

## Status of Unemployment Insurance Reserves on June 30, 1948

By Nathan Ginsberg \*

*Peak levels of employment continued through the first 6 months of 1948. At the same time, however, consumer demand for various types of soft goods declined, and production schedules were harassed by shortages of fuel and materials and unusually bad weather conditions. Despite these factors, however, benefit disbursements dropped 5 percent below the amount expended during the first half of 1947, and reserves in State accounts in the unemployment trust fund reached a new all-time peak of \$7.4 billion, even though tax rates for the fiscal year 1947-48 dropped to a new low—1.2 percent.*

FROM THE BEGINNING of the program through June 30, 1948, \$12.3 billion had been collected to finance benefit costs under the 51 State unemployment insurance programs. Of this amount, an estimated \$10.8 billion was raised through employer taxes and \$644 million through employee contributions; the balance of \$870 million represents interest earned by the State accounts in the trust fund. By the end of June, only Alabama and New Jersey continued to levy a tax on employees to finance unemployment insurance. In California and Rhode Island, employee contributions were completely eliminated from unemployment insurance and diverted to temporary disability insurance. In New Jersey, three-fourths of the 1-percent employee tax was diverted to the State disability insurance program, beginning June 1, with payments scheduled to start on January 1, 1949.

Expenditures from unemployment insurance reserves since the beginning of the program have totaled \$4.9 billion, barely 40 percent of all revenues. In addition to expenditures for unemployment benefits, funds aggregating \$39.2 million were withdrawn by California, New Jersey, and Rhode Island to help finance their temporary disability insurance programs. The \$7.4 billion available at the end of June for payment of unemployment insurance benefits was equivalent to more than 3½ years of collections at the standard tax rate of 2.7

percent and about 8 years of collections at the average tax rate of 1.2 percent for the 12-month period ended June 30, 1948.

### Accumulation of Funds

The history of the unemployment insurance program in the United States is characterized by an almost continuous growth in the size of reserves. The accumulation of funds was accelerated during the war years, when benefit expenditures were negligible. Although benefits during the reconversion reached the highest dollar amount in the history of the program, the impact was not nearly so heavy as had generally been anticipated, and the excess of benefits over collections resulted only in a very slight drain upon accumulated reserves.

The \$7.4 billion available for benefits on June 30 was \$90 million greater than the amount on December 31, 1947. During the first half of 1948, \$444.3 million was collected in payroll taxes and \$74.7 million was credited to the reserves as interest. Total revenue for the period, therefore, totaled \$519 million. Benefit expenditures under the State programs, on the other hand, aggregated only \$405 million, or \$114 million less than the total revenue. In addition to the normal drains, New Jersey withdrew \$10 million and Rhode Island \$14 million for their temporary disability insurance programs. The \$90 million increase in the size of the reserve during January-June 1948 was only slightly more than half the increase during the same period in 1947. The

decline in the accumulation of reserves is attributable solely to lower tax rates, since withdrawals for benefits and other purposes were about the same and taxable pay rolls had increased considerably.

The increase in funds available for benefits during the first half of 1948 did not occur in all States. Reserves in seven jurisdictions—Alaska, California, Connecticut, the District of Columbia, Massachusetts, New York, and Rhode Island—actually declined. In four of them, however—Alaska, California, the District of Columbia, and New York—reserves had increased during the 12 months. All seven States would have increased their reserves during January-June 1948 if employers had been taxed at the standard rate of 2.7 percent. As a matter of fact, a tax rate of less than 2.7 percent would have been sufficient to arrest the decline in every instance.

### Financing the Program

The Social Security Act provides that benefits under the State unemployment insurance programs be financed through an employer payroll tax. The standard rate was, in effect, set at 2.7 percent, but for the first 2 years of the program, 1936 and 1937, employers were taxed at 0.9 and 1.8 percent, respectively. The Federal act also permits States to grant reductions in tax rates through experience rating. By June 30, 1948, experience rating had become effective in all States but Mississippi, where an experience-rating law had been enacted but did not become effective until July. For the 12 months ended June 30, 1948, employer tax rates for the country as a whole averaged 1.2 percent, the lowest in the history of the program.

To supplement the revenue derived from employer contributions, nine States have at one time or another levied a tax on employees. By June 30, 1948, only Alabama and New Jersey still continued to levy an employee tax for unemployment insurance. In Alabama the employee tax rate, which is determined by the State experience-rating formula, averaged 0.27 percent during the 12 months ended June 30, 1948. New Jersey taxed its covered employees at a flat rate of 1 percent until June 1948, when the rate for

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TABLE 1.—Benefit experience in the United States since the beginning of the unemployment insurance program

Calendar period	Benefit expenditures (in thousands)	Benefits as percent of taxable wages during year
Total.....	\$4,893,192	0.9
1938.....	393,785	2.2
1939.....	429,298	1.6
1940.....	518,700	1.7
1941.....	344,320	.9
1942.....	344,084	.7
1943.....	79,643	.1
1944.....	62,385	.1
1945.....	445,866	.8
1946.....	1,094,850	1.7
1947.....	775,146	1.1
January-June 1948.....	405,115	(1)

<sup>1</sup> The corresponding ratio for the 12 months ended June 30, 1948, was 1.0 percent.

unemployment insurance was reduced to 0.25 percent and the remainder of the employee tax was diverted to the temporary disability insurance program.

A 2.7-percent tax rate throughout the years would have yielded revenues far in excess of the amounts needed to meet benefit costs, not only under the benefit formulas in effect at the beginning of the program but also under the more liberal provisions subsequently enacted. Even discounting the experience of the war years, when the demand for manpower kept benefit expenditures at a very low level, large reserves would still have accumulated with a 2.7-percent tax rate in effect. The funds available for the Nation as a whole continued to grow even during January-June 1948, when tax rates averaged only 1.2 percent. In general, most States could finance benefits under formulas more liberal than their present ones with a tax rate considerably lower than 2.7 percent.

The 1.2-percent tax rate in effect during the 12 months ended June 30, 1948, represents an average for the country as a whole. There was considerable variation among the States in average employer contribution rates. Mississippi, where experience rating had not yet become effective, taxed all employers at 2.7 percent. In only one other jurisdiction—Alaska—did employer rates average more than 2.0 percent during the 12 months. Among the other States, tax rates were highest in California,

Idaho, and New Mexico, where they averaged 1.9 percent, and Louisiana and Washington were next with 1.8 percent. The average rates ranged from 1.5 to 1.9 in 17 States, from 1.0 to 1.4 percent in 19, from 0.5 to 0.9 percent in 11, and were below 0.5 percent in the remaining two. Connecticut and the District of Columbia had the lowest average rates—0.3 and 0.4 percent, respectively.

#### Benefit Expenditures

Benefit disbursements during the 12 months ended June 30, 1948, aggregated \$752.5 million, 10 percent below the \$833.7 million expended during the preceding 12 months. During January-June 1948, \$405.1 million was expended as compared with \$427.7 million during the same period of 1947. In general, benefit costs continued to recede from the postwar peak reached in 1946, when benefits were equivalent in amount to 1.7 percent of taxable pay rolls. The benefit expenditure rate (benefits as percent of taxable wages) during the 12 months was 1.0 percent as compared with 1.1 percent during the calendar year 1947.

Benefit experience for the country as a whole since 1938 is shown in table 1. While the dollar amounts expended during the postwar years were considerably higher than those before the war, the actual level of benefit expenditures, as reflected in the ratios of benefits to taxable wages, had been higher during the prewar years. Only in 1946, when the economy was being reconverted to peacetime activity, did the rate of benefit expenditures reach the level of the prewar years 1938-40. The rate in 1946 was equal to that of 1940, although in dollar volume benefit expenditures were twice as great in 1946. From the beginning of the program through June 30, 1948, benefit expenditures represented 0.9 percent of taxable wages. Disregarding the war years 1942-44, benefits since the beginning of the program have averaged 1.25 percent of taxable pay rolls.

During the 12 months ended June 30, 1948, aggregate benefit expenditures were equivalent to 1.0 percent of taxable wages. Expenditure rates varied considerably from State to State, however. Benefits in Rhode Island equaled 2.3 percent of taxable pay rolls—the highest expenditure

rate in the country. California was the only other State where benefits exceeded 2 percent of taxable wages. Expenditure rates ranged from 1.5 to 1.9 percent in four States, from 1.0 to 1.4 percent in seven States, from 0.5 to 0.9 percent in 23 States; they were less than 0.5 percent in 15 States. Texas and Wisconsin had the lowest benefit-wage ratio—0.2 percent.

Since benefits first became payable, less than half the amount collected in pay-roll taxes through June 1948 was paid out in benefits. In fact, no State expended more than 70 cents for each dollar collected during the period, and only nine States paid out more than 50 cents per dollar collected.

The benefit-collection ratio for the 12 months ended June 30, 1948, was considerably higher—75 cents for each dollar collected—than that for the entire period since benefits became payable. In five States—California, Connecticut, the District of Columbia, Massachusetts, and Rhode Island—benefits actually exceeded collections. The benefit-collection ratio in Connecticut was highest—\$1.63 expended for each dollar collected; the District of Columbia was second, with \$1.42. In two of the five States—California and the District of Columbia—the reserves increased during the 12 months despite the unfavorable benefit-collection ratio, because the interest earned by the State accounts in the unemployment trust fund more than offset the excess of benefits over collections. Twenty-four States expended at least 50 cents but not more than 99 cents for each dollar collected. Benefit-collection ratios were lowest in Colorado and New Mexico, representing 17 and 18 cents, respectively, for each dollar collected.

The benefit-collection ratio, however, is not a satisfactory indicator of the volume of State benefit loads because it reflects tax rates as well as benefit expenditures. A decline in the tax rate has the same effect on the benefit-collection ratio as a rise in benefit payments. Furthermore, these ratios tend to create a somewhat distorted impression. At first glance, the rate for the District of Columbia, for example, where \$1.42 was expended in benefits for each dollar collected during the 12 months

TABLE 2.—Selected data on financial aspects of unemployment insurance, by State, June 30, 1948

[Based on data reported by State agencies; corrected to Aug. 6, 1948]

Region and State	Month and year benefits first payable	Average employer contribution rates (percent), fiscal year ended June 30, 1948 <sup>1</sup>	Amounts as of June 30, 1948 (in thousands)			Amount of benefits <sup>2</sup> paid for each \$1 collected as of June 30, 1948		Ratio of benefits <sup>3</sup> to taxable wages, <sup>4</sup> fiscal year ended June 30, 1948	Funds available on June 30, 1948, as percent of taxable wages <sup>5</sup>	Percent of employed covered workers who could be paid benefits for maximum duration out of funds available on June 30, 1948	
			Cumulative contributions and interest <sup>2</sup>	Cumulative benefits paid <sup>2</sup>	Funds available for benefits <sup>4</sup>	Since benefits first payable	Fiscal year ended June 30, 1948			Under State formula <sup>7</sup>	Under uniform benefit formula <sup>8</sup>
Total		1.2	\$12,288,014	\$4,895,330	\$7,392,683	<sup>10</sup> \$0.47	\$0.75	1.0	9.6	58.7	41.9
Region I:											
Conn.	Jan. 1938	.3	274,388	81,397	192,991	.34	1.63	.7	12.0	68.8	51.5
Maine	do	1.5	70,808	29,214	41,594	.46	.73	1.2	10.7	80.2	45.3
Mass.	do	1.2	424,704	248,548	176,156	.70	1.37	1.6	5.5	24.3	22.3
N. H.	do	1.2	41,912	14,372	27,540	.42	.86	1.1	9.8	61.0	40.0
R. I.	do	1.4	<sup>9</sup> 116,556	65,972	<sup>9</sup> 50,584	.66	1.31	2.3	9.2	39.1	38.7
Vt.	do	1.6	22,174	6,163	16,011	.32	.57	.9	11.4	74.4	45.8
Region II:											
Del.	Jan. 1939	.7	21,500	6,900	14,600	.45	.73	.4	7.1	49.3	31.1
N. J.	do	1.7	<sup>9</sup> 759,728	270,854	<sup>9</sup> 488,874	.43	.57	1.6	14.9	74.7	66.7
N. Y.	Jan. 1938	1.3	1,965,399	934,284	1,031,115	.53	.98	1.6	9.5	41.2	39.2
Pa.	do	.8	1,039,929	419,736	620,193	.47	.87	.7	8.4	48.5	35.5
Region III:											
D. C.	do	.4	61,085	16,021	45,064	.33	1.42	.6	9.4	61.8	40.3
Md.	do	1.1	206,767	82,103	124,664	.45	.70	.8	10.1	46.7	39.5
N. C.	do	1.6	183,862	39,798	144,063	.25	.31	.5	11.7	136.8	59.3
Va.	do	.9	118,578	36,117	82,461	.36	.40	.4	8.2	76.3	37.9
W. Va.	do	1.3	131,611	48,698	82,913	.43	.41	.5	8.5	68.4	39.2
Region IV:											
Ky.	Jan. 1939	1.5	141,479	31,815	109,664	.29	.31	.5	13.6	100.4	61.2
Mich.	July 1938	1.7	642,475	381,260	261,215	.70	.51	.8	6.1	40.6	28.4
Ohio.	Jan. 1939	.7	721,638	181,445	540,193	.32	.56	.4	10.0	64.5	44.0
Region V:											
Ill.	July 1939	.9	833,718	330,885	502,833	.54	.89	.8	8.4	44.2	38.1
Ind.	Apr. 1938	.5	293,330	103,527	189,802	.42	.75	.4	8.5	62.3	38.3
Minn.	Jan. 1938	.9	177,235	60,451	116,785	.39	.41	.4	9.9	74.6	38.8
Wis.	July 1936	.7	260,203	46,882	213,321	<sup>10</sup> .22	.27	.2	12.1	68.8	56.7
Region VI:											
Ala.	Jan. 1938	1.0	118,642	58,719	59,924	.58	.76	.9	6.8	47.4	28.1
Fla.	Jan. 1939	.9	111,547	38,377	73,170	.40	.74	.8	9.3	89.3	38.5
Ga.	do	.8	134,419	36,071	98,348	.33	.53	.6	10.1	91.7	43.4
Miss.	Apr. 1938	2.7	56,412	14,458	41,954	.29	.27	.7	13.6	107.4	51.6
S. C.	July 1938	1.2	67,703	16,127	51,576	.29	.44	.5	8.9	64.6	35.2
Tenn.	Jan. 1938	1.5	165,053	63,008	102,045	.43	.71	1.1	10.3	78.5	46.1
Region VII:											
Iowa.	July 1938	1.3	108,310	27,603	80,707	.31	.24	.3	10.6	77.0	48.9
Kans.	Jan. 1939	1.3	85,485	27,224	58,260	.40	.46	.6	11.2	85.2	49.2
Mo.	do	1.4	257,894	85,749	172,145	.42	.62	.8	10.1	70.5	43.1
Nebr.	do	1.0	42,669	10,123	32,545	.32	.25	.3	9.7	77.9	40.2
N. Dak.	do	1.5	10,419	2,923	7,495	.38	.26	.4	8.4	54.3	34.4
S. Dak.	do	1.0	10,502	1,979	8,522	.26	.24	.3	8.3	55.8	36.1
Region VIII:											
Ark.	do	1.4	54,853	18,984	35,869	.41	.67	1.0	9.7	66.7	33.1
La.	Jan. 1938	1.8	148,441	55,710	92,731	.42	.43	.7	10.5	57.4	44.2
N. Mex.	Dec. 1938	1.9	22,004	4,868	17,136	.27	.18	.3	9.6	63.6	38.5
Okla.	do	1.1	80,068	36,109	43,959	.59	.73	.8	7.7	52.9	32.8
Texas.	Jan. 1938	.9	256,155	69,401	186,754	.32	.24	.2	7.7	69.8	35.8
Region IX:											
Colo.	Jan. 1939	1.4	63,541	14,116	49,424	.28	.17	.3	11.2	84.1	47.9
Idaho.	Sept. 1938	1.9	32,050	9,944	22,107	.37	.37	.7	11.3	70.2	45.4
Mont.	July 1939	1.7	38,004	11,033	26,970	.38	.36	.6	13.0	116.6	57.4
Utah.	Jan. 1938	1.1	49,705	17,022	32,683	.39	.63	.9	12.2	58.5	49.3
Wyo.	Jan. 1939	1.1	15,312	4,296	11,017	.36	.27	.3	9.2	59.3	39.1
Region X:											
Ariz.	Jan. 1938	1.5	36,559	10,161	26,398	.32	.36	.6	10.5	119.4	47.9
Calif.	do	1.9	<sup>9</sup> 1,367,903	648,390	<sup>9</sup> 719,513	.53	1.03	2.1	11.6	54.5	54.6
Nev.	Jan. 1939	1.7	18,348	5,406	12,942	.35	.71	1.2	14.1	87.1	56.2
Oreg.	Jan. 1938	1.7	130,015	50,383	79,632	.43	.55	1.0	10.1	76.4	42.3
Wash.	Jan. 1939	1.8	257,607	115,274	142,333	.52	.80	1.5	11.2	58.5	46.5
Territories:											
Alaska	do	2.1	14,120	3,343	10,777	.27	.58	1.1	11.0	69.3	66.7
Hawaii	do	1.0	25,195	2,085	23,111	.11	.32	.3	10.1	58.4	40.9

<sup>1</sup> Preliminary estimates; exclude effect of voluntary contributions from employers.

<sup>2</sup> Represents contributions, penalties, and interest from employers; interest earned by State accounts in unemployment trust fund and reported by Treasury; and contributions from employees. Excludes amounts transferred to the railroad unemployment insurance system.

<sup>3</sup> Adjusted for voided benefit checks. Includes benefits paid to railroad workers through June 30, 1939; excludes reconversion unemployment benefits for seamen.

<sup>4</sup> Represents sum of balances at end of month in State clearing account and benefit payment account, and in State unemployment trust fund account in the Treasury.

<sup>5</sup> Excludes reconversion unemployment benefits for seamen.

<sup>6</sup> Wages of \$3,000 or less.

<sup>7</sup> Employed covered workers during average month in 1947; average weekly payment equal to average weekly benefit in the State, April-June 1948; all claimants assumed to receive maximum number of weeks of benefits payable under State law to claimant with assumed average weekly benefit amount; for Michigan and Wisconsin, claimants assumed to have only 1 base-period employer.

<sup>8</sup> Employed covered workers during average month in 1947; uniform duration of 26 weeks and weekly benefit amount equal to 2/3 of high-quarter earnings—\$5 minimum, \$25 maximum (or schedule with dependents' allowances resulting in same average cost); all claimants assumed to draw all benefits for which they are eligible.

<sup>9</sup> Excludes \$200,000 in California, \$10,000,000 in New Jersey, and \$28,968,681 in Rhode Island transferred to temporary disability insurance funds.

<sup>10</sup> Ratio based on benefits and collections since Jan. 1, 1938.

ended June 30, 1948, would suggest an extremely unfavorable benefit experience. Actually, benefits were paid out at the rate of 0.6 percent of taxable wages, while employer tax rates averaged only 0.4 percent. The reserve in the District—equivalent in amount to 9.4 percent of taxable pay rolls for the period—earned interest equivalent to about 0.2 percent of taxable wages or almost one-third of the benefit outlay. Despite the high benefit-collection ratio, the District's reserve increased in size during the 12 months. The ratio of benefits to taxable wages is a more satisfactory indicator of the level or rate of disbursements.

Peak employment and high levels of production prevailed throughout the fiscal year 1947-48. The output of steel and automobiles continued at full speed, limited only by the availability of plant capacity, basic materials, and labor; construction—both commercial and residential—forged ahead. Employment was at the highest level in the history of the country. Business activity in general did not falter even when prices of commodity futures declined in February.

Despite the generally high level of business activity, several factors prevented further decline in total benefit expenditures. Consumer demand for various types of soft goods, especially textiles and leather, dropped substantially. Areas where these industries constituted a major part of the productive and business activity experienced hard times in contrast to the boom prevailing throughout the country. The unusually severe winter aggravated the seasonal decline at the beginning of 1948; construction and lumbering were impeded to a greater than usual extent; tie-ups in transportation created material and fuel shortages leading to temporary shutdowns in large industrial plants; the continued shortage of steel, characteristic of the postwar period, upset production schedules. All these factors combined to increase the rate of benefit expenditures in some States far above the national average and prevented further decline in others.

The New England and bordering States were hit particularly hard by the fall in the demand for soft goods.

In Rhode Island, for example, cotton textiles were affected. Jewelry—another important activity—also experienced a sharp drop in demand. These factors, plus curtailment in the output of machinery and tools, created a situation in the State that necessitated payment of benefits equivalent to 2.3 percent of taxable wages. Textile and shoe plants closed down in Maine, Massachusetts, and New Hampshire. Unemployment in the garment and entertainment industries plagued New York. Unemployment in the garment, machinery, and tool-making industries similarly affected New Jersey. In California, unemployment in the garment and entertainment industries, the effect of heavy rains and snow on construction and lumbering, a power shortage in San Francisco, and a general shortage of steel gave rise to a benefit expenditure rate of 2.1 percent of taxable pay rolls. The automobile industry in Michigan was regularly forced to shut down for short periods because of shortages of fuel and of steel and other basic materials. Missouri's apparel and shoemaking industries felt the effects of the decline in consumer demand and of material shortages.

#### *Adequacy of Reserves*

The \$7.4 billion available in the 51 State reserves on June 30, 1948, can meet any contingency in the foreseeable future. The interest earned by the State accounts in the unemployment trust fund during January-June 1948, for example, could have financed more than 18 percent of the benefit disbursements during that period. In most States, even liberalization of the benefit formulas and withdrawals of substantial sums to help finance temporary disability insurance would not endanger the solvency of the reserve.

The dollar amounts available for unemployment insurance benefits are not a suitable basis for comparison of State reserves. The New York reserve, for example—the only one that totals more than a billion dollars—can always be counted upon to exceed that of any other State in dollar amount. In relation to the potential benefit obligations in the State, however, the New York reserve might not be in as good position as that of other States with smaller dollar re-

serves. To compare the relative capacity of State reserves to meet potential benefit drains, the amount of money available must be related to some measure of potential benefit loads. One such method is to express funds available as a percent of taxable wages (table 2). A similar ranking of States could be accomplished by relating reserves to total covered wages or covered employment in each State without changing the relative position of the State funds. The ratio of reserves to taxable wages is more advantageous in that it permits direct comparison with tax rates.

The \$7.4 billion in reserves on June 30, 1948, was equivalent to 9.6 percent of aggregate taxable wages for the preceding 12 months. The funds available were equal to almost 4 years of collections at the standard tax rate of 2.7 percent, or 8 years of collections at the current average tax rate of 1.2 percent, assuming the taxable wage level of the fiscal year 1947-48. Because of the sharp rise in taxable wages, the ratio of reserves to wages has been declining steadily—from 10.8 percent on December 31, 1946, to 10.1 percent on December 31, 1947, and 9.6 percent on June 30, 1948.

The reserve ratios for the fiscal year 1947-48 varied considerably among the States. New Jersey had the highest (14.9 percent), followed by Nevada (14.1 percent), and Kentucky and Mississippi (13.6 percent each). Funds available as percent of taxable pay rolls ranged from 12.0 to 13.9 percent in six States; 10.0 to 11.9 percent in 19; 8.0 to 9.9 percent in 18; 6.0 to 7.9 percent in five; and they were under 6.0 percent in one State—Massachusetts—where the ratio was 5.5 percent.

These reserve ratios do not indicate the effects of differences in State laws on the relative capacity of reserves to finance benefit disbursements. The percentages of employed covered workers who could be paid benefits for the maximum duration provided under current State laws represent an attempt to reflect the effects of State laws. The percentages shown, however, fail to distinguish between *uniform* and *variable* duration. A State with a uniform potential duration of 26 weeks and one with a maximum duration of 26 weeks but an average

potential duration of considerably less would both be measured according to their ability to pay benefits for 26 weeks to all claimants.

It is estimated that 58.7 percent of all covered workers employed during an average month in 1947 could be paid benefits for the maximum duration provided under the most recently enacted State laws out of funds available on June 30, 1948. Funds in five States—Arizona, Kentucky, Mississippi, Montana, and North Carolina—were sufficient to pay benefits for the maximum duration to all employed covered workers in the State. North Carolina, in fact, could pay such benefits to more than  $1\frac{1}{2}$  times the number of employed covered workers. Thirty-seven other States had reserves large enough to pay benefits for maximum duration to at least half their workers. Massachusetts was at the bottom of the scale, with a reserve sufficient to pay such benefits to only 24.3 percent of the employed covered workers. The variations among States reflect differences in the State laws as well as in size of reserves and coverage.

To eliminate differences in State laws as a factor in the variation in the percentages of employed covered workers who could be paid benefits for maximum duration, similar percentages were calculated on the assumption that all States provided 26 weeks of benefits to all eligible claimants at a weekly rate of  $\frac{1}{20}$  of high-quarter earnings, with a \$5 minimum and \$25 maximum. Under this formula, the State percentages range from 22.3 to 66.7, as compared with the range of 24.3 to 136.8 percent under the existing State laws. Under the uniform formula, benefits for the full 26 weeks could be paid to more than half the employed covered workers in 10 States, to 40.0–49.9 percent in 19 States, to 30.0–39.9 percent in 19 States, and to 20.0–29.9 percent in three States. Only 22.3 percent of employed covered workers could be paid 26 weeks of benefits in Massachusetts, 28.1 percent in Alabama, and 28.4 percent in Michigan.

Nationally, 41.9 percent of employed covered workers could be paid 26

weeks of benefits under the uniform formula. In all States except California, this percentage is smaller under the uniform formula than under the existing State formula. For some States the difference is marked. In North Carolina, for example, the percentage was reduced from 136.8 to 59.3 percent, which is still higher, however, than the proportion of employed covered workers who could be paid benefits for maximum duration nationally under existing State laws. In several States, on the other hand, the change was only slight. In Rhode Island, 39.1 percent could be paid for maximum duration under the State law as compared with 38.7 percent under the uniform formula; in New York, 41.2 as compared with 39.2 percent; in Alaska, 69.3 as against 66.7 percent. In California, 54.5 percent could be paid under the State law and 54.6 percent could be paid under the uniform formula.

These percentages do not wholly reflect differences between State laws and the uniform formula, because they are not adjusted for differences between uniform and variable maximum duration. In Rhode Island, for example, a claimant may draw benefits for not more than 26 weeks, though the average potential duration of benefits has actually been only 16 weeks.

The percentage of employed covered workers who could be paid benefits for maximum duration reflects only the relative magnitude of State reserves with respect to a specified benefit formula and does not constitute an adequate basis for conclusions regarding the adequacy of a fund to meet benefit costs under the law. The industrial and economic activity in a State might be such that a relatively small reserve would be sufficient even if a severe set-back should occur nationally. Only through analysis of conditions in the individual State can the ability of a reserve to withstand the impact of unfavorable economic conditions be tested.

#### *Reconversion Unemployment Benefits for Seamen*

In 1947, Congress added title XIII to the Social Security Act, creating

the seamen's reconversion unemployment benefit program. This legislation provided that unemployed workers with Federal Maritime Service, and not covered by State unemployment insurance laws, were to be paid benefits out of funds appropriated by Congress for this purpose. Since funds for this program are derived solely through congressional appropriation and not from collections through the pay-roll tax under the State unemployment insurance laws, the benefit expenditure figures in table 2 exclude all payments under title XIII. The seamen's program has absolutely no effect on the State reserves.

#### *Withdrawal of Employee Contributions*

In 1946, Congress enacted legislation enabling States to withdraw funds equal to the amounts collected through employee contributions to help finance their temporary disability insurance programs. By June 30, 1948, three States—California, New Jersey, and Rhode Island—had enacted disability insurance programs and transferred funds totaling more than \$39 million from the unemployment insurance program to the new programs. From the beginning of the program through June 30, 1948, about \$644 million was collected through a tax on employees levied at one time or another in nine States, and \$605 million was still available for temporary disability insurance under the enabling legislation enacted by Congress.

Nationally, the withdrawal of employee contributions would have a negligible effect on the ability of reserves to finance benefit costs. Withdrawal of the \$605 million would have reduced the funds available on June 30, 1948, from \$7.4 billion to \$6.8 billion, or from 9.6 percent of taxable pay rolls to 8.8 percent.

All in all, the unemployment insurance reserves were in excellent condition to withstand the impact of all contingencies in the foreseeable future. In fact, most States could afford to increase the benefits payable under their benefit formulas without incurring the danger of insolvency.