal Unemployment Tax Act (FUTA) of the Internal Revenue Code.

The 1939 amendments, which became effective six months later, required State Employment Security Agencies to adopt a personnel merit system as a condition for Federal administrative grants; established new standards with respect to reserve accounts; set a limit of \$3,000 on taxable wages; and excluded from coverage of the Federal tax certain small groups and added others.

Responding to changes in economic conditions, the Federal Unemployment Tax Act has been amended many times. In 1946, the Federal Unemployment Tax Act was amended to cover maritime service and to permit State coverage of the crew of an American vessel, if the operating office is within the State. The next significant change came April 20, 1948 when the Act was changed to exclude certain newspaper and magazine vendors. Later that year the definition of "employee" was changed,

restricting its meaning to the usual common-law rule applicable in determining employee-employer relationships.

Coverage providing unemployment insurance protection to crews and vessels operated by the United States under agreements between the Secretary of Commerce and private ship operators became part of the Federal Unemployment Tax Act after July 1, 1953.

Two other important changes were made in 1954. One of these changes marked the first major extension of coverage since 1939, lowering from eight to four the number of employees a firm had to employ for automatic coverage. This became effective January 1, 1956.

The second was a three-part change which: (1) included passage of the Employment Security Administrative Financing Act of 1954 providing for earmarking, for purposes of employment security, any excess of collections of Federal unemployment taxes over Federal-State administrative expenditures, (2) added the first permanent provision for Federal assistance to States with low reserves, and (3) provided for the return to States of excess collections after a \$200 million reserve is built up, to be used for payment of State administrative expenses.

The Employment Security Administrative Financing Act was amended in 1960 to provide that all Federal receipts from payroll taxes be credited to a new account---the Employment Security Administration Account---established in the trust fund. From this new account are paid all employment security administrative expenses.

The Federal Unemployment Tax Act now reposes as Chapter 23 of the Internal Revenue Code, and all Federal taxes are collected by the Internal Revenue Service. The Act's other provisions, however, are administered by the Bureau of Employment Security, U. S. Department of Labor.

CHANGING ROLE OF UNEMPLOYMENT INSURANCE

During World War II the Nation shifted to a defense economy. Unemployment,

which stood at 10 million as late as 1938, all but disappeared. It reached its lowest point in 1944 when only 530,000 persons drew unemployment insurance benefits and only about one-fifth of them exhausted their claims. During the post-war years the system helped ease the transition from a war to a peacetime economy and helped bring about an orderly reconversion. Congress in 1944 provided unemployment benefits for returning veterans and in 1946, benefits for seamen whose war work was deemed Federal employment.

Five years after the war ended the Nation experienced its first post-war recession, and the first real peacetime test of unemployment insurance. The recession of 1949-1950 demonstrated beyond any doubt the true stabilizing value of income insurance for the jobless and for the Nation. During this recession the program provided income protection for nearly 7.5 million workers through 90 million weeks of unemployment.

In the more recent business recessions of 1958 and 1961 the unemployment insurance system again proved its worth. In both periods, however, the Federal Government acted to provide additional benefits to unemployed workers who had already exhausted their claims under State programs.

The 1958 Temporary Unemployment Compensation Act permitted States which met certain requirements to pay extended benefits equal to one-half of the regular benefit entitlement which a worker had exhausted between June 30, 1957 and April 1, 1959. Sixteen States and the District of Columbia elected to participate in the program, paying extra benefits to eligible claimants. Twelve States, Puerto Rico, and the Virgin Islands paid extended benefits to former Federal employees and ex-servicemen only. The program paid more than \$470,000,000 in extended benefits to nearly 1.6 million claimants. Five State temporary programs paid an additional \$127 million.

The 1961 temporary program was even more effective with all 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands participating. When the

program ended, more than 2.7 million individuals had received almost \$770 million in extended benefits.

Recently, the unemployment insurance system has been called upon to play an additional role in paying allowances to trainees under the provisions of the Manpower Development and Training Act (MDTA) and the Area Redevelopment Act (ARA). Approximately 54,700 Manpower Development and Training Act trainees received allowances totaling \$29,552,277 during fiscal year 1964. For this same period, \$2,362,515 in retraining subsistence allowances was paid to some 11,400 trainees under the Area Redevelopment Act program.

Relocation allowances are also paid to involuntarily unemployed workers who could not reasonably be expected to obtain full-time work in the communities in which they lived and who had bona fide offers of permanent nonseasonal work elsewhere which they were qualified to perform. These payments are made under the labor mobility demonstration program of the Manpower Development and Training Act.

Today, a generation after the passage of the Social Security Act, the unemployment insurance program is still the Nation's first line of defense against the consequence of unemployment. During its three decades of operation unemployment insurance has lent its stabilizing influence to the economy, and helped pull the Nation up by its bootstraps by providing protection for millions of wage earners in both good and bad times.

Since the end of World War II, through 1964, unemployment benefits paid nationwide averaged nearly \$1.8 billion per year. In the last ten years they have averaged over \$2.3 billion per year. More than 60 percent of all regular benefits paid during the past 30 years were paid in the past decade.

Through March 31, 1965, more than \$47.2 billion in benefits have been paid under all of the unemployment insurance programs. This stabilizing force to the economy paid \$38.8 billion to workers under State programs, \$506.2 million to unemployed Federal workers; \$563.8 million under the unemployment program for ex-

servicemen established in 1958; \$454.1 million under the Veterans' Readjustment Assistance Act of 1952; \$2 billion plus to railroad workers; \$769.1 million under the Temporary Extended Unemployment Insurance program of 1961; \$600 million under the 1958 Federal and State temporary extended programs; \$3.8 billion to the Servicemen's Readjustment Allowance program of 1944, and \$5.9 million under a 1946 program to unemployed seamen with Federal maritime employment.

The basic objectives of unemployment insurance since its very beginnings have been to provide a minimum income for those workers who are temporarily unemployed through no fault of their own--to provide, as a matter of right, not charity, an income with which a man can meet at least the essential expenses of life until he can find another job, or until he is recalled to his old job. These same objectives guide the program today.

The Federal-State unemployment insurance program, administered since August, 1949, by the Department of Labor's Bureau of Employment Security, is recognized as one of the major social tools for the stabilization of manpower and for protecting qualified unemployed workers. Its role over the past three decades has proven its value as a built-in economic stabilizer, both in periods of prosperity as well as in periods of the economic downturn.

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