

INCREASING AUTHORIZATION FOR APPROPRIATIONS FOR ADMINISTRATION OF STATE UNEMPLOYMENT COMPENSATION LAWS

APRIL 12, 1939.—Ordered to be printed

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

REPORT

[To accompany H. R. 5482]

The Committee on Finance, to whom was referred the bill (H. R. 5482) to increase the authorization for appropriations for the administration of State unemployment compensation laws, having had the same under consideration, report it to the Senate without amendment and recommend that the bill do pass.

The purpose of the proposed legislation is fully explained in the report of the Committee on Ways and Means, House of Representatives, which accompanied the bill and which is attached hereto and made a part of this report.

[H. Rept. No. 368, 76th Cong., 1st sess.]

The Committee on Ways and Means, to whom was referred the bill (H. R. 5482) to increase the authorization for appropriations for the administration of State unemployment-compensation laws, having had the same under consideration, report it back to the House without amendment and recommend that the bill do pass.

GENERAL STATEMENT

The Social Security Act provides, in titles III and IX, for a Federal-State system of unemployment compensation. Title IX lays certain taxes on employers of eight or more individuals and provides that when and if any State passes an unemployment compensation law and taxes such employers for the purpose of paying benefits to unemployed individuals, the employers may credit the taxes paid to such States

against the Federal tax up to 90 percent of the Federal tax. This leaves 10 percent of the total taxes under title IX in the hands of the Federal Government.

Title III of the Social Security Act provides that, for the purpose of assisting States in the administration of their unemployment-compensation laws, certain appropriations shall be made by Congress. The Social Security Board is authorized to grant to the States which have unemployment-compensation laws approved by the Social Security Board, the total amount which may be necessary to cover the costs of proper administration. The act as written provides that for each fiscal year after 1936 the Congress is authorized to appropriate the sum of \$49,000,000 for this purpose.

At the time the act was written there was no way of knowing how rapidly the States would respond to the incentives so provided, by passing unemployment-compensation laws. Consequently, it was impossible to predict what amount might be necessary in future years to cover the costs of administering such laws. The sum of \$49,000,000 was probably a reasonable limit on appropriations for this purpose during the initial period. However, the States have responded very rapidly, as everyone might have wished, and today every State in the Union has an unemployment-compensation law and all but two States are actually paying benefits to unemployed workers—and these other two will begin to pay benefits in July.

The costs involved in developing such a program have thus increased more rapidly than might have been anticipated at the outset. During the fiscal years 1937 and 1938 the necessary appropriations were well within the authorization of \$49,000,000 fixed in the Social Security Act. During these years the State agencies were gradually developing, and their necessary expenditures increased as their operations expanded. At the present time, with all but two States actually paying benefits, operations are at a level which require expenditures well beyond the \$49,000,000 authorized by the Social Security Act. The Board has already found it necessary to grant to the States for the current fiscal year almost \$49,000,000, and it seems likely that approximately \$12,000,000 more will be needed to carry through the fourth quarter. Beginning with the first quarter of the next fiscal year, all States will be paying benefits, so that the expenditures are likely to be not less than \$17,000,000 or \$18,000,000 per quarter for the present activities.

Information which the Social Security Board has made available indicates that the cost of administering those State systems which have been longest in operation was at a maximum during the first few months after benefits were first paid. If this experience is indicative of what may be expected in other States, it would seem that expenditures at the present time are probably as high for all of the States taken together as they are likely to be, except as additional functions are required of the State agencies. There are some such added functions which must be provided for. Certain activities connected with so-called employers' merit ratings are authorized by the Social Security Act but have been undertaken by the various State agencies only to a very limited extent because of the pressure of more immediate problems. However, inasmuch as the majority of State laws provide for merit rating to go into operation in the near future, a large part of the annual cost involved in the operation of such a program will

need to be incurred in the fiscal year 1940, so that the modified rates can be put into effect in 1941. It will be necessary, therefore, to increase the appropriation for the coming fiscal year above the amount required for present operations.

Although the Federal Social Security Act now exempts certain classes of employees from coverage, the tendency at the present time is to amend the State acts to include certain of these exempted occupations. Furthermore, many State unemployment-compensation laws have extended coverage to employers of one or more, rather than limiting coverage to employers of eight. These developments naturally increase somewhat the costs of operation of the State programs.

When consideration is given to these various factors, it seems clear that the total cost of operating the State systems may eventually reach \$80,000,000 per year. In order that the Congress may be in position to make the necessary appropriations for carrying on this important service, it seems both necessary and advisable at this time to amend the Social Security Act to increase the authorization in title III to at least \$80,000,000.

Such authorization in the basic law does not necessarily mean that this sum will be spent each year. The States are required to present their requests for funds to the Social Security Board and the Board determines the amounts which are actually necessary for the proper and effective operation of the State laws. As experience shows where economies can be made, and as laws are simplified to eliminate some of the more cumbersome and expensive procedures now necessary, expenditures may be expected to decrease somewhat. The experience of the 23 States which have paid benefits since January 1938 justifies this assumption. For the quarter January 1 to March 31, 1939, the allotment to these States was something over a million dollars less than for the corresponding period last year. With a few exceptions the States have, in the main, done a very good job in setting up and getting into operation a system as unemployment compensation in the short period of 3 years. In some cases costs are probably still too high, but, with the help of the Social Security Board, these States, too, may be expected to bring their operations in line with the general experience.

It should be pointed out, too, that the \$80,000,000 suggested as a maximum authorization is well within anticipated receipts from the 10 percent of pay-roll taxes under title IX which will be retained by the Federal Government. The actual collections, in the year 1937, were over \$90,000,000, and the estimate for 1938 is somewhat above that amount. Unless business activity should be much less in the future than anything we have known in the last 5 years, collections may be expected to run over \$90,000,000 annually. Since the 10 percent retained by the Federal Government was intended to cover the costs of administration of the unemployment-compensation system, an authorization of \$80,000,000 annual appropriation is therefore very conservative.

It may be mentioned in passing that during the early years of the English system costs were regularly well above 10 percent of collections. To be sure, the coverage was small and costs relatively large, but these costs ranged from 26 percent in 1913 down to 10.5 percent in 1922-23, and were less than 10 percent for only 3 years up to 1932. In view of this experience a 10-percent operating-cost would not seem

unduly high, and the system as a whole in this country is actually operating well below that level.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italic; existing law in which no change is proposed is shown in roman):

Sec. 301. For the purpose of assisting the States in the administration of their unemployment compensation laws, there is hereby authorized to be appropriated for the fiscal year ending June 30, 1936, the sum of \$4,000,000 [and] for each fiscal year thereafter [the] *up to and including the fiscal year ending June 30, 1938,* the sum of \$49,000,000, [to] *and for the fiscal year ending June 30, 1939, and for each fiscal year thereafter, the sum of \$80,000,000,* to be used as hereinafter provided.

