

AMENDMENTS TO SOCIAL SECURITY ACT

AUGUST 3 (legislative day, AUGUST 1), 1944.—Ordered to be printed

Mr. GEORGE, from the Committee on Finance, submitted the following

REPORT

[To accompany S. 2051]

The Committee on Finance, to whom was referred the bill (S. 2051) to amend the Social Security Act, as amended, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments made by your committee embody no material changes in substance but are designed to clarify the bill and simplify its administration.

This bill was introduced to effectuate the recommendations of the Special Committee on Post-war Economic Policy and Planning as contained in the report of that committee dated June 23, 1944 (Rept. No. 539, pt. 5, 78th Cong., 2d sess.). A copy of that report is printed herewith as an appendix.

There has been much controversy as to whether the unemployment-compensation system should be Federalized or whether the prevailing system of State administration should continue. The Special Committee on Post-war Economic Policy and Planning held extensive hearings and had before it numerous proponents of both plans. Those hearings culminated in the report above mentioned. The testimony adduced was made available to this committee.

The committee concurs in the conclusions of the Post-war Committee that the administration of unemployment compensation laws should remain with the States and that the Congress should not interfere with State standards and State procedures.

This bill creates a Federal unemployment account, from which advances can be made to any State whose account in the unemployment trust fund becomes impaired. It provides for advances without interest, repayable whenever the unemployment account of the State becomes adequate for this purpose. This method of repayment makes the advance merely an obligation of the State unemployment account and avoids constitutional prohibitions against borrowing prevailing in many of the States.

The committee feels that it is very unlikely that the unemployment compensation funds of the various States will be inadequate but believes that every possible question as to their adequacy should be removed and feels that this bill accomplishes that purpose.

The bill also makes the same provision for unemployment compensation for Federal employees as they would have had if they had been in covered employment. The committee feels that this is a fair and proper extension of the unemployment compensation benefits. This provision makes applicable to Federal employees the benefits provided by the laws of the State in which they file their claim, to the same extent as if they had been in covered employment in that State. The entire cost of paying these benefits is to be borne by the Federal Government, but they may be administered by the States. Procedure for cooperative agreements with the States for carrying out these provisions is set up in the bill.

The Special Committee on Post-war Economic Policy and Planning also recommended that the Unemployment Tax Act be amended to provide for the imposition of unemployment taxes on employers of maritime workers and employers of one or more employees. As this legislation must originate in the House of Representatives, it is not included in S. 2051, but this committee concurs in the recommendation of the Special Committee on Post-war Economic Policy and Planning.

Public, 346 (the so-called G. I. bill) provides the necessary unemployment benefits for some 11,000,000 soldiers. More than 30,000,000 people are now covered under the State unemployment compensation laws.

The passage of this bill will make eligible for unemployment compensation approximately 3,500,000 additional workers. The carrying out of the tax recommendations of the Special Committee on Post-war Economic Policy and Planning would make unemployment compensation available for approximately 2,500,000 more workers.

Substantially all of the remaining workers would be agricultural workers, domestic servants, the self-employed, and employees of State and local governments. Up to this time it has not been deemed administratively practicable to cover the first three of these groups, although there is no inhibition on the States bringing them within their systems. The States also have authority to cover the State and local employees and the committee feels that it would be inappropriate for the Congress to force them to do so.

The committee, therefore, feels that the recommendations of the Special Committee on Post-war Economic Policy and Planning would make the unemployment compensation system thoroughly comprehensive and that those recommendations are sufficient to meet any unemployment situation likely to arise as a result of difficulties growing out of reconversion.

APPENDIX

[S. Rept. No. 539, Pt. 5, 78th Cong., 2d sess.]

POST-WAR ECONOMIC POLICY AND PLANNING

This committee has held extensive hearings on the subject matter of this report. Witnesses representing business and labor organizations and agriculture were heard. The unemployment-compensation directors of 16 States appeared before the committee.

The provisions of the bills now before the Senate dealing with the subject were carefully considered.

THE UNEMPLOYMENT-COMPENSATION SYSTEM

When Congress passed the Social Security Act in 1935 it was felt that some incentive from the Federal Government was necessary in order to have unemployment-compensation systems established by all the States. That incentive took the form of a credit of as much as 2.7 percent for payments employers made under State unemployment-compensation laws against the 3-percent unemployment-compensation tax on pay rolls imposed by the Federal Unemployment Tax Act. It was also felt that differing conditions in different sections of the country made it very unwise to attempt to set up a Federal system, or to compel uniformity in the systems through Federal legislation.

The employers in each State pay taxes into the unemployment-compensation fund. The taxes from each State are segregated and constitute a fund used solely for the purpose of paying unemployment compensation within that State.

The system has been functioning in all of the States for about 8 years. There has been no serious criticism of the administration of the State laws. So far as the committee can ascertain, they have worked satisfactorily and smoothly.

THE SOLVENCY OF THE STATE FUNDS

As of May 14, 1944, the States had to their credit in the Treasury of the United States unemployment compensation funds which aggregated well in excess of \$5,000,000,000. The present funds are sufficient to pay benefits, at the prevailing averages, for the maximum durations provided by various State laws, to 60 percent of all the covered workers now employed.¹ At the present time these funds are growing at the rate of more than \$1,000,000,000 a year and if the war should continue through 1945, they would reach a total of \$7,000,000,000. There seems little likelihood of these funds being exhausted, under existing law, unless unemployment reaches an unprecedented high over a long period.

BENEFITS UNDER STATE LAWS

The various State laws provide for unemployment compensation payments of from 50 to 60 percent of regular wages, up to maximum payments ranging from \$15 to \$22 per week and for periods ranging from 14 to 24 weeks. Those benefits, both as to amount and duration, have been steadily increasing, under State enactments for the past 6 or 7 years, and there is every prospect that the trend toward improvement will continue. Furthermore, with wages at present increased by overtime payments, the average weekly benefits under unemployment compensation are rapidly approaching the maximum permitted payments in the various States. Steady employment now prevailing is also greatly increasing individual wage credits so that payments are approaching the maximum duration allowable.

By agreement the States have worked out provisions for pooling wage benefits so that a worker who moves from one State to another does not lose the benefits he has accumulated in the State of his previous residence. This makes the problem of migration of workers much less serious.

¹ Detailed table is attached as an appendix.

AMENDMENTS TO S. 1730; PROPOSED BY THE WAR CONTRACTS SUBCOMMITTEE OF THE MILITARY AFFAIRS COMMITTEE

The proposed amendments to S. 1730 provide for fixing the percentage of wages, the duration and the maximum benefits by Federal statute and compelling the States to meet those standards by withholding certification of State laws after December 31, 1945. This would have the effect of denying the 2.7 percent tax deduction within the States which did not meet such standards. The percentage, duration and maximum are not specified in the latest draft of these proposals.

Under these proposals, employers of one or more would be brought within the tax provisions of the act and benefits extended to their employees.

Federal Government employees would be covered, to be paid through the State system, with reimbursement to the States of the amount of payments made.

A reinsurance fund would be set up to reimburse the States for payments made to Federal employees and to supplement State funds whenever they fell below the preceding year's collections, in an amount equal to the compensation paid by it in excess of 2.7 percent of the total wages paid during a given quarter.

All administration would be through the State agencies.

S. 1893

This bill would set up a system of interim placement benefits administered by a Work Administrator. Those benefits would apply to ex-servicemen, Federal workers, maritime workers, agricultural workers, and employees covered by the Railroad Unemployment Insurance Act (a Military Affairs subcommittee print dated June 9, 1944, has eliminated agricultural labor).

It provides for payments to employees covered by the Railroad Unemployment Insurance Act through the Railroad Retirement Board and to the others through such agencies as the Work Administrator shall designate.

It also provides that if a State elects to administer interim placement benefits that they shall apply to all persons covered by the State unemployment compensation law, including, at the election of the State, employers of less than eight persons, employees of State and local government agencies, employees of non-profit organizations and domestic employees (a Military Affairs subcommittee print dated June 9, 1944, has omitted domestic employees).

If a State does not elect to administer the benefits, the provisions apply to everyone within that State who has earned not less than \$150 in employment covered by title II of the Social Security Act providing old-age and survivors insurance benefits, during the preceding 12 months.

If a State elects to administer benefits, it shall administer those covered by the Unemployment Compensation Act of the State and the Work Administrator may designate it to administer the benefits to others than railroad employees.

Broadly speaking, it covers anyone working for a livelihood.

The bill provides no limit to the number of weeks during which payment shall be made. It is to be effective 30 days from the date of its enactment and is to expire 24 months after the cessation of hostilities.

Payments are to be made to ex-servicemen at the rate of \$20 per week if the recipient has no dependents, \$25 a week, if he has one dependent, \$30 a week if he has two dependents, or \$35 a week if he has three or more dependents.

In the case of a civilian, the maximum benefit shall be 80 percent of his earnings, but not exceeding the amount payable to an ex-serviceman in the same situation as to dependents.

S. 1767

This bill, which has just passed the Congress, provides unemployment-compensation benefits to veterans, regardless of the number of dependents they may have, of \$20 a week, for a period of 52 weeks, within the 2 years following their discharge.

THE ARGUMENT FOR LARGER BENEFITS

There was much testimony before this committee that the benefits provided under State laws are inadequate, both as to amount and duration. There was equally strong testimony that those benefits are adequate.

This conflicting testimony was based on divergent philosophies as to the purpose of unemployment compensation.

The argument in favor of larger benefits and longer duration stems from the theory that the United States owes an obligation of support, at higher than subsistence standards, to anyone who is out of work. It is argued that the payment

of such benefits would support the purchasing power of the Nation and tend to support the entire economy.

The argument that the present benefits are adequate proceeded on the theory that unemployment compensation could and should provide the unemployed with a minimum standard of living during periods in which it was impossible to find work and that when those benefits began to approach, in amount, the wages that the recipient could earn, unemployment compensation defeated its purpose by encouraging idleness.

The proponents of more liberal benefits argue that the Government of the United States owes the same obligation of industrial rehabilitation to those who produced goods for war as it owes to the men in our armed forces.

It was contended that the profits of business had been underwritten by the carry-over and carry-back provisions of the Internal Revenue Act. Those provisions merely permit the averaging of tax liability over a longer period than 1 year. They make no provision for a guaranty against loss.

It was also contended that the profits of the American farmer were underwritten. In 1943 the total net agricultural income was 8.3 percent of the total national income. Compensation of employees was 71.1 percent of the national income. The assistance given to agriculture by the Congress was merely a measure of protection against rising wages.

It was argued before this committee that S. 1718, providing methods for the termination of war contracts and the clearing of war plants, was designed to benefit the employer and was in fact a bonus to business; that as a corollary, the employees should have a similar bonus in the form of increased unemployment compensation. S. 1718 was designed and intended as much to help the employee as it was to help the employer. Until contracts are terminated and plants cleared, the employees of those plants are without work. Providing jobs was implicit in S. 1718. It gave to the employer absolutely nothing to which he was not entitled as a matter of right. It was designed to provide that quickly so that he could get back to producing goods and providing jobs but it gave him nothing else.

The unemployment compensation directors of 16 States, from all sections of the country, testified before this committee. Without exception they insisted that the unemployment-compensation provisions in their States were adequate and that the benefits struck a proper balance, in the opinion of their State legislatures, between providing adequate subsistence benefits and at the same time making employment attractive. They pointed out the difficulties they encounter when unemployment benefits approach the amount obtainable through employment.

It should be borne in mind that when lay-offs come, most benefits are likely to be calculated on the basis of take-home wages made higher by overtime. If a man works 48 hours a week for 80 cents an hour, his wage is \$41.60. Based on that wage he would be entitled to the maximum benefit payable in any State. Yet, if his hours were cut to 40, his wage would be only \$32. At such a wage scale, he might draw more while unemployed under S. 1893 than he could earn for 40 hours' work. This would be equally true at any lower wage.

It is said that the requirement of registering for employment would prevent a choice between the two situations. In times of severe labor shortage, this probably would be true; but in anything less than full employment, it is the diligent who find jobs. One naturally not diligent certainly would not work 40 hours a week if S. 1893 were law.

CONCLUSIONS

This committee has repeatedly recorded itself as being opposed to any action that expands or tends to expand Federal authority in fields where that authority is not essential. It feels that those functions which the States can perform as well or better than they can be performed by the Federal Government should be left to the States. It is opposed to any contrary action, either temporary or permanent.

This committee refuses to predicate its plans for a post-war economy on the theory that any segment of the economy must be subsidized. It agrees with the State directors that there must be a definite and distinct financial advantage in employment, as against the benefits drawn on account of unemployment. With the benefits to soldiers fixed by S. 1767 at \$20 a week, the Congress would not be justified in exceeding this figure for civilians.

In the case of some of the individual States, the committee feels that the benefits might well be made somewhat higher, but it does not feel that this insufficiency warrants a breaking down of the State systems by setting up a Federal standard. It points out, however, that more adequate State benefits would do much to weaken the argument for federalization of the State systems and the committee respectfully recommends that the States survey their situations in the light of the generally increased wage scales and in the light of the greatly increased reserve funds.

The evidence before the committee leaves little doubt as to the adequacy of the unemployment compensation funds to meet any probable drain on them, but because of the dislocations caused by the war, the committee feels that this adequacy cannot be left to any possible chance. The impact of worker migration, for which the States are not responsible, will not hit each with equal severity. Furthermore, while as a national average maximum benefits could be paid from present funds to 60 percent of the covered workers now employed, the funds of several highly industrialized States are sufficient to pay benefits to only 38 or 39 percent of covered workers now employed. The committee, therefore, feels that it is right and proper that the Federal Government guarantee the solvency of the State unemployment funds to each State, provided those funds are distributed in strict accordance with State law, for the period of the transition.

The committee also feels that there should be brought under the State systems all classes of workers which, within the limits of administrative possibility, can be brought under them. It is believed impracticable to cover agricultural workers and domestic employees. Certainly, the Federal Government should not undertake to force State and local government employees under the act.

The committee is in favor of extending coverage to employers of one or more, instead of eight or more, as at present. It also feels that it should be extended to maritime workers of private shipping companies. These recommendations, however, can rightly be effectuated through the taxing laws and any legislation with reference to them must originate in the House of Representatives.

The committee feels that employees of the Government, including the War Shipping Administration, should be brought under the act. Government workers in arsenals and shipyards and in other Government agencies have worked and lived side by side with workers in private industry. The Government through its war contracts has paid the cost of the unemployment-compensation tax on those working for private war plants. The committee sees no reason why it should not pay it for those on its own pay roll. Many of these men gave up accumulated benefits under the State systems in order to take places in federally operated war plants and Federal war agencies, and they should be placed in the same position they would have enjoyed had they been engaged in war work for a private employer. It feels, however, that payments to Federal Government employees should be based on the laws of the States in which they live so that there would be no discrimination either for or against them, as compared to their neighbors. The committee believes that it would be inappropriate for the Federal Government to pay taxes to the States but that it could be handled by means of payments to the States of the amounts paid in unemployment-compensation benefits to Federal employees.

This committee, therefore, recommends that the unemployment compensation law be amended—

(1) To provide for payments to Federal workers through the State unemployment agencies and under the State laws;

(2) To guarantee the solvency of State unemployment compensation funds, through the setting up of a revolving loan fund, to make loans to the States at any time the compensation reserves of a State prove to be inadequate;

(3) That the Unemployment Tax Act be amended, through legislation initiated in the House of Representatives, to provide for the imposition of unemployment taxes on employers of maritime workers and employers of one or more employees.

If developments prove that the unemployment compensation system as now constituted is inadequate to take care of any situation that may arise in the future, steps can then be taken to supplement it, but the integrity of that system should be preserved unless any proposed change is demonstrated to be imperative.

APPENDIX

Data and estimates supplied by State unemployment compensation agencies (through May 25, 1944)

State	A	B	C	D	E	F	G	H
	Estimated number of covered workers currently employed, December 1943 (thousands)	State's unemployment compensation fund balance as of May 14, 1944 (thousands)	Law's maximum weekly benefit	Estimated average weekly check (late 1944)	Law's maximum duration (weeks)	Product of average check and maximum duration (D)×(E)	Number of workers who could be paid that amount from that fund (B)÷(F) (thousands)	Percent of covered workers who could be paid those average benefits, for that maximum duration, from that fund (G)÷(A)
Total, 50 States..	30, 435. 8	\$5, 285, 039					18, 502. 2	30. 7
Alabama.....	432. 0	1 51, 596	\$15	\$14	20	\$280	184. 2	42. 7
Alaska.....	1 35. 0	6, 950	16	15½	16	248	28. 0	80. 1
Arizona.....	95. 0	14, 440	15	14½	14	203	71. 1	74. 9
Arkansas.....	187. 3	22, 103	15	13	16	208	106. 2	56. 7
California.....	2, 259. 0	531, 706	20	18½	24	444	1, 197. 5	53. 0
Colorado.....	200. 0	76, 610	15	14	16	224	123. 2	61. 6
Connecticut.....	650. 0	138, 328	22	19	18	342	404. 4	62. 2
Delaware.....	100. 0	13, 099	18	16	20	320	40. 9	40. 9
Dist. Columbia.....	190. 0	40, 326	20	17	20	340	118. 6	62. 4
Florida.....	380. 0	39, 592	15	13	16	208	190. 3	50. 1
Georgia.....	600. 0	60, 358	18	15	16	240	251. 4	50. 3
Hawaii ¹								
Idaho.....	75. 0	10, 883	18	15	17	255	42. 6	56. 9
Illinois.....	2, 185. 0	1 404, 423	20	17	20	340	1, 189. 4	54. 4
Indiana.....	874. 6	142, 865	18	16½	18	297	451. 0	55. 0
Iowa.....	268. 0	45, 725	15	11	15	165	277. 1	96. 2
Kansas.....	270. 0	39, 865	15	14	16	224	177. 9	65. 9
Kentucky.....	309. 4	70, 256	16	12	20	240	292. 7	94. 6
Louisiana.....	405. 0	55, 306	18	16	20	320	172. 8	42. 7
Maine.....	182. 0	27, 200	18	13	16	208	130. 7	71. 9
Maryland.....	660. 0	97, 000	20	18	23	414	234. 3	41. 8
Massachusetts.....	1, 400. 0	183, 338	18	17	20	340	539. 2	38. 5
Michigan.....	1, 671. 8	233, 185	20	19	20	380	613. 6	39. 0
Minnesota.....	453. 0	62, 900	20	15	16	240	262. 0	57. 9
Mississippi.....	200. 0	17, 624	15	11½	14	161	109. 4	54. 7
Missouri.....	747. 3	124, 529	18	16½	16	264	471. 7	63. 1
Montana.....	80. 0	13, 358	16	13	16	208	64. 2	80. 3
Nebraska.....	142. 5	20, 302	15	13½	16	216	93. 9	65. 9
Nevada.....	38. 0	7, 722	16	14½	18	261	29. 5	77. 9
New Hampshire.....	110. 0	17, 608	18	14	18	252	69. 8	63. 5
New Jersey.....	1, 300. 0	1 328, 076	18	15	18	270	1, 215. 0	93. 5
New Mexico.....	56. 0	7, 470	15	12	16	192	38. 9	69. 5
New York.....	3, 906. 1	723, 762	18	16	20	320	2, 261. 7	57. 9
North Carolina.....	681. 0	80, 100	15	10	16	160	500. 6	86. 2
North Dakota.....	31. 0	4, 062	15	12	16	192	21. 1	68. 2
Ohio.....	2, 050. 0	1 364, 152	16	15	18	270	1, 848. 7	65. 8
Oklahoma.....	275. 0	38, 134	16	14	16	224	170. 2	61. 9
Oregon.....	316. 3	62, 270	15	14½	16	232	225. 3	71. 2
Pennsylvania.....	2, 625. 0	517, 418	18	16	18	256	2, 021. 1	77. 0
Rhode Island.....	239. 5	55, 513	18	16½	20	330	168. 2	70. 2
South Carolina.....	276. 0	30, 300	15	12	16	192	167. 8	57. 1
South Dakota.....	38. 1	5, 520	15	12	16	192	28. 7	75. 4
Tennessee.....	480. 0	58, 259	15	12	16	192	303. 4	63. 2
Texas.....	1, 063. 9	123, 696	16	12½	16	200	618. 4	58. 1
Utah.....	115. 0	19, 244	20	18½	20	370	52. 0	45. 2
Vermont.....	60. 0	9, 738	16	13	18	234	41. 6	69. 4
Virginia.....	450. 0	52, 302	15	11	16	176	297. 1	66. 0
Washington.....	569. 0	1 104, 452	15	14½	16	232	450. 2	79. 1
West Virginia.....	375. 0	54, 037	18	15½	16	248	217. 8	58. 1
Wisconsin.....	650. 0	130, 112	20	17½	20	350	371. 7	57. 2
Wyoming.....	1 58. 5	6, 230	20	17	16	272	22. 9	39. 2

¹ As of Apr. 30, 1944.

² Apparently based on cumulative, rather than December 1943, figures. ("Spot" figures for Wyoming: Column A, 39.4; column H, 53.1.)

³ Data not available by May 25, 1944.

SOLVENCY OF STATE UNEMPLOYMENT COMPENSATION FUNDS AS OF MAY 15, 1944

The above table, which is based on State figures and estimates, throws some light on the ability of the several State unemployment compensation funds to pay the benefits promised by the respective State laws. These figures are similar to older (June 30) data released by the Bureau of Employment Security of the Social Security Board, on November 27, 1943.

The figures shown are the latest available State estimates of this kind. They are based on:

- (a) The number of covered workers currently employed as of late December 1943;
- (b) The State unemployment funds available as of May 14, 1944;
- (c) The benefit provisions of State laws, as of May 15, 1944; and
- (d) Each State's estimate as to its probable average benefit check ("per week of total unemployment, for late 1944, assuming that many war-production workers might then be drawing benefits").

As a very rough indicator of how heavy a percentage of unemployment each State could have, and still pay its promised benefits:

- (1) The State's estimated average weekly check was first multiplied by its maximum duration, to arrive at a rough (possible) total amount of benefits per worker, which might have to be paid to an individual claimant.
- (2) Assuming that such a total amount were in fact paid out to each unemployed claimant, then: To what percent of all covered workers could that much be paid before exhausting the State's fund?
- (3) To answer that question, the fund's May 14, 1944, balance was divided by the above total amount "per worker," thereby showing to how many workers the fund (as of that date) could pay that amount.
- (4) The resulting number of workers was stated as a percentage of all covered workers (currently employed as of late December 1943).

So the last column of figures roughly suggests how heavy a percentage of unemployment each State could have, and still pay in full the benefits promised by its present law from the funds it already has on hand (as of May 14, 1944).¹

¹ (1) Two main factors tend to make these percentages (in column H) rather conservative.

(a) Each State fund will have a considerably higher balance—than it now has—before much readjustment unemployment occurs; and

(b) Not all benefit claimants will receive the law's "maximum" duration.

(2) On the other hand, the number of covered workers "currently employed as of late December 1943" is lower than the cumulative number employed within a year, and does not include all potential claimants having some benefit rights.

(3) Please note, finally, that these figures are not "predictions," in any way, as to how much unemployment will in fact occur.