Unemployment Compensation: Studies and Research

Volume 3

National Commission
on Unemployment Compensation
July 1980

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Preface

These volumes are a compilation of research studies by experts in their fields. They are being made available in order to provide policymakers and administrators with some recent thinking on policy issues and to stimulate the research community's interest in unemployment insurance.

No attempt was made to survey all the important topics in unemployment insurance because time was limited and data were not always available. Some of these reports break new ground, while others revisit old issues. The reports vary greatly in terms of empirical methods and the amount of quantitative analysis used.

Most of the reports were prepared by authors under contract with the National Commission on Unemployment Compensation or by Commission staff members. Some were prepared under other auspices and made available to the Commission. The opinions expressed and conclusions drawn are those of the individual authors and do not necessarily represent the views of the Commission.

The reports are grouped into 13 sections according to the major issue addressed. Some overlap occurs since a single report may include discussion on several topics. In some cases, reports are not presented in their entirety; when this is the case, it is indicated in the author's note on the first page of each report. The complete versions of such reports, plus additional reports prepared for the Commission but not published in these volumes, are available from the microfiche collection of Government Depository Libraries.

A Research Advisory Committee was established to assist in deciding which of the many proposals received by the Commission should be funded. The members of that Committee were Joseph Becker, S.J., Research Professor, Jesuit Center for Social Studies, Georgetown University, Washington, D.C.; Saul Blaustein, Senior Economist, W. E. Upjohn Institute for Employment Research, Kalamazoo, Michigan; Daniel Hamermesh, Professor of Economics, Michigan State University, East Lansing, Michigan; Joseph Hight, Senior Labor Economist, Office of the Assistant Secretary for Policy, Evaluation and Research, U.S. Department of Labor, Washington, D.C.; Thomas Joyce, Research Analyst, Office of Policy, Evaluation and Research, Employment and Training Administration, U.S. Department of Labor, Washington, D.C.; Arnold Katz, Assistant Professor of Economics, University of Pittsburgh, Pittsburgh, Pennsylvania; and Stephen Wandner, Deputy Director, Office of Research, Legislation, and Program Policies, Unemployment Insurance Service, Employment and Training Administration, U.S. Department of Labor, Washington, D.C. In addition to evaluating proposals, these individuals gave guidance on areas for research and on the organization of these volumes. Their knowledge has been invaluable, and their willingness to assist is greatly appreciated. They are not responsible for any shortcomings.

The scope of this collection is attributable to the vision of the Commission Chairman, Wilbur J. Cohen. James M. Rosbrow, Executive Director, gave day-to-day encouragement. Mamoru Ishikawa got the project launched, and Robert Crosslin helped in midstream. James Van Erden gave continuing assistance. These reports would never have been published without the willingness and expertise of Roger Webb, Lynne Neorr, and Judy Wall, all of whom oversaw the details of publication.

RAYMOND MUNTS
Director of Research and Evaluation

Appeals and Advocacy

The Appeals System

Murray Rubin

In 1979, over 20 million unemployed workers filed initial claims for unemployment insurance (UI). About 5 million claimants were denied benefits either on the grounds that their last separation occurred under disqualifying circumstances (they quit or were discharged for misconduct), or they refused a suitable job, or they were not able and available for work. About 500,000 of these claimants appealed. In 26.7 percent of the cases (139,583), the determinations were reversed. Determinations awarding claimants benefits were appealed in almost 140,000 cases by employers, who prevailed in 34.2 percent of these cases.

Overview of State-Federal Responsibilities

The terms and conditions under which benefits are paid or denied (eligibility and disqualification provisions) and the amount and duration of benefits are subject almost entirely to State authority. Hearing officers (hereafter called referees—the most common term among the States) are State employees subject only to State laws and regulations. The manner in which hearings are conducted and decisions are prepared is wholly under the control of State authorities.

There is also an important Federal role in the appeals process. The right of claimants to appeal an adverse determination is specifically provided for in Section 303(a)(3) of the Social Security Act. It is a right States must provide in order to be eligible for administrative grants. It is a right not only to appeal, but also to a "fair hearing" before an "impartial tribunal." States must also provide claimants a reasonably prompt decision on their appeals. This is a requirement of Section 303(a)(1) of the Social Security Act as interpreted by the U.S. Supreme Court. That section requires, as a condition for administrative grants, that the States provide "such methods of administration . . . as are found by the Secretary of Labor to be reasonably calculated to insure full payment of unemployment compensation when due. . . ." According to the Supreme Court in *California Department of Human Resources Development* v. *Java,* 402 U.S. 121, 91 S.Ct. 1347, 28 L.Ed.2d 666 (1971) "the word 'due' in Section 303 (a)(1) when construed in the light of the purposes of the Act, means the time when payments are first administratively allowed as a result of a hearing of which both parties have notice and are permitted to present their respective position. . . ."

The statutory requirements of Sections 303(a)(1) and (3), which are expressed in general terms, have been interpreted into precise standards and requirements. Following the *Java* decision, the Department of Labor (DOL) issued a promptness standard requiring each State to give out decisions within the earliest time administratively feasible. This standard was translated into specific promptness criteria that currently define an acceptable level of performance as issuance of at least 60 percent of first level appeals decisions within 30 days of the date the appeal was filed, and 80 percent within 45 days.

Similarly, the DOL implemented the "fair hearing" requirement by evaluating the quality of each State's hearings and decisions, also in specific numerical terms. The DOL reviews recordings of representative hearings and decisions of one-third of the States each year and the remaining States conduct self-evaluations. Evaluators apply 29 questions covering all aspects of the hearing and decision. These questions carry different numerical weights depending on the significance of the subject and whether the referee's performance is rated "good," "acceptable," or "unsatisfactory." Failure to achieve an average score of at least 80 means that the State lacks substantial compliance with the fair hearing requirement of Section 303(a)(3).

Failure of a State to meet the criteria of acceptable performance in the promptness standard or failure to achieve a satisfactory rating in the quality evaluation does not automatically jeopardize the State's entitlement to administrative grants. That is the ultimate sanction, and can be applied only afer the State has had an opportunity for a formal hearing, the Secretary has issued a decision, and the State either does not seek judicial review or loses in the courts. Most issues do

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not result in a hearing but are resolved by the State taking whatever remedial steps are necessary to remove the deficiency.

The role of the referee

A fair hearing is not an end in itself. It is the means to the overall objective: paying benefits to eligible claimants and denying benefits to those not eligible as the law prescribes. This objective dictates the character of UI appeals hearings. The referees' responsibility to ensure that benefits are paid or denied pursuant to State law obliges them to take an active role in getting the facts. Their role is distinguished from that of a judge who acts as an umpire, deciding cases only on the basis of facts established by contesting parties. A judge does not ordinarily make independent factual investigations. In contrast, referees cannot assume the same passive role or rely on the parties alone to establish the facts and still meet their responsibility to the State.

The referee must participate directly in the questioning, subpoena witnesses and records, and order investigations whenever necessary to get the facts. At hearings where only one party is represented, the referee must question those parties who lack representation to develop the facts and to help present their side of the case. The referee must also control the questioning of the party lacking representation by the representative of the other party and assist the unrepresented party to cross-examine. When *no* party is represented, the referee must conduct the full interrogation and cross-examination for both sides. Even when *both* parties are represented by lawyers, the referee must participate actively to maintain control, to guide the development of the case, and to bring out all the necessary facts.

The referee's role is different from that of a judge and also from that of a claims deputy who makes the initial determination. The referee shares with the deputy the obligation to obtain facts when issues arise, but the referee must provide a fair hearing, while the deputy is not obliged to provide such a hearing. All claimants involved in appeals must be provided at least the following due process safeguards:

- right to a hearing tailored to the capacities and circumstances of those who are to be heard,
- right to be represented by counsel of their own choosing,
- opportunity to present argument, to produce evidence and witnesses and to offer evidence in explanation or rebuttal,
- compulsory process for obtaining necessary witnesses and records,
- right to confront and be confronted by opposing parties and their witnesses,
- right to cross-examine the other parties and their witnesses, and
- right to a prompt and intelligible written decision giving the referee's findings, reasons, and conclusions, with substantial evidence obtained at the hearing to support them.

Nature of the hearing

The element of due process listed first above is extremely important in administrative hearings—a hearing must be tailored to the needs of the parties. Claimants must be able to understand and exercise their rights. If UI hearings were *not* required to be tailored to the needs of the parties, for all practical purposes the right to appeal would then be available only to claimants who could afford representation. It is not reasonable or equitable to require claimants to obtain representation as a condition for appealing an adverse determination. Few claimants are knowledgeable in legal procedures, and most do not have the experience to make formal case presentations. Accordingly, the hearings must be conducted simply and clearly.

Technical rules and procedures that apply in civil court proceedings are inappropriate in UI hearings. In a civil court action, plaintiffs have the "burden of proof" of establishing their entitlement to the relief they seek and the defendants have the burden of proof of establishing their defenses and counter claims. This would put an unreasonable burden on most UI claimants, who neither can afford the cost of representation nor are prepared themselves to give a full presentation of their side of an issue. This burden would also defeat the program's overall objective: to award or deny benefits in accordance with *all* the facts—not just those facts established through the efforts of the parties without the referee's participation.

Common law or statutory rules of evidence are also inappropriate for UI hearings. When the referee is not a lawyer or the parties are not represented by counsel, any requirement that formal rules of evidence be followed would create serious problems and delays. With few exceptions, referees should be free to receive any evidence pertaining to the issues in a case, regardless of what the exclusionary rules of evidence prescribe. However, the referee should know the technical rules —this knowledge is important in determining what weight should properly be given to the evidence received.

Promptness

UI checks are for comparatively small amounts. They represent a partial wage replacement calculated to do no more than pay for basic, nondeferrable expenses. Unless paid promptly, benefits do not serve the purpose of helping people cope with unemployment when they

most need the money. Poor appeals performance undermines the effectiveness of the entire system. The greater the delay, the more difficult it is to provide a fair hearing: witnesses may no longer be available; claimants may have returned to work and may find it difficult to attend a hearing; heavy workloads and pressures on hearing officers lead to poorer quality hearings and decisions; overpayments increase when, after prolonged delays, an employee begins receiving payments but ultimately an appeal is decided in the employer's favor.

For many years, the DOL's "goal" for promptness in appeals processing was issuance of 50 percent or more of appeals decisions within 30 days of the date the appeal was filed, 75 percent or more within 45 days, and at least 90 percent within 75 days. Prior to 1972, most States did not meet these goals. During 1970 and 1971, appeals promptness dropped to the lowest levels in the history of the program. At the same time, appeals workload approached the highest levels yet experienced. In 1971, only 12 States satisfied the objective. Nationwide, fewer than 25 percent of appeals decisions were issued within 30 days; less than 50 percent were issued within 45 days and less than 75 percent were issued within 75 days.

On April 26, 1971, when the U.S. Supreme Court issued a decision, in the *Java* case, it had significant impact on the promptness of appeals decisions. As indicated previously, the Court said that as a condition for receipt of administrative grants, the State law must provide such methods of administration "as are found by the Secretary of Labor to be reasonably calculated to insure full payment of unemployment compensation when due."

The Court advised, "we conclude that the word 'due' in Section 303(a)(1) [of the Social Security Act] when construed in the light of the purposes of the Act, means the time when payments are first administratively allowed as a result of a hearing of which both parties have notice and are permitted to present their respective positions. . . ." In its conclusion, the Court stressed that its interpretation of the reading of the term "when due"—"gives effect to the congressional objective of getting money into the pocket of the unemployed worker at the earliest point that is administratively feasible."

The Federal Government's brief in the *Java* case committed the Secretary of Labor to improve the appeals promptness record and to consider establishing a Federal appeals promptness standard. A joint Federal-State Advisory Committee was established to study the problem and other recommendations. The committee identified the principal causes of lack of promptness in its July 1972 report:

> The basic problem is the failure at State and national levels to insist on promptness and on doing those things which would produce promptness. The study shows that contributing factors include: (1) inadequate, ill-assigned or inflexible staffing, (2) nonstandard levels of productivity as between the States, (3) poorly designed or out-of-date processing systems, (4) general failure to focus on management needs, (5) the inability of the existing method of budgeting resources to provide adequately for States' needs emerging in response to fluctuations in the rate of insured unemployment and other sources of increased benefit appeals workload.

The committee made several recommendations to the DOL and to the States. Its first and primary recommendation was for the establishment of an appeals promptness standard, effective for 1974 with a more stringent standard for 1975 and thereafter. Most of the remaining recommendations for the DOL were aimed at developing the Federal capability for helping States achieve the standard: establish a national Appeals Performance Plan of Action; develop a "time lapse" analysis package and compendium of recommendations for States; develop management analysis skills; and conduct appeals management training seminars.

The committee's recommendations to the States for speeding up the appeals process were very specific: write shorter decisions, develop backup referee capability, establish a minimum hearing assignment level of 24 cases a week, install internal management controls, and schedule hearings for evening hours or Saturdays.

Promptness standard

The Secretary's standard for appeals promptness requires, as a condition for the receipt of granted funds, that a State issue appeals with the greatest promptness administratively feasible. This follows closely the language of the Court in *Java* in interpreting the phrase "when due" in Section 303(a)(1) of the Social Security Act.

Criteria for appeals promptness were established, but if a State fails to meet the criteria, it has not necessarily failed to comply with the standard. If the State has administered an appeal as well as possible, and failure is attributable to factors reasonably beyond the State's control, the standard will be considered met. If, however, the reasons were not beyond the State's control, remedial action will be sought. The circumstances of the failure will be evaluated and recommendations will be made for correction and improvement. A hearing on withholding certification of payment of granted funds would be undertaken in the event of failure or refusal to take necessary corrective actions.

The criteria of substantial compliance are that 60 percent of all appeals decisions be issued within 30 days of the date the appeal was filed, and 80 percent within 45 days.

Representation

In March 1979 all States were requested to send to the National Commission on Unemployment Compensation (NCUC) a completed questionnaire showing the extent and kind of employer and claimant representation that appeared at first level appeals hearings during the month of April 1979, and copies of all first level appeals decisions issued during April 1979. Not all States responded, and in some cases, not enough information on representation was included. Commission staff actually read 22,683 decisions from 24 States. About half of these (10,972) were used in this survey.

The object of this effort was to determine what effect, if any, representation had on the result of a hearing in which both employer and claimant were parties or had an interest in the outcome. Hearings on subjects in which the employer was not a party were not considered: timeliness of appeal; monetary qualifying requirements, failure to report as directed, fraud issues, availability for work issues, eligibility for dependents' allowances, self-employment status, or deductibility of retirement income.

Major observations

1. The average rate of claimant representation was 7.23 percent.

2. The average rate of employer representation was 9.03 percent.

3. The losing party failed to appear in 34 percent of the hearings.

4. The overall rate of decisions favorable to the claimant was 35.73 percent. The rate when adjusted to include only hearings where the employer appeared was 30.8 percent.

5. The rate of decisions favorable to claimants was 30.8 percent overall, while the rate of decisions favorable to claimants who were represented was 45.4 percent, excluding hearings where the losing party failed to appear.

6. The rate of decisions favorable to claimants was 49.3 percent when both parties were represented.

7. The rate of decisions favorable to the employer was 69.2 percent overall, while the rate of decisions favorable to employers who were represented was 54.1 percent, excluding hearings where the losing party failed to appear.

Significance of failure to appear at hearing

At 34 percent of the hearings reviewed, the losing party failed to appear. Failure to appear did not invariably result in an adverse decision, but in most States it was a significant factor in the outcome. While, overall, 35.73 percent of appeal decisions were favorable to the claimant, this figure dropped to 30.8 percent for those hearings at which the employer was present.

The States with the highest overall rates of decisions favorable to the claimant (New Jersey 38.4 percent, New Hampshire 39.6 percent) were the most consistent in finding against the party who did not appear. New Jersey's and New Hampshire's rate of decisions in the claimant's favor dropped to 16.5 percent and 19.4 percent, respectively, in hearings in which the employer appeared. Nonappearance appeared to be so significant a factor in the outcome of the decision in most States that hearings at which the losing party failed to appear were not counted in the evaluation of the impact of representation.

Rate of representation

The average rate of claimant representation reflected in the survey (7.23 percent) seems low. The overall rate is probably higher since claimants are often represented in fraud and overpayment recoupment cases which were not included in the survey. The range was from a low of 1.8 percent in Utah to a high of 20 percent in Vermont. There is no evidence from the survey that industrial States have a higher rate of representation than average, or even a higher rate of union representation than average. When claimant representation was broken down by category, attorneys constituted 65.21 percent, paralegals or law students 11.11 percent, and union representatives 23.65 percent.

The average employer representation rate (9.03) was only slightly higher than the rate of claimant representation, but the range among States was broader: from 0 percent in Montana to 32.6 percent in California. Overall, attorneys and consultants were used in almost equal proportion, but the average is misleading. Usually, employers in any given State appeared to have a strong preference for one form of representation over another, with high-population urban States using more consultants. There was a fairly strong correlation between claimant and employer representation rates—as the former increased, the latter also tended to increase.

Significance of representation

Representation of claimants had some impact on the outcome of hearings. The rate of decisions favorable to the claimant over the whole sample was 30.8 percent. The rate of decisions in favor of claimants who were represented was 45.4 percent. Completely different results applied in the case of employer representation. The rate of decisions in favor of the employer over the whole sample was 69.2 percent; among represented employers, the rate of favorable decisions was 54.1 percent. (All figures used exclude hearings in which the losing party failed to appear.)

Significance of survey

Realistically, any conclusions about the relationship between representation and final determination of an appeal must be considered tenuous. For one reason, the statistics compiled cannot comment on the merits of the case. There were instances in every State of employers represented by attorneys losing appeals to claimants who failed to appear.

In addition, the fact that claimants are represented may be correlated with the potential success of their appeal even before the hearing begins. Unions, legal aid groups, and private attorneys are not likely to accept a case that, for whatever reason, holds little hope for success. Moreover, the hiring of an attorney is often itself a reflection of confidence in the likelihood of a favorable decision.

The survey does not show whether the superior ability or merely the presence of the claimant representative helps the claimant, or why representation appears to benefit the claimant but not the employer. Neither can the survey show whether hearings in which one or both parties are represented would have been decided differently had the parties not been represented.

Issues and Proposed Recommendations

Outdated criteria of adequate performances

Issue. The Federal standard for acceptable level of promptness, since 1975, has been the issuance of at least 60 percent of appeal decisions within 30 days, and 80 percent within 45 days. When the standard was first developed, the criteria established for calendar year 1974 were 50 percent of decisions issued within 30 days, 75 percent within 45 days, and 85 percent within 75 days. The criteria for 1975 and thereafter were to be 75 percent within 30 days, and 85 percent within 45 days. These were modified, however, to the current 60 percent within 30 days, and 80 percent within 45 days, because of opposition from the States and anticipation that too many States would fail to meet the levels. A commitment was made, however, to reexamine the feasibility of increasing the criteria from 60 to 75 percent within 30 days. This has not been done on a formal basis. However, the 75 percent target is clearly attainable, as shown by the 1979 experiences of 10 States:

State	30 days	45 days
Alabama	80.6	93.0
Arkansas	77.6	93.4
Kansas	74.4	88.1
Louisiana	89.9	95.1
Mississippi	75.0	93.4
Montana	77.7	89.6
New Jersey	75.7	87.4
North Carolina	81.4	95.8
North Dakota	84.3	91.7
South Carolina	91.4	96.0

Proposed recommendation. For 1981 and thereafter the level of performance that constitutes substantial compliance with the requirements of Section 303(a)(1) of the Social Security Act shall be the issuance of 75 percent of first level appeal decisions within 30 days of the date the appeal was filed and 85 percent within 45 days.

Delay in processing interstate appeals

Issue. The time lapse for interstate appeals has always been much worse than for intrastate appeals. In 1979, only 22.5 percent of lower-level interstate appeals were issued within 30 days of the date of the appeal, while 61.4 percent of intrastate appeals were issued within that time. Not one State issued 60 percent of interstate appeals decisions within 30 days. Over half the States (28) issued less than 30 percent of their interstate appeals decisions within 30 days.

There are a number of reasons for the poor record, including delays in the mails, and a tendency to accommodate intrastate claimants by giving them preferred scheduling. The fact that separate hearings must be held for the employer and the claimant imposes the greatest barrier to promptness.

The telephone hearing has been the only significant development in reducing the interstate appeals time lapse. Thorough experimentation with telephone hearings shows that significant time savings and more efficiency are possible without sacrifice of due process rights. In such hearings, arrangements are made to contact all parties simultaneously, with communication carried on over loudspeakers, as is common with conference calls.

Dr. Jerome R. Corsi, under combined grants from the National Science Foundation, the Department of Health, Education and Welfare, and DOL, and in cooperation with the University of New Mexico, has been conducting a meticulous and comprehensive study of all aspects of telephone hearings for the past few years. Although final results of this study have not yet been published, the desirability of conducting telephone hearings for claimants out of the State has been well established, given reasonable safeguards to ensure that due process rights are protected and that telephone hearings are not substituted for in-person hearings when the latter are practicable.

Proposed recommendation. For 1981 and thereafter

every State shall adopt appropriate procedures to facilitate the conduct by telephone of all interstate hearings that would otherwise be conducted as separate hearings.

Acceptance of appeals filed late for reasons beyond appellant's control

Issue. At present, in a number of States an appeal filed beyond the State's statutory appeal period is automatically dismissed, regardless of the reasons for the delay, and no hearing is held on the merits of the case. When a claimant files an appeal late because of reasons beyond control and the appeal is dismissed as untimely, it may reasonably be held that the claimant has not had an opportunity for a fair hearing within the meaning of Section 303(a)(3).

That section could be interpreted either to require acceptance of late-filed appeals when the claimant had good cause for filing late, or to require acceptance only when the appeal is filed late because of circumstances beyond the claimant's control. It is easier to justify requiring acceptance when the late filing was beyond the claimant's ability to control than when the individual simply had good cause for filing late.

The test of circumstances beyond the party's control is clearly a narrower test than that of good cause, and involves situations such as delays in the mails or agency error in which control over filing within a prescribed time period is removed from the claimant. It would not require acceptance of an appeal filed late for good cause but *not* due to circumstances beyond the appellant's control, as when the claimant did not receive advice sought from an attorney or a union until after the appeal period had expired. Nor would it include cases which the late filing was due to negligence or omission by someone acting on behalf of the claimant, such as an attorney or a union.

Proposed recommendation. For 1981 and thereafter every State shall provide for acceptance of appeals that are filed late for reasons beyond an appellant's control.

Claimants denied the right to be represented at hearings by anyone other than an attorney

Issue. In several States, representation of a claimant or employer at UI hearing is considered the practice of law. Practicing law is limited to attorneys in those States. The result is that claimants who believe they need someone to represent them must hire a lawyer.

A currently pending bill (H.R. 4904) to reform the welfare system contains an explicit requirement that applicants be permitted representation by anyone of their choosing. The September 20, 1979, Ways and Means Committee Report describes reasons for the provision that apply equally to UI claimants (Rept. 96-451 Part 1, p. 125):

> Individuals applying for or receiving aid often need the help of third parties in their contacts with welfare agencies. At times this is no more than the assistance of a friend or relative during an interview to help them overcome intimidation they might otherwise feel if they had to proceed completely alone or to deal with barriers of communications such as language difficulties. In other circumstances, particularly where there is a contested issue as to eligibility or the amount of aid, the individual may wish to actually have a third party represent him or her before the agency. Subsection (a)(3) assures that an individual can choose to be represented or assisted in any of his/her contacts with the welfare agency and that this assistance or representation can be provided by any person of his/her choosing, a friend, a relative, professional advocate such as a lawyer or paralegal, a lay advocate, etc. The committee believes that in many cases this assistance or representation will aid the agency as well as the individual since it will help to overcome communication barriers and in the case of trained advocates will often lead to speedier development of necessary information and more complete presentation of all relevant information. To assure that there will be no misunderstanding when the individual is acting in a representative capacity, he or she must be so designated by an adult member of the assistance unit or if there is no adult in the assistance unit by an adult who is responsible for the care of the children in the assistance unit. For these purposes, adult would include any individual who is considered to be the caretaker relative in an assistance unit regardless of his or her age.

Proposed recommendation. Beginning January 1, 1981, Section 303(a)(3) of the Social Security Act shall be interpreted as requiring that claimants may be represented by any individual of their choosing, including a lawyer.

Variations in quality due to inadequate training of referees

Issue. The quality of hearings varies among the States, in part because of differences in how referees are trained. Some States have developed comprehensive training programs while others conduct virtually no formal training, with the new referee expected to learn almost solely by observing experienced referees.

Since 1972, the Unemployment Insurance Service (UIS) of the DOL has conducted training seminars aimed particularly at new referees. For many, this has been the only formal training. This training does not cover interpretation of State laws, so it does not help a referee in applying the State's disqualification or benefit eligibility provisions to particular cases. State laws differ too substantially to be covered in these seminars, and even when statutory provisions are similar, there are considerable differences in their interpretation.

The UIS training seminars cover the basics involved in the conduct of hearings and the writing of decisions.

They include the following topics: fair hearing principles, order of proof, questioning techniques, burden of proof, evidence (admissibility, quality, hearsay, opinion, expert), decision writing techniques, findings of fact, off-the-record decisions, stipulations, self-incrimination, and interpreters. The UIS has also conducted training for chief appeals referees that focuses on the management role of the chief referee in establishing and maintaining high standards of performance.

Worthwhile training by the UIS can help establish a minimum level of quality nationwide. The value of such training could be reinforced by making attendance mandatory and requiring participants to be tested on what they have learned.

Proposed recommendation. Beginning January 1, 1981, the UIS training capacity should be enlarged to enable the presentation of enough training seminars each year to reach all referees, with advanced training for those with greater experience. Such training should be mandatory, and its successful completion should be made a prerequisite to performing as a referee—except in the few States with comparable training. Training in basics of UI hearings should be available also to organizations offering free legal assistance to claimants.

Assistance to claimants

Issue. For many individuals, a UI hearing is the first personal exposure to any kind of judicial or quasi-judicial experience. It can be intimidating, deterring some claimants from filing appeals and inhibiting others from fully or adequately presenting their cases.

Written material describing the appeals process and the claimant's rights and responsibilities is not as meaningful as advice from an independent and sympathetic official whose function is to describe what claimants might expect at a hearing, to advise them on how to prepare for a hearing, to answer their questions about forms and procedures, and to assure them prompt and courteous treatment. In September 1979, the New York agency designated "claimant representatives" for six local offices to perform these functions. This temporary project has not yet been evaluated. Other States have experimented with creating the office of ombudsman to assist claimants and ensure fair treatment.

Proposed recommendation. Beginning January 1, 1980, administrative grants shall be made available to the States to fund an appropriate number of claimant advisors initially on a pilot basis; and all States shall provide each claimant denied benefits with written information indicating clearly that although it is not necessary that the claimants be represented at their hearing, they have a right to representation and the name and address of available free legal assistance.

Lack of regulations clearly identifying fair hearing requirements

Issue. From time to time the DOL has issued a program letter containing an interpretation of the fair hearing requirement of Section 303(a)(3) of the Social Security Act. For example, all States were advised that they must afford another opportunity to a claimant with good cause for not appearing at a hearing. More often, the DOL's interpretations of the requirement are described in memorandums to individual States in response to specific potential issues of conformity or compliance. For example, the following interpretations of Section 303(a)(1) have been received by individual States in memorandums commenting on nonconforming State practices:

- the hearing must be held at a place reasonably convenient to the claimant;
- the referee must have authority to close a hearing under certain circumstances;
- a party may not be required to pay the costs of serving subpoenas it requires;
- claimants may not be required to bear the burden of proof of their cases in the technical, legal sense.

The document *A Guide to Unemployment Insurance Benefit Appeals—Principles and Procedures,* issued by the DOL in 1970, contains recommended procedures by which the goal of a fair hearing may be reached. "The statement, however, does not purport to express requirements of Sections 303(a)(3) and 303(a)(1), although it is consistent therewith." Nowhere does there appear a published description of methods and procedures *necessary* to meet the minimum requirements of Sections 303(a)(1) and (3) as heretofore interpreted. Nowhere is there a body of regulations embodying the DOL's interpretations.

Such a compilation of minimum requirements is needed (1) to ensure that appeal officials in every State are aware of requirements; (2) to assist parties and their representatives in preparing for and participating in hearings; (3) to elevate the interpretation to the level of regulations so as to avoid possible challenges to departmental authority in insisting on compliance as a condition for granted funds.

Proposed recommendation. Beginning January 1, 1981, regulations should be developed and adopted describing the Secretary's interpretation of the requirements of Sections 303(a)(1) and (3) of the Social Security Act as they relate to the appeals process.

Poor promptness performance of second level appeals authorities

Issue. In January 1980 the NCUC contracted for a

study of the second level appeals process with the following objectives:

1. To determine the feasibility of establishing a higher authority (second level) appeals promptness standard applicable to all States.

2. To establish numerical criteria of minimum adequacy that can reasonably be required of all States.

3. To develop model sets of operating procedures for large and small volume States that would permit higher level appeals authorities to meet reasonable performance standards within current budgetary constraints.

4. To prepare a report covering findings and conclusions, including description of the structure and activity of representative States' higher level appeals bodies' past and current performance levels (nationwide and by State), factors that commonly contribute to delays, indications of poor performance, objectives of a standard and the basis for a particular standard.

The reason for the study was that second level appeals performance is poor in most States by any reasonable measure. This has resulted in lengthy delays in the payment of benefits to significant numbers of eligible claimants. Unless this is corrected quickly, the courts will begin to demand changes and impose minimum levels of performance for individual States. This was exactly the pattern that developed prior to the *Java* case and the establishment of a Secretary's standard for adequate *first level* appeals performance.

In 1979, higher level appeals authorities issued 17.8 percent of decisions within 30 days of the date the appeal was filed. This contrasts with a 57.7 percent record for lower level appeals during the same period. A substantial number of higher level appeals authorities—22—issued fewer than 10 percent of their second level decisions within 30 days.

Proposed recommendation. An appropriate promptness standard for second level appeals performance should be developed as soon as possible, with State compliance required beginning July 1, 1981.

Enforcement of an appeals promptness standard

Issue. For 1979, 20 States issued fewer than 60 percent of their lower levels appeals decisions within 30 days of the filing of the decision. Again in 1978, 20 States failed to meet the 60 percent level that indicates adequate performance. Twelve States fell below the level for both years:

State	Percent decided within 30 days		Percent decided within 45 days	
	1978	*1979*	*1978*	*1979*
Alaska	45.2	44.2	68.8	66.8
California	44.3	43.3	68.8	70.4
Connecticut	42.2	13.7	70.5	40.7
District of Columbia	40.6	25.1	69.0	44.8
Illinois	6.9	52.2	17.8	71.5
Indiana	37.3	54.1	71.6	78.9
Michigan	12.7	31.6	24.0	49.2
Minnesota	51.6	47.7	75.1	75.0
Nebraska	57.5	51.8	77.9	77.9
New York	43.9	50.1	75.9	73.7
Puerto Rico	46.8	55.4	64.0	76.4
Rhode Island	38.8	42.2	72.7	77.8

Failure to meet the 60 percent in 30 days, 80 percent in 45 days criteria does not mean that a State is not in compliance with the Secretary's standard. It does mean, however, that the State must demonstrate that, despite not meeting the criteria, it still issued appeals decisions with the greatest promptness administratively feasible. The fact that 40 States were able to meet the criteria indicates that the criteria can be met and that extra effort or extra resources were needed in the delinquent States.

Despite the failure of 12 States to meet the promptness criteria for 2 straight years, none of these States has been notified that it is not in compliance and offered an opportunity for a hearing. Instead, each State has prepared a plan of action showing how it will reduce time lapse in order to meet the criteria of adequacy. In half the States just identified, the 1978 plan was either defective or not implemented, for performance deteriorated from 1978 to 1979.

Beyond evaluating whether a State's plan of action is realistic and conducting on-site surveys of deficient State operations, it is not clear precisely when negotiations and encouragement should cease and stronger approaches be applied.

Proposed recommendations. Beginning January 1, 1981, any State that has not met the appeals promptness standards for 2 consecutive years shall implement a plan of action, approved no later than March of the third year by the DOL, aimed at bringing the State's performance for such third year up to the level of the criteria. Failure of the State agency to take any step necessary for such implementation shall result in notification to the Governor that the Secretary has reason to believe the State may not qualify for administrative grants, and then there must be an opportunity for a hearing for the State agency.

Appendix A: Tables

TABLE A–1. Appeals decisions under State programs, classified by effect on appellant, January 1979–December 1979 [1]

State	Lower authority decisions on [2]						Higher authority decisions on [2]					
	Claimant appeals			Employer appeals			Claimant appeals			Employer appeals		
		In favor of appellant			In favor of appellant			In favor of appellant			In favor of appellant	
	Total number	Number	Percent	Total number	Number	Percent	Total number	Number	Percent	Total number	Number	Percent
Total	521,952	139,517	26.7	138,586	47,388	34.2	88,014	11,307	12.9	28,432[P]	5,655[P]	19.9
Alabama	11,035	2,335	21.2	4,178	2,143	51.3	2,798	85	3.0	579	157	27.1
Alaska	1,589	506	31.8	64	22	34.4	189	39	20.6	9	5	55.6
Arizona	6,658	1,408	21.1	1,110	382	34.4	742	57	7.7	202	22	10.9
Arkansas	9,213	1,750	19.0	975	374	38.4	1,836	71	3.9	315	22	7.0
California	50,639	16,085	31.8	16,965	5,488	32.3	5,769	1,056	18.3	2,509	434	17.3
Colorado	11,235	3,478	31.0	3,610	1,564	43.3	1,552	189	12.2	657	91	13.9
Connecticut	13,083	2,386	18.2	8,444	1,557	18.4	1,797	41	2.3	489	43	8.8
Delaware	2,108	835	39.6	40	10	25.0	428	117	27.3	0	0	—
District of Columbia	2,388	909	38.1	431	184	42.7	163	24	14.7	35	3	8.6
Florida	16,812[P]	4,278[P]	25.4	5,168[P]	1,567[P]	30.3	2,212[P]	340[P]	15.4	1,295[P]	168[P]	13.0
Georgia	6,545	1,178	18.0	6,067	2,826	46.6	1,721	208	12.1	793	120	15.1
Hawaii	1,891	528	27.8	427	89	20.8	—	—	—	—	—	—
Idaho	1,233	374	30.3	120	36	30.0	218	59	27.1	43	8	18.6
Illinois	32,466	5,401	16.6	22,187	6,881	31.0	7,483	1,650	22.0	3,321	1,212	36.5
Indiana	15,083	3,283	21.8	2,366	1,047	44.3	2,035	20	1.0	432	151	35.0
Iowa	8,919	2,981	33.4	4,173	1,702	40.8	1,217	101	8.3	794	197	24.8
Kansas	7,794	2,942	37.7	1,426	405	28.4	465	53	11.4	255	75	29.4
Kentucky	9,447[P]	2,104[P]	22.3	1,388[P]	487[P]	35.1	1,554[P]	217[P]	14.0	369[P]	46[P]	12.5
Louisiana	15,981	4,763	29.8	4,599	1,976	43.0	3,168	168	5.3	1,061	121	11.4
Maine	5,361	1,213	22.6	535	168	31.4	755	100	13.2	177	32	18.1
Maryland	14,717	3,706	25.2	1,489	383	25.7	1,808	440	24.3	489	171	35.0
Massachusetts [3]	16,429	4,229	25.7	2,179	526	24.1	2,702	532	19.7	682	42	6.2
Michigan	17,960	6,565	36.6	4,744	1,036	21.8	5,273	907	17.2	1,710	105	6.1
Minnesota	9,590	2,415	25.2	2,382	661	27.7	1,697	99	5.8	789	86	10.9
Mississippi	4,439	701	15.8	366	91	24.9	834	54	6.5	132	40	30.3
Missouri	16,953	3,945	23.3	5,821	1,492	39.0	1,995	279	14.0	693	55	7.9
Montana	693	151	21.8	56	16	28.6	131	71	54.2	12	1	8.3
Nebraska	2,128	505	23.7	543	192	35.4	—	—	—	—	—	—
Nevada	4,853	918	18.9	1,089	526	48.3	902	40	4.4	179	38	21.2
New Hampshire	2,848	499	17.5	97	37	38.1	—	—	—	—	—	—
New Jersey	26,480	7,046	26.6	3,542	1,107	31.3	3,145	421	13.4	374	115	30.7
New Mexico	3,860	1,121	29.0	618	235	38.0	476	79	16.6	235	58	24.7
New York	0	0	—	0	0	—	0	0	—	0	0	—
North Carolina	10,136	2,610	25.7	3,401	1,391	40.9	2,651	366	13.8	968	259	26.8
North Dakota	1,695	497	29.8	175	88	50.3	348	38	10.9	67	12	17.9
Ohio	9,279	2,857	30.8	2,071	828	40.0	4,758	145	3.0	1,348	114	8.5
Oklahoma	7,804	1,784	22.6	1,373	492	35.8	991	53	5.3	414	124	30.0
Oregon	8,730	2,328	26.7	1,049	430	41.0	816	50	6.1	314	141	44.9
Pennsylvania	43,335	10,917	25.2	4,852	1,828	37.6	11,033	1,264	11.5	2,677	396	14.8
Puerto Rico	4,897	924	18.9	13	4	30.8	489	103	21.1	1	0	—
Rhode Island [4]	3,944	1,980	50.2	128	33	25.8	538	60	11.2	115	41	35.7
South Carolina	6,395	1,838	28.7	1,688	903	53.5	1,124	220	19.6	313	129	41.2
South Dakota	1,693	482	28.5	438	134	30.6	171	2	1.2	63	15	23.8
Tennessee	9,283	1,688	17.6	1,622	628	38.7	2,395	313	13.1	571	209	36.6
Texas	27,508	11,994	43.6	9,205	2,946	32.0	1,836	322	17.5	1,121	200	17.8
Utah	2,365	668	28.2	222	58	26.1	191	45	23.6	16	0	—
Vermont	997	210	21.1	126	33	26.2	144	48	33.3	70	6	8.6
Virginia	7,163	1,355	18.9	2,036	1,029	50.5	1,031	90	8.7	339	118	34.8
Washington	10,731	2,811	26.2	1,047	310	29.6	2,036	322	15.8	400	139	34.8
West Virginia	4,084	1,408	34.5	839	290	34.6	539	180	33.4	144	44	30.6
Wisconsin	11,258	2,642	23.5	2,830	668	23.6	1,907	183	9.6	814	87	10.7
Wyoming	498	129	25.9	299	94	31.4	78	6	7.7	47	3	6.4

[1] Includes only those decisions that involve a review of a decision of a lower body.
[2] Hawaii, Nebraska, and New Hampshire have only one appeals authority; data for these States are shown as lower authority decisions.
[3] Includes decisions rendered by the Massachusetts director (or the director's representative).
[4] Includes decisions rendered by Rhode Island's Board of Review (higher authority).
[P] Indicates that the figure it follows contains data from a previous reporting period.
SOURCE: U.S. Department of Labor, Employment and Training Administration, Report 5–130, Table 18B, February 25, 1980.

TABLE A–2. Appeals decisions under State programs—Time lapse between date of filing appeals and date of decision, January 1979–December 1979 [1]

State	Lower authority appeals [1]				Higher authority appeals [1]			
		Percent decided within				Percent decided within		
	No. of decisions	30 days	45 days	75 days	No. of decisions	30 days	45 days	75 days
Total	746,494[P]	57.7	78.1	91.8	134,793[P]	17.8	35.6	61.3
Alabama	15,405	80.6	93.0	98.0	3,377	14.5	36.1	55.6
Alaska	1,653	44.2	66.8	88.6	209	31.1	42.1	68.9
Arizona	7,768	68.6	85.8	95.6	1,041	56.0	70.8	83.2
Arkansas	10,188	77.6	93.4	98.9	2,151	86.9	94.0	97.9
California	67,604	43.3	70.4	91.3	8,283	2.7	33.0	83.3
Colorado	14,980	59.9	84.0	95.8	2,209	26.6	34.7	61.9
Connecticut	21,527	13.7	40.7	80.1	2,306	.9	2.4	7.0
Delaware	2,149	66.3	92.1	98.9	433	17.8	64.4	94.7
District of Columbia	2,819	25.1	44.8	70.7	198	1.5	2.0	2.0
Florida	21,980[P]	42.6	59.5	87.6	3,509[P]	4.4	37.9	66.5
Georgia	12,612	63.1	82.0	90.0	2,514	1.4	12.0	40.0
Hawaii	2,337	72.7	85.5	92.6	—	—	—	—
Idaho	1,353	63.3	82.4	92.9	261	5.4	10.0	25.3
Illinois [2]	54,653	52.2	71.5	86.3	10,805	6.0	11.5	28.7
Indiana	17,742	54.1	78.9	93.2	2,487	56.4	57.8	58.9
Iowa	13,093	52.1	77.4	92.8	2,030	10.3	37.6	80.5
Kansas	9,220	74.4	88.1	96.6	732	16.3	31.4	97.0
Kentucky	10,835[P]	69.8	87.2	96.0	1,923[P]	2.2	17.1	85.9
Louisiana	20,580	89.9	95.1	98.4	4,237	.7	31.4	95.0
Maine	5,899	65.7	65.5	97.7	951	42.8	59.4	68.9
Maryland	16,208	60.0	91.2	97.8	2,316	46.6	57.3	64.2
Massachusetts [3]	18,615	65.8	88.9	97.2	3,384	66.5	68.0	74.0
Michigan	23,489	31.6	49.2	70.7	7,021	1.8	3.4	5.1
Minnesota	11,982	47.7	75.0	90.0	2,488	4.4	8.3	19.7
Mississippi	4,805	75.0	93.4	98.7	966	43.5	84.1	96.0
Missouri	20,774	69.8	87.1	96.1	2,691	7.2	29.8	61.1
Montana	749	77.7	89.6	96.4	143	1.4	20.3	55.9
Nebraska	2,671	51.8	77.9	92.3	—	—	—	—
Nevada	5,945	66.5	84.7	95.7	1,094	45.8	59.1	76.6
New Hampshire	2,971	72.5	88.6	97.1	—	—	—	—
New Jersey	30,022	75.7	87.4	93.9	3,564	36.8	59.9	79.3
New Mexico	4,617	67.6	89.6	97.4	714	13.2	34.5	75.6
New York	84,021	50.1	73.7	90.9	17,478	5.9	25.4	61.2
North Carolina	13,537	61.4	95.8	98.4	3,619	24.0	34.6	55.0
North Dakota	1,870	84.3	91.7	98.0	508	49.2	75.0	94.3
Ohio	11,350	57.7	80.9	92.6	6,107	55.6	73.9	81.6
Oklahoma	9,177	71.9	91.1	97.7	1,405	26.3	50.2	70.8
Oregon	9,779	62.4	85.0	96.2	1,145	45.0	84.0	97.6
Pennsylvania	48,197	65.2	80.9	91.9	13,790	18.4	50.2	79.8
Puerto Rico	4,910	55.4	76.4	87.7	490	.4	3.3	19.2
Rhode Island [4]	4,072	42.2	77.8	95.4	653	.9	18.5	66.0
South Carolina	8,083	91.4	96.0	99.1	1,437	26.1	56.0	81.7
South Dakota	2,131	62.6	84.6	95.0	247	57.1	81.8	99.2
Tennessee	10,905	74.0	90.8	97.6	2,983	9.3	20.7	42.2
Texas	36,714	49.4	75.3	90.4	2,960	7.1	29.0	72.9
Utah	2,587	57.2	83.0	97.3	207	9.7	33.3	90.3
Vermont	1,123	66.2	80.7	94.7	271	7.4	38.7	81.2
Virginia	9,199	60.4	80.3	91.5	1,370	9.0	25.0	60.9
Washington	11,778	60.8	79.4	89.0	2,554	11.5	32.4	55.7
West Virginia	4,931	58.5	81.7	95.7	691	5.1	23.0	77.6
Wisconsin	14,088	64.3	84.2	92.9	2,716	12.3	13.9	17.7
Wyoming	797	55.8	72.0	90.0	125	64.0	88.8	97.6

[1] Hawaii, Nebraska, and New Hampshire have only one appeals authority; data for these States are shown as lower authority decisions.
[2] Occasionally includes labor dispute decisions that are rendered by a special representative of the Illinois Department of Labor.
[3] Includes decisions rendered by the Massachusetts director (or the director's representative).
[4] Includes decisions rendered by Rhode Island's Board of Review (higher authority).
[P] Indicates that the figure it follows contains data from a previous reporting period.
SOURCE: U.S. Department of Labor, Employment and Training Administration, Report 5 130, Table 17B, February 25, 1980.

TABLE A–3. Interstate appeals decisions under state programs—Time lapse between date of filing appeal and date of decision, January 1979–December 1979 [1]

State	Lower authority appeals [1]				Higher authority appeals [1]			
		Percent decided within				Percent decided within		
	No. of decisions	30 days	45 days	75 days	No. of decisions	30 days	45 days	75 days
Total	71,188[P]	22.5	44.6	72.0	8,305[P]	22.2	39.2	65.9
Alabama	682	30.2	55.7	78.3	37	—	27.0	54.1
Alaska	428	11.0	34.1	79.4	49	14.3	18.4	51.0
Arizona	1,726	33.5	64.9	87.7	206	58.7	75.2	84.5
Arkansas	950	38.5	70.7	90.8	174	77.0	86.8	93.1
California	5,639	8.5	34.3	76.8	613	.8	34.3	90.2
Colorado	2,740	25.9	58.0	86.5	390	34.4	40.8	67.7
Connecticut	3,148	10.3	22.5	51.8	311	—	.3	5.8
Delaware	301	26.2	70.4	94.4	0	—	—	—
District of Columbia	374	.8	10.4	32.9	23	—	—	—
Florida	2,206[P]	33.5	39.4	64.6	278[P]	4.3	47.8	82.7
Georgia	1,096	20.9	38.9	56.0	180	2.2	12.8	49.4
Hawaii	312	34.3	56.4	74.4	—	—	—	—
Idaho	154	46.1	63.6	81.8	15	20.0	26.7	60.0
Illinois [2]	4,990	5.9	11.6	32.3	647	3.7	10.2	28.4
Indiana	1,443	12.3	33.6	75.5	170	67.6	69.4	69.4
Iowa	1,156	35.8	62.8	88.1	134	13.4	41.8	85.8
Kansas	1,354	45.9	63.6	87.5	86	18.6	30.2	93.0
Kentucky	758[P]	50.8	73.1	86.3	25[P]	—	12.0	84.0
Louisiana	1,502	37.7	62.4	87.8	211	.5	17.1	91.9
Maine	785	32.4	59.1	90.3	87	39.1	59.8	74.7
Maryland	1,413	28.2	67.1	85.1	202	60.4	80.7	89.6
Massachusetts [3]	1,760	32.1	64.1	85.9	289	62.3	63.0	70.6
Michigan	624	2.2	5.3	22.6	112	5.4	5.4	8.9
Minnesota	1,106	19.2	38.4	67.6	160	3.8	10.0	25.6
Mississippi	538	59.7	84.0	95.2	74	44.6	91.9	97.3
Missouri	1,620	39.7	62.3	83.0	235	9.4	31.1	69.8
Montana	150	46.0	72.7	94.0	14	—	35.7	64.3
Nebraska	483	25.1	55.5	82.4	—	—	—	—
Nevada	1,330	19.8	52.4	86.5	240	50.0	71.3	85.0
New Hampshire	434	20.3	53.7	85.9	—	—	—	—
New Jersey	4,351	28.2	54.2	76.4	546	47.3	70.0	85.7
New Mexico	467	58.2	79.4	94.2	50	12.0	38.0	80.0
New York	7,687	10.7	28.9	65.5	0	—	—	—
North Carolina	1,231	46.1	74.3	88.7	356	26.1	36.8	60.1
North Dakota	210	42.9	60.0	88.6	37	45.9	78.4	89.2
Ohio	655	4.4	18.5	53.3	206	46.1	69.9	78.6
Oklahoma	831	34.5	60.8	85.7	94	22.3	48.9	64.9
Oregon	1,067	30.6	60.9	85.8	61	37.7	77.0	98.4
Pennsylvania	3,305	11.7	25.6	53.9	856	5.5	20.9	56.4
Puerto Rico	195	5.6	14.9	30.3	0	—	—	—
Rhode Island [4]	682	8.1	62.0	95.2	0	—	—	—
South Carolina	731	42.3	67.2	91.2	99	26.3	46.5	69.7
South Dakota	251	37.8	55.4	82.9	21	71.4	85.7	100.0
Tennessee	910	36.5	66.7	86.5	187	9.6	29.4	56.7
Texas	2,536	26.6	48.9	73.0	203	4.9	25.6	71.4
Utah	394	29.9	62.9	91.4	18	—	27.8	94.4
Vermont	146	27.4	50.0	81.5	23	4.3	30.4	69.6
Virginia	1,659	19.1	43.6	72.4	180	10.6	30.6	72.2
Washington	1,215	28.7	57.4	77.8	189	11.1	33.9	67.2
West Virginia	399	13.3	39.6	75.4	36	16.7	33.3	88.9
Wisconsin	702	18.2	40.5	62.4	133	17.3	20.3	24.1
Wyoming	362	53.0	69.6	87.6	48	64.6	89.6	100.0

[1] Hawaii, Nebraska, and New Hampshire have only one appeals authority; data for these States are shown as lower authority decisions.
[2] Occasionally includes labor dispute decisions that are rendered by a special representative of the Illinois Department of Labor.
[3] Includes decisions rendered by the Massachusetts director (or the director's representative).
[4] Includes decisions rendered by Rhode Island's Board of Review (higher authority).
[P] Indicates that the figure it follows contains data from a previous reporting period.
SOURCE: U.S. Department of Labor, Employment and Training Administration, Report 5–130, Table 20B, February 25, 1980.

TABLE A–4. Intrastate appeals decisions under State programs—Time lapse between date of filing appeal and date of decision, January 1979–December 1979 [1]

State	Lower authority appeals [1]				Higher authority appeals [1]			
		Percent decided within				Percent decided within		
	No. of decisions	30 days	45 days	75 days	No. of decisions	30 days	45 days	75 days
Total	675,306[P]	61.4	81.6	93.8	126,488[P]	17.5	35.4	61.0
Alabama	14,723	82.9	94.7	99.0	3,340	14.7	36.2	55.7
Alaska	1,225	55.8	78.3	91.8	160	36.3	49.4	74.4
Arizona	6,042	78.6	91.7	97.9	835	55.3	69.7	82.9
Arkansas	9,238	81.6	95.8	99.7	1,977	87.8	94.6	98.3
California	61,965	46.5	73.7	92.6	7,670	2.9	32.9	82.7
Colorado	12,240	67.5	89.8	97.9	1,819	25.0	33.4	60.6
Connecticut	18,379	14.3	43.8	84.9	1,995	1.1	2.8	7.2
Delaware	1,848	72.8	95.6	99.6	433	17.8	64.4	94.7
District of Columbia	2,445	28.8	50.1	76.5	175	1.7	2.3	2.3
Florida	19,774[P]	43.6	61.8	90.2	3,231[P]	4.4	37.1	65.1
Georgia	11,516	67.1	86.2	93.3	2,334	1.4	11.9	39.3
Hawaii	2,025	78.7	90.0	95.4	—	—	—	—
Idaho	1,199	65.5	84.8	94.3	246	4.5	8.9	23.2
Illinois [2]	49,663	56.9	77.6	91.7	10,158	6.1	11.6	28.7
Indiana	16,299	57.8	82.9	94.8	2,317	55.5	57.0	58.1
Iowa	11,937	53.7	78.8	93.2	1,896	10.1	37.3	80.2
Kansas	7,866	79.3	92.3	98.2	646	15.9	31.6	97.5
Kentucky	10,077[P]	71.2	88.3	96.8	1,898[P]	2.2	17.2	85.9
Louisiana	19,078	94.0	97.7	99.2	4,026	.7	32.2	95.1
Maine	5,114	70.8	89.6	98.8	864	43.2	59.4	68.3
Maryland	14,795	63.1	93.5	99.0	2,114	45.3	55.1	61.8
Massachusetts [3]	16,855	69.3	91.5	98.4	3,095	66.9	68.5	74.3
Michigan	22,865	32.4	50.4	72.0	6,909	1.8	3.3	5.1
Minnesota	10,876	50.6	78.8	92.3	2,328	4.5	8.2	19.3
Mississippi	4,267	76.9	94.5	99.1	892	43.4	83.4	95.9
Missouri	19,154	72.3	89.2	97.3	2,456	7.0	29.7	60.2
Montana	599	85.6	93.8	97.0	129	1.6	18.6	55.0
Nebraska	2,188	57.7	82.9	94.5	—	—	—	—
Nevada	4,615	79.9	94.0	98.4	854	44.6	55.7	74.2
New Hampshire	2,537	81.4	94.6	99.0	—	—	—	—
New Jersey	25,671	83.8	93.0	96.8	3,018	34.9	58.1	78.1
New Mexico	4,150	68.7	90.8	97.7	664	13.3	34.2	75.3
New York	76,334	54.1	78.2	93.5	17,478	5.9	25.4	61.2
North Carolina	12,306	84.9	98.0	99.3	3,263	23.8	34.4	54.5
North Dakota	1,660	89.6	95.7	99.2	471	49.5	74.7	94.7
Ohio	10,695	61.0	84.7	95.0	5,901	55.9	74.1	81.7
Oklahoma	8,346	75.6	94.1	98.9	1,311	26.6	50.3	71.2
Oregon	8,712	66.3	87.9	97.5	1,084	45.4	84.4	97.6
Pennsylvania	44,892	69.2	85.0	94.7	12,934	19.2	52.2	81.3
Puerto Rico	4,715	57.5	79.0	90.1	490	.4	3.3	19.2
Rhode Island [4]	3,390	49.0	81.0	95.4	653	.9	18.5	66.0
South Carolina	7,352	96.3	98.9	99.9	1,338	26.1	56.7	82.6
South Dakota	1,880	65.9	88.5	96.6	226	55.8	81.4	99.1
Tennessee	9,995	77.4	93.0	98.6	2,796	9.3	20.1	41.2
Texas	34,178	51.1	77.3	91.6	2,757	7.3	29.2	73.0
Utah	2,193	62.1	86.6	98.4	189	10.6	33.9	89.9
Vermont	977	72.0	85.3	96.6	248	7.7	39.5	82.3
Virginia	7,540	69.5	88.4	95.7	1,190	8.7	24.2	59.2
Washington	10,563	64.5	81.9	90.3	2,365	11.5	32.3	54.8
West Virginia	4,532	62.5	85.4	97.5	655	4.4	22.4	76.9
Wisconsin	13,386	66.7	86.5	94.5	2,583	12.0	13.6	17.4
Wyoming	435	58.2	74.0	92.0	77	63.6	88.3	96.1

[1] Hawaii, Nebraska, and New Hampshire have only one appeals authority; data for these States are shown as lower authority decisions.
[2] Occasionally includes labor dispute decisions that are rendered by a special representative of the Illinois Department of Labor.
[3] Includes decisions rendered by the Massachusetts director (or the director's representative).
[4] Includes decisions rendered by Rhode Island's Board of Review (higher authority).
[P] Indicates that the figure it follows contains data from a previous reporting period.
SOURCE: U.S. Department of Labor, Employment and Training Administration, Report 5–130, Table 19B, February 25, 1980.

Appendix B: UI Appeals Performance Appraisal Project—Criteria and Guidelines

Hearings

1. Was the testimony taken in appropriate order and sequence?

Good (6). The order was reasonable and flexible depending on the circumstances of each case. Although no fixed order was necessary, generally: in voluntary quit issues, the claimant proceeded first; in misconduct issues, the employer proceeded first; in suitable work cases, the agency went first; in eligibility cases including availability, capability, and procedural matters, the claimant proceeded first; and in fraud cases, the agency went first. The referee also avoided jumping back and forth between witnesses and issues.

Acceptable (4). The referee permitted the introduction of some testimony in inappropriate sequence, but did not substantially jeopardize the organization of the testimony.

Unsatisfactory (0). The referee did not take the testimony in appropriate order and sequence.

2. Did the referee provide parties and representatives opportunity (as necessary) to interrogate their own witnesses?

Good (6). Where necessary, the referee informed parties that they could interrogate witnesses in their own behalf. Where necessary, the referee instructed such parties how to frame questions and cautioned them not to make statements or arguments. Where one or more parties were represented, the referee, where necessary, assisted the representatives, as needed, to develop their respective cases by direct testimony.

Acceptable (4). The referee advised parties who were represented by counsel that they could interrogate their own witnesses, but failed to furnish assistance where it would have been helpful.

Unsatisfactory (0). The referee failed to inform parties of their right to question their own witnesses, or failed to provide assistance that was needed.

3. Was the language used, in questions to witnesses, geared to the comprehension of those present? Did each question to a witness express only one point?

Good (6). The referee's questions met the criterion in all but inconsequential instances. When questions by representatives did not meet the criterion, the referee provided corrective assistance.

Acceptable (4). There were minor instances where the referee's questions did not meet the criterion. In some instances, questions by representatives did not meet the criterion, and the referee did not provide corrective assistance.

Unsatisfactory (0). Either the referee's questions did not meet the criterion in significant instances, or significant questions by representatives did not meet the criterion, and the referee did not provide corrective assistance.

4. Did the referee interrogate witnesses so as to clarify conclusionary statements or opinions, and clear up material ambiguities or unclear testimony? (This criterion applies both in those cases where the referee was the sole interrogator and in those cases where others, such as counsel, acted as interrogators.)

Good (9). When the witness responded with an opinion or conclusion, the referee developed the factual basis for the opinion or conclusion. When the who, what, when, where, why, and how of each transaction materially involved in the issue were not entirely clear or were ambiguous, the referee interrogated the witnesses so as to get specific, clear responses to these questions.

Acceptable (6). The referee asked some questions of witnesses, but did not clear up all opinions, conclusions, ambiguities or unclear statements. There were some omissions of dates, names, places and details of transactions, but they were not fatal to the rendering of a correct decision in the matter. The referee made some effort to clear up ambiguities and unclear statements.

Unsatisfactory (0). The referee's questioning of witnesses disregarded ambiguities or unclear testimony that was material, or dealt with them in an obviously inadequate manner.

5. Did the referee permit the asking of improper leading questions? (Such questions do not include foundation questions, or questions on cross-examination that relate to the subjects covered by the witness on direct examination.)

Good (6). The referee did not permit representatives to ask improper leading questions that were material to the issues in the case.

Acceptable (4). The referee permitted a few improper leading questions, but they were not material to the issues in the case.

Unsatisfactory (0). The referee permitted representatives to ask improper leading questions that were material to the issues in the case.

6. Was there opportunity for confrontation of all opposing witnesses?

Good (9). The referee gave each party the opportunity to face the opposing witnesses. All parties had the opportunity to be present during the giving of all testimony and evidence affecting them, and to confront all witnesses testifying for the other side.

Acceptable (0). (Not applicable—do not use.)

Unsatisfactory (0). The referee denied the opportunity for confrontation.

7. Did the referee offer parties and their representatives a timely opportunity to cross-examine opposing witnesses and did the referee control the cross-examination of witnesses?

Good (6). The referee offered the parties and their representatives a timely (immediately after the witness testified) opportunity to cross-examine the opposing witnesses. The referee controlled cross-examination to keep it within permissible bounds, to protect the rights of witnesses, and to prevent their harassment. The referee carefully guided lay persons in the conduct of cross-examination, and, when they were unable to cross-examine correctly, took over the cross-examination.

Acceptable (4). The referee offered the parties and their representatives an opportunity to cross-examine the opposing witnesses. However, (a) in controlling cross-examination, the referee did not succeed in some instances in keeping the cross-examination within permissible bounds, or (b) in guiding lay persons in the conduct of cross-examination, the referee's performance was perfunctory.

Unsatisfactory (0). The referee failed (a) to offer the parties and their representatives an opportunity to cross-examine, or (b) to control the cross-examination to keep it within permissible bounds, or (c) to explain or to assist, when needed, lay persons in the conduct of the cross-examination.

8. Did the referee control the undue extension or repetition of testimony so as to keep the hearing moving expeditiously?

Good (4). The referee diplomatically informed the witnesses that repetitious and prolonged testimony was not necessary and added nothing to the hearing. The referee did not indulge in or permit undue repetition or extension of testimony by witnesses, or duplication of witnesses, and limited testimony to the issue.

Acceptable (2). The referee indulged in or allowed testimony that was repetitious, prolonged, or irrelevant, but it was not sufficient to be objectionable and did not affect the final decision.

Unsatisfactory (0). The referee permitted persistent repetition of testimony and prolonged extension of testimony. Or, the referee persistently asked repetitious questions of the witness.

9. Did the referee control interruption of, or interference with, witnesses' testimony? (In evaluating under this criterion, disregard interruptions that were clearly beneficial to the hearing.)

Good (4). The referee controlled improper interruption of, or interference with, the testimony of witnesses.

Acceptable (2). The referee permitted occasional interruptions of witnesses' testimony.

Unsatisfactory (0). The referee allowed continuous interruptions of witnesses' testimony.

10. Did the referee interfere with the development of the case by gratuitous comments or observations?

Good (4). The referee made no uncalled-for remarks that were not pertinent to the record.

Acceptable (2). The referee made one or two observations not immediately pertinent to the issues, but not to the point of being objectionable.

Unsatisfactory (0). The referee made improper remarks that inhibited the development of the evidence; or, the referee obviously attempted to be smart, or funny, or prolonged the hearing substantially.

11. Did the referee effectively control disruptive individuals at the hearing? ("Disruptive individuals" are those who disrupt the good order of the hearing by their emotional, overtly hostile, or violent behavior.)

Good (4). The referee took effective, but reasonably tactful, action to control the disruption.

Acceptable (2). The referee took effective, but not tactful, action to control the disruption. For example, the referee loudly told a witness who was threatening violence to behave or the referee would immediately call the police.

Unsatisfactory (0). The referee did nothing with a disorderly witness, and allowed the hearing to become a free-for-all.

12. Did the referee handle correctly matters elicited off the record?

Good (6). The referee went off the record or granted an application to do so for good and sufficient purposes. The referee allowed no one else to go off the record. On resuming the record, the referee summarized the essentials of what took place.

Acceptable (4). The referee allowed parties to go off the record without permission, but did summarize for the record the off-the-record discussion.

Unsatisfactory (0). The referee went off the record, and failed to summarize what happened for the record.

13. Did the referee handle exhibits correctly? (For the purposes of this criterion, "exhibits" includes all relevant documentary or physical evidence that comes into the possession of the referee, is offered to the referee, and documents in the agency file that are entered [or should be] by the referee or by an agency representative.)

Good (6). The referee received all relevant exhibits offered, described them adequately, and entered them properly. The referee showed the exhibits received to the other party, and provided the parties an opportunity for explanations, questions and rebuttals on their contents.

Acceptable (9). The referee received all relevant exhibits and showed them to the parties, but did not fully describe them or correctly mark them. The referee provided the parties an opportunity for questions and rebuttals on their contents.

Unsatisfactory (0). The referee (a) denied the introduction of exhibits without giving the reasons for such denial, or (b) did not show exhibits received to the other party, or (c) failed to enter agency exhibits that were relevant and material.

14. Did the referee handle interpreters correctly?

Good (6). The referee instructed the interpreters on how to translate and testify when necessary. The referee administered a special interpreter's oath and corrected the interpreter on failure to follow instructions.

Acceptable (4). The referee did not give clear instructions to the interpreter as necessary, but did correct the interpreter on errors the latter committed.

Unsatisfactory (0). The referee (a) failed to give the necessary instructions to the interpreter, or (b) did not use the right form for the oath, or (c) failed to ensure that the translation accurately reflected the testimony.

15. Did the referee use good judgment as to adjournments or continuances?

Good (4). The referee granted adjournments only for good cause supported by the record.

Acceptable (2). The referee granted adjournments where the need for such action was doubtful and not fully supported by the record.

Unsatisfactory (0). The referee granted adjournments freely for insufficient reasons.

16. Did the referee properly conclude the hearing by ascertaining whether the parties had anything additional to add?

Good (4). The referee asked the parties at the end of the hearing if they had anything further to say.

Acceptable (2). The referee made a statement that the hearing was closed unless the parties stated that they had something further to say.

Unsatisfactory (0). The referee failed to ask this question at the conclusion of the hearing.

17. Was the hearing conducted within the scope of the referee's jurisdiction and within the issues as finally developed at the hearing, giving proper notice of new issues?

Good (6). The referee conducted the hearing within the scope of the issues specifically raised by the appealed determination. The referee fully explained other issues that arose, as well as the right to adjournment to meet any new issues.

Acceptable (4). The referee conducted the hearing within the scope of the issues specifically raised by the appealed determination. The referee identified new issues that arose, explored them, and discussed the right to adjournment to meet them.

Unsatisfactory (0). The referee did not contain the hearing within the scope of the issues specifically raised by the appealed determination. The referee did not identify new issues that arose that were explored or, having identified and explored such issues, failed to explain the right to adjournment to meet them.

18. Did the referee avoid technical hearing procedures and language of a technical nature?

Good (4). The referee avoided technical procedures, the use of legal phrases, the use of technical language (either industrial or legalistic), the use of form numbers and shop jargon, and the use of Latin phrases.

Acceptable (2). The referee occasionally used technical procedures or language of a technical nature, but such lapses were minor and did not greatly impair the quality of the hearing.

Unsatisfactory (0). The referee repeatedly used technical procedures or terminology (for example, form numbers, shop jargon, Latin phrases, or legal phrases).

19. Did the referee display an attitude that allowed all parties and representatives to speak freely in an orderly manner about the issues in the case?

Good (4). The parties were made to feel at ease in making statements and in developing their case.

Acceptable (2). The referee did not consistently make all parties feel at ease in making statements and in developing their case, but this did not affect the outcome.

Unsatisfactory (0). The referee's attitude was antagonistic or indifferent.

20. Did the referee obtain sufficient evidence to resolve the issues in the case? (In applying this criterion, consideration must be given to the adequacy of the referee's pursuit of the evidence on each issue: Was it sufficient to secure evidence that was necessary and reasonably obtainable? The circumstances of the case must be taken into account here. For example, the evidence needed to determine the adequacy of a claimant's search for work will vary with occupation, locality, union affiliation, and so on.)

Good (9). All evidence reasonably obtainable to answer the questions of fact raised by the issues in the case was secured. The evidence obtained was sufficient to support evidentiary findings that will furnish a sufficient basis for finding the ultimate facts needed for a decision.

Acceptable (6). The evidence obtained was sufficient to support evidentiary findings that will furnish a sufficient basis for finding the ultimate facts needed for a decision. Some doubts remain, however, as to whether reasonably obtainable evidence that would answer questions of fact raised by the issues in the case was omitted.

Unsatisfactory (0). The evidence was not sufficient to support evidentiary findings that will furnish a sufficient basis for finding the ultimate facts needed for a decision.

Decision

21. Were the statutory issues involved clearly and simply stated?

Good (4). Early in the decision, a full statement was made, in simple language, of all the statutory issues in the case. (Such statement need not be in the precise language of the statute. For example, the decision may say "the issue in this case is voluntarily leaving the most recent employment without good cause.")

Acceptable. (Not applicable—do not use.)

Unsatisfactory (0). The referee either did not state all the issues, or did so in an involved way, or in a manner making them incomprehensible to all parties concerned.

22. Did the decision contain the evidentiary findings of fact that are needed to support the ultimate findings of fact that must be made to resolve the issues in the case?

Good (9). The decision contained all the necessary evidentiary findings of fact. The form in which the evidentiary findings were stated leaves no doubt that they were facts found by the referee. The decision omitted recitation of the testimony in support of the findings of fact, except in those cases where it was used to explain the basis on which the referee resolved a material conflict in evidence.

Acceptable (6). The decision contained all the necessary evidentiary findings of fact. However, (a) the form used to state one or more of the evidentiary findings leaves it unclear whether the referee was making a finding, as for example, when the referee cited the testimony of a witness on one point without specifying that the fact, as to that point, is as testified to by the witness, or, (b) the decision otherwise included some recitation of testimony.

Unsatisfactory (0). The decision did not contain the necessary evidentiary findings.

23. Were the necessary evidentiary findings of fact supported by the evidence in the hearing record?

Good (9). On the whole, the evidentiary findings stated in the decision that are necessary to support the ultimate findings needed to resolve the issues in the case were consistent with the evidence in the hearing record. (In arriving at a conclusion on this point, the referee's judgment of credibility should be accepted unless it is manifestly without basis, and the referee's resolution of conflicts in evidence should be accepted unless it is clearly unreasonable.)

Acceptable (0). (Not applicable—do not use.)

Unsatisfactory (0). The necessary evidentiary findings of fact were not supported by substantial evidence.

24. Did the decision contain the ultimate findings of fact required to resolve the issues in the case, and were they supported by the evidentiary findings of fact?

Good (6). The answer is "yes" to both questions.

Acceptable (0). (Not applicable—do not use.)

Unsatisfactory (0). The answer is "no" to one or more questions.

25. Did the decision state reasons and rationale that were logical?

Good (6). The reasons and rationale that were stated in the decision logically followed the ultimate findings of fact. Extensive rationale was avoided that was not relevant to the specific case.

Acceptable (3). The reasoning was either not fully stated or was excessive, but was understandable.

Unsatisfactory (0). The reasoning used either was

not stated or did not logically follow from the findings of fact.

26. Was the decision well organized?

Good (4). The decision was so organized that the issues in the case, the findings of fact, the reasons for the decision, and the conclusion of law were stated. For example, the statement of the reasons for the decision included reference to findings of fact already stated, but did not inject new findings of fact.

Acceptable (2). The decision was organized in a logical manner. Although there was some merging of statements of the facts with statements of the reasons for the decision, the statement of fact was distinguishable from the statement of the reasons for the decision.

Unsatisfactory (0). The decision was not organized in any logical manner so that it was unclear which were statements of fact and which were statements of reasons for the decision.

27. Was the final decision (i.e., that part which states the "decision") of the referee clearly stated?

Good (4). Each issue in the proceeding was covered, treated as affirmed, reversed, or modified, and when there was a modification, the modification was stated. The referee indicated clearly the administrative action to be taken.

Acceptable (2). Each issue in the proceeding was covered, treated as affirmed, reversed, or modified, and when there was a modification, the modification was stated. However, the decision did not show clearly the administrative action to be taken.

Unsatisfactory (0). The decision did not cover adequately the disposition of the issues.

28. Was the decision, taking the document as a whole, understandable to the parties?

Good (6). The sentences were grammatically correct, short, and easily understood. The referee used only words in common usage. Legal and technical verbiage was avoided. The referee avoided objectionable or abrasive words or phrases.

Acceptable (4). The referee occasionally used an unfamiliar word. A sentence may not have been entirely clear. But, on the whole, the decision was reasonably understandable.

Unsatisfactory (0). At key points, the decision contained many words not easily understood by the average reader. Sentences were long and involved. The decision left the reader without a clear understanding of its meaning.

29. In multiple-issue cases, was each separate issue clearly stated and distinguished in the findings of fact and decision? (For this purpose, if the same issue in the case results in complementary decisions as to the benefit claim and the charging of benefit payments to the employer accounts, the case is not to be treated as a multiple-issue case.)

Good (4). (a) Each issue, when first introduced in the body of the decision, was clearly and concisely stated. (b) Each issue was clearly differentiated in the findings of fact and the decision. (c) A logical sequence was followed in stating the findings of fact, reasons for decision, and the decision for each of the issues.

Acceptable (2). The referee conformed to (a) clear and concise statement of each issue in the body of the decision when it was first introduced, (b) clear differentiation of each issue in the findings of fact and the decision, but did not conform to (c) logical sequence in stating the findings of fact, reasons for the decision, and the decisions for each of the issues.

Unsatisfactory (0). The referee (a) failed to separate issues in the findings of fact and in the decision, or (b) failed to dispose of one or more of the issues designated.

Criteria Scoresheet

State _____ Evaluator _____
Claimant _____ Appeal Number _____

	Good	*Acceptable*	*Unsatis-factory*	*Did not occur*	*Comments*
1.	☐	☐	☐	☐	
2.	☐	☐	☐	☐	
3.	☐	☐	☐	☐	
4.	☐	☐	☐	☐	
5.	☐	☐	☐	☐	
6.	☐	☐	☐	☐	
7.	☐	☐	☐	☐	
8.	☐	☐	☐	☐	
9.	☐	☐	☐	☐	
10.	☐	☐	☐	☐	
11.	☐	☐	☐	☐	
12.	☐	☐	☐	☐	
13.	☐	☐	☐	☐	
14.	☐	☐	☐	☐	
15.	☐	☐	☐	☐	
16.	☐	☐	☐	☐	
17.	☐	☐	☐	☐	
18.	☐	☐	☐	☐	
19.	☐	☐	☐	☐	
20.	☐	☐	☐	☐	
21.	☐	☐	☐	☐	
22.	☐	☐	☐	☐	
23.	☐	☐	☐	☐	
24.	☐	☐	☐	☐	
25.	☐	☐	☐	☐	
26.	☐	☐	☐	☐	
27.	☐	☐	☐	☐	
28.	☐	☐	☐	☐	
29.	☐	☐	☐	☐	

a. Maximum points	171
b. Did not occur	____
c. Points possible (a—b)	____
d. Points scored	____
e. Percentage	____

Timeliness in Deciding Second-Level Appeals

Robert I. Owen
Edward A. Wood

This report is based on a review of the second-level appeal process in State unemployment insurance (UI) systems, and especially of the timeliness of the disposition of appeals on contested UI claims.

The Current Problem

Most UI claims are filed in local offices of a State's UI agency. The local agency's claims-taking and claims-adjustment staff obtain information necessary to apply the eligibility and disqualification provisions by informal inquiry and investigation and notify interested parties (usually the claimant and former employers) of the result.

A claimant whose claim is denied is entitled to a hearing under provisions of State law that comply with language relating to Title III funding in the Social Security Act:

> The Secretary of Labor shall make no certification for payment to any State unless he finds that the law of such State . . . includes provision for—
>
> • Such methods of administration . . . as are foun to be reasonably calculated to insure full payment of n-employment compensation *when due*; and . . .
>
> • Opportunity for a *fair hearing,* before an impartial tribunal, for all individuals whose claims for unemployment compensation are denied . . . 42 U.S.C. 503(a)(1) and (3) [emphasis added].

Other interested parties may also obtain a hearing on a claim, through authority other than that of the Social Security Act. "Fair hearing" at this level requires certain procedural safeguards. A written or electronic recording of the evidence, usually on a cassette tape, is made and preserved for further review, if necessary.

The Social Security Act contains no requirement for any further administrative adjudication, and in Nebraska, New Hampshire, and Hawaii, no further administrative process is provided. In all other States, claimants or other interested parties may have a higher administrative level review. Because this procedure is not mandated by the Social Security Act, Federal interest in the specific procedures at the second level of appeals has been principally to ensure that the procedures do not vitiate the fair hearing afforded at the first level.

States use a variety of names and titles for people who perform essentially the same function in conducting hearings and making decisions at the first appeal level: appeals referee, appeals examiner, hearings officer, and administrative law judge. The review of decisions at the second level is done in different States by an appeal board, board of review, industrial commissions at the second level is done in different States by For the purpose of this report, except when a specific State's organization is being discussed, the terms "first-level" and "second-level" appeal will be used. In some States, there is authority for direct referral of a case to the second appeal level for the initial hearing or for the second-level authority on its own motion to take initial jurisdiction in a case. Yet, in actual practice, this authority is not invoked significantly in day-to-day operations.

Background

The Social Security Act provision requiring payment of UI when due was recognized as a requirement that claims be processed as quickly as possible. Early laws sometimes provided for lengthy waiting periods to provide time for processing claims. These were shortened or eliminated as States developed effective mass accounting systems, exploiting the newly developing mechanized accounting and information systems. Innovation and change, often involving legislative changes, marked the continuing development of systems so efficient in

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the prompt processing of cyclical payments that they have often been used by a variety of other programs.

With a few exceptions, appeals operations at both the first and second level were for many years not typified by innovation, experiment, or change. The "when due" language in the Social Security Act apparently was considered by many to apply only to claims processing by the State's UI agency; and once in the appeals process, benefits again became due only after a favorable decision was issued, without regard to time required for processing the appeal. Goals set by various States were not uniform. When statistics were collected, they reflected the number of appeal decisions made at various times, but States with records of long processing time often explained that local differences in law or practices were responsible, and timeliness in general did not improve.

A dramatic increase of caseload is the one factor common to all second levels. Many States, however, are currently processing appeals in the same basic manner established at the inception of the program. In 1941 there were 11,492 second-level appeals filed in the United States. In 1979 there were 135,005 appeals. Figure 1 shows the national caseload increase in recent years.

This phenomenal caseload increase places a heavy burden on the system and is probably the primary factor that led to concern about the timely processing of appeals, a concern shared by the courts.

Judicial scrutiny of timeliness

Prior to the 1970's the question of appeal timeliness was not presented to the courts (at least no reported cases were found in which the question was considered). Then, in 1971, the U.S. Supreme Court issued the landmark case in this area, *California Department of Human Resources Development* v. *Java,* 402 U.S. 121, 91 S.Ct. 1347, 28 L.Ed. 2d 666 (1971). The *Java* case is better known for what it did not say than for what it did say. California had a rather detailed procedure for initial eligibility determination by the local office. Once determination was made, the parties had normal appeal rights. California, like a few other States at that time, had a specific statutory provision requiring that benefits to a claimant who had been found eligible be withheld during the period of an employer appeal. In California, at the time of *Java,* the length of an employer's appeal averaged about 7 weeks. The State's withholding of benefits to individuals who had been determined eligible was challenged on the grounds that it violated procedural due process under the 14th Amendment to the Constitution and that it was improper under the Social Security Act, 43 U.S.C. 503(a)(1), which provides in part that unemployment compensation benefits should be paid "when due." Although much post-*Java* discussion centered on due process, that issue was not addressed by the Court because the Court found that the Social Security Act resolved the problems. The Court stated:

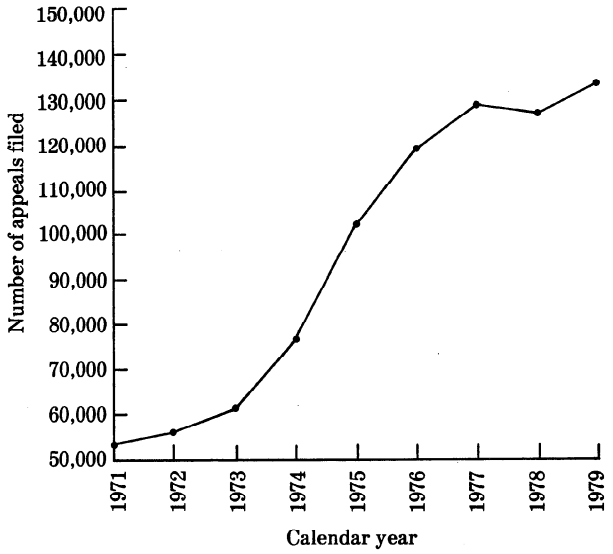
> We conclude that the word "due" in § 303(a)(1), when construed in the light of the purposes of the Act, means the time when payments are first administratively allowed as a result of a hearing of which both parties have notice and are permitted to present their respective position; any other construction would fail to meet the objective of early substitute compensation during unemployment. . . .

The issue of appeal length was never presented to the Court nor considered by the Court, although statistical measures were noted in the opinion. All the *Java* case directly holds is that, once an individual has been determined eligible for benefits, those benefits may not be withheld pending appeal by an employer.

Regardless of the limited nature of the holding in *Java,* the case fostered much discussion and concern about the timeliness of decisions on appeal, primarily first-level appeals. The Department of Labor (DOL) commissioned an intensive survey on the timeliness of appeals at the first level. The survey, completed in July 1972, concluded that a Federal timeliness standard for first-level appeals was in order. In August 1972, a standard for appeals promptness was effected in 20 C.F.R. § 650. One of the introductory statements to the standard indicates that the Social Security Act, primarily the "when due" provision, requires States, when deciding appeals, to decide the administrative benefit appeals:

> with the greatest promptness that is administratively feasible. What is the greatest promptness that is administratively feasible in an individual case depends upon the

FIGURE 1. Second-level appeals filed annually in the United States



> facts and circumstances of that case. For example, the greatest promptness that is administratively feasible will be longer in cases that involve interstate appeals, complex issues of fact or law, reasonable request by parties for continuances or rescheduling of hearings or other unforeseen and uncontrollable factors than it will be for other cases. . . . 20 C.F.R. § 650.1(b).

The standard, now in effect, requires lower levels to issue 60 percent of their decisions within 30 days, and 80 percent of their decisions within 45 days. Failure to comply may result in a finding that the State is out of compliance with Federal requirements. This could justify withholding all administrative funding from the State.

Regardless of what it did not say, *Java* had an obvious practical impact on appeals promptness; however, in 1975 the U.S. Supreme Court issued the decision that will probably be the cornerstone of judicial analysis of appeals promptness. While *Java* held that a favorable determination caused benefits to be "due," in *Fusari* v. *Steinberg,* 419 U.S. 397, 95 S.Ct. 53, 42 L.Ed. 2d 521 (1975), the Court ruled that, "(t)he basic thrust of the statutory 'when due' requirement is timeliness." *Fusari* involved a direct challenge of the Connecticut appeals system. At the time of the original suit, Connecticut provided only one level of review and a representative appeal averaged 126 days to process. A three-judge Federal court found that the system denied due process. While the case was being appealed to the U.S. Supreme Court, Connecticut changed its statutory structure to provide a two-tier system similar to many other States. The Court declined to decide the case or review the changed Connecticut system, vacated the decision, and remanded the case for reconsideration of the changed system by the lower court. The Supreme Court noted that there was no bar to deciding the case under the Social Security Act and indicated that only after a finding of satisfaction of the Federal statute would an analysis of due process be in order. In relation to procedural due process, the Court stated that, "the rapidity of administrative review is a significant factor in assessing the sufficiency of the entire process." In choosing not to review the case, the Court, for the first time, indicated that the speed of administrative review could affect not only a "when due" determination under the Social Security Act but also due process under the 14th Amendment.

The case of *White* v. *Mathews,* 559 F.2d 852 (2d Cir. 1977), while not involving UI, provides a direct analogy. In *White,* slow administrative adjudications in the Social Security Disability Insurance Program were attacked. The Second Circuit Court of Appeals, relying on a statutory requirement of a "hearing," found that unreasonable delays were inconsistent with the idea of a hearing, and therefore granted relief. The finding was made in spite of the open recognition that the agency was making diligent efforts to meet the problem but was simply unable to keep up with the caseload.

While *Java* did not deal with appeals promptness, and while *Fusari* was directed primarily at the first appellate level, the Federal courts have nevertheless considered promptness by second-level authorities. In *Neal* v. *Ashler,* Civ. TCA 78–0826 (N.D. Fla. Feb. 20, 1979) (unpublished), the Federal court was asked to consider the Florida second-level system that was claimed to improperly deny appellants prompt adjudication. The final decree in the case was a consent judgment wherein the second level agreed to a continuing standard requiring 80 percent disposition within 60 days, and 95 percent disposition within 90 days. The consent decree specified that there was no finding of any violation of any State or Federal law. The final consent decree is not nearly so informative as a temporary order issued September 22, 1978, that made an in-depth analysis and issued findings on the problem.

While Florida, like other States, has experienced a continuing upswing in appeals, the situation there has been somewhat unusual. Florida's record of second-level appeals filed, disposed of, and the percentage disposed of in specified periods of time for recent users is summarized as follows:

Year	Appeals filed	Decisions	Within 30 days	Within 45 days	Within 75 days
1971	1,116	985	9.5	24.6	71.2
1972	1,008	970	3.0	12.3	55.1
1973	1,082	1,038	1.1	3.7	15.4
1974	1,612	1,464	4.4	10.5	24.7
1975	5,041	2,993	3.2	13.2	36.5
1976	5,440	5,255	—	1.3	4.0
1977	5,020	4,970	—	4.6	21.4
1978	4,207	6,559	0.2	3.3	15.3
1979	3,497	3,509	4.3	37.9	66.5

The second-level authority was obviously inundated with an unprecedented workload when the number of appeals increased from 1,612 to 5,041 between 1974 and 1975. The flood of claims, however, was not the beginning of the problem of timeliness. In 1973, prior to the deluge of appeals, only about 15 percent were decided within 75 days. The full impact occurred in 1975 when the appeals received exceeded decisions made by 40 percent, and, in 1976, when 96 percent of the decisions required more than 75 days and many substantially longer.

This situation confronted the court in *Neal.* The court found that the second level was taking between 100 and 120 days to dispose of an appeal, while in 1975 the average appeal was disposed of in 60 days. In the temporary order, the court found that "when due" under the Social Security Act, as applied to administrative appeals, meant as soon as administratively feasible, using the language of *Java.* After making this finding, the court found no need to address the

constitutional questions raised by the plaintiffs. In its temporary order, the court mandated that 80 percent of all appeals should eventually be disposed of within 60 days. Citing *White,* supra, the court was unsympathetic to claims of funding and personnel shortages. The 1979 figures, shown above, indicate that Florida has responded well to the *Neal* case. Because of the nature of the final decree in the case, *Neal* is not necessarily legal authority for future court action. See also *Wilkinson* v. *Abrahams,* Civ. 76–1932 (E.D. Pa. April 28, 1977) (unpublished).

There is no question that the courts can and will evaluate second-level appeal promptness. Further, legal aid and legal assistance groups have become concerned with administration in other second-level areas. In New York and New Jersey, court actions have been filed in these areas.

While the Federal promptness standard does not apply to second-level appeals, the Secretary's interpretation of Federal law does. See 20 C.F.R. § 650.1(d). That interpretation is specified in Section 650.3(a) of the Standard as follows:

> (a) The Secretary interprets sections 303(a)(1) and 303(a)(3) [the "fair hearing" and "when due" portions of the Social Security Act] above to require that a State law include provision for—
>
> (1) Hearing and decision for claimants who are parties to an appeal from a benefit determination to an administrative tribunal with the greatest promptness that is administratively feasible, and
>
> (2) Such methods of administration of the appeals as will reasonably assure hearing and decision with the greatest promptness that is administratively feasible.

The *Neal* case noted these provisions in its temporary order. The provisions clearly provide authority for further judicial scrutiny of second-level appeals promptness. Fear of a lawsuit, however, should not be the main factor in prompting more timely decisions. Lawsuits are filed and won because of an underlying inequity, and inequity should be the motivating reason for change.

This discussion has touched on some of the highlights in the area. While arguments against the rationale of each case cited may be made, particularly as applied at second levels, there is no denying that a judicial trend is under way and that second-level authorities must be prepared to face judicial scrutiny of their operations.

The States' Response

Although these events might have portended wide concern over the lengthy periods of time required for many second-level appeal decisions, some second-level organizations apparently have not attempted or achieved much improvement in their timeliness record. Accomplishment varied among States, but, in 1979, 14 States made more than 40 percent of their second-level appeal decisions 75 days after they were filed, with many decisions made long after 75 days. Five States required more than 75 days for over 75 percent of their decisions. In three States, less than 10 percent of the second-level appeals were decided within 75 days.

For the entire nation the following table indicates the percentage of cases disposed of within specific time periods during recent years:

Year	Decided in 30 days	Decided in 45 days	Decided in 75 days
1971	21.1	42.1	68.0
1972	20.0	40.1	64.9
1973	19.8	39.0	64.6
1974	18.2	37.4	59.6
1975	15.2	32.9	60.0
1976	15.7	27.9	53.8
1977	16.1	29.4	59.0
1978	15.9	31.4	57.4
1979	17.8	35.7	61.4

National totals conceal the comparatively good performance of some States that is offset by the performance of other States in which timeliness has never been of high priority.

Cases pending and backlog

A commonly stated reason for the adverse impact of increasing caseloads on timeliness is the naturally flowing backlog of cases that prevents a second level from promptly attending to a new appeal. This belief is symptomatic and simplistic. It is symptomatic because any existing backlog is not truly the problem but is merely evidence of the problem. Further, the belief is simplistic because the size and extent of a backlog are not only difficult to truly ascertain but extremely difficult to analyze. Any actual backlog analysis must be done on a State-by-State basis dealing with that State's many variable factors. Some general observations, however, are in order.

The fact that a State has a relatively large number of cases pending does not mean that it has a backlog. A second-level authority in absolute equilibrium with a single routine procedure for processing cases should have pending, at any given time, the number of cases it will receive during the time period necessary to decide the average appeal. Thus, if a second-level authority averages 45 days to decide an appeal and receives 200 appeals per month, it should have 300 cases pending at any given time. This allows maximum consideration and treatment for each case, yet provides immediate processing for all incoming appeals.

Unfortunately, this analysis works only in theory. Second-level authorities do not have standard process-

ing procedures for all cases. Jurisdictional issues are normally treated summarily. Difficult legal questions often have their own procedural routing, and there may be other routing procedures for the routine cases that compose the bulk of the work of second-level authorities. Further, appeal rates and disposition rates are not constant.

Although the number of cases pending will not lend itself to instant determination of the size or extent of a backlog, a large number of cases pending relative to appeal activity certainly points to a problem. Moreover, relative comparisons of cases pending over periods of time may show trends. Individual States' figures vary to such an extent that enumeration would not be helpful in relation to an overall understanding. However, national figures for recent years, as set out below, provide some insight.

Year	End-of-month average of pending cases	Single-claimant appeals filed during year
1971	9,777	53,295
1972	10,043	56,301
1973	12,053	62,212
1974	17,434	77,187
1975	21,878	102,629
1976	39,278	119,656
1977	31,176	129,627
1978	30,584	127,432
1979	31,180	135,005

The number of single claimant appeals filed annually gives perspective on the increase in the cases pending. As indicated, the normal number of cases pending at any given time will vary directly with the overall number of appeals being filed. It is not necessarily true that there will be a direct relationship between the changes, yet, during the period set out, total appeals increased by 253 percent, while the number of cases pending increased by 319 percent.

In 1979 all second levels received 135,005 appeals and issued 137,194 decisions, thereby reducing the number of cases pending nationally by 2,189. On January 1, 1980, 28,888 second-level appeals were pending in the United States. Using 1979's production rate, one determines that all second-level appeals had a monthly average disposition rate of 11,433 cases. At first glance, it might appear that the States have a built-in production lag of 2.5 months, that is, the amount of time necessary to work through the current cases pending.

If such were the case, it would be easy to conclude that a large backlog exists. As noted, however, such a conclusion must rest on many invalid assumptions. First, not all cases are processed on a first-in first-out basis. Many of the pending cases have very likely been pending for a considerable time and do not adequately reflect the average workflow. Most important is the fact that not all of those cases were filed on January 1, 1980. The cases pending are in various stages of processing, and defy any simplistic analysis. As indicated, any valid analysis would require sophisticated and detailed computerized sampling on a State-by-State basis.

Moreover, a backlog of cases to be decided, often cited as the problem facing second-level authorities, is merely a symptom of the real problem—the structure and method of operation of second-level authorities that allow backlogs to exist and increase. Solving problems in these areas will eliminate backlogs naturally. While variance in the backlog of cases among the States is marked, nationally the number of cases pending increases consistently at a rate slightly greater than the increase in overall appeals.

Structure of the review

These are the circumstances that have led to consideration of the current, slower pace of the second-level appeal authority and whether, like the decisionmaking processes at the preceding levels of UI adjudication, timeliness can be improved to be more consistent with the program purposes.

The primary considerations of this review are:

1. Is it feasible to establish a Federal standard for second-level appeals by specifically identifying time periods for disposition of appeals to be in compliance with Federal law?

2. If such a standard is feasible, what specific time requirements may be reasonably applied?

3. What particular areas within the States could be altered to increase the States' timeliness?

This report is based on a review including (1) onsite observation of second-level appeals operations in nine States including interviews with second-level authorities in these nine as well as in other States, and with the operating staff members of these organizations; (2) interviews with the appeals staff of the Unemployment Insurance Service in the DOL; (3) review of both second-level appeal decisions; and (4) historical statistical records of second-level appeals performance.

The States Surveyed

In preparing this report, on-site examination of the second-level organizational from varied from a three-Florida, Illinois, Minnesota, Missouri, New Jersey, New York, Rhode Island, Utah, and Washington. While the sample States represent a cross section by size of operation, form of organization, and geographic location, they were not selected by any sampling methods so as to achieve any statistical validity. A diverse group of

States was sought that could give insight into the overall operations of second-level systems.

The project did not allow for true statistical sampling within the various States. The information derived, except for those national figures set out in Table 1, is not purported to be statistically valid. Much of the information, including many of the figures, is subjective and not open to precise mathematical delineation. Analysis of the various State organizations is in the appendix to this report. However, general information and statistical tables are included here to provide a summary analysis of the methods used by nine diverse States to process increasing caseloads.

Caseload size in the sample States ranged from 245 single-claimant appeals in Utah in 1979 to 15,617 single-claimant appeals in New York in 1979. The second-level organizational form varied from a three-person board of review (representing labor, industry, and the people), to the head of the agency who was personally designated the second-level appellate body and had by administrative fiat established a full staff of case reviewers. Type of case review ranged from each member personally reviewing the typed transcript of each hearing before the lower level, to law clerks preparing a synopsis of the record for review by an individual member of the second-level authority. Some second levels did not provide for input from the parties at the second level, some granted formal hearings before the full second-level authority in many of the cases, and one second level granted full formal hearings only for argument and explanation in each of the cases.

Most of the States used a "form" decision in many of their cases. In some States, members of the second-level authority drafted their own opinions; in others, law clerks or staff attorneys drafted the actual opinions. In some States, certain functions were combined in first- and second-level operations, especially during peak-load periods. There were other variations as well. Whether this diversity was caused by statutory requirements, administrative rulings, or inertia, it did create a situation in which statistically valid cross comparison was not practical.

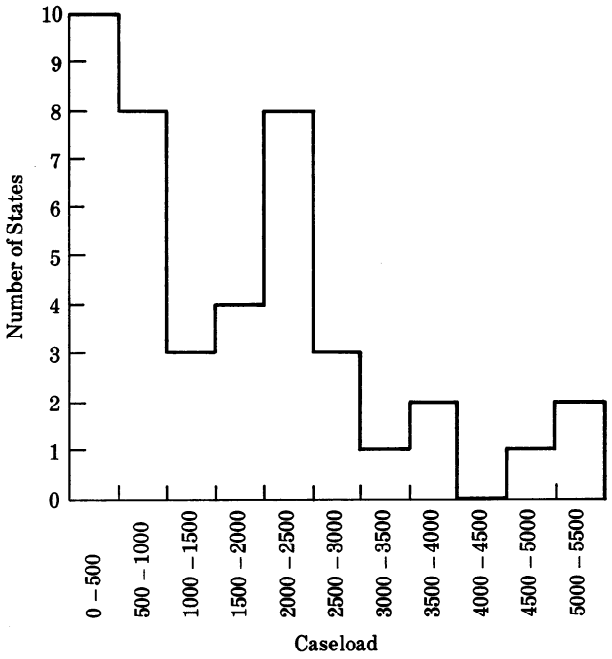
Nevertheless, workload and decision promptness can be statistically measured. Figure 2 and Tables 1 to 10 show that the systems vary greatly and as a rule are not particularly prompt in processing cases.

Consideration of a Standard

Measurement of timeliness

Before a time standard may be considered, the reasonable amount of time needed for making a higher-level

FIGURE 2. State dispersion by volume of second-level appeals filed in 1979



NOTE: Not shown are four States receiving 8,249; 12,971; 13,372; and 15,617 appeals.

TABLE 1. United States higher authority

Year	Receipts and dispositions: Appeals filed	Disposed of	Percent decided in favor of appellant	Pending at end of year	Percent decided within: 30 days	45 days	75 days
1971	53,295	50,617	14.8	10,024	21.1	42.1	68.0
1972	56,301	53,877	15.3	10,629	20.1	40.1	64.9
1973	62,212	58,207	16.2	13,314	19.8	39.0	64.6
1974	77,187	68,039	16.4	17,121	18.2	37.4	59.6
1975	102,629	89,997	15.4	25,804	15.2	32.9	60.0
1976	119,656	104,461	14.9	29,972	15.7	27.9	53.8
1977	129,627	126,957	14.3	31,173	16.1	29.4	59.0
1978	127,432	123,245	13.9	32,947	15.9	31.4	57.4
1979	135,005	137,194	—	28,888	17.8	35.7	61.4

case decision must be determined. If it were determined that the slowest State was not taking too long to decide its cases, then a time standard would not be in order.

Comparison to lower-level adjudicative forums. Comparing higher-level to lower-level adjudicative forums provides little help because these forums differ substantially in form and procedure from the higher levels. The first level is primarily an administrative trial court. It is normally composed of one referee who travels to the claimants' location, conducts a brief hearing, and quickly thereafter issues a decision. The lower level has no prior record to consolidate and prepare. It receives substantially all of the evidence upon which its decision will be based at one brief hearing. Particularly significant is the fact that only one individual is required to make the necessary findings of fact and conclusions of law in the decision. The decision is not the joint effort of several individuals who must each review the record and then agree on the result. This marked difference between the two levels does not support a conclusion that normal timeliness at the lower level should be applied automatically to the higher level.

Comparison to the court system. The higher level is not comparable to the court systems either. Trial courts uniformly have clogged dockets and processing problems. Further, the pleading stage may not be completed for several months. When an appeal is finally before the trial court, a harried trial judge is hard-pressed to find the time to review the complete record in addition to pleadings and briefs. For these reasons, which are peculiar to the courts, a trial court's decision may not be issued for many months. There is no logical reason to apply this time standard to the higher authority. The time problem becomes more pronounced at the high court level. If a State supreme court's rate of appeals processing was used to develop a standard for higher authorities, 2 or 3 years might not be considered an excessive amount of time. Timeliness should not be determined by external comparison.

Steps in processing cases. While the actual steps taken to process a case may vary greatly among States, certain steps will be uniformly taken in regard to the appeal, notice to the parties, compilation of the record, receipt of further input from the parties, analysis by the decisionmaker, and preparation and distribution of the decision.

This general breakdown excepts two other particular types of appeals. First is the appeal that raises jurisdictional questions, such as being untimely to the second level—this type of appeal is normally summarily decided and processed. Second is the appeal wherein the second level grants a formal evidentiary hearing—this type of appeal is normally lengthy, with delays due to continuances and other scheduling problems. The majority of appeals, however, fit the form outlined.

Receipt of the appeal may consume 2 to 10 days depending on the State's statute and processing procedure. If an appeal is filed when mailed by an appellant or when presented to the agency, time is consumed by the mails and the agency in forwarding the appeals to the second-level authority.

Compiling the record may vary greatly in time depending on how it is done and may overlap somewhat with other steps. The documentary information must be transmitted from the first level to the second level, and the record of the first-level hearing must be prepared. The cassette recording of the hearing is normally transcribed by either the second level, the first level, or an outside contractor. While the documentary compilation should be made in 1 day to 1 week, the time for preparation of the transcript can be reduced greatly if the cassette recording itself is used either singly or by electronically producing duplicate tapes. One to 2 weeks will be consumed by a compilation of record. Notification to parties adds no additional time requirements

TABLE 2. Florida higher authority

Year	Receipts and dispositions				Percent decided within		
	Appeals filed	Disposed of	Percent decided in favor of appellant	Pending at end of year	30 days	45 days	75 days
1971	1,116	985	7.6	221	9.5	24.6	71.2
1972	1,008	970	10.1	259	3.0	12.3	55.1
1973	1,082	1,038	9.2	304	1.0	3.7	15.4
1974	1,612	1,464	22.9	452	4.4	10.5	24.7
1975	5,041	2,993	15.9	2,499	3.2	13.2	36.5
1976	5,440	5,225	23.0	2,684	—	1.3	4.0
1977	5,020	4,970	22.4	2,982	—	4.6	21.4
1978	4,207	6,559	16.2	630	0.2	3.3	15.3
1979	3,497	3,509	—	582	4.3	37.9	66.5

TABLE 3. Illinois higher authority

Year	Receipts and dispositions				Percent decided within		
	Appeals filed	Disposed of	Percent decided in favor of appellant	Pending at end of year	30 days	45 days	75 days
1971	5,233	4,462	35.7	1,849	2.8	14.4	22.9
1972	6,159	4,985	38.3	1,953	0.7	3.7	13.1
1973	6,224	5,309	36.5	2,810	1.8	5.7	17.6
1974	9,708	8,021	38.6	2,781	0.1	0.4	6.4
1975	9,273	9,390	40.4	1,539	3.0	11.4	43.6
1976	7,492	6,806	28.9	1,114	10.7	30.4	60.2
1977	6,391	5,515	29.0	1,703	14.1	30.0	54.2
1978	9,882	6,977	33.4	3,068	10.5	20.2	33.6
1979	12,971	10,735	—	3,381	6.0	11.5	28.6

because it may be accomplished at the same time that the record is being compiled.

Further input from the parties will add another 10 days to 2 weeks to the process. Assuming that the parties are allowed to review the transcript or recording of the prior hearing before making such input, usually in the form of a letter but sometimes as a legal brief, this time period will not begin until the compilation of the record is completed. Included in this time period are necessary periods to transmit the transcript and receive any input by the parties.

When all of the information has gone before the second level, it must then go to the decisionmaker, who may be the full authority or a single member. At this stage, all of the information is reviewed, a tentative conclusion is reached, confirmation of the decision is made, and the formal decision is prepared. The decision may be made at a periodic conference by the entire second-level authority after an individual review has been made, or the decision may be made after a law clerk reviews the case, produces a synopsis of it along with a proposed decision, and the second-level authority then acts upon the synopsis and the proposal. Other systems are possible and are used, but normally they are a variation of these; 1 to 2 weeks will be consumed in this process.

After a decision has been made, it must be produced for publication and mailed to the necessary parties. This step is purely clerical and should take 2 days to 1 week.

By adding the minimum ranges in these steps, a routine appeal should be processed by the second-level authority from within 23 days to over 66 days. These time periods do not represent either an ideal or an average time frame for the processing of an appeal.

Feasibility of a standard

The time required for disposition of second-level appeals varies widely among the States. It is difficult, moreover, to separate the factors of timeliness and quality. The scope of this review was not broad enough to consider varying degrees of quality. It was assumed, however, that essential fairness of the process and timeliness were not inconsistent. Delay in disposition of appeals was the one specific factor clearly identified as raising problems in relation to the "fair hearing," "when due," and "due process" requirements. Some States, both small and large, disposed of a large percentage of their decisions in relatively short time.

Increasing workload is often advanced as the reason for delayed decisions. What is significant, however, is that 18 States did not make 60 percent of their second-level appeal decisions within 75 days although the 1973 appeals workload was less than half of the 1979 workload. Thus, in some States the delay of decisions is ingrained in the system and persists without awareness that slowness is a problem and without attention to improvement.

In general, the time taken for disposition of appeals has not changed significantly in recent years despite workload. For the most part, States with good records of timeliness in 1979 also had good records through the 1970's. Of the 14 States that did not make 69 percent of their decisions within 75 days in 1979, three had not done so for any of the previous 9 years, three had not for 7 years, and three had not for 8 of the previous 9 years. The net result is that in 1979 a record national high was set; 52,194 second-level appeals were delayed beyond 75 days.

From a historical perspective, it seems unlikely that this record will improve without specific and intensive effort. Rather than conform to one standard, it would have been more desirable for States to establish their own goals and thus achieve records of timeliness more consistent with the program's purposes. Some States have done this. Others have performed well in some periods and poorly in others. Some have consistently performed slowly. A standard for timeliness would establish a common goal for all States.

TABLE 4. Minnesota higher authority

Year	Receipts and dispositions				Percent decided within		
	Appeals filed	Disposed of	Percent decided in favor of appellant	Pending at end of year	30 days	45 days	75 days
1971	478	385	15.0	232	6.9	8.2	13.4
1972	839	789	13.5	266	0.9	1.5	8.7
1973	1,068	808	10.0	377	0.2	0.5	6.1
1974	1,018	845	10.9	526	4.5	6.3	9.9
1975	1,249	1,176	11.0	518	3.5	4.8	5.5
1976	1,440	1,224	9.8	527	1.5	5.0	13.7
1977	1,528	1,352	8.3	502	6.9	13.6	24.2
1978	2,770	1,900	6.7	811	5.2	11.5	27.0
1979	2,079	2,480	—	340	4.4	8.3	19.7

A standard would acknowledge that there is concern within the program for the problem and would perhaps forestall efforts to control the activity from outside the program. If in some States procedural, organizational, or review methods prevent timely decisions, the existence of a standard may provide the necessary inducement to effect change. For these reasons, a Federal standard should be established specifying a required level of timeliness in disposing of second-level appeals for a State law to be in compliance with the Social Security Act.

Determining an appropriate standard

Consideration of a standard for second-level appeals is complicated by the wide variation in the performance of States. A standard should be reasonably achievable by all States but sufficiently demanding to ensure adequate performance. A standard set so low as to be easily achievable by States that now make great numbers of their decisions after 75 days would not be effective. The standard should not be substantially lower than the record of timeliness being achieved by a number of States.

The statistical reporting system that has been used for a number of years measures the time performance of both first-level and second-level appeals at the same points, that is, the number of decisions issued within 30 days, 31 to 45 days, 46 to 75 days, and more than 75 days. No evidence was found to indicate that other measurement periods would be beneficial. After a standard has been in effect for some time, however, review of the statistical measures would be in order.

From a review of the time required for various elements in the processing of second-level appeals, it appears that the great majority of decisions completed within 30 days involve dismissals or decisions on such matters as jurisdiction, nonappearances, or timeliness of appeals that have not involved a previous hearing. The files can be assembled quickly, no transcript or recording is required, and the decision can usually be completed by issuance of a simple form decision.

Many cases properly appealed on the merits involve no dispute as to the facts and no real dispute as to the statutory analysis; the appellants are simply angry that they lost. Requirements for appealing to the second level differ little from those at the first level. Consistent with the purposes of the program, the process of filing an appeal is simple. There is no fee. Acceptance of the appeal does not depend on the validity of the objections stated on the appeal form or on other technical requirements. Appeals based on anger or annoyance with the decision must be considered even though the objection is to the provision of the law rather than its application. These cases deserve careful attention (although few involve technical complexities), and they do not require research or elaborately drawn opinions. Most of these cases involve review of a typed transcript or tape recording of lower-level hearings scheduled at 30-minute intervals, often with 20 minutes or less of actual hearing time. Transcripts of 30 pages or less are typical. Most of these cases may be disposed of in 30 to 45 days.

The greatest number of appeals involve cases raising true and often complex factual disputes or varying interpretations of the law. Certain time-consuming steps must be followed, and the disposal periods may range from a few weeks to a few months.

There are several types of appeals for which the time required for a decision may not be entirely within the control of the appeal authority. Some cases may require extensive review, research, and information, in addition to the UI laws, regulations, and policies that are normally within the knowledge of qualified reviewers. Such cases are not numerous, but they can require extensive time; their significance for later decisions may justify the time required for a lengthy and detailed opinion. Other cases require hearings for argument or additional facts, and additional time is involved. Also, decisions may be delayed by postponement of hearings by request of the parties. Delays for filing of briefs may

extend the time required for decisions. Interstate appeals may involve procedures in separate locations. Appeals of these types should be resolved as promptly as possible, but it is logical to exclude them from the precise measure of a standard.

From this review, it appears that all States have these drawn-out types of appeals, but some types appear consistently in one State in greater numbers than in others. Rather than attempt to identify and count each kind of case that might be excluded from a standard, it is recommended that a single percentage broad enough to cover all such cases be excluded from the standard. Most appeal authorities interviewed during the review estimated that approximately 20 percent of the second-level appeals fall into these more-time-consuming categories, and samples of completed appeal files appear to bear out this estimate.

It is recommended that a timeliness standard be applied to the other 80 percent of the second-level appeals. At the top point, it is recommended that the standard require that 80 percent of the appeals be decided in 75 days or less. The statistics indicate that States that make substantial numbers of decisions within 75 days also make a relatively high number within 45 days. Success at one level appears to correlate with success at others. Overall effectiveness, however, depends on an awareness of the importance of time at each processing stage, beginning with the filing of the appeal. The fixing of the standard at the middle range as well as at the top would emphasize the need to perform each step of the processing in the quickest possible time.

It is recommended, therefore, that, in addition to requiring that 80 percent of the second-level appeal decisions be made in 75 days or less, the standard should require that 40 percent of the decisions be made in 45 days or less. This takes into consideration the fact that many second-level appeals include jurisdictional issues requiring no review of a hearing transcript and that many others can be quickly screened from the regular flow of decisions, reviewed, and decided fairly and quickly within well-established precedents. These cases ordinarily can be released as form decisions and should be disposed of easily within 30 days. They provide a State with a substantial portion of the cases that would have to be disposed of within the 45-day period.

In 1979, 17 States made more than 40 percent of their decisions within 45 days, and an additional 12 States fell short by less than 10 percent; States that would require the most substantial effort to meet any effective standard made less than 20 percent of their decisions within 45 days.

At the higher level of the recommended standard, 14 States in 1979 disposed of 80 percent or more of their decisions within 75 days. An additional 16 States fell less than 20 percent short of this goal. Nine States that would require substantial change to meet the standard made fewer than one-third of their decisions within 75 days. Ten States in 1979 would have met both requirements of the recommended standard.

These figures suggest that the proposed standard is reasonable. Adjustment would be required in a majority of the States, although closer attention to the details of present operations may be all that is needed to meet the requirement. The standard would have little effect on one-fifth of the States that are performing well at present and would have the most severe impact on the one-fifth of the States that have been least attentive to timeliness. For States in this lower one-fifth, substantive changes may be required, in some instances even involving legislation.

If a standard will be adopted, it is recommended that it be preceded by a request for proposals from the States for meeting the standard. When legislation, or other changes requiring time, can be established as the only method by which the standard can be met, exceptions from the standard should be made to allow reasonable time for the needed changes.

In some States, backlogs of appeals occur even though workloads have not increased more than the anticipated amount. These backlogs cause delays that

TABLE 5. Missouri higher authority

Year	Receipts and dispositions				Percent decided within		
	Appeals filed	Disposed of	Percent decided in favor of appellant	Pending at end of year	30 days	45 days	75 days
1971	1,579	1,324	5.4	405	4.1	14.7	40.7
1972	1,345	1,075	4.3	279	11.8	36.9	70.9
1973	1,114	1,107	5.4	166	5.3	21.1	59.0
1974	5,132	1,186	2.3	430	6.6	16.1	38.2
1975	3,840	1,872	2.9	970	1.8	12.4	26.3
1976	3,762	2,561	2.0	955	1.2	11.4	35.7
1977	3,455	2,299	4.3	1,439	4.5	10.8	67.2
1978	2,816	2,727	5.1	615	1.8	12.3	66.5
1979	3,378	2,680	—	758	7.2	29.9	35.4

should have been avoidable and are the principal cause of the need for a standard. From time to time, however, sudden unexpected increases occur. It may be difficult to recruit staff quickly because of the professional or experience qualifications required for review of the second-level appeals. It would appear appropriate to acknowledge that a special circumstance exists if the number of second-level appeals filed in a State has exceeded the number filed in the previous year by more than 25 percent. States in this position at the end of the year in which the increase occurred would be considered in compliance if a plan of action were submitted to and approved by the DOL.

Summary of recommended standard. In summary, the recommended standard states:

- 40 percent of all cases are to be decided within 45 days.
- 80 percent of all cases are to be decided within 75 days.
- Annual retroactive exemption takes effect when caseload has increased by 25 percent or more and a plan of action is submitted.

This proposed standard has not been derived by comparison to entities outside the second-level system. Because of the great diversity among the States, statistical analysis does not yield precise measures. The States' procedures are not even internally uniform. Further, while the bulk of cases fit the routine model described, many do not. Some allow rapid disposition, whereas more time is necessary for others. Certain cases are exempted in recognition of their inherently time-consuming nature, and allowance is made for periods of inordinate caseload increase. The standard is flexible yet demanding. Historical performance indicates that the standard should not be so loose as to allow effortless compliance by the States nor so strict that it would place an unreasonable and impossible burden upon them.

Considerations for Timely Decisions

The stated purpose of this report would be complete when a time standard is determined necessary at the second level and when such a standard is suggested, but to stop there would leave the report unfinished. Any analysis that finds a deficiency in an area and recommends guidelines to limit the problem should also provide functional suggestions to correct the problem.

Because of the varying makeups and procedures of the second-level authorities, a uniform analysis is not possible. Moreover, it is believed that the States have the clear right to establish their own procedures and organizational structures. For this reason, no attempt will be made to establish a "model" second-level authority for each State to adopt.

Some general recommendations follow pertaining to particular procedures used in some States, and to other procedures uniform throughout the States that could stand some improvement. Specific innovative suggestions are made for various areas that could be applicable to most second-level authorities.

Functions of the second level

Before a second level may be analyzed, it is necessary to reduce it to its component parts. Three functions must be accomplished within each second level regardless of its size or format. The first is the administrative function, entailing such activities as personnel and workload management. Workload management may consist of monitoring the workflow within the office and screening cases to determine proper channels for handling. The second primary function is the performance of clerical duties. This includes docketing incoming cases, preparing and processing notices, handling incoming information from parties, preparing transcripts, and preparing and mailing decisions. The third and most important function is that of the actual deci-

TABLE 6. New Jersey higher authority

Year	Receipts and dispositions				Percent decided within		
	Appeals filed	Disposed of	Percent decided in favor of appellant	Pending at end of year	30 days	45 days	75 days
1971	1,116	985	15.6	441	12.0	59.4	84.7
1972	1,008	970	13.8	731	13.7	52.3	83.4
1973	1,082	1,038	8.8	401	14.0	32.6	69.1
1974	1,612	1,464	6.1	879	23.3	59.4	88.5
1975	5,041	2,993	4.8	402	21.4	40.9	78.0
1976	5,440	5,255	5.8	461	9.5	29.3	76.0
1977	5,020	4,970	5.5	387	9.8	36.5	45.5
1978	4,207	5,669	9.3	490	28.4	51.2	41.2
1979	5,390	5,680	—	441	36.8	60.0	79.4

TABLE 7. New York higher authority

Year	Receipts and dispositions				Percent decided within		
	Appeals filed	Disposed of	Percent decided in favor of appellant	Pending at end of year	30 days	45 days	75 days
1971	7,500	7,332	5.4	1,083	12.3	37.3	76.8
1972	8,863	8,566	8.7	1,266	15.3	40.1	70.4
1973	9,999	9,557	6.9	1,596	15.4	43.0	72.3
1974	11,884	11,560	9.6	1,842	19.3	51.8	78.1
1975	14,775	13,954	7.4	2,572	11.6	42.4	74.9
1976	16,998	15,836	11.4	3,616	3.8	15.6	58.4
1977	19,926	20,247	15.6	3,187	3.3	19.4	72.1
1978	17,670	16,889	10.6	3,891	4.3	29.3	68.0
1979	15,617	16,762	—	2,557	5.9	25.4	61.2

sionmaking. To perform this function the record must be reviewed and a decision prepared.

While the three functions may be separate in theory, they are seldom so in fact. A second level with a relatively light caseload will probably have the administrative screening function completed by the members themselves. The remaining administrative function will most likely be combined with the clerical function, and those duties will be performed by one or two individuals. An extremely large second-level authority may well have some of these functions combined in certain individuals and separate in others. While it is not thought to be necessary that each second-level employee be capable of being categorized, it is necessary to be able to determine who performs the various functions.

After analyzing itself, the second-level authority might determine that the administrative function not be centralized but variously performed by members of the clerical staff. Such a realization would allow the second-level authority to determine the need for a specialized administrative officer. This would be affected by factors such as the size of the workload and the amount of a decisionmaker's time spent making decisions.

Such a hypothetical consideration is a classic example of management analysis. It is this type of analysis that second levels will have to undertake in order to improve their timely disposition of cases. A thorough understanding of the administrative adjudicative process is necessary to make a managerial analysis, and without such knowledge, management consultants could be counterproductive. The principles used, however, are valid and necessary even if technical labels such as "linear analysis" are not used.

With or without outside influence, second-level authorities are changing. The changes have been dictated by the phenomenal increase in caseload. To accommodate the extra work, the tendency is to retain as much as possible, making changes only in specific problem areas. Overall reevaluation here is not equated with change. Perhaps evaluation would be a more proper term, particularly for second levels that have been too busy trying to get yesterday's work done today to be able to make an in-depth evaluation of themselves.

An overall evaluation of the three basic functions will allow a second-level administrator to determine if any structural changes are needed. A second level that has never made an analysis of administrative function might find, for instance, that several small and isolated problems of a bottleneck in workload could best be solved by centralizing administrative authority instead of adding a clerk or changing a form. On the other hand, after making such an analysis, the second level might find that a historical bottleneck was the result of too many functions being combined at one location. Such a problem might be resolved by relieving an individual of clerical duties that prevent accomplishment of necessary administrative duties. Beyond solving problems, such an analysis might allow a second level to see areas that could be greatly streamlined with minor changes.

This general approach allows the second level to rationally plan how it will accommodate what seems to be an ever-increasing caseload. As noted, evaluation does not mean change. A second level may find that its current structure meets its demands and is flexible enough to accommodate reasonable foreseeable increases. Such a second level would still have benefited by the knowledge that its structure is sound and would also have been able to designate future problems so it could make contingency plans.

Most second-level authorities that have not previously made general functional evaluations would probably benefit from making them in order to effect some necessary improvement. Such improvements need not entail any major structural or procedural change. Minor task reassignments and the addition of some support staff might streamline the system and result in great time savings. On the other hand, second-level administrators might look at the evaluation and determine that major changes are needed, such as the addition of legal

TABLE 8. Rhode Island higher authority

Year	Receipts and dispositions				Percent decided within		
	Appeals filed	Disposed of	Percent decided in favor of appellant	Pending at end of year	30 days	45 days	75 days
1971	258	266	26.6	24	21.0	49.8	96.3
1972	356	337	22.1	43	7.1	33.6	97.4
1973	232	241	28.4	28	8.1	41.9	76.0
1974	313	276	20.7	34	6.0	34.9	61.7
1975	503	466	16.1	108	3.1	19.2	71.0
1976	520	457	14.3	171	0.7	7.2	78.3
1977	609	592	15.3	188	2.3	14.6	76.5
1978	631	505	15.7	314	0.8	17.5	8.4
1979	502	681	—	225	0.9	18.5	85.5

assistants to help the members review cases, or the elimination of lengthy trips by the second-level authority for evidentiary hearings. Regardless of any changes a second-level administrator might make, a general analysis will provide an overview of the authority's functions, rather than simply solve problems when they become critical.

Management

The skills of management are as important as the skills of adjudication in handling present-day workloads. Yet, management capability has fallen behind adjudicatory capability in a number of States. When heavy appeal loads occur, efficient and timely disposition requires the best use of managerial skills as well as the best adjudicatory skills.

Each second-level authority should have access to the services of a thoroughly knowledgeable management expert who understands budgeting, the cost model, personnel management, statistical reporting, and who can analyze statistics for improved management. In large States an individual with these capabilities could be a staff member of the appeal authority. In smaller States, cooperative arrangements could permit the part-time use of management analysis staff from the UI agency.

The reason expressed most commonly by appeal staffs for a backlog in second-level decisions is backlog of appeals. Sudden increases that are unpredictable will understandably cause backlogs. For the past 7 years, however (except in 1975 when a 23.5 percent increase occurred and in 1978 when a 1.3 percent decrease occurred), the rate of increase has been fairly constant —approximately 12 percent. For predictable increases, good analysis and good management can prevent backlogs.

Second-level authorities are often confused by the budget process. Management-oriented staff assistance should help alleviate misunderstandings. Part of the confusion derives from the cost model practice of combining all time spent on all appeals activity into a single MPU (minutes of time spent per unit, or appeal). The national office should consider issuing a specific information release that explains how the necessary details for the second-level authority can be extracted.

In this area, second-level authorities complained that contingency financing (which provides funds for workload increases beyond the level approved in the budget) provided additional resources only after the additional workload had been completed. The second level of appeals is in an especially good position to predict and staff for contingency workload before it occurs. First-level-appeal workloads are an accurate gauge for predicting second-level workloads. The percent of second-level appeals to first-level appeals tends to remain constant, regardless of the increase or decrease in appeals. The national percentage of first-level decisions that have been appealed to the second level in recent years follows (in percent):

1971	15.4	*1974*	16.4	*1977*	17.4
1972	15.2	*1975*	15.9	*1978*	16.9
1973	15.3	*1976*	16.2	*1979*	17.6

Because the second-level increase starts some time after the first-level increase, individual State analyses may predict second-level increases so that necessary recruiting can begin in advance. Management specialists may be able to develop specific models citing the number of claims filed as a way to predict second-level needs with accuracy.

Communication. Communication between the second-level appeal authorities and the UI agency should be improved. In some cases, small policy disagreements are being perpetuated by the continued issuance of conflicting decisions. It is unfair to use the claimants as foils for such disagreements, and the process is costly and time consuming. Conference and consultation be-

tween the second-level authorities and the agency are not inconsistent with the independent nature of the appeal authority and would be advantageous to both.

Communications between the second-level authorities in different States and the national office should be improved. In the past, few opportunities have been provided for exchange of information. As this report is being developed, one regional meeting has been held, and the national office has developed plans for other meetings. This trend is recommended and encouraged.

There is another related communication problem. By policy, all communications from the national office to a State are to the head of the State agency for distribution to the concerned divisions or sections. Because the second-level appeals body is independent, communications specifically referring to its function are forwarded to it, but other matters that may be useful, such as in management areas, are not communicated. The appeals authority would be burdened by receipt of all releases. The person responsible for management functions could help materially by selecting for the appeals authorities those releases that affect them.

Management and appeals specialists who have not worked closely together will need to develop a mutual understanding. Some second-level authorities mistake tradition for requirement and resist change by contending that it is not permitted. Workload is often described by appeals specialists in terms of the most difficult cases, matters requiring extensive research of laws and areas uncommon in UI. Such cases are in the minority. A majority of the cases can be resolved by UI law and interpretation familiar to experienced reviewers.

Management specialists, on the other hand, are often inclined to view the appeal process as only a slight modification of the informal local office decision process from which the appeal originated. This is a misconception. The appeals system must be competent to handle the most difficult concepts that arise, and the reviewer for every case must be capable of identifying and evaluating evidentiary facts, applying law and policy, and identifying any aspect of the previous proceedings that failed to meet the requirements of due process, no matter how simple the issue. Improvement of the appeal functions will require understanding and candor on the part of both management and appeals specialists.

Activities Not Related to the Appeal Decision Process

Any management analysis of timeliness must be directed also to efficient staff use. When second-level authorities consider only the case decision process, they ignore other areas mandated outside this framework. The items considered are not common to all States, and others not considered may exist in some States.

Nonunemployment programs

Most second-level authorities are required to consider appeals from the Work Incentive Program system. Some second-level authorities have other appellate duties in areas such as disability compensation programs. The caseload and time requirements for such programs must be considered when analyzing the second-level authority in relation to timeliness. Proper staffing and funding must be provided to accommodate the demands from these other programs. To ignore them in a management analysis is to allow unplanned burdens and strains on the overall second-level system.

Precedent reporting

While no uniformity exists, many second levels spend time compiling, indexing, and reporting those decisions that set precedents. Streamlining this area, where possible, could free staff time so it could be applied to the case-deciding process.

TABLE 9. Utah higher authority

Year	Receipts and dispositions				Percent decided within		
	Appeals filed	Disposed of	Percent decided in favor of appellant	Pending at end of year	30 days	45 days	75 days
1971	54	52	28.3	8	20.8	64.2	96.3
1972	118	117	27.4	9	8.5	38.4	97.4
1973	81	72	21.6	18	4.1	15.0	76.0
1974	121	120	20.0	19	8.3	17.5	61.7
1975	149	159	13.0	19	4.8	11.6	71.0
1976	191	155	10.3	55	2.6	12.9	78.3
1977	274	298	11.8	31	9.1	18.8	75.5
1978	216	220	13.6	27	16.4	61.9	97.8
1979	245	206	—	66	9.7	33.4	90.4

Court appeals

When a second-level decision is further appealed to the court system, a certain amount of time is consumed by the second-level staff on the appeal. Minimum requirements include preparing and transmitting the "record" to the court. Some second-level authorities, however, go beyond this and become actively engaged in the litigation. Analysis of this function should be a part of the second-level management analysis previously outlined.

The Mechanics of Decisionmaking

The review did not show that clerical processing of appeals caused a significant delay of appeals decisions, except for the typing of transcripts of the first-level hearing. If a timeliness standard were established, however, it would be increasingly important that each processing step, even those presently requiring only a few days, be done as quickly as possible.

Clerical operations tended to be more similar among the States than the procedures for reviewing, deciding, and writing appeal decisions. No single system of clerical processing or decisionmaking procedure seemed to be the sole solution to the problem of timeliness. The following comments, therefore, are derived from observation of various processes in different States. For States that anticipate difficulty in meeting standards of timeliness using their present system, these comments may be useful.

Filing of appeals

The filing of appeals often occurs outside the immediate jurisdiction of appeal authorities, most commonly in local offices of UI agencies. The offices at which appeals are filed can assist the higher appeal authorities by their explanation of the decision being appealed and by prompt forwarding of the appeal documents. Traditionally, second-level appeal authorities have been somewhat isolated from the other activities of the UI agencies. They should seek to establish better communication because a cooperative effort may help materially to speed appeals decisions.

Appeals should be forwarded from the local office the same day they are filed. If appeals documents are being delayed by more than a day in transit, a courier or other priority delivery service for transmitting appeals should be considered, especially from larger-volume offices.

Telephone notice from the local office to the second-level authority that an appeal has been filed would permit preliminary processing while the appeal documents are in transit. This would be especially useful in States where processing cannot begin until specified time has expired for the notice of appeal inquiries about desire to be heard or desire to submit written argument or briefs. Notice sent on receipt of the telephone call would start this period prior to receipt of the appeal form while the files are being accumulated.

Explaining decisions and appeal processes to would-be appellants by local offices is a delicate task because explanation should never be designed to obstruct or discourage appeals. If, however, skillful explanations reduce the number of appeals with no chance of success, such as objection to the law rather than to its application or to the facts in a decision, both the appellant and the appeal authority have benefited. Local offices may be hesitant to discuss second-level appeal processes at all because of the independent nature of the authority. Second-level authorities should work cooperatively with the agency to develop materials or guides, or perhaps printed explanations of the decision process that would assist applicants.

The factors in some States leading to high ratios of second-level appeals to first-level decisions may merit study. The reason for substantial difference among States is not immediately evident. Ratios range from 12 percent to 22 percent. Likelihood of success does not

TABLE 10. Washington State higher authority

Year	Receipts and dispositions				Percent decided within		
	Appeals filed	Disposed of	Percent decided in favor of appellant	Pending at end of year	30 days	45 days	75 days
1971	814	688	8.9	163	36.4	61.8	89.3
1972	1,106	946	5.6	320	15.8	16.3	38.9
1973	1,169	1,286	9.2	142	16.7	18.4	52.7
1974	1,433	1,403	7.3	172	27.0	31.4	68.8
1975	1,543	1,175	8.1	540	19.0	24.5	33.6
1976	1,967	2,008	14.2	499	4.5	9.5	16.9
1977	2,104	2,170	12.8	437	7.8	17.9	30.4
1978	2,174	2,156	18.2	455	6.6	15.3	45.5
1979	2,588	2,637	—	407	11.5	32.5	55.8

appear to be a controlling factor. Among the States that make relatively higher percentages of decisions in favor of appellants, some have high and some have low ratios of second-level appeals to first-level decisions. The national ratio in 1979 was 12.8 percent.

Preparation of appeal files for review

A number of effective multipurpose forms are currently used. In these, a single typing of information provides such items as notices, review sheets, transmittals for decisions, requests for records, and related documents.

Before appeal files are delayed for the request of incidental information, documents from local or central UI offices or from the lower appeal authority, files should be reviewed by someone capable of determining whether they are essential to the second-level review.

Docket, locator, or other cards should be used as a tickler system, not only to control the location of appeal files but to call attention to appeals at various intervals in their processing to ensure that they are in process and on schedule.

A listing of the principal activities in the processing of claims with spaces for recording when they are completed is useful not only for emphasizing the importance of time but as a management tool for determining where problems in timely processing have developed. This listing should be prominently placed in the front of the folder, or printed or stamped on the front of the folder or jacket containing the appeal file. The list may contain such items, depending on local procedures, as appeal filed, appeal received, transcript ordered, transcript received, transcript assigned to reviewer, reviewer completed summary or draft decision, or decision approved, decision typed, decision duplicated, and decision mailed. Only the principal processing items should be included. When the listing is too detailed, the entry of minor items becomes neglected and invites omission of completion dates of major processes.

Prominent display on the front of the appeal folder or jacket of the date on which the decision becomes delinquent assists in achieving goals. If a Federal standard is adopted, States should consider noting the expiration dates of acceptable time limits in this manner.

Transcripts and recordings of first-level appeal hearings

The record of the first-level appeal hearing is, in most cases, the single most important item reviewed by the second-level appeal authority in arriving at a decision. Some States obtain typed transcripts for all second-level appeals that have been preceded by a first-level appeal hearing. In other States, all appeals at the second level are reviewed by listening to electronic recordings, usually cassette tapes, of the first-level appeal hearing. Typed transcripts are used for some reviews and cassette tapes for others.

Without doubt, the taped recording is more quickly available for review than the typed transcript. Some typed transcripts in the States reviewed were available in a week. The majority required much longer, some over a month. When typed transcripts are essential for review, it should also be considered essential that they be available in an average of 1 week from the date requested and no longer than 10 days. Transcripts are sometimes produced by the section responsible for first-level appeals. Second-level authorities should not be oblivious when a delay is occurring outside their jurisdiction. First-level authorities should not consider production of transcripts a low-priority activity. Existence of a standard would make the promptness of second-level appeals the concern of everyone. If the system is not producing transcripts promptly, consideration should be given to a change in methods.

A typed transcript in every case is justified primarily when duplicate files are prepared for the simultaneous review of several people. When a single review is prepared and passed from one reviewer to another, tape recordings are efficient and timesaving. States using tape recordings for review of second-level hearings generally stated that this method takes no more time than transcripts. States that never use tape recordings defended the exclusive use of typed transcripts primarily because they save reviewer time.

Review of the electronic recording of a hearing may be just as effective as review of a typed transcript. This may be particularly true for an attorney who has entered the case at the second level. Voice intonations and the manner of presentation may reveal much more that just the typed transcript. In any event, the same basic data are supplied.

Upon receipt of an appeal, the second level could duplicate the recording of first-level hearing onto a separate cassette tape that would then be promptly sent to the local office nearest the parties. The notice to the parties of the receipt of the appeal could indicate that the tape is available for review in the local agency office at the parties' pleasure, but any written response must be received by the second level by a stated date. After that date, the case would be ready for review unless a further hearing was contemplated. Such a system would allow time periods to run concurrently as opposed to consecutively. The time required to type a transcript would be eliminated because the tapes may be duplicated on current machinery in an extremely short time. Instead of notifying the parties that a transcript might be available if requested or would be available when completed, and the parties having to wait for another response period after the request for, completion of, and mailing of the transcript, the single time period would begin to run from the notification of receipt of appeal.

Some States with good records for timely disposition use typed transcripts exclusively. In other States, typing of transcripts is a major cause of delay. States whose poor record of timeliness is caused, at least in part, by the delay of typed transcripts should explore the use of tape recordings. The national office should seek assistance from States using tape recordings extensively to develop materials and suggestions for their use. Such materials should describe the equipment needed, the technique of review, and methods of identifying specific portions of the taped materials for subsequent reviewers. Other information that should be included are details on how recordings are made available for review by the parties, the feasibility of copying tapes where there is simultaneous examination of an appeal, and some of the more advanced audio services that are available.

When typed transcripts are used exclusively, availability of standby contract services should be considered for occasions when backlogs or other problems prevent timely production of typed transcripts.

Formal hearings before the second level

Clearly, one of the most time-consuming steps in the appeal process is the formal hearing before the second-level authority. Logistics alone, such as unavoidable continuances, may consume relatively large time periods.

Some States grant formal hearings for the further presentation of evidence in every case, some only in a few, some in none, and some grant formal hearings for oral argument by the parties. While a consideration of the merits of formal hearings is not a proper subject for this report, a State having difficulty meeting a time standard should review any hearing procedures to determine whether needless delay is occurring.

Assignment of appeals for review

Reliance upon review of appeals by assistants prior to the decision by the group or the individual designated to make the second-level decision has become the only way many States have been able to cope with a high volume of appeals. Lower-level appeal authorities can add hearing officers as workload increases. The number of second-level authority members in a State is fixed by law and cannot be expanded, although a few States that provide for delegatable second-level review by the head of the agency function much like the lower level authorities. For a workload of 3,000 appeals, members or the individual constituting the decisionmaking authority would be responsible for 50 or 60 decisions per week. Twenty-five States have workloads in excess of 3,000. The importance of the review staff is evident and its efficient use can have a significant effect on timely disposition.

Appeals should be prescreened by someone capable of identifying the types of issues involved and estimating the likely degree of complexity. This permits best staff use so that beginning reviewers can be introduced to new types of cases and new issues when the pressures of workload are least demanding. It also permits the best use of specialized expertise of staff members.

Decisions may be delayed by reviewers when cases are put aside because they are dull or difficult, and other cases selected for review. This problem has been curtailed in some States where, instead of assigning groups of cases, reviewers are assigned one case at a time from a pool, so that the reviewer works on one case until its completion before accepting another.

Quotas are distasteful and of limited use in controlling professional-level work such as appeal review. Some appeal authorities, however, have created the equivalent of a reverse quota by limiting the maximum number of cases per day that may be assigned to a reviewer. This is inconsistent with the varying levels of attention required by different cases. In some States, the number of cases is limited to weekly assignments to reviewers of substantially fewer than one-half the number of cases assigned to the referees who conducted the hearings and wrote the decisions being reviewed. Varying assignments to reviewers, recognizing the varying demands of cases, would appear more productive.

Electronic docket control and decision production

While some second-level authorities use various forms of memory typewriters for decision production, there appears to be a marked reticence on the part of second-level authorities to adopt and expand their use. Further, few second levels, if any, use computerized docket control. These items are combined in this section because the systems may be integrated and used together; however, either may be used alone.

Two basic types of memory typewriters are available, although the technology is changing so rapidly as to defy specific categorization. The first is the simple memory typewriter. The machine has limited storage capacity, but allows for correction and automatic reproduction of documents. Further, certain material may be retained "in memory." This repetitive material may be recalled when necessary and included in nonstandard material or used in a "form." The other type of machine is more sophisticated and is designated in the industry as a word-processing system. Such a machine will perform all the functions of a memory typewriter but has additional features. The memory information may be permanently stored on removable cassettes or "floppy disks." The machines also feature electronic screens that display a portion of the recorded material, varying in amount from several lines to several pages, depending on the manufacturer. They allow for rapid alteration of typed materials and rapid retrieval from

a much larger memory bank of varying items because of their greater capacity and flexibility. The word-processing machine is much more expensive than the limited memory typewriter.

The value of these machines in the production of decisions may be great. Even if each decision is entirely prepared from scratch at the second level, the machine allows the typists to prepare a final clean copy in a much shorter period than with a regular typewriter. However, when a decision conforms exactly in whole or in part with previous decisions, the word processing is particularly valuable. An example is a decision wherein the appeal is dismissed because it was not filed within the legal time limit. Aside from the style of the case, the only information that normally varies is the dates and the issue of the attempted appeal. If the decision is standardized and in the machine's memory, the decisionmaker may list the information that would go into the blanks in the form. The typist then types that information in the sequence in which it will appear, placing a "switch code" after each item. The form in the machine's memory has a "switch code" preceding each of the blanks. After typing the variables, the operator merely starts the machine that begins with the form in memory until it reaches a switch code, switches to the first variable piece of information, switches back to the form, and continues on to the next switch code and so on until the final decision is finished. The process requires no operator control once the program is begun. By typing two lines and hitting a button, the operator has produced a "form," yet personalized, decision. Further, the word-processing systems have high speed printers that can produce copy at a rapid rate. In addition to producing "form" decisions, the machines also work well for partially standardized decisions. Because of the virtually unlimited memory capacity, the second level could use standard paragraphs for such things as definitions of misconduct and the ramifications of continued unreported absences.

In addition to decision production, these machines are also valuable in the production of notices and transmittal letters and sometimes are more efficient than printed forms. Further, the machines allow quicker production of hearings transcripts from the first appeal level.

With the growing tendency to use more "form" opinions, and more standardized opinions, word-processing capabilities are of extreme value to second-level authorities by allowing more rapid production of the final product. While the machines are expensive, advertisers claim that one word-processing operator can produce more than two typists. Although clerical staffs in normal offices would be concerned about this feature, the ever-expanding second-level workload should prevent the necessity for layoffs if word-processing use is instituted.

Most second-level authorities use manually prepared cards and forms to carry out the docket control function. On the most sophisticated of these forms, a multicarbon set, the raw data are placed by carbon at the same location on each copy. However, each copy is not a true copy but may consist of a totally separate form. Therefore, one typing will produce a docket control card, notice to claimant, notice to employer, and other file memoranda. Even this sophisticated system requires manual filing and subsequent retrieval for update.

An electronic alternative to this and similar systems is provided by current computer systems. The system consists of one or more terminals, the computer unit itself, and one or more output printers. The number of the variable units may be altered to meet the needs of a particular second-level authority, and the entire system may be integrated with a word-processing system sharing some common terminals and printers.

An incoming case is manually fed into the system at an input terminal with a visual read-out screen. The information from a case may always be retrieved by simply calling up the required information to one of the terminal screens. Updated information is put into the system at various stages in the case processing.

The system provides uniform recordkeeping. It also allows for instant analysis of any case at any time. Thus, the work of several clerks may be eliminated to free these individuals to perform other necessary duties.

At the management level, however, a second level may truly benefit from such a system. By preprepared programs, critical lists of cases may be shown and reviewed automatically each day. As an example, at the beginning of each day the machine would produce automatically a list of all the cases for which a brief or other response by a party was due. Instead of tagging files under a manual system or making no such check at all, the continued processing of a case could thereby be expedited. While an analysis, such as the one given, could be performed by a manual tickler system, any manual system becomes overburdened when this step is multiplied by many critical dates. The computerized system provides great flexibility and ease of operation in the day-to-day work.

Moreover, in the area of management analysis, such a system truly comes into its own. Once the data are in the computer, they may be retrieved in any form or order chosen. The work may be broken down by a chronological designation such as month, quarter, or year. It also may be broken down by issues such as timeliness of appeal or work separation or by type of appellant. Within any or all of these designations, information, such as the time to proceed through various stages of case processing, may be retrieved.

The potential forms of data retrieval are unlimited. Useful examples for management analysis would be a review of the time necessary in all cases to mail the decision once the decisionmaker has submitted it for production and processing. Another might be the average span between notification of receipt of appeal and receipt of final input material from the parties in an employer appeal. Such evaluation might show whether there was a bottleneck in the typing and mailing of decisions and whether too many extensions of time were being given employers in order to allow them to submit written briefs.

While such a system of electronic control and word processing equipment might be thought to have value only to second-level authorities with extremely large caseloads, this is not the case. The systems available are declining in cost and sophistication almost daily. While cost efficiency might be a critical factor to a second-level authority with fewer than 1,000 cases a year, even such a second-level authority system might be able to achieve manpower savings with such a system that would offset costs. Further, normal analysis deals primarily with manual operations time savings and can in no way measure the management potential of such equipment. It is here that cost is difficult to assess. If such a system would eventually allow each case to be processed in 10 fewer days, what would be its worth then? This is clearly a factor that must be considered when evaluating the benefits of such a system. Any second level that processes more than 1,000 cases a year should seriously consider such a system, and second-level authorities with lighter caseloads should not dismiss the possibility without full consideration.

The role of the second-level appeal authority

In the sequence of this report, the next subject would logically be decisionmaking. Currently, the method of decisionmaking is inseparable from what constitutes the primary role of the second-level appeal authority.

The increase of workloads has already forced many second-level appeal authorities to abandon or delegate responsibilities and tasks they had previously performed. With increasing workloads appearing to be inevitable, decisions recognizing the principal role will be necessary so that in abandoning or delegating tasks the authorities will be able to preserve for personal attention the tasks with highest priority.

A review of the historical development of the activity indicates the growth that has already forced change in the structure of second-level appeal authorities and in the procedures for decisionmaking. An excerpt from activity reports on second-level appeals pending made by States to the Social Security Board in the early years of the UI program gives some perspective on the change that has occurred:

State	March 31, 1941	December 31, 1979
Florida	7	582
Illinois	92	3,381
Minnesota	3	340
Missouri	154	758
New Jersey	123	441
New York	405	2,557
Rhode Island	0	225
Utah	1	66
Washington	8	407
United States	2,577	32,947

The figures make it clear that workload management was not a major concern of the second-level appeal organizations when they were first created. The precisely intended role of the original second-level appeal organizations is subject only to speculation.

As previously noted, the first-level appeal is mandated by the Social Security Act, but a second-level appeal is not required. However, the Social Security Commission has published draft bills and draft regulations to assist States in developing State UI legislation and regulations that provided for two appeal levels.

At the first appeals level, provisions were made for tribunals or hearing officers to conduct hearings and make decisions. Laws did not limit the number of hearing officers a State might have, and they did not specify the kind of background or experience these individuals must have. State law provisions for second-level authorities were not precise about their required duties and often made optional their choice of action in dealing with individual cases. In some States, the second-level authority was vested in individuals or commissions who were responsible for overall policy for the State's UI program and operations. In other States, an independent group was created, but with specifications that the background of appointed members would qualify separate members to represent the interests of the public, employers, and employees.

The most logical conclusion from this origin is that the principal reason for the existence of the second-level authority was its role in developing policy and precedent for applying the eligibility and disqualifying provisions of the State UI laws. This assumption is further supported by the fact that many State laws provided for direct referral of cases to the second-level authority, or for the second level to take over a case on its own motion even if the parties did not appeal.

The number of cases before second-level authorities in the first years of operation permitted personal consideration by the members of the second-level authority of all cases on appeal and allowed time for deliberative consideration and executive session discussion on all necessary cases.

Thus, the second-level role may be fairly divided into two categories. The first category is to provide

appellate reviews on a case-by-case basis in order to ensure a proper decision in the case. However, in performing this role the second level will often also fulfill its second, and primary, role. Certain cases go beyond the routine and raise general questions on a novel interpretation of the law, or application of a particular fact to an interpretation of the law, or application of a peculiar situation to established law. By analyzing these cases, the second level goes beyond the simple case decision into the realm of setting precedent. By fulfilling this role, the second level truly acts as an administrative supreme court in relation to its limited area of responsibility.

Each decision reached by the second level is an act required by the first role of providing case-by-case review. However, not all of the cases will present a novel question. There is no way for the second level to avoid its first role; the cases are there and simply must be decided. The problem that might arise is in relation to the second role. When the caseload increases to a level where the second authority is strained even to decide all of the cases, much less in a timely manner, the second-level authority may well have trouble reserving enough of its time to thoroughly analyze the novel case so as to establish precedent and guidance for the agency. Failure to do this is an abrogation of a primary function, one that may not be properly accomplished by any other body. While a case-by-case review is clearly important, this is a function that the second level may delegate, in part because the goal is merely to ensure that the proper decision was reached by the first level in a routine case. By sufficient delegation, the second level allows itself enough time to fully analyze the novel cases.

This situation demands consideration of changes, including legislative change if required, to preserve and enhance the most significant purpose of the second-level authorities. Present projections would not indicate diminished workloads or significant increases in budget resources. Inventiveness and change appear to be the most viable means of coping with the situation.

Structural changes by second-level authorities

Obviously a three-person, part-time second-level authority may not personally process and individually review 4,000 to 5,000 cases per year. To relieve this problem a second level may be made full-time and the number of members may be increased from three to five members, or more. However, at some point, a caseload reaches a level wherein individual, much less group, attention by the members cannot be given to the individual cases, without generating an ever-increasing backlog of cases. Further, the members become so burdened with simply striving to reach decisions in individual cases that they begin to drift away from their primary role of setting precedent. Temporarily solving the problem by increasing the number of members is merely a stop-gap measure, and creates further problems in that it is then difficult for the second level to coordinate its opinions into a cohesive line of authority.

These problems are currently being addressed by the various second levels through the use of employees who review the records of a case and make recommendations for decision. In some cases the individuals prepare a synopsis of the record and a draft opinion for a member. As the caseloads continue to increase, the members are still unable to devote the necessary time to these cases so as to cause them to necessarily rely on the synopsis.

The employees in question function as law clerks and are usually attorneys. Their titles vary among the States, but their function is substantially similar. Sometimes more than one member reviews the law clerk's work in an individual case. This designated review and rereview take much time and often cause bottlenecks when a great number of cases are waiting for a member's attention for initial review or review of a previous review. While some second levels have authorized decisions to be issued by one or two members in situations such as this, some second-level authorities still issue decisions purporting to be the decision of the full body signed by each member. These decisions are, in fact, one-person decisions, and are often truly the decision of the law clerk who may be the only individual to have actually reviewed and considered the record.

This situation has evolved by giving lip service to the former theory that the second-level authority decides each and every case en banc. By propagating such a system, built-in delays are necessary for the various review stages. Also, as the caseloads continue to increase, the system takes on the appearance of an assembly line, which is fine for the individual case review role, but seriously impedes the precedent-setting role. A second-level authority that may be totally concerned with processing routine cases, when placed under severe time restraints will seldom be inclined to grant much time to the novel case. If 50 routine cases may be processed by the members during the time necessary to fully consider one novel case, and time is of the essence, it is not only obvious but understandable which cases the second-level authority will consider. The second-level authority simply chooses the most efficient use of time.

For second-level authorities with the above-described situation or one similar to it, where the time pressures have not been alleviated because of the continually increasing caseloads, a major change is necessary to enable the second level to process its cases in a timely manner and still have adequate time to consider the novel cases requiring precedent-setting decisions. Such a change may only be accomplished in the

area of decisionmaking. The change must be evaluated in relation to the nature of the cases on appeal.

A great number of appeals are truly routine, presenting no novel questions of fact or law. This is not to say that they are not important to the parties or that they do not entail a decisionmaking process. Strongly contested fact situations must be evaluated. Further, numerous factual settings will not fit nicely alongside the stated rules and do require some evaluation of legal principles. However, they do not have the impact of the initial second-level authority appeal considering whether a "lockout" not mentioned by a statute is truly a labor dispute, thus disqualifying thousands of claimants. While it would be nice for the second-level authority itself to consider each of the routine cases, as originally envisioned, changes must be made when this cannot be done.

A further evolution of the concept of a legal clerk might be helpful. If the legal clerks' jobs were upgraded to the status of associate second-level authority members, these individuals could then evaluate and decide routine cases assigned to them and actually issue decisions in their own names as associate second-level authority members. Incoming cases would have to be initially screened for assignment to the associate members. This requires an individual with legal training and experience in the unemployment appeals system, preferably a former referee or associate member. This individual would work under the direct supervision of the second-level authority or a particular member but would normally make these case assignment decisions independently. Further, the associate member would work under the control and direction of the second-level authority. Cases that at first glance were properly assigned to an associate might sometimes be found to contain serious legal questions needing to be addressed by the second-level authority itself. Upon consideration, the second-level authority could remove such a case to itself or allow the associate to proceed, but review the decision before issuance.

It would be important from a timeliness standpoint that associate decisions be issued with minimal review, if any. Second-level authorities have the statutory or inherent power in most cases to withdraw their own decisions shortly after issuance, and if serious errors were made, they could be corrected through withdrawal rather than bogging down the system with lengthy reviews prior to the issuance of decisions.

A further attribute of such a system would be the ability to allow for specialization. Particular associates could have specialties in narrow areas so that the administrative assigner of cases would be able to recognize such cases and assign them to individuals thoroughly familiar with most aspects of that area and could quickly issue a decision without having to go through extensive research and analysis. This specialization could evolve naturally or be created.

If associate members were used, the second-level authority would then be free to consider the unusual and complex cases. The second-level authority could still have assigned law clerks to aid its work but would not be under the extreme pressure inherent in a high-caseload system. Possibilities exist for assigning particular members to verify that second-level policies were being followed and to seek decisions meriting precedential analysis. Various other possibilities exist that might not be fully realized until the system was considered in detail in relation to a particular State's needs.

A further attribute of this system would be to allow an increase or decrease in the associate staff as mandated by the change in the caseload. This is a flexibility that lower levels have, but that second-level authorities generally do not have.

While some States would clearly require legislative changes to allow for such a system, many second-level authorities could create the system by administrative fiat under their general rule- and regulation-making power. The legal issues are too varied to allow for a general analysis here and must be made on a State-by-State basis.

An alternative form of change would be to create several second-level authorities. This is not recommended since second-level authorities are isolated and separate from each other, and there would be no requirement of uniformity of action. As with increasing the number of second-level authority members, this system is simply unworkable for the accomplishment of any goal other than processing cases.

A more structured approach, but one still allowing some flexibility and control by the second-level authority, would be to establish various divisions or subdivisions of the second-level authority, each directly answerable to the second-level authority. This would not produce an increase in the levels of administrative appeals since all appeals would still come directly to the second-level authority. However, upon review, a case could be assigned by the second-level authority to a particular division consisting of three to five associate members. That division would then issue a decision. The divisions themselves could be expanded or contracted to meet caseload demands. Case assignments would be made in a fashion very similar to those suggested under the individual associate member system previously outlined. Decisions of a second-level authority division would be appealable directly to the courts as are second-level authority decisions.

Other systems might be found workable, and, as in any innovative process, it is impossible to predict which form will clearly be the best. Further, it cannot be said with certainty that any such major structural change is mandated by the increase in caseloads. It is, however, something that should be considered by any second-level authority hard-pressed to meet its current caseload.

By delegating both the work and the authority to the individual who actually makes the decision, that is, an associate member, that individual's performance will be favorably affected. It is one thing to sit in an office and review cases for someone else's signature and another thing entirely to be the individual who signs and issues the decision. Without speculating on the effect on the quality of such decisions, it is believed that such an upgrading of morale and responsibility will lead to more efficiency of that individual.

In conclusion, it is felt that a change along the lines of those suggested will result in time savings by eliminating the need for repetitive reviews by members who have more valuable ways to spend their time, and most probably will result in an increase in efficiency of those individuals preparing the routine decisions. A large and fluctuating caseload could be promptly handled. While the time-saving factor alone could justify such a change, it would also allow the second-level authorities to return to the fulfillment of the primary role for which they were established, that of giving considered guidance to the agency.

On Appeal: Claimant Advocacy and Full and Fair Hearings

Ken Morris

Lack of representation of unemployed workers and statutory obstacles to fair hearings frequently contribute to the denial of unemployment insurance (UI) benefits. Claimants often appear before an appeals board or referee without adequate representation and are confronted by professional counsel of employers.

This disparity of representation and inequities in the appeals process must be eliminated by offering claimants qualified representation and by establishing better guarantees for full and fair hearings. First, a formal program guaranteeing representation must be established to give direct assistance to claimants who wish to contest the denial of benefits. Second, "full and fair" procedures and hearings must be provided to fulfill the intent of the original legislation which mandates wage-maintenance income for every qualified unemployed worker.

Disparity of Representation

Under the present system, UI benefits are financed by employer taxes imposed by the State and Federal governments. The Federal tax rate is the same for all employers within each State. State tax rates, on the other hand, vary according to "experience-rating" structures established by the States. The experience-rating system relates employers' tax rates to the relationship between their payrolls and the total unemployment benefits paid to former employees.

The experience-rating system was developed to encourage employers to maintain stable levels of employment. In reality, however, this rationale retains little justification in the latter part of the 20th century since employers exercise only limited control over the economic bases of fluctuations in employment. Rather than encourage employment stabilization, the experience-rating system has primarily resulted in increasingly significant and sophisticated employer involvement in the litigation of unemployment compensation claims.

The present UI system encourages employers to contest the claims of former employees. Specifically, experience ratings reward employers for reducing the numbers of claimants receiving benefits. The incentive for an employer is to challenge and to have the State agency deny valid and meritorious claims, as well as nonmeritorious claims, since the more claims denied, the lower the employer's tax rate.

Many States do not charge employers' accounts while employers appeal decisions in favor of eligible claimants. Thus, employers, in effect, borrow interest-free from the State funds. This encourages litigation of many nonmeritorious claims. When supplemental unemployment benefits are involved, there is an added incentive to litigate meritless appeals because these benefits are often due only when the State benefits are not under protest by the employer.

Such economic advantages motivate employers to retain professional counsel, augment in-house staff, or hire outside specialists familiar with the routine of a hearing procedure, the complexities of the law, and the State officials appointed to decide claimant qualification. Employers deduct from their taxes the expenses for such services; thus, all taxpayers help finance employer litigation of UI.

To remedy this situation, employers' accounts should be charged when benefits are awarded. If employers prevail on appeal, the payments can be credited to their account. In addition, State agencies should be allowed to assess costs and representation fees if employers insist on litigating meritless claims or delay in delivering requested information to the State.

In contrast, few claimants can retain experts who are familiar with the Federal Unemployment Insurance Act, much less the intricate State laws and the complex economic underpinnings of the Federal-State UI system. In facing their well-equipped adversaries, claimants are crippled by inadequate resources, an inadequate understanding of the variables determining their claims, and

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a lack of experience in the procedures for defending benefit entitlements.

Claimants frequently encounter obstacles when applying for benefits. The first barrier may be the claims examiner. Claimants often charge that claims examiners are abrupt, irritable, and unhelpful. While these assertions may not always be valid, there are few, if any, effective channels for handling these complaints or for remedying the problem.

Once a claim has been denied, claimants have the opportunity to challenge agency rulings through the appeal process. However, the appeals mechanism cannot function properly if claimants are unable to utilize it adequately because they lack qualified representation.

Claimants are almost universally unrepresented for several reasons. Legal services attorneys are generally unavailable because their services are limited to clients at or below the poverty level, and their limited resources are already strained by heavy caseloads and inadequate funding. The unavailability of legal help is important, as most workers needing competent help with their claims and appeals do not know where to seek appropriate professional or paraprofessional aid. Furthermore, claimants can hardly be expected to view the UI agency as an independent and objective body capable of providing information that may contradict its own decisions.

Should claimants wish to retain private attorneys, they confront a separate set of problems. The main barrier is cost. The money involved in UI claims is usually too small for lawyers to accept cases on a contingency fee. The standard retainer plus hourly fee charge is too expensive for workers. Furthermore, most lawyers are discouraged by the complexity of the legal issues and the length of the cases, even when a standard fee can be paid.

Experimental Claimant Counseling Office—New York

To alleviate claimants' confusion and frustration with the UI system, an experimental claimant-counseling program was established in New York State in September 1979. The program operates under the aegis of the New York Employment Compensation Agency. Special claims counselors are available to claimants for handling various problems involved in claim applications.

If a claim is denied at the initial consideration, the claimant may request an interview with a special claims counselor. The counselor is responsible for examining new evidence, reevaluating the merits of the case, and submitting an opinion for reconsideration if the counselor feels a new decision is warranted. If the special counselor decides the original denial is valid, the counselor may still prepare the claimant for the appeal procedure since the intricate rules and courtroom atmosphere of an appeal normally intimidate claimants unfamiliar with the process.

The claimant-counseling program is a step in the right direction but still leaves many problems unresolved. The special claims counselors are trained volunteers from the regular agency staff and provide advice solely in their capacity as State representatives. There is no planned program to assist a claimant in appeal strategy. Claimants are offered advice but not given direct assistance with the preparation of an appeal if their claim has been denied. The special claims counselors advise claimants of hearing rights and, upon request, refer claimants to organizations that can offer direct assistance. However, the potential for useful referrals is limited by the scarcity of organizations offering assistance.

The program will ideally allow claimants an additional forum for the reexamination of determinations made by hearing examiners. However, it *does not* address the pressing need for direct claimant representation.

Proposed Federal Program of Representation—Claimant Advocacy Office

For the purpose of offering direct representation to claimants, we propose the establishment of a federally administered Claimant Advocacy Office.

The Claimant Advocacy Office personnel should have the authority to appoint counsel for claimants with particularly complicated legal problems. Other claimants should be referred to attorneys, legal-service organizations, or other groups for representation at appeals.

The Claimant Advocacy Office should serve as a resource for the claimant, paralegal, or legal counsel to help them prepare the necessary material for the hearing. The Claimant Advocacy Office would also investigate complaints by claimants about State agency procedures and personnel.

Administration

This Federal program should be an autonomous arm of the Department of Labor. Operating under the auspices of the Secretary of Labor, this office could indirectly influence and strengthen State programs by ensuring fair representation for each claimant.

The administrator of the Claimant Advocacy Office should be appointed by the Secretary of Labor or the President. The administrator would be responsible for locating Claimant Advocacy Offices in places geographically centralized and convenient to claimants throughout each State. The administrator would oversee staffing in each State to ensure the program effectively serves claimants.

Funding

The office should be financed by the Federal Unemployment Tax Act (FUTA) and remain separate from, but cooperate with, State unemployment compensation agencies.

The present taxation system indirectly finances the hiring of attorneys and trained representatives for employers since the costs of litigating unemployment compensation claims are tax deductible for employers. Claimants, on the other hand, fully bear the costs of representation but lack the tax advantages employers enjoy. This leads to a lack of quality representation for claimants.

The best approach to alleviate this disparity is to allow claimants in unemployment compensation proceedings the opportunity for representation without financially infringing on their UI entitlements. A claimant representation program can be financed out of FUTA funds, perhaps through an additional 0.5 percent assessment on the present FUTA tax base, or out of general revenues. In any case, employees should not be victimized by one-sided public financing of employer representation.

Staffing

The Claimant Advocacy Offices should be staffed by individuals with a variety of backgrounds. It is not necessary to be an attorney to adequately represent a claimant; thus, paralegals, former employees of UI agencies, workers or worker representatives with experience from plants or offices, and students could be trained to participate in claimant representation.

A way to alleviate one aspect of the disparity of representation is to provide claimants with reasonable attorney's fees for court challenges. Introduced with major bills in the past, attorney's fee legislation has encouraged the litigation of meritorious claims since awards are only granted to successful claimants. These fees, however, would not necessarily assist claimants with their original claim, nor with appeals to State agencies, but only with appeals to judicial bodies.

Another way to alleviate the disparity of representation is to allow the union representatives and other nonlawyers to represent claimants. Most States presently allow the parties to be represented by agents or other nonlawyers of their choosing. Laypersons, either union representatives or other nonlawyers, have become quite proficient in the handling of UI cases. This has considerably reduced the cost of litigation to the claimant.

A few States, however, either through statutes, administrative regulation, or practice require parties to have lawyers handle cases.

It would further the goal of increased representation at low cost if this Commission recommended Federal regulation and/or congressional action requiring States to allow union representatives and/or other agents to fully represent the parties in benefit disputes and litigation during the appeal process.

Resources. An Information Resource Center should be an integral part of each State advocacy office. The information center should provide a hot line or complaint phone line that all claimants in the State could use to get answers to their questions about rights and entitlements.

The information resource center could also be used by employers, especially small employers, who are unable to maintain a full-time UI staff or hire outside specialists.

This information center should also include a library on the UI law with Federal and State unemployment compensation policies, decisions, and annotated representation briefs. Such a resource could be used by claimants, employers, and claimant and employer representatives. The present obstacle encountered by claimants attempting to gather information about past UI decisions and precedents would be alleviated by establishing a central library for each State. The library should offer claimants access to information necessary for self-representation and also provide legal or paralegal counsel with a readily available central information bank.

The Federal Claimant Advocacy Offices should be linked in an interstate network to provide for an organized sharing of ideas and suggestions concerning unemployment compensation, especially the claimant-appeal process. This exchange would help develop a consistent UI program based on the diverse standards and administration of the claimant appeal process in the separate States.

Union notification. An important factor contributing to the disparity of representation is the exclusion of the claimant's union as a party to unemployment compensation proceedings. The union, like the other parties to the claim (employer, claimant, State), has no obligation either to represent a claimant, or to appeal a decision when benefits are denied. However, the union retains an interest in unemployment compensation claims and should be included as a party to the action when a member is denied benefits.

Unions can frequently offer representation assistance to members on UI claims. However, many claimants are presently unrepresented who could have been aided by their union had the union been notified.

Additionally, the union has a significant interest in protecting workers from a bad precedent that may be set by an inadequately represented claimant. Precedent-setting decisions, with the potential to affect groups of workers, are of special interest to a union. This is particularly true when the decision interprets the terms of

a collective bargaining contract. It is critical that the union gain the standing necessary to litigate these claims; but this can only be achieved if decisions from referees, UI appeal judges, or UI panels are made available.

Unions, at a minimum, should be notified of all claims, employer defenses, and agency decisions denying benefits that concern union contract issues. Unions will then be better prepared to represent claimants if they cannot find other sources of representation, and to determine whether the decisions will affect the rights of other union members.

Fair Hearing

The disparity of representation is compounded by administrative procedures and regulations that impact on the claimant's opportunity to receive the *"full and fair hearing"* required by law. The issue of fair hearings is multifaceted, and the situation varies from State to State. A few problems emerge as particularly widespread and significant and, therefore, in need of Federal remedy.

The first difficulty encountered by the claimant is in the State unemployment compensation office with the hearing examiner. The word of the employer is, in many instances, accepted as fact when deciding on the eligibility of the claimant.

Once a claim has been denied, the law requires a fair hearing for the claimant to appeal the decision. This hearing must be offered without lengthy delay—S.S.A. Sections 303(a)(1) and (3) and 42 U.S.C.A. Sections 503(a)(1) and (3). *A fair hearing must be sacrificed for speed.* Recently, to avoid delay, thoroughness has been sacrificed. Efforts should be made to increase hearing personnel in order to avoid depriving the claimant of a "full and fair" hearing.

State unemployment compensation agencies should attempt to allocate administrative funds to encourage timely hearings, prompt payment of benefits and guaranteed procedural protections.

Claimant notification. The elimination of "legalese," or complicated and difficult language in UI statutes and decisions, would remove one level of confusion and discouragement and help provide better notice to claimants.

Accompanying the need for clarity in expression of UI law and decisions is the issue of adequacy of notice. In many States appeal rights or avenues for seeking help are not adequately presented to claimants who have been denied compensation. As a result, many claimants fail to properly file appeals. Federal law can correct this situation by requiring clear, bold notice of claimants' rights of appeal and procedural avenues for obtaining this help. As an additional guarantee, the law could require that employers post at the worksite employee UI rights, including right to appeal, counseling about procedures for such appeal, and benefits.

Each notification of the denial of benefits, originally or on appeal, should have attached to the claimant's copy a clear explanation of the procedure for appeal. Included, in clear, large print, should be the fact that the claim was denied, the reason for denial, the number of days available for appeal, and a description of the method employed by the State for filing an appeal. A second section of this notice should contain the telephone number of the Claimant Advocacy Office and an explanation of the services available at the office if the claimant desires such assistance.

Through explanatory handbooks and simplified notice language, the claims procedure will be rendered less intimidating to claimants attempting self-representation. The problem of inadequate resources for claimant representation remains, and must be addressed by a widespread and concerted effort to develop new resources for employee representation.

No decisions based on hearsay. Another aspect of the representation problem is the situation encountered by claimants when employers do not choose to appear at an appeal hearing for a claimant who has been denied benefits. Frequently, the employer will simply submit an oral or written statement regarding the employee's qualifications for benefits. It is imperative that Federal law require the referee to hold for the claimant as opposed to an absent employer. The claimant is providing sworn testimony subject to cross-examination. The employer's statement is hearsay and cannot be questioned by the claimant. Many courts already require referees to hold for claimants under these circumstances. A Federal statute should clarify and codify due process requirements by precluding referees or appeal boards from basing disqualifying decisions upon such hearsay.

Transcripts. As an additional service, the Claimant Advocacy Office's information service should provide transcripts of administrative hearings to claimants. Appeals decisions habitually rest on the evidence presented before claims examiners. Claimants require access to these transcripts to adequately prepare a case for appeal. Requiring payment for these transcripts from claimants without wage or wage replacement income might discourage claimants from appealing denials, or inhibit claimants from undertaking preparation before an appeal hearing. Free transcripts, available through the Claimant Advocacy Office, would improve the competent development of appeal cases and provide an additional guarantee of a fair hearing.

Timely appeals. To qualify for unemployment compensation, claimants must be seeking work. This frequently

necessitates travel with extended periods of time spent away from home. The claimant may also find work out of the State in which the claim was originally filed. Adverse decisions may be issued months or years after the unemployment in question, when claimants have already long returned to work. Appeal periods as short as 10–12 days make it difficult for workers to file timely appeals. However, a uniform 30-day minimum appeal period, starting at the receipt of an adverse determination, allows workers leeway for the timely filing of their appeals.

Similarly, excusing lateness for good cause would offer a worker flexibility when an appeal could not be filed in time because of extenuating circumstances. These Federal standards would ensure claimants fair opportunity to receive the unemployment compensation that is their right under the law.

Priority hearings for claimants denied benefits. Eligible claimants must receive benefit checks, despite employer appeals, pursuant to the 1971 U.S. Supreme Court decision in *California Department of Human Resources Development* v. *Java,* 402 U.S. 121, 91 S.Ct. 1347, 28 L.Ed. 2d 666 (1971). Claimants who are initially ruled ineligible should have priority consideration given their appeals so they have the opportunity to win wage-replacement benefit.

Full notice of issues. Another aspect of fair hearings is notice of issues to be addressed at the hearing. When new issues are introduced in a referee redetermination or a board hearing, the claimant is unarmed. The *Java* decision requires the employer to present any adverse evidence to the claim when first notified of the claim. Similarly, many State statutes require the employer to provide all necessary information upon request by the State. Until it is supplied, the employee is entitled to keep all benefits received. Issues switched without notice may unfairly deprive an employee of benefits that have been awarded. Due process prohibits such issue switching if the claimant is to receive a fair hearing.

No cutoff of benefits without fair hearing. The purpose of the unemployment compensation law is to provide a guaranteed wage replacement for unemployed workers. Many courts have held that the Social Security Act and the due process clause of the Constitution require a fair hearing before these benefits are cut off. In many States, a fair hearing is not provided before cutoff. This deprives claimants of their lawful right to benefits. Claimants should not be forced to wait lengthy periods of time without benefits until their cases are heard on appeal. If the intent of the UI legislation is to be fulfilled, all claimants should be assured of a fair hearing before benefit payments are terminated.

Fair hearing before recoupment. After a determination has been made that benefits were improperly received, the State may recoup these payments from the claimant. Since the repayment of benefits already received will be a hardship for a claimant without wage income, no recoupment should be allowed without a fair hearing. A fair hearing before recoupment of benefits is a requirement under the Supplemental Unemployment Assistance Act and the Federal Extended Benefits Program—Section 205(d)(3) of Public Law 93–567, Title II as amended, and Section 105(b)(2)(c) of Public Law 93–572, as amended.

State officials should work full time, be impartial, and be experienced. It is critical that State officials, responsible for determining claimant eligibility, have no personal interest in the outcome of a determination. To ensure that both claimants and employers receive impartial consideration, referees and appeal board members should serve full time, without concerns that may conflict or interfere with fair decisionmaking.

Familiarity with UI law and precedent contributes to fairer referees and board members who are capable of deciding cases in light of legislative intent. A background in handling UI cases is most desirable when selecting these officials. Former legislators are experienced in evaluating the merits of UI claims and are likely to consider the purpose of the unemployment compensation statutes when deciding on claimant eligibility for benefits.

Agencies and courts should be conveniently located and procedures simplified. If claimants are to be effectively served by a UI agency, they must be offered the opportunity to appeal a denial of claims. The placement of referees, appeal boards, and courts in locations convenient to claimants is critical to encourage the active participation of unemployed workers in the system. Appeals should therefore be heard in counties where the employee resides or formerly was employed. This would reduce the claimant's expense and hardship in traveling long distances.

The court rules of some States include procedural requirements that appellants notify all other parties and file briefs within certain time limits. Unrepresented claimants are not likely to be familiar with such requirements. Court clerks or State agencies, which are parties to UI cases, should notify all other parties to the appeals. Failure of appellants to name and serve all parties or to file legal briefs should not result in dismissal of their appeals.

Dismissing appeals if a party fails to attend a hearing often results in the denial of benefits to claimants restricted from attending a hearing because of employment, lack of transportation, or other responsibilities. If the claimant has been denied benefits due to a disqualification, the employer must prove the fairness of

dismissing a claimant's appeal based on the claimant's failure to attend a hearing. The agency should inquire as to claimant's failure to attend and, at worst, decide the case on the basis of the available evidence.

Conclusion

The disparity of representation and the lack of resources available to combat the problem frequently contribute to the denial of benefits lawfully due unemployed workers. In most circumstances where claimants appeal without adequate experienced representation before an appeal board or referees, claimants are faced with quasi-legal situations with which they are completely unfamiliar. Too often on this basis the claimant confronts the employer's well-equipped professional counsel.

The disparity must be eliminated in two ways. First, a formal program guaranteeing claimant representation must be established to give direct assistance to claimants denied benefits. Second, fair hearing guarantees must be stressed. Most important, a "full and fair" hearing must be provided to fulfill the intent of the legislation that seeks to ensure for every qualified unemployed worker wage-maintenance income in the form of UI.

Demographic and Special Groups

Coverage of Agricultural Workers

Philip Booth

The first years of experience demonstrate that the newly acquired unemployment insurance (UI) coverage of agricultural workers in the largest employment units has been absorbed successfully into the workings of the system, although not without program and operating difficulties requiring attention and problems that require improved solutions. As the new coverage added no more than 1.0 percent to the number of protected workers and less than 2 percent (1.8) to the subject employers, it is not surprising that this process has taken place without great stress and strain. The $98 million in benefits paid to crop and livestock workers in 1979 (plus the estimated $60 million to agricultural processing workers) in the 10 States that employ the most farmworkers accounted for approximately three-fifths of all benefits paid to farmworkers in the entire country. The estimated $250 to $275 million paid to farmworkers constituted only 3 percent of the more than $9 billion in benefits paid in 1979. Yet this relatively small amount added significantly to the economic protection of this low-skilled sector of the work force.

In 1976, Public Law 94–566 extended unemployment compensation coverage to employees of the largest agricultural employing units. This paper examines the background of that coverage extension, the highlights of State experience during the first years of operation, and the impact of the extended coverage in achieving protection of hired farmworkers. Finally, recommendations are made for broadening coverage and making other program improvements.

Because comparable information from all States on early experience under the new coverage was not available, this report presents data for the 10 to 12 States that are the principal users of farm labor. These data concern the new law's impact on employment and payrolls, as well as benefit payments to farmworkers.

Two types of problems are distinguished: initial operating problems, which Federal and State agencies are able to resolve as they evaluate their experience, and other problems, which are more likely to persist. These include difficulties encountered in assuring equal treatment of migratory farmworkers, the role of labor contractors, the exclusion from coverage of foreign workers admitted temporarily to perform agricultural labor, and the disqualification of aliens not admitted to the United States with permission to work.

A more meaningful evaluation of the effectiveness of the new legislation must await several more years of operating experience. As shown by the gaps in this report, data on claims and benefits paid to workers in newly covered industries must be maintained in more (preferably all) States, if analysis of operating and program experience is to provide a basis for understanding the effectiveness of the new coverage, and for planning more comprehensive protection.

Displaced farmworkers often have special needs in adjusting to long-term unemployment, especially where machinery or biological and chemical agents have been substituted for human labor. Agriculture has lagged behind other industries in this respect. Public and private investment in agricultural research has been largely directed toward improving labor-saving technology, without parallel attention to the broadening of occupational skills that could lead to year-round work for the farmworker. Education, counseling, training, referral, placement, and related services should be provided in a form suited to individual needs. In addition, special problems related to language and cultural differences of farmworkers must be addressed.

Profile of Farmworker Coverage

History

In 1935, the founders of the UI program made a cautious start by allowing coverage only to employers of substantial size; only those commercial and industrial enterprises employing eight workers or more during 20 weeks in a year were brought under the law. Most States adopted the same definition, but 22 also covered smaller firms.[1] In the following years, individual States extended the coverage of their programs, so that by 1945 all employers were covered in 16 States. Some jurisdictions covered certain services in agricultural

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processing, domestic service, nonprofit organizations, and State and local government. In addition, most States adopted language to extend their coverage automatically to services covered by the Federal Unemployment Tax Act (FUTA). Such language and the growth of wage and salary employment, from about 20 million in 1938 to 70 million in 1977, have been the primary sources of extended coverage during the past 30 years.

In 1954, the Federal law was amended to cover Federal employees as well as employers using four workers or more during a 20-week period. In 1970, employers with one worker or more in 20 weeks were covered. Finally, in 1976, State and local government workers were given protection, as were workers employed by the largest agricultural units. Today, only most household service workers and employees of smaller agricultural units are outside the unemployment compensation (UC) program.

State and Federal administrative authorities have conducted numerous studies on the administrative problems and costs of extending coverage to agricultural workers.[2] In 1950 and 1951, California made a comprehensive study of the implications of agricultural coverage, interviewing farmworkers and employers throughout the State. Study findings showed that the cost to agricultural employers would range from 11 to 15 percent of total payrolls.[3] In part because potential costs appeared so formidable, the legislature did not bring farmworkers into the system until 1976.

In 1951, the California Governor's study committee recommended:

> adoption of . . . unemployment insurance for agricultural workers on a national basis. It would also favor unemployment insurance for agricultural workers on a California basis if a feasible plan can be presented by a fact-finding commission appointed by the Governor from appropriate agencies.[4]

Proposals for extending protection by Federal action were considered during the 1940's and 1950's but received little attention or Administration support. The atmosphere had changed by 1969, when the Nixon administration proposed coverage of workers on farms that had four or more employees in 20 weeks, which would have brought 400,000 workers into the system, Although the Senate supported the bill, it was rejected by the House Ways and Means Committee.

This effort, however, led to the most substantial research effort on agricultural coverage to date. The research was carried out by faculty and staff members from agricultural colleges and experimental stations with the assistance of the State agencies, and was coordinated by the Unemployment Insurance Service of the U.S. Department of Labor (DOL). This group produced a series of reports on the employment, unemployment, and earnings of representative samples of farmworkers in 15 States. (See the bibliography for a list of reports.) Applying the benefit provisions of State laws, estimates of the cost of alternative coverage provisions were prepared. These findings and conclusions are likely to remain the most comprehensive analyses of the costs and benefits of agricultural coverage until State experience with agricultural workers' coverage can be studied in depth.

When the old-age and survivors insurance program was broadened to include hired farmworkers in 1950, self-employed farmers rejected coverage for themselves, although other self-employed persons obtained protection. Self-employed farmers did not accept extension of social security protection for themselves and their families until 1954. Few farm organizations lobbied for the change, but most did not oppose it.[5]

Gradual extension of social security systems to agriculture also characterized developments in other countries.[6] Most countries developed pension, workers' compensation, and health insurance plans before taking up unemployment insurance. Just as a foundation of health services is an essential prerequisite for health insurance, a system of public employment exchanges provides the essential underpinning for unemployment insurance. Both health and employment services were extended to rural areas only after they were well established in the urban commercial and industrial sectors.

A recent survey of unemployment insurance schemes in major industrial countries makes a similar observation:

> Although agricultural workers are covered in most countries, all or certain categories of such workers are excluded in Egypt, Greece, South Africa and Switzerland together with the United States. The coverage of agricultural workers is not always considered feasible owing to the administrative difficulties entailed in the registration of the persons to be protected, collection of contributions, the determination of the right to benefits, the provision of placement services, and the payment of claims—particularly in less-populated regions where agricultural operations are on a small scale.[7]

Like many other proposals dealing with UC, proposals for extending coverage to farmworkers have faced a key obstacle at the State level: the fear that a State's action would place its employers and industries in an adverse competitive position with neighboring States.

In 1976, the Congress brought most workers then remaining outside the UI system under its protection (effective in 1978), raising total coverage to approximately 97 percent of all wage and salary workers. Public Law 94–566 thus covered some 9 million workers, including 8.3 million State and local government employees, 130,000 household service workers, and 500,000 farmworkers.[8] This protected only those workers employed by the largest farm operators.

Effective January 1, 1978, the Federal Unemploy-

ment Tax Act (FUTA) became applicable to agricultural labor performed for a "person" who

> 1) during any calendar quarter in the calendar year or the preceding calendar year paid remuneration in cash of $20,000 or more for such labor; or 2) during the calendar year or the preceding calendar year, employed 10 or more individuals for 20 days, each such day being in a different calendar week for services in such labor.

The law (as amended) gives States the option of excluding the labor of aliens temporarily admitted to the United States to perform agricultural labor prior to January 1, 1982.[9]

Forty-six States followed the pattern of the Federal Act. Six States provided more comprehensive protection:

- California: One employee or more at any time, and wages in excess of $100 in a calendar quarter.[10]
- District of Columbia: No exclusion of any kind.
- Minnesota: Four employees or more in each of 20 different weeks, or wages of $20,000 in a calendar quarter.[11]
- Puerto Rico, Rhode Island, and Virgin Islands: One worker or more at any time. (Puerto Rico had implemented this change previously.)

Minnesota and the other States that followed the language of the Federal Act define covered employers, employment, and workers performing services more narrowly in agriculture than they are defined in the nonagricultural sector.[12]

Perhaps because less than 5 percent of all wage and salary workers remain unprotected, there is keen interest in closing the remaining gap. Interest in the issue has also been stimulated by experience during the 1974–76 recession, which demonstrated the value of the unemployment compensation program to employers, workers, and the country in general. Yet opposition to coverage extension, combined with indifference and resistance to change, has been effective in keeping the majority of farmworkers without protection; if this were not the case, these workers would have received coverage years ago.

Exclusions

Not only were agricultural workers excluded from the original 1935 Federal UC legislation, they also did not receive old age benefits, workers' compensation, or coverage under other labor legislation.

The original Federal UC legislation did not define agricultural labor or the services to be excluded. The 1939 amendments achieved many improvements; however they defined the excluded sector of "agricultural labor" so that the services of workers engaged in processing and related services were not covered if the products were limited to the farmer's own production. The exclusion was a response to the wishes of agricultural organizations.

The States were free to follow this restrictive Federal language and most of them did. Some States, however, included protection for certain agricultural and processing workers in their legislation. The exclusions were justified by a combination of administrative and economic considerations; for example, employers' difficulties in maintaining records and in reporting individuals' employment, earnings, and the reasons for termination of employment. These tasks, it was argued, would be more difficult to perform for short-term and seasonal workers, whether local, out-of-State, or migrants, and for piecework employees paid in cash on a day-to-day basis.[13]

Earlier arguments concerning coverage extension are similar to those encountered in current debates.[14] After agricultural labor was covered under the Old Age, Survivors, and Disabilities Insurance program (OASDI) in 1950, farm operators became accustomed to maintaining records, reporting on employment and earnings, and paying contributions on their covered payrolls. This experience tends to undermine objections based on administrative grounds.

Many "administrative" objections might equally be applied to covered workers in nonfarm jobs, such as workers in construction, garment manufacturing, retail trade, resort industries, and certain types of musicians' groups. In one way or another, employers and State agencies have developed methods for coping with these administrative difficulties. Farmworkers are not always distinct from nonfarm workers; more than two of every five farm wageworkers also work off the farm and only one in five actually lives on a farm.

One of the economic arguments against coverage was that it was unnecessary for year-round farmworkers "not exposed to the risk of unemployment," while most casual and seasonal workers did not work long enough to acquire the right to benefits. Migrant workers, the opponents of coverage claimed, did not earn enough in a single State to acquire entitlement to benefits. However, actual experience concerning farmworkers under other social insurance programs, including UI, has weakened these arguments considerably.

Social insurance programs recognize other year-round workers as exposed to the risk of unemployment; for example white-collar workers in banks, retailing, and government. Because of organizational shifts, budget cuts, crop failure, market changes, shifts of location or technology, and business turnover, the year-round job clearly does not exclude the threat of unemployment. Furthermore, UC is not an individual reserve or savings plan, but a pooled fund; contributions paid with respect to the earnings of a specific worker or group of workers are not reserved for benefits for that particular worker or most important, for only the employees

of the contributing employer. Nor does duration of employment with a given employer limit a nonfarm worker's benefit entitlement. Because individual situations vary, it is impossible to know in advance whether any particular worker will have had sufficient employment of any kind during a 12-month period to acquire benefit rights.

Proposed exclusion of students. It has been proposed that full-time students under age 16 be exempt from coverage for agricultural work performed during summer vacation periods, because when they return to classes they would not be able to claim benefits. Thus, their coverage would be meaningless and the taxes levied on their wages would not be used for benefit purposes, or at least not for benefits for them. Yet the same argument is not considered persuasive regarding students' work in nonagricultural jobs. Such an exclusion would exempt some agricultural employers from a tax with respect to certain employees, placing them at a competitive advantage over employers who pay contributions on their entire payrolls.

Agricultural groups differ in their opinions on the exclusion of students. Some, like the Citrus Council, opposed exemption of youth working in agriculture:

> There has been proposed to exempt youngsters 16 years of age and under from unemployment compensation taxes, since they cannot draw unemployment compensation benefits because they are not available to work during school hours. In spite of this, we feel that coverage should include anyone of any age. How would this type of exemption be administered or enforced? [15]

Other groups favor the exemption. A spokesperson for the California Farm Bureau Federation proposed exemption of young workers employed during school vacation periods, because they would be unavailable for work when not working in agriculture.[16]

Exclusion of aliens. Public Law 94–566 excluded from FUTA coverage until January 1, 1980 (changed to January 1, 1982, by PL 96–84), agricultural services performed by aliens admitted to the United States for temporary agricultural and logging employment, as authorized under Sections 214(c) and 101(a)(15)(H)(2) of the Immigration and Nationality Act.[17] According to this Act, an employer wishing to use foreign labor for temporary employment may apply for admission of such aliens, but must have offered the same work to domestic workers through the U.S. Employment Service. Foreign workers may be admitted only "if U.S. workers are not available for the employer's job opportunities." [18]

The FUTA exemption creates an incentive for employers to discover that the local supply of available workers is "insufficient" or otherwise unsatisfactory. For example, many apple producers claim failure in their efforts to recruit domestic labor, while critics of the exemption maintain that apple growers in New York, Virginia, and West Virginia who now use alien labor could certainly use domestic workers, as is done in neighboring Pennsylvania and Maryland.

The exemption of aliens' wages from UC and social security taxes reduced employers' taxes by 9.5 percent in 1979. Thirty-one jurisdictions made this exclusion in their unemployment compensation laws.

In 1979, 18,283 job openings were certified for admission of foreign workers.[20] (The number of aliens actually admitted is often less than the number of certified job opportunities.)

Opponents of the exemption also question whether the DOL's statutory requirement for "unavailability of domestic workers" can properly be measured before the harvest season begins, as is the current practice. They suggest that delaying the search for available local labor until after the beginning of the harvest "would create a more realistic test of the labor market under actual conditions." [21]

Growers have argued that, because temporarily admitted aliens must return home at the end of the season or when their temporary admission period ends, they cannot receive benefits in any case. And, if payroll taxes were paid but benefits were not, the tax would not have been used to raise needed revenue, the only end that is allowed under the law.

In 1979, the law was changed by extending the coverage exclusion until the end of 1981, but with a substantial liberalizing modification (PL 96–84). Services of such aliens and payments to them are now counted in the criteria used to determine whether the employing unit is covered.

This change affords greater protection to other (citizen and documented alien) workers, whose services had been insufficient to bring the employer under coverage. These workers now are more likely to acquire benefit rights in such employment. Temporarily admitted (so-called H-2) aliens, however, remain unprotected.

Basic to the issue of retaining the alien exemption in any form is the principle of coverage as determined by the employment or services concerned, not by the characteristics of the workers who perform them. If apple and sugar cane harvesting and sheep herding are treated as covered employment for resident aliens and citizens, exemption of selected aliens from acquiring benefit rights represents an undesirable departure from the longstanding policy of equal treatment of aliens and citizens.

If citizen and documented alien farmworkers are disadvantaged by the exemption from FUTA coverage of temporarily admitted farmworkers (H-2), what action should be taken to remedy these adverse effects? It is recommended that the Commission should favor permitting the temporary exclusion from coverage of

these alien workers to expire at the end of 1981, as is presently provided by law.

The Hired Farmworker Population

Two decades ago, the hired farm labor force included approximately 4 million workers. It declined by more than 1 million during the 1960's, remaining between 2.7 and 2.9 million during the 1970's. During this period there was a similar decline in the number of farms, from 4 million in 1960 to only 2.7 million in 1977.[22] However, the number of farms employing hired labor was considerably smaller. Figures range from 361,000 to 1 million; the Social Security Administration reported approximately 356,000 employers as having one hired farmworker or more in 1975.[23] UI data reflect the limited coverage of the various State laws; by mid-1979, most States had brought most "liable" employers under compliance with employment and wage reporting requirements. Prior to the enactment of Public Law 94–566, the FUTA was expected to cover approximately 17,500 employers and some 460,000 workers under Public Law 94–566—about 2 percent of all farm operators and 40 percent of farm employment.

The number of jobs in the agricultural labor sector is shown in the average weekly number of hired farmworkers in 1978, which was 1,256,000. Weekly employment averaged only 764,000 in the low first quarter, compared to the high third quarter figure of 1,835,000.[24]

Figures given for farm employment vary considerably between sources, due to different methods of counting. The Bureau of the Census counts only workers age 14 or older; the Department of Agriculture (DOA) counts younger workers as well. Again, the Census and similar surveys count a worker employed in agriculture only if the worker is primarily employed in agriculture, and then only once in any year; DOA will count workers primarily employed elsewhere, and will count workers more than once if they work in more than one employing establishment.

Hired farmworkers are classified for statistical purposes according to the number of days of farmwork they perform during a year. Those who work on farms for the shortest periods, less than 25 days and 25 to 149 days, are called casual and seasonal workers, respectively. Of the latter, those with fewer than 74 days are short-term seasonal workers, those with over 75 days long-term. Regular workers work 150 to 249 days, and year-round workers work 250 days or more.

While as recently as 1955 there were three family workers for every hired worker on farms, the ratio had shifted to two to one by 1978 (2.7 million to 1.3 million). This shift reflects the decline in total farm employment, from about 8 million to 3.9 million (more than 50 percent) between 1955 and 1978; the decline accompanied the reduced number of farms.

Although more hired than family workers were working on farms, hired farmworkers were increasingly living off the farm—78 percent in 1978, compared with 71 percent and 55 percent, respectively, of the total regular and year-round hired workers.

What is evident here is the decline of the farm as the focus both of the farm labor force and of farm management. Farm employers have to recruit their hired labor from a population more and more involved in nonfarm work and acquiring the skills utilized in the nonfarm sector.[25]

Almost one-half of all farm residents were employed outside of agriculture in 1978 (45 percent compared to 55 percent employed in agriculture), and the nonfarm residents employed in agriculture included substantial numbers of self-employed farmers as well as the greater number of those farmworkers receiving wages and salaries:[26]

	Resident farmworkers		Nonresident farmworkers	
	Number (thousands)	Percent	Number (thousands)	Percent
Total	1,774	100.0	1,814	100.0
Self-employed	1,086	61.2	556	30.7
Wage and salary	383	21.6	1,173	64.7
Unpaid family workers	305	17.2	85	4.7

NOTE: These figures are from the U.S. DOL, Crop Reporting Board.

Of the 2.8 million workers earning wages in agricultural work in 1977, 59 percent worked only in agriculture and the rest performed both farm and nonfarm work. Half of the total were usually not in the work force. Of this half the great majority, nearly 1 million, were students:

> In terms of its population, the hired labor force, seen nationally, is dominated by persons who mainly are students, housewives, retirees, temporarily unemployed nonfarm workers, and others who, for whatever reasons, are mainly unemployed or mainly not in the labor market. This heterogeneity in hired farm labor is the counterpart of that found in farm self-employment—both are exceptional characteristics of the agricultural sector.[27]

Among those usually in the work force, those primarily engaged in nonfarm work had the highest annual earnings per capita ($6,977), only one-tenth of which came from farmwork (See Table 1). Those engaged primarily in farmwork earned substantially less per capita ($5,427), with 95 percent of their incomes derived from farmwork. However, about one in six of these workers (118,000) had both farm and nonfarm employment, averaging nearly $1,600 (of $5,800 total pay) from the nonfarm source; a substantial propor-

TABLE 1. Primary employment status and average annual earnings of hired farmworkers, 1977

Primary employment status [1]	Total				With farmwork only		With both farm and nonfarm work		
	Number (thousands)	Percent distribution	Total annual earnings	Annual farm earnings	Number (thousands)	Annual farm earnings	Number (thousands)	Total annual earnings	Annual farm earnings
In labor force	1,367	50	$5,465	$3,173	743	$4,708	623	$6,371	$1,344
Hired farmwork	734	27	5,427	5,173	616	5,355	118	5,796	4,221
Other farmwork [2]	137	5	2,172	1,572	104	1,704	32	[3]	[3]
Nonfarm work	444	16	6,977	641	[4]	[4]	444	6,977	641
Unemployed	52	2	1,777	782	23	[3]	29	[3]	[3]
Not in labor force	1,364	50	1,058	649	846	740	518	1,575	498
Keeping house	238	9	770	590	178	600	60	1,270	561
Attending school	981	36	1,063	642	570	744	410	1,506	501
Other	145	5	1,495	719	98	977	47	[3]	[3]
All hired farmworkers	2,730	100	3,265	1,913	1,599	2,588	1,131	4,222	957

NOTE: Number of workers may not add to totals due to rounding.
[1] Refers to respondent's major or chief activity during the year.
[2] Includes operating a farm and unpaid family labor.
[3] Averages not shown where base is less than 50,000.
[4] Not available.
SOURCE: Gene Rowe, *The Hired Farmworking Force of 1977*, Report 437 (U.S. Department of Agriculture, Economics, Statistics, and Cooperatives Service, 1979).

tion of these workers could qualify for benefits in most States without regard to their nonfarm earnings.

Of the 1.4 million workers who were out of the labor force for most of the year, the majority (981,000) were students, for whom nonfarm work was a supplement to their major earnings in farmwork. This was reflected in the fact that 63 percent of their total ($1,063) earnings came from farmwork. The 400,000 other workers with both farm and nonfarm employment had higher earnings, averaging about $1,500. For these workers, farmwork supplemented the nonfarm activity, which accounted for two-thirds of their earnings. Of the entire student population participating in the farm labor force, the mixed farm/nonfarm group could qualify for benefits on the basis of nonfarm earnings only; however, a great many would need their farm earnings taken into account to obtain more than a minimum entitlement.

Most hired farmworkers are young, with 56 percent under age 25; 60 percent are white males. Blacks account for one in six workers; Hispanics for one in nine.

In 1977, annual earnings of all hired workers averaged $3,265, half of the 1977 poverty-level income for a family of four.[28] Nearly three-fifths of this income was derived from an average of 3 months of hired farm labor, the remainder from almost 2 months of nonfarm work. By contrast, average annual earnings of all workers under OASDI in 1976 were more than double, at $8,532.[29]

Median earnings of hired farmworkers were considerably lower, $1,612. This figure is influenced by the very low median earnings of more than 1 million casual workers ($348) and 600,000 short-term workers ($912).

Table 2 illustrates the contrast between the number of hired workers (about 700,000) who spent most of the year in farmwork—the core of the farm production force—and the 2 million workers who met only seasonal demands for planting, cultivation, and harvesting during short and varying periods.

Workers' employment patterns

Casual. Nonfarm work was the major source of employment for the majority of casual workers. These workers averaged 140 days at nonfarm jobs and their earnings

TABLE 2. Hired farmworkers: selected data on number of workers, and farmwork days, by class of worker, 1977

Class of worker and days of farmwork	Number of farmworkers (thousands)	Percent of hired work force	Days of farmwork	Percent of all farmwork days
Year-round (more than 250 days)	391	14	312	70
Regular (150–249 days)	295	11	201	—
Long-term seasonal (75–149 days)	322	12	106	—
Short-term seasonal (25–74 days)	667	24	45	30
Casual (under 25 days)	1,056	39	9	—
Total	2,730	100	—	100

SOURCE: Adapted from Gene Rowe, *The Hired Farmworking Force of 1977*, Report 437 (U.S. Department of Agriculture, Economics, Statistics, and Cooperatives Service, 1979), p. 4.

($3,547) were far greater than farm earnings ($160 for 9 days of farmwork). (See Table 3.)

Those with farmwork only averaged $144 for 9 days of work.[30] One-fourth of all hired farmworkers performed almost all farmwork in 1977. Casual workers made up the largest group, but accounted for only 5 percent of all farmwork days.[31] (See Table 2.)

As noted above, it is the casual (and short-term seasonal) workers who are disadvantaged most by the exclusion of farm earnings from UI coverage. For many, covered earnings from nonfarm work may be too small to bring them more than minimum benefits, if those. (See Tables 2 and 3.) Median earnings of casual workers were $348, of short-term seasonal workers, $912. Somewhat fewer than one-half of these workers could have qualified for benefits in most States if their farm earnings had been taken into account.

Seasonal. Representing about one-third of the farmwork force, seasonal workers make an essential contribution to agricultural production, accounting for one-fourth of all workdays. Seasonal crops could not be harvested without these workers.

Of the approximately 1 million seasonal workers, two of every three did farmwork for only 25 to 74 days; the remainder worked from 75 to 149 days.[32] More than half of all seasonal workers (560,000) worked only in agriculture. The two-thirds who worked fewer than 75 days had average earnings of approximately $750. The 200,000 long-term seasonal workers averaged slightly more than 100 days of farmwork, earning about $2,100.

Short-term seasonal workers having both farm and nonfarm employment resemble casual workers in that both groups worked longer and earned more at their nonfarm jobs. Long-term seasonal workers, however, averaged 100 to 110 days of each type of work, but two-thirds of their earnings came from the better paid nonfarm employment.

Of the approximately 680,000 regular and year-round workers employed primarily in agriculture, 570,000 (84 percent) had no nonfarm work; during 1977, they averaged 275 to 300 days of work and earned about $4,800 to $6,500.

The remaining 15 percent worked in both sectors, but spent approximately twice as many days in farmwork. As a group, both those who worked only on farms and those in both farm and nonfarm work had

TABLE 3. Hired farmworkers: days worked and earnings of workers with farmwork only, and with both farm and nonfarm work, by class of worker, 1977

Item	Total	Casual	Seasonal		Regular	Year-round
		Less than 25 days	Short-term 25–74 days	Long-term 75–149 days	150–249 days	250 days or more
Total number of workers (thousands)	2,730	1,056	667	322	295	391
Workers with farmwork only						
Number (thousands)	1,599	466	359	202	223	350
Average days worked	123	9	45	106	206	312
Average annual earnings	$2,588	$144	$750	$2,136	$4,845	$6,548
Workers with farm and nonfarm work						
Number (thousands)	1,131	590	308	120	72	41
Days of farmwork	[1]	9	44	106	189	[1]
Days of nonfarm work	[1]	140	124	113	84	[1]
All days of work	[1]	148	169	219	273	[1]
Average nonfarm earnings	[1]	$3,547	$3,179	$3,531	$2,111	[1]
Average farm earnings	$ 957	$ 160	$ 782	$2,172	$4,449	$6,440
Average total earnings	$4,222	$3,719	$3,998	$5,763	$5,338	[1]

[1] Base less than 50,000 persons.

SOURCE: Gene Rowe, *The Hired Farmworking Force of 1977*, Report 437 (U.S. Department of Agriculture, Economics, Statistics, and Cooperatives Service, 1979), tables A8 and A11.

TABLE 4. Median earnings of hired farmworkers, by class of worker, 1977

Class of worker	Total median earnings	Median farm earnings		Median nonfarm earnings of farm/ nonfarm workers
		Amount	Percent of total earnings	
Casual	$ 348	$ 103	30	$1,057
Seasonal				
Short-term	912	676	74	1,748
Long-term	2,328	1,938	83	2,039
Regular	4,635	4,140	89	1,250
Year-round	6,657	6,554	98	[1]
All workers	1,612			

[1] Base less than 50,000 workers.
SOURCE: Gene Rowe, *The Hired Farmworking Force of 1977*, Report 437 (U.S. Department of Agriculture, Economics, Statistics, and Cooperatives Service, 1979), tables A14 and A15.

about the same annual earnings, ranging from $4,900 to $6,500.

It is evident from Table 4 that median farm earnings of regular workers constituted 89 percent of their total earnings, while for year-round workers, these earnings equaled as much as 98 percent.

Social security earnings records for 1975 show similarly low farm earnings for most workers; about 23 percent of the 2,348,000 workers who were reported to have farm earnings had less than $400 in 1975. Without nonfarm earnings, such workers could have qualified for benefits in only six States.[33] Another 23 percent of these workers earned between $400 and $1,000, which, depending on statutory provisions, would have enabled them to qualify for benefits in 36 States. Following is the percent distribution of farmworkers' earnings from farmwork, 1975:[34]

Total	*100.0*
Under $200	8.2
200–399	14.8
400–999	22.6
1,000–2,499	22.9
2,500–4,999	15.7
5,000–7,499	8.4
7,500–9,999	4.0
10,000–14,000	2.1
14,100 and over	1.2

The table below taken from Department of Agriculture figures, indicates the significance of nonfarm work in elevating farmworkers' earnings—for example, while only 12 percent had farm earnings of $5,500 or more, twice as many fell into this category when nonfarm earnings were taken into account. At the other extreme, compared to three-fifths who earned less than $1,000 from farmwork, only two-fifths had such low total earnings:[35]

1977 earnings of hired farmworkers

	Total annual	*Annual farm*
Total (percent)	100	100
Less than $1,000	41	60
Less than $500	28	46
$500 to $999	13	14
$1,000 to $5,499	36	27
$1,000 to $2,499	17	15
$2,500 to $3,999	11	7
$4,000 to $5,499	8	5
$5,500 and over	24	12
$5,500 to $7,499	9	5
$7,500 to $9,999	8	5
$10,000 and over	7	2
Median earnings	$1,612	$620

Migratory farmworkers. Within the last century, the demand for agricultural labor has grown, requiring more labor than is usually available in many localities during the peak seasons—planting, cultivation, and harvest. In earlier decades, seasonal peak demands were often met by the sharing of tasks among neighbors, families, and friends. In spite of increased use of labor-saving devices, agriculture still requires the use of workers from outside the local area. Tens of thousands of farmworkers travel, generally from southern to northern crop areas, during some part of the year, harvesting a variety of crops. This migration has developed into regular patterns and is commonly organized by crew leaders.

Contrary to popular stereotypes, most hired farmworkers are not migrants. In 1977, only 7 percent (191,000) of all hired workers left their usual residences and crossed county and State lines to perform farmwork. Nearly four-fifths were men and two-fifths were heads of households; 58 percent were white and 31 percent Hispanic. Nearly 55 percent of the migrant workers were under age 25—about the same as nonmigrants, but fewer were students.

Despite the irregularity and uncertainty of their employment, the migrants usually worked more days of the year than hired workers:[36]

Days of farmwork 1977	Migrants	All farmworkers
Total (percent)	100	100
Under 25	20	40
25–74	38	23
75–149	18	11
150–249	11	11
250 and over	12	14

Migratory workers who worked only in agriculture had higher earnings than nonmigrants, although both had about the same number of workdays. As more experienced workers, they had more job options than local workers, and their earnings, more often at piece rates, were higher than those of a substantial proportion of local workers who were usually paid by the hour. Migrants averaged $23 per day, nonmigrants $20. Among those with both farm and nonfarm work, migrants had higher earnings and more days of work. The following table shows the employment and average annual earnings of migratory and nonmigratory farmworkers in 1977:[37]

	Migratory	Nonmigratory
With farm and nonfarm work		
Number (thousands)	191	2,540
Days worked	151	144
Earnings	$3,761	$3,228
Farmwork only		
Number (thousands)	99	1,501
Days worked	118	124
Earnings	$2,882	$2,569
All with farmwork	$2,263	$1,886

The fact that 20 percent of Hispanic farmworkers were migrants (compared to approximately 6 percent of the whites and blacks) helps to account for their higher average earnings. As shown below, their 1977 median farm earnings were more than double those of whites and one and one-half times those of black workers; two-fifths of Hispanic farmworkers had total earnings of $4,000 or more, compared to one-third of the white workers:[38]

Farmworkers	Number in sample	Median farm earnings	Percent with earnings of $4,000 or more	
			Farm earnings	*All earnings*
White	1,974	$ 493	14	32
Hispanic	294	1,325	30	40
Black and other	462	829	22	29

Distribution of farm employment. Conrad Fritsch has noted that in 1977, States with the largest numbers of farm employers hiring seasonal labor did not necessarily have the highest proportion of hired workers. In States such as California, Florida, Washington, and North Carolina, from 18 to 33 percent of the farm employers had 20 or more seasonal workers, but Iowa, Texas, and Kentucky had far greater numbers of smaller employers. Only 3 to 7 percent of these employed 20 workers or more, however.[39]

Fritsch called attention to the differing perceptions of full-time work in agriculture and nonagricultural settings. In the nonagricultural setting, full-time work means 240 to 250 days per year (48 to 50 5-day weeks); in agriculture the definition refers to a minimum of 250 days per year. By nonfarm standards, many workers with less than 250 days of farmwork would be considered full-time. Furthermore, the class-of-worker terminology (casual, seasonal, regular, full-time) refers to farmwork days only—although in many instances two of every five workers have nonfarm employment as their principal activity.

The Effects of Public Law 94–566

A definitive report on the impact of Public Law 94–566 cannot be made now, after only 2 years of operation. Like any new system, the law has encountered operational difficulties that are expected to diminish in time. Although employer registrations are more complete, many workers and employers remain unfamiliar with their rights and obligations because the system is new. Further confusion arises from turnover, as enterprises merge, emerge, and disappear. In future years, a better analysis will be possible of the types of covered employing units, utilization of benefit rights, benefit costs, and the interrelationships of the farm and nonfarm labor force. However, the dimensions and characteristics of the substantial unprotected sector—both employers and workers—are bound to remain uncertain.

Increased coverage

The State agencies' initial preparation for agricultural coverage centered on identifying employers who would have to submit reports on covered employment, payrolls, and contributions due under the new law. In this effort, these agencies relied upon the Internal Revenue Service to identify agricultural employers covered by social security and the DOL to identify registered labor contractors. They also used membership lists of growers' organizations, and consulted agricultural cooperatives and similar groups. They provided explanatory materials to these organizations, and also sponsored meetings for interested groups to explain the program and the obligations of covered employers and workers. Employer and labor organizations developed informational and training materials to supplement agency activities.

Despite these and other resources, not all employers whose employment and payrolls meet the statutory criteria for coverage have been registered. Some employees are missed (for varying periods) because of the failure of employers to file reports and pay contributions due or because agency personnel have failed to identify such noncompliance. The benefit process itself

will uncover such noncompliance when claimants allege prior employment with employers who have escaped or evaded registration. As in other administrative areas, such gaps are addressed when they are found to create "problems" in the claims process, as when zero contributions are found inconsistent with evidence of employment and wage payments.

The number of farm operators who use hired farm labor is uncertain.[40] Several estimates are available from government agencies:

- Social Security Administration, OASDI—361,000 (1975). Based on employers' reporting payment of at least $150 in wages during the year.
- Census of Agriculture—700,000 (1974). Based on enumeration of employers paying wages to hired farmworkers during the year.
- Department of Agriculture—1,000,000 (1974). Estimate developed for the use of the Division of Employment Standards, U.S. Department of Labor.
- Employers found liable under Federal and State unemployment compensation laws who are included in the State agency quarterly employment and payroll reports to the U.S. Department of Labor. The tables in this section reflect the 1978 increase in covered employment over 1977, before and after Public Law 94–566 took effect.

Estimates of current UC coverage suggest that no more than 6 or 7 percent of all agricultural employers are liable for contributions under relevant Federal and State laws. Reports from all State agencies for the first quarter of 1978 show a total of 37,078 reporting units in the crop and livestock producing industries alone, compared to 28,043 during the same period in 1977, when only a handful of workers (aside from California and Minnesota) had been protected.[41]

California employers had covered thousands of farm workers through voluntary election prior to beginning compulsory coverage, in 1976, of virtually all employers with one worker or more. In Minnesota, several hundred workers obtained protection through employers' voluntary election before the law was amended in 1974. The amendment included employers of four or more; average covered employment in 1976 reached nearly 5,000. Enactment of Public Law 94–566, therefore, did not add to farmworkers' protection in these two States.

Information on farms using hired labor was also obtained from a comprehensive study undertaken in 1969 by a consortium of agricultural colleges in cooperation with the U.S. DOL. In this 15-State study, 500,000 farms were examined; of these, 361,000 were commercial farms, and 72,000 used hired labor.[42] Accepting the estimate that the study covered one-fifth of the nation's farms, an extrapolation to the nationwide total of farmers using hired labor would give 360,000, quite near the 388,000 OASDI figure for 1969.[43]

James Holt and Dennis Fisher estimate that there were 2.3 to 2.8 million farms in 1974, about 0.8 to 1.0 million using hired labor. Fourteen percent of the farms accounted for 70 percent of all hired labor expenditures. At the other extreme, 64 percent of the farms made less than 13 percent of such expenditures.[44] Corporate farms, 2 percent of all farms, represented 3.3 percent of those using hired labor, but they accounted for 35 percent of all expenditures on hired labor and for a major share of all covered employment.

Table 5, using information drawn from State agency reports in 12 States with a significant amount of hired farm labor, compares 1977–78 covered employment and payrolls—before and after the impact of the Federal coverage extension. These 12 States account for about 2 out of 3 farmworkers in the country who were covered by State unemployment insurance laws during the months July through September of 1978. Table 5 includes data on crop and livestock production, the industries most affected by UI coverage extension during 1978 and 1979.

Table 6 compares national totals of employers, employment, and payrolls for July through September 1977, and January through September 1978, in Standard Industrial Classification industries 01 (crops), 02 (livestock), and 07 (agricultural processing), with California data for July through September 1977 only. The data indicate the following:

- A substantial increase in U.S. coverage took place following the effective date of Public Law 94–566;
- Virtually all of the increase took place in crop (01) and livestock (02) production;
- A substantial part of the 1977 coverage was attributable to California, which covers virtually all employers with one worker or more; and
- Agricultural services (quite fully covered since 1970) accounted for 20 to 25 percent of covered employment and for payroll equal to 30 percent of the combined crop and livestock production payroll.

In crop and livestock production, where the impact of Federal coverage extension was concentrated, California accounted for 82 percent of the covered employers, and 84 percent and 79 percent of monthly employment and payrolls, respectively. These high percentages are attributable to the 17,000 covered employers with one to nine employees who are excluded from FUTA coverage and would not be covered in most of the other States.[45]

While coverage in the 12 States shown in Table 5 increased substantially between 1977 and 1978, the degree of change differed among the States even more substantially. Four States, Florida, Pennsylvania, New York, and New Jersey, doubled or tripled their number

TABLE 5. Employing units, average monthly employment, and payrolls in crop and livestock production, third quarter 1977 to second quarter 1978 and third quarter 1978 to second quarter 1979

State and Industry	Employing units		Average monthly employment		Average monthly payrolls (in thousands)	
	1977–78	1978–79	1977–78	1978–79	1977–78	1978–79
Arkansas [1]						
Crops [2]	39	337	171	4,714	$ 102	$ 2,721
Livestock [3]	60	91	1,303	2,566	721	1,633
California						
Crops	18,500	19,578	268,360	286,329	138,857	157,549
Livestock	4,519	4,810	28,066	30,192	18,332	21,619
Florida						
Crops	350	1,132	2,800	43,075	2,578 [1]	24,529 [1]
Livestock	84	364	472	7,078	333 [1]	5,005 [1]
Iowa [1]						
Crops	101	148	1,150	2,294	704	1,749
Livestock	91	124	895	1,262	1,275	843
Minnesota [1]						
Crops	340	404	4,632	4,936	2,581	3,245
Livestock	256	242	2,391	2,668	1,333	1,577
Mississippi [1]						
Crops	6	399	29	8,249	11	3,507
Livestock	7	51	118	1,881	54	1,360
New Jersey [1]						
Crops	145	620	983	9,243	836	5,070
Livestock	47	68	371	613	2,633	3,873
New York [1]						
Crops	220	546	3,623	7,718	1,054	5,551
Livestock	109	172	1,346	2,298	496	1,526
Ohio						
Crops	2	278	81	8,065	167	4,373
Livestock	21	64	219	1,068	388	668
Pennsylvania						
Crops	130	340	1,200	8,039	794 [1]	5,281 [1]
Livestock	21	64	580	2,409	415 [1]	1,413 [1]
Washington						
Crops	39	665	665	25,321	344	11,686
Livestock	11	81	787	1,933	157	1,502
Wisconsin [4]						
Crops	238	298	3,224	3,945	2,027	2,598
Livestock	61	87	1,402	1,658	852	1,256

[1] Bureau of Labor Statistics data, third quarter 1977, 1978.
[2] Standard Industrial Classification (SIC) industry 01.
[3] Standard Industrial Classification (SIC), industry 02.
[4] State agency data, second quarter 1977, 1978.

of covered employing units; in four other States, Arkansas, Ohio, Mississippi, and Washington, the increase was eightfold to tenfold. In Iowa, Minnesota, and Wisconsin the increase was only 30 to 50 percent.

California's increase in coverage between 1974 and 1978 was more than 20-fold; the 1978 figure encompassed virtually all farm employing units. If adjusted to exclude units with fewer than 10 employees (17,000 to 18,000), the increase between 1974–75 and 1977–78 would have been about fourfold.

Other features of the changes due to coverage extension can be summarized:

- Coverage of employment and payrolls in the crop production industry rose most substantially in Arkansas, Florida, Pennsylvania, Mississippi, New Jersey, and Washington.
- Livestock was at least one-third as important as crop production in Arkansas, Iowa, Minnesota, New York, Pennsylvania, and Wisconsin, even though such farms require less hired labor than those in crop production.
- Iowa, Ohio, and Mississippi had covered virtually no agricultural units, regardless of size, prior to adoption of Federal legislation.

A rough approximation of the average size of covered employing units can be drawn from the relationship between the number of covered employers and their average monthly payroll. In cases where each 100 employing units account for 1 million payroll dollars or more per month, average payroll equals at least $10,000 per month. In six States, Florida, Iowa, New York, Pennsylvania, Ohio, Washington, covered

TABLE 6. Employing units, average monthly employment, and quarterly payrolls in crop, livestock, and agricultural processing, United States, third quarter 1977 and first quarter 1978, and California, third quarter 1977

Industry	Employing units		Average monthly Employment		Quarterly payrolls (thousands)	
	July–Sept 1977	Jan–March 1978	July–Sept 1977	Jan–March 1978	July–Sept 1977	Jan–March 1978
United States						
Total	74,648	84,264	688,147	725,686	$1,201,538	$1,287,669
Crops and livestock	28,043	37,078	354,077	423,320	598,358	745,483
Crops [1]	21,631	28,498	306,050	332,623	503,196	560,155
Livestock	6,412	8,580	48,027	90,707	95,162	185,328
Agricultural processing	46,605	47,186	334,070	302,366	603,180	512,187
California						
Total	30,568		417,407		661,365	
Crops and livestock	23,019		296,426		471,567	
Agricultural processing	7,549		120,981		189,798	

[1] SIC industry 01.
[2] SIC industry 02.
[3] SIC industry 07.
SOURCE: Bureau of Labor Statistics and California Economic Development Department, unpublished data.

units averaged $10,000 or more per month. In the remaining States, average monthly payrolls were slightly lower: California, $7,000; Arkansas, Minnesota, and Wisconsin, $8,000; and New Jersey, $8,500. These rough figures indicate that statutory coverage criteria have made protection available only to employees of the largest units. They do not indicate which of the two FUTA criteria the farms meet.[46]

Under FUTA provisions incorporated into State laws, employers' liability for 1978 coverage was based upon their agricultural payrolls or employment after December 31, 1977.[47] Employers could not have met the payroll criterion for liability until after the first quarter of 1978, nor the employment criterion until the end of the second quarter. Because employers' quarterly employment reports to State agencies are not due until 30 days after the end of the quarter, during 1978 many workers did not know until mid-year or later whether they were working for a covered employer.

Even where coverage terminology in State laws is identical, the proportion of all farmworkers in covered employment varies considerably. J. Elterich and L. Graham found nearly 90 percent of all Florida workers in covered employment, in contrast to less than 15 percent in Vermont. Crop mix is also a variable, with the proportion of all workers covered varying from 40 to 75 percent, depending upon whether crop concentration is in poultry, tobacco, vegetables, general farms, or field crops. Looking at these five farm types alone, Elterich and Graham found that they accounted for 2 percent of all employers subject to coverage in Texas, and 16 percent in Florida. The same employers accounted for 12 percent of all farmworkers covered in Texas, and for more than 50 percent of those covered in Florida.[48] James Holt and Dennis Fisher document related differences—in California, Arizona, Nevada, and Hawaii, 77 percent of all hired workers were on farms with nine workers or more in contrast to Nebraska, Kansas, Iowa, and Missouri, where only 10 percent of all hired workers were employed on such farms.[49]

Benefit payments

The newly extended coverage resulted in substantial increases in benefit payments to farmworkers between 1977 and 1979. In States where farmworkers had previously been entitled to benefits because their employers had been covered by statutory mandate (in Minnesota and California) or by elective coverage of both production and processing workers, 1978 and 1979 benefit payments showed increases of smaller magnitude than in States with little coverage in 1977. (See Table 7.)[50]

In 1979, increases over 1978 benefits varied widely among the States, ranging from insignificant to 500 percent or more. The greatest increases in benefit outlay took place where the most limited coverage had existed prior to the coverage extension effective in 1978.

In the following observations, changes in benefit outlays from 1977 to 1978–79 are treated briefly because in many States very few workers could qualify for benefits until mid-1978. Payments made in most States in 1977 and the first half of 1978 (except Minnesota and California), were Special Unemployment Assistance (SUA) benefits, from a temporary Federally financed program aiding workers having no rights under the "regular" State unemployment compensation programs. Although precise figures are not available, it

TABLE 7. Unemployment compensation benefit payments paid to crop and livestock farmworkers (in thousands of dollars) and percent increase, selected States, 1977–79

	Crop workers			Livestock workers			Percent increase	
	1977	1978	1979	1977	1978	1979	1978–1979	
Arkansas	$ 154	$ 96	$ 454	$ 8	$ 10	$ 113	373	1,030
California [1]	22,916	69,019	68,056	1,005	53,363 [2]	2,508	(−1)	(−3)
Florida	353	3,411	4,092	18	150	179	20	20
Iowa	62	93	133	52	65	73	43	12
Minnesota	709	791	958	269	210	257	21	22
Mississippi	4	57	901	11	30	77	1,480	157
New York	7,843 [3]	9,064	9,879					
Ohio	3	114	730	34	26	60	540	131
Pennsylvania	365	399	1,038	53	82	138	16	68
Washington	415	1,605	1,953	16	88	141	22	60

[1] August to July 1977–78 and 1978–79.
[2] July to June 1976–77 and 1977–78.
[3] Crops (SIC 01), livestock (02), and agricultural processing (07) combined.

seems likely that more farmworkers received SUA payments in 1977 than received regular State benefit payments in 1978, because the temporary program operated under less restrictive coverage and qualifying provisions.

The marked differences between the substantial 1978 benefit payments to crop production workers in Minnesota ($700,000) and in other medium-sized States such as Arkansas ($96,000), Iowa ($93,000), and Mississippi ($57,000), and even in the larger States—Ohio paid $114,000, and Pennsylvania paid $400,000—are attributable to Minnesota's more comprehensive statutory coverage. California's benefit payment experience is unique, for the substantial payments in 1977, approximately $23 million, were due to its coverage of virtually all farm employment. These payments rose to $68–69 million per year in 1977–78 and in 1978–79.[51]

Only in Arkansas, Iowa, Minnesota, and Mississippi, where livestock production is a major industry, did 1978 or 1979 payments to livestock workers amount to as much as one-fourth to one-half of crop production workers' benefit payments. The difference in relative importance of the two industries is likely to continue in these and other States, depending on shifting uses of land, labor, and machinery; exports; and other market factors.

The 1977–78 increase in benefits was greater for crop production workers than for workers in livestock production. Not only did the number of crop production workers increase greatly, their earnings were higher as well. They were more likely to work at piece rates averaging $3.75 per hour in 1978, at least 20 percent higher than workers paid on any other basis. When both were paid at hourly rates, field workers were paid rates about 10 percent higher than rates paid to livestock workers.[52] Yet the influence of different hourly and weekly wage rates on the year's benefit outlay, by way of their effect on weekly benefit levels, is substantially less than the influence of average duration of benefits. This depends on the level of unemployment and its duration.

While this report has referred to the States with the greatest proportion of farmworkers in large establishments as having the highest proportion of covered farmworkers, it will require additional research to identify the characteristics of those States that provide farmworkers with the greatest (and the least) benefit protection.

Record problems with social security numbers and family names

Social security numbers. Because of the vital role of the social security account number in identifying covered workers, claimants, and beneficiaries, it has been the focus of administrative attention since the OASDI and UI programs began.[53] The account number serves its purpose best when individuals use only one number and name for all employment and social insurance purposes. If, for whatever reason, portions of a worker's earnings are reported under two account numbers or more, that person's benefit rights are divided among multiple accounts. This problem can be corrected if the UC agency and the Social Security Administration are asked to combine the records that were formerly maintained under different social security account numbers.

The number of social security account numbers issued grew from 43 million in 1938 to 235 million in 1975; growth alone has contributed to the increased chance of misuse, including unintentional misuse.[54] The most common problems arise from the use of the same account number by several family members, and from an individual's use of more than one number. Examples of deliberate misuse have been encountered everywhere; no industry or occupation is exempt. Such misuse is

most common in industries with many part-time and casual workers, and high turnover. Many workers appear to believe that they should get a new number with every job change. When claiming benefits they find that they have lost wage credits earned under numbers formerly used.[55]

A continuing public information campaign focuses on the proper use of the social security number, both to correct misinformation and to inform the many youths and women entering or reentering the work force. Some State agencies report that common types of misuse have declined since 1978, reflecting public information efforts and the lessons of experience. A worker who encounters difficulties in filing a benefit claim, because one or more previous social security numbers were used and cannot be recalled, is likely to be more careful in the future.

Problems of misuse of the social security number are apparently common in types of work where job changes from employer to employer and State to State are frequent. Perhaps only a small percentage of workers in these occupations actually have such problems, but perceptions of these workers may be distorted, especially when some of them differ from the general population in language and culture. In any case, the number of farmworkers with many employers is commonly exaggerated; only 18 percent had more than one employer in 1975, and only 8 percent had three employers or more.[56]

Family names. Problems with employment and claims records of workers with Hispanic family names become more difficult to solve when found in combination with misuse of the social security number. Such problems have increased with rising immigration from Puerto Rico, Mexico, and Central and South America, as well as from Spanish- and Portuguese-speaking Europe and Africa. The number of immigrants from Spanish-speaking America rose from 619,000 in 1951–60, to 997,000 in 1961–70, and to almost 2 million in 1973–77. "Undocumented entrants" are estimated to be in the millions. About 11 percent of the hired farm labor force and 31 percent of the migrant workers are of Hispanic origin.

Hispanic names are the present focus of attention formerly directed to Irish, Italian, or Slavic names. Difficulties have also arisen when payroll records reverse the order of two-part family names (father's family name, followed by mother's), or when one part is omitted. The processing of benefit claims is then delayed when a request to a claimant's prior employer for verification of earnings and employment is returned with the statement that no such person's record exists. Remedies are easier to find when social security numbers match. In mismatch cases, action on a claim can depend upon verifiable base-period earnings with other employers.

Such problems are not peculiar to farmwork. Agency personnel state that garment manufacturing, hotel and restaurant work, food processing, and other industries may have more difficulties. Cooperative efforts among State agencies, employers, community groups, and farmworkers' unions have helped to alleviate the severity of these problems.

Impact of coverage extension upon the farm labor force

Will the availability of unemployment benefits act as a disincentive to workers seeking or accepting farmwork? This concern is commonly focused on migratory workers. It should not occasion surprise when farmworkers, like workers in industry and commerce, look upon UI as a program providing a new source of income during layoff and unemployment that makes it unnecessary to accept the first job offered if the wages and working conditions are less favorable than prior customary work. Before UI, the pressures of no work and no income forced workers to accept substandard employment or to leave home to seek work elsewhere. Employers, when rehiring, incurred costs of recruitment and training of new employees to replace those who had gone elsewhere to find work. UC thus benefits workers *and* employers.

For the 40 percent of the hired farm work force who also engage in nonfarm work, UI is not an unknown quantity. Increasingly, as agriculture demands the same skills utilized off the farm, it competes with industry for the same kinds of workers. Therefore, agriculture must offer the same fringe benefits and be responsive to pressure for the same labor protective measures available in industry.

It is possible that what has been believed to be the effect of work disincentives is actually merely the decline in the migratory farm labor force. From 1960 to 1965, the migrant farm labor force stood at about 400,000, but receded to about 200,000 by 1970. Since then it has remained near that figure. Labor-saving machinery, along with conditions limiting opportunities for migrant workers, has contributed to this decline. So has the enlargement of local commuting labor markets; increasing possibilities of finding year-round employment at attractive wages in local areas have reduced the former earnings differential favorable to migrant labor. Governmental and private training programs to help farmworkers obtain and improve skills required in nonfarm work are adding to this transition.

Broadened UI coverage has become influential in motivating farm employers and workers to establish more stable work relationships; employers attempt to reduce their UI tax liability by using fewer workers for longer periods, and employees seek to maximize their UI entitlement.[57] The increasing availability of other fringe benefits also contributes to this tendency to hire fewer

workers for longer periods. Concern over the adverse, disincentive effect of UC may result from misinterpretation in some areas where migrant labor has already been displaced by local labor and mechanization.

On the other hand, providing unemployment benefit protection to farmworkers reduces the competitive attraction of nonfarm work. It is this consideration that has led some employers to voluntarily elect coverage of some or all of their employees. As farmwork increasingly demands skills comparable to those in nonfarm jobs, UI coverage will be increasingly accepted as necessary and as helping to slow (rather than accelerate) the abandonment of the farm for nonfarm jobs.

Special Problems and Issues

Only a few of the many important policy issues and administrative problems relevant to agriculture and farm workers can be addressed in a report of this length. Some issues concern program policy and legislation, others address administration and operations. For example, whether aliens not lawfully admitted to the United States for permanent residence can receive State unemployment benefits affects management of UI programs for both farm and nonfarm workers, and is at the same time a Federal legislative concern.

Prompt payment of benefits to those who have worked in more than one State or for more than one employer is vitally important to all workers, both farm and nonfarm. Administrative problems may be more complex and difficult in the farm sector, but this is not an adequate reason for failure to deal promptly with any worker's claim. Claims of all workers should be investigated efficiently and should uniformly meet DOL standards.

Protection of multistate workers

The charge placed upon the Commission includes the "examination of problems of claimants in obtaining prompt processing and payment of their claims for benefits, and any appropriate measures to relieve such problems."

State and Federal agencies have long emphasized two goals for interstate benefits payment arrangements: to assure that workers receive all the benefits due them, and to avoid duplication of benefit payments.

From the first, promptness of benefit payments has been a key measure of UC program effectiveness. Almost forty years ago, in the 1946 "Calhoun Report" to the House Committee on Ways and Means, a review of the program noted that the comparative slowness of interstate payments was a "continuing interstate problem." [58] The causes cited included "cumbersomeness of interstate claims procedures"; the reporting burden on multistate employers; the fact that "agent" States (States of claimants' residence) were unfamiliar with laws of States liable for payment (States of claimants' employment), resulting in inadequate factfinding; and "the apparent reluctance of some States to enter into interstate compacts and agreements."[59] Many of the same problems remain, causing continued delays in payment of interstate benefits.

Although interstate workers account for only 7 or 8 percent of all hired farm labor, they are commonly perceived as representing a higher proportion. Because of this misconception, concern about interstate payments has grown with the extension of coverage to the agricultural sector.

Witnesses appearing before the National Commission recited the hardships borne by migrant farmworkers because of delays in determining their entitlement and in payment of benefits. Excessive time had been required to obtain and process wage, employment, and separation information from claimants' former employers and from administrative agencies in the State or States where the claimants were employed during their base period.[60]

The DOL's performance standard calls for 70 percent of interstate claims to be paid within 14 days. Thirty-seven jurisdictions met this standard during the months April through September 1979; 33 met the DOL's 80 percent standard for intrastate claims. It appears that States unable to pay intrastate claims promptly usually have a similar difficulty in paying interstate claims.

The scope of the problem is not great in terms of total claims: in the year ending June 30, 1977, interstate claims constituted less than 5 percent of all initial claims filed (some 300,000 out of 6.2 million). Farmworker interstate claims may account for up to 10 percent of all interstate claims or up to 30,000 per year. Under the interstate wage combining arrangement, covering interstate claims on more than one liable State, interstate claims accounted for only 2 percent of all initial claims in the first quarter of 1979.[61] However, they accounted for more than 6 percent of all payments, because workers filing such claims were unemployed for longer periods.[62]

Delays in payment require continuing attention. Sixteen jurisdictions failed to meet the DOL's performance standard for payments in the months April through September 1979. Within that period, as many as five jurisdictions made fewer than 60 percent of their initial interstate payments in the suggested 14 to 21 days after filing, and two jurisdictions fell below 40 percent. Clearly, workers who have worked in more than one State are at a disadvantage when unemployed and claiming benefits, and migrant farm claimants are probably at a greater disadvantage than most. Farmworkers would constitute a greater proportion of claimants if farm labor coverage were more broadly extended.

Proposals to improve the interstate process have been studied more intensively since the 1975 recession, when promptness of payment fell sharply as the process was swamped by a flood of regular claims. Any proposal for change would have to be accepted by all States, or at least by those processing the most interstate claims. In principle, the payment process cannot be initiated until employers respond to an agency request for information on the circumstances of the claimant's separation from work.[63] Assuming the most efficient operation, effective computer operations, and the minimum time to obtain base-period wage and employment data, it usually takes at least 1 week before the claim and benefit process can begin.

One new proposal pertains primarily to migrant workers who are employed by crew leaders.[64] Crew leaders employ many of the farmworkers covered by Public Law 94–566, so significant improvements would result from promptness in making benefit payments to this group. The plan focuses on a major source of delay in processing benefit claims from multistate farmworkers, namely the inability of the agent State to determine promptly whether the former employer was covered at the time the claimant worked for him.[65]

This proposal, the Base of Operations (BOO) plan, would make all crew leaders liable under the law of the BOO State, usually their State of residence under the Farm Labor Contractor's Registration Act of 1964 (FLCRA), as amended in 1974. States could accomplish this by appropriate interpretation of the statutory localization provisions.

Although this plan would simplify tax and benefit administration, it has significant disadvantages. Multistate workers would receive benefits more promptly, but benefits would be much lower in many cases, and administrative and benefit costs would be shared unevenly. As of mid-1979, it seemed clear that the plan would not be adopted because of the reluctance of key States to enter into the agreement.

Several experiments involving groups of four to five adjacent States are utilizing advanced telecommunications methods, substitution of the telephone for flow of documents, simplified procedures and improved quality control, and other means of achieving more prompt, accurate claims and benefit processing and reduction of improper payments. As experience accumulates and solutions to apparent weaknesses are tested, new and better approaches may be adopted by more and more States.

Modification of the combined wage credits plan. Federal law requires all States to participate in the plan for combining wages developed by the Secretary of Labor in consultation with the States. The interstate combined wage credits plan could be modified to obtain more prompt claims service to migrant workers. An advantage of this alternative is that all States would be required to participate. However, because combined wage claims are a very small minority of all interstate claims, this change would not improve performance for the larger number of interstate claims that do not call for combining wage credits.

Recommendations. The issue of ensuring prompt payment of benefits on interstate claims filed both by farm and nonfarm workers is too complex to be resolved by any single approach. Thus both improved legislation and more efficient performance of those procedures containing obstacles to prompt payment must be sought. The Commission should support the adoption of more uniform State coverage provisions, especially for comprehensive coverage, to ensure coverage of all farm employers hiring interstate workers. As noted above, if coverage of agricultural employment were identical with other employment, most queries between local offices concerning coverage status of agricultural employers would become unnecessary.

The Commission should also recommend that the States, in order to improve administration and operation of UI programs as they affect farmworkers:

- Ensure that disqualification and availability provisions applied to migratory farmworkers take into account their language and cultural and occupational characteristics; ensure equal treatment of all claimants.
- Ensure that crew leaders and other employers provide migratory farmworkers with the information necessary to facilitate claim and benefit processing—especially the name and location of the State agency where the employer is registered, as well as his own name, address, and registration number.
- See that their rural employment agencies improve counseling and placement services for migratory and other farmworkers (including opportunities for education, training, and retraining) that will help them fulfill their career goals. Utilize services, already generally available to nonfarm workers, to help ensure that advertised wages, hours, duration, and working conditions are in fact available to workers at job openings to which they are referred. Federal and State UI agencies should make maximum use of monitor-advocate and related remedial services.
- Authorize payment of benefits on the basis of a claimant's self-declaration, where the information reported is internally consistent and not in conflict with other information possessed by the agency.
- Require current wage reports from employers who are tardy in responding to wage information requests.
- Participate in experiments using advanced technology and communications and simplified procedures, to improve the promptness and accuracy of claim and benefit operations; make legislative commitments to providing adequate personnel and funds to advance and expand the scope of these approaches.

- Make general use of telephone and other rapid communications between agent State offices and liable State offices, to speed up identification of interstate claimants' former employers, verification of their coverage status, and transfer of wage, employment, and separation information.

Alien disqualification

The 1976 legislation (Section 3304[A]) disqualifies from UC any alien who has acquired benefit rights on the basis of services performed unless the alien "has been lawfully admitted for permanent residence . . ." in the United States at the time when such services were performed, or was lawfully present for the purpose of performing such services, "or otherwise . . . permanently residing in the United States under cover of law" at the time the services were performed.[66]

This Federal standard bars States from paying benefits to aliens who do not qualify under this subsection, even when they would otherwise be entitled to benefits. The standard applies equally to persons who were never lawfully present to perform the services in question in the United States, and to those who may have been lawfully present initially but whose permission to remain or to work had expired when the services were performed. This rule is based on the argument that it is not in the public interest to pay benefits to illegal aliens lest this help them to remain in the United States, and encourage illegal entry of other aliens, thus depriving citizens and documented aliens of jobs.

It is the law's intent that agency personnel avoid unnecessary interrogation of individuals who might appear to be aliens merely because of their language, dress, complexion, or other circumstances. In determining individuals' benefit rights, the law forbids States to request information on alien status from any applicant when that information would not be required from any other applicant. It also bars denial of benefits to anyone because of alien status, except upon a preponderance of evidence currently possessed by the agency.[67] Prior to recent legislation, workers who had established rights to UC or social security by working in covered employment could apply for benefits regardless of personal characteristics such as age, sex, citizenship, residence, and literacy.

The disqualification, its administration, and its application have been opposed by organizations of aliens, legal aid organizations, and by others who on principle oppose any disqualification based solely on alien status.

A 1977 amendment to Public Law 94–566, Public Law 95–19, section 302(a), exempted aliens from the disqualification if:

- They were lawfully admitted for permanent residence at the time the services were performed, for which the wages paid are used as wage credits; or
- They were lawfully present in the United States to perform the services for which the wages paid are used as wage credits; or
- They were permanently residing in the United States "under color of law."

The amendment helped to clarify the status of aliens whose entitlement to benefits might have been questioned under the 1976 language. Local office personnel must determine whether claimants meet one of these conditions. Explanatory materials on the exemption for residence "under color of law," for example, show that it includes persons who entered the United States from one of several foreign countries; children and parents of citizens; and persons who entered the United States before certain specified dates, as "permanently residing . . ."

It is widely believed that 1 million or more undocumented aliens have entered the United States annually in recent years. Labor unions often oppose entry of undocumented aliens because they fear that they may take jobs away from citizens or documented aliens and undermine wages and working conditions. A few unions, concerned about weakening standards of wages and working conditions, have taken the position that, as long as employers hire and employ undocumented aliens, it is preferable that they be union members, obtaining wages and working conditions comparable to those of other union workers.[68]

Opposition to the disqualification has been based on a number of arguments, including:

- The statute encourages employers to hire undocumented aliens, for they can expect to avoid possible benefit charges that would have been levied against their experience-rating accounts if the aliens had been able to claim and receive benefits based on their employment.
- The disqualification places a burden on the local office personnel who must interpret the application of immigration laws and regulations. Determining the status of aliens is difficult and likely to result in inconsistent and contradictory decisions among individuals and States.[69]
- The disqualification weakens the beneficial effects of the UC program by denying benefits to many workers involuntarily unemployed and otherwise eligible.

On the other hand, questions are raised concerning the ability of illegal aliens to demonstrate that they are available for work. While they may be able to demonstrate their availability for work by acquiring benefit rights through employment, their *current* availability might be questioned if work is not *legally* available. Some employers do not knowingly hire aliens who are unable to show proof that they are entitled to work. Despite the legal barrier, however, many employers do

hire, and some actively recruit, aliens. Many studies indicate that a majority of illegal aliens have income and social security taxes withheld from their pay.[70]

Issues and options. Does the disqualification of illegal aliens have an adverse effect on workers and the unemployment compensation program? If so, what action should be taken to minimize this effect? There are three possible answers. First, the disqualification and its application are desirable, and no action should be taken to modify them.

Second, the disqualification should be repealed. Such action can be supported on the following grounds:

- The main premise of UC and other social insurance programs, until recently, has been that a claimant who has acquired benefit rights in subject employment and is otherwise eligible should be paid. Denial of benefits on grounds of citizenship or residence weakens the foundation of rights under the system, and might well open it to similar bases for denying benefits. In this particular case, administrative abuse is possible, since citizens and documented aliens are often mistaken for illegal aliens.
- The arguments for the disqualification are weak. It has not discouraged entry of other illegal aliens. Of all population groups, illegal aliens are the least likely to use, and unlikely to overuse, public health, welfare, and educational services. Rather than constituting a drain on the Treasury, they are likely to subsidize it by payment of sales, income, property, and other taxes.
- The jobs that must be performed, many of which are low paying or disagreeable, would go unfilled without immigrants. They ordinarily do not displace household workers but, as they have throughout our history, fill the low-paying, dirty jobs household workers do not want.
- The exclusion of great numbers of workers from protection, weakens the program as a whole.

Third and finally, a middle road may be preferable. This would permit payment of benefits to some claimants disqualified under the current laws, but would not go as far as a full repeal of them. It would call for amending the Federal law so that claimants would become eligible if they could meet conditions (b) and (c) of the 1977 amendment referred to earlier; that is, that they are "lawfully present to perform the services" and "permanently residing under color of law." Claimants who produce evidence that they have resided and been employed in the United States in covered or noncovered employment for at least 3 of the preceding 6 years and intend to work in the United States permanently would be eligible. Permanent residence in the United States would not be required.[71] Their continued participation in the covered work force, producing goods and services, would be regarded as sufficient reason for payment of benefits, were they otherwise eligible.

Recommendation. The Commission should recommend repeal of the disqualification.

Crew leaders vs. farm operators as employers

Public Law 94–566, which extended UI to farmworkers, added special rules (Section 3306) for determining their employer. When a crew leader (labor contractor) furnishes a crew of agricultural workers to perform services for a farm operator, who counts as their employer, and so is liable for payment of the Federal unemployment tax?

The *farm operator* is the employer if:

- the individual is an employee of the farm operator under common law rules of master and servant; or
- the individual is furnished by the crew leader but is not treated as an employee of the crew leader (for example, when the crew leader is acting on behalf of the farm operator rather than as an employer); or,
- the crew leader has entered into a written agreement with the farm operator under which the crew leader is designated as an employee of the farm operator.

The *crew leader* is the employer if:

- the crew leader holds valid certification of registration under Farm Labor Contractor Registration Act of 1963; or,
- substantially all crews members operate or maintain tractors, mechanized harvesting or crop-dusting equipment, or any other mechanized equipment provided by the crew leader; or,
- the individual is not an employee of any other person under common law of master and servant.

Some suggest that the statutory definition, as applied, permits a crew leader to be the employer when it would be more advantageous for members of his crew to be employees of the farm operator. Situations arise in which the crew leaders do not inform workers of their rights to UC, do not properly record or report their wages and employment, or fail to pay UI contributions when due.

Crew members constitute a substantial portion of all seasonal hired workers, as much as one-fourth to one-third of the total in some States.[72] Approximately 8,100 labor contractors registered with the DOL's Employment Standards Administration in 1978. Their applications accounted for more than 510,000 crew members, including interstate and intrastate migratory workers.[73] When operating as employers, crew leaders head some of the largest farm employing units; it is estimated that

when the 1976 amendments took effect 69 percent of the crew leaders in the 15 States included in the NE–58 study had covered employer status, compared with only 6 percent of all agricultural employers in those States.[74]

Crew leaders recruit workers not only for crop production, but also for agricultural services and processing, such as packing, canning, freezing, and cotton ginning. When they act as employers, the crew leaders' role may include all or most of the following: recruitment, transportation, supervision, task assignment, setting hours and compensation rates, and hiring and firing. Whether or not they are acting as employers, the law requires crew leaders to maintain records and to report employment and earnings data, moneys withheld from workers' pay for any purpose, and payment of required payroll taxes. Crew leaders are required to provide the farm operator and crew members with this information.[75]

In Florida and California, crew members are most commonly treated as employees of crew leaders; experienced crew leaders of large crews have the reputation of carrying out their obligations under the UI laws as efficiently as most farm operators. However, the failure of crew leaders and unregistered contractors to fulfill their obligations has led critics to insist that farm operators should be treated as employers, except when operators have entered into a written agreement with crew leaders designating them as employers. Compliance with legal requirements would be fuller, according to these critics, because farm operators can be more readily located when information that they have failed to supply is needed for action on the claims of crew members.[76]

Crew leaders are forbidden to knowingly recruit (or furnish) crew members who are aliens not lawfully admitted for permanent residence. Nevertheless, undocumented aliens work as crew members in agriculture and also as employees in commerce and industry.

The use of labor contractors has become commonplace for thousands of farm operators. Growers and other operators are often unwilling or unable to recruit, transport, supervise, and direct a work force that includes employees with a wide range of skills and experience, and that fluctuates in size during the growing season.[77] Above all, many operators prefer to delegate the function of ensuring the return of experienced, competent crew members from year to year. The U.S. Employment Service could extend its recruitment services to meet more fully the demand for seasonal workers, but it could not appropriately provide many other services presently supplied by contractors. A variety of relationships have developed between labor contractors and farm operators, and contractors serve many needs not otherwise met. For these reasons, treating crew leaders as employers seems appropriate when they perform such roles.

Issues and Options. Should the Congress change the present statutory rule for determining when crew members are employees of the crew leader and when they are employed by the farm operator?

Either the rule, appearing to be working satisfactorily, should remain unchanged, or it should be amended to provide that farm operators are employers of crew members, except when they have a written agreement with crew leaders, whereby the leaders are the employers.

This change would help to remove ambiguity concerning who is responsible for compliance with labor and unemployment compensation laws and regulations, an ambiguity especially important to avoid in this situation, as operator-contractor relationships are often governed by oral agreements. A written agreement can simplify the task of the State agency in ensuring that workers' rights to benefits are not lost because wage, employment, and contribution reports are deficient or missing. While a written agreement cannot ensure full compliance, it should reduce noncompliance and the kinds of irresponsibility that leave workers at a disadvantage.

Recommendation. It is recommended that farm operators be treated as the employer, except in those cases in which they have negotiated a written agreement with a crew leader that designates the crew leader as the employer.

Benefit Costs

Cost is a key issue in discussions concerning extension of coverage to farmworkers. Anticipation of high costs for agricultural employers and State programs has been a major obstacle to coverage extension, in both State and Federal legislation. The benefit costs of coverage extension under Public Law 94–566 were not determined by the end of 1979; even if the 1978–79 costs were known, though they would have limited value as a guide to future costs. Until rates under experience rating become effective, tax rates assigned to newly covered employers may be lower than the standard 2.7 percent rate in some States. In some cases the tax rates may be higher—five States require higher than standard rates for the first year of employer coverage. Such provisions, in addition to the combination of fluctuations in seasonal employment and unemployment, and rising levels of unemployment, presently make predicting costs very difficult. In addition, uncertainties arising from the ignorance of many workers and employers concerning their rights and obligations are creating variations in benefit experience.

In addition to the limited information obtained from the 1978 experience, earlier estimates, derived from a 15-State regional research project carried out in 1959

to 1963, were revised to take account of Public Law 94–566.[78]

Elterich and Graham, the authors of the revised estimates, point out that the costs of benefits are often calculated on an inappropriate comparative basis: criteria for agricultural coverage—10 employees in 20 weeks or a quarter's payroll of $20,000—are quite strict under Public Law 94–566 compared to the criteria, one employee in 20 weeks or $1,500 quarterly payroll, for nonagricultural workers under universal nonfarm coverage. This noncomparability is commonly overlooked, resulting in both over- and underestimates; they explain:

> The increased cost . . . compared to less restrictive coverage provisions, is due to exclusion . . . of employers with a stable or smaller work force, such as dairy, poultry, cash grain, cotton, livestock farms, and ranches.[79]

As anticipated, the studies show that the seasonal character of agricultural production gives rise to higher costs than the average for nonagricultural coverage in most States. Farm employers with highly seasonal operations, like fruit, vegetables, and tobacco farming, pay substantial contributions, but still less than the benefits received by their former workers. Even so, agricultural costs would be no greater than for comparable seasonal industries, such as contract construction, food processing, apparel, and resort industries.

If agricultural employers' tax rates under experience rating were high enough to finance the benefits paid to their workers, most States would need to apply rates of 2 to 4 percent. In States where there are substantially more seasonal workers than regular workers, Rhode Island, Connecticut, New Jersey, and Delaware for example, farm employers' tax rates might be 5 percent or more.[80]

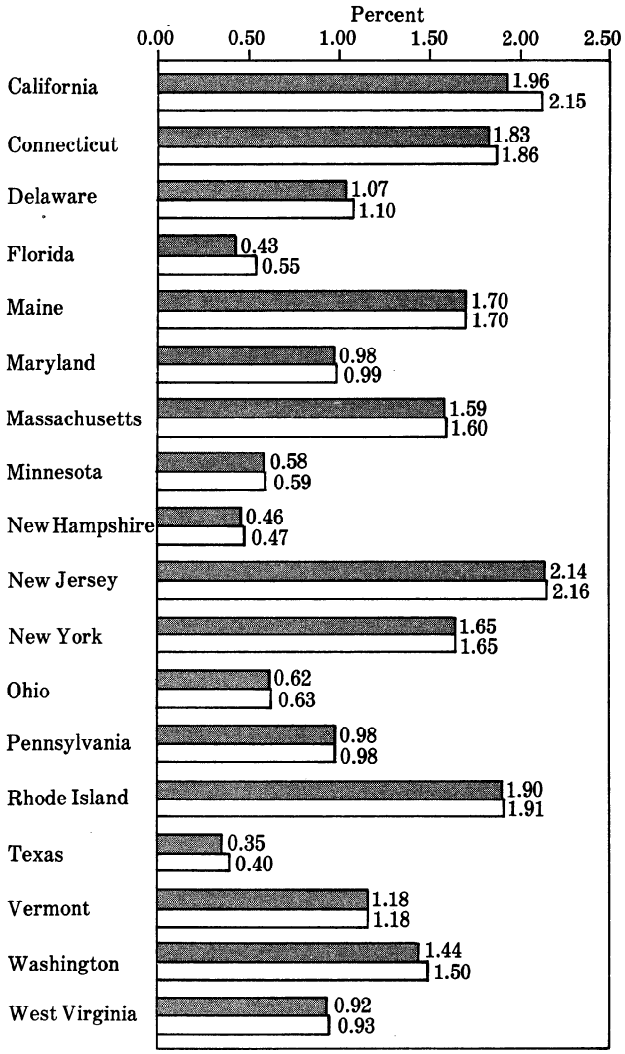
Elterich and Graham point out, however, that more inclusive coverage would spread the tax burden over the smaller employers, who have fewer workers likely to claim benefits. They conclude that covering agriculture under the present Federal provisions "would not constitute a severe drain on any State's fund in the intermediate future." Only two States, New Jersey and Connecticut, would be affected in the short run, because of the low reserve balances in their State funds.[81]

Saul Blaustein produced similar findings, using Administration studies of 18 States during 1969 and the coverage criterion, proposed by the Administration in 1974, of four employees or more in 20 weeks, or $5,000 quarterly payroll. His estimates suggest that there would be only minor differences between cost rates with and without farm labor coverage.[82] (See Figure 1.)

Finally, the estimated differences between farm and nonfarm costs should be understood as less than formerly anticipated, when the substantially higher cur-

FIGURE 1. Impact on the benefit cost rate in selected States resulting from extension of UI coverage to farm employment

Benefits paid as a percent of taxable wages, 1969[a] with and without coverage of farm employment[b] (18 study States)



1969 benefit cost rate excluding farm.

Estimated 1969 benefit cost rate including farm.

[a] 1968 for Washington.

[b] Coverage provision: farm employers with four or more workers in 20 weeks or wages of $5,000 in a quarter.

SOURCE: Saul J. Blaustein, *Strengthening Unemployment Insurance: Program Improvements*, Report on Recommendations of the Institute's Unemployment Insurance Research Advisory Committee, (Kalamazoo, Mich.: W. E. Upjohn Institute for Employment Research, 1975).

rent levels of nonagricultural unemployment are taken into consideration; these levels are expected to continue into 1981, or beyond.

A preliminary study in California showed benefit costs of about 5.5 percent of payrolls for the year ending June 30, 1978; when matched with more recent and longer experience periods, these results will have greater validity.

No attempt to forecast trends is made here, but Elterich has pointed to labor force developments that may reduce benefit costs in States with higher than average costs. In Rhode Island and Connecticut, for example, local students and housewives working on a temporary basis have been replacing the migrants who had been used heavily in shade tobacco production. Migrants are usually able to qualify for benefits, but students and housewives often do not. The long-term result of this replacement would be to reduce the cost of benefits.[83]

As mechanization and other technological change displace hand labor, it will be important to know whether workers in new jobs with higher earnings have steadier work and more employment, and exhibit a lesser propensity to claim benefits, or whether the reverse is true.

Perhaps of greater significance is the apparent absence of interest in contacting State agencies, employers, or others for information on the benefit-cost experience of agricultural coverage during 1978–79. Inquiries directed to a dozen State agencies with substantial farm coverage brought responses to the effect that they had not received requests for information about agricultural coverage cost experience from any agricultural or other interest group. While the lack of recent demonstrations of interest appears to contrast with the sharp interest in the subject manifest when coverage extension was under consideration in the past, this should cause no surprise. When predicted undesired consequences of new legislation do not appear, interest turns in other directions—for example, to the difficulties and frustrations of day-to-day administration. When a further extension of coverage is under consideration, questions concerning costs will probably arise again.

Alternative Approaches to Coverage Extension

The charge placed on the Commission called for study and recommendations regarding further extension of coverage to agricultural workers. A number of issues must be examined in considering extension to agricultural workers who are still excluded. The Committee on Ways and Means of the U.S. House of Representatives specifically requested analysis of (1) the impact of extending coverage on the adequacy, cost, and administration of the current program, and (2) the problems claimants encounter in obtaining prompt processing of their claims for benefits, and the measures necessary to relieve them.

The Committee also called attention to the importance of evaluating certain provisions of the proposed Act, namely

> Extension of coverage to agricultural workers . . . (and) definition of employer in the case of agricultural workers supplied by a crew leader . . .[84]

In 1974, the Nixon administration proposed extension of unemployment compensation coverage to farms having four workers or more in a 20-week period or with payrolls of $5,000 or more in a single quarter. Although this proposal was passed by the Senate, it was killed in the House of Representatives. According to DOL estimates, the proposal would have covered about two-thirds of all farmworkers and taxed approximately 85 percent of all taxable wages paid in agriculture, but only about 7 percent of all agricultural employers would have been liable.[85] The criterion used in this proposal would have greatly increased the numbers of hired farmworkers protected by the 1976 legislation. If enacted, the initial period of operations might have encountered fewer administrative difficulties than were met in 1977–79, because coverage of agricultural and nonagricultural employment would have been more similar.

In recent decades, studies of proposals for extending coverage to agricultural workers have noted that few new issues have been raised by those who oppose extension of coverage. In commenting on the 1970–72 proposals, one investigator found it ironic that the Congressional committee's discussions echoed those of its predecessor, which excluded agriculture in 1935.[86]

Earlier sections of this report have examined administrative problems of the 1976 legislation stemming from differences in the coverage of farm and nonfarm workers. Analysis of alternative proposals for coverage extension should consider how closely extended farm coverage would resemble nonagricultural coverage.[87]

There are several ways in which agricultural coverage could be extended. Some differ by the proportion of State and Federal responsibilities envisioned.

The following options are discussed below:

- voluntary election by employers, without necessarily resorting to legislation;
- legislative amendment by Federal and State Governments; and
- administrative actions to make existing and future coverage provisions more effective.

Should coverage be extended by voluntary election under existing law?

Background. Nonagricultural employers of eight work-

ers or more were covered by Federal law until 1956, when coverage was extended to employers of four or more. Noncovered employers in many industries voluntarily elected coverage, both before and after the amendment.

Before the 1976 Federal act extended coverage to large farm units, some agricultural employers, chiefly in California and North Dakota, had elected to cover their employees under unemployment insurance. In California, 50,000 to 60,000 farmworkers had been given protection voluntarily, prior to statutory extension of coverage by law that took place in 1976. Some employers elected coverage as part of collective agreements with labor unions. Often the statutory coverage of agricultural processing led to voluntary action in other agricultural industries. In large, vertically organized operations performing processing, field packing, transportation, and crop production, some employees took part in more than one of these activities. When processing workers were covered, some employers found it convenient to cover the entire organization.

A DOL study of elective coverage during 1970 showed that this option was seldom used. The study examined 1,085 employers in 28 States. Over 70 percent of the employers were in California and Minnesota; the remaining 30 percent were scattered among 21 other States. One-third of the employers who responded to a questionnaire said "election was undertaken to benefit the employer and his business." Another third said it was done "as a benefit to their employees." [88]

In most farm States, the absence of effective union influence through collective bargaining limits the likelihood of coverage growth via this avenue.[89]

Option. The Commission might adopt the view that further extension of coverage be left to employers' voluntary action. History, however, strongly suggests that this approach would fail to ensure that any substantial number of farmworkers will receive protection against involuntary unemployment.

Recommendation. It is recommended that the Commission not adopt a position favoring elective coverage as a preferred method for achieving further extension of agricultural coverage; such a course of action could not be expected to achieve the extension favored by the Congress.

Legislative amendment—State or Federal?

Background. Legislative history indicates that the Congress intended the 1976 law extending coverage to workers on large farms to be a first step toward more comprehensive protection. Experience under the new law was expected to provide a basis for choosing among alternatives for protection of smaller employers and their employees. The 1976 legislation provided that all States would cover the larger employers subject under the FUTA, and that any State might extend coverage to smaller employing units. As noted above, six jurisdictions currently have broader coverage.[90]

Legislation to extend coverage can be initiated by individual States or by the Congress. Congressional action would require corresponding State action but little State initiative, as most State laws cover employment liable under FUTA.

The State option. States could build on Federal coverage of the larger agricultural units. Each State could assess its own particular industry and manpower needs and legislate further coverage, as interests are identified by its legislature.

Some disadvantages are involved in the State-by-State approach. Many States would hesitate to impose taxes on their employers if neighboring States did not do so, lest they be at a "competitive disadvantage." This drawback is common to many proposals for State legislation. Existing administrative problems due to differences in agricultural and nonagricultural coverage would be exacerbated if State action were relied upon for further coverage.

Proposals for amending Federal legislation to improve State provisions for coverage, benefits, and financing are often opposed on the grounds that States can achieve these results more satisfactorily themselves. State improvements in benefit and financing structures are cited to support this argument.[91]

However, the history of coverage extension does not support this argument. During the past three decades, States have generally awaited or favored Federal action on coverage through amendment of FUTA, as happened in 1956, when coverage was extended to employers of four or more; in 1970, when employers of one or more were covered; and in 1976, when State and local government workers were covered and the agricultural exclusion was narrowed.[92]

The Federal option. Coverage could be extended by Federal legislation. Farmworkers were not protected by unemployment insurance until Congress covered them under the FUTA in 1976. California, Puerto Rico, and Minnesota were the only States to act before the Federal Government; even they acted only when Federal action clearly was imminent—Federal legislation had almost been passed in 1969–70, and there was a substantial volume of research on farm labor coverage from 1969 to 1974.

The disadvantages of a State-by-State approach have been discussed. The advantage of the Federal approach is that it would ensure similar, if not identical, coverage provisions among States. Thus it would avoid adding to the complications that arise from different coverage of agricultural and nonagricultural employment.[93] Em-

ployers and workers who work in more than one State would not have to understand and comply with different coverage provisions, although tax and benefit provisions would still vary. Federal provisions would be modified less often than provisions in many States, so that compliance with the law would be simplified.

Recommendation. It is recommended that the Commission adopt a position favoring extension of coverage through Federal legislation rather than through State-by-State action.

Should agricultural coverage differ from nonagricultural coverage?

Background. Coverage of the nonagricultural sector was accomplished by gradual steps. It took 35 years to extend coverage from employers of eight workers in 20 weeks (1935), to employers of one worker in 20 weeks (1970). The midpoint of this process, extension to employers of four workers or more in 20 weeks, was reached in 1956—21 years after the original act. Those favoring a step-by-step approach to extending coverage to small agricultural employing units might well desire faster progress.

The pace of any gradual extension of coverage depends on the size of the population to be covered. As all but six jurisdictions cover employers with 10 workers or more in 20 weeks or a $20,000 payroll in a quarter, their experience provides no clue. Of the five exceptional jurisdictions covering all farmworkers, only California would be regarded by the remaining coterminous States as comparable in experience. California has covered farmworkers in virtually all employing units, never excluding those units with less than any specified number of workers.

Data from the 1977 15-State study indicate that about 500,000 workers and 4,400 employers in these States would have been covered in 1971, under provisions approximating the FUTA rules for nonagricultural workers.[94]

An earlier set of estimates, based on 1969–70 survey data, compared the coverage employers and workers that would have been provided under four different conditions for coverage:[95]

Number and pct covered	Criterion for coverage			
	8 workers in 26 weeks	4 workers in 20 weeks	1 worker in 20 weeks	1 worker in 1 week
Employers				
Number	4,220	15,139	64,398	72,194
Percent	6	21	89	100
Workers				
Number	436,615	688,485	954,115	999,888
Percent	44	69	96	100

Each increasingly inclusive coverage provision adds proportionally more to coverage of employers than to coverage of workers. Under "1 worker in 20 weeks," 10 percent of the employers remain excluded, but these employ only 5 percent of the workers.

Actual coverage experience in 1978–79 has shown more extensive coverage than might be projected from these estimates (see Table 6). However, the limited coverage provided under the current FUTA language is not likely to prove an adequate basis for projecting the coverage that would be obtained under more comprehensive alternative definitions.

The step-by-step option. On a step-by-step basis, Federal legislation might successively cover employers with six, four, and one or more workers in 10 to 15, 20, or some other number of weeks.[96]

This approach would satisfy those who believe that Federal legislation to further extend coverage within the agricultural sector is unnecessary, or who feel that such Federal legislation is undesirable in principle. Smaller steps would impose fewer new tax and administrative obligations on the industry at any one time. The process of informing employers and workers of their new rights and obligations would be more manageable than if the program were extended to all farm employers at once. The administrative tasks involved would also be decreased.

Under this approach, however, differences between agricultural and nonagricultural coverage would continue to complicate administration and impede the public understanding of the program, understanding which is essential if employers and workers are to be aware of their rights and obligations.

If FUTA coverage were broadened in steps, perhaps at intervals of 2 to 5 years, State laws, regulations, and procedures to comply with the extensions of coverage would have to be altered each time. Presumably, State compliance arrangements would begin anew, some time after the preceding changes had been absorbed into the system by employers, workers, and administrative staffs. Retraining of employers and of agency staffs would be necessary for each new set of statutory and regulatory changes.

Visualizing different needs, the States might meet them in varying ways. Some States would not extend protection beyond existing limits; others might extend coverage in differing intervals of employment and payroll size. Difficulties arising from State farm coverage criteria differing from the FUTA criteria and from nonagricultural coverage would complicate claim and benefit operations.

If the step-by-step option were used, the administrative complications for multistate employers and workers would be even greater than for interstate operations. Employers, workers, and administrative agencies might find such an approach both distasteful and unnecessary.

Federal requirement of identical agricultural and nonagricultural coverage. For the most part, this approach is strong just where a step-by-step approach is weak. A one-step change to identical coverage would avoid repeated revisions of the law, rules, regulations, and procedures; furthermore, it would eliminate many existing complications arising from differences in coverage of farm and nonfarm employment. Under this option administrative costs should be lower than those incurred in a series of step-by-step changes.

A one-step change would help to achieve better understanding of rights and obligations by employers and workers, and would achieve it more quickly than other options, advantages that should not be underestimated. Even more important, farmworkers would no longer be uncertain about whether the employer for whom they worked last month, or 6 months ago, was a covered employer, because every employer would be a covered employer.

An additional advantage is suggested, though not proven, by the data; the cost of benefits as a percentage of wages might well be lower under this option, because workers in smaller farm units usually have steadier work and are less likely to draw benefits than seasonal employees of larger units.

Finally, only by making farm coverage identical with that of nonfarm coverage can we move rapidly to achieve more prompt processing of claims and payment of benefits to interstate migratory workers.

Recommendation. Therefore, it is recommended that the Commission favor a congressional amendment that would cover services performed in agricultural work on the same basis as those performed in nonagricultural work.

Notes

1. Provisions of State laws governing size of covered firms, as of May 1, 1938:

Number of employees	*Number of States*
8 or more	27
5 or more	1
4 or more	9
3 or more	2
1 or more	10

Source: *Significant Provisions of State Unemployment Compensation Laws* (Social Security Board, May 1, 1938).

2. Although the terms "agricultural" and "farm" employers are used interchangeably in this report, the former term is the broader. It includes farm employers as well as such nonfarm employers as labor contractors, custom operators, and processors; "farm" refers to employers who carry on such farming operations as crop and livestock production (SIC groups 01 and 02, respectively). Crew leaders are labor contractors (in industry group 07) who employ workers and perform services in the cultivation and harvesting of crops for agricultural establishments.

3. *Source Book on Unemployment Insurance in California* (Sacramento, California Department of Employment, 1953), pp. 79–84.

4. *A Study of Extending Unemployment Insurance to Agricultural Labor in Hawaii* (University of Hawaii, Department of Labor and Industrial Relations and Legislative Reference Bureau, 1957).

5. John C. Ellickson, "Social Security for Farm Operators: Acceptance and Role in Farm Population Adjustment," *Journal of Farm Economics,* December 1958, pp. 1662–70.

6. Unsigned article, "Gradual Extension of Social Insurance Schemes in Latin American Countries," *International Labor Review,* September 1958, pp. 257–83.

7. Saul J. Blaustein and Isabel Craig, *An International Review of Unemployment Insurance Schemes* (Kalamazoo, Mich., W.E. Upjohn Institute for Employment Research, 1977), p. 33.

8. Household workers were covered if their employers paid $1,000 or more in cash wages during a calendar year.

9. Coverage under the Federal Unemployment Tax Act does not mandate coverage under State law. FUTA coverage does require that all FUTA-covered employers in all States pay the Federal excise tax, currently at 3.4 percent of taxable wages, against which a credit of 2.7 percent is given for participation under an approved State UC law. In a State where federally covered services are not covered, the entire 3.4 percent tax would be paid to the Federal treasury. Accordingly, State coverage is at least as broad as that under Federal law, often broader.

10. California's earlier legislation, effective in January 1976, enable workers to acquire benefit rights as early as May 1977, on the basis of earnings during a complete four-quarter base period.

11. The Minnesota legislation was adopted in 1974.

12. California, Maine, Minnesota, Virginia, and Washington included wages paid in any medium other than cash, when applying the $20,000 in a calendar-quarter requirement.

13. The Fair Labor Standards Act of 1960 extended coverage of its minimum wage provisions, though at a lower wage, to workers employed on large farms. During the 1950's and 1960's, a number of States extended coverage of workers' compensation, temporary disability insurance, and child labor laws to some sectors of agriculture. See William Haber and Merrill G. Murray, *Unemployment Insurance in the American*

Economy: An Historical Review and Analysis, Homewood, Ill., Richard D. Irwin, Inc., 1966), pp. 156–62; and Bradford Crossman, *Economics of Extending Unemployment Insurance to Agricultural Workers*, (Department of Agricultural and Food Economics, University of Massachusetts, 1972), pp. 7–8.

14. Stephen H. Sosnick, *Hired Hands: Seasonal Farmworkers in the U.S.* (Santa Barbara, Calif., McNally and Loftin, West, 1978), pp. 274–78.

15. Statement presented by Clark M. Ghiselin, Executive Vice-President, Citrus Industrial Council, to the National Commission on Unemployment Compensation, Orlando, Fla., January 26, 1979.

16. Statement of Tom Richardson, California Farm Bureau Federation, to the National Commission on Unemployment Compensation, Los Angeles, Calif., November 13, 1978.

17. See, below, the section entitled "Alien disqualification" for the status of aliens without documents.

18. *Federal Register*, Title 20 (U.S. Department of Labor, Employment and Training Administration, 43 FR 10313, March 10, 1978), Section 655.200.

19. Source: Administrative Reports of the Employment and Training Administration, U.S. Department of Labor.

20. By alien's country of origin, and location and type of work, the number of employment opportunities certified in 1979 for temporary foreign labor for agricultural and logging work were:

Country of Origin	Number of workers certified	Crop or type of work	State or Region
British West Indies	1,712	Apples	New England
	1,885	Apples	Virginia & West Virginia
	2,955	Apples	New York & Maryland
	134	Apples	Other
	8,530	Sugar cane	Florida [1]
Spain, Mexico, & Peru	856	Sheep raising	Rocky Mountain States
	588	Fruit	Mid-Atlantic and Rocky Mountain States
	668	Tobacco	Virginia
Canada	955	Logging	New England
Total	18,283		

[1] Florida is the only State in which sugar cane is harvested by hand; the terrain of the plantations is apparently too wet to permit the use of harvesting machinery used elsewhere. Local workers apparently obtain equal or better pay for less arduous effort.
SOURCE: U.S. DOL/ETA.

21. Statement by David S. North, at the Department of Labor Hearings on Temporary Employment of Aliens Working in Agriculture, Martinsburg, W.Va., May 12, 1977.

22. There had been as many as 6.65 million in 1950.

23. *Social Security Bulletin, Statistical Supplement* (Social Security Administration 1975, 1976), table 37, p. 78.

24. *Farm Labor* (U.S. Department of Labor, Crop Reporting Board, 1979).

25. James S. Holt and Dennis U. Fisher, "Introduction to the Seasonal Farm Labor Problems," paper presented at the Conference on Seasonal Agricultural Labor, Arlington, Va., January 9–16, 1980.

26. *Farm Labor*, p. 4.

27. James S. Holt, R. D. Emerson, V. Fuller, C. F. Fritsch, and J. Garret, "Toward the Definition and Measurement of Farm Employment" in *Proceedings of Workshop on Agricultural and Rural Data*, May 4–6, 1977, Series B (U.S. Department of Agriculture, Economics, Statistics, and Cooperatives Service, 1977), p. 123.

28. *A Compendium of Papers*, presented at the Agricultural Unemployment Insurance Conference, Ohio State University, April 1973, table 754.

29. *Compendium*, table 526.

30. The figures for those with farmwork reflect only the low earnings of the nearly one-half million casual workers, who averaged only 9 days of work. The nearly 600,000 casual workers with both farm and nonfarm work averaged 140 days of the latter.

31. Gene Rowe, *The Hired Farm Working Force of 1977: A Statistical Report*, Report 437 (U.S. Department of Agriculture, Economics, Statistics, and Cooperatives Service, 1979), table A11.

32. For a discussion of unemployment of seasonal farmworkers, see Sosnick, *Seasonal Farm*, ch. 7, and J. W. Mamer and Varden Fuller, "Employment on California Farms," in *Technological Change, Farm Mechanization and Agricultural Employment* (Berkeley, University of California, Division of Agricultural Sciences, 1978), part 1.

33. The OASDI data show higher average annual earnings of $4,000 for those who had both farm and nonfarm employment, compared with $3,000 for the farm-only workers. The farm/nonfarm group obtained an average of $1,500, or about 37.5 percent of total earnings, in agriculture. The very lowest paid workers who are included in the Census/Bureau of Labor Statistics figures may not be represented in Social Security Administration data, as $100 per year minimum wages are required for OASDI agricultural purposes.

34. Unpublished Social Security Administration data.

35. Rowe, *Hired*, tables A14 and A15.

36. Ibid., table A6.

37. Ibid., table A8.

38. Ibid., tables A14 and A15.

39. Conrad Fritsch, *Seasonality of Labor Use Patterns*, presented at the Seasonal Agricultural Labor

Markets Conference, Arlington, Va., January 9–11, 1980.

40. The following paragraphs draw upon discussions with consultants of the (Levitan) National Commission on Employment and Unemployment Statistics.

41. 84,000 employers were reported for the first quarter of 1978, over half of these in agricultural processing and marketing, a group that has been covered since 1970. California counted 33,000 covered employers in standard industrial classification (SIC) industries 01, 02, and 07 in the third quarter of 1978, some 73 percent having fewer than ten workers and thus not likely to be covered by FUTA. (California Economic Development Department, Report 524, Third Quarter 1978, April 2, 1979.) Some 29,000–30,000 California agricultural employers were covered under FICA in 1976.

42. Haber and Murray, *Unemployment,* pp. 19–26.

43. *Social Security Bulletin,* table 38.

44. Holt and Fisher, *Introduction,* table 6.

45. California Educational Development Department, Report 524, April 2, 1979, for third quarter 1978. Agricultural coverage included 5,000 to 6,000 employers in 1971–75, when covered employment increased from 35,000 to 67,000, due, in part, to voluntary election. During the same years, disability insurance covered some 28,000 employers; average employment rose from 235,000 to 270,000.

46. An early Wisconsin study showed that only 3 percent of the initially covered farms meeting the employment criterion failed to meet the payroll criterion. This finding raises the question of why a single criterion should not be sufficient.

47. A number of transitional provisions helped accelerate the transition from the temporary Supplementary Unemployment Assistance program to coverage under Public Law 94–566. States were permitted to use a worker's 1977 wages in agriculture in determining his benefit eligibility for 1978 *where the employer would have been liable in 1977* if Public Law 94–566 had been in effect at that time. The Federal Government reimbursed States for benefits paid to claimants in 1978 based on wage credits accrued prior to January 1, 1978, because the States could not assess contributions upon the basis of 1977 agricultural wages. Benefits paid before June 30, 1978, based on wage credits earned prior to that date, were also subject to Federal reimbursement. (Section 121 of the act.)

48. Joachim G. Elterich and L. Graham, *Impact of P.L. 94–566 on Agricultural Employers and Unemployment Insurance in Selected States* (U.S. Department of Labor, Employment and Training Administration, 1977).

49. Holt and Fisher, *Introduction,* p. 29.

50. Data supplied by States that compile benefit payment information by two-digit SIC classification: Arkansas, California, Florida, Iowa, Minnesota, Mississippi, New York, Ohio, Pennsylvania, and Washington. New York supplied data for industry groups 01, 02, and 07 combined.

51. The unpublished California data on benefits by industry are subject to error due to an anomaly of unmeasured effect arising out of the method used to designate the industry code of the beneficiary's employer.

52. Rowe, *The Hired Farmworker,* p. 3.

53. The social security account number involves different problems for UI operations than for OASDI. During their working careers, most workers do not frequently request information as to their OASDI entitlement—for most, inquiries are made only when entitlement to retirement, disability, or survivors' benefits is at issue, or when a job change occurs. In UI, by contrast, a worker's wage and employment records may be looked into several times a year as benefit claims are determined. And because such claims are filed by workers who experience job changes and interruptions, errors, misuse, and abuse of account numbers, where present, are likely to come to agency attention.

54. Between 5 and 6 million social security numbers were issued in each of the past 20 years, but some individuals may have been issued more than one number. From 1937 to 1975, 190.7 million different persons with taxable earnings were reported. *Social Security Bulletin, Statistical Supplement,* 1975, table 36, p. 69.

55. Stanford G. Ross, Commissioner of Social Security, recently stated that the agency had reduced by one-half, to 2.6 percent, the number of employee earnings reports with incorrect social security numbers or names. An additional 1 percent have neither numbers nor names. He regarded it as unlikely that benefits had been reduced because of uncredited earnings. Incorrect and incomplete wage reports occur most often for short-term and transient labor, according to his statement. *New York Times,* March 1, 1979.

56. Unpublished Social Security Administration reports.

57. Mamer and Fuller, *Technological Change.*

58. *Issues in Social Security,* Report to the Committee on Ways and Means, U.S. House of Representatives, 79th Congress, 1st Session, by its Social Security Technical Staff, 1946, part III, "Unemployment Compensation," Washington, D.C., p. 717.

59. Ibid.

60. When requests go to employers in States where quarterly wage records are not maintained for all covered workers, delays are likely to be even more prolonged.

61. All States are required to permit multistate workers to combine their wages and employment from more than one State, both when they would otherwise have insufficient wages and employment to qualify for benefits and when their benefit rights would be in-

creased by combining wages and employment in more than one State. Other States in which the claimant was employed are required to transfer to the paying State all covered wage and employment credits of the claimant during the paying State's base period.

62. *Unemployment Insurance Statistics* (U.S. Department of Labor, Employment and Training Administration, April 1979), table 44.

63. In most States the claim moves into the payment process after 1 week if the employer has not responded and the claimant is otherwise eligible.

64. Those who are not members of crews could continue to be served by existing interstate benefit and claim procedures, including the interstate wage-combining plan. These were developed early in the program's history to enable an employer whose operations were spread over a number of States to have all reports submitted and contributions paid to one State, customarily the State where his operations were based. To be effective, all States in which his employees had performed services would yield coverage to the State elected by the employer for localization purposes; States generally have acceded to such requests, especially where few workers were involved.

65. Most such delays might be eliminated if coverage of agricultural employment were identical with coverage of all other employments.

66. Sosnick, *Seasonal Farm,* p. 438.

67. The disqualification applies to both agricultural and nonagricultural workers, and whether farm claimants are more likely to be disqualified than nonfarm is unknown. Both farm and nonfarm illegal workers are subject to being turned over to the Immigration and Naturalization Service (INS) by employers when the need for their labor has been satisfied, thus enabling the employer to avoid payment of wages, social security, and unemployment taxes, as well as benefit charges, all of which are required for covered employees. (See Sosnick, *Seasonal Farm,* p. 238.) As interpreted by the Treasury Department, the Tax Reform Act of 1976 prohibits the Social Security Administration from disclosing to the INS earnings information regarding aliens not lawfully entitled to work. Letter, H.T. Martin, Disclosure Operations Division, Department of Transportation, to Robert P. Bynum, Associate Commissioner, Social Security Administration, October 14, 1977.

68. See Richard Luov, "Unions Give Status to Illegal Aliens," *San Diego Union,* February 24, 1980, p. 1.

69. This is especially true when benefit applicants do not have documents to support their status readily available at the time of application.

70. Letter from Douglas Massey, Office of Population Research, Princeton University, to the Editor, *New York Times,* May 31, 1979.

71. It should not be necessary to interfere with long-standing practice of citizens of Canada, Mexico, and the United States in commuting to jobs in the United States while residing permanently in the other country. See J. Reichert and Douglas S. Massey, *Patterns of Migration from a Rural Mexican Town to the U.S.: A Comparison of Legal and Illegal Migrants,* presented at the April 1978 meetings of the Population Association of America, Philadelphia.

72. The Federal Government and many States require registration by any person who recruits and furnishes migrant workers to farm operators. These laws do not apply where fewer than 15 workers, or under State laws some other minimum number, are involved.

73. The registration lists of the U.S. Department of Labor's Wage and Hour Division count as crew members both family heads and all family members. The U.S. Census count of 191,000 migratory farmworkers in 1977 does not include members of the workers' families.

In California, intrastate outnumbered interstate migrants 22,600 to 15,200 in the peak month of September 1979. California Employment Development Department, Report 881W, January 12, 1980.

74. Joachim G. Elterich, "Estimating the cost of extending jobless insurance to farmworkers," *Monthly Labor Review,* May 1978, pp. 18–19.

75. Compliance with the requirement to inform farm operators is either incomplete or simply unknown.

76. It is uncertain whether the effect of such a policy would differ from a policy of more diligent follow-up on compliance of crew leaders, as provided under existing Department of Labor Regulations (*Regulations, Part 40,* Farm Labor Contract Registration, Title 29 of Code of Federal Registrations, U.S. Department of Labor, Employment Administration, Wage and Hour Division, White House Publication 1139, June 1978).

77. Stephen Sosnick observes that with the growth in size of farms, more of them may do their own recruiting; see Sosnick, *Seasonal Farms,* p. 105.

78. Elterich and Graham, *Impact.*

79. Ibid., p. 15.

80. Ibid., pp. 18–19.

81. Ibid. p. 17.

82. Saul J. Blaustein, et al., *Strengthening Unemployment Insurance: Program Improvements,* report on recommendations of the institute's Unemployment Insurance Research Advisory Committee (Kalamazoo, Mich., W.E. Upjohn Institute for Employment Research, 1975).

83. Elterich, *Estimating,* p. 23.

84. Committee on Ways and Means, House of Representatives, 94th Congress, 1st Session, House Report 94–755, December 16, 1975, p. 51.

85. Memorandum from Assistant Secretary of Labor for Policy, Evaluation and Research, to Under Secretary of Labor, "Administration Position on H.R. 10210," August 18, 1976.

86. G. W. Luke and J. W. Carncross, *An Analysis of the Variables Related to the Extension of Unemployment Insurance to Farmworkers in New Jersey* (New Brunswick, New Jersey, Agricultural Experiment Station, Rutgers University, September 1972), pp. 6–7.

87. The report does not deal with whether the Commission should adopt recommendations concerning the priority that the Congress should give to issues in coverage extension, compared with issues in program financing and reserves, benefit entitlement, level, and duration, among others.

88. Rowe, *The Hired Farmworker,* p. xi and table 1.

89. See *Study of Employers of Agricultural Workers Who Elected Coverage Under State Unemployment Insurance Laws* (U.S. Department of Labor, Unemployment Insurance Service, Manpower Administration), pp. 263–314.

90. Most of the workers so protected are covered in California.

91. State-by-State improvements of benefit and financing provisions have been favored by some as an approach that might make Federal action unnecessary. At its meeting on March 15, 1979, in San Antonio, Texas, the Interstate Conference of Employment Security Agencies adopted a resolution opposing Federal legislation to set national unemployment compensation benefit standards. This resolution reversed the position it had taken in 1975, favoring Federal action. *The Advisor,* Unemployment Benefit Advisors, Inc., Washington, D.C., March 16, 1979.

92. In 1952 and 1954, the Interstate Conference adopted resolutions supporting legislative proposals that would extend coverage under the FUTA beyond employers eight or more in 20 weeks the smallest then covered. *Unemployment Insurance,* Hearings before Committee on Ways and Means, 83rd Congress, Second Session, on H.R. 6537, 6539, et al., June 8–11, pp. 99–100.

93. These differences would be reduced, of course, as agricultural and nonagricultural coverage became more nearly similar.

94. Elterich and Graham, *Impact,* tables 1 and 3. As noted earlier, the 15-State group accounted for about one-fourth of the national totals.

95. Bauder and others, *The Impact,* table 2.1.

96. Experience may show that employing units that meet such a numerical criterion would also meet a "matching" payroll condition; if so, the two-part criterion might appear to be redundant.

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Household Workers

Annette Kornblum

Historically, household workers have received less attention than any other occupational group not protected by unemployment insurance (UI). The term "household worker" refers to housekeepers, governesses, gardeners, grooms, butlers, babysitters, live-in companions, home health care workers, caretakers, security guards, nursemaids, janitors, and laundresses. Until recently, household workers have not been unionized.

Today, however, household workers are beginning to demand the same benefits as those of other employees, and a grassroots movement to organize this occupational group is now occurring. In addition, more people are beginning to view such workers as "household technicians" or "household workers" rather than as domestics, maids, or "girls." The change in terminology has brought with it a change in status and treatment.

Nevertheless, the difficulties surrounding coverage of one of the nation's most economically depressed groups are considerable. Some of the most troubling questions are not being asked, and many assumptions on the issue are highly dubious. It has been taken for granted that the number of household workers in private homes has been declining steadily, that household workers do not wish to be included in the UI program, and that universal coverage of household workers would be too costly and administratively difficult. These notions need to be evaluated before policy can be developed.

Information on household workers is relevant for other UI policies, including potential coverage of the self-employed and changes in availability requirements for part-time and flexitime workers. These issues may prove more and more important if work schedules are modified generally in future years.

This report has attempted to analyze the major issues, but several other questions that may prove important in the long run could not be addressed because of the lack of information or time. These unanswered questions are posed here:

- How have the "cash economy" and the proliferation of commercial housecleaning services affected statistics on household workers?
- How are housecleaning services, technological innovations, and day care centers affecting household workers and the demand for their services?
- What is the relationship of UI to other income-maintenance payments received by unemployed household workers?

History

The original Social Security Act excluded "domestic service in a private home" from UI coverage almost automatically since domestic workers have traditionally been excluded from any type of labor protection in this country. Granting UI protection to household workers was felt to be administratively impractical and in need of further study. But neither the Congress nor the Administration were decided on this issue. Labor Secretary Frances Perkins was adamantly opposed to the exclusion of household workers but felt the law could easily be changed later.[1]

While coverage extensions over the years have encompassed about 97 percent of the wage and salary work force, most household workers are still unprotected.[2] With the passage of PL 94–566 in 1976, workers whose employers pay $1,000 or more for household services during a calendar quarter are now eligible for coverage if they meet other State requirements, but this provision affects relatively few workers. It is estimated that there are anywhere from 1.1 to 3 million household workers. Of these, fewer than 10 percent are thought to have one employer who pays them $1,000 in a single quarter.[3]

Many more household workers would have been entitled to UI protection under PL 94–566 had it been enacted as originally written. The House bill covered employers who paid wages of at least $600 in any calendar quarter. This figure was derived partly from States already covering household workers. Since a Senate version of the bill provided no coverage, how-

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ever, a conference committee to amend the bill adopted the $1,000 criterion as a compromise. Periodic increases in the minimum wage may broaden the coverage gradually and automatically, but for now, most household workers are excluded.

Prior to the enactment of the 1976 Amendments, four jurisdictions provided UI coverage for some household workers. Currently five jurisdictions have broader coverage than provided by Federal law. New York, Arkansas, the District of Columbia, and the Virgin Islands cover employers who pay $500 or more in a quarter. Arkansas also covers employers with three or more household workers. Hawaii covers employers who pay $225 to an individual or $1,000 or more for all household services per quarter.[4]

Demographic Profile

The typical household worker described by government data is a poor, ill-educated, middle-aged black woman who works in a Southern urban center.[5] She earns about $3,000 annually, well below the poverty level.[6] She is often the head of her family, is unlikely to hold a full-time job, and rarely lives in the home where she works. The data indicate she is unlikely to be either Hispanic or foreign-born.

Available data also show that the number of household workers has declined sharply from 1.5 million in 1970 to about 1.1 million in 1978.[7] This decline may be particularly great among black women, who are believed to comprise about half of the household workers. Low pay, lack of fringe benefits, poor working conditions, transportation problems, low status, and the stigma of this occupation are undoubtedly reasons for declining interest among those who have traditionally held most of these jobs. Other influences may be expanded educational and job opportunities for young black women and the availability of welfare. Through civil rights legislation and training programs, the Johnson Administration's War on Poverty helped move many black women into clerical and professional jobs previously beyond their reach because of racial discrimination and the absence of training programs.[8]

Decline in numbers rejected

Despite the data, there are good reasons to believe that the total number of household workers may not be declining, even if some black women are leaving this field. The data on household workers are notoriously incomplete and distorted because many workers and employers do not report themselves to the Internal Revenue Service or Social Security Administration. Underreporting may be the norm rather than the exception.

Underreporting may result because a growing number of housecleaning services count their employees as commercial employees; or, household employers with separate businesses may tally household employees on their commercial accounts.

In addition, inaccurate reporting may occur because different government agencies have used separate collecting and classifying methods. And household workers may misclassify themselves either purposely or inadvertently.

There is also the possibility of overreporting. Many household workers who leave the field continue to be counted. Others are double-counted because they have more than one employer or are grouped under different occupational or industrial classifications, such as blue-collar or service classifications.

Given the weakness of the data, challenges to the notion of a decline assume greater credibility. There appears to be a growing number of aliens—documented and undocumented, educated and uneducated—who enter the field because language and cultural barriers prevent them from finding other work. Employment agency personnel in the Washington, D.C., area, for example, estimate that three out of four household workers are foreign-born.[9] Many come from Central and South America, West Africa, the West Indies, and the Orient, especially Vietnam and Cambodia. Washington may or may not be representative of the nation, but administrative decisions over the past decade to bring in hundreds of thousands of refugees from Vietnam, Cuba, and Haiti bolster this claim.

Another group appears to be entering this field in greater numbers, drawn by the ability to set hours and working conditions. Informal interviews in the Washington and New York areas suggest that college students, artists, writers, and moonlighting white-collar workers are turning to household work for these reasons. Many of these people do not report their earnings and may thus be misclassified.

Finally, several demographic and cultural trends suggest that the demand for household workers will increase, unless this demand is met in some other way. Some factors to consider are the following:

- There are more dual-income and single-parent households. A new Urban Institute study projects that, by 1990, some 55 percent of American women 16 years of age and over will be in the labor market, compared with 48 percent in 1977.
- A major 1980 study on family day care estimates that there are 5,214,500 children served, although only 6 percent of all family day care centers are licensed or regulated.[10] This means that the majority of day care centers are run by household workers, such as a neighbor outside of the child's home. The person offering the child care is apt to have an informal relationship with the parents and is not subject to coverage under

UI as an independent contractor or because of not reporting earnings.

- The elderly population is growing as a percentage of the total population. Home health care rather than institutional care may be the option preferred by the elderly and the disabled.

In view of this evidence, the widely accepted idea that household workers are declining in number should be challenged. It is more reasonable to assume that the number of full-time household workers is greater than the data suggest and that the number of part-time household workers has also been growing.

Attitudes of Household Workers and Employers Toward UI Coverage

The argument is often made that household workers neither need nor want UI coverage. Their silence during consideration of the 1976 Amendments is often mentioned as evidence for this belief.

Household workers have not been politically vocal. Only within the past decade have household workers begun to organize to improve their working conditions and status. Although household workers earning $50 or more per calendar quarter have been covered by social security since 1951, it was not until 1974 that they were covered by the Federal minimum wage law, largely through the efforts of the National Committee on Household Employment (NCHE). Recently, the NCHE, a labor organization, testified before the National Commission on Unemployment Compensation (NCUC) in favor of extending UI protection to household workers.

NCHE maintained that coverage for household workers is justified for the following reasons:

1. the employer would have no choice about providing coverage if household workers were employed by a company;

2. the argument that UI payroll tax will lead to lower wages for household workers should not be allowed to preclude legislation to protect them; and

3. the household worker group is more vulnerable to economic cycles and to the whims of employers than other groups and therefore needs UI coverage for protection against layoffs.

Another possible reason for the inattention given to household workers is that no employers have banded together to take a formal position on UI or any other labor issue affecting household workers. Many employers seem reluctant to publicly verbalize their concerns, particularly those employers who are not currently reporting wages to the Social Security Administration or the Internal Revenue Service.

Employers who did agree to confer with staff from the NCUC were particularly concerned about apparent inequities in current law and fearful that another payroll tax would affect their employment decisions. They tended to support the equity considerations cited by household workers. Employer concerns centered on the following:

1. the inequity of allowing an employer with only one employee who earns less than $1,000 per calendar quarter to escape UI liability, when another employer with a full-time babysitter and an occasional dayworker has to cover the UI costs on both; and

2. the burden of another payroll tax that might encourage employers to lay off their household workers earlier than planned, shift to cash payments, or reduce wages;

3. the belief that the experience-rating system inequitably shifts the tax on to one employer when in fact another employer was actually responsible for the layoff.

Administrative Problems

The greatest obstacle to broader coverage of household workers has been anticipated administrative problems centering on potential abuse by household workers and the likelihood that many employers would fail to report required wage and contribution information.

On the whole, household employers are consumers rather than producers and are unlikely to be attuned to supplying the information necessary for the UI system. The required forms are long and complicated. (See the Appendix for an example.) State agencies often do not directly inform household employers of their liability. Even if household employers have filed reports with the Social Security Administration, they may not receive UI reports since there is no official reciprocity between the two agencies. Further, State and Federal agencies cannot police this sector adequately, particularly since many employees are paid in cash.

One way to prevent abuse would be to cover only employees who have many employers and who demonstrate an attachment to the labor force. Yet, applying this type of test could be difficult and expensive. If it were done on a case-by-case basis, this test could become a subjective decision by individual State administrators.

Another administrative problem is determining whether people work part time as household workers out of choice or because they are unable to find full-time positions. The attachment of part-time workers to the labor force is often questioned, even when their attachment is for good cause; most States disqualify these individuals on availability grounds.

There is also a special problem in determining

whether the loss of one out of several day jobs actually constitutes a layoff warranting benefits and a tax on the employer. If household workers can collect unemployment benefits while continuing to work for their other employers, there may be a disincentive against their finding additional employment.

States with separate UI provisions for household workers have not reported particular administrative difficulties. Many indicate, however, that household employers find the reports difficult to understand and complete. Skeptics point out that many abuses may go undetected because of widespread underreporting by employers and employees.

There is no way to determine how many household employers fail to report employment and wage histories. Consequently, it is almost impossible to ascertain the administrative costs of covering this group or the amount of potential taxes for benefits.

Even if the reporting should improve, the additional paperwork required by State and Federal agencies could add undue costs, compared to costs for workers in other occupations. This is particularly true for day workers, who generally earn well below the average wage per employer of live-in household workers. At the same time, program revenues would be low while the cost of administration might be high.

Employers complain that, since they do not run conventional businesses, they should not be expected to complete the complicated UI tax-withholding forms. Employers also protest the present levying of penalties and retroactive interest charges by employment security agencies without prior disclosure of the employers' obligations.

According to household workers, employers, and the Department of Labor (DOL), a better information network might eliminate many problems. Further, if they were assured that wage and contribution records would not be provided to the Internal Revenue Service (IRS) or the Social Security Administration, employers might be less reluctant to report.

Employee Versus Independent Contractor

Traditionally, household workers have occupied a gray area between "employee" and "independent contractor." That distinction is pivotal in determining whether the household employer is liable under UI law. Ironically, most States do not define or use the term "employee"; instead, a handful rely on the "master-servant" relationship as the key consideration governing coverage.[11] California and New York define employment as "any contract of hire, written or oral, expressed or implied." Over half the States continue to rely on the "ABC Test," an old standard defining employment. But this test is not part of the Federal Unemployment Tax Act (FUTA) and is not uniformly interpreted by States.[12]

For some States, the "ABC Test" to determine self-employment might be dubbed more appropriately the A and B test, A and C test, or A/B/C test, since various combinations are used. The three tests are broad enough to allow subjective interpretations on whether a household worker is an independent contractor or an employee. In some instances, these tests have been applied more on the basis of status than function. Their provisions are as follows:

1. *"A" Test—Anyone "free from control or direction over the performance of such service" is considered self-employed.* Many household employers forfeit direct control by giving their workers a general job description and allowing them to complete the tasks at their own pace and discretion. Often, employers leave workers a key to get into the house. Their sole control might be viewed as the power to hire and fire. But this could apply to a wide range of other employers, including school systems and teachers or builders and laborers. Ultimately, employers may not exercise control, but they have the right to do so.

2. *"B" Test—Any work "performed outside the usual course of the business for which such service is performed" is considered self-employment.* Since a private household has conventionally not been designated as either a "business" or "business enterprise," this provision does not appear to apply.

3. *"C" Test—Individuals who are "customarily engaged in an independently established trade, occupation, profession or business" are classified as self-employed.* Household work might be viewed as an independently established occupation or profession, but the terms make for uncertainty. Would workers employed by a housecleaning service, for example, be part of an "independently established trade"? Or would household workers who circulated through a large apartment building advertising their services be self-employed?

Certainly, there are many legal precedents in IRS rulings and court cases. But the decisions themselves have not resolved the basic question of whether household workers are "employees" or "independent contractors."

Two people doing the same type and amount of work could be differently classified for reasons only partially relevant to their entitlement to UI. Ultimately, the distinction between an employee and an independent contractor is probably a matter of mutual choice by the parties involved. These parties should be aware, however, of the implications of their decision because any agreement, oral or written, could be considered a contract.

The enactment of either of two bills in Congress

might help clarify the status of household workers, but it is difficult to be sure since household workers are employed under a wide range of conditions. The Dole and Gephardt bills define "self-employment" for purposes of Federal income tax, social security, and unemployment taxes. S. 736, the "Employment Tax Act of 1979," and H.R. 3245, the "Independent Contractor Tax Status Clarification Act of 1979," define individuals as self-employed who

- exercise control over the number of hours worked and their work schedule;
- have not been provided with a place of work by the contracting agent and/or do not perform "substantially all the service at a single location";
- are paid on a commission/output basis rather than for the number of hours worked or have assets tied up in connection with the performance of that service;
- have a written contract specifying that they are not employees and are responsible for their self-employment and other applicable taxes.

Several provisions of these bills directly affect household workers, while the impact of other provisions is indirect.

- Many household employees control both the days and the hours they work. Their work schedules, however, are usually prearranged by mutual agreement.
- Live-in workers have one place of business; dayworkers with multiple employers do not.
- The pay of a household worker is often directly related to output rather than to hours worked, particularly since employers often do not supervise the work. Income can also fluctuate with the number of employers and may also be affected by the speed at which work is completed. But live-in household workers earn the same amount even though the workload or the quality of work may vary.
- Most household employers apparently have oral rather than written contracts with their household workers, because the workers are often reluctant to have records maintained on their status.

Identifying the Problems

Coverage of houschold workers is inconsistent and arbitrary at both the Federal and State level. An accepted test of American equity is that members of one group should not be treated differently; by this test alone, coverage of household workers is not equitable.

In order to make coverage standard and equitable, further information is necessary. Once there is information on cost and administration of the program and on how people are affected, policies to correct these inequities can be established.

The New York Experience

Proponents of extending UI coverage to household workers often point to the positive experience of New York State, which covers household employers with $500 quarterly payrolls. The New York experience is useful for a perspective on how more liberal coverage is working. One of five States with separate provisions for household workers, New York found its program "neither prohibitively costly nor administratively infeasible."[13]

During 1977, the average tax rate on about 14,500 employers of household workers was 2.5 percent compared to 3.47 percent for all New York employers. This means that a typical household employer paid an average of $122 in taxes, compared to $2,000 in taxes for all covered employers.[14] Despite these relatively moderate tax rates, hiring and wage decisions of employers may still have been affected.

Once a household employer comes under the coverage provisions of the law, that liability may be ended only after paying less than $500 in cash wages in each of four consecutive calendar quarters.

Supplementary Unemployment Assistance

Other guideposts for estimating how expanded coverage would work are difficult to secure. The Supplementary Unemployment Assistance (SUA) program was enacted in 1974 to provide all unprotected wage and salary workers with up to 13 weeks of benefits during the years 1975–1978, a period of high unemployment. Out of a total of 7 million eligible workers, perhaps 1.7 million were household workers.

Few took advantage of the program. Despite an unemployment rate of 8 percent during September 1975, only 613 out of 144,000 jobless household workers actually drew SUA benefits (see Table 1).[15] At the height of the recession, these 613 beneficiaries represented less than 1 percent of the jobless household workers and under 0.05 percent of the total labor force. No hard numbers were kept on how many household workers made claims, but the number must have been very low to have produced so few beneficiaries. One can double the number of beneficiaries on the assumption that recordkeeping was poor, but there would still have been only $1 million spent on these benefits in 1975. Undoubtedly, many household workers were unaware that they qualified for SUA.

A DOL study surveyed the household worker coverage of the SUA program in seven States.[16] Unfortunately, the study contained serious data distortions that skew any conclusions. For example, about 70 percent of the claims were from one State.

A study of SUA recipients by Mathematica Policy Research is also too limited for generalization: only

TABLE 1. Experienced wage and salary workers in private households, 1975

Month	SUA program: All beneficiaries, First payments	SUA program: All beneficiaries, Final payments	SUA program: Beneficiaries with private household employment, First payments	SUA program: Beneficiaries with private household employment, Final payments	Workers in private household employment: Employed (000's)	Workers in private household employment: Unemployed (000's)	Workers in private household employment: Unemployment rate
Jan.	8,128	0	126	0	1,256	80	6.0
Feb.	72,403	5	775	0	1,288	77	5.6
Mar.	61,185	408	676	6	1,337	74	5.2
Apr.	65,139	1,754	804	14	1,315	73	5.3
May	58,571	2,273	725	19	1,419	86	5.7
June	162,250	2,477	730	13	1,484	69	4.4
July	178,483	7,130	806	113	1,367	81	5.6
Aug.	147,790	5,457	888	80	1,375	99	6.7
Sept.	84,570	9,814	613	190	1,308	144	8.0
Oct.	60,925	12,969	662	265	1,393	89	6.0
Nov.	44,110	15,768			1,302	101	7.2
Dec.	50,421	19,628			1,331	100	7.0

SOURCE: SUA claimant data—Employment and Training Administration; Labor Force data—Bureau of Labor Statistics.

46 claimants were surveyed, which is an insignificant statistical sampling.[17] It is surprising that about two-thirds of the household workers surveyed were white.

The DOL proposed an evaluation of SUA claimants, but this was not initiated.[18] Consequently, there is no way to determine the actual problems encountered by household workers or, conversely, how effectively the program addressed them. Thus, any lessons on coverage of household workers the SUA program might have provided are irretrievable.

Cost of Expanded Coverage

Perhaps the pivotal question in expanding coverage to additional household workers is the cost, but available estimates are speculative. During the 1976 Unemployment Compensation Amendments hearings, a staff report projected that the added cost of benefit payments to household workers would total $180 million annually.[19] The most recent estimates by the DOL similarly indicate that added benefit payments would total about $164 million in 1981, if all household workers were protected (see Table 2).[20] This latter figure assumes that an average of 56,000 out of a total of 1.24 million household workers would draw benefits in any given week and that the total unemployment rate is 6.8 percent. However, in order to determine the actual cost, the number of household workers who are eligible and likely to apply for benefits would need to be known.

There is no hard evidence to demonstrate that a substantial number of household workers would draw benefits unless a campaign was launched to educate household workers about their entitlement to UI, or a far greater proportion of the eligible household worker labor force decided to apply for benefits.

Benefits to household workers under 1977 law are thought to cost employers about $5 million for 75,000 to 85,000 beneficiaries.[21] But the actual number of beneficiaries is far short of the 130,000 thought to be eligible as of 1978 by virtue of their household employers paying $1,000 in quarterly payrolls. This discrepancy between the actual number of beneficiaries and the estimated eligible population suggests that data collection has been poor either because the program is still relatively new or for other undetermined reasons. For example, it is questionable that while Virginia has 2,649 household workers, neighboring Maryland has a mere 237, or that while a large industrial State like Illinois has only 650 covered household workers, Ohio reports over 2,000.

Moreover, even the same sources of data reach conflicting conclusions, based on the operating assumptions.

TABLE 2. Household employer benefit cost rates

State	1978 benefits paid (dollars)	1978 cost rate (percentage of total wages)	Estimated 1979 benefit payments (dollars)	Benefits per employer (dollars)
Louisiana	115,649	1.8	180,000	145
Pennsylvania	46,639	0.6	105,000	—
Minnesota	14,907	1.0	55,000	90
New York	1,775,000	1.6	1,900,000	135
Florida	192,326	1.0	310,000	65
Hawaii	25,952	0.7	27,000	45
California	611,498	1.2	720,000	160

SOURCE: UIS/DOL, 1979.

The Bureau of Labor Statistics (BLS) publication *Employment and Earnings* estimates there were between 1.1 and 1.4 million household workers in January of 1980, depending on whether they are grouped by occupation or industry. Yet, although the BLS data on personal consumption expenditures indicate that domestic services accounted for $7.1 billion in 1979, Social Security data suggest that the figure was only $1.3 billion. The nearly 500 percent disparity is only one indication of the degree to which household employment is underreported. The exact number of household workers is crucial in determining the cost of coverage. In fact, a 1979 DOL projection put the cost of covering all household workers at $17.7 million. That estimate was developed on the basis of an analysis of Social Security Administration data of household employers,[22] measured against the benefit payments made to household workers by seven selected States in 1976. (See Table 2.)

Because of the likelihood of start-up data problems experienced in the various States and the probability of frequent underreporting to the Social Security Administration by household employers, these cost estimates are probably grossly distorted.[23] In addition, Social Security projections were based on so-called typical wage distributions within a predetermined range (i.e., employers with $1,000, $500, or $250 payrolls), which fail to reflect extremes at either the high or low end of the spectrum. Many assumptions were based on State data that were deficient in the following respects: (1) States reported only average wages per employer with at least $1,000 quarterly payrolls and (2) many States merely tabulated contribution rates of individual employers; only a few calculated both contribution rates and benefit payments and those States may not be representative of the nation as a whole.

Policy Options

The main intent of UI is to tide people over short periods when they are out of work through no fault of their own. Obviously, offering protection to only a few household workers while neglecting others is inequitable. Yet few solid policy options have emerged on how to make the program more equitable while safeguarding it against potential abuse.

A kind of equity among household workers would be realized by simply abolishing all coverage—all household workers would be equally deprived. Employers would save an estimated $5 million, according to DOL estimates, were all coverage deleted. There are no logical arguments, however, for denying coverage to this group while other occupational groups are covered.

Maintaining the current coverage—the "status quo" option—at best provides limited coverage of an occupational group that even conservative estimates say consists of 1.1 million persons and that may actually consist of more than 3 million. Currently, the UI program provides protection only to live-in household workers and/or those dayworkers fortunate enough to work for employers who pay at least $1,000 in a quarter for such services.

The middle ground between deletion of UI coverage for household workers and the status quo is a "$500 quarterly payroll option," comparable to the provisions now operating in five States. Under this option, any employer who paid out $500 in wages per calendar quarter would be covered. The DOL projects that some 315,000 workers would be affected and that this option would cost employers anywhere from $12 million to $100 million, although it is impossible to make precise estimates with no reliable data.

Under the "universal coverage" option, anyone who collected at least $50 per quarter from the same employer, even if several employers were involved, could use that income for wage credits in qualifying for UI when that income was lost.

This option would dramatically increase the number of workers in household employment covered by UI and would presumably increase in equal measure the amount of administrative work required. The option would cost approximately $164 million, compared to $5 million for the status quo, according to DOL projections. Universal coverage would peg UI coverage criteria at the same level as the Old Age Survivors and Disability Insurance (OASDI) program, exempting workers earning less than $50 a quarter from one employer. The greatest danger of this option is that casual and intermittent workers could qualify for UI benefits merely by working the minimum time required to qualify for UI.

The idea that the Federal Government should provide UI assistance to workers who qualify under no other program is not new. SUA established a precedent, particularly for household workers. An alternative option is to draw on SUA as a 2-year pilot program to extend UI coverage to household workers. This approach would give policymakers a more realistic idea of the cost and problems of broadening coverage. The SUA pilot project could be federally financed, although this strategy might have difficulty being adopted. A variation of this option would be a "demonstration project" that could be tested in several States on a short-term basis.

Financing of broader coverage could be derived from several sources. The current system of experience rating of household employers could continue. Federal general revenues or the pool account could be used to finance all or part of UI coverage for household workers. The argument could be made that household employers would be more inclined to cooperate if revenues were derived from taxpayers as a whole. This option would

require extensive economic analysis, but the psychological appeal seems clear.

If an objection is raised that employers of household workers are being subsidized and freed from their tax burden, an answer is that they are not employers in the usual sense. Rather, they subsidize the total economy by providing regular income to marginal workers, improving the status of that occupation, and enhancing dignity of a kind of work that should become more central as shifts occur in the emphasis of the workforce from production to services. A parallel might be drawn with the income tax, which actively encourages home ownership over renting by providing substantial tax advantages to homeowners. Again, however, the political climate is probably not favorably disposed to this approach.

The program could also be financed by a "reimbursable" or pay-as-you-go method. Employers would not be responsible for a UI tax until they laid off a worker. Since household employers are not by conventional standards viewed as businesses, this financing compromise might encourage employers to report their payrolls. Those with more stable employment patterns would be absolved from the regular UI paperwork and tax. Over time, administrators could establish a workable system with minimal paperwork for everyone and with an employer's liability directly proportionate to the cost of the layoff. This option might raise constitutional questions about providing special treatment of one occupational group. It would require a change in Federal law identifying who could qualify as a reimbursable employer. In addition, the reimbursable method might create an inequitable situation for some employers. On the basis of one layoff, an employer could become liable for $1,500 in benefits and thus be harder hit than under the experience-rating method.

Determining whether household workers are independent contractors or employees has a direct bearing on which option is chosen. Entitlement to UI under the law is necessarily based on key definitions, and, in the case of household workers, it is largely a matter of self-recognition by the employer and employee. These parties, rather than an outside agency, would determine their eligibility for UI coverage. In this situation, the role of the Federal Government could be (1) to establish basic objective standards for UI eligibility independent of a self-definition (such as proof of that worker's attachment to the labor market); (2) to determine that household employers and employees who apply for coverage are in fact eligible; and (3) to make information widely available both to employers and employees on matters of eligibility requirements, recordkeeping, and proper procedures and tax responsibilities. This solution is not totally satisfactory, but given the voluntary nature of the work relationship and the impossibility of government monitoring, it might be the most practical and realistic.

Notes

1. For a further discussion, see Edwin E. Witte, *The Development of the Social Security Act* (Madison, The University of Wisconsin Press, 1962), pp. 131–32, 152–53.

2. See *Women Private Household Workers: A Statistical and Legislative Profile*, U.S. Department of Labor, Women's Bureau, 1978.

3. *Women Private Household Workers.*

4. Hawaii's provision applies to both high-wage and low-wage employers. An employer with one worker earning $225 is covered, as are employers of 10 workers earning $100 per calendar quarter.

5. *Women Private Household Workers.*

6. The Commerce Department figures that only $1 out of every $4 paid to domestic help is reported to the Federal Government, which distorts the actual wages paid. Wage scales also fluctuate widely, affected by geographic area, skills of particular workers, and most importantly, demand. Some workers earn in excess of $40 a day in areas where their services are in short supply.

7. The Bureau of Labor Statistics (BLS) industrial classification records show there are closer to 2 million workers employed in household work, while other government data bases range from 1.4 million to 1.8 million.

8. See "Negro Population in the United States, 1790–1915," Bureau of the Census, and "Negroes in the United States, 1920–1932," Bureau of the Census; and David M. Katzman, *Seven Days a Week* (Oxford University Press, 1978), a historical account of household help in the U.S. from 1870 to 1920.

9. *The Washington Star,* March 25–26, 1979, A-Section, 2-article series by Donia Mills.

10. *National Family Day Care Home Study*, Department of Health and Human Services, Office of Administration on Children, Youth and Families, Day Care Division (forthcoming, expected publication date November 1980).

11. Alabama, Kentucky, Minnesota, Mississippi, and the District of Columbia use the master/servant terminology.

12. *Comparison of State Unemployment Insurance Laws,* U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance System, January 1978.

13. "Unemployment Insurance Coverage of Domestic Service in Private Households under Consideration in H.R. 10210," *Unemployment Insurance Program Letter,* No. 16–76, U.S. Department of Labor, Employment and Training Administration, June 9, 1976, p. 4.

14. New York Department of Labor, Unemployment Insurance Division.

15. *UI Program Letter,* No. 16–76.

16. "State Experience with Coverage of Workers in Domestic Service," U.S. Department of Labor, Unemployment Insurance Service, 1975.

17. "A Study of Recipients of Federal Supplemental Benefits and Special Unemployment Assistance" (Princeton, N.J., Mathematica Policy Research, Inc., 1977).

18. "An Evaluation of Unemployment Experienced by Claimants Under the Special Unemployment Assistance Program," PL 93–567, U.S. Department of Labor, Unemployment Insurance System.

19. "Staff Data and Materials on Unemployment Compensation Amendments of 1976," H.R. 10210, p. 42. Projection was based on coverage of employers with payrolls of $600 or more per calendar quarter.

20. The DOL estimate was tabulated on the basis of statistics compiled by the Bureau of Labor Statistics for the 1980 issue of *Employment and Earnings*.

21. U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance System.

22. Social Security Administration, Division of OASDI Statistics, Office of Research and Statistics, June 25, 1979.

23. "Covered Domestic Workers," Form ES 702, U.S. Department of Labor, January–June 1978, based on compilations by the Bureau of Labor Statistics.

Appendix: Employer's Annual Federal Unemployment Tax Return

Form **940**
Department of the Treasury
Internal Revenue Service

Employer's Annual Federal Unemployment Tax Return

1979

T	
FF	
FD	
FP	
I	
T	

If incorrect, make any necessary change ▶

Name (as distinguished from trade name)

Trade name, if any

Address and ZIP code

Calendar Year
1979

Employer identification number

A Have you paid all required contributions to your State unemployment fund by the due date of Form 940? . . . . . ☐ Yes ☐ No

If you check the "Yes" box, enter amount of contributions timely paid to your State unemployment fund . . ▶

B Are you required to pay contributions to only one State? . . . . . ☐ Yes ☐ No

If you check the "Yes" box: (1) Enter the name of the State that you are required to pay contributions to . . ▶

(2) Enter your State experience rate(s) for 1979 (see instructions for Part V, columns 4 and 5) . ▶ %, %, %

Part I Computation of Taxable Wages (To Be Completed by All Taxpayers)

	Exempt Payments	Amount paid
1 Total payments (including exempt payments) during the calendar year for services of employees		
2 Exempt payments. (Explain each exemption shown, attaching additional sheets if necessary) ▶		
3 Payments for services in excess of $6,000. Enter only the excess over the first $6,000 paid to individual employees exclusive of exempt amounts entered on line 2. Do not use State wage limitation		
4 Total exempt payments (add lines 2 and 3)		
5 Total taxable wages (subtract line 4 from line 1). (If any portion is exempt from State contributions, see instructions) . . ▶		

Part II Tax Due or Refund (Complete if You Checked the "Yes" boxes in Both Items A and B Above)

1 FUTA tax. Multiply the wages on line 5, Part I, by .007 and enter here	
2 (a) Delaware wages included on line 5, Part I . . ▶ $ ..... multiplied by .003 . . .	
(b) Pennsylvania wages included on line 5, Part I . ▶ $ ..... multiplied by .003 . . .	
3 Total FUTA tax (add lines 1, 2a, and 2b)	
4 Less: Total FUTA tax deposited from line 5, Part IV	
5 Balance due (subtract line 4 from line 3—this should not be over $100). Pay to Internal Revenue Service . . ▶	
6 Overpayment (subtract line 3 from line 4) . . . . . ▶	

Part III Tax Due or Refund (Complete if You Checked the "No" Box in Either Item A or Item B Above)

1 Gross FUTA tax. Multiply the wages on line 5, Part I, by .034		
2 Maximum credit. Multiply the wages on line 5, Part I, by .027		
3 Enter the smaller of the amount on line 11, Part V, or line 2, above		
4 (a) Delaware wages included on line 5, Part I . . ▶ $ ..... multiplied by .003		
(b) Pennsylvania wages included on line 5, Part I . ▶ $ ..... multiplied by .003		
5 Credit allowable (subtract lines 4a and 4b from line 3)		
6 Net FUTA tax (subtract line 5 from line 1)		
7 Less: Total FUTA tax deposited from line 5, Part IV		
8 Balance due (subtract line 7 from line 6—this should not be over $100). Pay to Internal Revenue Service . . ▶		
9 Overpayment (subtract line 6 from line 7) . . . . . ▶		

Part IV Record of Federal Tax Deposits for Unemployment Tax (Form 508)

	a. Quarter	b. Liability by period	c. Date of deposit	d. Amount of deposit
1	First			
2	Second			
3	Third			
4	Fourth			

5 **Total FUTA tax deposited** (add column d, lines 1 through 4) (do not include contributions paid to State) . . ▶

If you will not have to file returns in the future, write "Final" here (see general instruction "Who Must File") . . ▶

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a State unemployment fund claimed as a credit was or is to be deducted from the payments to employees.

Date ▶ Signature ▶ Title (Owner, etc.) ▶

Form **940** (1979)

Part V Computation of Tentative Credit (Complete if You Checked the "No" Box in Either Question A or B on Page 1—See Instructions)

Name of State	State reporting number(s) as shown on employer's State contribution returns	Taxable payroll (as defined in State act)	State experience rate period 4		State experience rate	Contributions if rate had been 2.7% (col. 3×2.7%)	Contributions payable at experience rate (col. 3×col. 5)	Additional credit (col. 6 minus col. 7)	Contributions actually paid to State
			From—	To—					
1	2	3			5	6	7	8	9
10 Totals ▶									
11 Total tentative credit (add line 10, columns 8 and 9—see instructions for limitations) ▶									

New Format

This form has been changed so that most employers will find it much simpler to figure their tax. If you (a) paid all required contributions to your State unemployment fund by the due date of this form, and (b) are required to contribute to only one State, you only have to complete Parts I, II, and IV. Otherwise, you must complete Parts I, III, IV, and V.

General Instructions

For more detailed information on which employers must file, the types of payments defined by law as wages, and the kind of services covered by the Federal Unemployment Tax Act (FUTA), see **Publication 15,** Circular E, Employer's Tax Guide. **Publication 539,** Withholding Taxes and Reporting Requirements (Revised November 1979) has a filled in copy of Form 940. Both publications are available at any Internal Revenue Service office.

Household employers, see **Publication 503,** Child and Disabled Dependent Care (Revised November 1979). It has an example and a filled in copy of Form 940 for a household employer.

Purpose of Form 940.—Use it for the annual reporting of tax under FUTA. **This tax is paid only by the employer.** The tax rate is 3.4% on the first $6,000 of wages paid to each employee during 1979.

Who Must File.—In general, every employer who during 1979 or 1978 (a) paid wages of $1,500 in any calendar quarter or (b) at any time had one or more employees in any 20 calendar weeks must file. Count all regular, temporary, and part-time employees. A partnership should not count its partners. If there is a change in ownership or other transfer of business during the year, each employer who meets tests (a) or (b) above must file. But neither should report wages paid by the other. Organizations described in section 501(c)(3) do not have to file.

As an agricultural or household employer, you must file Form 940 if any of the following apply to you:

(1) You paid cash wages of $20,000 or more to agricultural workers during any calendar quarter in 1979 or 1978.

(2) You employed 10 or more agricultural workers during some part of a day (whether or not at the same time) for at least one day during any 20 different weeks in 1979 or 1978.

Count aliens admitted to the U.S. on a temporary basis to perform agricultural labor in 1980 (after 1980, in the current or preceding year) to determine if you meet either of the above tests. However, wages paid to these aliens are not subject to FUTA tax until 1982.

(3) You paid cash wages of $1,000 or more in any calendar quarter in 1979 or 1978 for domestic service in a private home, local college club, or a local chapter of a college fraternity or sorority.

If you receive a form and are not liable for Federal unemployment tax for 1979, write "Not Liable" across the front and return it to IRS. If you will not have to file returns after this, write "Final" on the line above the signature line.

If you sold or transferred the business during the year, attach a statement showing the name, address, and employer identification number (if known) of the new owner.

Once you have filed a Form 940, we will send you an addressed form near the end of the year. If you do not receive it, ask for one from any IRS office in time to file.

Due Date.—Form 940 for 1979 is due by January 31, 1980. However, if you made timely deposits in full payment of the tax due, your due date is February 11, 1980.

Where to File.—

If your principal business, office, or agency is located in ▼	File with the Internal Revenue Service Center at ▼	
New Jersey, New York City and counties of Nassau, Rockland, Suffolk and Westchester	Holtsville, NY	00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA	05501
District of Columbia, Delaware, Maryland, Pennsylvania	Philadelphia, PA	19255
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA	31101
Michigan, Ohio	Cincinnati, OH	45999
Arkansas, Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX	73301
Alaska, Arizona, Colorado, Idaho, Minnesota, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT	84201
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO	64999
California, Hawaii	Fresno, CA	93888
Indiana, Kentucky, North Carolina, Tennessee, Virginia, West Virginia	Memphis, TN	37501

If you have no legal residence or principal place of business in any IRS district, or if your principal place of business is in Puerto Rico or the U.S. Virgin Islands, file Form 940 with the Internal Revenue Service Center, Philadelphia, PA 19255.

Deposit Requirements.—Please see the specific instructions for Part IV.

How to Make Deposits.—Follow the instructions on the back of the preinscribed Federal Tax Deposit Form 508.

Employer's Name, Address, and Identification Number.—Use the addressed Form 940 mailed to you. If you must use a non-addressed form, type or print your name, trade name, address, and employer identification number on it.

Penalties and Interest.—Avoid penalties and interest by filing a correct return and paying the proper amount of tax when due. The law provides a penalty for late filing unless you show reasonable cause for the delay. If you file late, attach an explanation.

There are also penalties for willful failure to pay tax, keep records, make returns, and for filing false or fraudulent returns. Taxpayers who willfully claim credit for deposits not made are subject to fines and other criminal penalties.

Credit for Contributions Paid into State Funds.—You can claim credit for contributions you pay into a certified State (including Puerto Rico and the U.S. Virgin Islands) unemployment fund by the due date of Form 940.

"Contributions" are payments that State law requires you to make to an unemployment fund because you are an employer. These payments are "contributions" only to the extent that they are not deducted or deductible from the employees' pay.

You may credit contributions against the tax whether or not you made them for "employment." You may not take credit for voluntary contributions or for penalties or interest payments to a State.

Credit for contributions you make after the due date (or extended due date) for filing Form 940 may not be more than 90% of the amount that would have been allowable if you had paid the contributions by the due date.

If you have been granted an experience rate lower than 2.7% by a State for the whole or part of the year, you are entitled to an additional credit. This credit is equal to the difference between actual contributions and the amount you would have been required to contribute at either the highest rate applied by the State, or 2.7%, whichever is lower.

The total credit allowable may not be more than 2.7% of taxable wages.

Special Credit for Successor Employers.—If you are claiming special credit as a successor employer, attach a statement showing (a) the name, address, and employer identification number of your predecessor; (b) how you acquired your predecessor's trade or business (or a separate unit of it); (c) the date you acquired it; (d) each item in columns 1 through 9 of Part V that applies to your predecessor; (e) the number of individuals your predecessor employed immediately before the acquisition, whom you also employed immediately after the acquisition; (f) the total payments subject to State unemployment compensation your predecessor paid to the employees in (e) above during the calendar year.

Determine the amount of the special credit in the following way (use the figures in columns 1 through 9 of Part V compiled for your predecessor): Add the "additional credit" (column 8) and "contributions actually paid to the State" (column 9). Multiply this total by the fraction whose numerator (top number) is the amount from step (f) above, and whose denominator (bottom number) is the "taxable payroll (as defined in State act)" (column 3) paid to all employees of your predecessor before you acquired the business during the calendar year.

(See Specific Instructions on page 4.)

Form **940**
Department of the Treasury
Internal Revenue Service

Employer's Annual Federal Unemployment Tax Return

1979

YOUR COPY

Calendar Year
1979
Employer identification number

A Have you paid all required contributions to your State unemployment fund by the due date of Form 940? . . . . . ☐ Yes ☐ No
If you check the "Yes" box, enter amount of contributions timely paid to your State unemployment fund . . . ▶
B Are you required to pay contributions to only one State? . . . . . ☐ Yes ☐ No
If you check the "Yes" box: (1) Enter the name of the State that you are required to pay contributions to . . ▶
(2) Enter your State experience rate(s) for 1979 (see instructions for Part V, columns 4 and 5) . ▶ %, %, %

Part I Computation of Taxable Wages (To Be Completed by All Taxpayers)

1 Total payments (including exempt payments) during the calendar year for services of employees . . . . .

Exempt Payments	Amount paid
2 Exempt payments. (Explain each exemption shown, attaching additional sheets if necessary) ▶	
3 Payments for services in excess of $6,000. Enter only the excess over the first $6,000 paid to individual employees exclusive of exempt amounts entered on line 2. Do not use State wage limitation	

4 Total exempt payments (add lines 2 and 3) . . . . . .
5 Total taxable wages (subtract line 4 from line 1). (If any portion is exempt from State contributions, see instructions) . . ▶

Part II Tax Due or Refund (Complete if You Checked the "Yes" boxes in Both Items A and B Above)

1 FUTA tax. Multiply the wages on line 5, Part I, by .007 and enter here . . . . . .
2 (a) Delaware wages included on line 5, Part I . . ▶ $..... multiplied by .003 . . .
(b) Pennsylvania wages included on line 5, Part I . ▶ $..... multiplied by .003 . . .
3 Total FUTA tax (add lines 1, 2a, and 2b) . . . . . .
4 Less: Total FUTA tax deposited from line 5, Part IV . . . . . .
5 **Balance due** (subtract line 4 from line 3—this should not be over $100). Pay to Internal Revenue Service . . ▶
6 **Overpayment** (subtract line 3 from line 4) . . . . . ▶

Part III Tax Due or Refund (Complete if You Checked the "No" Box in Either Item A or Item B Above)

1 Gross FUTA tax. Multiply the wages on line 5, Part I, by .034 . . . . . .
2 Maximum credit. Multiply the wages on line 5, Part I, by .027 . . . . . .
3 Enter the smaller of the amount on line 11, Part V, or line 2, above . . . . . .
4 (a) Delaware wages included on line 5, Part I . . ▶ $..... multiplied by .003
(b) Pennsylvania wages included on line 5, Part I . ▶ $..... multiplied by .003
5 Credit allowable (subtract lines 4a and 4b from line 3) . . . . . .
6 Net FUTA tax (subtract line 5 from line 1) . . . . . .
7 Less: Total FUTA tax deposited from line 5, Part IV . . . . . .
8 **Balance due** (subtract line 7 from line 6—this should not be over $100). Pay to Internal Revenue Service . . ▶
9 **Overpayment** (subtract line 6 from line 7) . . . . . ▶

Part IV Record of Federal Tax Deposits for Unemployment Tax (Form 508)

	a. Quarter	b. Liability by period	c. Date of deposit	d. Amount of deposit
1	First			
2	Second			
3	Third			
4	Fourth			

5 Total FUTA tax deposited (add column d, lines 1 through 4) (do not include contributions paid to State) . . ▶
If you will not have to file returns in the future, write "Final" here (see general instruction "Who Must File") . . ▶

Keep This Copy for Your Records

You must keep this copy and a copy of each related schedule or statement for a period of 4 years after the date the tax is due or paid, whichever is later. These copies must be available for inspection by the Internal Revenue Service.

For More Information

See **Publication 15**, Circular E, Employer's Tax Guide, and **Publication 539**, Withholding Taxes and Reporting Requirements, for more detailed information. Household employers should see **Publication 503**, Child and Disabled Dependent Care.

Part V **Computation of Tentative Credit (Complete if You Checked the "No" Box in Either Question A or B on Page 1—See Instructions)**

Name of State	State reporting number(s) as shown on employer's State contribution returns	Taxable payroll (as defined in State act)	State experience rate period 4		State experience rate	Contributions if rate had been 2.7% (col. 3×2.7%)	Contributions payable at experience rate (col. 3×col. 5)	Additional credit (col. 6 minus col. 7)	Contributions actually paid to State
			From—	To—					
1	2	3			5	6	7	8	9
10 Totals ▶									
11 Total tentative credit (add line 10, columns 8 and 9—see instructions for limitations) ▶									

Specific Instructions

All filers must complete Questions A and B, Part I.

Use Part II if you pay contributions to only one State unemployment fund, you made all State payments by the due date of Form 940, and all of the FUTA wages are subject to the State's unemployment fund taxes. Otherwise, complete Parts III and V.

Part I.—Computation of Taxable Wages

Line 1—Total payments.—Enter the total payments you made to employees for services during the calendar year, even if they are not taxable. Include salaries, wages, commissions, fees, bonuses, vacation allowances, amounts paid to temporary or part-time employees, and the value of goods, lodging, food, and clothing. Enter the amount before any deductions.

How the payments are made is not important in determining if they are wages. Thus, you may pay wages for piecework or as a percentage of profits, and you may pay wages hourly, daily, weekly, monthly, or yearly. You may pay wages in cash or some other way, such as goods, lodging, food, or clothing. For items other than cash, use the fair value at the time of payment.

Line 2—Exempt payments.—"Wages" and "employment" as defined for FUTA purposes do not include every payment and every kind of service an employee may perform. In general, payments excluded from wages and payments for services excepted from employment are not subject to tax. You may deduct these payments from total payments only if you explain them on line 2.

Enter such items as the following:

(1) Agricultural labor if you (a) paid cash wages of less than $20,000 for such labor for each calendar quarter in 1978 and 1979 AND did not employ 10 or more agricultural workers during any part of a day during any 20 different weeks in 1978 or 1979, OR (b) paid wages to aliens admitted to the United States on a temporary basis to perform agricultural labor before 1982.

(2) Benefit payments for sickness or injury under a workmen's compensation law, insurance plan, and certain employer plans.

(3) Domestic service if you paid cash wages of less than $1,000 in each calendar quarter in 1978 and 1979.

(4) Family employment.

(5) Certain fishing activities.

(6) Any other exempt payments or services.

For more detailed information, see Circular E, Employer's Tax Guide.

Line 3.—Enter the total of the amounts you paid each employee in excess of $6,000. For example, if you have 10 employees whom you paid $8,000 each during the year, enter $80,000 on line 1 and $20,000 on line 3. The $6,000 wage limitation is for FUTA purposes only. Do not use the State wage limitation for this entry.

Line 5—Total taxable wages.—If any part of your taxable FUTA wages are exempt from State contributions, you must fill out Parts I, III, IV and V, even if you checked questions A and B "Yes."

Part II.—Tax Due or Refund

Use this part if you made payments to only one State by the due date of Form 940, and all your wages shown on line 5 of Part I are subject to the State's unemployment fund taxes.

Lines 2a and 2b.—Enter any FUTA wages subject to the unemployment compensation laws of Delaware and Pennsylvania. (If in doubt, ask your local IRS office.) Multiply the wages by .003. This adjustment is required by Internal Revenue Code section 3302(c)(2). If no wages are subject, enter "none" on lines 2a and 2b.

Part III.—Tax Due or Refund

Use this part if you do not qualify for Part II.

Line 3.—Enter the smaller of (1) line 11, Part V—Total tentative credit, or (2) line 2, Part III—2.7% of taxable FUTA wages.

Lines 4a and 4b.—Enter any FUTA wages subject to the unemployment compensation laws of Delaware and Pennsylvania. (If in doubt, ask your local IRS office.) Multiply the wages by .003. This adjustment is required by Internal Revenue Code section 3302(c)(2). If no wages are subject, enter "none" on lines 4a and 4b.

Part IV.—Record of Federal Tax Deposits

Complete this part if your total tax for the year is over $100. In columns c and d, enter the date and the amount of the deposit you made for each quarter.

Figure your Federal unemployment tax on a quarterly basis. Deposit any amount due by the last day of the first month following the close of the quarter. (If you do not qualify as an employer until the second or third quarter, your deposit requirements do not begin until then.)

To determine if you must make a deposit for any of the first three quarters in 1980, figure the total tax by multiplying by .007 that part of the first $6,000 of each employee's annual wages you paid during the quarter.

If the amount subject to deposit (plus the undeposited amount for any earlier quarter) is more than $100, deposit it during the first month following the quarter. If the amount is $100 or less, you do not have to deposit it, but you must add it to the amount subject to deposit for the next quarter.

If the tax reportable on Form 940 minus amounts deposited for the year is more than $100, deposit the entire amount by January 31. If the tax for the year minus all previous deposits is $100 or less, you can either deposit it or pay it with Form 940.

If you deposited the proper amounts, following these rules, the balance due with Form 940 will never be more than $100.

Deposit Federal unemployment tax in an authorized financial institution or the Federal Reserve Bank for your area according to the Instructions on the back of a preinscribed Federal Tax Deposit (FTD) Form 508 which must accompany each deposit.

Preinscribed FTD Forms 508 are mailed to you once each year (around the end of March) for your use throughout the year. The number of cards you receive is based on your history of payments during the previous two years. If you do not receive a supply of cards or need more than the number sent to you, you can order cards from any IRS office. Your request should show your name, address, employer identification number, the kind of tax (FUTA), the tax period ending date (December 31), and the number of cards you need.

Part V.—Computation of Tentative Credit

Complete this schedule if: (1) You made payments to the unemployment fund of more than one State; (2) You did not make your State payments by the due date of Form 940; or (3) Some wages subject to Federal unemployment tax were exempted from State taxes. If you have a State experience rate lower than 2.7% for all or part of the year, use columns 1 through 9. If you have no experience rate, use columns 1, 2, 3, and 9 only. If you have a rate of 2.7% or higher, use columns 1, 2, 3, 4, 5, and 9 only. If you have an experience rate on part of your payroll, show separately in columns 1, 2, 3, and 9 the part that the rate does not apply to. If you were granted an experience rate for only part of the year or the rate was changed during the year, enter in the appropriate columns the period each separate rate applied to, your payroll rate, and required contributions for each period.

Column 1.—Enter the name of the State or States (including Puerto Rico and the U.S. Virgin Islands) that you were required to pay contributions to.

Column 2.—Enter the State reporting number that was assigned to you when you registered as an employer with your State.

Column 3.—Enter the taxable payroll that you must pay contributions on to the unemployment funds of the State in column 1. If your experience rate is zero, enter the amount of wages that you would have had to pay contributions on if the rate had not been granted.

Columns 4 and 5.—Your State experience rate is the rate at which the State taxes your payroll for State unemployment purposes. This rate may be adjusted from time to time based on your "experience" with the State fund, that is, based on the number and length of claims for unemployment compensation by your former employees against the fund. If you do not know your rate, you should contact your State employment security agency.

Column 8.—Subtract the amount in column 7 from column 6. If zero or less, enter zero (0).

Column 9.—Enter the amount of contributions actually paid into the State fund.

Line 11.—Add the total of line 10, columns 8 and 9. The allowable credit for State contributions you make after the due date (or extended due date) for filing Form 940 may not be more than 90% of the credit that would have been allowed if you had paid the State contributions by the due date.

The Unemployment Experience of Older Workers and the Transition to Retirement

Steve L. Barsby

Labor market researchers have recognized that as workers age, they find it increasingly difficult to find new employment after leaving a job either voluntarily or involuntarily. As a result, older workers who are unemployed are overrepresented as long-term unemployment insurance (UI) beneficiaries and UI exhaustees. Partially as a result of this experience, they frequently withdraw from the labor force—not because they want to retire, but because they have become discouraged workers. Unlike younger discouraged workers, who reenter the labor force when they perceive increased employment opportunities, older persons tend to remain permanently out of the labor force. The result is a reduced national income and a higher drain on both work-related and non-work-related income transfer programs.

This labor market experience of older workers has been accompanied by two long-term trends that increase the significance of the older workers' unemployment experience. First, older persons are rapidly becoming a larger proportion of the population, and thus the economic difficulties they face affect the economy more heavily than in the past. Second, it is increasingly true that workers are retiring at an earlier age than before. In particular, the proportion of workers retiring at age 62 and opting for reduced social security benefits has nearly doubled in the last two decades. The causes for this phenomenon are complex, but the growing availability of retirement income from both private plans and social security certainly is a factor. This trend toward earlier retirement contributed to the strains placed on the social security fund during recent decades.

The general unemployment experience of older workers, their growing significance as a population group, and their increasing tendency to retire early are occurring in an environment in which persons are increasingly encouraged to remain in the labor force longer rather than to retire at the first opportunity. The 1978 amendments to the Age Discrimination in Employment Act, raising the minimum permissible mandatory retirement age from 65 to 70, is one reflection of this changed attitude.

Although most people believe that the labor market experiences of older workers, previously described, are occurring, many of the data describing these experiences are fragmented and scattered. This report pulls together many of these data so that a more complete picture of the older-worker experience may be obtained. Older workers are compared to younger workers in unemployment rates, duration of unemployment, tendency to withdraw from the labor force, exhaustion of UI benefits, and income levels subsequent to job displacement.

The scope of the research is limited, drawing primarily on published statistics, or studies that use data from the Bureau of Labor Statistics and the Social Security Administration. As a result, detailed information that might have been developed from ongoing longitudinal surveys, such as the Continuous Work History Survey of the Social Security Administration, was not used. In particular, much of the published data use 5- or 10-year age groupings (e.g., ages 55–64), which certainly must mask the gradually changing experiences of persons of different ages. Furthermore, only recent research is oriented toward the labor force experiences of women rather than only men. Although more detailed preliminary data may have filled some gaps (supplied better age- and sex-specific detail) and been more current, the inclusion of such information would not have changed the general conclusions of this report.

Trends in the long-term participation rates of persons of various ages and discussions of alternative explanations of why workers leave the labor force before age 65 are summarized in the first section of this report. The second section compares the unemployment experiences of older workers with those of younger workers with respect to duration of unemployment, tendency to exhaust regular and extended UI benefits, probability of subsequent labor force withdrawal, and the effects of displacement on longer-term income flow. Where possible, the differing experiences of women and men are pointed out. The final section explores whether

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UI is an appropriate program for alleviating income loss caused by extended unemployment of older workers and for increasing their labor force attachment. The genesis of this section is a recent proposal of the National Advisory Council on Social Security that a special extended-benefit program for older workers be developed that would help reduce the tendency of workers to retire at age 62 and take a reduced social security entitlement.[1] As part of this discussion, UI provisions in other countries that provide special benefits to older workers are summarized.

Long-Term Labor Force Trends

Contrasting changes in labor force participation rates of mature men and women are two of the most dramatic labor force changes of the post World War II era. Whereas labor force participation rates of men between the ages of 50 and 54 remained relatively stable, those of men 55 and older declined. This decrease was largest among men of 65 to 69, falling by more than half—from 59.7 percent to 27.8 percent—between 1950 and 1980. That for men of 60 to 64 fell about 20 percentage points from its 1950 level of 79.4 percent and began this decade at 59.9 percent. The participation rate of men of 55 to 59 showed a small decline over this 30-year period, falling from 86.7 percent to 82 percent. In contrast to trends in the men's labor force participation rates, labor force participation rates of women were rising for almost all age groups between 50 and 69. The largest increases occurred for women of 50 to 54 (from 30.8 percent to 57.5 percent) and for women of 55 to 59 (from 25.9 percent to 49.3 percent). Table 1 presents these trends in more detail.

The forces behind these opposing trends are complex. The rising labor force participation rates of women can be traced to such factors as economic necessity due to rising costs of living and family breakups; to increased desire to work to raise the family's standard of living; and to the increased acceptability of women's pursuing independent careers. Reductions in the labor force participation rates of men appear to be related to a combination of such voluntary factors as the greater availability of private pensions, the early retirement option granted under social security in 1962, and to involuntary factors relating to labor market forces.

Substantial disagreement exists over the relative importance of these factors in explaining the increasing tendency for men to withdraw from the labor force before age 65.[2] Some studies emphasize the importance of improved levels or an increased availability of pensions. Others indicate that a combination of health and availability of nonwork options is the dominant cause. Some studies focus on the entire mix of factors, including withdrawal from the labor force because of the discouraged-worker phenomenon.

TABLE 1. Labor force participation rates for older persons by sex, for selected years 1950 to January 1980

Age group and year	Percent	
	Men	Women
50 to 54 years		
1950	90.5	30.8
1960	92.0	45.9
1970	91.5	52.4
1980 (Jan.)	89.8	57.5
55 to 59 years		
1950	86.7	25.9
1960	87.7	39.7
1970	86.8	47.6
1980 (Jan.)	82.0	49.3
60 to 64 years		
1950	79.4	20.6
1960	77.8	29.4
1970	73.2	36.4
1980 (Jan.)	59.9	33.6
65 to 69 years		
1950	59.7	12.0
1960	44.0	16.5
1970	39.3	17.2
1980 (Jan.)	27.8	14.7

SOURCE: *Employment-Related Problems of Older Workers: A Research Strategy*, R & D Monograph 73, U.S. Department of Labor, 1979; January 1980 data drawn from February 1980 *Employment and Earnings*, U.S. Department of Labor, Table A-3, pp. 23–24.

Health

A number of studies have concluded that health limitations play the dominant role in the early-retirement decision. One study, based on the "Retirement History Survey" of the Social Security Administration, questioned men retiring between July and December 1968 on the reasons they left their last jobs. Since all men surveyed were nonworking and were receiving social security or retirement benefits, they may be characterized as being retired. As seen in Table 2, 57 percent of the men retiring at age 62 gave health as the main reason for retirement. Only 18 percent indicated that retire-

TABLE 2. Main reason men gave for retirement (in percent)

Reason for retirement	Age of retirement		
	62	63–64	65
Health	57	48	21
Voluntary	18	23	18
Laid off	14	12	5
Compulsory	1	10	52
Other	10	8	4

SOURCE: Lenore Bixby, "Retirement Patterns in the United States: Research and Policy Interaction," *Social Security Bulletin*, August 1976, Table 5, p. 10, citing *Reaching Retirement Age: Findings From a Survey of Newly Entitled Workers, 1968–1970* (Research Report No. 47), Table 4, p. 5, Office of Research and Statistics, Social Security Administration, 1976.

ment was voluntary. Health as a factor in retirement declined in importance for those 63 and 64, but the 48 percent giving health as the main reason for retirement was still double the percentage indicating that retirement was voluntary. Clark, Kreps, and Spengler cite a number of additional studies showing the impact of health on the decision to withdraw from the labor force,[3] and they note that poor health is more important in this respect for persons in their fifties than for those in their sixties.[4]

Several reasons militate against full acceptance of the findings citing health as the most important reason for early withdrawal from the labor force. First, the most common method of determining the reason for withdrawal has been the retrospective interview. Several researchers have noted the tendency for those surveyed to give socially acceptable answers regarding the retirement decision rather than the real reasons. Thus, health may be presented as the main reason for retirement when in fact withdrawal from the labor force was optional. In addition, the measurement of health limitations is subject to many vagaries, especially when self-assessed.

Second, what must be explained is the *rise* in the level of labor force withdrawal rates for men, not just the given level of withdrawal rates. One would have to believe that the general level of mature men's health has been falling in order to accept health as the most important reason for the increasing tendency of men to leave the labor force early. This runs counter to the generally accepted view that health levels of all ages are rising. Certainly the declining age-specific mortality rates of older men would suggest improving, not declining, health levels.

These observations are not meant to suggest that health is not an important factor in early withdrawal from the labor force. It surely does play a significant role, especially for men under age 60. The nature of the evidence supporting this explanation, however, does not seem sufficient to accept health as the main force behind the observed labor market trends of men. Yet health status, combined with the availability of retirement income, accounts for a large proportion of this labor force withdrawal.

Labor market forces

Some evidence indicates that decreased employment opportunities lie behind much of the rising rates of withdrawal from the labor force observed among men. Harold Sheppard argues that there is a structural problem in the labor force and that age simply acts as a proxy for things like education, specific skills, and mobility.[5] Geographic shifts in employment and differences in skills required in the expanding (technical) jobs favor younger workers, completely apart from any tendencies employers may have to favor younger workers. Older workers seem to experience more difficulty in finding new employment than younger workers when hit by mass layoffs or shutdowns, a widely observed phenomenon consistent with Sheppard's argument.[6]

The decline in the number of self-employed workers also is seen to have a role. Bednarzik and Klein observed that a larger proportion of older workers are self-employed than is the case for the labor force as a whole.[7] Since the number of self-employed persons has fallen from 10 million in 1950 to 7 million in 1976, such opportunities for older workers are seen as declining.

The reaction of older workers to decreased employment opportunities apparently is contributing to the declining participation rate of these persons. When unemployment rates rise, some workers tend to withdraw from the labor force because they become discouraged over prospects of reemployment—hence the term *discouraged-worker effect*. Another group of persons who had previously been outside the labor force are induced by economic necessity, e.g., unemployment of a family member, to seek work. This is called the *additional-worker effect*. A number of studies have found (among older workers, at least), that the discouraged-worker effect is stronger than the additional-worker effect. Thus, as unemployment rises during the downside of a business cycle, more older workers leave the labor force than enter it. This in itself would not account for the secular decline in participation rates of older workers. Apparently, however, this effect is asymmetrical. That is, if older workers exit from the labor force during a recession, they tend to remain permanently out of the labor force even when business conditions improve.[8] Thus, over successive business cycles, the labor force participation rate of this group will tend to fall.

This apparently is what happened in the 1973–75 recession and subsequent recovery. The total number of all ages employed fell during 1974 and 1975. During the recovery of 1975–76, employment of white men over 45 continued to fall while that of younger men rose. At the same time, increases in the total number of older persons not in the labor force outpaced such gains among younger workers.[9] As Sheppard observed, for white men, starting with those 35 to 44, in 1975–76 the rate of increase in numbers not in the labor force was greater than the rate of increase in numbers employed. Little if any employment increase occurred among those 35 and older. For minority men 45 and older, the trend was similar, whereas employment increased for minority men under 45.[10]

The sequence of behavior leading to labor force withdrawal often may begin with a worker's becoming discouraged. Sheppard notes that unpublished data from the Bureau of Labor Statistics show that the increase in older discouraged workers during the 1973–75 recession was greater than that in the labor force as a

whole, and this phenomenon was not confined to men. As late as 1977, the number of discouraged female workers in each of the age groups above age 45 was more than 50 percent above 1973 levels.[11]

Clark, Kreps, and Spengler remind us that not all of the drop in the labor force participation rate of men is associated with total withdrawal. They note that voluntary part-time employment among men rose from 20 percent in 1957 to 42 percent in 1974.[12] Such an increase will tend to reduce the measured participation rate.

Compulsory retirement

The gradual spread of mandatory retirement provisions (prior to 1978, when the minimum mandatory retirement age was raised to 70) may have accounted for a meaningful portion of retirements that occurred at 65. If so, raising the minimum permissible mandatory retirement age to 70 should have decreased the number of persons retiring at age 65. Whether it has may well have been obscured by the continuing trend in the late 1970's for persons to retire before 65.

The extent to which workers were forced to retire because of mandatory plans, however, is uncertain. Parnes concludes, on the basis of the National Longitudinal Survey of older male workers, that only about 3 percent of the men in his sample had wanted to continue working but could not because they had reached the mandatory retirement age.[13] Parnes used a relatively strict definition of mandatory retirement, which included a consideration of whether the retiring person would have continued to work in the absence of the mandatory retirement provision. Other studies suggest that the percentage of persons who are mandatorily retired is larger.[14] The extent to which other researchers' findings of a higher incidence of mandatory retirement are due to differences in definitions is unknown. This researcher, however, prefers Parnes' treatment.

Availability of pension income

The growing availability of pension income (both public and private) to those under 65 has been credited with playing an important role in the trend toward early withdrawal from the labor force. As early as 1968 an estimated 40 percent of the men between 56 and 63 employed in manufacturing were eligible for pension benefits as early as 62. Clark, Kreps, and Spengler cite a number of studies concluding that private pensions were important in the retirement decision.[15]

Even though successive studies by the Social Security Administration over a number of years point to health and mandatory retirement as leading causes of retirement, impressive evidence exists of at least an association between the availability and level of Old Age and Survivors Insurance (OASI) and the trends toward earlier retirement. Campbell and Campbell argue that OASI has been a major factor in the declining labor force participation not only of workers 65 and older, but of younger workers as well.[16] Other researchers argue similarly.

Bixby, for example, pointed out that the percentage of men exercising the option to receive early social security benefits increased from 32 percent in 1965 to 46 percent in 1975. The percentage of women taking early retirement rose from 44 percent to 55 percent during the same period. In terms of total beneficiaries receiving OASI payments, the percentage of men receiving reduced benefits rose from 21 percent in 1965 to 48.7 percent in 1975.[17]

Several studies have found that the probability of retirement at specific ages is inversely related to income. Thus low-income older workers are more likely to retire than higher-income older workers.[18] This is expected, according to the studies, because lower-income workers have a higher proportion of their income replaced by OASI; and by "retiring" and working part-time, it is even possible to increase total income.

A number of studies used multivariate techniques to estimate the relative importance of various factors to withdrawal from the labor force. Bowen and Finegan estimated that about 60 percent of the decline in labor force participation of older men between 1948 and 1965 could be accounted for by increased nonearned income.[19] Viscusi and Zeckhauser reached similar conclusions.[20] Boskin examined the behavior of households headed by people 61 through 65.[21] He concluded not only that the level of monthly OASI benefits was positively associated with retirement, but also that the implied tax under the income work test for retirement significantly increased the probability of retirement. A similar positive association between labor force withdrawal and old-age benefits was found in an international study in which benefits relative to wages was the dependent variable.[22]

Combination of factors

The two major studies of labor force behavior of older workers use different sets of longitudinal data yet reach similar conclusions. In both instances health plays a major role, but is not independent of other factors. Quinn, working with data from the 1969 Social Security Administration's "Retirement History Survey," used multivariate analysis to examine the association between labor force withdrawal and a large number of factors. He found that whereas health status alone was an important influence on labor force participation, health limitations combined with eligibility for retirement income were even more powerful in explaining labor force withdrawal.[23]

The National Longitudinal Survey, conducted by the Center for Human Resource Research at Ohio State

University, served as the data base for Parnes. Using multivariate analysis, he found that health and the amount of the potential OASI payment were the two most important factors in explaining the labor force participation rates of men. When education and income levels were controlled for, apparent racial differences in retirement tendencies disappeared.[24]

Thus, both health and the availability of retirement income are seen as important in the retirement decision. But the health status of older persons has generally been stable or improving, and both private and public retirement programs have been expanding rapidly. It appears, therefore, that the rising withdrawal rate of older workers is best accounted for by interaction between the relatively increasing attractiveness (or decreasing unattractiveness) of the retirement option, as measured by postretirement incomes, and the inability of older workers to find satisfactory permanent employment after being displaced from their jobs.

The Unemployment Experience of Older Workers

A surface reading of employment-unemployment statistics might lead one to the incorrect conclusion that unemployment of workers 55 and older is minor compared to the experiences of other age groups. In January 1980, for example, persons 55 and older made up about 27 percent of the population aged 16 and older but only about 14 percent of the labor force and 9.8 percent of the total unemployed. The unemployment rate for men 55 to 64 was 3.3 percent at the beginning of 1980, about half that of the total unemployment rate, and only about one-fourth as great as that for men 20 to 24. The unemployment rate for women 55 and older was about 3.7 percent, one-third the 10.7 percent rate registered for women aged 20 to 24. The total number of persons 55 and over who were unemployed at the beginning of 1980 was just 557,000—roughly one-third as many as unemployed 20- to 24-year-olds.

Even if these figures are taken at face value, one might argue that they understate the significance of the unemployment experience for older workers because these workers have family responsibilities more frequently than younger workers, and unemployment has a heavier impact on their families' lifestyles than it would on younger workers'. The later years also are those that have the greatest influence on private-pension and OASI payment rates. As a result, unemployment has a greater impact on the current and future living standards of workers in their fifties and early sixties than does the unemployment of younger workers.

Apart from the preceding observations, however, these employment-unemployment numbers cannot be taken at face value. In fact, the aggregate unemployment rate data conceal the nature and extent of the burdens placed on older workers from their unemployment experiences. When older workers become unemployed, for example, their unemployment lasts longer (on average) than it does for younger workers; and, as mentioned before, older workers are more likely to become discouraged and to remain permanently out of the labor force.

TABLE 3. Average duration of unemployment by age and sex, 1978

Age group	Number of weeks unemployed		
	Total	Men	Women
16–19	7.9	8.1	7.7
20–24	10.7	11.5	9.9
25–34	12.4	14.0	10.9
35–44	13.5	16.5	11.0
45–54	16.8	19.9	13.7
55–64	19.6	22.2	16.0
65 and older	20.3	21.7	17.5

SOURCE: *Employment and Unemployment During 1978: An Analysis*, Special Labor Force Report #218, Washington, D.C., U.S. Department of Labor, February 1979, Table 18, p. A-18.

Unemployment duration

Even though older workers' unemployment rates are below those of the total labor force, their average unemployment duration is longer. Experience in 1978, a generally stable year for the economy, illustrates this tendency. The average duration of all unemployment was 11.9 weeks that year; that of men was 13.4 weeks and that of women 10.5 weeks. The average duration of unemployment of those aged 45 and over was 19.8 weeks—two-thirds longer than the average. Among those 65 and over, average duration was 20.3 weeks.

The longest average duration, 22.2 weeks, was experienced by men 55 to 64 (Table 3), closely followed by 21.7 weeks for men 65 and over. Even though the average unemployment duration of women was about 4 weeks less than that of men, this differential was greater among women 45 to 64 than among younger women workers.

Summary information on the distribution of unemployment duration by number of weeks unemployed is given in Table 4. Within the total labor force, over 46 percent were unemployed for less than 5 weeks, with about 10 percent of unemployment lasting 27 weeks or more. This experience is approximated by those in their prime working years of 25 through 34. Among older workers, however, fewer are unemployed less than 5 weeks, and the proportion remaining unemployed for over 27 weeks is double that of the labor force as a whole. Among those aged 55–64, 23.6 percent of the men and 18.1 percent of the women were unemployed for over 26 weeks.

TABLE 4. Distribution of unemployment duration by number of weeks unemployed (in percent)

Age group and sex	Weeks unemployed			
	Under 5	5–14	15–26	27 or more
All ages				
Total	46.2	31.0	12.3	10.5
Men	42.3	31.4	13.9	12.3
Women	50.1	30.6	10.7	8.6
Age 25–34				
Total	44.0	31.0	13.6	11.3
Men	38.0	32.0	16.0	13.1
Women	49.4	29.4	11.4	9.7
Age 55–64				
Total	36.4	27.2	15.1	21.3
Men	32.3	28.7	15.4	23.6
Women	41.7	25.0	14.6	18.1

SOURCE: *Employment and Unemployment During 1978: An Analysis*, Special Labor Force Report #218, U.S. Department of Labor, Washington, D.C., February 1979, Table 18, p. A-18.

A special Bureau of Labor Statistics (BLS) study, relating to 1977 work experience of the labor force, provides a similar picture of relative employment-unemployment experiences of different age groups among the work force. In 1977, 17.8 percent of all persons in the labor force experienced unemployment at some time during the year, with slightly fewer men experiencing one or more spells of unemployment than women (Table 5). As before, a smaller percentage of older workers experienced any unemployment. Among those aged 55–64, 9.6 percent reported some unemployment. For those age 65 and above, this figure was 6.8 percent.

TABLE 5. Extent of unemployment by age and sex, 1977 (in percentage)

Sex and duration	Age		
	16 and above	55–64	65 and over
Some unemployment			
Total	17.8	9.6	6.8
Men	17.4	9.6	7.5
Women	18.3	9.6	5.8
1–2 weeks			
Total	3.8	6.8	6.8
Men	4.3	7.6	[1]
Women	3.2	5.4	[2]
15–26 weeks			
Total	21.9	23.1	20.6
Men	24.4	23.7	22.9
Women	18.5	22.2	[2]
Over 27 weeks			
Total	15.8	23.2	29.4
Men	15.7	22.4	30.8
Women	15.9	24.4	[2]

[1] Less than 0.5 percent.
[2] Base less than 75,000 and not computed.
SOURCE: *Work Experience of the Population in 1977*, Special Labor Force Report #224, Washington, D.C., U.S. Department of Labor, 1979, Table C-1, p. A-21.

The proportion of older workers experiencing extended unemployment again exceeded that of the average worker. As seen in Table 5, 23.2 percent of the workers who were 55 to 64 experienced 27 or more weeks of unemployment, compared to 15.8 percent for workers of all ages. This percentage rose to 29.4 percent for those 65 or older, nearly double that of all workers.

In addition to experiencing longer periods of unemployment, a larger proportion of older persons than of younger persons who looked for work in 1977 were unable to find it. Excluding those 16 to 19 (whose labor force attachment might be very weak), 12.0 percent of all those who worked or looked for employment failed to find it. This percentage was lowest for workers between 20 and 34 and highest for those 65 and over. Fourteen percent of those 55 to 64 and 31.1 percent of those 65 and over failed to find work.[25]

UI exhaustion

Unfortunately for purposes of this report, data on the age composition of UI recipients and UI exhaustees are very incomplete. Studies that present detail on the age distribution of recipients and exhaustees are generally very old or were made in a period not necessarily representative of normal unemployment experiences. Nevertheless, it is useful to summarize the general findings of these studies, especially since their conclusions are all similar. They uniformly find that UI exhaustees tend to be older than the UI beneficiary population as a whole and to have lower base-period earnings. They generally conclude that workers tend to remain in the labor force even after exhausting benefits. Finally, they find that white women are somewhat overrepresented among exhaustees.

In a 1963 study of 1961–62 beneficiaries under the Temporary Extended Unemployment Compensation program, older workers were found to be overrepresented among benefit exhaustees. Those 55 and older made up 27 percent of the extended-benefit exhaustees but only 25 percent of the nonexhaustees. Male UI exhaustees 55 and older represented 33 percent of total UI exhaustees, whereas only 27 percent of the nonexhaustees were 55 and older.[26]

In a series of studies for the Department of Labor, Corson and his colleagues examined the characteristics and experiences of persons receiving payments under the Federal Supplemental Benefits (FSB) program.[27] To be eligible, workers had to have exhausted both regular and extended benefits. They found that the mean age of 40 for FSB recipients exceeded that of extended-benefit recipients (mean age 36) and of persons employed 27 weeks or more (mean age 38). Additionally, 23 percent of the male and 21 percent

of the female FSB recipients were age 55 or above, compared to 13 percent for both groups among extended-benefit recipients. Among FSB recipients, older persons were overrepresented among exhaustees. Thirty-eight percent of the men age 55 or older exhausted FSB, whereas only 32 percent of those 25 to 44 exhausted them.[28]

Postexhaustion employment

A followup study of FSB exhaustees 1 year following such exhaustion revealed that older workers were less likely to have worked at all during that year, were employed during fewer weeks of the year when work was found, spent more weeks unemployed, were more likely to have withdrawn from the labor force, and had incomes below the average of other FSB exhaustees. Table 6 contains this information.

As Table 6 reveals, only about half of the FSB exhaustees found any work at all during the year following exhaustion. Among men of 55 to 64, however, 44.6 percent reported some employment (compared to 59.8 percent of all men); among women of 55 to 64, the comparable figure is 32.3 percent (compared to 46.2 percent for all women). Among men 65 and over, less than 15 percent of the FSB exhaustees reported any work during this postexhaustion year. Among women aged 65 and over, this figure was 11.9 percent.

A more obvious dropoff appears in average weeks employed. While the average for all male workers was 16.4 weeks, that for men who were 55 to 64 was 10.5 weeks. Women of that age fared even worse, being employed only 8.6 weeks during the year.

TABLE 6. Labor force experience during first year following FSB exhaustion (in percent)

Sex and age	Pct ever employed	Average weeks employed	Average weeks unemployed	Average weeks out of labor force
Total sample	52.4	14.3	25.5	13.4
Total men	59.8	16.4	25.1	11.8
Under 24	84.6	24.4	21.2	7.6
25–34	75.5	23.3	21.6	8.6
35–44	75.0	16.8	28.2	8.3
45–54	56.4	14.8	27.4	11.3
55–64	44.6	10.5	26.4	15.9
65 and older	14.9	3.7	29.4	20.1
Total women	46.2	12.7	25.9	14.7
Under 24	64.5	20.4	17.2	15.8
25–34	64.8	17.5	20.5	15.3
35–44	52.4	14.1	28.7	10.3
45–54	51.6	13.5	27.4	12.0
55–64	32.3	8.6	29.1	16.1
65 and older	11.9	2.5	29.9	20.2

SOURCE: Walter Corson et al., *A Study of Recipients of Federal Supplemental Benefits and Special Unemployment Assistance* (Princeton, N.J., Mathematica Policy Research, 1977), Table A-3, p. 52.

TABLE 7. Distribution of white FSB exhaustees by labor force status 1 year following layoff (percent)

Sex and age	Employed	Unemployed	Out of labor force
Total sample	39.1	34.6	26.4
Total men	48.7	32.6	21.3
24 and under	61.5	26.9	11.5
25–34	69.8	22.7	7.5
35–44	56.3	33.3	10.4
45–54	41.8	34.6	23.6
55–64	32.4	32.4	35.1
65 and older	7.5	47.8	44.8
Total women	32.6	37.0	34.6
24 and under	54.8	16.1	29.0
25–34	48.4	27.5	24.2
35–44	35.7	46.5	17.9
45–54	34.1	40.7	25.3
55–64	20.2	41.1	38.8
65 and older	5.1	45.8	49.2

SOURCE: Walter Corson et al., *A Study of Recipients of Federal Supplemental Benefits and Special Unemployment Assistance* (Princeton, N.J., Mathematica Policy Research, 1977), Table A-1, p. 50.

Less difference showed up in the average weeks unemployed because of the greater tendency for older workers to withdraw from the labor force during this year. Even so, unemployment duration among older workers ranged from 5 weeks to 9 weeks longer than that for workers who were 25 to 34, depending on the age and sex group for which the comparison is made.

Older workers showed a definite tendency to withdraw from the labor force more readily than younger workers. Among men, little difference showed up among workers through those aged 44, who averaged about 8 weeks out of the labor force during that year. Weeks out of the labor force rose to 11.3 for those 45 to 54, 15.9 weeks for those 55 to 64, and 20.1 weeks for those 65 and over. Among women, those 35 to 44 appeared to have the most firm attachment to the labor force (averaging 10.0 weeks out of the labor force); both younger and older women left at higher rates. Among those 55 to 64, 16.1 weeks were spent out of the labor force.

Table 7 summarizes labor force status 1 year following exhaustion of Federal Supplemental Benefits (FSB) within the white sample. As the table shows, 48.7 percent of the men and 32.6 percent of the women were employed at the time the 12-month followup survey was taken. At that time, 34.6 percent of the sample was still unemployed and 26.4 percent had withdrawn from the labor force. Employed, unemployed, and out-of-the-labor-force status was split about equally among men 55 to 64. Fewer women within this age group were employed, and greater percentages were unemployed and out of the labor force than were men. The withdrawal from the labor force of over 35 percent of those 55 to 64 in response to long-term unemployment is especially important, since reentry is not likely for

those in this age group.[29] Figures for nonwhite persons were similar in pattern; but unemployment was higher, and the tendency to withdraw from the labor force lower, than that for white persons.

Postlayoff income

The previous discussions focused on the relative difficulty of older workers in finding new employment after suffering a spell of unemployment. As might be expected, this labor force experience is reflected in relative incomes subsequent to layoff. Whereas family incomes of FSB recipients as a group returned to over 95 percent of their prelayoff levels 1 year following that in which the bulk of their FSB payments were received, incomes for those who eventually exhausted FSB remained at relatively low levels.[30] Estimates by this writer suggest that they remained at just under 50 percent of prelayoff levels.

Table 8 contains a summary of incomes of individuals during the year following their exhaustion of FSB. Incomes of the entire group were depressed, but those of men aged 55 and over were about 15 percent less than the average of all men who exhausted these benefits. Incomes of older women were even lower relative to their younger counterparts—70 percent of the average for all women who exhausted FSB. At this same time (1976–77), data presented by Parnes suggest that income of male retirees was about one-third greater than that of workers who had exhausted FSB and about 60 percent greater than that of men 55 and over who had exhausted FSB.[31]

Long-term effects

Previous discussions have followed workers for about 18 months following their layoffs; the longer-term effects have not yet been addressed. The question to be answered is, "are the effects of layoff transitory or longer lasting?" The answer, surprising to this researcher, is that the effects appear to be permanent. The following discussion draws from material contained in the 10-year followup of the National Longitudinal Survey.[32] Within this larger sample, Parnes selected for this analysis mature men who had been with the same employer at least 5 years by 1966, who were permanently and involuntarily separated from those employers at some time between 1966 and 1975, and who were interviewed in the 1976 survey.[33] The workers in this subsample represented 6.3 million men in the total labor force.

Briefly stated, Parnes found the following:

1. about 50 percent of all displaced men either moved into a new job immediately or withdrew immediately from the labor force (retired); the majority of the remainder eventually found new jobs;

2. those displaced during the low-unemployment years of 1966–69 experienced relatively short periods of unemployment; those who became unemployed between 1971 and 1975 (years of higher unemployment) suffered an average of 22 weeks of unemployment;

3. once a worker had experienced one separation, he was more likely to experience succeeding periods of unemployment than were workers who were not laid off at the same time;

4. those who had been separated at least once had a higher probability of being in a job with less status in 1976 than their 1966 job, compared to those who had not been laid off;

5. those who had been displaced had a somewhat higher level of current job dissatisfaction than those who had not been displaced, and the size of this disparity was positively related to the recency of the layoff;

6. those who had been separated had a lower overall level of happiness than those who had not been separated from long-term jobs, felt more powerless, and experienced a loss of initiative;

7. the current rate of unemployment for those who had been laid off from long-term jobs was negatively related to the length of time that had passed since the initial layoff: the unemployment rate for the control group in 1966 was 2 percent; unemployment rates for those laid off in the periods 1966–69, 1969–71, and 1971–75 were 2 percent, 7 percent, and 25 percent, respectively;

8. in 1976, hourly wage rates of those who had been displaced at some point averaged $5.50 per hour, compared to $7.09 for those who had not.[34]

Thus, older workers who are separated from employers with which they have at least 5 years' seniority suffer long-term reductions in wage rates, job advancement, job satisfaction, and employment security. According to Parnes,

TABLE 8. Income of persons exhausting FSB during first year following exhaustion

Men		Women	
By age	Income	By age	Income
All men	$4,900	All women	$3,100
Under 24	4,800	Under 24	3,600
25–34	5,600	25–34	3,300
35–44	4,700	35–44	3,600
45–54	4,700	45–54	2,800
55–64	4,200	55–64	2,200
65 and older	4,200	65 and older	2,200

SOURCE: Walter Corson et al., *A Study of Recipients of Federal Supplemental Benefits and Special Unemployment Assistance* (Princeton, N.J., Mathematica Policy Research, 1977), Table A-3, p. 52.

while effects to prevent and to minimize the duration of unemployment are clearly important, the evidence of this chapter makes it clear that unemployment is often only the most immediate and dramatic cost of displacement among men in their middle or later years. . . .

The major long-term economic impact of displacement appears to be a substantial deterioration in earnings and occupational status. . . . Moreover, there is no evidence that this adverse impact softens with the passage of time. . . .[35]

These findings regarding the relative inability of displaced older workers to find new employment and their tendency to experience long-term income reductions, and to become discouraged workers and/or retire, are made more significant by the fact that these are not casual workers with a weak attachment to the labor force. Among the recipients of extended UI benefits, three-quarters had been in the labor force the entire 36 months preceding their initial claim for those benefits. Over 80 percent of those who exhausted extended benefits had either been looking for work or working during those 36 months.[36] Not only were the vast majority employed, but 95 percent of both exhaustees and nonexhaustees had been either fully or primarily working full time before being displaced.[37]

Similar findings are reported in the study of FSB exhaustees.[38] Their distribution with respect to industry and occupation was similar to that of all claimants. Workers reported substantial employment prior to their current spell of unemployment: over half had been employed more than 30 of the previous 36 months.[39]

Parnes makes even stronger statements than found in either of the two studies cited previously. He found that the probability of displacement was not affected by race and not related systematically to age. That is, older persons in the cohort he studied were just as likely to experience permanent separation as younger persons. With the exception of persons with 20 years of seniority, longevity with employers did not reduce the probability of separation associated with health status. Those for whom the job had been the longest of their career were just as much at risk as those for whom it had not been. Likewise, occupational progress, strength of the expressed work ethic, and hourly wage rates were unrelated to the probability of permanent displacement. Parnes did find that those employed in trade and manufacturing were more likely to be displaced than those in the public sector and that married workers living with their wives were less likely to be separated, as were those with higher educational achievements.[40] Even though the survey from which Parnes drew these findings deals with older men, he examined the situation of women whose husbands had died. Most of the husbands had been in declining health prior to their deaths and had experienced income losses as a result. He concludes:

In sum, the data show that generally speaking, widows have already been at an economic disadvantage relative to other married women even prior to their husbands' death. Moreover, there is the ironic paradox that those who are to lose their husbands are, in terms of education and skills, less able to compensate economically for the loss than those women who do not need to do so.[41]

The findings that older workers who become unemployed form no special subsample of the work force suggests that there is no natural selection process in which more qualified workers remain employed while the less qualified become unemployed, or that those with a firm labor force attachment find jobs easily while those with a less firm labor force attachment do not find jobs.

Likewise, even when the more qualified become unemployed, they have the same difficulties statistically in finding suitable new employment as those less qualified. Similarly, any program developed to deal with the problem must be prepared to deal with a cross section of those employed. The discussion now turns to the role, if any, that UI might play in dealing with the extended unemployment of older workers.

UI and Permanent Extended Benefits for Older Workers

The UI program has five moderately well-defined and noncontroversial goals. They are to protect against wage loss due to involuntary unemployment, encourage employers to stabilize employment, act as a countercyclical tool by stabilizing consumer-level expenditures, facilitate the job search, and preserve the value of labor skills.

Under the wage-loss goal, UI is not designed to protect all workers against all risks of unemployment. Workers in cyclical jobs or in casual employment, for example, are specifically excluded. And those who otherwise qualify for benefits must be able and willing to work and available for work. Thus, workers who are injured, who do not seek work, or who may have retired are not generally eligible for benefits.

On the other hand, the concept of providing special programs for well-defined groups of workers for whom the regular UI benefits are considered inadequate is well established. During the 44 years since the beginning of the unemployment compensation (UC) program, some 18 additional programs either directly or indirectly related to the UC system have been devised to deal with unemployment arising from special circumstances. Of these, 13 originated during the last 10 years and almost without exception are industry- or situation-oriented. That is, they apply to workers in specific industries (e.g., airlines) or to workers affected by substantial adverse employment opportunities, the cause of which is external and clearly identified (e.g.,

workers in the redwood forests). These programs usually have resulted from some governmental action that had an impact on the workers covered by the program.

Although none of these programs is age-oriented, younger and older workers participate in them to the extent that they are affected by circumstances triggering the program. If they are affected relatively strongly by these circumstances, such workers may receive a relatively larger share of benefits than their representation in the labor force. The question is whether a UI-related program is an appropriate method by which to treat the income loss due to the special unemployment risks faced by older workers, regardless of whether it is established as an integral part of UI or as a special UI-related program.

As the general labor force data showed, older workers generally experience lower unemployment rates than workers in general. Yet when they become unemployed they tend to remain unemployed longer, and to leave the labor force at a higher rate, than other segments of the labor force. To the extent that unemployment and/or exit from the labor force is caused by illness or disability, other programs are available for reducing income loss; and UI is not appropriate in any event. To the extent that extended duration of unemployment results from one or more forms of overt discrimination against older workers, other remedies again are available and appropriate. If, however, the unemployment experience of this group of workers results from predictable labor force phenomena, then UI may be an appropriate vehicle for minimizing income loss resulting from the relatively longer-term spells of unemployment of older workers.

The human capital research work of Gary Becker as well as others demonstrates that as workers age, investment in them becomes less attractive, and employers' reluctance to hire older workers is a predictable market phenomenon.[42] Consider the following line of reasoning. If labor markets are operating efficiently, the prevailing wage rate will exceed the productivity of newly hired workers and fall somewhat short of that of workers who have been on the job for some period of time. Employers thus "invest" in new, less productive employees, but recover that investment over a number of years as these workers' productivity rises faster than their wage rates. The longer an employee is likely to remain with an employer, the more that employer is willing to hire a person, and the more the employer will invest in the employee's training. There is a high degree of uncertainty in all this, of course (and the question is substantially more complex than portrayed here), and there is no guarantee that a younger worker will remain on the job long enough to repay the employer's investment. In the case of older workers, however, employers know that retirement age is closer. They know there is a shorter time over which to recover their investment. Since retirement is farther away for younger workers (or less definite even if more variable), there is a natural preference for younger workers. Other things being equal, then, the employer will hire the younger worker, and the older worker will be passed over. This occurs not because the employer discriminates against older workers, but because of an economic decision in which younger workers have an edge.

Similarly, the job search activity can be viewed as an investment. Unemployed workers "invest" in job search activities in the form of travel and communication expenses, time, and so on. If the perceived return is sufficient, they may invest in education, training, and even expensive placement services. As workers age, their expected return from job search diminishes as their known working life shortens and as prospects for further job advancement decrease. Older workers can thus be expected to invest less in the search for new jobs than younger workers. This may show up in a number of ways, including becoming discouraged more rapidly, searching less hard for a new job, and narrowing the labor market area in which they seek new jobs. Data related to job search activities in 1978 are consistent with this conclusion. Among workers 25 to 34, an average of 1.62 different methods (e.g., public employment agency, private employment agency, and advertisements) were used in their job search. This declined to 1.55 for persons 45 to 54, to 1.50 for persons 55 to 64, and to 1.37 for those 65 and over.[43]

The net effect of these considerations from both sides of the demand-supply equation is an expected difference between younger and older workers in success at finding new jobs.[44] This may show up both as extended unemployment and as withdrawals from the labor force on the part of older workers. Although a number of factors (including discrimination and health limitations) undoubtedly contribute to the longer duration of unemployment among older workers, the normal functioning of the labor market is a factor in this phenomenon. There thus appears to be some justification for a program that provides a special category of extended UI benefits to the more mature worker.

One is tempted to argue that the insurance concept of UI supports developing a special, long-term benefit to workers with long employment histories. The justification for this argument is that total benefits received should in some way relate to total contributions; that workers accumulate "rights" to benefits as they contribute to unemployment reserves. This same argument is the basis for suggesting variable limits to the duration of regular UI that are related to the previous duration of employment.

Murray disagrees with this line of reasoning. He persuasively argues that tying benefits to contributions is more akin to savings than to an insurance principle.[45] While one may purchase whole-life insurance in which cash benefits accumulate, the essence of insurance is the pooling of contributions against which payments are

made on the occurrence of specific events (which may never arise). Under the insurance principle, benefits are related to contributions only in setting contribution rates. Once this rate is determined under the insurance principle, potential benefits are unrelated to the length of time over which those contributions have been made.

Duration limits, then, are primarily a function of the acceptable cost of the program. In the case of UI, duration and benefit rates are also set with an eye toward their possible effect on incentives to seek and accept work and by the feeling that UI is designed as protection against short-term rather than long-term unemployment. When the UI program was first established, benefit duration was severely limited by fears of excessive cost and by the desire to limit the program to short-term unemployment. Eventually, 26 weeks became the accepted normal duration.

Even though the insurance principle does not seem to offer support for an extended UI program for older workers, an equity argument can be advanced that does. Funding of UI is based on employer contributions (a portion of which are borne by workers in the form of lower wages and higher prices). In most States an employer's contribution rate is based on an *experience rating,* which reflects that employer's UI account position, taking into consideration the entire period during which the employer has participated in the UI program. Current costs to employers, then, reflect that employer's experience over a number of years. In contrast, potential benefits to covered workers reflect those workers' experience only during the base period—generally extending no further back than 5 quarters. Employers who manage their business to minimize layoffs over a number of years reap the benefits of that experience in the form of low UI contribution rates. In contrast, a worker who is employed continuously for a number of years will be eligible for no more unemployment benefits than one who has experienced a number of unemployment spells and has just requalified for benefits. Thus, equity considerations also support some sort of program that would benefit workers with long-term labor force attachment.

Murray discusses an additional principle that he feels influences the setting of acceptable duration. This is the principle that benefit duration should be a function of the relative probability of the duration of unemployment. Thus, as the overall unemployment rate rises and the average duration of unemployment lengthens, so should the duration of UI. This argument has been the basis for the various extended benefit programs that are available to all workers and that are operated by unemployment-rate trigger provisions. This principle seems to provide an additional justification for providing extended benefits to older workers. If these workers have longer durations of unemployment, other things being equal, than other workers, they also should be provided with longer potential UI durations.

It thus appears that a program of extended UI benefits for older workers is consistent with the framework of UI in several ways. First, the longer duration of unemployment experienced by older workers is a labor force phenomenon and might appropriately be dealt with by a labor-force-related program. Second, equity considerations in the differential between how long-term experiences are treated for employers versus employees would argue for an extended program.

Finally, the accepted principle of varying benefit duration with the expected duration of unemployment is consistent with such a program for older workers. A program of this nature, however, would, for the first time, base UI benefits on age. Whether this would open the door for other exceptions based on characteristics of individuals, or whether special UI programs based on individuals' characteristics are designed at all, are questions outside the scope of this report.

A number of other countries, however, have decided that older workers face special labor force problems and that UI is a proper tool for dealing with them. A summary of the approaches taken by other countries appears below.

Programs in Other Countries

Virtually all countries use some form of UI for persons attached to the labor force and some national security plan for those who have retired. Income support programs in the United States, however, deal with the transition between working and retirement in a manner substantially different from that in other countries. The prime difference lies in the treatment of age and eligibility for UI. In the United States, persons may remain eligible for UI beyond the age of 65 as long as they satisfy eligibility criteria of being unemployed, available for work, able to work, and seeking work. Such eligibility is not affected by receipt of social security benefits or private pensions.[46]

Most other countries draw a sharp line between eligibility for UI and that for retirement benefits. Workers remain eligible for UI until reaching normal retirement age or age 65. At that time they become eligible for their equivalent of our social security benefits but lose their UI eligibility. At the same time, however, many countries have devised special programs around UI for workers as they approach retirement age. These generally take the form of longer durations, combined frequently with wage subsidies, training programs, and relocation benefits.

It is not unusual for these governments routinely to contribute to UI reserves out of general revenue under the justification that ". . . society has some responsibility for the welfare of its members."[47]

This is not the case in the United States. The majority of the Federal contributions to UI benefits are gener-

ated by an earmarked Federal UI tax, as provided for by the Federal Unemployment Tax Act, rather than from general revenues. The Treasury does advance funds to States' UI reserve funds when needed to pay benefits, but these advances are loans that eventually must be repaid. Only in the temporary Federal Supplemental Benefit programs that provided special extended benefits to long-term unemployed workers during several recent recessions has the U.S. Government supported UI from general revenues. The recession of 1980 has not been of sufficient depth or duration to induce the Federal Government to provide these benefits.

Where intended UI benefits are available for mature workers in other countries, they apparently are universally funded by general revenues. Several countries even have plans for continuing a worker's contributions to other social insurance programs during periods of unemployment. They do not want these workers to lose eligibility because of involuntary unemployment. A brief summary of several countries' schemes for providing expanding UI benefits to older workers follows.[48]

The idea of giving special treatment under income security plans to certain groups is common throughout the world. Certain groups are selected for specific exclusion from the plans, such as part-time, casual, and seasonal workers under UI. Other groups are singled out for treatment to receive special benefits, as the Trade Readjustment Act does for workers harmed by imports. Finally, there are special conditions that may call into play provisions of a general nature, such as extended benefits under conditions of higher than normal unemployment rates. Programs designed to aid the aging worker would fall under the second category of schemes listed, and they are common in other countries.

Austria

Austria provides for early retirement benefits to men of 60 and women of 55 if they have been unemployed for 1 year. The cost of this early retirement benefit is shared equally by the UI fund and the Federal Government. This early retirement benefit and UI cannot be received simultaneously.

Belgium

In Belgium the qualifying period for UI varies by age, with a lengthening period for older workers. For workers aged 18 or under the base period is 10 months, during which 75 days of covered employment must be completed. These periods increase gradually for older workers. Those aged 50 and above must have been employed at least 600 days during the preceding 36 months. UI benefits cease at 65 for men and at 60 for women. The Federal Government subsidizes wages of hardcore unemployed workers who have received UI for 12 of the previous 18 months and who are 55 or older. Public employment of these persons is also available.

Canada

Before 1976, UI could be received until age 70, but in 1976 this maximum age was reduced to 65. Special severance UI benefits are paid for a 3-week period on retirement to tide persons over until the public pension benefits can be paid.

France

France provides special income guarantees for unemployed workers under two programs—a national public unemployment assistance plan and the compulsory national UI program. These are supplemented by a special program for workers of 60 and above. To qualify for this last program, a worker must have a demonstrated long-term attachment to the labor force—10 years' employment in a job covered by one of the social insurance programs plus 5 years' continuous employment with a single employer preceding the layoff in question. A waiting period of up to 6 months, which varies inversely with age, must be served. Workers who qualify can receive combined benefits from all programs equal to 70 percent of their previous covered wages. Benefits are payable until the person is reemployed or reaches 65.

Workers under 60 can qualify for a new program when a layoff is due to economic reasons—e.g., a general downturn in an industry or the economy. Benefits under this program provide 90 percent of the employee's previous wage.

A series of special agreements resembling reverse seniority agreements in the United States also have been negotiated between the Canadian Government and the private sector. Qualified older workers covered by one of these agreements who have become excess workers because of mergers, reorganizations, and so on may be laid off out of seniority sequence and can receive special guaranteed incomes. Included are provisions for subsidized training and relocation benefits. A final program provides that when workers over age 60 are laid off as part of a collective reduction in force, they can qualify for benefits equal to 90 percent of their previous covered wage until age 65.

West Germany

As in other European countries, eligibility for UI benefits in Germany ceases at age 65. To encourage employers to retain workers as they approach age 65, the employee portion of the UI contribution is forgiven for workers 63 and above. Workers over 60 who have been unemployed for a year or more may apply for early retirement benefits.

Japan

Japan increases the duration of UI benefits for workers as they age. Benefit duration ranges from a low of 90 days for workers under 30 to a high of 300 days for those 55 and above. In addition, there are special programs providing training and mobility assistance for older workers, including grants to employers who hire them.

The Netherlands

The Netherlands joins other countries in ending UI eligibility at age 65. It has recognized the increasing labor market problems faced by older workers by supplementing their wages when they must take a lower-paying job with their current employer to remain employed and by providing special benefits if they subsequently become unemployed within 2½ years. There is an additional public employment program for workers over age 45. Such employment can last up to 1 year.

Norway

Norway, like Japan, increases UI duration for workers as they age, although the variation is smaller than in Japan. It ranges from a low of 40 weeks for persons under 50 to 51 weeks for those 65 to 67.

The United Kingdom

The United Kingdom has a "redundancy" program for workers with many years of continuous service. Under this program employers must provide grants to workers who are laid off as a result of technological changes. These grants are larger for older workers; they may be received simultaneously with UI, but not with a pension. UI eligibility generally ceases for men at 65 and for women at 60. However, if persons continue working beyond these ages, they can qualify for UI benefits equal to the retirement benefits they would have received had they retired at the normal age. No UI is available for those who have reached 70.

Some Dimensions of a Program to Provide Extended UI Benefits to Older Workers

The examination of the labor force experiences of older workers in this report suggests that they experience greater difficulty than do younger workers in finding new employment after being displaced from a job. Their average duration of unemployment is longer than that of younger workers, and they are overrepresented among exhaustees of current regular and extended UI benefit programs. Once displaced, they face an increased probability of further spells of unemployment, lower wages, and jobs lower on the occupational ladder than those from which they were displaced. Those experiencing these problems are for the most part workers with a past history of firm labor force attachment. Once they become unemployed, however, they have a tendency to withdraw from the labor force. If pension alternatives are available, the combination of potential retirement income and unfavorable work expectations apparently induce many to apply for pensions for which they may be eligible.

The discussions that follow set out the broad objectives and dimensions of a program that would provide extended UI benefits to older workers. No attempt is made to outline comprehensively the provisions of such a program. Rather, the intent is to provide a framework for further discussions from which such a program might be carved.

Objectives

Given the labor force experiences of older workers, the prime objective of an extended UI program for these persons would be to strengthen their labor force attachment as they move through their fifties and early sixties. To the extent that their strengthened labor force attachment results in their increased employment, three important side effects would also occur.

First, workers desiring to remain attached to the labor force would bear less of the burden of the increasing labor force dislocation normally experienced by persons of their age group. Rather than drawing on capital, depending on aid from relatives, or accepting reduced social security benefits, they would receive additional income transfers in the form of UI and would receive greater amounts of earned income. This reduced burden can also be measured in other than monetary terms. Those who would remain attached to the labor force as a result of the program would be receiving personal satisfaction by remaining productive, self-supporting members of society. They would have greater feelings of self-esteem and fulfillment.

Second, the full-employment national income level would rise slightly. Achieving these potential gains in national income, of course, would require the appropriate macro- and micropolicies to ensure that increased employment opportunities actually exist. Total welfare in the economy would be raised to the extent that these persons can generate income through productive activities rather than through income transfer programs. As the elderly become an increasingly important segment of the total population, this consideration will become more significant.

Third, net Social Security reserves would rise, because contributions from earning would be greater and payouts to workers who are 62 through 64 would be reduced.

Qualification

The target group for this program would be workers who have a long-term attachment to the labor force as demonstrated by previous employment, are involuntarily displaced from their jobs, have been unable to find new employment, and wish to remain attached to the labor force.

The basis for qualifying for the program must thus be a longer employment period than that required for qualification for UI. Labor force studies have shown that with the exception of older new entrants (who are a group with a special set of problems), the vast majority of mature workers not only have substantial labor force experience but exhibit a marked (past) attachment to a single employer.

Given these observations, the majority of older workers would qualify for the program even if a qualification period were set at 10 years of labor force attachment. Excluded by this lengthy qualifying period would be new entrants and, for the most part, reentrants into the labor force. This researcher is not suggesting that 10 years is an appropriate qualification period; however whatever period is selected should exceed 1 year.

If a qualification period longer than 2 or 3 years is used, use of UI records would appear to pose substantial administrative problems. Considerations such as employer changes by workers, changes in resident State, and especially the relatively short record retention period of State UI agencies all combine to suggest that social security records would pose fewer problems. These records, though not as sensitive a filter as UI contributions (since records are based on quarters rather than weeks), would be sufficient to indicate periods in which some wage income was received. One possible approach for qualifying requirements would be to require contributions into social security for some proportion (say 50 percent) of a specific number of quarters (say 12). The 6 quarters during which contributions were not made could be made up of any combination of unemployment and being out of the labor force.

Eligibility

Eligibility and qualification provisions must work together. Although a long-term qualifying requirement, such as that outlined previously, would screen workers who did not have substantial long-term labor force attachment, it would not guarantee that other aims of the program would be met. Consequently, eligibility provisions relating to age and current UI status are necessary.

Specification of a minimum age for eligibility is an arbitrary process, since the onset of labor force difficulties (as reflected in aggregate experiences) is gradual. Nevertheless, for an age-specific program, a minimum age must be selected. The Advisory Council on Social Security has suggested that a special program be implemented for those 62 through 64. Data presented in this report, however, suggest that workers of a much younger age begin experiencing difficulties in finding employment once they have been displaced.

Consequently, consideration should be given to a minimum age of 55 for eligibility. While the intent of an extended UI program for older workers would be to discourage application for social security retirement benefits at 62, workers who have attained this age do have an alternate source of income on which to draw. Those approaching 62 who find themselves among the long-term unemployed cannot avail themselves of this option.

The qualifying period would have screened out workers who did not have substantial, long-term labor force attachment. Those not having recent labor force experience could be screened by an eligibility requirement that the worker have exhausted UI benefits during the current unemployment spell. Use of recent receipt of UI also would test reasons for job separation and availability for work.

The special character of a program for older workers would appear to require two additional eligibility requirements. First, since one of the goals of an extended program for older workers would be to delay initial application for social security benefits, it might be appropriate to deny benefits to persons who are receiving a retirement benefit under social security. Such receipt could be taken as prima facie evidence of withdrawal from the labor force. Second, as national policy slowly shifts away from encouraging early retirement to one of encouraging longer labor force participation, it is likely that the retraining of older workers will gain more acceptance. Consideration should thus be given to requiring participation in suitable training when it is available.

Duration

If the special program is to have more than a token effect, benefits must be provided over a meaningful period of time. This writer suggests that an innovative plan be considered that would credit an eligible worker with a total of 52 weeks of potential benefits that can be drawn under this plan. These credits might be exhausted in a single spell of unemployment, or they might be used in successive spells of unemployment until the total of 52 weeks of benefits have been received. In each successive spell of unemployment, however, eligibility for regular UI benefits would have to be reestablished and those benefits exhausted before an individual could draw further on these credits. A less controversial approach would be to permit a maximum number of such credits to be drawn in any given year. If 13 were

permitted, for example, a worker could draw the maximum amount in four separate spells of unemployment during the 10 years of eligibility.

Funding

Both equity and operational considerations suggest that funding for the program not be charged to individual employers. Since the qualifying period for the program would be relatively long, and since benefits could be drawn during more than one episode of unemployment, the concept of the base-period employer may not be appropriate. The majority of older workers who are laid off will have many years' seniority with a single employer; and the worker may have worked for the principal employer of the qualifying period early in that period—that employer may not have been the last to lay off the worker. In this circumstance, it may not be fair to charge the principal employer.

A final word

It has been argued that UI currently functions substantially as a windfall benefit for older workers on their way to retirement—that is, that the availability of the UI benefit does not alter one's labor market behavior once the decision to retire has been made.[49] Although use of UI as a source of transition income between work and declared retirement represents an abuse of UI, the result is the same for any older worker who becomes discouraged and withdraws from the labor force after exhausting available job-related benefits.

State and Federal Governments must assume some responsibility to prevent this from happening. It would be easy to suggest that closer enforcement of work availability be instituted and that placement efforts for older workers be stepped up. Unless employment security operations among the States are substantially strengthened and oriented toward providing greater services to older workers, however, they are empty proposals. Probably the most effective single activity possible would be Federal macropolicies that successfully maintain relatively stable, full-employment levels of income and prevent the permanent shrinkages in the older work force resulting from temporary economic downturns. But the ability of the Federal Government to pursue successfully such a policy seems problematical, and this pursuit of full employment has been a stated Federal policy for more than 3 decades in any event.

Economic incentives to firms to retain and to employ older workers, and to workers to seek and accept a job, combined with private-sector approaches for making it easy to work other than a standard work week, may be appropriate. With respect to incentives to firms, three possible avenues are reductions in required UI contributions, partial wage subsidies, and preferential treatment for purchasing goods and services. From the standpoint of workers, wage subsidies and expanded relocation benefits are two possible positive incentives. Relaxed wage and job requirements, to widen the range of jobs to which an unemployed older worker would be exposed, could be combined with wage subsidies to increase the willingness of older persons to accept jobs that they might otherwise have rejected. Innovative approaches to job sharing in one form or another could be promoted for older workers with some work limitations. The experiences of other countries with various provisions for the encouragement and promotion of the retention of older workers in the labor force would seem to be a good model in this public policy area.

Notes

1. *Social Security Financing and Benefits: Report of the 1979 Advisory Council on Social Security* (Department of Health, Education and Welfare, December 1979), p. 179, unpublished.

2. Although the discussions in this report of early labor force withdrawal have been introduced in the context of the falling participation rates of men, they relate equally to women. Even though the labor force participation rates of women have been rising, they surely would have been higher yet were it not for the factors contributing to withdrawal that were discussed in the report.

3. Robert Clark, Juanita Kreps, and Joseph Spengler, "Economics of Aging: A Survey," *Journal of Economic Literature* 16 (September 1978), p. 936.

4. Clark et al., "Economics of Aging," p. 939.

5. Harold Sheppard, *Employment-Related Problems of Older Workers: A Research Strategy,* R & D Monograph No. 73 (U.S. Department of Labor, 1979), p. 34.

6. Sheppard, *Employment-Related Problems,* p. 33, citing William Haber, Louis Ferman, and Majes Hudson, *The Impact of Technological Change* (Kalamazoo, Mich., W. E. Upjohn Institute for Employment Research, 1963), p. 63.

7. Robert W. Bednarzik and Deborah Klein, "Labor Force Trends: A Synthesis and Analysis," *Monthly Labor Review* (October 1977), p. 8.

8. Clark et al., "Economics of Aging," pp. 936–37. Attention is called to the generally lower unemployment rate of older workers. To the extent that a larger than average proportion of older persons are discouraged workers, the unemployment rate of this group is understated relative to the average unemployment rate.

9. Sheppard, *Employment-Related Problems,* Table 2, p. 23.

10. Ibid., p. 22.

11. Ibid., p. 18.

12. Clark et al., "Economics of Aging," citing Colin

D. Campbell and Rosemary G. Campbell, "Conflicting Views on the Effect of Old-Age and Survivors Insurance on Retirement," *Economic Inquiry* 14, pp. 369–88.

13. Herbert S. Parnes et al., *From the Middle to the Later Years: Longitudinal Studies of the Preretirement and Postretirement Experience of Men* (Columbus, Ohio, Ohio State University, Center for Human Resource Research, 1979), p. 172.

14. Clark et al., "Economics of Aging," p. 935, citing Lenore A. Epstein, and Janet H. Murray, *The Aged Population of the United States: 1963 Social Security Survey of the Aged,* Research Report No. 19 (Office of Research and Statistics, Social Security Administration, 1967); and Virginia P. Reno, "Incidence of Compulsory Retirement Policies," in *Reaching Retirement Age,* Research Report No. 47 (Social Security Administration, 1975).

15. Clark et al., "Economics of Aging," pp. 434–35.

16. Colin D. Campbell and Rosemary G. Campbell, "Conflicting Views on the Effect of Old-Age and Survivors Insurance on Retirement," *Economic Inquiry* 14(3) (September 1976).

17. Lenore E. Bixby, "Retirement Patterns in the United States: Research and Policy Interaction," *Social Security Bulletin* (August 1976), Table 3, p. 5.

18. Campbell and Campbell, "Conflicting Views," pp. 382–83, citing Peter O. Steiner and Robert Dorfman, *The Economic Status of the Aged* (Berkeley, University of California Press, 1957), p. 50, and Lowel E. Gallaway, *The Retirement Decision, An Exploratory Essay,* Research Report No. 9, Division of Research and Statistics (Social Security Administration, 1965).

19. Campbell and Campbell, "Conflicting Views," pp. 383–84, citing William G. Bowen and T. Aldrich Finegan, *The Economics of Labor Force Participation* (Princeton, N.J., Princeton University Press, 1969), pp. 355–58.

20. Campbell and Campbell, "Conflicting Views," p. 384, citing W. Kip Viscusi and Richard J. Zeckhauser, "The Role of Social Security in Income Maintenance," in *The Crisis in Social Security,* ed. by Michael Boskin (San Francisco, Institute for Contemporary Studies, 1977).

21. Michael J. Boskin, "Social Security and Retirement Decisions," *Economic Inquiry* 15(1) (January 1977), pp. 1–25.

22. Boskin, "Social Security and Retirement Decisions," citing Joseph A. Pechman, Henry J. Aaron, and Michael K. Taussing, *Social Security: Perspectives for Reform* (Washington, D.C., Brookings Institution, 1968).

23. Joseph Quinn, "The Microeconomics of Early Retirement: A Cross-Sectional View," unpublished report, prepared for the Social Security Administration, Washington, D.C., 1975.

24. Parnes et al., *From the Middle to the Later Years,* p. 162.

25. Bureau of Labor Statistics, *Employment and Earnings,* 27(2) (February 1980).

26. *Family Characteristics of the Long-Term Unemployed,* TEUC Report Series No. 7 (Bureau of Labor Statistics, December 1963), Table A, p. 16.

27. Walter Corson et al., *A Study of Recipients of Federal Supplemental Benefits and Special Unemployment Assistance* (Princeton, New Jersey, Mathematica Policy Research, 1977), p. 27.

28. Ibid., p. 46.

29. Lucy B. Mallan and Donald Cox, "Older Workers Uninsured for Retired-Worker Benefits," *Social Security Bulletin* 41(12) (December 1978), pp. 5–6, citing William G. Bowen and T. Aldrich Finegan, *The Economics of Labor Force Participation* (Princeton, N.J., Princeton University Press, 1969), p. 270.

30. J. Alan Brewster et al., *Final Report: Follow-up Study of Recipients of Federal Supplemental Benefits,* Mathematica Policy Research (U.S. Department of Labor, Washington, D.C., 1978), pp. 92–96.

31. Parnes et al., *From the Middle to the Later Years.*

32. Parnes et al., *From the Middle to the Later Years,* Table 6A-1, p. 306.

33. Parnes et al., *From the Middle to the Later Years.*

34. Excluded were those employed in agriculture and construction.

35. Parnes et al., *From the Middle to the Later Years,* p. 87.

36. *Family Characteristics,* p. 11.

37. Ibid., p. 12.

38. Corson, *A Study of Recipients.*

39. Corson, *A Study of Recipients,* p. 14.

40. Parnes et al., *From the Middle to the Later Years,* pp. 68–72.

41. Ibid., p. 242.

42. See, for example, Gary S. Becker, *Human Capital: A Theoretical and Empirical Analysis,* National Bureau of Economic Research, distributed by Columbia University Press, New York, 1964.

43. *Employment and Unemployment During 1978: An Analysis,* Special Labor Force Report No. 218 (U.S. Department of Labor, 1979), Table 15, p. A-17.

44. Although the Employment Service portion of the UI system does reduce job search costs to unemployed workers, they are reduced for younger and older workers alike. Only preferential treatment, special placement programs, or special inducements to employers to hire older workers could reduce or eliminate the labor market advantage of younger workers. Many countries pursue both more active placement and employer inducement programs. Whether such programs should be used in the United States is a separate question from that considered in this report.

45. Merrill G. Murray, *The Duration of Unemployment Benefits* (Kalamazoo, Mich., W. E. Upjohn Institute for Employment Research, 1974), p. 3.

46. About one-fourth of the States reduce UI benefits dollar for dollar if social security is being received; most ignore receipt of a private pension if it is from an employer other than the base-period employer.

47. Saul J. Blaustein and Isabel Craig, *An International Review of Unemployment Insurance Schemes* (Kalamazoo, Mich., W. E. Upjohn Institute for Employment Research, 1977), p. 99.

48. The following discussions draw from Blaustein and Craig, *An International Review*. The reader who desires more complete information on these programs should refer to that study.

49. Daniel S. Hamermesh, *Unemployment Insurance and the Older American* (Kalamazoo, Mich., W. E. Upjohn Institute for Employment Research, forthcoming).

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Women in the Labor Force

Margaret M. Dahm
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The unemployment insurance (UI) program has been shaped by social values and attitudes, and by economic conditions.

In the 43 years since the UI program was established, there have been major changes in the economy, in the labor force, and in society as a whole. These changes have been reflected in UI laws and practices. But probably no development has more potential consequences for UI policy than the changing role of women in the labor force.

The changes in women's roles that are most relevant to UI policy include the tremendous increase in the number and relative importance of women in the labor force, the movement toward broader industrial and occupational distribution of working women, and the changes in the marital, family, and economic status of working women.

The most important change for UI policy, however, may be the transformation in the attitudes of working women and of society toward working women.

In the first two decades of the UI program, most Americans disapproved of jobs for married women with children. Today, employment of women outside the home is widely accepted. With present inflation and higher standards of living, the income of working mothers is essential to the economic maintenance of most of their families. Unemployment of women can no longer be brushed aside as inconsequential.

UI policy reflects both economic factors and social attitudes, with some time lag for change, as the history of State legislative provisions examined in this report will show.

At the beginning of the 1980's, it is clear that women are as much a part of the labor force as men, and that they work for the same reasons. UI policy must, therefore, treat men and women equally. Further, it is against the law to discriminate against women, so that any changes in the UI program must be scrutinized to see that they do not affect women as a group unfairly.

Increase in Numbers of Women in the Labor Force

The huge number of women entering the labor force has been termed "the single most outstanding phenomenon of our century. Its long-term implications are absolutely unchartable." [1]

From the broadest economic perspective, women have followed their work from home to the marketplace. Many of the unpaid services that women traditionally contributed to the families moved from home to a different arena. Women no longer weave the cloth and make the family clothes; they buy them. They no longer grow and preserve the daily food; they buy it. Women now work outside the home for money to buy what they used to provide with their own unpaid labor. This transformation began with the industrial revolution in the 19th century. By 1900, 5.6 percent of wives were gainfully employed; by 1920, the figure had increased to 9 percent. But prevailing attitudes did not change with circumstances.

In 1940, the civilian labor force totaled 55.6 million, and 14.2 percent were women. By 1978, the total labor force had increased to 100.4 million, and the number of women to 41.9 million, or 41 percent. Over the same period, the number of working people almost doubled, while the number of working women almost tripled.

This increase in numbers is the most obvious change in the role of women in the labor force. Working women are not only more numerous, they also represent a significantly higher proportion of the labor force and of the total population of women.

At the end of World War II, about 35 percent of the

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civilian labor force were women. The proportion decreased as the country returned to a civilian economy, falling to just under 32 percent in 1955. But, by 1975, the proportion had increased to 40 percent. Between 1945 and 1975, the number of women in the working age group increased 50 percent, but the number actually working increased more than 130 percent. Of the women who worked in 1975, 53.2 percent worked at least 50 weeks, and only 26.3 percent worked less than 27 weeks.

Even in the 1970's, the increase in the number of women participating in the labor force has been more than was anticipated. In 1973, the Bureau of Labor Statistics estimated labor force participation rates for 1980: 45.6 percent for women, 78.7 percent for men. The actual rates in 1978 were 50 percent for women and 77.9 percent for men.

Changes in the Industrial and Occupational Distribution of Working Women

In spite of the Equal Employment Opportunity Act and considerable discussion about freedom of occupational choice for women, 40 percent of employed women are still concentrated in 10 traditional fields—secretary, retail trade salesworker, bookkeeper, private household worker, elementary school teacher, waitress, typist, cashier, sewer/stitcher, and registered nurse.

Women have made substantial inroads in a few specific occupations: [2]

Women as percent of total	1950	1976
Accountants	15	27
Lawyers and judges	4	9
Doctors	7	13
Bank officials and financial managers	12	25

In 1940, women in nonagricultural industries were concentrated in three broad occupational groups. Roughly half held service and blue-collar operative jobs (30 and 21 percent, respectively), and a third were in the white-collar clerical-sales group. In service jobs, prominent occupations were waitress, hairdresser, cook, and practical nurse. Most operatives were engaged in the manufacture of clothing, while the clerical-sales group were mainly stenographers, typists, secretaries, bookkeepers, cashiers, and retail saleswomen. Of the 14 percent in white-collar jobs, two out of four were teachers, and one of four was a nurse. Thirty years later, in 1970, working women were still highly concentrated in the same three broad occupational groups, but a much larger share were in the clerical-sales field. The professional-technical proportion edged up, while the service and operative proportions declined.

Some of the reasons women work at the jobs they do were discussed in the 1975 *Manpower Report of the President:*

> To a considerable degree, female occupational distribution results from a culmination of influences that start in childhood. Role differentiation in early life later affects educational and occupational choices, hours and location of work, and other factors which relegate women to lower level positions in the lower paying industries. Altering this occupational distribution requires not only the legal prohibition of discrimination but also some fundamental changes in attitudes within the home, the school, and the work place.

There have been some breakthroughs to traditionally masculine jobs. For example, in 1973, 30 percent of bartenders were women, compared with only 2.5 percent in 1940; about 37 percent of busdrivers were women in 1973, compared with less than 1 percent in 1940. Many of today's women busdrivers, however, drive school buses, a job that is part-time, part-year, and low-paying compared to other busdriver jobs.

Carol L. Jusenius has suggested that public policies encouraging women to move into typically male or higher-skilled occupations will significantly improve their earnings.[3] Results of one study have suggested that, despite evidence that responsibilities as wives and mothers limit women's job mobility, both the actual and potential mobility of women are subject to the same influences that are significant for men.[4] This finding demonstrates a need for public policy to improve labor market information for women as well as men.

In the course of studying UI treatment of women, a great many recent State appeals decisions were reviewed. Women claimants in these decisions held jobs not only as waitresses, secretaries, and nurses, but also as over-the-road truckdrivers, fork-lift operators, heavy equipment operators, electronics inspectors, restaurant managers, bartenders, gas station attendants, and veterinary assistants.

Even so, women are still concentrated in low-paying jobs and industries:

> There remains—at least in the early 1970s—substantial labor market discrimination on the basis of both sex and race . . . Sex discrimination is even more difficult to document than race discrimination, since it is less clear in the case of sex than of race that differences in occupational distribution result from employer discrimination rather than from the educational and job decisions that the "disadvantaged" have been conditioned to make. Nevertheless, when differences in occupational distribution are ignored and earnings are related to determinants of productivity, the disadvantage of women relative to men is even greater than that of blacks relative to whites. Evidence of these kinds, even if not conclusive, is sufficiently persuasive to suggest that efforts to achieve equal opportunity in the labor market need to be continued and strengthened.[5]

The Changing Characteristics of Working Women

When UI was adopted in the late 1930's, it was accepted and expected that women would withdraw from the labor force when they were responsible for the care of small children. Those women with children who worked generally did so out of great financial pressure, or because they had careers. This pattern has changed dramatically.

Between 1950 and 1976, the labor force participation rate for all married women with husbands present increased from 23.8 percent to 45 percent. The increases were from 18.4 percent to 46.1 percent for those with children under 18, and from 11.9 percent to 37.4 percent for those with children under 6.

The percentage of women who had paid employment during the year increased between 1968 and 1978 from 51.3 percent to 56.6 percent, with every 10-year age group showing some increase. The largest increases, however, were in the age groups 25 to 34, from 53.7 percent to 68.1 percent, and 35 to 44, from 56.8 percent to 66.1 percent.

In March 1977, almost 47 percent of all married women with husbands present were in the labor force. The proportion was higher for those with children under 18 than for those without—48 percent and 45 percent respectively. It was almost 56 percent for those with children between 6 and 17, none younger. Even among women with children under 3, over one-third were in the labor force, and 66 percent of that group worked full time.

The proportion of families with more than one worker grew from 38.3 percent in 1956 to 52.9 percent in 1976. The 1977 median income for all husband-wife families was $17,720. For the 27 percent in which only the husband earned wages, the median income was $15,796, but in the 49 percent where both husband and wife had earnings, the income was $20,722.

On the average, working wives contribute about one-fourth of family income. Wives who work full time for the entire year contribute 38 percent.

Changes in Attitudes About Women in the Labor Force

The increases in the proportion of women who are working, and particularly of married women who are working, have been accompanied by a dramatic change in the attitudes on women's roles. During the period 1940 to 1944, there was a great increase in the labor force participation rate of married women, from 15 percent to 22 percent, because of war. When the war ended, women were expected to return to their prewar situations. Most Americans simply did not approve of mothers working.[6]

But not all women conformed to those expectations. Although their labor force participation rate declined in the immediate postwar years, it did not return to the 1940 level, and the trend since then has been generally upward.

Today, the employment of women outside the home is more widely accepted. Debates over women's status in the labor force are now over such issues as the need for child care facilities, the kinds of occupations women have and how much they earn, and the effect of family composition on women's careers.[7]

Men can no longer be regarded as solely responsible for the economic welfare of the family. Inflation and an increasingly high standard of living have made the income of working mothers essential to the economic maintenance of most American families. When women are unemployed, then, it is not inconsequential.

From another perspective, it would seem impossible to maintain that women are not vital to the economy, since they participate in the labor force to such a high degree. Yet some economists have seriously suggested that the Bureau of Labor Statistics count of the unemployed should exclude, if not all women, at least married women because they "should not" work.

Finally, it is inconsistent to argue that women are important to the labor force only when they are working, and then propose that, when they are unemployed, they are not to be considered bona fide workers.

Implications for UI Policy

The first UI laws contained no special provisions on women. In one State, the Board of Review's first appeal decision in 1938 happened to deal with a woman claimant. The Board's ruling, which now seems archaic, was that, because she appeared at the hearing well-dressed and her husband was employed, she was not entitled to benefits. The Social Security Board took immediate action to educate the Review Board members on the basic nature of UI.

But other provisions and interpretations that treated women and men differently went unchallenged. Employer rules against employing married women were accepted as reasonable. Disqualifications that specifically referred to women, such as leaving work to marry or to move with a husband to a new location, raised no questions, and neither did pregnancy restrictions. After World War II, a woman who wanted to continue in the work she did during the war was considered unavailable because, as one Appeal Tribunal put it, "she limited her field of availability to work in which there was little expectancy of placement for female help."

Reflecting general attitudes, various specialists on UI problems recommended more stringent qualifying earnings requirements for women. Or they suggested that married women be required to provide more posi-

tive proof of their availability than other claimants. Other proposals included lower benefits for "secondary workers." [8] As late as 1967, one State law contained a provision which, in effect, equated an employer's rule against employing married women with rules such as those against sleeping on the job; not only were women disqualified from benefits for the period of unemployment when they separated to marry, but also all their wage credits earned from their employers were canceled.

Since enactment of the Equal Employment Opportunity Act in 1972 (Public Law 92–261), job discrimination because of sex is prohibited. Employers can no longer refuse to employ married women—unless they also employ only single men. Pregnancy cannot be used as a reason to discharge a woman or to refuse to hire her. A woman cannot legally be paid a lower wage than a man for the same job.

To some extent, these legal prescriptions are reflected in the UI laws. The Federal Unemployment Tax Act now prohibits States from discriminating against pregnant women. State UI laws have removed specific statutory provisions that assume that the father supports the children for dependents' allowance purposes. The law has also expanded disqualifications for leaving work to marry to include male as well as female claimants.

As a matter of equity, the UI system must recognize that, if it is to provide wage loss protection to the work force of the country, it must recognize the characteristics of all parts of that work force. The fact that a large proportion of work force members have family responsibilities, particularly responsibilities for the care of school-age and preschool children, should have a direct impact on many UI policies. The policies at issue are provisions for "good cause" for leaving work, separations for absenteeism as misconduct, the treatment of workers who must restrict the time when they can work, and the treatment of women during pregnancy and after childbirth.

Working fathers are also affected by shifts in social attitudes and work patterns. Men are taking a larger share in the responsibility of child care. Recent appeals decisions show that even men may occasionally find themselves disqualified for benefits for the same reasons women often face: they had absences because of child care problems and were discharged under the misconduct provision; or, they could not work on Saturday when their wives worked and child care was unobtainable, so they were held to be unavailable for work. There were even a few cases of disqualification when a man left work to move with his wife to her new job. At least one man got benefits because his leaving was for the compelling reason that his wife's job was better than his.

Four specific areas of UI discrimination against women claimants have been examined: administration of the Federal pregnancy standard; benefits for part-time workers; disqualifications for quits to meet family obligations; and the payment of allowances for dependents. In considering how discrimination in these areas can be eliminated, it becomes clear that the individual areas can be dealt with only by changes broader than those for any single area. For example, the Federal Government has prohibited denying benefits solely because of pregnancy. The protection intended by this law has been eroded, however, by the general disqualification for leaving for any reason not directly related to the work. The same disqualification would limit the value of removing disqualifications for special marital obligations. Again, paying benefits to part-time workers can only occur if there is modification of the more general availability requirements since these demand that a person be available for full-time work. Finally, it would help women with dependents if explicitly sexist aspects were removed from the dependents' allowance program, but, in any case, the program needs some overall improvement of benefits and modifications in the requirements for support.

The original principles of UI are still valid, but their application needs to be reexamined. UI benefits are designed for workers who have been substantially attached to the covered labor force. Benefits are intended to replace a part of their wages when workers are temporarily unemployed in spite of being able to work, available for work, and actively looking for work. The system, after all, was created to alleviate unemployment that is economic in nature. The system should not be expected to pay benefits for weeks in which a person is unable to work because children must be cared for. But if, after illness or another family crisis, a person is ready and willing to work and cannot find a job, the unemployment is economic. Failure to protect against it is a deficiency in the program.

Ever since the program began, women have worked in covered employment, have earned enough wages to qualify for benefits, and have experienced periods of unemployment during which they were ready, willing, and able to work. Some drew benefits, while others in similar circumstances were denied them. The situation has not changed. The differences between States may be even wider.

Absenteeism and tardiness were the issues in a substantial number of the appeals cases examined—possibly more than any other single issue. They appear in both voluntary quit and discharge for misconduct cases. Often, the record shows that absence or lateness reflected a worker's lack of interest, and it was proper that the unemployment that followed was not compensated. But in many other cases workers disqualified for their work records were absent or tardy because of their own or a family member's illness. In many cases, the absence was hardly "voluntary"; for example, the worker who fell on ice and was hos-

pitalized with a broken hip or the worker who had to accompany a child to surgery.

Nothing has been said so far about the problem of the "displaced homemaker," the adult woman forced by economic necessity to look for a job with no income to help her over the initial period of unemployment. It has been suggested that the UI system should provide protection for such women; the need for some income program other than welfare is undeniable. There are, however, basic questions involved in using the UI program to meet that need.

Women who are reentering the labor force after a limited period out of it might be helped by a form of wage credit freezing. Again, not only women would benefit from a provision to drop out a recent period of unemployment: released prisoners and those with long periods of disability would also benefit. Some thought should be given to this area, but it is beyond the scope of this report.

The woman entering the labor force after a very long period of time—someone who has not worked since shortly after school and is widowed or divorced in middle age—presents a different set of problems. These, too, need more careful examination before recommendations can be made.

Recommendations

As general policy, it is strongly recommended that, in providing wage loss protection, the UI system must as a matter of equity take account of the characteristics of all segments of the nation's work force. A work force that is nearly 50 percent female is not the same as one that is 15 percent female; practically, and for reasons of equity, any programs dealing with the labor force must adjust to this radical difference. The following three-part recommendation takes account of the continuing needs of women and men as they move in and out of the labor force.

The Department of Labor should continue and accelerate policies that do the following:

- encourage women's movement into traditionally male occupations to improve their earnings;
- improve the quality and accessibility of labor market information to women both in and out of the labor force as a means of equalizing job opportunities and career development for women; and
- encourage States to broaden their UI eligibility policies to permit payment of benefits to people who leave their jobs for good personal cause—a better job, getting married, moving with spouse, or illness of claimant or a family member—as soon as they are ready, willing, and able to work.

The congressional mandate to examine the UI system underscores the desirability of the three-pronged approach to produce solutions to at least some of women's problems in the labor force. Promoting equity in the UI program in the final analysis benefits both men and women.

Notes

1. Eli Ginsberg, *New York Times,* September 12, 1976, p. 1.
2. Bureau of Labor Statistics Bulletin, *U.S. Working Women: A Data Book,* 1977, Table 8, p. 9.
3. Carol L. Jusenius and Herbert S. Parnes, *Dual Careers,* vol. 4 of *A Longitudinal Analysis of the Labor Market Experience of Women,* p. 114.
4. Jusenius and Parnes, *Dual Careers,* p. 179.
5. Herbert S. Parnes, "Introductory Remarks," *Women's Changing Roles at Home and on the Job,* Special Report of the National Commission for Manpower Policy, No. 26, September 1978, pp. 19–20.
6. Hazel Erskine, "The Polls: Women's Role," *Public Opinion Quarterly,* Summer 1971, p. 283 (cited in *Dual Careers*).
7. Jusenius and Parnes, *Dual Careers,* chapter 1.
8. See discussions in Robert W. Bednarzik, *Part-Time Work and Public Policy* (Ph.D. thesis, University of Missouri, 1978), p. 23; and in Stanley Lebergott, "Measuring Unemployment," *Review of Economics and Statistics,* November 1954, p. 394. Also Clarence Long, "The Concept of Unemployment," *Quarterly Journal of Economics,* November 1942, p. 27. The attitude has persisted to the present among some economists.

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The Transition From School to Work

Stephen Hills
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This report is focused on the employment experiences of young men during their schooling and in the transitional periods following dropping out of high school, graduating from high school, and dropping out of college. Some men gain sufficient work experience during high school to qualify for unemployment insurance (UI).[1]

Those that do generally have a better post-high-school transition than those without this work experience.

The high school work experience of a young man is critical for the achievement of a smooth transition to the permanent labor force and long-term success in it.

In several respects, the high school job experience is more important to a man's future job success than is the period subsequent to school.

Among high school leavers, those ineligible for UI are a disadvantaged group relative to those eligible for UI. However, those college leavers eligible for UI tend to be more advantaged than the high school leavers eligible for UI.

Based on this conclusion, liberalization of UI rules may not be needed. Yet, until future studies are done on the assimilation of post-high school students into the labor force, making decisions about the need for, or desirability of, program extensions is difficult.

The first section of this report contrasts respondents who obtained UI eligibility status in the year prior to leaving school ($t - 1$) with respondents who did not achieve eligibility.

The second section of the report focuses on individual respondents through time by using the National Longitudinal Survey (NLS). Though complicated by military entrance during the years of this study, the usual pattern of work and nonwork for young men in the years immediately following their departure from school was studied. The report traces the speed with which eligibility status is achieved and the degree of UI participation after leaving school. The study examines linkages between jobs held in different time periods. It discusses the relationship between jobs held prior to leaving school and more permanent jobs obtained subsequently. The study examines the linkages in jobs obtained in the first year out of school ($t + 1$) and jobs held 2 years later ($t + 2$), comparing the job changes of those who achieved UI eligibility prior to leaving school with those who did not. This analysis shows the transition young men undergo after schooling and measures the degree to which they are UI participants.

The pooled sample of respondents came from the young men's segment of the NLS who left school from 1967 through 1971. It consisted of respondents who (1) were initially enrolled in school for any of these years, (2) left school during this interval, and (3) did not return to school by 1971. The NLS data for these years allow for analyses of consecutive interviews both for the year in which a respondent left school and the prior year.

To determine an approximation of the minimum eligibility requirements for UI, the resident State of sample respondents was identified. Then, using historical records of UI eligibility rules, each respondent was assigned to eligible or ineligible categories. A respondent was "eligible" if in the year prior to leaving school, he earned the minimum-wage credits required for eligibility in his State. Young men who were self-employed, farmworkers, employed on commission, or private household workers (occupations generally excluded from UI coverage) were considered ineligibles regardless of wage credits earned. This process led to an approximation of the "monetary" eligibility determination that would have been made by a local UI office if the respondent had been unemployed and had filed for benefits.[2]

After determining eligibility, school leavers were analyzed along several dimensions: (1) personal characteristics of eligibles versus ineligibles, (2) family background, (3) characteristics of jobs obtained, (4) work experiences, and (5) the geographic locations for eligibles and ineligibles.

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Comparison of Eligible and Ineligible Young Men in $t-1$

The sample used in the first phase of analysis identified 1,306 respondents who left school after completing 12 years of schooling or less and 787 who left after completing 13 years or more.[3]

The large majority of the group of noncollege leavers are young men who completed high school—78 percent had their high school diploma. A large proportion of the college leavers (55 percent) were college graduates.

Eligibility for UI serves as an important means for classifying respondents throughout this study. Therefore, a critical first step in the analysis was to calculate the number of cases where UI eligibility could be approximated. Eligibility was based on rules that apply to the respondent's resident State.[4] For these samples, analysis was done on background characteristics and work experience of young men who did or did not work sufficiently in the last year in which the respondent was enrolled in school for the entire year ($t-1$) to achieve UI eligibility, according to the definition used in this study.

Proportions of the sample who achieve monetary eligibility

The study shows that young men who do not achieve UI eligibility in the year prior to leaving school differ systematically from those who do achieve it.

Many college leavers (80 percent) had earned sufficient wage credits to meet eligibility criteria in the year prior to leaving school. Fifty-three percent of high school leavers earned sufficient income in the year $t-1$ to meet minimum UI eligibility requirements. Though 47 percent of high school leavers did not achieve monetary eligibility, only 11 percent had no earnings at all in period $t-1$. Eight percent of the college leavers had no earnings in year $t-1$.

Year before leaving school

Young men leaving high school who do not achieve eligibility for UI in the year before they leave school are disadvantaged in many ways. Parental income, education, occupational prestige (or Duncan score), and socioeconomic status are lower for ineligible high school graduates and dropouts. High school graduates who do not gain eligibility are less likely to be white. However, among the dropouts, ineligibles are more likely to be white. Eligibles, regardless of educational level, are more likely to be married, less likely to be living at home and tend to be slightly older. Table 1 displays the weighted mean values for various characteristics of the sample in the year prior to leaving school.

For college leavers less difference exists between eligibles and ineligibles. Mean levels of education are approximately the same. If anything, ineligible college leavers seem to be more advantaged relative to eligibles. A higher percentage of the ineligibles hold college degrees. For this category, parental socioeconomic status, father's education, father's occupational prestige, and parental family income all tend to be higher.

Obtaining sufficient wage credits was a function both of the number of weeks worked and the earnings accumulated in the period $t-1$, as Table 2 demonstrates. In general, those with sufficient UI wage credits worked twice as many weeks as those who had insufficient credits. College leavers who met minimum UI eligibility rules earned substantially more than the minimum, $3,192 per year compared with $624 average earnings for those ineligible. Excluding college leavers who did not work at all in the year $t-1$, average earnings for ineligibles was only $1,060.

TABLE 1. Weighted mean characteristics of sample in $t-1$

Category	Ineligible	Eligible	Number
High school dropouts			
Percent white	74.3	71.2	349
Education	9.5	10.3	349
Percent married	0	14.3	349
Age	17.3	18.6	349
Family's index of socioeconomic status	88	94	273
Father's education	8.2	9.4	227
Father's Duncan score	22.0	30.1	285
Percent living at home	94	95	349
Respondent's family income	$5,850	$6,688	330
High school graduates			
Percent white	85.7	87.4	916
Percent married	1.2	10.5	916
Age	18.0	19.2	916
Family's index of socioeconomic status	100	104	608
Father's education	9.8	10.4	725
Father's Duncan score	29.8	35.8	916
Percent living at home	96	96	916
Respondent's family income	$8,062	$9,383	877
College leavers			
Percent white	91.3	94.0	705
Education	15.2	15.1	705
Percent with college degree	62.9	52.9	705
Percent married	23.4	27.3	705
Age	20.9	21.7	705
Family's index of socioeconomic status	118	115	348
Father's education	12.3	11.7	618
Father's Duncan score	48.3	45.8	670
Percent living at home [1]	70.6	63.2	705
Respondent's family income [2]	$12,065	$11,595	457

[1] Percentages are high since those living in dormitories, even though away at college, are still considered "at home" (i.e., they have not established their own residences).
[2] Applies only to respondents still "living at home."

TABLE 2. Weighted mean characteristics of employment in $t - 1$

Category	Ineligible	Eligible	Number
High school dropouts			
Average weeks worked	16	36	343
Weeks worked [1]	22	—	279
Mean annual earnings	$203	$1,540	346
Earnings [2]	$277	—	282
Hourly rate of pay [3]	$1.49	$ 1.94	299
Probability of bad work conditions	70 percent	70 percent	349
High school graduates			
Average weeks worked	22	38	907
Weeks worked [1]	27	—	821
Mean annual earnings	$332	$1,860	915
Earnings [2]	$418	—	821
Hourly rate of pay [3]	$1.58	$ 1.84	851
Probability of bad work conditions	73 percent	58 percent	916
College leavers			
Average weeks worked	18	37	688
Weeks worked [1]	28	—	629
Mean annual earnings	$624	$3,190	701
Earnings [2]	$1,060	—	641
Hourly rate of pay [3]	$ 2.13	$ 2.46	661
Probability of bad work conditions	44 percent	37 percent	705

[1] Excluding those who did not work at all.
[2] Excluding those who earned nothing.
[3] Variable refers to current or last job.

High school graduates and dropouts who did not qualify for UI earned a very modest amount in year $t - 1$, even excluding those who did not work at all. The average was less than $400 for high school leavers. Eligible high school graduates earned on the average just over $1,800 while eligible dropouts earned slightly more than $1,500. The hourly pay rate in the most recent job of period $t - 1$ was consistently more for eligibles than for ineligibles—30 percent more for high school dropouts and about 15 percent more for high school graduates and college leavers.

To supplement the measure of hourly pay rate, the study used a scheme developed by Lucas and others for determining characteristics of jobs based on criteria drawn from the *Dictionary of Occupational Titles* (DOT).[5] This scheme allowed DOT job characteristics to be translated to respondents' jobs through use of the correspondence between Census classifications of occupation and industry and the DOT classifications. (The study uses a collapsed variable created by Quinn that indicates whether a job is characterized by any of the following conditions: extreme heat or cold, dampness or humidity, noise or vibrations, hazards, fumes, odors, toxic conditions, dust, or poor ventilation.[6]) On these measures, the jobs held by high school dropouts ineligible for UI were no worse than the jobs held by those who were eligible. The jobs of ineligible high school graduates and ineligible college leavers had considerably worse conditions.

Respondents not establishing UI eligibility in the year prior to leaving school were different from those who did achieve eligibility. Young men who left high school, however, were different from those who left college. High school leavers who did not establish monetary UI eligibility in the year prior to leaving school were a disadvantaged group. Three indicators showed that ineligibles came from lower socioeconomic families.

Many of the ineligible high school leavers did not work at all. Those who did work were ineligible because they worked less at the jobs they had and because the jobs themselves were inferior on many criteria compared with jobs held by eligibles. In contrast, the family backgrounds of college leavers did not differ significantly from families of slightly higher socioeconomic status. More of the ineligible group were dropouts from college and more were black. The differences among college leavers were not nearly so great as those for high school leavers. Thus, labeling ineligible college leavers a disadvantaged group is more difficult.

The assignment of young men to eligible or ineligible categories in period $t - 1$ may be, in part, an arbitrary designation. The choice of working while still in school undoubtedly is not correlated perfectly with those human money-making characteristics that would help ensure later labor market success.

Similarly, the opportunities for work available to any young man in his immediate community may not be highly related to the characteristics that distinguish eligibles from ineligibles. If either is true, ineligibles may narrow the gap with eligibles as time transpires.

An Analysis of Labor Force Experience Over Time

To establish a "universe of need" for the UI program, the study focused on longitudinal data showing young men unemployed in the years immediately following school. Results were compared with those obtained in two other recent longitudinal studies of the transition from school to work.[7] Together, the three studies provide the rough picture by which to gauge the severity of the young men's transition.

The late 1960's and early 1970's is the time period described. To generalize to more recent time periods is difficult because the impact of changing economic conditions on the transition is unknown. Less affected by specific economic conditions, however, are measures of the degree to which young men are incorporated in the UI program. For analysis over time, the sample is restricted to those previously studied young men who left school from 1967 through 1969. These 3 years are time period t.[8] Sample size for periods t through $t + 2$ are

as follows: (1) for t, there were 944 high school leavers and 368 college leavers; (2) for $t + 1$, there were 713 high school leavers and 304 college leavers; and (3) for $t + 2$, there were 570 high school leavers and 284 college leavers.

Attrition considerably reduced the sample: 40 percent of the original high school leavers and 23 percent of the college leavers are no longer in the sample by $t + 2$. Attrition rates are less from $t + 1$ to $t + 2$ than they are from t to $t + 1$: 24 percent of the high school leavers are lost from t to $t + 1$, whereas 20 percent are lost from $t + 1$ to $t + 2$. Comparable figures for college leavers are 17 percent and 6 percent. The declining rates of attrition are not surprising since many young men entered military service in the first year after leaving school.[9]

The transition process—weeks not working

In all cases, those who had not achieved eligibility status in the year prior to leaving school experience a more difficult transition into the work force. Table 3 displays the weighted mean values for weeks not working in each of the time periods after leaving school (shown as weeks unemployed and weeks out of the labor force). A rise in unemployment occurs over time, undoubtedly because of the worsening economic conditions of this particular time. Not surprisingly, college leavers show the least unemployment, compared to other groups.

Interesting differences occur between high school dropouts and high school graduates on the patterns of time unemployed and out of the labor force. By time period $t + 2$ eligible dropouts, eligible graduates, and ineligible graduates alike experienced about the same amount of time out of the labor force as they did unemployed. This contrasted with time period $t + 1$, when at least twice as much time was spent out of the labor force for each of these groups as was spent unemployed. In part this equality of weeks unemployed and out of the labor force reflects the rising levels of unemployment that were occurring; more than that, however, it reflects the steady increase in weeks of employment that also occurred in each year subsequent to school.

TABLE 3. Weeks not working

Category	t	$t+1$	$t+2$
Unemployment over time			
High school dropouts			
Ineligible	2.9	6.3	6.2
Eligible	2.0	2.7	4.7
High school graduates			
Ineligible	2.5	2.5	4.7
Eligible	1.5	1.3	3.1
College leavers			
Ineligible	1.8	2.2	2.8
Eligible	1.5	1.1	0.8
Out of labor force			
High school dropouts			
Ineligible	24.7[1]	13.8	12.0
Eligible	9.6[1]	8.0	4.4
High school graduates			
Ineligible	20.0[1]	6.4	4.3
Eligible	9.2[1]	3.3	2.8
College leavers			
Ineligible	19.7[1]	5.9	5.2
Eligible	10.7[1]	2.9	2.0

[1] Includes weeks still in school.

One exception to this pattern was dropouts who did not gain eligibility prior to leaving school. For them the number of weeks out of the labor force was still twice the number of weeks unemployed in the year $t + 2$. Both weeks out of the labor force and weeks unemployed for dropouts were quite high. Those ineligible for UI upon leaving school still averaged 18 weeks not working in the second full year after dropping out. The average in $t + 2$ for dropouts who had worked sufficiently to become "eligibles" in the year they dropped out was only 9 weeks. For dropouts, in particular, a relationship exists between a significant amount of well-paying employment while still in school and success in terms of an easy transition into the full-time labor force.

Other recent studies of the transition from school to work by Ellwood and by Meyer and Wise provided additional descriptive information about the transitional period even though their main focus was on the relationship between the transitional period and experiences either preceding departure from school or several years subsequent to leaving.[10]

To compare the current data with these studies, the weeks of unemployment over the year were converted to unemployment rates.[11] Weeks of unemployment were divided by the number of weeks in the labor force in each year. The rates in this study are somewhat higher than Ellwood's, which reflect the later time period of this sample, and are higher than the rates obtained by Meyer and Wise for high school graduates.[12]

Achievement of eligibility status over time and receipt of UI

What role does UI play in the transition from school to work? Two variables are important: the proportion of young men who have achieved UI eligibility in each time period subsequent to schooling and the proportion of those eligible who actually receive UI.

Those expected to receive UI were compared with data from two sources. The average ratio was calculated for UI recipients to unemployed men aged 25 to 34 in 1971. Current Population Survey data provided the average number of unemployed per month in 1971, the denominator for the ratio, and the Department of Labor (DOL) statistics on UI recipients provided information for the numerator. For 1971, the ratio was 64 percent.

Second, data from the NLS were used to calculate the

same ratio for young men aged 25 to 35. In 1976 (the only year for which respondents were the appropriate ages to calculate such a ratio) 51.6 percent of respondents experiencing unemployment reported receipt of UI benefits. The corresponding ratio given in published data was 59.1 percent. Thus 13 percent underreporting of UI occurred in the NLS—(59.1 — 51.6)/59.1. These data indicate a rising trend in the proportions of young men receiving UI that will stabilize at 50 to 60 percent by the time they reach ages 25 to 34.

The NLS was the only data source used to establish expectations for the proportions of the sample who would achieve eligibility at various points over time.[13]

Separate samples of young men were drawn from the NLS for whom 1967, 1968, or 1969 was their fourth year out of school. By use of this sample, eligibility was traced across time for the fourth, fifth, and sixth years out of school. Since the sample was from a different age cohort than the sample used to study the school-to-work transition, the projections may not be completely reliable, but they do show some expected eligibility trends as the sample ages. In fact, eligibility stabilizes at about 85 to 90 percent.

The proportions obtaining eligibility in each time period subsequent to school were then calculated, as were the proportions of those eligible who actually received UI. The results are shown in Tables 4 and 5. For college leavers, a pattern is quickly established. The upper limit on eligibility status occurs in the same year that college enrollees leave school. As expected, the mean stays in the 85 to 90 percent range in the next two time periods. The upper limit is also reached for high school leavers, although it takes longer to achieve it. Still, an 89 percent average is established as early as the first year out of school. For both college and high school leavers, the proportion achieving eligibility status is affected by worsening economic conditions and begins to drop somewhat in the second year out of school.

Though eligibility status is reached rather quickly, even for high school leavers, much movement in and out of eligibility status occurs over time. Thus, for high school leavers, the study broke down further the sample of ineligible respondents to demonstrate the movement between eligibility and ineligibility.

UI eligibility for high school leavers was examined in periods $t - 1$ through $t + 2$ to identify patterns. Because of the smaller sample size, college leavers were analyzed only through $t + 1$. By the end of $t + 1$, 7.5 percent of the high school leavers had never achieved eligibility; at $t + 2$, only 4.7 percent were not eligible. By the end of $t + 1$, only 2.2 percent of college leavers had never achieved eligibility.

The vast majority of both high school and college leavers showed a steady progression to eligibility status with very few who did not gain eligibility by time period $t + 2$. The study found that, in addition to the 4 percent of the high school leavers who had never achieved eligibility by $t + 2$, 12 percent had irregular eligibility patterns. They gained eligibility in one period but lost it in another. Forty-four percent were always eligible from $t - 1$ to $t + 2$, and the remaining 40 percent moved from ineligibility to eligibility. College leavers by the end of $t + 1$ showed similar results—about 11 percent had irregular eligibility.

Data in Table 5 reveal rather low rates of program participation among young men in the first few years following school, barely exceeding 30 percent even for college leavers. The rates rise substantially over time, but are expected to rise more as young men become more firmly attached to the labor force. The low rates of participation may be due to disqualification for UI based on a nonmonetary determination, such as a voluntary quit. Young men changed jobs fairly rapidly in this time period, and undoubtedly many of the changes were voluntary.

TABLE 4. Changes in eligibility over time

Time period	High school leavers		College leavers	
	Weighted mean eligibility	Number	Weighted mean eligibility	Number
$t - 1$	48.1	971	77.6	368
t	77.8	860	90.2	319
$t + 1$	88.5	636	89.7	248
$t + 2$	86.7	504	87.2	228

TABLE 5. Unemployment and receipt of UI over time in percent

Category	t	$t + 1$	$t + 2$
High school leavers			
Eligible for UI and unemployed	23.8	26.8	30.0
Eligible unemployed receiving UI	2.9	12.9	26.8
College leavers			
Eligible for UI and unemployed	18.6	16.0	11.9
Eligible unemployed receiving UI	7.1	26.4	33.4

Job changes subsequent to leaving school

The time not working or unemployed during the transition from school to work is temporary. The ultimately obtained jobs will probably have a more lingering influence on long-term labor market success.

The most important "transition" may be in finding decent employment while still in school as can be seen by examining Tables 6, 7, and 8. Young men were classified according to their eligibility status while in school. The analysis shows that working sufficiently to gain eligibility was not random but reflects other factors at work while in school, and thus differences between

TABLE 6. Changes in job characteristics over time for high school leavers by eligibility status in time $t - 1$

Time period status in $t - 1$	High school dropouts						High school graduates					
	t		$t+1$		$t+2$		t		$t+1$		$t+2$	
	Ineligible	Eligible	Ineligible	Eligible	Ineligible	Eligible	Ineligible	Eligible	Ineligible	Eligible	Ineligible	Eligible
Weeks worked [1]	27	41	35	43	37	44	31	41	44	47	44	46
Annual earnings [2]	1,170	2,810	2,160	3,820	2,870	4,170	1,170	2,600	3,090	4,320	3,930	4,450
Hourly rate [3]	1.59	2.10	1.84	2.20	1.56	1.97	1.81	2.10	1.89	2.20	2.07	2.24
Usual hours	41	41	43	43	42	43	40	43	40	42	40	42
Duncan score	17	20	17	22	17	24	21	27	24	31	26	32
Probability of bad working conditions	0.71	0.64	0.71	0.61	0.73	0.63	0.66	0.56	0.59	0.49	0.60	0.53
Sector												
Government	3	1	2	3	4	4	1	1	3	0	3	2
Core	33	45	45	48	38	54	41	44	45	59	52	52
Periphery	64	55	54	49	58	42	58	55	52	42	45	47
Sample size	210	96	171	77	130	66	309	329	228	237	174	200

[1] Excluding those who did not work at all.
[2] Excluding those who earned nothing; earnings are expressed in 1966 dollars.
[3] Expressed in 1966 dollars.

eligibles and ineligibles should persist across time, and it is necessary to examine more carefully the in-school "transition" to work.

In one important respect, the differences between eligibles and ineligibles eroded over time. For high school leavers, the differences in average weekly earnings, both for high school graduates and for dropouts, narrowed (see Table 8). This was not true for college leavers, but may have been confounded by small sample size.

In a second area, job segmentation, differences narrowed but only for college leavers and high school graduates. Jobs were classified according to whether they fell in the "core," the "periphery," or the "government" sectors of the economy. This designation, based on industry classifications, assigns jobs to the core sector if they are more likely to be found in industries characterized by large firms, where collective bargaining affects wage levels and working conditions, and where firms have considerable market power.[14] For high school graduates and for college leavers, the shifts in the distribution of jobs in each of the sectors indicates considerable job changing occurs. But, what is more important, the distributions at $t + 2$ for eligibles and ineligibles are almost identical. High school dropouts were different. Ineligibles tended to remain in the periphery where jobs are less desirable, whereas eligibles made a steady transition from the periphery to jobs located both in the core and government sectors. Again, for dropouts a definite relationship exists between employment while in school and longer-range labor market success.

On indicators other than average weekly earnings and sector, little or no narrowing of the differences between eligibles and ineligibles occurs. Though almost all the measures improve with time, the gap between eligibles and ineligibles persists. Ineligibles persistently work

TABLE 7. Changes in job characteristics over time for college leavers by eligibility status in $t - 1$

Status in $t - 1$	t		$t+1$		$t+2$	
	Ineligible	Eligible	Ineligible	Eligible	Ineligible	Eligible
Weeks worked [1]	31	40	44	48	47	49
Annual earnings [2]	$2,570	$4,040	$5,540	$6,420	$5,980	$7,100
Hourly rate [3]	$ 2.38	$ 2.94	$ 2.92	$ 3.06	$ 2.70 [4]	$ 3.34
Usual hours	45	44	43	42	47	42
Duncan score	51	54	54	59	57	61
Probability of bad working conditions	0.27	0.26	0.25	0.21	0.21	0.18
Sector						
Government	8	5	5	8	7	8
Core	30	38	30	37	39	38
Periphery	62	57	64	55	55	54
Sample size	89	279	72	232	66	218

[1] Excluding those who did not work at all.
[2] Excluding those who earned nothing; earnings expressed in 1966 dollars.
[3] Expressed in 1966 dollars.
[4] The fall in real wages for ineligibles from $t + 1$ to $t + 2$ is an anomaly caused by the fact that respondents at $t + 2$ are a subset of respondents at $t + 1$. The weighting scheme in this case does not adjust the mean values appropriately. Using only the respondents from $t + 2$, mean wages for ineligibles in $t + 1$ are also $2.70.

TABLE 8. Average weekly earnings over time (in 1966 dollars) for high school dropouts, high school graduates, and college leavers

Category	t	$t+1$	$t+2$
High school dropouts			
Ineligibles	43	62	78
Eligibles	69	89	95
Ineligibles/eligibles	0.62	0.70	0.82
High school graduates			
Ineligibles	38	70	89
Eligibles	63	92	96
Ineligibles/eligibles	0.60	0.76	0.93
College leavers			
Ineligibles	83	126	127
Eligibles	101	134	145
Ineligibles/eligibles	0.82	0.94	0.88

fewer weeks throughout the year, have a lower hourly rate of pay and experience worse working conditions on their jobs. Ineligible high school dropouts stay at the same Duncan score throughout for occupational status of jobs held, whereas eligibles steadily rise over time.

Eligibles and ineligibles also differed on the types of industries into which men changed their jobs. In fact, the establishment of UI eligibility in the year before leaving school was associated with a different pattern of job changes throughout the 2 years after school. To make this determination, four job transition matrices based on summary groupings of standard industrial classifications were used and are presented here as Tables 9 to 12.

Just over half of the high school leavers enter jobs in the same broad industrial classification as the jobs they held before leaving school. Similarly, for college leavers, 56.4 percent enter jobs in the same industries. Personal services lose the most respondents from the jobs held in the year before leaving school to the year students are out of school; the manufacturing sector gains the most. However, only 16 percent of high school leavers work in the manufacturing sector in both time periods. For college leavers, utilities gain the most respondents, and personal services lose the most. Thus, as measured by these categories, high school leavers have no stronger links than do college leavers to jobs held before leaving school than to those held after leaving school.

A second set of matrices compared eligible and ineligible high school leavers. Eligibles showed considerably more stabliity from the year prior to leaving school throughout the 2 years after school than did ineligibles. In the second year after school, 71 percent of eligibles were still in the same broad industry classes as they were when they left school. In contrast, only 52 percent of the ineligibles were in the same job classes. Far more eligibles obtain jobs in the manufacturing sector of the economy and stay there—43 percent versus 26 percent for ineligibles. Even though a significant proportion of ineligible respondents shift from agriculture to other industries, 9 percent remain in agriculture 2 years after leaving school, compared with 0.6 percent of eligibles in agriculture in the time periods since leaving school.

Finally, ineligibles and eligibles are similar when comparing inflows to outflows in the most desirable class of jobs, manufacturing. For eligibles, 12.5 percent flow out of manufacturing from time t to $t+2$ while 16.8 percent flow in, a net gain of 4.3 percent. Almost 8 percent of the ineligibles (7.7 percent) flow out of manufacturing whereas 12 percent flow in, a net gain of the same 4.3 percent. The difference is that a considerably lower proportion of ineligibles start working in manufacturing and stay there.

Summary and Conclusions

This study shows the factors that constrain young men from receiving UI. Achieving monetary eligibility does not constrain young men for a very long period of time subsequent to leaving school. In all cases, within 2 years of leaving school, the maximum proportion of the sample had gained eligibility. Still, those who do not work sufficiently while in school to achieve eligibility will experience a more difficult transition from school to work.

TABLE 9. Industry transition matrix, time $t-1$ to time t, high school leavers (in percent)

Time $t-1$ industrial groupings[1]	Time t industrial groupings							Initial marginal percentage
	1	2	3	4	5	6	7	
1. Agriculture	**6.1**	0.1	7.2	0.1	1.6	0.1	0.0	15.2
2. Extractive industries	0.3	**0.2**	0.4	0.0	0.1	0.0	0.0	1.0
3. Manufacturing	0.8	0.2	**15.8**	2.1	2.8	0.4	0.1	22.2
4. Service—utilities	0.5	0.0	3.8	**3.4**	2.5	0.0	0.3	10.5
5. Service—personal	0.8	0.4	15.2	3.3	**24.9**	1.5	0.7	46.4
6. Service—banking, real estate, law	0.0	0.0	1.3	0.4	0.4	**0.3**	0.0	2.5
7. Service—government	0.0	0.0	0.9	0.1	0.4	0.0	**0.6**	2.1
Final marginal percentage	8.5	1.0	44.6	9.4	32.8	2.4	1.2	100

[1] For industry codes contained in industrial groupings, see Randy Hodson, *Labor in the Monopoly, Competitive and State Sectors of Production*, CDE working paper 78-2 (Madison, University of Wisconsin, Center for Demography and Ecology, 1978), Appendix A.

TABLE 10. Industry transition matrix, time $t - 1$ to time t, college leavers (in percent)

Time $t - 1$ industrial groupings [1]	Time t industrial groupings							Initial marginal percentage
	1	2	3	4	5	6	7	
1. Agriculture	**0.1**	0.0	2.1	**0.1**	0.2	0.0	0.3	3.7
2. Extractive industries	0.0	**1.1**	0.0	0.0	0.0	0.0	0.1	1.1
3. Manufacturing	1.1	0.0	**17.1**	5.9	3.6	1.2	0.9	29.7
4. Service—utilities	0.4	0.4	3.8	**19.7**	1.7	0.7	2.3	28.9
5. Service—personal	0.3	0.5	6.0	6.4	**14.1**	0.9	1.0	29.2
6. Service—banking, real estate, law	0.0	0.0	0.6	1.0	0.0	**3.2**	0.0	4.7
7. Service—government	0.0	0.0	0.5	1.0	0.0	0.0	**1.1**	2.6
Final marginal percentage	2.9	1.9	30.1	34.0	19.5	5.9	5.6	100

[1] For industry codes contained in industrial groupings, see Randy Hodson, *Labor in the Monopoly, Competitive and State Sectors of Production*, CDE working paper 78-2 (Madison, University of Wisconsin, Center for Demography and Ecology, 1978), Appendix A.

TABLE 11. Industry transition matrix, time t to time $t + 2$, eligible high school leavers (in percent)

Time t industrial groupings [1]	Time $t + 2$ industrial groupings							Initial marginal percentage
	1	2	3	4	5	6	7	
1. Agriculture	**0.6**	0.0	0.8	0.1	0.5	0.0	0.0	2.0
2. Extractive industries	0.2	**1.0**	0.4	0.3	0.0	0.0	0.0	1.9
3. Manufacturing	0.1	0.6	**43.2**	2.4	4.0	0.6	0.0	50.9
4. Service—utilities	0.2	0.1	2.4	**5.7**	2.0	0.1	0.0	10.5
5. Service—personal	0.2	0.0	8.2	1.7	**16.7**	1.6	0.8	29.2
6. Service—banking, real estate, law	0.8	0.0	1.8	0.4	2.8	**1.9**	0.0	9.8
7. Service—government	0.0	0.0	0.2	0.4	0.0	0.0	**2.0**	2.7
Final marginal percentage	1.2	1.7	55.3	11.1	23.8	4.2	2.8	100

[1] For industry codes contained in industrial groupings, see Randy Hodson, *Labor in the Monopoly, Competitive and State Sectors of Production*, CDE working paper 78-2 (Madison, University of Wisconsin, Center for Demography and Ecology, 1978), Appendix A.

TABLE 12. Industry transition matrix, time t to time $t + 2$, ineligible high school leavers (in percent)

Time t industrial groupings [1]	Time $t + 2$ industrial groupings							Initial marginal percentage
	1	2	3	4	5	6	7	
1. Agriculture	**8.8**	0.0	4.5	1.8	2.3	0.0	0.4	17.9
2. Extractive industries	0.2	**1.1**	0.0	0.0	0.0	0.0	0.0	1.4
3. Manufacturing	0.4	1.6	**26.0**	2.6	6.5	0.4	1.0	38.4
4. Service—utilities	0.8	0.0	1.8	**4.0**	2.8	0.4	0.0	9.8
5. Service—personal	1.4	0.0	9.5	3.0	**11.5**	2.6	1.0	29.0
6. Service—banking, real estate, law	0.0	0.0	1.0	0.4	0.5	**0.0**	0.0	1.9
7. Service—government	0.0	0.0	0.0	0.8	0.0	0.0	**0.8**	1.6
Final marginal percentage	11.7	2.7	42.8	12.5	23.6	3.5	3.2	100

[1] For industry codes contained in industrial groupings, see Randy Hodson, *Labor in the Monopoly, Competitive and State Sectors of Production*, CDE working paper 78-2 (Madison, University of Wisconsin, Center for Demography and Ecology, 1978), Appendix A.

Thus an argument could be made for loosening requirements regarding monetary eligibility, thereby providing temporary UI assistance in the period immediately following schooling. Education credits could substitute for wage credits in the base period to permit qualification for UI. The rationale for such a proposal is that the financial assistance provided by UI would permit more careful job search in the critical period immediately following school.

What this proposal ignores is the nonmonetary constraint on UI receipt that occurs in the first and second year after leaving school. A low proportion of the sample received UI compared with what was expected in part because of the considerable amount of voluntary job changing that occurs.

If a high degree of job shifting occurs, is the immediate period following school of paramount importance? Are other subsequent periods equally important? Why ease the rules for UI eligibility for the period immediately following school if other more difficult eligibility constraints will come quickly into play?

The data show that the immediate school-to-work

transition period may not be the most critical for obtaining good employment. The sorting of individuals into good and bad employment situations appears to occur before leaving school. Failure to make the transition to work while still in school had implications for subsequent time periods. On most measures, differences between eligibles and ineligibles were not eroded in the three time periods considered. Job-change matrices showed that those ineligible in the year prior to leaving school did not flow into the better jobs at a rate faster than did eligibles into those same jobs. Thus the gap between the two groups was not narrowed over time. The school-to-work transition did little to alter the sorting of young men that had already occurred as they gained varying amounts of work experience while still in school.

Thus the more traditional approaches to youth employment problems will be more effective than extending UI provisions to assist youth indirectly in the post-school job search process. These traditional approaches include counseling while still in school, job placement, provision of work experience while in school, and in general expanding students' knowledge of the labor force. Focusing attention from the post-school transitional period to the time when young people first obtain jobs while still in school should provide more information on how to improve longer run labor-market success.

Notes

1. If further pressure develops to extend UI to more young people, many questions will need answers. A major, but difficult one is the effect such an extension might have on their incentive to look for work. Daniel Hamermesh, *Jobless Pay and the Economy* (Baltimore, Md., The Johns Hopkins University Press, 1977), p. 37, summarizes a number of such studies and gives his best estimate of a modest, positive relationship between the amount of UI benefits received and the duration of unemployment experienced. Two studies using samples of young men from the NLS show conflicting results on this issue. These studies are by Ronald G. Ehrenberg and Ronald L. Oaxaca, "Unemployment Insurance, Duration of Unemployment and Subsequent Wage Gain," *American Economic Review,* 66 (1976), and Stephen M. Hills, "Unemployment Insurance and the Duration of Unemployment: A Note on Ehrenberg and Oaxaca" (Columbus, Center for Human Resource Research, The Ohio State University), 1979.

2. This definition of eligibility understates the number of respondents actually ineligible for UI. The study was unable to approximate restrictions that require a certain distribution of earnings across the year. For instance, some States require that earnings occur in two quarters of the year if an individual is to be considered eligible for UI. Second, it is difficult to adequately approximate the nonmonetary eligibility determination. It is possible to know whether a respondent is actively seeking work but not the reason for a job separation. The NLS questionnaire obtains good data on voluntary versus involuntary layoffs for the years 1970 and 1971 but not for the periods 1966 through 1969. Though the eligibility definition used in the current study overstated the absolute number of individuals eligible for UI, it was particularly useful in comparing groups of respondents and in analyzing trends over time.

3. Since the NLS traces a fixed-age cohort over time, disproportionately more college leavers are obtained from later years of the survey. On the other hand, non-college leavers are somewhat disproportionately drawn from earlier years of the survey. The following two tables show the distributions of weighted mean characteristics of school leavers. (The sample size for high school leavers was 1,306; the sample size for college leavers was 787.)

Interview year when left school	Weighted means (in percent)	
	High school leavers	College leavers
1967	21	12
1968	27	18
1969	25	22
1970	20	24
1971	8	25

Highest grade completed	Weighted means (in percent)	
	High school leavers	College leavers
5 to 7	1	
8	1	
9	4	
10	7	
11	9	
12	78	
13		23
14		15
15		8
16		38
17		8
18		9

4. Residence could not be determined if a respondent moved to an area not contained in the original 1966 sampling frame for the NLS. Due to this limitation, approximately 3 percent of the high school leavers and 10 percent of the college leavers could not be assigned an eligibility status and were dropped from the sample. Sample sizes were thus reduced to 705 college leavers and 1,265 high school leavers.

5. See either Robert Lucas, "The Distribution of Job Characteristics," *Review of Economics and Statistics,* vol. LVI, no. 4, November 1974, pp. 530–540, or Joseph Quinn, "Microeconomic Determinants of Early Retirement: A Cross-Sectional View of White Married Men," *Journal of Human Resources,* vol. XII, no. 3,

Summer 1967, pp. 329–346, for application of assigning job characteristics to individual occupations.

6. Quinn, "Microeconomic Determinants," p. 8.

7. David Ellwood, "Teenage Unemployment: Permanent Scars or Temporary Blemishes," paper presented at NBER conference on Youth Unemployment, Airlie, Va., 1979, and Robert Meyer and David Wise, "High School Preparation and Early Labor Market Experience," paper presented at NBER conference on Youth Unemployment, Airlie, Va., 1979.

8. For time just out of school t, the weighted mean values of variables under consideration are reported. The weights used adjust for oversampling of blacks and for any attrition that occurs from 1966 until time period t. The year 1966 is the first year for which surveys were done. The process is repeated for the first year out of school $t + 1$. Because of attrition the sample sizes on which weighted means are reported are smaller than in time t. Accordingly, a different set of weights is used. Use of these weights adjusts the mean values for $t + 1$ to account for attrition between t and $t + 1$. A similar process yields values for time period $t + 2$. For a more detailed description of the weighting system see *The National Longitudinal Surveys Handbook* (Columbus, Ohio, Center for Human Resource Research), 1980.

9. The advantage of the approach used is that it is not limited to a retrospective description of the experience of a potentially unrepresentative group of respondents retained in the sample from year $t - 1$ to year $t + 2$. The disadvantage is that the weighting procedure may not adjust accurately for attrition if small numbers of respondents are used for calculating any given mean value. Hence some anomalies may result. Where this happens, the reasons are noted. Nevertheless, it is believed that the advantages of using differential sample sizes from year to year outweigh the disadvantages.

10. Ellwood, "Teenage Unemployment," analyzed the potential scarring effect that a difficult transition could have on labor market success in subsequent years, and Meyer and Wise, "High School Preparation," examined the relationship between work experience while still in school and subsequent labor market success.

11. The information reported applies to the retrospective time period over which respondents report their weeks of unemployment. In the NLS this is the 12-month period prior to the interview. The NLS also gains information for determining employment status in the survey week, however, by using standard Current Population Survey (CPS) questions. If survey week status is compared at the end of time period t with the BLS estimates, the difference is much less pronounced. An average BLS estimate was obtained for a time period corresponding to the 1967–1979 period over which this sample was pooled. (Source: BLS Special Labor Force Report 100, Table 2 and Table 4 of BLS Special Labor Force Report 108, and Table 2 of BLS Special Labor Force Report 121.) The average BLS estimate was 12.3 percent whereas the NLS survey week estimate was 9.9 percent, a much smaller discrepancy than indicated by the 6 percent rate found by the authors of this report.

12. The present study is composed of men leaving high school or elementary school 1967 through 1969. The unemployment rate for those just out of school is 6 percent; for those out of school a year, it is 6.2 percent; and for those out of school 2 years, it is 9.1 percent. Ellwood, who, in "Teenage Unemployment," used a pooled sample of men leaving school with 13 or fewer years of education in 1965 through 1967, said that the unemployment rate for those out of school a year is 5 percent and for those out of school 2 years is 6.4 percent. The current study and the Ellwood "Teenage Unemployment" study defined the unemployment rate as the weeks unemployed between survey dates divided by the number of weeks in the labor force between survey dates. Meyer and Wise, in "High School Preparation," defined unemployment according to the labor force status in the week of the survey.

Meyer and Wise, in "High School Preparation," used a sample of males out of school in each year subsequent to graduation from high school in 1972; the unemployment rate was 6.9 percent for those just out of school, 5.8 percent for those out of school 1 year, and 7.3 percent for those out of school 2 years.

In all three studies unemployment rates obtained are significantly lower than rates measured by the Bureau of Labor Statistics (BLS) in comparable periods of time. Meyer and Wise, in "High School Preparation," report the discrepancy but do not resolve it. In analysis, this study found that the discrepancy with BLS rates cannot be completely resolved, but it appears to result from an undercount that occurs when respondents are asked about unemployment retrospectively, rather than reporting for a survey week only.

13. Published data were of little assistance given the specific way monetary eligibility is defined in this report.

14. The designations of core, peripheral, and governmental sectors were derived through a mapping of 3-digit industry code onto categories for the structure of capital concentration from Randy Hodson, *Labor in the Monopoly, Competitive and State Sectors of Production*, CDE working paper 78–2 (Madison, University of Wisconsin, Center for Demography and Ecology, 1978), pp. 3–4. Following Hodson's definitions of the three sectors, the core sector is defined by large decentralized capital. Its characteristics include monopoly pricing and high unionization rates, and it is technologically progressive and highly productive. The peripheral sector is (conversely) defined by small centralized capital. Its characteristics include wage and price competition, a lack of extensive unionization, labor-intensive production and relatively low productivity. The state sector, defined as all public employees and workers in state-contracted production, was included because of its economic functions as agent for socialization of increasing

costs of production. Workers are highly organized although without the rights of unionization guaranteed private-sector workers. See Appendix A of Hodson's classification of industrial categories into this scheme.

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Unemployment Insurance and Ex-Offenders

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An issue that has gained prominence in recent years is whether persons released from State or Federal prisons should be considered eligible for unemployment insurance (UI) benefits. This issue has been the subject of much policy debate; it has also been tested in two major experiments, the Living Insurance for Ex-Offenders (LIFE) experiment of 1972 to 1974, and the Transitional Aid Research Project (TARP) of 1975 to 1977. This report briefly reviews the arguments surrounding this issue and some of the evidence provided by the experiments. It also provides an estimate of the magnitude of entitlements lost while prisoners are incarcerated and out of the labor market.

In the arguments for or against extending UI entitlements to ex-prisoners, it is helpful to separate efficiency considerations—whether the proposal would cause an increase in the aggregate value of resources available to society—from equity considerations—whether it would cause a more desirable distribution of resources. Such a separation is useful because efficiency and equity questions require different types of information and are subject to different types of evaluation criteria. Generally, it is possible to make some judgment about the *efficiency* of a program—the program is judged to be desirable to the extent that it causes an increase in the value of social resources. However, such a rule is not available for *equity* issues. In this case, the program's effect on the distribution of resources often can be determined, but there is no clear rule for valuing that effect. Typically, there are valid arguments for and against shifts in the distribution of income. Thus final judgment must be made through the political process.

The best available evidence concerning the efficiency of extending UI entitlements to released prisoners comes from the LIFE and TARP programs. This evidence suggests that little would be gained or lost from implementing such a policy.[1] These experiments show a substantial income effect that greatly increases the resources available to society when financial assistance is provided to released prisoners.[2] However, when this assistance is provided through a UI framework, there is an offsetting reduction in efficiency; hence, there is no overall net effect on the resources available to society. These offsetting inefficiencies exist with the UI framework because the system creates a work disincentive and incentives for illegitimate activities with its implicit tax on earnings, as payments are reduced when earned income is received. The system also creates further inefficiencies because the "available-for-work" requirements reduce the incentive to engage in education, training, or other activities that would increase future productivity and earnings but keep the student unavailable for work and ineligible for UI. The observation of offsetting effects on economic efficiency with UI payments is consistent with general economic theory, and it appears that, in this case, a decision for or against extending UI payments to ex-prisoners *cannot* be made on the basis of efficiency considerations.

The equity considerations stem from the fact that many prisoners lose all or part of their entitlements to UI benefits while they are in prison. This loss of entitlement occurs even for persons who have extensive pre-prison work histories that resulted in substantial contributions to the UI trust funds by their employers.

Ex-offenders cannot obtain UI benefits while in prison because they are out of the labor force and therefore unable to meet the available-for-work requirements. In addition, because UI eligibility is based on employment in the preceding year and most prisoners are not allowed to hold covered employment during their incarceration, prisoners from State and Federal institutions are almost never eligible for UI benefits when they are released.[3] The base-year earnings of State and Federal prisoners would be depleted to little or nothing by the time they are released, and remuneration from prison work generally is too low to build up UI entitlements (in addition, prison work is not usually covered by the UI system). The only exceptions are in the few cases in which ex-offenders nearing the end of their incarceration have been able to obtain a work-release position covered by

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UI. In any case, entitlements based on contributions to the UI trust funds from their preincarceration work would not be available to ex-prisoners. As illustrated below, UI entitlements on the order of $28 million are lost by Federal and State prisoners each year.

On equity grounds, many policymakers familiar with the current situation consider it inequitable that prisoners should lose UI entitlements, because they are involuntarily removed from the labor force while in prison. Studies indicate that almost 70 percent of State-prison inmates were employed in the month of arrest, and almost 40 percent had been with the last employer for at least one year.[4] Most of these jobs were covered under the UI regulations; it can be argued that prisoners who worked on covered jobs bore the burden of the UI payroll taxes even though employers made the actual payments to the trust funds, and it is unfair to deny benefits to the persons who in reality have paid for them.[5] These equity arguments generally consider the loss of UI entitlements as an unintended effect of UI and criminal justice regulations, and argue that benefit entitlements should be extended to ex-offenders who had covered employment prior to incarceration, or that the loss of such entitlement should be made an explicit part of criminal statutes.[6]

The views of the policymakers who advocate extending UI entitlements to ex-prisoners are not universally shared or accepted. For example, some policymakers argue that imprisonment is not an involuntary removal from the labor force, but rather a consequence of a voluntary act, a crime, by offenders. In any case, a stronger argument certainly can be made for reinstating the UI entitlements for the other segments of the population who are involuntarily out of the labor force, such as persons institutionalized or hospitalized for a long-term illness or disability.

One element that has been missing from the debates on extending UI benefits to released prisoners is an estimate of the magnitude of their preincarceration UI entitlements. The magnitude of the "inequity" and the cost of any attempts to change the existing system are not known. The best data available to estimate the amount of UI entitlements lost by prisoners come from information collected from the TARP program by State officials in Georgia and Texas. As part of the program evaluation, the officials collected information on covered employment and earnings prior to incarceration for samples of newly sentenced persons entering their State prison systems during 1975 and 1976. These data can be used to estimate the UI entitlements of all newly sentenced prisoners at the time of their incarceration.

These data from Georgia indicate that the proportion of entering (newly sentenced) prisoners with UI entitlements is approximately 31 percent; the average entitlement is $596. Thus, the average amount of UI entitlements lost per entering prisoner in Georgia is almost $183. The data from Texas show that the proportion of entering prisoners with UI entitlements is approximately 29 percent, with an average entitlement of approximately $803. The average amount of UI entitlements lost per entering prisoner in Texas is therefore estimated to be approximately $231.

In order to obtain national estimates, a weighted average of the estimates from Georgia and Texas can be taken, with the weights proportional to their percentages of all Federal and State prisoners committed from courts to the correctional institutions.[7] From this is obtained an estimate of approximately $216 for the average amount of UI entitlement lost by newly committed prisoners entering the State and Federal correctional systems. Multiplying this figure by 130,000, the approximate number of new commitments to Federal and State prisons each year, produces an estimate of slightly over $28 million in UI entitlements lost by Federal and State prisoners annually.

This suggests that extending coverage to released prisoners who had entitlements at the time they were incarcerated would not greatly alter the UI system. A $28 million entitlement is small compared to the $9.3 billion total of UI benefits paid in 1976. Thus, the maximum payment to ex-offenders under this proposal would represent only 0.3 percent of total UI benefit payments. It is unlikely, however, that the equity questions will be settled only on the basis of the cost to the system of extending entitlements.

The estimate that $28 million in UI entitlements are being lost by Federal and State prisoners each year illustrates the order of magnitude of potential UI benefits lost by ex-offenders. However, it is not a very precise estimate; there is a very large associated standard error —of unknown size—around the estimate because of a number of deficiencies in the Georgia and Texas data.

There is upward bias in these estimates due to the large amount of missing data from Texas for prisoners who were likely to have low UI entitlements. There is also a downward bias arising from at least six sources:

- missing observations in Georgia are probably counted as having zero UI entitlements;
- the observation period for Georgia seems to overlap with the time of incarceration, so that prior employment and earnings are further biased downward for Georgia observations;
- the UI systems in Georgia and Texas are much less generous than the national average;
- Federal prisoners probably have better work histories and higher prior entitlements than State prisoners in Georgia and Texas, while the estimates assume no difference between Federal and State prisoners' entitlements;
- the Texas numbers seem to include some observations for prisoners not newly committed (such as transfers), for whom prior work histories and lost UI entitlements would be underestimated; and

• inmates in local jails were not counted, and they will also experience some declining UI entitlements even though their time served is generally shorter.[8]

In addition to the systematic biases noted above, there are three other problems with the point estimate. First, its precision for a nationwide estimate is greatly reduced because of the clustering of observations in Georgia and Texas, two southern States that have large prison populations per capita. Second, the entitlement estimate of $28 million is not an estimate of UI system cost, but only of the amount of lost entitlements. The actual change in costs will depend on two partially offsetting factors: the proportion of entitlements claimed, and the administrative costs of paying the benefits. Third, the entitlement estimate is based on data collected in 1975 and 1976. Because of inflation in wages and raises in the maximum weekly benefit amounts, the current cost of extending UI entitlements will probably exceed $28 million. While precise estimates cannot be made with existing data, an indication of current costs can be derived using the rise in the average weekly benefit amount for the UI system as a whole. This amount rose almost 21 percent from 1975–76 to fiscal year 1979, which suggests that current costs of the extension could be on the order of $34 million.[9]

The debate on extending UI entitlements to released prisoners with preincarceration covered earnings will undoubtedly continue. The evidence suggests that this extension, if made through the regular UI system, would not sufficiently reduce criminal activity or increase employment to justify the program on economic efficiency grounds. However, a strong argument can be made that it is inequitable for prisoners to lose UI entitlements they earned during the preincarceration employment. If their entitlements were restored to them upon release, it is estimated that the entitlements would have been worth approximately $28 million in 1976.

Notes

1. See Kenneth J. Lenihan, *Unlocking the Second Gate: The Role of Financial Assistance in Reducing Recidivism Among Ex-prisoners* (Washington, D.C., U.S. Department of Labor, 1977); and *When Money Counts: An Experimental Study of Providing Financial Aid and Job Placement Services to Released Prisoners* (Washington, D.C., Bureau of Social Science Research, Inc., 1976); Charles D. Mallar and Craig V. D. Thornton, "Transitional Aid for Released Prisoners: Evidence from the LIFE Experiment," *Journal of Human Resources* 13, No. 2 (Spring 1978); and *A Comparative Evaluation of the Benefits and Costs from the LIFE Program* (Washington, D.C., American Bar Association, 1978); and Peter H. Rossi, Richard A. Berk, and Kenneth J. Lenihan, *Money, Work and Crime* (New York, Academic Press, 1980).

2. The increase in income brought about by the UI payments induced ex-offenders to increase their employment and reduce their criminal activity. These changes in behavior increase the goods and services available to society.

3. Almost all (approximately 95 percent) of the prisoners in State and Federal prisons are committed for at least 1 year and therefore lose their eligibility. Generally, periods of incarceration that are much shorter than a year would also cause a loss of all entitlements to UI benefits—for example, almost all States require that a claimant have covered earnings in at least two quarters of the previous year in order to be eligible for UI payments.

4. Mimi Cantwell, *Profile of State Prison Inmates: Sociodemographic Findings from the 1974 Survey of Inmates of State Correctional Facilities,* U.S. Department of Justice, Law Enforcement Assistance Administration, National Criminal Justice Information and Statistics Section (Washington, D.C., U.S. Government Printing Office, 1979).

5. See Joseph Pechman and Benjamin Okner, *Who Bears the Tax Burden?* (Washington, D.C., The Brookings Institution, 1974).

6. The role of employers would have to be considered in equity discussions, because reentitlement of released ex-offenders could affect their experience ratings, unless specific exemptions were granted so that ex-offenders' benefits were not charged to their former employers.

7. The appropriate weights are 0.324 for Georgia and 0.676 for Texas.

8. Persons in local jails serving long sentences usually are eventually transferred to a State or Federal institution, but they are not counted among the 130,000 newly committed prisoners.

9. Changes over time in the types of workers receiving UI benefits make this number difficult to interpret. In recessions, for example, higher-wage workers are laid off, which raises the average weekly benefit amount. Thus, comparisons involving the 1975 UI data must be interpreted carefully.

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Public Attitudes

Attitudes Toward and Experience With Unemployment Compensation Among American Households

Richard T. Curtin
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The highlights of this study are listed below. Full information on these points and others is contained in the body of the report.

- Among all currently unemployed household members, 49 percent reported that they never applied for unemployment compensation (UC). Of those currently unemployed household members who did not apply for UC, 67 percent reported they believed they were not eligible (Tables 6 and 7).
- The currently unemployed most frequently mentioned some type of individual job search action (71 percent) as what they were doing to find employment. Twenty-three percent reported that they were making no special effort to find employment (Table 8).
- Among household members who have had spells of unemployment during the past 2 years, 29 percent reported receiving UC. Among those who received UC, two-thirds did not use up their benefits before finding a new job (Table 10).
- Among those unemployed during the past 2 years, 20 percent reported that they did not apply because they did not want or need assistance, compared with just 10 percent among those who are currently unemployed (Tables 7 and 11).
- The majority of respondents who had been unemployed in the past 2 years and found jobs went to work at jobs that were different from their old jobs (54 percent). Another 25 percent found a new job that was similar to their old job. Just 15 percent returned to their old job (Table 12).
- Among those finding new jobs, 41 percent reported that the new job paid more than the old job, compared with 26 percent who reported that the new job paid less than the old job (Table 12).
- Among those who did find new jobs, 41 percent reported that someone had recommended them for the new job. Half (21 percent) of the reported personal recommendations came from friends or relatives (Table 14).
- Among all respondents, 59 percent reported that UC could be more accurately described as "earned insurance that provides for the jobless," while 32 percent felt that UC was "part of our welfare system" (Table 15).
- Attitudes toward UC were highly related to the unemployment experience of the household. Households who had experienced unemployment and received UC most frequently viewed the program as providing earned insurance (78 percent), while households who had not experienced unemployment were least likely to view UC as earned insurance (56 percent) (Table 17).
- Multivariate analyses confirm the widespread and shared beliefs across socioeconomic and demographic subgroups of attitudes toward job requirements. The lone exception was the respondents' characterization of the UC: respondents who characterized UC as earned insurance were more likely to believe that people receiving UC should be given time to search for a suitable job, less likely to agree that people should be required to take any suitable job, and more likely to believe that people should be required to take only those jobs suited to their training and experience (Tables 24–26).
- Sample evidence documents that a high reservation wage is not the issue concerning prolonged unemployment. Instead, unemployment spells appear to persist because there are no suitable jobs available that the currently unemployed could accept (Tables 35–37).

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The Incidence of Unemployment Among Households

Current unemployment experience

Between December 1979 and March 1980, 11 percent of the 2,341 households interviewed reported that at least one household member was currently unemployed and looking for work (Table 1). Over two-thirds of the reported unemployment involved either the family head or spouse. One in twenty American households reported that their family head was currently unemployed; in 8 percent of all families either the head or spouse was currently unemployed. Among all households, 3 percent reported that the currently unemployed member was not the family head or spouse.

Past unemployment experience

In addition to current unemployment, households were questioned on the incidence of unemployment during the 2 years prior to the survey. Among all households, 14 percent reported that at least one member was unemployed during the past 2 years (Table 2). More than three-fourths of the reported past unemployment involved either family heads or spouses. Eleven percent of all households reported that either the head or spouse was unemployed at some time during the past 2 years. The majority of reported past unemployment experience involved household heads, with 9 percent of all households reporting that the family head was unemployed at some time during the past 2 years.

TABLE 1. Current unemployment experience of household members

Current unemployment experience	Percentage of all households
	($N = 2,341$)
Households with at least one member currently unemployed	11
Households with family head currently unemployed	5
Households with spouse of family head currently unemployed	3
Households with family member unemployed but family head or spouse not currently unemployed	2
Households with unrelated household member currently unemployed but family head or spouse not currently unemployed	1

NOTES: "Family member" includes the following persons living at home: children (son, stepson, daughter, stepdaughter, son-in-law, daughter-in-law, foster son, foster daughter), father, stepfather, mother, stepmother, father-in-law, mother-in-law, brother, sister, brother-in-law, sister-in-law, grandson, granddaughter, nephew, niece, uncle, aunt. "Unrelated household member" includes male or female roommates, friends, and other male or female unrelated members.

Tables 1 through 39 are based on the authors' computer analysis of data from their household survey, performed in 1979 and 1980.

TABLE 2. Unemployment experience of household members during the past 2 years

Past unemployment experience	Percentage of all households
	($N = 2,341$)
Households with at least one member unemployed during the past 2 years	14
Households with family head unemployed during the past 2 years	9
Households with spouse of family head unemployed during the past 2 years	2
Households with family member unemployed during past but the family head or spouse not unemployed during the past 2 years	2
Households with unrelated household member unemployed during past 2 years but family head or spouse not unemployed during past 2 years	1

NOTE: "Family member" includes the following persons living at home: children (son, stepson, daughter, stepdaughter, son-in-law, daughter-in-law, foster son, foster daughter), father, stepfather, mother, stepmother, father-in-law, mother-in-law, brother, sister, brother-in-law, sister-in-law, grandson, granddaughter, nephew, niece, uncle, aunt. "Unrelated household member" includes male or female roommates, friends, and other male or female unrelated members.

Cumulative unemployment experience

A more complete picture of household experience with unemployment combines information on both current and past spells of unemployment. Almost one in four (23 percent) of all households reported at least one member was currently unemployed or had been unemployed during the past 2 years (Table 3). Fourteen percent of all households reported that the family head was currently or had been unemployed during the past 2 years; this figure rose to 18 percent of all households when unemployment experience among either the head or spouse was considered.

Households with at least one member currently unemployed were not significantly more likely to have reported past unemployment experience than all other households. Among households with one member *currently* unemployed, 15 percent reported that at least one member was unemployed at some time during the past 2 years (Table 4), compared with 14 percent among all families.

Similarly, households that experienced unemployment during the past 2 years were no more likely to report a currently unemployed member than all other families. Among households that had an unemployed member during the past 2 years, 11 percent reported that at least one member was currently unemployed (Table 5), identical to the 11 percent reading among all families.

TABLE 3. Current and past unemployment of household members

Current and past unemployment	Percentage of all households
	($N = 2,341$)
Households with at least one member currently unemployed or unemployed during the past 2 years	23
Households with family head currently unemployed or unemployed during the past 2 years	14
Households with spouse of family head currently unemployed or unemployed during the past 2 years	4
Households with family member but not family head or spouse currently unemployed or unemployed during the past 2 years	4
Households with unrelated household member but not family head or spouse currently unemployed or unemployed during the past 2 years	1

NOTE: "Family member" includes the following persons living at home: children (son, stepson, daughter, stepdaughter, son-in-law, daughter-in-law, foster son, foster daughter), father, stepfather, mother, stepmother, father-in-law, mother-in-law, brother, sister, brother-in-law, sister-in-law, grandson, granddaughter, nephew, niece, uncle, aunt. "Unrelated household member" includes male or female roommates, friends, and other male or female unrelated members.

TABLE 4. Past unemployment experience of household members currently unemployed

Past unemployment experience	Percentage of households with currently unemployed member
	($N = 237$)
Households with at least one member unemployed during the past 2 years	15
Households with family head unemployed during the past 2 years	9
Households with spouse of family head unemployed during the past 2 years	2
Households with family member other than family head or spouse unemployed during past 2 years	3
Households with unrelated household member but not family head or spouse unemployed during past 2 years	1

NOTE: "Family member" includes the following persons living at home: children (son, stepson, daughter, stepdaughter, son-in-law, daughter-in-law, foster son, foster daughter), father, stepfather, mother, stepmother, father-in-law, mother-in-law, brother, sister, brother-in-law, sister-in-law, grandson, granddaughter, nephew, niece, uncle, aunt. "Unrelated household member" includes male or female roommates, friends, and other male or female unrelated members.

The Job Search Process

The currently unemployed

Among all currently unemployed household members, 15 percent reported that they were currently receiving UC; an additional 11 percent reported that they had received compensation but had used up their benefits by the time of the survey. Another 8 percent of all currently unemployed household members reported that they had applied but did not receive UC (Table 6). Consequently, one in three currently unemployed household members (34 percent) had at least some direct contact with the UC program.

The near majority of those currently unemployed, however, reported that they had never applied for UC (49 percent). Among those currently unemployed who did not apply or who applied but did not receive UC, the majority reported that they believed they were not eligible (61 percent); much less frequently were they

TABLE 5. Current unemployment experience of household members unemployed during the past 2 years

Current unemployment experience	Percentage of households with unemployed member in past 2 years
	($N = 331$)
Households with at least one member currently unemployed	11
Households with family head currently unemployed	5
Households with spouse of family head currently unemployed	2
Households with unrelated household member but not family head or spouse currently unemployed	3

NOTE: "Family member" includes the following persons living at home: children (son, stepson, daughter, stepdaughter, son-in-law, daughter-in-law, foster son, foster daughter), father, stepfather, mother, stepmother, father-in-law, mother-in-law, brother, sister, brother-in-law, sister-in-law, grandson, granddaughter, nephew, niece, uncle, aunt. "Unrelated household member" includes male or female roommates, friends, and other male or female unrelated members.

TABLE 6. Receipt of UC by currently unemployed persons

Currently receiving unemployment compensation?	Percentages
Cases	($N = 243$)
Total	100
Yes	15
No	82
Used up benefits	11
Applied, but did not receive	8
Did not apply	49
Never worked, so did not qualify	12
Not ascertained	2
Not ascertained	3

NOTE: "Family member" includes the following persons living at home: hold member now receiving unemployment compnsation?" "Did (you/he/she) use up the benefits, not apply for unemployment compensation, or apply but not receive unemployment compensation?"
Tables are the result of computer analysis by the authors of the Household Survey they performed.

found to be ineligible when they applied for benefits (8 percent). In contrast, just 10 percent reported that they did not need or want UC (Table 7).

When asked what they were doing to find work, the currently unemployed most frequently mentioned some type of individual job-search action (Table 8). Almost one-third of all unemployed members said that they had made direct contact with potential employers, one in five reported reading or placing want ads and another one in five reported other minor job-search efforts. Just 16 percent of the unemployed reported that they had obtained outside help in the job-search process, with 9 percent reporting that either private or public employment agencies assisted them. Almost one in four (23 percent) reported that they were making no special effort to find employment.

TABLE 7. Reasons why currently unemployed did not apply, or applied but did not receive UC

Classification of reasons	Percentage
Cases	($N = 132$)
Total [1]	
Believed not eligible	61
Was refused benefits	3
Access problems	6
Administrative [2]	5
Location	1
Information	[3]
Do not want assistance	7
Do not need assistance	3
Receiving other assistance	4
Other	14
Not ascertained	6

[1] Total exceeds 100 percent because some respondents gave multiple responses.
[2] Refers to "attitudes of local officials," "red-tape," "wait-too-long," etc.
[3] Less than 0.5 percent.
NOTE: The question asked was "Why did (you/he/she) not apply for unemployment compensation, or apply but not receive unemployment compensation?"

TABLE 8. Efforts of the currently unemployed to find work

Effort made to find work	Percentage
Cases	($N = 243$)
Total [1]	
Individual job search	71
Direct contact with potential employers	32
Reading/placing want ads	18
Other minor job search efforts	21
Outside help obtained in job search	16
Private and public employment agencies	9
Job connected professional help	2
Contact with friends and relatives	1
Schools	4
No special efforts made	23
Other	3
Not ascertained	8

[1] Total exceeds 100 percent because some respondents gave multiple responses.
NOTE: The question asked was: "What are you doing to find a job?"

TABLE 9. Likelihood that currently unemployed will find work

Prospects for finding employment	Percentage
Cases	($N = 243$)
Total	100
Very likely	37
Somewhat likely	27
Not very likely	28
Not ascertained	8

NOTE: The question asked was: "What would you say the prospects are for you to find a job—very likely, somewhat likely, or not very likely that you will find a job?"

TABLE 10. Receipt of UC by unemployment within the past 2 years

Received unemployment compensation in the past	Percentage
Cases	($N = 347$)
Total	100
Yes	29
Used up benefits before found new job	10
Did not use up benefits	19
No	67
Applied but did not receive	9
Did not apply	47
Never worked, so did not qualify	10
Not ascertained	1
Not ascertained	4

NOTE: The questions asked were: "Did (you/he/she) receive unemployment compensation?" "Did (you/he/she) use up all the benefits entitled to before finding a job?" "Did (you/he/she) not apply for unemployment compensation or did (you/he/she) apply but not receive unemployment compensation?"

More than one-half of the unemployed reported that the prospects for finding a job were good (37 percent very likely, 27 percent somewhat likely). In contrast, 28 percent of the unemployed reported that it was not very likely that they would find a job (Table 9).

Past unemployment experience

Among household members who have had spells of unemployment during the past 2 years, 29 percent reported receiving UC (Table 10). Among those who did receive UC, nearly two-thirds (19 percent of all persons with unemployment experience within the past 2 years) did not use up their benefits before finding a new job, while one-third (10 percent of all persons with unemployment experience within the past 2 years) used up their benefits before they found a new job. An additional 9 percent reported that they had applied for but did not receive UC benefits. As among the currently unemployed, approximately one-third (38 percent) of all persons who experienced unemployment during the past 2 years had some direct contact with the UC program.

The majority of those unemployed at some time

during the past 2 years reported that they had not applied for UC (Table 10). When asked why they did not apply, 45 percent of those unemployed during the past 2 years stated eligibility problems (Table 11), compared with 64 percent of the currently unemployed who reported eligibility problems (Table 7). Interestingly, among those unemployed during the past 2 years, 20 percent reported that they did not apply because they did not want or need assistance, compared with just 10 percent among those who are currently unemployed (Table 7). In addition, those who experienced unemployment during the past 2 years were somewhat more likely to report administrative problems ("attitude of local official, too much red tape, have to wait too long, etc.") than those who were currently unemployed (11 versus 5 percent).

The majority of respondents who had been unemployed in the past 2 years and found jobs went to work at jobs that were different from their old jobs (54 percent). Another 25 percent found a new job that was similar to their old job, while just 15 percent returned to their old job after the spell of unemployment (Table 12). Among those finding new jobs, 41 percent reported that the new job paid more than the old job, compared with 26 percent who reported that the new job paid less than the old job (Table 12). When asked whether finding employment was an easy or difficult process, nearly identical proportions reported that it was difficult to find a new job—48 percent—and that it was easy to find a new job—46 percent (Table 13). Among those who did find new jobs, 41 percent reported that someone had recommended them for the new job (Table 14). Half of the reported personal recommendations came from friends or relatives (21 percent). In contrast, just 3 percent of those who found new jobs reported that they received a recommendation from an employment agency. Work supervisors or coworkers accounted for 8 percent of the recommendations.

TABLE 11. Reasons why those unemployed in past 2 years did not apply, or applied but did not receive UC

Classification of reasons	Percentage
Cases	($N = 188$)
Total	[1]
Eligibility	45
Believed not eligible	44
Was refused benefits	1
Access problems	12
Administrative [2]	11
Location	[3]
Information	1
Do not want assistance	12
Do not need assistance	8
Receiving other assistance	3
Other	13
Not ascertained	12

[1] Total exceeds 100 percent because some respondents gave multiple responses.
[2] Refers to "attitudes of local officials, too much red tape, have to wait too long."
[3] Less than 0.5 percent.
NOTE: The question asked was "Why did (you/he/she) not apply for unemployment compensation, or apply but not receive unemployment compensation?"

TABLE 12. Relationship between new job and previous job

Relationship of new job to previous job	Percentage [1]
Cases	($N = 314$)
Total	100
New job different from old job	54
New job like old job	25
Same job	15
Did not go back to work	1
Not ascertained	5
Relationship of new job's pay to previous job's pay	**Percentage [2]**
Cases	($N = 310$)
Total	100
Pays more than old job	41
Pays same as old job	27
Pays less than old job	26
Not ascertained	6

[1] Percentage distribution of persons with unemployment experience within the past 2 years who initially had a job. Unemployed persons with unemployment experience in past 2 years but who had never worked are excluded.
[2] Percentage distribution excludes persons who did not go back to work.
NOTE: The questions asked were: "When you found a job, was it the same job you had before, was it a new job similar to the old one, or was it a new job different from the old one?" "Did the job pay more or less than the old job?"

TABLE 13. Degree of difficulty in finding a new job (percentage distribution of persons with unemployment experience within past 2 years who found a new job) [1]

Degree	Percentage
Cases	($N = 296$)
Total	100
Very difficult	23
Somewhat difficult	25
Somewhat easy	23
Very easy	23
Not ascertained	6

[1] Unemployed persons wo returned to the same job they had previously or never returned to work are excluded.
NOTE: The question asked was: "How difficult or easy was it for you to find a new job—would you say it was very difficult, somewhat difficult, somewhat easy, or very easy?"

Attitudes Toward the UC Program

Earned insurance versus welfare system

To investigate how Americans perceive the purpose of the UC program, respondents were asked whether UC

TABLE 14. Role of recommendations from other people in obtaining a new job (percentage distribution of persons with unemployment experience within past two years who found a new job) [1]

Recommended for a new job	Percentage
Cases	($N = 296$)
Total	100
Yes	41
Friend, acquaintance, or neighbor	16
Relative	5
Boss, supervisor or previous boss	5
Coworker or coworker on previous job	3
Other individuals	5
Employment agency	3
School	1
Other	3
No	54
Not ascertained	5

[1] Unemployed persons who returned to the same job they had previously or never returned to work are excluded.

NOTE: The questions asked were: "Did some one recommend you for the new job?" "Who recommended you for the job?"

TABLE 15. Respondent characterization of UC (percentage distribution of households)

Respondent characterization of UC [1]	Combined responses	Question version X	Question version Y
Cases	($N = 2,341$)	($N = 1,155$)	($N = 1,186$)
Total	100	100	100
Part of welfare system	32	31	33
Earned insurance	59	60	57
Do not know/ not ascertained	9	9	10

NOTE: In order to control for potential question wording effects, two versions of the same question were administered in random half samples. The two versions differed in the order of presentation of the alternatives. The questions were:

Question version X. "Which of these two statements do you think is a more accurate description of UC? Here's the first: 'It is a part of our welfare system that provides for the jobless.' Here's the second: 'It is earned insurance that provides for the jobless.' "

Question version Y. "Which of these two statements do you think is a more accurate description of UC? Here's the first: 'It is earned insurance that provides for the jobless.' Here's the second: 'It is a part of our welfare system that provides for the jobless.' "

could be more accurately described as "earned insurance" or as part of the "welfare system." This difference in perception is important since it not only affects their attitude toward the UC program, but also indicates the respondents' views toward their own participation in the UC program. Among all respondents, the majority (59 percent) reported that UC could be more accurately described as "earned insurance that provides for the jobless," while 32 percent felt that UC was "part of our welfare system." In order to control potential question wording effects, two versions of the same question, which differed in the order of presentation of the alternative statements, were administered in random half-samples. The question wording and results are shown in Table 15. Each questionnaire version yielded nearly identical results, indicating that no order bias was present. In subsequent analyses, the responses were pooled across the two versions.

Demographic differences.[1] This tendency for the majority to view UC as earned insurance was widespread across all major socioeconomic and demographic subgroups (Table 16). Overall, the differences among population subgroups were generally small and insignificant. Respondents younger than 25 were somewhat more likely to characterize UC as part of the welfare system, as were professional and managerial workers and college-educated respondents. Small and insignificant differences were recorded across income subgroups, and region of residential location.

Impact of unemployment experience. Greater differences in attitudes toward UC were found to be related to the unemployment experience of the household. When information on current and past unemployment experience was combined, households who had experienced unemployment and received UC most frequently viewed the program as providing earned insurance (78 percent), followed by households who have experienced unemployment but did not receive compensation (68 percent). Households who have not experienced unemployment were least likely to view it as earned insurance (56 percent). Twice as many households with no unemployment experience viewed UC as part of the welfare system (35 percent) compared with households who received compensation (17 percent) (Table 16). Those same differences in attitudes toward UC were as sharp regardless of whether current or past unemployment experience was considered. Among those who were currently unemployed and receiving compensation, 82 percent viewed the program as providing earned insurance, and 78 percent of those who were unemployed and received compensation in the past had a similar view (see Tables 17 and 18).

Impact of job-search experience. The currently unemployed who have made only minor or no job-search efforts were more likely to view UC as earned insurance (79 percent), compared with those who have made specific job-search efforts (59 percent). Interestingly, the likelihood that the currently unemployed would find a job did not relate significantly to this view (Table 17).

Among households who experienced unemployment during the past 2 years, those who reported that finding a new job was a difficult process for them more frequently viewed UC as earned insurance (78 percent) than those who felt it was easy to find new employment (65 percent).

Interestingly, those who returned to their old jobs

TABLE 16. Characterization of UC among selected demographic subgroups

Demographics	Characterization of unemployment compensation in percent			
	Part of welfare system	Earned insurance	Do not know/ not ascertained	Total
All households	32	59	9	100
Family income				
Less than $5,000	31	55	14	100
$5,000–9,999	29	59	12	100
$10,000–14,999	33	59	8	100
$15,000–19,999	30	64	6	100
$20,000–24,999	32	66	2	100
$25,000 or more	37	58	5	100
Age of respondent				
Younger than 25	40	59	3	100
25–34	35	61	4	100
35–44	32	60	8	100
45–54	31	60	9	100
55–64	29	64	7	100
65 or older	29	51	20	100
Occupation of respondent				
Professional, technical workers	40	59	1	100
Managers, officials, and proprietors (not self-employed)	38	60	2	100
Managers, officials, and proprietors (self-employed)	41	59	—	100
Clerical and sales workers	30	67	3	100
Craftsmen, foremen	29	65	6	100
Operatives	24	70	6	100
Laborers, service workers	27	60	13	100
Miscellaneous groups: students, housewives, retired persons, members of armed forces	35	54	11	100
Number of workers				
Unmarried, one-worker	29	66	5	100
Married, one-worker	37	56	6	100
Married, two-workers	35	63	2	100
No workers, retired, others	31	52	19	100
Education of respondent				
8th grade or less	32	38	30	100
Some high school	27	63	10	100
High school graduate	29	65	6	100
Some college	36	62	2	100
College graduate	41	54	5	100
Sex of respondent				
Men	34	57	9	100
Women	31	60	9	100
Race of respondent				
Caucasian	35	59	6	100
Black	23	66	11	100
Hispanic	35	37	28	100
Region				
Northeast	33	59	8	100
North Central	33	60	7	100
South	31	61	8	100
West	32	56	12	100
Current and past unemployment status				
Current or past unemployed household member who received compensation	17	78	5	100
Current or past unemployed household member who received no compensation	28	68	4	100
No current or past unemployed household member	35	56	9	100

[1] Less than 0.5 percent.

following the spell of unemployment were more likely to view compensation as earned insurance (81 percent), compared with those who found new jobs that were different from their previous jobs (69 percent). Whether their new job paid more or less than their previous job did not significantly relate to their view of compensation as earned insurance, although those who received the same or less pay on their new jobs were somewhat

TABLE 17. Respondent characterization of UC

Unemployment status	Percentage distribution of all households				
	Part of welfare system	Earned insurance	Don't know; not ascertained	Total	Number of cases
Current unemployment status					
Currently unemployed household member receiving compensation	16	82	2	100	46
Currently unemployed household member not receiving compensation	27	67	6	100	154
No currently unemployed household member	33	57	10	100	2,103
Job search effort					
Currently unemployed household member, made job search	37	59	4	100	138
Currently unemployed household member, minor or no job search	19	79	2	100	75
Prospects for finding a job					
Currently unemployed household member, very likely	26	69	5	100	85
Currently unemployed household member, somewhat likely	29	69	2	100	59
Currently unemployed household member, not very likely	30	68	2	100	60

TABLE 18. Respondent characterization of UC

	Percentage distribution of all households				
	Part of welfare system	Earned insurance	Don't know; not ascertained	Total	Number of cases
Past unemployment status					
Past unemployed household member receiving compensation	17	78	5	100	118
Past unemployed household member not receiving compensation	29	69	2	100	176
No past unemployed household member	34	58	8	100	1,974
Difficulty finding a new job					
Past unemployed household member, very or somewhat difficult	18	78	4	100	147
Past unemployed household member, easy or very easy	31	65	4	100	116
Relationship of new job to old					
Past unemployed household member, new job different	29	69	2	100	154
Past unemployed household member, new job same	20	74	6	100	87
Past unemployed household member, same job	17	81	2	100	41
Relation of new job's pay to old					
Past unemployed household member, pays more	26	70	4	100	119
Past unemployed household member, pays same	23	75	2	100	80
Past unemployed household member, pays less	21	75	4	100	80

more likely to view compensation as earned insurance (Table 18).

Multivariate analysis. Multiple classification analysis (MCA), a form of dummy variable regression, was used to estimate the separate and overall influence of several socioeconomic and demographic characteristics on attitudes toward UC. In the analysis reported in Table 19 the dependent variable was the proportion of respondents who felt UC could be more accurately characterized as earned insurance. The MCA "adjusted means" are estimates of what the mean proportion would have been if the subgroup had been exactly like the total population with respect to all other predictor variable classifications.

These estimated proportions thus represent the net impact of a given predictor on the dependent variable. The eta statistic reported for each variable is the appropriate measure for assessing the simple bivariate relationship between two variables when one of the vari-

TABLE 19. Multiple classification analysis of attitudes toward UC

	Cases	Proportion of households characterizing UC as earned insurance: Reported mean	Adjusted mean	Adjusted deviation from grand mean
All households	2,195	0.64 [1]	0.64 [1]	0.00
Family income				
Less than $5,000	135	0.63	0.63	−0.01
$5,000–9,999	329	0.66	0.63	−0.01
$10,000–14,999	270	0.62	0.62	−0.02
$15,000–19,999	352	0.67	0.65	0.01
$20,000–24,999	374	0.67	0.68	0.04
$25,000 or more	618	0.61	0.64	0.00
(eta/beta)		(0.06)	(0.05)	
(Rank)			(7)	
Age of respondent				
Younger than 25	233	0.57	0.52	−0.12
25–34	653	0.63	0.61	−0.03
35–44	437	0.65	0.63	−0.01
45–54	319	0.64	0.63	−0.01
55–64	271	0.69	0.71	0.07
65 or older	257	0.63	0.69	0.05
(eta/beta)		(0.07)	(0.12)	
(Rank)			(3)	
Occupation of respondent				
Professional, technical workers	313	0.59	0.61	−0.03
Managers, officials, and proprietors (not self-employed)	149	0.61	0.60	−0.04
Managers, officials, and proprietors (self-employed)	61	0.59	0.58	−0.06
Clerical and sales workers	363	0.67	0.62	−0.02
Craftsmen, foremen	238	0.69	0.64	0.00
Operatives	175	0.73	0.68	0.04
Laborers, service workers	154	0.69	0.64	0.00
Miscellaneous groups: students, housewives, retired persons, members of armed forces	714	0.60	0.66	0.02
(eta/beta)		(0.09)	(0.05)	
(Rank)			(6)	
Number of workers				
Unmarried, one-worker	472	0.68	0.71	0.07
Married, one-worker	648	0.59	0.58	−0.06
Married, two-workers	603	0.64	0.66	0.02
No workers, retired, others	472	0.62	0.59	0.05
(eta/beta)		(0.07)	(0.12)	
(Rank)			(2)	
Education of respondent				
8th grade or less	129	0.52	0.52	−0.12
Some high school	223	0.69	0.69	0.05
High school graduate	799	0.69	0.69	0.05
Some college	540	0.63	0.63	−0.01
College graduate	477	0.56	0.57	−0.07
(eta/beta)		(0.12)	(0.11)	
(Rank)			(4)	
Sex of respondent				
Men	1,000	0.62	0.63	−0.01
Women	1,195	0.65	0.64	0.00
(eta/beta)		(0.03)	(0.01)	
(Rank)			(9)	
Race of respondent				
Caucasian	1,899	0.63	0.63	−0.01
Black	191	0.73	0.71	0.07
Hispanic	50	0.48	0.49	−0.15
(eta/beta)		(0.09)	(0.08)	
(Rank)			(5)	
Region				
Northeast	449	0.63	0.64	0.00
North Central	606	0.65	0.64	0.00
South	446	0.66	0.65	0.01
West	690	0.62	0.63	−0.01
(eta/beta)		(0.04)	(0.03)	
(Rank)			(8)	
Unemployment incidence and compensation status				
Current or past unemployed household member who received compensation	153	0.82	0.81	0.17
Current or past unemployed household member who received no compensation	301	0.71	0.74	0.12
No current or past unemployed household member	1,671	0.61	0.60	−0.04
(eta/beta)		(0.12)	(0.14)	
(Rank)			(1)	
(Adjusted RSQD)			(0.04)	

[1] Concerning the proportion of households characterizing UC as earned insurance, the reported/adjusted mean presented for all households (64 percent) differs from the mean presented in Table 16 (59 percent) due to the exclusion of the 9 percent of households with missing data. Multiple Classification Analysis requires the deletion of all cases with missing data on the dependent variable.

ables is discrete (eta squared indicates the proportion of the total variance explainable by the classificatory variable).

The beta statistic is the appropriate measure for assessing the net relationship between two variables, with all other variables held constant. Rather than a strict comparison of the numerical magnitude of the individual beta coefficients, the rank order of the betas is most useful for indicating the relative importance of the various variables. The squared multiple correlation coefficient (RSQD) is adjusted for degrees of freedom and represents the percentage of variance explained by the predictor variables aggregate after corrections for capitalization on chance and fitting the model in a particular sample being analyzed.

The incidence of unemployment among households was the most important correlate of the view that UC was "earned insurance." After correction for the entrance of other correlated variables, among households who have had no unemployment experience, 60 percent viewed UC as earned insurance. In comparison, 81 percent viewed compensation as earned insurance among households who had experienced unemployment and received UC. Among households who experienced unemployment but did not receive compensation, 74 percent viewed UC as earned insurance.

After adjustment, few large differences in subgroup means compared with the overall average were documented. Overall, the differences were small and unsystematic, with just 4 percent of the total variance in attitudes explained by the 9 predictive variables. These results again confirm the widespread and shared nature of these beliefs toward UC across varied population subgroups. The lone exception is the experience of unemployment, which is associated with viewing UC more frequently as earned insurance rather than as part of the welfare system. This difference in attitudes was found among households who experienced unemployment whether they had received benefits or not, although the difference was larger among those who had received compensation.

Attitudes toward job requirements

Support for the view that people who received UC should be given some time to search for a suitable job was nearly unanimous (88 percent) among American households (Table 20). Despite this favorable view toward job search, the majority supported the notion of work requirements, if jobs were available. The majority of respondents felt that people who receive unemployment benefits should be required to take any fitting job (63 percent). Moreover, the notion that people should be required to take only those jobs suited to their experience and training was rejected by the majority (56 percent), although a significant minority did support this view (36 percent).

TABLE 20. Attitudes concerning UC

Should people receiving UC be	Percentage of all families ($N = 2,341$)			
	Yes	No	Don't know; not ascertained	Total
Given time to search for a suitable job?	88	7	5	100
Required to take any suitable job?	63	27	10	100
Required to take only those jobs suited to their experience and training?	36	56	8	100

NOTE: The questions asked were: "We are interested in your opinions about unemployment compensation. Do you think that people who receive unemployment compensation should be given time to search for a suitable job?" "Do you think that people who receive unemployment benefits should be required to take *any* suitable job?" "Do you think that people who receive unemployment compensation should be required to take *only* those jobs suited to their experience and training?"

Demographic differences. The favorable attitude toward allowing some time for job search was widespread across all socioeconomic and demographic subgroups. The view that those who receive UC should be required to take any fitting job found majority support in all demographic subgroups studied, and few if any systematic differences were found across these socioeconomic subgroups (Table 21). Agreement with the more limited job requirements (only required to take jobs using their experience and training) was more frequent among the skilled and semi-skilled blue-collar workers.

Whether the respondent viewed UC as earned insurance or as welfare had a substantial impact on attitudes toward job requirements. Among respondents who viewed compensation as earned insurance, 57 percent felt that people should be required to take any job, compared with 77 percent among those who viewed UC as welfare. Moreover, those who viewed compensation as earned insurance were more likely to agree that people should *only* be required to take jobs that use their experience and training (43 percent), compared with those who viewed compensation as welfare (27 percent).

Impact of unemployment experience. Households who reported no unemployment experience were the most likely to favor requiring people to take any job, and the least likely to agree that people should be required to take only jobs suited to their training and experience (Table 21). Among the unemployed who have received compensation, in contrast, 52 percent felt that people should be required to take only those jobs suited to their training and experience, compared with 35 percent among households with no unemployment expe-

TABLE 21. Attitudes toward UC among selected demographic subgroups (percentage distribution of all households)

Demographics	People receiving UC should be: Given time to search for a suitable job	Required to take any suitable job	Required to take only those jobs suited to their experience and training
All households	88	63	36
Family income			
Less than $5,000	86	61	39
$5,000–9,999	88	71	39
$10,000–14,999	88	60	33
$15,000–19,999	90	59	39
$20,000–24,999	90	62	41
$25,000 or more	89	63	31
Age of respondent			
Younger than 25	95	64	33
25–34	92	57	37
35–44	86	58	36
45–54	88	64	38
55–64	86	59	38
65 or older	84	71	35
Occupation of respondent			
Professional, technical workers	92	65	29
Managers, officials, and proprietors (not self-employed)	88	55	30
Managers, officials, and proprietors (self-employed)	91	69	43
Clerical and sales workers	91	57	39
Craftsmen, foremen	91	63	44
Operatives	87	54	51
Laborers, service workers	92	57	40
Miscellaneous groups: students, housewives, retired persons, members of armed forces	88	71	34
Number of workers			
Unmarried, one-worker	93	56	38
Married, one-worker	88	64	34
Married, two-workers	91	67	35
No workers, retired, others	81	65	36
Education of respondent			
8th grade or less	88	71	42
Some high school	89	62	43
High school graduate	89	63	42
Some college	91	61	29
College graduate	90	65	33
Sex of respondent			
Men	89	62	37
Women	87	63	36
Race of respondent			
Caucasian	90	64	35
Black	88	59	48
Hispanic	96	58	41
Region			
Northeast	89	63	30
North Central	90	60	37
South	87	59	49
West	86	66	31
Respondent characterization of UC			
Part of welfare system	85	77	27
Earned insurance	94	57	43
Current and past unemployment status			
Current or past unemployed household member, compensation received	92	50	52
Current or past unemployed household member, no compensation received	91	59	39
No current or past unemployed household member	89	66	35

TABLE 21. Attitudes toward UC among selected demographic subgroups (percentage distribution of all households) (*continued*)

rience. Greater agreement with the more limited job requirement was mainly concentrated among households with a currently unemployed member (see Tables 22 and 23).

Impact of job-search experience. Among households with a currently unemployed member, those who made minor or no job-search efforts were somewhat more likely to favor giving time for the job-search process, and somewhat less likely to agree that people receiving compensation should be required to take a job (Table 22). Among households who have experienced unemployment during the past 2 years, little difference in attitudes toward job requirements was noted between those who report it was an easy or a difficult task to find a new job. However, those who found a new job that was different from their previous work were less likely to favor requiring people receiving compensation to take only those jobs that were suited to their training and experience (Table 23).

Multivariate analysis. MCA confirms that only a few significant differences in attitudes toward job requirements exist across the several socioeconomic and demographic groupings (Tables 24–26). The most important

TABLE 22. Attitudes toward UC (percentage distribution of all households)

Characteristics of currently unemployed household member	People receiving UC should be			
	Given time to search for a suitable job	Required to take any suitable job	Required to take only those jobs suited to their training and experience	Number of cases
Current unemployment status				
Receiving compensation	90	48	64	46
Not receiving compensation	88	56	46	154
No currently unemployed household member	88	63	35	2,103
Job search effort				
Made job search	88	61	49	138
Minor or no job search	96	51	43	75
Prospects for finding a job	94	55	47	85
Very likely				
Somewhat likely	95	59	39	59
Not very likely	90	59	56	60

NOTE: Respondents were asked all three questions.

TABLE 23. Attitudes toward UC (percentage distribution of all households)

Past unemployed household member	People receiving UC should be			
	Given time to search for a suitable job	Required to take any suitable job	Required to take only those jobs suited to their training and experience	Number of cases
Past unemployment status				
Receiving compensation	92	50	47	118
Not receiving compensation	96	63	38	176
No past unemployed household member	89	65	36	1,974
Difficulty finding a new job				
Very or somewhat difficult	97	52	39	147
Easy or very easy	95	57	37	116
Relationship of new job to old				
New job different	94	60	33	154
New job same	94	55	57	87
Same job	99	57	52	41
Relationship of new job's pay to old				
Pays more	92	61	38	119
Pays same	98	56	52	80
Pays less	96	56	35	80

NOTE: Respondents were asked all three questions.

TABLE 24. Proportion of households who feel people receiving UC should be given time to search for a suitable job

Demographics	Cases	Reported mean	Adjusted mean	Adjusted deviation from grand mean
All households	2,236	0.93	0.93	0.00
Family income				
Less than $5,000	148	0.92	0.93	0.00
$5,000–9,999	344	0.93	0.92	−0.01

TABLE 24. Proportion of households who feel people receiving UC should be given time to search for a suitable job (*continued*)

Demographics	Cases	Reported mean	Adjusted mean	Adjusted deviation from grand mean
$10,000–14,999	276	0.93	0.92	−0.01
$15,000–19,999	356	0.94	0.93	0.00
$20,000–24,999	375	0.92	0.92	−0.01
$25,000 or more	616	0.93	0.93	0.00
(eta/beta)		(0.03)	(0.05)	
(Rank)			(7)	
Age of respondent				
Younger than 25	235	0.95	0.95	0.02
25–34	661	0.94	0.94	0.01
35–44	432	0.92	0.92	−0.01
45–54	325	0.92	0.92	−0.01
55–64	278	0.93	0.93	0.00
65 or older	280	0.91	0.93	0.00
(eta/beta)		(0.06)	(0.05)	
(Rank)			(8)	
Occupation of respondent				
Professional, technical workers	309	0.95	0.93	0.00
Managers, officials, and proprietors (not self-employed)	145	0.93	0.92	−0.01
Managers, officials, and proprietors (self-employed)	62	0.91	0.89	−0.04
Clerical and sales workers	359	0.94	0.92	−0.01
Craftsmen, foremen	242	0.95	0.93	0.00
Operatives	179	0.91	0.88	−0.05
Laborers, service workers	166	0.94	0.92	−0.01
Miscellaneous groups: students, housewives, retired persons, members of armed forces	752	0.92	0.95	0.02
(eta/beta)		(0.05)	(0.08)	
(Rank)			(4)	
Number of workers				
Unmarried, one-worker	476	0.97	0.97	0.04
Married, one-worker	653	0.91	0.91	−0.02
Married, two-workers	605	0.93	0.93	0.00
No workers, retired, others	502	0.91	0.90	−0.03
(eta/beta)		(0.10)	(0.11)	
(Rank)			(2)	
Education of respondent				
8th grade or less	158	0.91	0.93	0.00
Some high school	233	0.95	0.96	0.03
High school graduate	812	0.92	0.92	−0.01
Some college	541	0.94	0.94	0.01
College graduate	470	0.93	0.92	0.01
(eta/beta)		(0.09)	(0.08)	
(Rank)			(3)	
Sex of respondent				
Men	1,018	0.93	0.94	0.01
Women	1,218	0.92	0.92	−0.01
(eta/beta)		(0.02)	(0.03)	
(Rank)			(10)	
Race of respondent				
Caucasian	1,915	0.93	0.93	0.00
Black	196	0.93	0.93	0.00
Hispanic	62	1.00	1.01	0.08
(eta/beta)		(.08)	(0.07)	
(Rank)			(5)	
Region				
Northeast	452	0.93	0.92	−0.01
North Central	616	0.95	0.95	0.02
South	453	0.92	0.92	0.01
West	711	0.92	0.92	0.01
(eta/beta)		(0.05)	(0.06)	
(Rank)			(6)	
Respondent characterization of UC				
Part of welfare system	772	0.87	0.87	−0.06

TABLE 24. Proportion of households who feel people receiving UC should be given time to search for a suitable job (*continued*)

Demographics	Cases	Reported mean	Adjusted mean	Adjusted deviation from grand mean
Earned insurance	1,364	0.96	0.96	0.03
(eta/beta)		(0.16)	(0.17)	
(Rank)			(1)	
Unemployment incidence and compensation status				
Current or past unemployed household member who received compensation	158	0.93	0.93	0.00
Current or past unemployed household member who received no compensation	307	0.94	0.92	−0.01
No current or past unemployed household member	1,703	0.93	0.94	0.01
(eta/beta)		(0.03)	(0.03)	
(Rank)			(9)	
(Adjusted RSQD)			(0.04)	

NOTE: Concerning the proportion of households who feel people receiving UC should be given time to search for a suitable job, the reported adjusted mean presented above for all households (93 percent) differs from the mean presented in Table 20 (88 percent) due to the exclusion of the 5 percent of households with missing data. Multiple Classification Analysis requires the deletion of all cases with missing data on the dependent variable.

TABLE 25. Proportion of households who feel people receiving UC should be required to take any suitable job

Demographics	Cases	Reported mean	Adjusted mean	Adjusted deviation from grand mean
All households	2,268	0.65[1]	0.65[1]	0.00
Family income				
Less than $5,000	152	0.63	0.60	−0.05
$5,000–9,999	348	0.74	0.74	0.09
$10,000–14,999	279	0.62	0.65	0.00
$15,000–19,999	356	0.62	0.66	0.01
$20,000–24,999	378	0.62	0.63	−0.02
$25,000 or more	627	0.65	0.64	−0.01
(eta/beta)		(0.08)	(0.10)	
(Rank)			(4)	
Age of respondent				
Younger than 25	235	0.64	0.63	−0.02
25–34	666	0.58	0.59	−0.06
35–44	442	0.62	0.62	−0.03
45–54	328	0.66	0.68	0.03
55–64	282	0.62	0.62	−0.03
65 or older	289	0.75	0.72	0.07
(eta/beta)		(0.14)	(0.11)	
(Rank)			(3)	
Occupation of respondent				
Professional, technical workers	314	0.65	0.64	−0.01
Managers, officials, and proprietors (self-employed)	150	0.56	0.56	−0.09
Managers, officials, and proprietors (self-employed)	60	0.71	0.68	0.03
Clerical and sales workers	365	0.57	0.59	−0.06
Craftsmen, foremen	243	0.64	0.65	0.00
Operatives	183	0.55	0.58	−0.07
Laborers, service workers	166	0.58	0.59	−0.06
Miscellaneous groups: students, housewives, retired persons, members of armed forces	764	0.73	0.72	0.07
(eta/beta)		(0.15)	(0.13)	
(Rank)			(2)	
Number of workers				
Unmarried, one-worker	484	0.56	0.62	−0.03
Married, one-worker	662	0.66	0.66	0.01
Married, two-workers	609	0.67	0.73	0.08
No workers, retired, others	513	0.71	0.63	−0.02
(eta/beta)		(0.13)	(0.09)	
(Rank)			(6)	

TABLE 25. Proportion of households who feel people receiving UC should be required to take any suitable job (*continued*)

Demographics	Cases	Reported mean	Adjusted mean	Adjusted deviation from grand mean
Education of respondent				
8th grade or less	161	0.72	0.68	0.03
Some high school	238	0.63	0.62	−0.01
High school graduate	821	0.64	0.64	0.01
Some college	545	0.62	0.63	0.00
College graduate	480	0.66	0.67	0.02
(eta/beta)		(0.09)	(0.07)	
(Rank)			(5)	
Sex of respondent				
Men	1,034	0.64	0.65	0.00
Women	1,234	0.65	0.65	0.00
(eta/beta)		(0.01)	(0.01)	
(Rank)			(10)	
Race of respondent				
Caucasian				
Black	1,944	0.65	0.65	0.00
Hispanic	196	0.61	0.65	0.00
(eta/beta)	63	0.60	0.59	−0.06
(Rank)		(0.05)	(0.03)	
Region			(9)	
Northeast	459	0.56	0.62	−0.03
North Central	628	0.66	0.66	0.01
South	459	0.67	0.73	0.08
West	718	0.71	0.61	−0.04
(eta/beta)		(0.07)	(0.07)	
(Rank)			(7)	
Respondent characterization of UC				
Part of welfare system	786	0.77	0.77	0.12
Earned insurance	1,383	0.58	0.58	−0.07
(eta/beta)		(0.19)	(0.19)	
(Rank)			(1)	
Unemployment incidence and compensation status				
Current or past unemployed household member who received compensation	158	0.51	0.58	−0.07
Current or past unemployed household member who received no compensation	309	0.60	0.63	−0.02
No current or past unemployed household member	1,733	0.67	0.67	0.02
(eta/beta)		(0.11)	(0.07)	
(Rank)			(8)	
(Adjusted RSQD)			(0.08)	

[1] Concerning the proportion of households who feel people receiving UC should be required to take any suitable job, the reported/adjusted mean presented above for all households (65 percent) differs from the mean presented in Table 20 (63 percent) due to the exclusion of the 10 percent of households with missing data. Multiple Classification Analysis requires the deletion of all cases with missing data on the dependent variable.

predictor of attitudes toward job requirements was the respondent's overall view toward UC as either earned insurance or as part of the welfare system. Interestingly, differences in unemployment incidence and compensation status, the most important predictor of attitudes toward the UC program, had an insignificant effect on these views. Respondents who characterized UC as earned insurance were somewhat more likely to believe that people receiving UC should be given time to search for a suitable job, less likely to agree that people should be required to take any suitable job, and more likely to believe that people should be required to take only those jobs suited to their training and experience. Of the many socioeconomic and demographic subgroups identified in this analysis, no subgroup's adjusted mean was more than plus or minus 12 percent from the grand mean. Overall, these multiple regressions explain relatively small portions of cross-section variance.

Preferred duration of unemployment benefits

When asked how long an unemployed person who is seeking work should receive compensation, more than one-half of all respondents felt the limit should be 26 weeks or less, with one-third of all respondents stating a limit of 16 weeks or less. In contrast, just 16 percent of all respondents felt unemployment benefits should last more than 26 weeks, with an additional 11 percent of all respondents favoring no limit at all in the duration of benefits. If the no limit category is excluded

TABLE 26. Proportion of households who feel people receiving UC should be required to take only those jobs suited to their training and experience

Demographics	Cases	Reported mean	Adjusted mean	Adjusted deviation from grand mean
All households	2,204	0.39 [1]	0.39 [1]	0.00
Family income				
Less than $5,000	138	0.46	0.41	0.02
$5,000–9,999	330	0.42	0.39	0.00
$10,000–14,999	277	0.34	0.37	−0.02
$15,000–19,999	354	0.41	0.40	0.01
$20,000–24,999	372	0.42	0.42	−0.03
$25,000 or more	613	0.33	0.36	−0.03
(eta/beta)		(0.10)	(0.04)	
(Rank)			(7)	
Age of respondent				
Younger than 25	231	0.34	0.38	−0.01
25–34	650	0.38	0.40	0.01
35–44	433	0.39	0.41	0.02
45–54	320	0.41	0.39	0.00
55–64	279	0.40	0.39	0.00
65 or older	265	0.41	0.38	−0.01
(eta/beta)		(0.06)	(0.02)	
(Rank)			(9)	
Occupation of respondent				
Professional, technical workers	307	0.30	0.35	−0.04
Managers, officials, and proprietors (not self-employed)	144	0.31	0.35	−0.04
Managers, officials, and proprietors (self-employed)	59	0.44	0.50	0.11
Clerical and sales workers	361	0.40	0.43	0.04
Craftsmen, foremen	240	0.46	0.49	0.10
Operatives	180	0.52	0.49	0.10
Laborers, service workers	162	0.43	0.42	0.03
Miscellaneous groups: students, housewives, retired persons, members of armed forces	730	0.37	0.34	−0.05
(eta/beta)		(.12)	(0.12)	
(Rank)			(4)	
Number of workers				
Unmarried, one-worker	465	0.40	0.37	−0.02
Married, one-worker	655	0.36	0.35	0—.04
Married, two-workers	603	0.36	0.33	−0.06
No workers, retired, others	481	0.42	0.46	0.07
(eta/beta)		(0.06)	(0.10)	
(Rank)			(5)	
Education of respondent				
8th grade or less	147	0.51	0.49	0.10
Some high school	230	0.46	0.42	0.03
High school graduate	802	0.43	0.42	0.03
Some college	533	0.30	0.31	−0.08
College graduate	470	0.34	0.39	0.00
(eta/beta)		(0.15)	(0.12)	
(Rank)			(3)	
Sex of respondent				
Men	1,011	0.39	0.38	−0.01
Women	1,193	0.39	0.40	0.02
(eta/beta)		(0.003)	(0.02)	
(Rank)			(10)	
Race of respondent				
Caucasian	1,894	0.37	0.37	−0.02
Black	190	0.53	0.49	0.10
Hispanic	61	0.43	0.46	0.07
(eta/beta)		(0.09)	(0.08)	
(Rank)			(6)	
Region				
Northeast	446	0.32	0.32	−0.07
North Central	601	0.39	0.40	0.01
South	458	0.51	0.50	0.11
West	695	0.35	0.35	−0.04
(eta/beta)		(0.14)	(0.13)	
(Rank)			(2)	

TABLE 26. Proportion of households who feel people receiving UC should be required to take only those jobs suited to their training and experience (*continued*)

Demographics	Cases	Reported mean	Adjusted mean	Adjusted deviation from grand mean
Respondent characterization of UC				
Part of welfare system	769	0.28	0.30	−0.09
Earned insurance	1,350	0.45	0.44	0.05
(eta/beta)		(0.16)	(0.14)	
(Rank)			(1)	
Unemployment incidence and compensation status				
Current or past unemployed household member who received compensation	157	0.52	0.45	0.06
Current or past unemployed household member who received no compensation	304	0.41	0.39	0.00
No current or past unemployed household member	1,679	0.38	0.39	0.00
(eta/beta)		(0.07)	(0.03)	
(Rank)			(8)	
(Adjusted RSQD)			(0.07)	

[1] Concerning the proportion of households who feel people receiving UC should be required to take only those jobs suited to their training and experience, the reported adjusted mean presented above for all households (39 percent) differs from the mean presented in Table 20 (36 percent) due to the exclusion of the 8 percent of households with missing data. Multiple Classification Analysis requires the deletion of all cases with missing data on the dependent variable.

from calculations, the mean preferred length of benefits was 23 weeks and the median was 20 weeks. If calculations included the no-limit category with an assigned value of 90 weeks (which represents 5 standard deviations from the mean preferred length), the mean increased to 31 weeks and the median to 26 weeks (Table 27).

TABLE 27. Preferred duration of unemployment benefits [1]

Preferred length of benefits (weeks)	Percentage of all households ($N = 2,341$)
Total	100
Zero	1
1–8	17
9–16	18
17–20	7
21–26	19
27–39	5
40–52	10
53–89	1
No limit	11
Not ascertained	11
Median length range: 20 [2] to 26 [3] weeks	
Average length range: 23 [2] to 31 [3] weeks	

[1] The question asked was: "If a worker is unemployed and seeking work, how many weeks do you think he or she should receive unemployment benefits—8 weeks, 16 weeks, 20 weeks, 39 weeks, 52 weeks, or should there be no limitation on the length of time a person should be allowed to receive unemployment benefits?"

[2] "No limitation on length of time" category deleted from calculation of median or average length of benefits.

[3] "No limitation on length of time" category assigned the value of 90 weeks in calculation of median or average length of benefits. This represents five standard deviations from the average length.

NOTE: A "zero" response indicates respondent felt no benefits should be granted.

Demographic differences. The distribution of preferred benefit length as well as the mean and median responses are shown by demographic subgroups in Tables 28 and 29. Small and insignificant differences were documented across income subgroups. As the age of the respondent increased, the preferred length of benefits also increased by a small margin (Table 29). The education variable documented the largest difference among demographic subgroups in preferred benefit length: 25 percent of those with 8 grades or less of education preferred that no limit be placed on the duration of benefits, compared with just 5 percent who favored no limits among college graduates (Table 28). As might be expected, respondents who viewed UC as part of the welfare system favored somewhat shorter benefit periods than those who viewed compensation as earned insurance.

Impact of unemployment experience. Households who have experienced unemployment and received compensation were somewhat more likely to favor longer benefit periods, but the margin of difference was small (Table 29). Respondents' views on the preferred length of the benefit period were significantly affected by whether a household member was currently unemployed or had been unemployed. Among households with currently unemployed members receiving compensation, the median preferred length of benefits was 52 weeks (including the no-limit category), more than twice the median length of 24 weeks recorded among households with no member currently unemployed (Table 30). In contrast, regardless of whether households had experienced unemployment in the past and received compensation, or whether they had never experienced un-

TABLE 28. Preferred duration of unemployment benefits among selected demographic subgroups (percentage distribution of households)

Demographics	Distribution of preferred length of benefits (weeks)						
	Zero	1–16	17–26	27–89	No limit	Don't know/ not ascer-tained	Total
All households	1	35	26	16	11	11	100
Family income							
Less than $5,000	[1]	28	17	21	14	20	100
$5,000–9,999	[1]	36	25	13	13	13	100
$10,000–14,999	2	40	27	19	7	5	100
$15,000–19,999	[1]	34	28	16	13	9	100
$20,000–24,999	[1]	34	34	15	11	6	100
$25,000 or more	1	40	30	16	7	5	100
Age of respondent							
Younger than 25	2	44	23	19	10	2	100
25–34	1	41	25	21	9	3	100
35–44	[1]	32	30	19	9	10	100
45–54	[1]	34	25	16	15	10	100
55–64	[1]	31	31	15	13	10	100
65 or older	1	30	22	12	12	23	100
Occupation of respondent							
Professional, technical workers	[1]	37	34	19	4	6	100
Managers, officials, and proprietors (not self-employed)	[1]	35	26	20	12	7	100
Managers, officials, and proprietors (self-employed)	[1]	55	14	6	14	11	100
Clerical and sales workers	2	40	30	15	7	6	100
Craftsmen, foremen	[1]	36	28	17	11	8	100
Operatives	[1]	21	27	27	19	6	100
Laborers, service workers	[1]	41	17	16	19	7	100
Miscellaneous groups: students, housewives, retired persons, members of armed forces	1	34	26	16	11	12	100
Number of workers							
Unmarried, one worker	1	38	26	18	11	6	100
Married, one-worker	1	39	24	17	8	11	100
Married, two-workers	1	38	31	17	9	4	100
No workers, retired, others	1	29	24	15	12	19	100
Education of respondent							
8th grade or less	1	26	14	12	25	22	100
Some high school	[1]	25	21	19	21	14	100
High school graduate	[1]	38	27	17	11	7	100
Some college	1	43	29	16	6	5	100
College graduate	2	34	33	19	5	7	100
Sex of respondent							
Men	1	34	28	18	10	9	100
Women	[1]	36	25	15	11	13	100
Race of respondent							
Caucasian	1	37	28	16	10	8	100
Black	[1]	24	12	25	22	17	100
Hispanic	[1]	50	21	9	8	11	100
Region							
Northeast	1	47	23	13	8	8	100
North Central	1	32	26	20	11	10	100
South	1	21	33	24	12	9	100
West	[1]	39	23	10	12	16	100
Respondent characterization of UC							
Part of welfare system	1	45	24	13	10	7	100
Earned insurance	[1]	32	30	20	11	7	100
UC status							
Currently or past unemployed household member, received assistance	[1]	25	34	25	13	3	100
Currently or past unemployed household member, received no assistance	1	41	28	18	7	5	100
No currently or past unemployed household member	1	36	26	16	11	10	100

[1] Less than .05 percent.

TABLE 29. Median and average preferred duration of unemployment benefits among selected demographic subgroups (percentage distribution of households)

Demographics	Preferred length of benefits (weeks)					
	Median length range			Average length range		
All households	20[1]	to	26[2]	23[1]	to	31[2]
Family income						
Less than $5,000	20		26	27		38
$5,000–9,999	18		26	22		32
$10,000–14,999	20		20	23		28
$15,000–19,999	20		26	24		34
20,000–24,999	20		26	23		31
$25,000 or more	20		23	23		27
Age of respondent						
Younger than 25	16		20	23		29
25–34	20		20	23		29
35–44	22		26	25		31
45–54	20		26	24		35
55–64	24		26	24		33
65 or older	20		26	22		32
Occupation of respondent						
Professional, technical workers	20		24	25		28
Managers, officials, and proprietors (not self-employed)	20		26	25		33
Managers, officials, and proprietors (self-employed)	16		16	16		28
Clerical and sales workers	20		20	22		27
Craftsmen, foremen	20		23	24		32
Operatives	26		26	29		41
Laborers, service workers	16		21	22		36
Miscellaneous groups: students, housewives, retired persons, members of armed forces	20		26	23		32
Number of workers						
Unmarried, one-worker	20	to	25	23	to	31
Married, one-worker	20		24	23		29
Married, two-workers	20		21	23		30
No workers, retired, others	20		26	23		34
Education of respondent						
8th grade or less	16		26	21		43
Some high school	26		26	26		41
High school graduate	20		22	24		31
Some college	18		20	22		27
College graduate	20		26	24		28
Sex of respondent						
Men	20		26	24		31
Women	20		24	23		31
Race of respondent						
Caucasian	20		24	23		31
Black	26		39	29		45
Hispanic	16		16	19		26
Region						
Northeast	16		16	20		26
North Central	20		26	25		33
South	26		26	28		36
West	16		20	21		30
Characterization of UC						
Part of welfare system	16		18	21		28
Earned insurance	26		26	25		33
UC status						
Currently or past unemployed household member, assistance	26		26	28		36
Currently or past unemployed household member, no assistance	18		20	23		28
No currently or past unemployed household member	20[1]		24[2]	23[1]		31[2]

[1] "No limit" deleted from calculation.
[2] "No limit" assigned the value of 90 weeks in calculation. Ninety weeks represents five standard deviations from mean length of benefits.

TABLE 30. Median and average preferred duration of unemployment benefits according to households with currently unemployed members

	Median length (weeks)		Average length (weeks)		Number of cases
Current unemployment status					
Receiving compensation	39 [1]	to 52 [2]	37 [1]	to 49 [2]	46
Not receiving compensation	20	26	26	33	154
No currently unemployed household member	20	24	23	31	2,103
Job search effort					
Made job search	25	26	26	37	138
Minor or no job search	26	26	28	36	75
Prospects for finding a job					
Very likely	20	26	26	33	85
Somewhat likely	26	26	29	40	59
Not very likely	26	26	29	39	60

[1] "No limit" deleted from calculation.
[2] "No limit" assigned the value of 90 weeks in calculation; 90 weeks represents five standard deviations from mean length of benefits.

TABLE 31. Median and average preferred duration of unemployment benefits according to households with past unemployed members

	Median length (weeks)		Average length (weeks)		Number of cases
Past unemployment status					
Received compensation	26	to 26	26	to 33	118
Did not receive compensation	16	16	20	24	176
No past unemployed household member	20	26	23	32	1,974
Difficulty finding a new job					
Very or somewhat difficult	26	26	26	32	147
Easy or very easy	16	16	18	22	116
Relationship of new job to old					
New job different	16	20	21	25	154
New job same	20	26	21	29	87
Same job	22	26	27	36	41
Respondent characterization of UC					
Pays more	20	20	22	25	119
Pays same	20	26	23	33	80
Pays less	20	21	21	28	80

employment during the past 2 years, the preferred median length of benefits was 26 weeks (Table 31). Interestingly, households who have experienced unemployment in the past but did not receive compensation generally favored the shortest benefit periods.

Impact of job-search experience. Among households with currently unemployed members, whether job-search efforts were made or not had no impact on the preferred length of benefits (Table 30). Similarly, differences in prospects for finding a new job did not relate significantly to the preferred benefit period, although those who felt the prospects were very good for finding a new job gave somewhat lower *average* preferred benefit lengths (Table 30). Among households with members currently unemployed who receive compensation, twice as many favored no limit in benefits (21 percent) as among households with no currently unemployed member (10 percent), or among households with some member currently unemployed but not receiving compensation (10 percent) (Table 32).

Among households who have experienced unemployment during the past 2 years, those who reported finding a new job was difficult were twice as likely to prefer no limit in benefits as those who reported that they easily found new work (10 versus 5 percent). Similarly, among those who found new work easily, 58 percent preferred a benefit length of 16 weeks or less, compared with 24 percent among those who found it difficult to find a new job. No limit on the length of the benefit period was also more frequently favored by those who found a new job that was similar to their old

TABLE 32. Preferred duration of unemployment benefits according to households with currently unemployed members

	Zero	1–16	17–26	27–89	No limit	Do not know/ not ascer-tained	Total	Number of cases
Current unemployment status								
Receiving compensation	—[1]	10	21	40	21	8	100	46
Not receiving compensation	1	33	24	23	10	9	100	154
No currently unemployed household member	1	36	26	15	10	12	100	2,103
Job search effort								
Made job search	—[1]	34	21	22	16	7	100	138
Minor or no job search	1	21	32	31	11	4	100	75
Prospects for finding a job								
Very likely	1	31	25	24	11	8	100	85
Somewhat likely	—[1]	27	24	28	19	2	100	59
Not very likely	—[1]	23	27	28	16	6	100	60

[1] Less than 0.5 percent.

TABLE 33. Preferred duration of unemployment benefits according to households with past unemployed members

	Zero	1–16	17–26	27–89	No limit	Do not know/ not ascer-tained	Total	Number of cases
UC status								
Receiving assistance	—[1]	29	38	20	12	1	100	118
Not receiving assistance	1	49	30	12	5	3	100	176
No past unemployed household member	1	35	25	17	12	10	100	1,974
Difficulty finding a new job								
Very or somewhat difficult	1	24	41	20	10	4	100	147
Easy or very easy	—[1]	58	28	9	5	—[1]	100	116
Relationship of new job to old								
New job different	—[1]	46	34	12	6	2	100	154
New job same	1	41	32	14	11	1	100	87
Same job	—[1]	34	25	27	14	—[1]	100	41
Relationship of new job's pay to old								
Pays more	—[1]	42	38	13	4	3	100	119
Pays same	1	39	25	20	15	—[1]	100	80
Pays less	—[1]	42	33	13	11	1	100	80

[1] Less than 0.5 percent.

job or returned to their previous job as well as among those whose new job paid the same or less than their previous job (Table 33).

Multivariate analysis. MCA indicates that small and insignificant differences exist across most socioeconomic and demographic subgroups (Table 34). The most important predictor of preferred duration of unemployment benefits is the education variable. After adjusting for the influence of other correlated variables, among households in which the respondent completed only 8 grades or less, the average preferred benefit length is 40 weeks. In comparison, households with respondents who are college graduates felt that unemployment benefits should be granted for only 29 weeks on average. The race variable documented the largest difference among demographic subgroups in preferred benefit length. Black households preferred a benefit length of 43 weeks, compared with 30 weeks for Caucasian households. Households who have experienced unemployment and received compensation favored longer benefit periods, but the difference was small. Among households who have experienced unemployment and received benefits the average preferred length of benefits was 35 weeks, compared with 32 weeks for households with no unemployment experience. Households who have experienced unemployment but did not receive UC preferred the shortest benefit length (27 weeks).

TABLE 34. Multiple classification analysis of attitudes toward preferred duration of unemployment benefits [1]

	Cases	Reported mean	Adjusted mean	Adjusted deviation from grand mean
All households	2,131	31	31	0
Family income				
Less than $5,000	130	38	35	4
$5,000–9,999	321	32	30	−1
$10,000–14,999	268	28	29	−2
$15,000–19,999	339	34	33	2
$20,000–24,999	363	31	32	1
$25,000 or more	603	27	29	−2
(eta/beta)		(0.13)	(0.08)	
(Rank)			(7)	
Age of respondent				
Younger than 25	229	29	31	0
25–34	642	29	31	0
35–44	427	32	33	2
45–54	305	35	34	3
55–64	261	33	32	1
65 or older	243	32	28	−3
(eta/beta)		(0.09)	(0.09)	
(Rank)			(6)	
Occupation of respondent				
Professional, technical workers	302	28	31	0
Managers, officials, and proprietors (not self-employed)	145	33	35	4
Managers, officials, and proprietors (self-employed)	58	28	30	−1
Clerical and sales workers	345	27	28	−3
Craftsmen, foremen	231	32	32	1
Operatives	171	41	37	6
Labor, service workers	160	36	32	1
Miscellaneous groups: students, housewives, retired persons, members of armed forces	697	32	31	0
(eta/beta)		(0.15)	(0.09)	
(Rank)			(5)	
Number of workers				
Unmarried, one-worker	456	32	32	1
Married, one-worker	621	30	29	−2
Married, two-workers	594	29	30	−1
No workers, retired, others	460	34	34	3
(eta/beta)		(0.06)	(0.07)	
(Rank)			(9)	
Education of respondent				
8th grade or less	137	43	40	9
Some high school	216	41	38	7
High school graduate	784	31	31	0
Some college	516	27	28	−3
College graduate	457	28	29	−2
(eta/beta)		(0.22)	(0.16)	
(Rank)			(1)	
Sex of respondent				
Men	985	31	31	0
Women	1,146	32	32	1
(eta/beta)		(0.01)	(0.01)	
(Rank)			(10)	
Race of respondent				
Caucasian	1,831	30	30	−1
Black	182	45	43	12
Hispanic	58	26	26	−5
(eta/beta)		(0.17)	(0.15)	
(Rank)			(2)	
Region				
Northeast	438	26	28	−3
North Central	583	33	34	3
South	439	36	35	4
West	667	30	30	−1
(eta/beta)		(0.13)	(0.11)	
(Rank)			(3)	

TABLE 34. Multiple classification analysis of attitudes toward preferred duration of unemployment benefits [1] (*continued*)

	Cases	Reported mean	Adjusted mean	Adjusted deviation from grand mean
Respondent characterization				
Part of welfare system	745	28	29	−2
Earned insurance	1,316	33	32	1
(eta/beta)		(0.10)	(0.09).	
(Rank)			(8)	
Unemployment incidence and compensation status				
Current or past unemployment household member who received compensation	152	37	35	4
Current or past unemployed household member who received no compensation	294	28	27	−4
No current or past unemployed household member	1,619	31	32	1
(eta/beta)		(0.10)	(0.10)	
(Rank)			(4)	
(Adjusted RSQD)			(0.10)	

[1] "No limit" assigned the value of 90 weeks in calculation. Ninety weeks represents five standard deviations from the mean benefit length.

Reservation Wage of the Currently Unemployed

Abstracting from personal illness, strikes, and normal layoffs during seasons of the year, unemployment occurs either because of the refusal to accept employment at wages below one's subjective valuation of one's labor services or it occurs because there is not sufficient or suitable work available. To ascertain what is the minimum wage the currently unemployed would accept, and the wage of any suitable jobs they would not accept, and, more importantly, in order to assess whether their unemployment spells are more the result of voluntary labor supply decisions or whether they are primarily due to labor demand conditions, currently unemployed respondents were asked what is the lowest wage they would be willing to accept, whether there were any suitable jobs available that they did not want, and if so, about what did those jobs pay. Tables 35 to 37 present for all currently unemployed persons univariate distributions for the reservation wage, the wage of suitable jobs not accepted, and the difference between the reservation wage and the wage of any suitable job not accepted. These tables document that a high reservation wage is not the primary cause of prolonged unemployment. Rather, the data suggest that unemployment spells persist because there are no suitable jobs available that the currently unemployed would accept: 27 percent of the currently unemployed mentioned a reservation wage less than or equal to the minimum wage ($3.10 per hour). The majority of the currently unemployed (54 percent) had a reservation wage of less than 5 dollars per hour. Only 10 percent of the currently unemployed cited a reservation wage in excess of $6.99 per hour (Table 35). The difference between the minimum wage the currently unemployed would accept and the wage of any suitable job not accepted was low (Table 37). The median (average) difference between their reservation wage and the wage of any suitable job not taken was 50 cents per hour (90 cents per hour). Of much greater significance is that fully 70 percent of the currently unemployed said that no suitable jobs were available (Table 37).

Multivariate analysis. MCA was performed to ascertain socioeconomic and demographic determinants of the minimum wage the currently unemployed would find acceptable. Table 38 gives the reservation-wage MCA results for currently unemployed household heads and spouses. The most important predictors of the reservation wage are the education, income, sex, region, and number of workers variables. Small and insignificant

TABLE 35. Reservation wage distribution of currently unemployed persons (cases = 243)

Reservation wage distribution (dollars per hour)	Percentage
Total	100
1.00 to 2.90	10
2.91 to 3.10	17
3.11 to 3.99	17
4.00 to 4.99	10
5.00 to 5.99	8
6.00 to 6.99	6
7.00 to 7.99	5
8.00 or more	5
Not ascertained; do not know	22
Median reservation wage	$3.50/hour
Average reservation wage	$4.50/hour

NOTE: The question asked was "If you could find regular employment, what is the lowest wage you would be willing to accept?"

TABLE 36. Distribution of wage rates of suitable jobs not accepted [1] (percentage distribution of currently unemployed persons) (cases = 243)

Wage distribution (dollars per hour)	Percentage
Total	100
3.10 or less	12
3.11 to 3.99	3
4.00 to 4.99	3
5.00 or more	5
Do not know; not ascertained	7
No suitable jobs available that currently unemployed person does not want	70
Median wage of suitable jobs not accepted	$3.10/hour
Average wage of suitable jobs not accepted	$4.00/hour

[1] The questions asked were: "Are there any suitable jobs available that the currently unemployed person doesn't want?" "About what do you think those jobs pay?"

TABLE 37. Distribution of difference between reservation wage and wage of any suitable job the currently unemployed would not accept (cases = 243)

Distribution of difference (dollars per hour)	Percentage
Total	100
−1.00 to 0.00	9
0.01 to 0.99	6
1.00 to 1.99	3
2.00 to 2.99	1
3.00 to 3.99	1
4.00 to 4.99	3
5.00 or more	1
Do not know; not ascertained	7
No suitable jobs available that currently unemployed person does not want	70
Median difference between reservation wage and wage of any suitable jobs not accepted	$0.50/hour
Average difference between reservation wage and wage of any suitable jobs not accepted	$0.90/hour

[1] Less than 0.5 percent.

differences are recorded across age and race subgroups. Interestingly, differences in the incidence of UC status and the respondents' characterization of UC are insignificant determinants of the reservation wage. Currently unemployed household heads or spouses who graduated from college cite an average reservation wage equal to $6.60 per hour. In comparison, currently unemployed heads or spouses with educational levels ranging between eight grades or less and some college have a reservation wage between $4.00 and $5.00 per hour (Table 38).

Among currently unemployed family heads or spouses with family incomes of $20,000 or more, the mean reservation wage is $6.90 per hour compared with $4.40 per hour for currently unemployed household heads or their spouses earning less than $10,000. Currently unemployed male respondents or their spouses express an average reservation wage equal to $5.80 per hour, compared with $4.05 per hour for unemployed female respondents or their spouses. Currently unemployed family heads or spouses located in the Northeast cite an average reservation wage equal to $6.00 per hour. This reservation wage is between $1.40 and $1.70 per hour greater than that given by similarly defined currently unemployed household heads or spouses located in other regions of the United States. As expected, currently unemployed household heads or spouses from two-worker families cite an average reservation wage larger than the currently unemployed from one-worker families, although the difference is small ($5.00 versus $4.00 per hour).

Sample design

Interviewing was conducted between November 26, 1979, and February 28, 1980, and 2,341 interviews were obtained in the 3 monthly Surveys of Consumer Attitudes conducted. The sample is representative of all American households in the coterminous United States (48 States and the District of Columbia). The interviews are weighted to adjust for differences in telephone

TABLE 38. Multiple classification analysis of reservation wage of currently unemployed respondents and their spouses (dollars per hour)

Demographics	Cases	Reported mean	Adjusted mean	Adjusted deviation from grand mean
All currently unemployed respondents and their spouses	149	$4.82	$4.82	$0.00
Family income				
Less than $10,000	60	4.47	4.37	−0.45
$10,000–19,999	50	4.34	4.53	−0.29
$20,000 or more	34	6.97	6.90	2.08
(eta/beta)		(0.28)	(0.27)	
(Rank)			(2)	
Age of respondent				
Younger than 25	30	4.61	4.51	−0.31

TABLE 38. Multiple classification analysis of reservation wage of currently unemployed respondents and their spouses (dollars per hour) (*continued*)

Demographics	Cases	Reported mean	Adjusted mean	Adjusted deviation from grand mean
25–34	66	5.26	5.21	0.39
35–54	40	4.84	4.57	−0.25
55 or older	11	4.10	4.56	−0.26
(eta/beta)		(0.12)	(0.11)	
(Rank)			(9)	
Occupation of respondent				
Professional, technical, managers	22	5.05	4.27	−0.55
Clerical and sales	23	6.04	5.98	1.16
Craftsmen, foremen	23	5.94	4.51	−0.31
Operatives, laborers, service workers, miscellaneous groups	83	4.19	4.78	−0.83
(eta/beta)		(0.24)	(0.18)	
(Rank)			(6)	
Number of workers				
One-worker	70	4.11	3.99	−0.83
Two-workers	7	5.40	5.04	0.22
No workers, retired, others	72	5.18	5.26	0.44
(eta/beta)		(0.16)	(0.18)	
(Rank)			(5)	
Education of respondent				
8th grade or less, some high school	33	4.06	4.90	0.08
High school graduate	63	4.82	4.63	−0.19
Some college	37	4.78	4.45	−0.37
College graduate	14	6.63	6.61	1.79
(eta/beta)		(0.24)	(0.30)	
(Rank)			(1)	
Sex of respondent				
Men	69	5.85	5.80	0.98
Women	80	4.01	4.05	−0.77
(eta/beta)		(0.28)	(0.27)	
(Rank)			(3)	
Race of respondent				
Caucasian	106	5.05	4.86	0.04
Black, Hispanic, Asian-American	40	4.35	4.46	−0.36
(eta/beta)		(0.10)	(0.16)	
(Rank)			(7)	
Region				
Northeast	36	6.33	5.98	1.16
North Central	41	4.45	4.47	−0.35
South	31	4.51	4.28	−0.54
West	40	4.05	4.59	−0.23
(eta/beta)		(0.27)	(0.20)	
(Rank)			(4)	
Respondent characterization of UC				
Part of welfare system	44	6.05	5.45	0.63
Earned insurance	99	4.46	4.64	−0.18
(eta/beta)		(0.22)	(0.12)	
(Rank)			(8)	
Unemployment incidence and compensation status				
Current or past unemployed household member who received compensation	46	4.70	4.98	0.16
Current or past unemployed household member who did not receive compensation	92	4.76	4.75	−0.08
(eta/beta)		(0.08)	(0.03)	
(Rank)			(10)	
(Adjusted RSQD)			(0.18)	

coverage and differential response rates among age and income subgroups (Table 39). (Table 39 gives unweighted case counts and the distribution of households by demographic subgroup.)

Because only a fraction of the population is interviewed, sampling errors arise. Since the data obtained are based on representative samples drawn by probability methods, the size of the sampling errors can be calculated. The magnitude of the sampling error depends on the size of the sample, its geographic spread, and on the magnitude of the reported percentage. Sampling errors are reported in Tables 40 and 41.

TABLE 39. Demographic distributions of all households with case count

Demographics	Percentage of all households	Cases ($N = 2,341$)
Family income		
Total	100	2,341
Less than $5,000	7	160
$5,000–9,999	15	364
$10,000–14,999	12	285
$15,000–19,999	16	366
$20,000–24,999	16	384
$25,000 or more	27	642
Not ascertained	7	140
Age of respondent		
Total	100	2,341
Younger than 25	10	237
25–34	29	675
35–44	20	459
45–54	14	337
55–64	12	292
65 or older	13	310
Not ascertained	2	30
Education of respondent		
Total	100	2,341
Eighth grade or less	7	165
Some high school	11	246
High school graduate	36	836
Some college	24	553
College graduate	21	488
Not ascertained	1	53
Sex of respondent		
Total	100	2,341
Men	45	1,061
Women	55	1,280
Race of respondent		
Total	100	2,341
Caucasian	84	1,977
Black	9	203
Hispanic	3	65
Other	2	36
Not ascertained	2	40
Number of workers		
Total	100	2,341
Unmarried, one worker	21	489
Married, one worker	29	678
Married, two workers	26	615
No workers, retired, housewife, not ascertained	24	559
Region		
Total	100	2,341
Northeast	20	472
North Central	27	638
South	20	478
West	32	749
Not ascertained	1	4
Occupation of respondent		
Total	100	2,341
Professional, technical workers	20 [2]	318
Managers, officials, and proprietors (not self-employed)	10	153
Managers, officials, and proprietors (self-employed)	4	62
Clerical and sales workers	24	368
Craftsmen, foremen	16	244
Operatives	12	185
Laborers, service workers	11	169
Miscellaneous groups: students, housewives, retired persons, members of armed forces, and farmers	—	782
Not ascertained	3	60

[1] Less than 0.5 percent.
[2] Miscellaneous groups deleted from calculations.

TABLE 40. Approximate sampling errors [1] of survey findings (in percentages by size of sample or subgroup)

Reported percentages	Number of interviews							
	3,000	2,000	1,400	1,000	700	500	300	100
50	2.5	2.8	3.2	3.6	4.2	4.9	6.2	10.5
30 or 70	2.3	2.5	2.9	3.3	3.8	4.5	5.7	9.4
20 or 80	2.0	2.2	2.6	2.9	3.4	3.9	4.9	8.4
10 or 90	1.5	1.7	1.9	2.2	2.5	2.9	3.7	6.1
5 or 95	1.1	1.2	1.4	1.6	1.8	2.1	2.7	4.4

[1] The figures in this table represent *two* standard errors. Hence, for most items the chances are 95 in 100 that the value being estimated lies within a range equal to the reported percentages, plus or minus the sampling error.

TABLE 41. Approximate sampling errors [1] of differences (in percentages)

Size of group	Size of group						
	3,000	2,000	1,400	1,000	700	500	200
	For percentages from 35 percent to 65 percent						
3,000	3.5	3.7	4.0	4.4	4.9	5.5	7.9
2,000		3.9	4.2	4.6	5.0	5.6	8.0
1,400			4.5	4.8	5.3	5.8	8.1
1,000				5.1	5.5	6.1	8.3
700					5.9	6.4	8.6
500						6.9	8.9
200							11.0
	For percentages around 20 percent and 80 percent						
3,000	2.8	3.0	3.2	3.5	3.9	4.4	6.3
2,000		3.2	3.4	3.7	4.0	4.5	6.4
1,400			3.6	3.8	4.2	4.7	6.5
1,000				4.1	4.4	4.9	6.7
700					4.8	5.2	6.9
500						5.5	7.2
200							8.5
	For percentages around 10 percent and 90 percent						
3,000	2.1	2.2	2.4	2.6	2.9	3.3	4.7
2,000		2.4	2.5	2.7	3.0	3.4	4.8
1,400			2.7	2.9	3.2	3.5	4.9
1,000				3.1	3.3	3.6	5.0
700					3.6	3.9	5.2
500						4.1	5.4
200							6.4
	For percentages around 5 percent and 95 percent						
3,000	1.6	1.7	1.8	2.0	2.2	2.5	3.6
2,000		1.8	1.9	2.0	2.3	2.5	3.6
1,400			2.0	2.2	2.4	2.6	3.7
1,000				2.3	2.5	2.7	3.8
700					2.7	2.9	3.9
500						3.1	4.0
200							4.8

[1] The values shown are the differences required for significance (two standard errors) in comparisons of percentages derived from two different subgroups of a survey.

A final warning is necessary. It concerns the use of this sample to estimate the incidence of unemployment in American households. Telephone coverage of low-income households is particularly bad (since low-income households are less likely to own telephones) and therefore, the estimates of unemployment incidence obtained from monthly telephone surveys are biased because of this undercoverage. Although the interviews are weighted to adjust for differences in telephone coverage and differential response rates among income subgroups, the reader should not expect these incidence figures to match those of the Current Population Survey (CPS). The authors do not believe this undercoverage bias to be a major problem in their research. The estimation of the incidence of unemployment in households is only a *minor* part of the analytic focus of this research. The major focus is the analysis of cross-sectional attitudes toward UC.

Duration of unemployment spell

In order to measure unemployment spell duration, persons with unemployment experience within the past 2 years were asked when they lost their job and when they found a job again. Responses were limited to the most recent unemployment spell. Among all persons who experienced unemployment during the past 2 years, 15 percent reported a half year or more of unemployment (Table 42). The near majority (49 percent) reported an unemployment spell of less than 4 months. The median (average) duration of unemployment was 10 weeks (15 weeks).

Table 43 presents duration of unemployment spell by various UC status classifications. Shorter unemployment spells were reported by unemployed persons who did not apply for UC than by those unemployed persons who received UC. Among the past unemployed who did not apply for UC only 11 percent reported an unemployment spell of one-half year or longer, compared with 28 percent among the past unemployed who received UC. Among the past unemployed who did not apply for UC the average length of the most recent unemployment spell was 13 weeks, 7 weeks less than the average length of 20 weeks recorded among unemployed persons who received UC.

Tables 44 and 45 present duration of unemployment spell by selected UC status subgroups for husbands and wives, respectively. Most importantly, these tables document that of past unemployed persons who did not apply for UC, past unemployed wives reported longer unemployment spells than husbands (family heads). Sixty-two percent of past unemployed husbands who did not apply for UC reported an unemployment spell of less than 4 months; only 13 percent of this group reported unemployment of one-half year or more (Table 44). In contrast, less than one half (45 percent) of past unemployed wives who did not apply for UC reported less than 4 months unemployment, while 24 percent reported a spell of one-half year or longer (Table 45).

Table 46 documents that UC is more important to longer-term unemployment. The likelihood that an un-

TABLE 42. Duration of unemployment spell of persons with unemployment experience during the past 2 years (in percentage)

Length of unemployment spell (weeks)	Percent
Cases	$N = 347$
Total	100
Less than 4 weeks	9
4–7	16
8–11	11
12–15	13
16–19	6
20–23	5
24–51	12
52–128	3
Never worked	10
Did not find a job	1
Do not know; not ascertained	15
Median length of unemployment spell: 10 weeks	
Average length of unemployment spell: 15 weeks	

TABLE 43. Duration of unemployment spell by UC

Length of unemployment spell (weeks)	Percentage distribution of past unemployed persons who received UC	Percentage distribution of past unemployed persons who did not receive UC [2]	Percentage distribution of past unemployed persons who did not apply for UC [3]	Percentage distribution of past unemployed persons who "felt they were not eligible" when asked why they did not apply for UC [4]
Cases	$N = 119$	$N = 188$	$N = 163$	$N = 91$
Total	100	100	100	100
Less than 4	6	14	12	7
4–7	12	20	17	18
8–11	11	13	14	16
12–15	14	15	17	16
16–19	8	6	7	5
20–23	5	5	5	5
24–51	22	9	9	10
52–128	6	2	2	3
Do not know; not ascertained	16	16	17	20
Median length of unemployment spell	14 weeks	9 weeks	10 weeks	10 weeks
Average length of unemployment spell	20 weeks	12 weeks	13 weeks	14 weeks

[1] The 4 UC status subgroups pertain to persons with unemployment experience within the past 2 years.
[2] Persons who did not receive unemployment benefits are those who either did not apply, or applied but did not receive benefits.
[3] Refers to those persons who did not receive unemployment benefits because they did not apply for UC.
[4] Refers to those persons who did not apply because they felt that they were ineligible to receive benefits.

TABLE 44. Husband's duration of unemployment spell by UC status [1]

Length of unemployment spell (weeks)	Percentage distribution of past unemployed husbands who received UC	Percentage distribution of past unemployed husbands who did not receive UC [2]	Percentage distribution of past unemployed husbands who did not apply for UC [3]	Percentage distribution of past unemployed husbands who "felt they were not eligible" when asked why they did not apply for UC [4]
Cases	$N = 90$	$N = 115$	$N = 103$	$N = 49$
Total	100	100	100	100
Less than 4	6	13	11	3
4–7	15	24	20	26
8–11	12	14	14	23
12–15	19	14	17	12
16–19	6	5	6	1
20–23	6	6	6	4
24–51	20	10	12	13
52–128	7	1	1	1
Do not know; not ascertained	9	13	13	17
Median length of unemployment spell	13 weeks	8 weeks	10 weeks	8 weeks
Average length of unemployment spell	20 weeks	11 weeks	12 weeks	12 weeks

[1] The 4 UC status subgroups pertain to husbands with unemployment experience within the past 2 years.
[2] Husbands who did not receive unemployment benefits are those who either did not apply, or applied but did not receive benefits.
[3] Refers to those husbands who did not receive unemployment benefits because they did not apply for UC.
[4] Refers to those husbands who did not apply because they felt that they were ineligible to receive benefits.

TABLE 45. Wife's duration of unemployment spell by UC status [1]

Length of unemployment spell (weeks)	Percentage distribution of past unemployed wives who received UC	Percentage distribution of past unemployed wives who did not receive UC [2]	Percentage distribution of past unemployed wives who did not apply for UC [3]	Percentage distribution of past unemployed wives who "felt they were not eligible" when asked why they did not apply for UC [4]
Cases	$N = 23$	$N = 58$	$N = 48$	$N = 29$
Less than 4	11	6	4	— [5]
4–7	9	23	20	18
8–11	9	7	9	5
12–15	7	9	12	8
16–19	11	7	7	8
20–23	6	6	5	11
24–51	24	16	15	11
52–128	6	10	9	13
Do not know; not ascertained	17	16	19	26
Median length of unemployment spell	16 weeks	13 weeks	13 weeks	17 weeks
Average length of unemployment spell	18 weeks	22 weeks	22 weeks	28 weeks

[1] The 4 UC status subgroups pertain to wives with unemployment experience within the past 2 years.
[2] Wives who did not receive unemployment benefits are those who either did not apply, or applied but did not receive benefits.
[3] Refers to those wives who did not receive unemployment benefits because they did not apply for UC.
[4] Refers to those wives who did not apply because they felt that they were ineligible to receive benefits.
[5] Less than 0.5 percent.

employed person would apply for and receive UC increased with the length of the unemployment spell. Among the past unemployed who reported unemployment of one-half year or more 55 percent received UC, more than twice the 24 percent figure reported among the unemployed with a spell of less than 3 months.

TABLE 46. Those who received UC by duration of unemployment spell (percentage distribution of persons with unemployment experience within past 2 years)

Unemployed by length of unemployment	Received UC (percent)	Cases
All past unemployed persons	29	347
Length of unemployment spell (weeks)		
Less than 4	19	34
4–7	22	52
8–11	31	41
12–15	33	36
16–23	37	43
24–51	55	49
52–128	57	15

Relationship and Comparison With Other Programs

The Proliferation of Special Employee Protection Programs

Murray Rubin

There is nothing new in providing special protection for workers who are dislocated because of government action or national policy. Such special protection programs have been particularly common in the transportation industry but are no longer confined to mass transit statutes. They are becoming more and more frequent in any legislation that could adversely affect workers. There are about 20 special protection programs already established and another 20 or more on the legislative horizon.

This proliferation is a concern of the administrators of a program established in the 1930's to accomplish the same basic goal—the unemployment insurance (UI) program. Some of the concerns are administrative in nature, such as program duplication, management inefficiencies, or benefit overlap. The more significant concerns, however, have to do with serious questions of equity: is it fair to encourage more favorable treatment for some workers solely because a particular Federal action or policy is the cause of their unemployment?

The descriptions of special programs in this paper are based on examination of legislation and on discussions with administrators of the programs. With a few exceptions, the detailed information found in regulations or procedures has not been used. The discussion will cover only Federal unemployment assistance programs, and only those that are separate from either regular UI or its temporary extensions enacted for periods of economic recession. It should also be noted that the terms *special programs* and *special provisions* are used interchangeably to refer to employee protection provisions that are parts of programs and also to independent programs, such as Railroad Unemployment Insurance (RUI).

About 97 percent of American workers are in jobs covered under the regular Federal-State system of UI or under two wholly Federal programs, Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Ex-servicemen (UCX), administered by States for the Federal Government. Generally, the same State provisions that apply to regular claims apply to UCFE and UCX claims.

There are also about 20 special unemployment assistance programs that are entirely separate from regular UI and are usually limited to specific groups. These programs share certain characteristics: all provide more weeks of benefits than regular UI, and all provide kinds of assistance not available under the regular programs, such as relocation assistance, job search payments, and training allowances.

The special programs differ considerably among themselves. They vary substantially with respect to the following characteristics:

- Cost and number of actual or potential beneficiaries. Although provisions for unemployment assistance have been in the Public Works and Economic Development Act since 1974, no actual payment has ever been made. In contrast, about 157,000 applicants received nearly $260 million under the trade adjustment program in fiscal year 1978 alone.
- Levels and kinds of benefits and services available. Both the Trade Reform Act and the Redwoods program, for example, provide funds for transportation and living expenses while a person is searching for work, while other programs pay a lump sum to partially replace wages.
- Conditions of eligibility for assistance. Under all but three of the special programs, assistance is contingent upon separation from employment or displacement to a lesser job resulting principally—or, in the case of trade adjustment and airline deregulation benefits, importantly—from a Federal action or policy. Assistance under Disaster Unemployment Assistance (DUA), Public Works and Economic Development Act Assistance (PWEDA), and RUI is not tied to Federal Government action.
- Duration of the program. A number of the special programs are temporary, aimed at easing worker transition over dislocation caused by a single, unrepeated Federal action. Examples of temporary benefits are

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those for airline employees under the Airline Deregulation Act, for loggers affected by expansion of the Redwoods National Park, and for railway employees dislocated by Amtrak's takeover of intercity passenger operations. By contrast, trade readjustment benefits, DUA, and RUI are ongoing programs.

- Administration and funding. Although all programs under consideration here are mandated by Federal legislation, they are not all federally funded or administered. One characteristic pattern is for the Federal law to give some advantage to the employer who funds and administers an acceptable employee protection plan. Some railroad programs work this way. Another pattern is for a State UI agency to administer programs for the Federal Government, which reimburses the State agency for benefits and administrative costs. This pattern is found in DUA and the trade programs.

Comparison of the Major Provisions of UI and Special Programs

State UI laws have similar major provisions, which reflect general agreement on the broad principles underlying the program. These principles evolved from the early State proposals for UI, from foreign antecedents, from the recommendations of the President's Committee on Economic Security, and from congressional debates on the UI provisions of the Social Security Act (Title IX). The principles were discussed in a succession of draft model State laws, in policy statements issued by the Social Security Board, and in two Department of Labor (DOL) publications—*Unemployment Insurance: Purposes and Principles*, issued in 1950, and *Unemployment Insurance Legislative Policy: Recommendations for State Legislation*, issued in 1962.

Wholly different principles underlie basic provisions of the special unemployment assistance programs discussed here. These programs reflect goals and a historical background different from those of the UI program.

Coverage

The long-standing objective of the DOL and its predecessors for UI has been coverage for all who work and are therefore subject to the risk of involuntary unemployment. Over the years, coverage has been extended principally by amendment to the sections of the Federal law that define the "employer" and the "employment" subject to the Federal unemployment tax. States then have an incentive to enact similar coverage so that all employers may receive full credit for their State tax against the Federal tax (the State tax is usually lower). In the case of nonprofit organizations and governmental entities, extension of coverage has been accomplished by Federal amendments making corresponding State coverage a condition for the employers in that State to receive credit against the Federal tax. With a few exceptions, most workers are now covered and benefits are payable to claimants regardless of the industry in which they work or the size of their employer's work force.

With the exception of DUA, PWEDA, and RUI, the principle of the special programs under consideration is that the government has a special obligation to indemnify individuals adversely affected by a particular Federal action or policy. Coverage is determined by two considerations not present in regular UI. Was the individual employed in an industry affected by the Federal action? Was the individual's separation or displacement the result of such action? In some programs, such as the Redwoods program, any separation occurring at a prescribed time from an affected firm is presumed to be the result of Federal action.

Qualifying requirements

The principle of the qualifying requirement in UI is that UI is appropriate only for those with a substantial and continuing attachment to the labor force. Only past attachment can be measured, but claimants' likely ongoing attachment can reasonably be presumed if they have a record of substantial employment over a recent 12-month period, called the base period. Each State establishes the base period and the minimum amount of employment or wages to meet the test.

Generally, States require a minimum of 14 to 20 weeks of work—or the equivalent under alternative formulas—in a base period to qualify for any benefits. The work need not have been performed for any specific employer or for only one employer.

The key principle in most special programs is to indemnify only those and all those adversely affected by a Federal action or policy. To establish this causal relationship, most programs require simply that the worker have been employed by a specific industry at a particular time. A few programs—the airline, Redwoods, and trade programs, for example—also require a minimum number of years of service with the industry. Under programs offering single, lump-sum payments as an alternative to periodic payments—the Redwoods and Amtrak programs, for example—attachment to the labor force need not be ongoing.

Eligibility conditions

For UI all States require that a person be unemployed, able to work, and available for suitable work. People are considered unemployed if they do not work at all or if they work less than full time and receive wages below a level usually specified in the law. The able-to-work and available-for-work requirements are aimed at establishing that the claimant has an ongoing attachment to the labor force. The availability requirement usually provides that the claimant must be available only for

suitable work. One condition, however, is that there must ordinarily be a substantial labor market in a claimant's chosen locality for the work for which the claimant is available. To demonstrate availability, the claimant not only must register for work and respond to job offers but also must take the positive steps that a reasonably prudent person in such circumstances would take to find a job. The principle underlying all these eligibility requirements is that the only risk against which UI should protect is the risk of unemployment due to lack of suitable work.

The risk covered by many special programs is not limited to unemployment due to lack of suitable work. It extends to other adverse effects of specific Federal action or policy. Under some programs, if the wages payable to claimants for full-time work are less than what they formerly received because they were displaced to lesser-paying jobs, they will receive benefits equal to the difference.

A person does not, therefore, have to be either totally or partially unemployed to receive benefits. This condition also applies, of course, to people who choose to receive lump-sum payments, when these are available.

Some special programs pay for the costs of searching for work, but few require an active work search as a condition for benefits. Most, however, require registration for work and receptivity to offers of suitable jobs.

Except for the DUA, PWEDA, and RUI programs, the principle of most special programs is that, since it is governmental action that caused a loss to workers, it is the government that has the primary responsibility for restoring the workers to their former status. The obligation is ended, however, and most programs terminate benefits completely, when a worker refuses an offer of suitable work without good cause.

Weekly benefit amount

A basic principle of the UI weekly benefit amount is that it should return to claimants a portion of their lost wages that is high enough to cover nondeferrable expenses and to avoid diminishing their savings appreciably or compelling them to resort to welfare but is not so high that it adversely affects their incentive to return to work. Aside from the actual amount, the benefit has two additional characteristics: it is payable as a matter of right to all who meet the qualifying and eligibility conditions, regardless of their income or need, and it must be related directly to the level of their past wages. Generally, half the claimant's normal full-time weekly wage has been considered adequate to meet these purposes.

Under many special programs the principle of the benefit amount is that it should be high enough to represent reasonable indemnification for the loss incurred by reason of governmental action. Keeping the benefit low enough so it does not erode claimants' incentive to return to work is invariably less important than ensuring that workers are restored as completely as possible to their former status, at least for the duration of the program.

Benefit duration

UI is designed to protect the worker during periods of temporary unemployment. The principle here is that benefits should be paid long enough to enable the great majority of insured workers to find suitable work before exhausting their benefit rights under normal or recession conditions.

In the 11 States that provide the same maximum number of weeks for all claimants, the principle is that anyone who meets the qualifying requirements should have the program's full protection. The reasoning is analogous to fire or auto insurance, under which full protection is afforded to all who are insured regardless of how long they have been paying premiums. Most States, however, vary duration in relation to base-period employment. The rationale here is that protection should vary with the premium, represented by prior employment and wages.

Under all the special programs considered here benefits are payable for a period longer than that granted for regular UI. If one of the purposes of limiting duration in some States is to sustain an individual's incentive to find work quickly, this purpose is not shared by the special programs. Rather, benefits are considered reparation to a worker for loss of employment and loss of a certain investment in the industry, represented by accumulated years of service and acquired skills and training for which there is no longer a market. It is in this light that some special programs provide benefits for up to 6 years. One program, Conrail, authorizes benefits until age 65 to those who have at least 5 years of service. Most special programs vary duration according to the worker's length of service with the affected employer; thus older employees with longer service and less likelihood of reemployment receive benefits for a longer period. Again, this variance reflects the principle that workers should be indemnified for their loss of investment in an industry.

Rationale for Special Programs

The following two types of special programs are discussed here:

- Programs tied directly to specific industries or firms —railroad and airline programs particularly, since they appear to have provided the precedents for programs for workers in public institutions.
- Programs *not* tied directly to specific industries or firms. This includes the trade program and the energy program as proposed in 1973.

The distinction between the two types is important. Under the first, any employee of a specified industry or firm can qualify if the employee can meet simple requirements, usually years of service. Under the second, benefits are payable wherever a causal relationship can be established between the Federal action or policy and the worker's dislocation. (Causality is discussed below.)

A third type are programs aimed at workers who are unemployed for causes other than Federal action or policy. These programs include DUA, PWEDA, and RUI. They are not discussed in this paper, and none is likely to be repeated in the future. Assistance for economically depressed areas or localities will probably use existing programs instead of developing new ones. It is significant that no cash benefits for unemployment assistance have ever been granted under PWEDA. The DUA program, which was of value primarily to workers displaced by natural disasters and not protected by UI, has lost much of its significance because of recent extensions of regular UI. Finally, RUI does not seem likely to be copied, since there have been no recent efforts to establish such a comprehensive system for a single industry. For these reasons, only the first and second types of special programs will be discussed.

Railroad employee protection programs

The history of the railroad industry has been marked by government regulation and direction, particularly in the area of labor-management relations and employee protections.

Government regulation began as early as 1888, when the Arbitration Act was passed to encourage voluntary adjustment of labor disputes in the railroad industry. The Erdman Act, passed in 1898, established a policy of government involvement in mediation and conciliation of railway labor disputes. The Newlands Act of 1913 created a permanent Board of Mediation and Conciliation. Three years later the Adamson Act set an 8-hour workday for the railroad industry.

Beginning January 1, 1918, the Federal Government actually assumed emergency control over the railroads because of their inability to meet wartime needs. Control lasted 27 months, during which the government raised wages, shortened hours, promoted collective bargaining, and standardized many practices and policies.

Beginning in the early 1930's, the Federal Government encouraged consolidation of railroads for greater efficiency. Section 5(4) of the Interstate Commerce Act, as amended by the Transportation Act of 1920, authorized the Interstate Commerce Commission (ICC) to approve consolidation, including mergers, purchases, and acquisitions, if it met conditions the ICC might prescribe to ensure harmony with the government's objective and promoted the public interest. Although consolidation benefited shareholders, creditors, and ultimately the general public, railway labor stood to lose from this policy. The ICC determined that its consideration of the public interest should include the welfare of railroad workers. On this basis, it imposed minimum provisions for labor's protection as conditions for all proposed mergers and acquisitions.

In 1936 a conference of representatives of 85 percent of the railroads and 20 of 21 railway labor unions collectively agreed on employee protections. The Washington Job Protective Agreement included rates of compensation for dismissed employees, allowances for workers displaced from former jobs, and compensation for moving expenses. The ICC applied the elements of the agreement to a railroad consolidation case, and in *United States* v. *Lowden* (308 U.S. 225), the Supreme Court upheld the ICC's action in a unanimous decision. The provisions of the Washington Job Protective Agreement were incorporated into Section 5(4) of the Interstate Commerce Act by a 1940 amendment. One of the incorporated provisions stated that a consolidation should not put any employee in a worse position for a 4-year period beginning with the date of the transaction.

In 1970 the Rail Passenger Service Act (Amtrak) added the following employee protections: preservation of collective bargaining rights and benefits, protection against deteriorating employment conditions, priority for reemployment of workers laid off, and paid training and retraining programs. More generous provisions were incorporated in the Regional Rail Reorganization Act of 1973 (Conrail), including full compensation at the individual's highest rate of pay until age 65.

Airline employee protection programs

The airline industry followed a similar pattern of government regulation and employee protection. The Civil Aeronautics Act of 1938 gave the Civil Aeronautics Board (CAB) power to approve consolidations and mergers and to impose terms it found just and reasonable.

Following ICC precedents, the CAB said that minimum provisions for labor protection had to be met for airline mergers to be approved. In 1978, however, the Airline Deregulation Act changed this pattern. The Congress did incorporate employee protection provisions in the act, but the rationale was different. In its report on the bill the Senate Committee argued that the comprehensive governmental regulation that had characterized the industry for 40 years had itself served as a system of employee protections that airline employees had come to rely on both directly and indirectly. In the Committee's view, since Congress had prevented the free-market evolution of the industry, it now had a duty to the industry and its employees that would not otherwise exist.

As enacted, the bill's employee protections apply only to employees of airlines that incur a major contraction —one in which at least 7.5 percent of full-time employees are laid off—and only if deregulation is estab-

lished as the major cause of the layoffs. Direct payments are limited to 6 years and the duration of the program to 10 years. Compared with the earlier legislation in the transportation industry, there is more emphasis on reemployment rights and job search assistance.

Clearly, factors that played little or no role in the formulation of UI provisions were critical in deciding the content and scope of provisions of programs in the railroad and airline industries. The latter provisions represented not only compensation for lost wages but also indemnification for the loss of a variety of benefits, fringes, and advantages accruing from all the years a person has invested in an industry. The comprehensive nature of railroad and airline industry protection has been justified on a number of grounds:

- Dislocations and losses to workers are a predictable result of specific governmental action affecting their industry.
- No public policy so directly affecting a particular industry should bring substantial benefits to some groups (shareholders, creditors, and the public) at the cost of another group (employees).
- In the case of the railroads, the burden generally falls on older workers who have skills that are not easily transferable to other occupations and who therefore are unlikely to be reemployed.
- There has been a long history of government involvement in the industry's labor protection policies. In the case of the railroads, the government even negotiated an agreement between management and labor on employee protection provisions. Moreover, the pervasive governmental regulation could itself be considered a system of employee protections, in which the ICC and the CAB actually established terms and conditions and in which Amtrak, Conrail, and other legislation also figured prominently.
- Incorporating employee protections in bills to consolidate certain industries helped reduce opposition to legislation in the public interest.

Transit industry protection programs

It became clear in the early 1960's that Federal support would be necessary to preserve urban mass transportation. Federal support, however, would entail technological and organizational changes that could adversely affect about 180,000 transit employees. Unions therefore conditioned their support of Federal legislation on provisions to protect existing employee rights, privileges, and benefits, including the continuation of collective bargaining rights. These guarantees were ultimately included in the Urban Mass Transportation Act of 1964 (UMTA), which makes Federal funds available to improve mass transportation services.

For the Department of Transportation (DOT) to award any grant or loan under UMTA, the Secretary of Labor must certify that fair and equitable arrangements have been made to protect the interests of mass transit employees. Section 13(d) of the statute provides that such arrangements shall include protections similar to those under the Rail Passenger Service Act (Amtrak).

Programs for employees of public institutions

A similar rationale is found in the employee protection provisions of three recent programs, which encourage community treatment for delinquent, mentally ill, and developmentally disabled persons.

The Juvenile Justice and Delinquency Prevention Act of 1974 promotes juvenile programs outside institutional settings. If a State receives a Federal grant under the act, its plan for the program must include fair and equitable arrangements to protect employee interests. These requirements are similar to those in the UMTA.

The Special Health Revenue Sharing Act encourages the noninstitutional treatment of mentally ill people whenever appropriate. The act provides that no grant may be made to a State health or mental health authority unless the application satisfies the Secretary of Health, Education and Welfare that the health authority will carry out a plan to protect the interests of employees of institutions affected by the act.

The Developmental Disabilities Services and Facilities Construction Act, as amended in 1975, also stresses the community setting. It encourages the appropriate placement of developmentally disabled people—those whose disabilities originate in childhood and young adulthood from such causes as mental retardation, cerebral palsy, epilepsy, and autism—outside institutions. To protect the employees of any institution involved, the statute requires plans to provide for fair and equitable employee protection arrangements.

Other programs

Employee protection provisions in the railroad and airline industries supplied the precedent for a variety of special programs. For example, provisions similar to Amtrak's are required by both the High Speed Ground Transportation Act of 1965, which authorizes research and demonstration projects for high-speed ground transportation, and the Federal-Aid Highway Act of 1973, which permits the diversion of Highway Trust Fund money for urban mass transportation. The 1943 amendments to the Federal Communications Act, which permits mergers or consolidations of domestic telephone carriers, also have employee protection provisions similar to those for the railroad industry.

Legislation enacted in 1978 protects workers displaced by expansion of the Redwoods National Park. The intent was to mitigate the adverse economic impact on the local economy and workers caused by the park's

expansion. Extensive protections are available in affected industries to workers who were totally or partially laid off between May 31, 1977, and September 30, 1980; their unemployment is conclusively presumed to be attributable to the expansion.

The Trade Reform Act of 1974

The Trade Reform Act protections are unusual in that they are not tied directly to specific industries or firms. And, in contrast to the Redwoods and other programs, there is no conclusive presumption that unemployment occurring during a particular time is due to a Federal action or national policy. Instead, the DOL must determine whether layoffs are a result of increased imports.

The Trade Expansion Act of 1962 created a program to help workers adjust when firms are adversely affected by a Federal policy designed to increase imports. The Senate Finance Committee Report on the Trade Reform Act of 1974 makes the following statements on why the program was established: [1]

> . . . the special nature of employment dislocation resulting from changes in trade policy necessitated a level of worker protection somewhat beyond what is available through regular State unemployment insurance programs.

Specifically, the program was justified on two grounds: first, the cause of the unemployment is a Federal policy of encouraging foreign trade; second, the trade-caused unemployment "may differ somewhat in nature from unemployment arising from other causes."

It is not clear, however, how trade-caused unemployment differs "in nature" from other unemployment. The Committee pointed to the following differences:

> Because entire industries and not only individual firms may be adversely affected, workers may not have any realistic opportunity to find new employment which is at all related to the skills and training they may have accumulated over many years.
>
> Moreover, it can happen that the affected industry is one which is concentrated in a particular region with the result that the possibility of quickly absorbing displaced workers into other types of employment available in the area would be minimal.

In any event, the first rationale was clearly embodied in the original act. The program of worker adjustment assistance established under 1962 legislation was clearly structured to limit its application to unemployment caused by Federal trade policy. In fact, the specific link required between trade concessions and employee dislocations proved so difficult to establish that no worker received assistance under the 1962 program for 7 years after its enactment and relatively few until its amendment in 1974. The 1974 amendments eliminated the necessity of establishing that the increased imports that caused serious injury resulted primarily from trade concessions.

Under the 1962 act it was also necessary to prove that imports were a major cause of permanent or temporary layoffs of a significant number or proportion of a firm's workers. The 1974 act requires only that an absolute increase in imports "contribute importantly" to their separations. It also requires that sales and/or production of the affected firm must decline on an absolute basis and that the increased imports must be "contributing importantly" to the decline. According to the Senate Finance Committee, a cause contributes importantly even when it contributes less than another cause, but it must represent more than minimal causation. Thus the 1974 amendments relaxed the 1962 requirements for showing that unemployment is caused by Federal trade policy.

The requirements for showing that trade-caused unemployment is different from and more severe than other unemployment were embodied in the qualifying condition that a "significant" number or proportion of workers have been or are threatened to be totally or partially laid off. The Committee also prescribed what a total or partial layoff is: equivalent unemployment of 5 percent of the workers or 50 workers, whichever is less. In firms with relatively small work forces, a minimum of three workers would ordinarily have to be affected.

As a result of the 1974 amendments, substantially more workers qualified for benefits than under the 1962 act. In the entire period from 1962 to 1974, fewer than 50,000 workers were certified as eligible and less than $70 million was provided in benefits. In the four years after the amendments, more than 425,000 workers were certified as eligible. About $260 million was paid in benefits in fiscal year 1978 alone.

The Desirability of Special Programs: Opposing Views

The DOL's Unemployment Insurance Service (UIS) has consistently opposed special employee protection provisions in legislative proposals. In their view, there is no reasonable basis for distinguishing among workers, all of whom are unemployed through no fault of their own, solely on the basis of the cause of their unemployment. Some workers may lose their jobs because economic conditions force a contraction of their employers' work force, or because their employers voluntarily go out of business, or for other reasons. Other workers may lose their jobs because of some Federal action or national policy. Both groups have the same need for protection until they find new jobs.

There is also no reason for workers affected by some Federal action to be treated differently from workers affected by another Federal action; in other words, for

special protection to be provided for workers laid off because of a national trade policy as well as for those laid off because of a national energy policy. Finally, it is difficult to justify the distinction made between those directly affected and those indirectly affected by the same Federal action. If workers whose unemployment is directly caused by imports are given special protection, should not protection be given to workers whose employers are forced to suspend operations because they supply the import-affected plants?

The second basis for UIS opposition is the conviction that special treatment for particular groups undermines the regular UI system. UIS acknowledges that UI is not adequate, but it argues that the effect of special programs is to weaken efforts to improve UI so that it does meet the needs of all workers. Although special programs are politically more attractive and easier to enact than revisions of UI, the special-program approach diverts efforts to improve unemployment insurance. It also assists opponents of improvements. Some special programs have received wide publicity for alleged excesses —the relatively generous benefit provisions of the Redwoods and Conrail programs, for example, or the substantial expenses of Conrail. Undoubtedly this publicity has contributed to the distorted image of a large outpouring of taxpayers' money to the undeserving unemployed who, because of the availability of overgenerous benefits, lack any incentive at all to return to work. This image does not promote thoughtful consideration of proposals for more adequate UI.

On the other hand, besides the specific rationales already given for some special programs, it can be argued that they provide a necessary and desirable supplement to the basic system. The workers for whom most special programs are designed are generally older than average. Their attachment to a specific firm or industry is relatively long, and frequently the industry in which they have invested much of their lives is declining. These factors dictate that many workers dislocated by reason of Federal action will have unusual difficulty in finding new jobs. Retraining or relocation may be the only workable routes to reemployment for many.

Most special programs offer not only cash payments for longer periods than UI but also training allowances, relocation financing, and individualized job search services. Without the special services these programs offer, it is likely that many workers would exhaust their entitlement to UI before finding jobs. The system cannot be restructured to provide benefits to the relatively long-term unemployed because it is basically a program to help workers over periods of temporary unemployment. To protect the long-term unemployed under UI would require an increase in regular benefit duration substantially beyond the 26 weeks that is the current maximum of most States. And even increases in regular duration would not provide all the special benefits and services needed by the long-term unemployed.

In effect, the special programs take pressure off the regular system. Without them UI would be criticized for its failure to protect workers against an unemployment problem it was never intended to solve. The fact that special programs are limited to some workers or that most long-term unemployed remain unprotected by unemployment assistance is not an argument against the provisions that do exist. Indeed, experience with existing special programs may be useful in developing improvements in UI.

If regular UI represents basic protection against temporary periods of unemployment, supplementary protection should not be considered undesirable, even if it is limited to only some workers. A comparable arrangement can be seen in the provision of old-age benefits: the Social Security Administration recognizes that it provides only a floor of protection and encourages workers to acquire retirement income from as many sources as possible. No one appears to consider it inequitable that some retirees enjoy greater benefits than others because there are special programs.

Yet another example of a kind of special treatment is the payment of a supplemental unemployment benefit (SUB) to employees who are totally or partially unemployed. These benefits are found in certain industries and came about through collective bargaining. The weekly SUB is added to workers' regular UI to bring total income to a prescribed percentage of their full-time wage. Usually the amount is substantially higher than benefits payable under most special programs.

One distinction between SUB plans and many special employee protection programs is that SUB is private and the result of collective bargaining and the special programs are federally mandated. Even in the special programs, however, specific provisions are usually the result of collective bargaining, and the Federal role is to make the award of Federal funds dependent on fair and equitable arrangements for employee protection.

Alternative Positions on Special Programs

Option 1: Recommend against all special provisions

A clear, unequivocal declaration against special programs could help defeat future provisions that have little justification other than political expediency. At a minimum, it might help to confine special treatment to assistance other than wage replacement. Finally, it might translate interest in special programs into support for improving regular UI.

The weakness in this position is that since current programs are not likely to be rescinded and enactment of new special programs is inevitable, blanket opposition to all such provisions could be considered unrealistic and insensitive to the genuinely positive accomplishments of many of the programs.

Option 2: Take no position on special provisions

Whatever the merits of special programs, they have no significant adverse impact on UI. Those who are responsible for the UI system may reasonably confine their efforts to examining only future programs that can directly affect UI. Essentially, this option is a compromise position: it would forestall antagonizing the supporters of most special programs while preserving the possibility of opposing any programs that clearly are inimical to UI.

The drawback to this option is that it prevents comment on current or proposed special programs that may be objectionable from the standpoint of UI, even if they have no direct effect on the system.

Option 3: Recommend guidelines for future special provisions

This option would identify provisions that are desirable and undesirable in their effects on UI and make recommendations to the Congress on that basis. Special provisions are likely to continue to be enacted; not all of them are undesirable, and the best approach is to try to influence their direction. This option would provide useful advice to Congress about UI's implications for different kinds of special program provisions and might make for better programs in the future. Its drawback is that it lacks the simplicity and directness of options 1 and 2.

Considerations in Choosing Among Options

The previous sections discussed the following characteristics of special provisions: (1) cost and number of actual or potential beneficiaries; (2) levels and kinds of benefits and services available; (3) conditions of eligibility for assistance; (4) program duration; (5) administration and funding. These characteristics are shown in detail for various programs in Table 1. Examining the features of the various programs should help determine whether option 1 or option 2 is more reasonable. Choosing option 3 would require consideration of additional characteristics, which are discussed below.

Causality versus presumption of causality

Trade Adjustment Assistance, Disaster Unemployment Assistance, and a number of legislative proposals have required that a causal relationship be established between each worker's unemployment and a government action or policy. The other approach does not require this causal link for each worker, but merely an identification of employing units or industries that it is reasonable to presume would be affected.

If causality is interpreted too broadly, it loses meaning. If it is interpreted too narrowly, relatively few workers benefit, and very unfair treatment results, since decisions tend to be arbitrary.

The development of the trade program provisions illustrates the difficulties involved in attempting to establish causal relations. Originally, workers were eligible if the increased imports resulting from trade concessions were found to be the major factor causing unemployment. Amendments in 1974, however, eliminated the link between trade concessions and unemployment and required only that increased imports contribute "importantly" to the unemployment. As of October 1979 a bill was pending before Congress to broaden the concept of causality even further. It would extend eligibility to workers in firms that provide essential parts or services to firms affected by trade policy, regardless of how small the production was in relation to total output.

Provisions attenuating the causal link have also figured in legislative proposals that failed to become law. In 1975 an amendment was proposed to the Public Works and Economic Development Act of 1965 that would have provided special benefits to workers unemployed because of antipollution actions. It, too, would have required evidence that government action or policy caused the unemployment of individual workers. The bill passed Congress but was vetoed. The proposed Surface Mining Reclamation Act of 1973 is another example of legislation that would have given special benefits to workers whose unemployment could be attributed to implementation of the act.

The National Energy Emergency Act of 1973, which was vetoed by the President, provided for up to 2 years of benefits for workers who exhausted their UI or were not eligible for it, if their unemployment resulted from the act. Since it appeared impossible to determine this causal relationship for any given worker, the bill was modified in 1974 so assistance would be provided "if such unemployment heretofore or hereafter is the result of the energy crisis." A conference report further defined this phase as meaning "unemployment which the State determines to be attributable to fuel allocations, fuel pricing, consumer buying decisions clearly influenced by the energy crisis, and governmental action associated with the energy crisis." This language was vetoed, partially on the grounds that qualifying conditions were so ambiguous that the act would be impossible to administer.

The issue is whether any special program should require proof that a Federal action directly caused a person's unemployment or whether causality should be accepted where there is Federal action that can reasonably be presumed to affect certain industries and unemployment does in fact result.

Federal action versus other action

A second issue is whether a federally imposed and supported special unemployment program should be triggered only if Federal action or policy is the cause of the unemployment, or whether such programs can be justified even when job losses are not due to Federal action.

There are a number of special employee protection programs or proposals that deal with unemployment not occasioned by Federal action, including DUA, PWEDA, and RUI. A recent legislative proposal, the National Employment Priorities Act of 1977, would establish a National Relocation Administration within the Department of Labor. Businesses would be required to file notice of their intent with this administration 1 year before they closed or transferred operations. Workers who were unemployed because of a business closing or relocation would receive cash payments for income maintenance, a continuation of their health and pension benefits, relocation allowances, retraining, and early retirement benefits. Employees of plants that transferred operations would have the right to continue their jobs in the new location.

Cash payments versus other services

Special programs offer both cash payments and other services. It is the cash payments that are the most difficult to justify from the perspective of UI. Extending the duration of benefits can be justified because some beneficiaries have unusual difficulties finding new jobs. Training allowances, relocation, and job search assistance can also be justified because they are individualized activities, which special programs perform particularly well. Supplementing the UI weekly benefit, however, seems particularly inequitable. Furthermore, adding to the weekly benefit violates the principle that UI should be adequate to maintain a worker but not so large that it interferes with the individual's incentive to seek work.

Broad versus specific Federal direction

Many transportation programs and programs for employees of public institutions operate under general conditions and directions established by the Federal Government. Specific employee protection provisions are the product of collective bargaining or, in the case of the institutions, of the governmental unit concerned. Any grant or loan by the DOT under the UMTA, for example, is tied to certification by the Secretary of Labor that fair and equitable arrangements have been made to protect the interests of mass-transit employees.

In practice, the DOL negotiates protective arrangements with the applicant for a Federal grant or loan and the employees who might be affected. It then reviews the agreements for conformity with the statutes.

The terms and conditions of a Federal act can be general, or they can explicitly cover such key features as eligibility requirements, the kind and scope of assistance, the duration and administration of the program, and responsibility for financing the cost of any or all of the employee protection provisions.

Summary of issues

If option 3 is chosen, the following questions need to be answered:

- Should special programs be established only for unemployment caused by Federal action, or should there also be programs for unemployment that is the result of other causes?
- Should special programs require a finding that each worker's unemployment is caused by a specified Federal action, or should the program attempt only to identify specific industries or firms where layoffs can be presumed to be due to the Federal action?
- Should special programs include income maintenance payments, or should they be limited to payments and services such as relocation expenses, training, and job search assistance?
- Should they include lump-sum payments?
- If income maintenance payments are to be included, should they exceed the weekly amount payable under UI, or should they be the same in amount? Also, should they be payable for a longer period than UI? If so, should it be for 52 weeks, 65 weeks, 2 years, 4 year, 6 years, or until the individual reaches a prescribed age?
- Should payments be provided to those not unemployed but displaced to lower-paying jobs?
- Should special programs be limited to a fixed duration, or should they continue as long as workers can be adversely affected by the Federal action or other specified cause?
- Should special problems be limited only to workers with a minimum length of service in a given firm or industry, or should the protections be available regardless of the length of service?
- Should legislation for special programs leave specific provisions to collective bargaining or to the employer, or should the statute specify all provisions?
- Should the cost of the special program be borne by the employer in whole or part, or should it be borne by the general public?
- Should the program be administered by the employer or by the government?

Note

1. Report No. 93–1298, p. 131.

TABLE 1. Employee protection provisions enacted into Federal law

Title	Eligibility	Benefit amount	Duration	Other benefits	Administration	Funding source	Cost
1887							
Interstate Commerce Act, 49 USC 1(5)(2)(f) as amended in 1940. Also amended in 1976 to establish Rail Passenger Service Act (Amtrak) protections as minimum standards for railroad employee protection plans.	Any railroad employee affected by a transaction involving a railroad carrier or carriers, such as merger and consolidation.	Income protection option: Monthly income to equal former wages, reduced by any UI or income from other employment. Severance payment option: 3 months pay for 1–2 years service; 6 months pay for 2–3 years; 9 months for 3–5 years; 12 months for over 5 years.	Equal to the workers' length of service, up to a maximum of 6 years (4 years from 1940 through 1976).	(1) All relocation expenses. If employee is furloughed within 3 years of relocation and chooses to return to site of previous employment, railroad will pay all relocation expenses. (2) Fringe benefits preserved.	Interstate Commerce Commission.	Benefits funded by the railroads involved.	Not available.
1938							
Railroad Unemployment Insurance Act of 1938.	New employees: At least 5 months of employment and earnings of at least $1,000, with not more than $400 earned to be counted per month. Others: at least 3 months of employment and earnings of at least $1,000, with not more than $400 earned to be counted per month.	60 percent of daily wage rate up to $250 for 14-day period. Minimum of $12.70 per day.	Regular duration 26 weeks (130 compensable days). Extended duration for employees with 15 years service, 26 weeks; with 10–14 years, 13 weeks; with less than 10 years, 13 weeks only in periods of high unemployment (4 percent IUR). Benefits may not exceed base year wages.	(1) Cash sickness benefits (including maternity benefits).	Railroad Retirement Board.	Payroll tax on railroad employers.	Approximately $4.14 billion from 1939 to June 1979 (includes both unemployment and sickness benefits).

1943							
Federal Communications Act amendments of 1943 (Public Law 78–4) 47 USC, sec. 222 (f).	Any employee earning less than $5,000 per year affected by consolidation or merger of communications carriers.	Individuals whose employment began on or before Mar. 1, 1941, receive 100 percent wage protection, including fringe benefits. Individuals whose employment began after Mar. 1, 1941, discharged within 4 years of merger approval receive severance pay at 4 weeks pay per year of continuous service.	4 years	(1) Moving and relocation allowances for transferred employees. (2) Preference in hiring. (3) Maintenance of pension, health, and insurance benefits.	National Labor Relations Board responsible for enforcement of provisions to be implemented by communications carriers.	Communications carriers involved.	Not known.
1964							
Urban Mass Transportation Act of 1964 (Public Law 88–365) 49 USC sec. 1609.	Any employee affected by Federal UMTA grants to a public body to improve mass transportation.	Provisions identical to IC Act of 1887, as amended.	Provisions identical to IC Act of 1887, as amended.	(1) Paid training and retraining. (2) Reemployment priority. (3) Continuation of collective bargaining rights. (4) Preservation of rights and benefits under existing bargaining agreements.	Secretary of Labor certifies employee protection provisions, administered by the bodies receiving UMTA grants.	Public bodies receiving UMTA grants.	No substantial cost.

TABLE 1. Employee protection provisions enacted into Federal law—*Continued*

Title	Eligibility	Benefit amount	Duration	Other benefits	Administration	Funding source	Cost
1965							
Public Works Economic Development Act, 42 USCA sec. 3243 (benefit provisions added by Public Law 93–423 in 1974), expired Sept. 30, 1979, but is pending renewal.	Individuals employed in area determined by Secretary of Commerce as experiencing (or threatened by) rise in unemployment or other economic problems or an area that has demonstrated long-term economic deterioration.	Up to maximum UI benefit payable in State. Reduced by any UI received.	Maximum duration of 1 year after unemployment begins.	Relocation expenses including travel and living expenses plus compensation for loss of selling house (or an amount equal to closing costs) plus payments for loss due to cancellations of lease.	Grants by Secretary of Commerce transferred to Department of Labor.	Congressional appropriation.	No money expended as yet.
High Speed Ground Transportation Act of 1965 (Public Law 89–220), 219 U.S.C. 1631.	Any employee of an entity receiving DOT grants to research and assist development of high-speed trains, who is directly affected by such grants; i.e., whose worsening of position can be shown to be a direct result of such grants.	Same as UMTA of 1964.	Same as UMTA of 1964.	Same as UMTA of 1964.	Secretary of Transportation must specify terms and conditions of employee protection as determined by the Secretary of Labor to be administered by the grantees.	Entities receiving DOL grants.	No substantial cost.
1966							
Demonstration Cities and Metropolitan Development Act of 1966 (Public Law 89–754). Employee protection provisions added by amendment of National Mass Transportation Assistance Act of 1974.	Any employee affected by transportation-related programs funded by the act.	Same as UMTA of 1964.	Same as UMTA of 1964.	Same as UMTA of 1964.	Same as UMTA 1964.	Entity receiving grants.	No substantial costs.

1970							
Rail Passenger Service Act of 1970 (Amtrak) Public Law 91–518, 45 USC 501 et seq.	Employees adversely affected by National Rail Passenger Service's (Amtrak) takeover of intercity rail operations.	Income protection option: Monthly income to equal former wages reduced by any UI or income from other employment. Fringe benefits also preserved. Severance payment option: 3 months pay for 1–2 years; 6 months pay for 2–3 years; 9 months pay for 3–5 years; 12 months pay for over 5 years.	Up to 72 months.	(1) Training and retraining. (2) Reemployment priority. (3) Preservation of collective bargaining rights and benefits.	Railroad involved.	Railroads absorbed by National Rail Passenger Corp. responsible for absorbing cost.	Records not readily available.
1973							
Regional Rail Reorganization Act of 1973, 45 USCA sec. 771 (Public Law 93–236) (Conrail) indefinite.	Workers adversely affected because of railroad reorganization.	100 percent of average pay for prior 12 months. Reduced by any UI or railroad earnings and by 50 percent of any other earnings. Separation allowance up to $20,000 depending upon years of service, age, position.	Until age 65 for workers with 5 or more years service; period equal to prior service for those with fewer than 5 years.	Relocation expenses including travel and living expenses plus compensation for loss in selling home (or an amount equal to closing cost), plus loss due to cancellation of lease.	Railroad Retirement Board reimburses carriers for benefits.	$250 million appropriated by Congress into Northeast Rail Transportation Protective Account.	$248 million by January 1980.

TABLE 1. Employee protection provisions enacted into Federal law—*Continued*

Title	Eligibility	Benefit amount	Duration	Other benefits	Administration	Funding source	Cost
Federal-Aid Highway Act of 1973 (Public Law 93–87) 23 U.S.C. 101 et seq.	Employee affected by urban mass transportation projects supported by Highway Trust Fund and Interstate Transfer moneys.	Same as UMTA of 1964.	Same as UMTA of 1964.	Mass transportation entity involved, under guidelines as approved by Secretary of Labor.	Mass transportation entity involved.	Entity involved.	No substantial cost.
1974							
Trade Act of 1974 (Public Law 93–610) (supersedes Trade Expansion Act of 1962) through Sept. 30, 1982.	Workers certified as adversely affected by increase in imports and either laid off or on 80 percent or less of average weekly wage and hours. Qualifying work: 26 of 52 weeks in adversely affected work at wages of at least $30 per week.	70 percent of worker's average weekly wage with maximum equal to national average weekly manufacturing wage (currently $250). Reduced by any UI received and by 50 percent of any wages received.	Maximum of 52 weeks in a 2-year period or, if worker is over 60 or in training, 78 weeks in a 3-year period.	Relocation allowances (80 percent of moving expenses plus maximum $500 lump sum), training (allowances plus travel and subsistence expenses), job search (80 percent of transportation and living expenses up to $500 while looking for work).	Through State unemployment insurance offices.	Federal general revenues through congressional appropriations.	$706,708,488 April 1975–April 1979.
Disaster Relief Act of 1974 (Public Law 93–200).	Workers unemployed as direct result of major disaster declared by President at request of Governor.	Act authorizes President to provide appropriate payment. Regulations provide weekly benefit equal to UI individual would have received if all wages were covered. Reduced by any UI or wages received.	Maximum duration of 1 year beginning with date disaster is declared.	Relocation expenses plus grants (up to $5,000) for necessary expenses plus rental or mortgage payments up to 1 year, plus cost of minor home repair.	State unemployment offices for cash benefits, Department of Agriculture for Food Stamps, HUD.	Appropriated as required annually by Congress.	$95,480,841 (through May 1979).
Juvenile Justice and Delinquency Prevention Act of 1974 (Public Law 93–415).	Employees affected by deinstitutionalization of juvenile delinquents.	Same as UMTA of 1964.	Same as UMTA of 1964.	Same as UMTA of 1964.	Law Enforcement Assistance Administration approves employee protection plans of institutions involved.	Institutions involved through Federal grant formulas.	No substantial cost.

1975							
Developmental Disabilities Services and Facilities Construction Act of 1975 (Public Law 95–103). Superseded by Developmentally Disabled Assistance and Bill of Rights Act, Public Law 95–602.	Employee who is affected by deinstitutionalization of the developmentally disabled.	No cash benefits.	Not specified.	(1) If dismissed State or local government employee cannot find employment elsewhere, employee is guaranteed a job at (a) no less pay, (b) no "substantial increase in health or safety hazard." (2) Employees given 6 months notice prior to formation of deinstitutionalization plans. (3) Preservation of rights, privileges, and benefits (specifically including pension rights) under existing collective bargaining. (4) Employee training or retraining as necessary. (5) Relocation expenses to employees transferred more than 50 miles from previous employment. (6) Early retirement, if desired, for qualified employees.	Division of Developmental Disabilities, HEW, executes guidelines in conjunction with Department of Labor, to be carried out by the State institutions involved.	State institutions involved.	No substantial cost.

TABLE 1. Employee protection provisions enacted into Federal law—*Continued*

Title	Eligibility	Benefit amount	Duration	Other benefits	Administration	Funding source	Cost
Special Health Revenue Sharing Act of 1975 (Public Law 94–63).	Employees affected by deinstitutionalization of the mentally ill.	No cash benefits.		(1) Training and retraining. (2) Preservation of employee rights and benefits. (3) If dismissed employee cannot find employment elsewhere, employer must find employee a job at same rate of pay and retrain as necessary.	Individual plans administered by State health or mental health authority; Secretary of HEW responsible for ensuring all authorities have fair and equitable protection plan (as determined by Secretary of Labor).	Affected State health or mental health authority.	
1978							
CETA Amendments of 1978 (Public Law 95–524) through Sept. 30, 1982.	Unemployed individual in area of large-scale unemployment with no reasonable expectations of local employment and a bona fide employment offer.	Cash benefits to supplement any UI received up to local minimum wage.	Upon completion of training period.	(1) Relocation loans or grants. (2) Job search assistance.	State agencies or prime sponsors.	Annual congressional appropriations.	
Airline Deregulation Act of 1978 (Public Law 95–504) through Dec. 31, 1989.	Workers with at least 4 years employment with air carrier and laid off by reason of the carrier experiencing a bankruptcy or major contraction (7½ percent or more reduction in full-time employees) caused in major part by this act.	Secretary of Labor in consultation with Secretary of Treasury authorized to determine amount proposed. Regulations provide monthly benefit equal to 70 percent of monthly wages (after Federal income taxes and FICA) paid during recent 12-month period. Current proposed maximum, $1,200 month (66⅔ percent average wage in industry). Reduced by any UI received.	Maximum of 72 months.	Relocation expenses including compensation for loss in selling property or in cancelling lease agreement or contract of purchase. Retention of seniority and recall rights plus first right of hire with other air carriers.	Department of Labor. ETA administers provisions concerning benefit eligibility and amounts, extent of reemployment assistance, and maintaining comprehensive job listing. LMSA administers priority hire rights provisions, air carriers' duties to hire, and negotiations between air carriers and union representatives.	Employee protection account; congressional appropriations.	Not funded.

Amendment to act establishing National Park (1978) Public Law 95–250 —through Sept. 5, 1984 ("Redwood").	Workers on layoff or down-grading between May 31, 1977, and Sept. 30, 1980, from employer engaged in harvesting or processing redwood timber at park area who: (1) Had collective bargaining determined seniority as of May 31, 1977, and 12-months work as of Mar. 27, 1978, or (2) Had at least 1,000 hours work from Jan. 1, 1977, through Mar. 27, 1978.	100 percent of average pay during 3 of last 5 years in which hours were greatest. Reduced by any wages earned in timber industry and by 50 percent of other wages, social security, and UI. Severance payment option available.	Period equal to length of service, age 65, or June 30, 1984, whichever occurs earliest, except those reaching age 60 before Sept. 30, 1984, remain eligible until 65. Acceptance of optional severance pay (sum equal to total entitlement up to 72 times weekly benefit) ends duration.	Relocation, training, job search benefits, plus continuing entitlement to health, welfare, pension, insurance at no greater cost than when employed.	California Employment Development Department.	U.S. congressional appropriated funds.	$13.9 million as of Dec. 22, 1979.
1979							
Milwaukee Railroad Restructuring Act (1979) (Public Law 96–101) through March 1, 1984.	Workers laid off from the Milwaukee Railroad.	80 percent of average monthly pay between June 1977 and November 1979, less UI and any earnings. May opt for a severance payment not to exceed $25,000.	Period equal to length of service not to exceed 36 months or Apr. 1, 1984.	Career training assistance not to exceed $3,000.	Railroad Retirement Board.	U.S. congressional appropriated funds of $7.25 million.	No funds expended as of yet.
Health Planning and Resources Development Amendments of 1979 (Public Law 96–79).	Workers terminated because of discontinuation of hospital services.	Termination payment only.		Protection against worsening of position, protection of fringe benefits, retraining.	Certification by Department of Labor.	Institutions involved through Federal grants.	No funds expended as of yet.

SOURCE: National Commission on Unemployment Compensation.

Overlap of UI Benefits and Other Income Transfer Payments

James R. Storey

Beneficiaries of unemployment insurance (UI) also receive benefits from other income transfer programs, including benefits related to financial need and to employment status. These benefit overlaps occur both concurrently and sequentially. Only fragmentary data are available on the extent of benefit overlaps in UI, but indications are that substantial numbers of beneficiaries are involved.

The existence of overlapping benefits raises a number of major policy issues to be considered in proposals to change the UI system. Although more data and analysis are needed before definite conclusions can be drawn, it can be hypothesized that benefit overlaps raise total wage-replacement rates, improve the financial status of UI exhaustees, lower UI claimants' financial incentives to find work, contribute to the nonemployment income of retirees, complicate program administration and policy implementation, and change relative benefits among various beneficiary groups.

This report first presents information concerning overlaps of UI and other benefit programs and describes the major policy issues involved. It then focuses on the specific interactions between UI and each of 15 programs.[1] Finally, it discusses the possible impact of welfare reform legislation.

The programs discussed here spend over $200 billion a year in outlays. Quite naturally there is considerable overlap, both intended and accidental, among the various beneficiary groups. In fact, the average recipient of an income transfer payment receives more than one such benefit.[2] Although UI and each of the other programs has its own unique history and reasons for existence, policymakers cannot modify any of these programs without considering the effects on the rest. It will be important for the Commission to consider how its goals for the future development of the UI system will be affected by overlap with other programs.

Benefit Program Overlaps: Their Effect on Policy

Types of program overlaps

It is useful to view overlaps between UI beneficiaries and recipients of other transfer payments from two perspectives: (1) whether receipt of other benefits is concurrent with UI beneficiary status, sequential to exhaustion of UI benefits, or a factor in termination of UI beneficiary status; and (2) whether the other transfer payments a UI beneficiary receives are related to need—food stamps and Aid to Families with Dependent Children (AFDC), for example—or to employment status (for example, social security and workers' compensation). Each of these kinds of overlap raises somewhat different issues with regard to UI policy and to overall income maintenance objectives.

Data have yet to be developed that would indicate the total extent to which UI beneficiaries receive other transfer payments, either concurrently or sequentially. An estimate made for the Joint Economic Committee in 1972, though incomplete, showed that at least 9 percent of UI beneficiaries received other cash benefits concurrently.[3] A 1975 study of persons receiving Federal Supplemental Benefits (FSB, the extended unemployment program in operation during the last recession) found that 36 percent received some other transfer payment while on FSB.[4] Thus UI overlaps with other programs may well be substantial.

Major policy issues

Wage replacement. The goal of the present UI system is to replace at least half of an unemployed worker's lost wages. Replacement rates have been the subject of much study, and actual rates vary a great deal, depending on a worker's residence, employment duration, wage level, tax rate, and family size. UI policy on replacement rates does not uniformly take into account other benefits received concurrently, although other benefits may serve a wage-replacement function indirectly by rising when earnings fall. The many inequities built into other programs, such as welfare coverage and

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benefits, thus affect overall wage replacement. The net effect of supplementation of UI by other programs is to increase wage-replacement levels. However, the extent of this effect or how it varies among beneficiaries in different circumstances is not known.

Welfare of Exhaustees. To the extent that other benefits commence or increase upon exhaustion of UI benefits, the threat to the financial well-being of UI exhaustees is reduced. The 1975 FSB study found that, had FSB not existed (that is, had persons exhausting permanent UI benefits remained unemployed but received no further UI payments), eligibility for welfare programs would have risen dramatically, as shown below: [5]

Program	Percentage eligible for welfare with FSB benefits	Percentage eligible for welfare without FSB benefits
Aid to Families with Dependent Children	2	10
Supplemental Security Income	2	4
Food stamps	31	57
Medicaid	7	17
Veterans' pensions	1	1

However, in spite of these welfare increases, the withdrawal of FSB would have increased the proportion of the FSB recipient group with below-poverty income from 17 to 39 percent. Thus, a large increase in means-tested transfer payments for UI exhaustees still left a large income gap due to the inadequacies of welfare programs. Although actual numbers would vary today, the same general pattern should hold true for UI exhaustees.

Work incentives. Transfer payments affect work incentives in two ways. An increase in nonwage income raises the wage at which a person is willing to work (the income effect). A reduction in benefits as earnings rise reduces the marginal gain from added earnings (the substitution effect). Both factors reduce financial incentives to return to work. (These effects may also be viewed as favoring adequate job search, an original objective of the UI system).

Concurrent receipt of other transfers may or may not reduce a UI beneficiary's work incentives. A benefit that was received before becoming unemployed, that offsets (or is offset by) the UI benefit amount, and that does not increase following exhaustion of UI benefits would not affect work incentives. An example would be concurrent receipt of a pension in a State that reduces UI for pension income dollar for dollar. On the other hand, benefits that are at least partially additive to UI, that rise when UI benefits are exhausted, or that do both will affect work incentives through the income effect.

A welfare benefit that declines as earnings increase and is reduced dollar for dollar by UI income (AFDC, for example) generally would not lower work incentives through the substitution effect, because the UI benefit-loss rate applied to part-time wages would remain the same.[6] But other means-tested programs that are not fully reduced by the amount of UI benefits received (for example, food stamps) do add to the UI benefit-loss rate in the minority of States where that rate is less than 100 percent.

In the absence of complete, detailed information on overlaps, the actual impact of overlapping benefits on work incentives cannot be determined. However, increased income during and after receipt of UI and higher benefit-loss rates would lower work incentives to some extent.

Equity among beneficiary groups. Inequities that are perceived within the UI system—such as the variation in benefit levels by State or by family size or the leveling out of within-State benefit differentials caused by benefit maximums—may or may not be exacerbated by other benefits that are net additions to UI benefit amounts. Many of these other benefits vary by State, by family size, and by level of earnings, as well as by other factors; and the net result of their impact on the distribution of total benefits to UI beneficiaries is not obvious before a study of them is performed.

Interaction of program policy changes. A result of interlocking program beneficiary groups is that a policy change in one program will have unintended results for beneficiaries who also receive other benefits. For example, UI benefit increases will usually be fully offset against AFDC payments but only partially offset against food stamp allowances. Shortening the duration of UI benefits may stimulate greater use of welfare benefits. An increase in the financial incentive under UI for part-time work can be offset for concurrent recipients by the treatment of earnings in other programs. A single program cannot put a new policy into effect without making a part of its beneficiary population subject to some contrary action.

Administrative problems. The more numerous the overlaps in eligibility for benefits, the more difficult it is to administer each program, because benefits from one program often affect entitlement under another. The more complex a program's accounting, the more prone it is to administrative error and client abuse. Duplicative procedures may increase administrative costs as well. For example, a person on UI, AFDC, and food stamps may be subject to three separate work requirements; compliance with each will be monitored by a different clerk in a different set of books, even though all involve referral of the recipient to the State Employment Service.

Impact on early retirement. Most States permit receipt of UI concurrently with retirement benefits, a rule that may add to incentives for early retirement in three ways.[7] First, occasional receipt of UI benefits in retirement boosts total retirement income and makes early retirement more feasible. Second, the receipt of UI benefits during part of the year may offset the effect of the social security retirement test, which reduces social security benefits 50 cents for every dollar over $4,000 earned by a retiree under age 70. Third, when retirement benefits are timed to begin following a spell of unemployment during which UI benefits are received, UI permits what is in effect an earlier initiation of the retirement period. Concern over early retirement trends and growing interest in extending the normal working age past 65 may focus more attention on UI's role as a retirement income source.

UI Interactions With Specific Programs

UI and benefits based on financial need

Aid to Families with Dependent Children. Low-income families with dependent children and one parent absent, incapacitated, or (in 27 States) unemployed receive federally matched State assistance payments. For four-person families, maximum payments range from $57 monthly in Puerto Rico and $60 in Mississippi to $476 in New York City and $533 in Hawaii. UI benefits are generally deducted dollar for dollar from the AFDC maximum in computing AFDC grants, but 13 States determine payments so that over certain income ranges UI benefits only partially offset AFDC grants. A parent with three children who receives maximum UI benefits can also receive AFDC in 15 States; large families can receive both in a majority of States. A May 1975 survey of AFDC cases shows that 1.1 percent of AFDC families received UI benefits as well; they made up nearly 1 percent of average weekly UI claimants that month.[8]

Food stamps. Food stamps are made available to persons in all low-income categories. Monthly stamp allotments vary from $52 for an individual to $174 for a family of four to $314 for a family of eight. While these benefit levels, for all but the largest families, are lower than maximum UI benefits, food stamp benefits are reduced by only 30 cents per dollar of cash income. A family of four in a typical State with a UI benefit of $80 a week, after allowing for a standard monthly income disregard of $60, could qualify for $88 a month in bonus food stamps. A September 1976 survey of food stamp households showed that 3.9 percent were receiving concurrent UI benefits. (About 10 percent of average UI claimants during that period were receiving food stamp allotments).[9]

Supplemental security income. This Federal program extends cash benefits up to $178 monthly (up to $267 for an eligible couple) to needy individuals who are aged, blind, or disabled. Most States provide some supplemental benefits, up to a maximum of an additional $118 in California ($290 for a couple). Any UI benefits received are deducted dollar for dollar from the Supplemental Security Income (SSI) or State supplemental payment. Given the criteria for SSI eligibility, it is unlikely that many recipients are concurrently eligible for UI. A study of persons newly eligible for SSI between January 1975 and July 1976 found that only 0.76 percent claimed to be receiving UI benefits at the time of admission to SSI.[10]

Medicaid. Federally matched State reimbursements to medical care providers are made on behalf of persons in low-income categories who are eligible for AFDC and SSI. A few States, including California and New York, provide medical assistance out of their own funds to persons in other low-income categories. In some States, loss of AFDC or SSI eligibility terminates eligibility for Medicaid. In the majority of States, however, Medicaid coverage would continue, though reimbursement would be offset dollar for dollar against the amount by which family income exceeds the State's income eligibility level for free care. Thus persons eligible for both AFDC (or SSI) and UI would be covered under Medicaid, and some persons on UI who are rendered ineligible for AFDC or SSI by their total income could participate in Medicaid after incurring a certain amount of out-of-pocket medical expenses. Since about half of Medicaid beneficiaries are on AFDC and about 1 percent of AFDC families receive UI concurrently, it is likely that at least 0.5 percent of Medicaid recipients also receive UI.

Housing assistance. Several Federal subsidy programs to reduce shelter costs are available to persons in all low-income categories, although there are not enough subsidized units to house all who are nominally eligible. Rents charged are below market rates and generally rise 25 cents for an extra dollar of income. UI benefits alone would usually not be high enough to disqualify a person for subsidized housing. Receipt of UI would increase an unemployed tenant's rent by 25 cents per dollar of benefits.

VA pensions. This pension program serves mainly aged and disabled low-income veterans, paying a maximum of $197 monthly for a single veteran. Dependents and survivors, who are also covered, may be in the work force. The pension of a survivor beneficiary who receives UI benefits would be reduced 12 to 72 cents per dollar of those benefits, the rate depending on total income; but beneficiaries in most instances would retain at least some VA benefits. If a veteran pensioner

has a spouse with earnings, the earnings are not counted in determining the pension amount, but the spouse's UI benefits would be counted and deducted from the pension at a rate of 24 to 96 cents per dollar. Probably only a small percentage of VA pension households receive UI benefits concurrently.

Earned income tax credit. Earned income tax credit (EITC) is available to low-income adults in families with dependent children when taxes are filed. The credit begins as 10 percent of annual earnings up to $4,000 and is then phased down to zero at $8,000 of earnings. If low earnings result from unemployment, then the EITC serves a wage-replacement function similar to UI. However, receipt of UI benefits does not affect the credit amount, so the two benefits are additive. No information is available on how many people receive both.

General assistance. Most State and local general assistance (GA) programs exclude employable people. However, about a dozen States offer cash aid to all low-income people who are categorically ineligible for AFDC or SSI. Benefit amounts vary not only among the States but in some cases within States. GA benefits generally would be reduced dollar for dollar for UI benefits received concurrently. At the maximum UI benefit level only large families would ordinarily be concurrently eligible for GA, but no data are available on this overlap.

Free and reduced-price school lunches. Children from families with below-poverty countable incomes receive free lunches at participating schools. If family income is between the poverty line and 195 percent of the amount, the children receive school lunches at reduced prices. UI benefits received by family members are counted in classifying a child's eligibility, but no data are available on the extent to which such benefits are received by families with children who receive school meal subsidies.

Women-infants-children program. The women-infants-children (WIC) program provides nutritious foods to pregnant women and lactating mothers and to their children age 5 or younger. Although the program is intended for members of families with income less than 195 percent of the poverty level, no explicit income test is applied to determine eligibility. Thus receipt of UI benefits does not directly reduce WIC benefits. How many WIC recipients also receive UI is not known.

UI and other benefits related to employment status

Trade adjustment assistance. Unemployed workers become eligible for trade adjustment assistance when their particular firm or industry is certified eligible as a result of the adverse impact of national trade policy. Benefits include weekly payments, employment services, and relocation allowances. Weekly payments are limited to 70 percent of a worker's average weekly wage or to the national average weekly manufacturing wage for all industries, whichever is smaller. Payments are reduced dollar for dollar by regular UI benefits received, but they may continue for up to 78 weeks. Program data do not permit tabulation of how many people receive UI and trade adjustment assistance concurrently. The average duration of trade adjustment assistance is 25 weeks.

Social security. UI benefits are not affected by social security benefits received by survivors or dependents of retired or deceased workers. For survivors and dependents, social security benefits do not constitute replacement of their own wages. They do, however, establish a floor of nonemployment income for some period; and this floor, when added to UI benefits, could prolong job search.

Disabled workers on social security do not qualify for UI unless they return to gainful employment and then become unemployed. At such a time they generally do not receive social security until recertified as disabled.

Retired workers' benefits are treated as disqualifying income under UI by 12 States but do not affect UI eligibility in the other States.[11] In only 2 of the 12 States would socal security totally disqualify a UI claimant, however. In the other 10 States social security would offset UI benefits in whole or in part. In all States, of course, concurrent beneficiaries have to demonstrate a continuing labor force attachment to qualify for UI benefits. Except where substantial offsets are applied, concurrent receipt of UI and social security retirement benefits would result in increased wage replacement.

Because retirement and UI benefits can be received concurrently in most States, UI benefits can be considered as part of an "early retirement" program, offsetting at least part of the actuarial reduction for early retirement. UI also partly offsets social security benefit reductions under the retirement test for retirees who work part of the year.

Only incomplete information is available on these interactions between social security and UI benefits. However, something is known about the extent to which UI benefits are received by new social security retirees. For example, of all persons awarded retired workers' social security benefits in the last 6 months of 1968, 3 percent were receiving UI; they made up about 1 percent of average weekly UI claimants. This proportion ranged up to 6 percent for men retiring at age 65 but was lower for women and for early retirees.[12] A study of UI claimants in New York State over the 18 months ending February 1974 found that 11 percent of people on UI began receiving social security or other retire-

ment income after going on UI. This proportion was much higher for older claimants: 19 percent of those age 55 to 64, 47 percent of those 65 and over.[13]

Other retirement benefits. Twenty-two States treat pensions from UI base-period employers, whether public or private, as disqualifying income; and 13 States treat any pension from an employer similarly. Rules vary, but generally some excess pension amount is deducted from the UI benefit. The result of concurrent benefits is similar to that discussed for social security benefits, except that offsets are applied in more States.[14]

Workers' compensation. Workers' compensation payments are considered disqualifying income in 24 States. Nine of these States totally disqualify the beneficiary from receipt of UI benefits under certain circumstances. The other 15 States reduce UI benefits when awarding workers' compensation benefits. In 9 of these 24 States disqualification or a benefit offset applies only if the workers' compensation is for temporary partial disability. Where there is no provision for offset, concurrent benefits increase wage replacement relative to what a worker would obtain under either system separately.

Employment and training assistance. Federal grants fund various training and public service job programs, such as the work incentive (WIN) program and the Comprehensive Employment and Training Act (CETA), that are aimed at the needy and the long-term unemployed. While not generally viewed as income transfer programs, these efforts have emerged as direct policy alternatives to greater welfare and unemployment benefits and are most relevant to any discussion of UI policy issues. Persons in training or in part-time public service jobs can qualify for UI benefits (full-time jobholders cannot). Training stipends are not offset against UI benefits, but public service job wages are offset under the rules States apply for partial unemployment.

Most States deduct part-time earnings from the UI payment after disregarding either a flat amount (from $2 a week in Hawaii to $25 a week in Minnesota and West Virginia) or a percentage of the weekly benefit amount (from 20 percent in six States to 50 percent in eight States). Thus, except for the five States with variable disregards for part-time wages, a person receiving UI benefits faces a 100 percent marginal benefit-loss rate by taking a part-time job, including jobs funded by Federal programs.

A recent study by the U.S. General Accounting Office found that 16 percent of CETA Title VI jobs were held by persons who had been receiving UI benefits. The net hourly benefit of the CETA job, after figuring in lost UI benefits, ranged from a loss of 48 cents in Columbus, Ohio, to a gain of 95 cents in Omaha.[15]

Potential Impact of Welfare Reform

President Carter has proposed a major overhaul of present welfare programs. His Better Jobs and Income Plan would create a new Federal assistance system in place of AFDC, SSI, and food stamps, integrate it with a larger CETA job program, and expand coverage and benefits under the EITC. In considering his proposal, Congress will also consider four alternative bills: (1) a modified version of the Carter bill, put together by a temporary House Welfare Reform Subcommittee; (2) a less comprehensive bill, introduced by Congressman Ullman; (3) a somewhat similar bill, introduced by Senators Ribicoff, Baker, Bellmon, and others; and (4) a more expansive proposal, backed by the AFL-CIO.

Although the final legislative outcome is completely uncertain, the various bills do have several common elements, including the following: greater overall benefit payments, a Federal benefit floor for covered families, cash assistance coverage in all States for intact families with unemployed heads and dependent children, greater reliance on the EITC to aid low-income workers, and public service jobs aimed at the low-income family head. In addition, both President Carter and Congressman Ullman have proposed some taxation of UI benefits through the income tax.

Should welfare reform legislation be enacted, the following effects on UI's relationship to other programs might be expected:

- Higher assistance benefit levels, higher income eligibility limits, and broader coverage would mean that more people would be eligible concurrently for UI and welfare-type aid and that more UI exhaustees would eventually receive welfare aid and in larger amounts.
- Greater equity in treatment of different low-income groups under a new assistance system would alter the distributional effects of current welfare aid that is combined with UI.
- More directing of public service jobs to low-income family heads, or expansion of such jobs, or both, could result in more UI terminations to accept CETA jobs than at present.
- Expansion of the EITC and the availability of credits on a more current basis would make its overlap with UI more important.
- Taxation of UI would make the EITC partially related to the amount of UI benefits, for the level of adjusted gross income, as defined for income tax purposes, is a determinant in how the EITC phases out as income rises.

In short, welfare reform legislation would probably intensify interest in the issues discussed in this report.

Notes

1. Only the most relevant of the major need-related programs are discussed. Some welfare-type programs are omitted because there is probably little interaction with UI (for example, Basic Education Opportunity Grants). Others are left out because they are relatively small (for example, aid to Indochinese refugees). In addition, several employment-related benefits are not discussed in this paper. These include black-lung benefits for coal miners, Medicare, veterans' disability compensation, and private supplemental unemployment benefits.

2. James R. Storey, "Public Income Transfer Program: The Incidence of Multiple Benefits and the Issues Raised by Their Receipt," *Studies in Public Welfare, Paper No. 1* (Washington, D.C.: Joint Economic Committee, U.S. Congress, 1972).

3. Ibid.

4. Walter Corson and others, *A Study of Recipients of Federal Supplemental Benefits and Special Unemployment Assistance*, Project Report Series, No. 77–01 (Princeton, N.J.: Mathematica Policy Research, 1977).

5. Ibid.

6. A program's "benefit-loss rate," that is, the rate at which benefits decline as earnings rise, has an effect similar to a tax rate; the higher the benefit-loss rate, the less one's work effort adds to total disposable income.

7. The UI amendments enacted in 1977 (PL 95–19) require that by March 31, 1980, States modify their rules so that any retirement benefit results in at least a dollar-for-dollar offset in UI benefits. The National Commission on Unemployment Compensation may seek postponement of this provision to allow time for a review of its likely effects and possible alternative approaches to benefit coordination.

8. Unpublished tabulations of the May 1975 Survey of AFDC households (Social Security Administration, Office of Research and Statistics). These data probably understate the AFDC-UI overlap for two reasons. First, in May 1975 unemployed fathers whose families qualified for AFDC could not receive both AFDC and UI concurrently, but subsequent legislation permits concurrent receipt. Second, the UI rolls were unusually large in May 1975 because that month was the trough of the 1975 recession. The decline in the number of UI beneficiaries since then has probably increased the *percentage* who also receive AFDC benefits.

9. Unpublished tabulations of the September 1976 survey of food stamp households (U.S. Department of Agriculture, Food and Nutrition Service).

10. Unpublished tabulations of the SSI Evaluation and Measurement System (Social Security Administration, Office of Research and Statistics).

11. See note 6.

12. *Reaching Retirement Age: Findings from a Survey of Newly Entitled Workers, 1968–70*, Research Report No. 47 (Washington, D.C.: Social Security Administration, Office of Research and Statistics, 1975).

13. *Family Support and Expenditures Survey of Unemployment Insurance Claimants in New York State, September 1972–February 1974* (Albany: New York State Department of Labor, 1976).

14. See note 6.

15. *Information on the Buildup in Public Service Jobs*, HRD–78–57 (Washington, D.C.: U.S. General Accounting Office, 1978).

Appendix: Data Sources

Data on overlaps

National survey data. The best data source available from which overlap of UI and other benefits can be estimated is the 1975 Survey of Income and Education (SIE). Procedures have been developed in the Transfer Income Model (TRIM) to allocate UI benefits to survey households.[1] Thus, cross-classification of UI beneficiaries by other transfer payments received would be a simple procedure for any payment identified in the survey and for any others for which estimation and allocation procedures have been developed (for example, Medicaid). Procedures also exist by which the data base can be projected for later years, although improvements in the technique for projecting the effects of different unemployment rates would be desirable.

The main drawback to such an analysis is that existing techniques would indicate concurrent dual beneficiary status over a year, not over the actual periods when UI benefits were received. To draw a sharp distinction between concurrent and sequential receipt by UI beneficiaries of other benefits would require new model developments. Researchers modeling intrayear program participation could draw on longitudinal data from the University of Michigan's Panel Study of Income Dynamics, the monthly Current Population Surveys, and various models of unemployment patterns that research economists have projected from past experience.

Program data. More data on overlaps could be extracted from existing program files. For example, the Treasury Department could correlate UI beneficiary status with actual receipt of EITC through its merged files of tax records and census survey data. Marginal improvements by agencies in program data collected could yield new information on overlaps (such as for VA pensions or trade adjustment assistance).

Data collection planned for future years. Two new data collection systems that should yield more complete and precise information on UI overlaps with other programs are now in the planning stage. One of these projects is

the DOL's Continuous Wage and Benefit History (CWBH) project to establish a UI longitudinal data bank. It would provide better information on work histories, unemployment patterns, and program participation. Methods to correlate such data with concurrent and sequential participation in pensions, welfare, public jobs, and other programs need development, however. The CWBH system will probably not be operational before 1980.

The second data collection project underway is the Department of Health and Human Services' planned Survey of Income and Program Participation (SIPP). This national household survey is scheduled to begin in the early 1980's. It will improve upon existing census surveys by collecting more detailed and accurate information on such factors as household income by source, participation in public programs, and variability of income.

Data from income maintenance experiments. Several Office of Economic Opportunity and Department of Health, Education and Welfare experiments at a variety of sites have tested the effects of replacing current welfare programs with a negative income tax.[2] In the course of these experiments detailed data have been accumulated on monthly income by source for thousands of households. The most recent data pertain to experimental and control families in Denver and Seattle. Although the data are not national, they are highly useful for explaining interrelationships among programs and for testing assumptions about recipient behavior, for they permit simulation of policies at a level of detail that would not be feasible on a national basis.

Studies of issues raised

Analyses of the major policy issues discussed in this report are needed. Important questions that could be addressed include the following:

- To what extent do other benefits raise wage-replacement rates for UI beneficiaries, and how does this impact vary by State, by demographic group, and by wage level?
- How much more adequate is income for the unemployed because of the supplementation of UI by other benefits or because of increases in other benefits following exhaustion of UI entitlements; and how do these effects vary by State, demographic group, and wage level?
- How does the interaction of UI with other benefits affect financial incentives for an unemployed person to accept part-time or full-time work or for a secondary earner to enter the labor force?
- How do the varying State rules for coordination of UI and retirement benefits affect incentive for early retirement or for retirees to continue working while drawing pensions?

These key questions can be analyzed in three ways. First, the exploration of hypothetical case studies touched on in this report can be carried out in much more detail. Examining all the possible overlaps for a given issue and determining those that are most important could be useful even without comprehensive data on actual incidence; this is particularly true with respect to financial work incentives and retirement incentives. Second, development of the various data files discussed above would permit study of the actual effects of benefit overlaps. Finally, where data gaps still exist, the survey and program data could be supplemented by modeling program eligibility and recipient behavior to obtain a complete picture of the various effects of cumulative benefits.

The various issues would also need to be analyzed from the standpoint of the UI reform proposals the Commission wants to consider. The TRIM model could be adapted to assess many such proposals.

Impact of welfare reform

The extent of benefit overlaps also needs to be assessed in the context of welfare reform options. These options can be analyzed by the TRIM model, so the examination of different proposals as they relate to UI could be a simple extension of welfare reform analyses. Once information is developed on overlaps of UI and new welfare systems, the effect on the questions raised earlier can be assessed.

Notes to Appendix

1. TRIM is a computer simulation model used to estimate the effect of taxes and transfer payments on household income. Each household in a population survey is subjected to a particular set of tax and transfer policies, and the model computes the outcomes and weights them to national totals.

2. The Office of Economic Opportunity was replaced in 1974 by the Community Services Administration; in 1980 the Department of Health, Education and Welfare ceased to exist, the new Departments of Education and of Health and Human Services taking over its functions.

Unemployment Insurance and Other Income Maintenance Benefits

Ida C. Merriam

Social insurance, like most privately organized insurance, tends to deal with specific risks of income loss: sickness, old age, unemployment. Work-connected disabilities have, in most countries, been compensated separately from other disabilities, largely for historical reasons. Work accidents were a visible cost of industrialization long before pollution or auto mishaps were recognized as common hazards. Separate compensation for different types of risk makes special benefit treatment easier than it would be under a more comprehensive system. But it also creates boundary problems that result in confusion, gaps in protection, and overlapping benefit rights.

The problem is not simply one of multiple compensation systems, each with its own rules and established clientele and procedures. There is also a problem of blurred risks. Is the emphysema or the lead poisoning that shows up 20 to 30 years after initial exposure properly related to industrial experience (and, therefore, properly compensated under a workers' compensation system)? Is the 60-year-old man whose health and vigor are marginal and who has lost a job and been unable to find another unemployed, disabled, or out of the labor market because of age? If it is decided that he should be protected against the risk of income loss, however ambiguous the cause, then there is the need either to develop a very broad risk definition and eligibility base or to work out carefully specified rules as to what should be regarded as primary causes and how benefits under different systems should be structured. Where no existing system fully covers some area of risk but several systems are pushing toward it (for example, unemployment and retirement benefits), both gaps and duplication of benefits may exist.

This report is not concerned with the general conditions of eligibility for unemployment benefits—the definition of a suitable job, of voluntary leaving, or of the effects of a labor dispute—what one might think of as the boundaries between compensable and noncompensable unemployment. Nor does it deal with the interface between unemployment insurance (UI) and job-training programs or among the 53 separate State UI programs and Federal UI for railroad workers, Federal civilian employees, and certain veterans. Coordination of the Federal and State programs is handled through the interstate benefit system and arrangements for payment of Federal benefits by State agencies.

The focus of this report is on the relationship between unemployment compensation and other types of income maintenance benefits. Examined are the boundaries between compensable unemployment and other socially recognized income-loss situations, primarily sickness, long-term disability, and retirement. First, existing benefit programs are discussed; then certain principles of program interrelationship are suggested. (Data cited are as of mid–1978 unless otherwise indicated).

Unemployment and Sickness or Disability

UI is intended to provide a substitute income for workers who are able and want to work but cannot find employment. Those who are sick in bed are clearly not able (or should not be permitted) to work. If they became sick while employed and have jobs to go back to, the question of unemployment benefits does not arise. The appropriate income maintenance program for such workers is sickness insurance or sick pay.

But in this country only five States, Puerto Rico, and the special program for railroad workers provide sickness insurance benefits. While many workers are covered by private insurance, and others—government workers in particular—are guaranteed some paid sick leave, only about 37 percent of wages lost as a result of short-term sickness (defined as the first 26 weeks of an illness or disability) are compensated by public or private income maintenance payments. Some 56 percent of all workers in private industry outside of the States with temporary disability insurance (TDI) programs have no protection against income loss due to temporary disability. It is understandable, then, that, where work-

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ers who have been drawing unemployment fall ill and no suitable job for them is in sight anyway, the UI program will be pressed to treat their income loss as still due to unemployment and to continue payment of UI benefits.

Eleven States have provisions that continue UI benefits to the unemployed ill: Alaska, Delaware, Hawaii, Idaho, Maryland, Massachusetts, Montana, Nevada, North Dakota, Tennessee, and Vermont. In Massachusetts, the special provision is applicable for 3 weeks only in a benefit year. In the others, for the regular duration of UI benefits, claimants are not ruled ineligible on account of unavailability for work because of an illness or disability that began after they had filed a claim and registered for work, so long as they do not refuse an offer of work that would have been suitable at the time of registration. Such provisions are of more importance than might be assumed, because so few private sickness benefit plans provide any protection during periods of unemployment. On the other hand, only a small fraction of all disabilities begin while a worker is unemployed and otherwise eligible for UI benefits.

Temporary disability insurance

The first State TDI program in the United States was established in Rhode Island in 1942. California adopted a similar program in 1946, New Jersey in 1946, and New York in 1949. There was no further movement in this direction for 20 years. Then, in 1968, Puerto Rico and, in 1969, Hawaii enacted TDI legislation. Railroad workers also have sickness benefits under their special social insurance program.

Three of the State TDI programs (Rhode Island's, California's, and New Jersey's) and that of Puerto Rico are administered by the State employment security agencies. In New York the Workers' Compensation Board administers the program, and in Hawaii a separate Division of Temporary Disability Insurance in the Department of Labor and Industrial Relations administers the program.

Generally, however, coverage and benefit levels as well as duration and eligibility requirements tend to be similar to those of UI in all six jurisdictions. The California benefit formula produces consistently higher TDI benefits than UI benefits based on the same earnings. The differences in other States are less easily summarized. New Jersey and New York have different requirements for workers who become ill while employed and for those whose illness begins while they are unemployed. Generally, eligibility requirements for the latter are more strict: disability is defined as inability to perform any work or any work for which the worker is reasonably qualified by training and experience. Nevertheless, in California, New Jersey, New York, and Rhode Island, workers with a past history of covered employment and fairly current attachment to the labor force are protected by the TDI system from income loss due to illness and disability, whether they are employed or unemployed when the disability begins. In Hawaii the TDI program applies only to employed workers and a very small group of unemployed who were in regular employment not more than 2 weeks prior to the onset of disability. Anyone who becomes ill after being unemployed 3 weeks or more falls back on the special provision in the UI law for continuation of UI benefits, noted earlier. Hawaii is the only State that has retained this provision after setting up a sickness insurance system.

Pregnancy benefits

Income loss as a result of pregnancy is a special case. A pregnant woman may be unemployed (able to work but unable to find a job), or she may be sick and unable to work (from complications of pregnancy or otherwise), but she is not necessarily either. Society may, however, wish to allow women to stop working for a period before or after childbirth. Many countries provide maternity benefits for this specific purpose, usually for periods of 6 to 8 weeks before and after childbirth.

In this country, maternity benefits are paid in effect under four of the State TDI programs: those in California, Hawaii, New Jersey, and New York. In all four, disabilities resulting from complications of pregnancy—and certified by a doctor—are compensated. Beyond this, if the woman is not able to work, California pays for 3 weeks and New Jersey pays for 4 weeks immediately before and after the termination of a normal pregnancy; New York allows 8 weeks of disability benefits in normal pregnancies; Hawaii pays up to 26 weeks. One State, Rhode Island, provides a lump-sum payment of up to $250 upon childbirth.

In those States without TDI programs, the UI system has had to confront the question of when to pay benefits to women who leave work or are dismissed because of pregnancy. About half the States have left this decision to individual, case-by-case application of the general provisions regarding ability to work, active job search, voluntary leaving, and so on. In 1974 the others (23 States) had special disqualifying provisions that defined a period (6 weeks, 3 months, or anytime) during which a pregnant woman would be deemed unavailable for work or directly disqualified. Some States would not pay UI benefits following a pregnancy until a woman had again worked and had earnings for 6, 8, or 13 weeks. All such special disqualifying conditions were made inoperative by the 1976 amendments of the Federal Unemployment Compensation Act; these amendments added a new requirement for approval of State unemployment compensation laws, as follows: "No person shall be denied compensation under such

State law solely on the basis of pregnancy or termination of pregnancy." It is too early to know how great the practical effect of this provision will be. There are no current data on the number of disqualifications for pregnancy in States with and without special provisions. In any case, the knowledge of the special exclusions would have held down the number of claims and, hence, formal disqualification actions. There is no data base for estimating the proportion of pregnant women who draw UI benefits as compared with those who are disqualified in States that have no special provisions. As more women become aware of the possibility of drawing UI benefits, presumably more will claim. The absence of a specific disqualification cannot, however, provide the protection of maternity benefits available to all women workers who leave employment for a specified period before and after childbirth.

Workers' compensation

There is a small group of workers who might qualify for both workers' compensation and unemployment compensation benefits in the same week. Workers' compensation programs, which provide specified cash payments and medical care in the event of work-connected accidents and disablements, are in effect in all 50 States and Puerto Rico. Benefits vary greatly, but in all States compensation may be paid for partial as well as total disability and for permanent as well as temporary disability. Workers who receive workers' compensation because of permanent partial disabilities may find employment in jobs that are different from the kinds of jobs they held before they were injured. If they become unemployed after holding another job, there would seem to be no reason to deny them benefits to compensate for loss of the earnings from that job. UI State laws generally do not impose disqualifications for receipt of permanent partial disability compensation.

Indeed, the majority of UI laws have no specific provisions regarding the effect of workers' compensation. They rely on their general requirements of ability to work and registration for work to rule out unwarranted payment of unemployment compensation. Almost half the States (24) do have provisions that either disqualify workers for drawing UI for any week for which they receive workers' compensation (9 States) or reduce the UI benefit by the amount of the workers' compensation (15 States). However, the disqualification or reduction is applied only to workers' compensation payments for temporary partial disability or all temporary disability in most (17) of the States. Payments for permanent total disability are also disqualifying in five States (other than payments for dismemberment, in Massachusetts), and any workers' compensation payments are disqualifying in two States.

The number of workers who are affected by these provisions is very small. In the first place, only about 5 percent of all disablements are work connected. Workers' compensation systems offer limited coverage and duration of the protection they provide. A study done for the National Commission on State Workmen's Compensation Laws in 1973 found that available information suggests a very small overlap between the two programs. It noted that in most State UI agencies the overlap with workers' compensation was not considered of sufficient importance to warrant recordkeeping concerning the matter. A special study made in Arizona in 1970 and some data from a California study show a negligible overlap. The Arizona study concluded that the savings made in agency personnel and other resources by not having to administer a statutory disqualification might more than make up for minimal unwarranted benefit payments made in the absence of such requirements. However, as a result of the greater emphasis in recent years on disability from occupational disease, there could be increasing numbers of able workers receiving workers' compensation awards for partial disability from work-related disease.

The 1976 amendments of the Federal Unemployment Compensation Act included as a requirement for approval of a State law a provision for reducing the amount of any unemployment compensation by the amount of any pension, annuity, or other similar periodic payment based on the previous work of the individual (that is, not including survivors' or dependents' benefits). The language could include workers' compensation payments; however, there has as yet been no official interpretation as to whether it does or not. The effective date for implementation of this requirement has been postponed to give the National Commission on Unemployment Compensation time to study the matter and make recommendations. The requirement is discussed later in this report in relation to old age retirement pensions.

Veterans' benefits

As in the case of permanent partial disability under workers' compensation, persons receiving veterans' compensation may be able to work in employment covered by UI and acquire rights to unemployment compensation when unemployed. Because the veterans' compensation benefit is essentially an indemnity for disabilities incurred in wartime service and is payable while veterans are earning wages, it would seem inconsistent to deny them UI benefits based on those earnings. Again, the number of veterans receiving compensation who file claims for unemployment compensation appears to be small.

The veterans' pension program, which provides income-tested benefits for disabilities that are not service-connected, has a different relationship to UI. As an assistance program, the veterans' program appropriately

takes account of the receipt of UI benefits and other income. The general relationship of assistance payments to insurance benefits is discussed briefly below.

Permanent disability benefits

Under the social security program, benefits are paid for continuing total disability after an initial period of 5 months. While some workers who draw disability benefits may return to work—and attempts at rehabilitation and return to employment are encouraged under the program—the overlap with UI benefits cannot be great. The social security program does not cover loss of earnings from partial disability.

The test of disability and the degree of disablement required to enable one to qualify for permanent disability benefits under some special retirement programs is much less strict than under social security, however. Problems of overlap of UI benefits and pensions under government employee and private pension systems are discussed in the following section.

Unemployment and Retirement

Since unemployment insurance is designed primarily to tide over workers between jobs and not to support persons who are no longer in the labor force, why should there be any overlap of UI benefits and retirement pensions? The basic reason is that persons who receive retirement pensions are not necessarily out of the labor force.

Some workers who retire will not again take paid employment. Compulsory retirement at a specified age, or voluntary retirement at an early age even if accompanied by a reasonably adequate pension, may simply lead a still-vigorous individual to look for a different job. Social attitudes encourage older persons to work. And economic pressures—the difficulty of getting along on a minimal benefit or on an income much below that of the working years—lead many "retired" persons back into the labor market.

Social security retirement benefits

The social security program, almost from the beginning, has had a flexible definition of retirement. Pensioners have been permitted to earn small amounts without losing benefits. The retirement test today is relatively generous: a beneficiary aged 65 or older can earn up to $4,000 a year without losing any benefits. Under the 1977 amendments, this amount will go up to $6,000 by 1982, with automatic adjustments to annual wage levels thereafter.[1] If earnings are higher than these amounts, benefits are reduced $1 for each $2 of earnings. Above age 72 (age 70, beginning in 1982), old age, survivors', and disability insurance (OASDI) benefits are payable regardless of earnings or retirement status.

At the end of 1975, about 9 percent of male retired worker beneficiaries between the ages of 65 and 71 had benefits withheld because they had earnings greater than the exempt amount. Fewer female retired worker beneficiaries in this age group and a very small proportion of men and women who claimed retirement benefits at age 62 to 64 had sufficient earnings to result in benefit withholding. The majority of workers who retire before age 65 do so for reasons of health or inability to find work; they are not likely to be able to earn any sizable amounts after social security benefits commence.

Another large group of retired worker beneficiaries have earnings less than the exempt amount. A 1968 survey of aged persons found that about one-third of the male beneficiaries aged 65 to 72 had some earnings during 1967. More than half the men in this age group who were *not* social security beneficiaries had earnings. Many more of the social security beneficiaries than of the nonbeneficiaries were self-employed—a factor of some importance for the potential relations to UI. Since the adoption of Medicare, most workers file for benefits at or before age 65 to qualify for health insurance, even though they intend to go on working full time. Their benefits are suspended until they stop working. A special study of workers with benefits payable at time of award from 1970 to 1972 found that, during the next 3 years, only 8 percent (9 percent of the men and 6 percent of the women) had sufficient earnings to result in suspension of benefits.

Other pensions

While social security benefits remain, in intent and in effect, retirement benefits, the emphasis on retirement is less in some other public pension programs. Both Federal civil service and State and local government pensions are heavily weighted by years of service, and most of the annuitants with sizable pensions have been in government service for many years. There are, however, generous provisions for early retirement and no restrictions on receipt of benefits concurrent with employment in the private sector. And many civil service annuitants continue to work.[2] The potential for concurrent receipt of pensions and earnings is even greater in the case of military pensions, which are payable after 20 years of service and are not affected by subsequent earnings. Men and women who start drawing military pensions at age 40 or 45 are likely to look for other employment.

Most private pensions are payable regardless of subsequent employment unless the employment is in the same industry or with the same employer. Most persons with private pensions also are eligible for social security old-age benefits. It is estimated that in 1975

about 46 percent of wage and salary workers in private industry—some 30.3 million workers—were covered by private pension plans. Approximately half the private pension plans have had compulsory retirement provisions, usually at age 65. A 1978 amendment to the 1967 Age Discrimination in Employment Act prohibits compulsory retirement before age 70 for most employees of private firms and State and local governments and at any age of most Federal employees. How much effect this will have on the labor force is not clear. During hearings on the legislation, 200,000 was suggested as the number of people who might continue to work after age 65 as a result of the legislation. In any event, the net effect should be to decrease the potential overlap of pensions and unemployment benefits as fewer workers leave their regular employment at age 65.

In summary, a small but significant number of individuals who draw retirement benefits continue to work at least part time. If they lose their post-retirement jobs and income, many of them could become candidates for unemployment compensation. Some scattered information on the numbers who actually apply and qualify for UI benefits is summarized later in this report. First, it may be well to review what the States have done and the principles underlying alternative policies relating to such benefit overlap situations.

State unemployment program provisions

As of January 1978 about a fourth of the State UI programs had no statutory restriction on the payment of unemployment compensation to workers who receive public or private pensions. Presumably, if individuals in these States have sufficient recent employment to qualify for UI and can satisfy the requirements of ability to work and active job search, they are entitled to UI benefits in partial compensation for the income loss they suffer when they become unemployed. The remaining States have had some form of statutory restriction on the payment of full unemployment benefits to persons who receive retirement pensions.

The State provisions vary in scope and detail. Fourteen States take account of social security (old-age) benefits; thirteen of these States and an additional 23 States take account of the receipt of private pensions or of other public pensions.

Retirement pensions other than social security. Of the 36 States that reduce UI benefits because of the receipt of a private pension, 22 take account only of pensions paid under a pension plan of a worker's base-period employer; an employer who would be charged for the UI benefits under most experience-rating systems. Under such a provision, UI benefits claims made shortly after retirement would be ruled out or the benefit reduced, but claims made after substantial subsequent employment would not be subject to the special statutory limitations. In most of these 22 States, as well as in most of the 14 States that take account of retirement pensions from *any* employer, the amount of reduction in the UI benefit is related to the extent of employer financing of the pension. Typically, if the employer has financed 100 percent of the pension costs, the unemployment benefit will be reduced by the entire amount of the pension (prorated to a weekly sum); if the employee has contributed to the financing, the reduction is only half. There are a number of variations: in New York, there is no reduction if employers pay less than 50 percent of the pension costs; in Ohio, no reduction if they pay less than 100 percent. Pennsylvania deducts only that portion of the retirement benefit greater than $40 a week; Washington, greater than $12.

There are also special disregards relating primarily to veterans' and military pensions. Twelve States among the 36 that have provisions relating to private pensions exempt military pensions. Four States disregard pensions for service-connected disabilities.

Social Security retirement benefits. In the case of social security benefits, only old-age retirement benefits (and, in some States, disability benefits) are at issue; dependents' or survivors' benefits based on someone else's prior employment are not treated as deductible. One State, Oregon, simply applies stricter administrative tests of voluntary withdrawal and job search to claimants who are drawing old-age benefits. Wisconsin has a complicated formula (applying to both social security and private pensions) that treats more generously workers forced to retire at a compulsory retirement age. Two States deduct from the UI benefit one-half of the social security benefit; the others, the entire amount. Colorado makes the deduction if claimants are aged 65 and entitled to receive OASDI benefits, whether they are drawing them or not. (This would appear to mean that almost no one aged 65 or over in Colorado could draw UI benefits, as at least 90 percent of all persons in this age group are not eligible for OASDI if they retire.)

The 1976 amendments. The 1976 amendments of the Federal Unemployment Compensation Act include a provision that would drastically change the UI benefit rights of persons receiving old-age pensions of any kind. The amendment requires the following as a condition for approval of State laws:

> The amount of compensation payable to an individual for any week which begins after September 30, 1979, and which begins in a period with respect to which such individual is receiving a governmental or other pension, retirement or retired pay, annuity, or any other similar periodic payment which is based on the previous work of such individual shall be reduced (but not below zero) by an amount equal to the amount of such pension, retirement or retired pay, annuity, or other payment, which is reasonably attributable to such week. . . .

Recognizing the far-reaching effect of this provision and the practical problems that would be involved in implementing it, the Congress subsequently extended the deadline for its going into effect and indicated that the postponement would allow time for study of the issue by the National Commission on Unemployment Compensation and further congressional action in the light of the Commission's findings and recommendations.

General Principles Underlying Relationships

Questions raised about overlapping benefit rights usually stand against a background of concern that some workers have an unfair advantage and that taxpayers carry a double burden because of duplicate protection granted under the programs. It becomes important, then, to face directly the issue of what would constitute duplicate protection.

First, one can distinguish intentional supplementation. Employers provide supplementary UI benefits knowing that these will be paid in addition to the regular benefits under the UI system, thus increasing either total weekly benefit amounts or the duration of payments or both. All States recognize the supplementary character of such benefits and do not take them into account in determining the amount of the unemployment compensation payment.

It would be equally contradictory for a social insurance (or private insurance) program to reduce its benefits when individuals receive public assistance. Assistance payments are made because the other income of the individual or family is deemed inadequate by some socially accepted measure. They supplement all other public or private income. An unemployment *assistance* program would rightly take into account all sources of income, for it is inherently a means-tested or income-tested program. Unemployment *insurance* has never involved a means test, and its purpose to provide guaranteed protection to workers who are regularly in the labor force would be defeated if an income test were superimposed on the statutory benefit formula.

Protection in this context implies the definition of a specific risk. The risk of compensable unemployment is defined in terms of qualifying earnings in the past and current ability to work and inability to find a suitable job. The definition has been refined and sharpened by rules concerning voluntary leaving, misconduct, labor disputes, and so on. It has been expanded by a broadening of coverage and an extension of the maximum duration of benefit payments.

Within these terms, basic policy would be that, so long as the risk as thus defined had eventuated, the individual should be entitled to unemployment compensation. Only if receipt of another benefit evidences the failure to meet the risk definition would unemployment compensation be denied. There are such situations. Where temporary total disability benefits are payable, there is no basis for paying unemployment benefits. As noted earlier, statutory temporary disability benefits for non-work-connected disabilities are not available in most parts of the country. As a consequence, a number of States have stretched the definition of unemployment to include periods of illness, but this is a distortion—even though it may be justified until the United States has a national TDI system.

With permanent disability benefits, it is *not* the case that a person receiving such payments is surely outside the risk area of unemployment compensation. Individuals receiving permanent partial disability pensions may well go back to work. They are, then, at risk and, it can be argued, should have protection against loss of earned income as a result of unemployment. A general principle might be that long-term benefits that continue while persons are working should also continue when they become unemployed.

There is little difficulty with and rather general acceptance of this approach for disability benefits. For retirement benefits, however, the ambiguities in definitions of retirement and availability for work complicate matters. One type of difficulty arises with pension payments that have little if any relation to either old age or withdrawal from the labor force. Military pensions, State and local pensions for such groups as fire fighters and police officers, many individual Federal civil service pensions, and some private pensions (such as for airline pilots) are payable at early ages and with very limited restrictions on the type of work that can be undertaken by the pensioner. When a 50-year-old man works at a full-time job while receiving a "retirement" pension and expects to go on working for many years, it is clear that he is subject to the risk of income loss as a result of unemployment. The straightforward position to take in his case would seem to be that, because he had been receiving both current earnings and a pension, he should be eligible for both UI benefits and his pension. As a matter of general social policy, questions might be raised as to the extent to which pensions should be available to individuals who are still relatively young and still working regularly. Any limits on pension rights, however, would come more equitably from changes in the pension systems than from use of the UI system to avoid double benefit payments.

The situation with regard to social security old-age beneficiaries is different because the social security benefit is still a retirement benefit, premised on retirement from any substantial gainful employment. The difficulty lies in the definition of "substantial." Individuals retiring in January 1978 at the maximum amount then payable ($459.80 per month) could earn up to $15,000 a year and still draw some benefits; as noted earlier, they can earn up to $4,000 without any reduction in benefits. However, if persons receiving old-age benefits

were able to supplement their social security benefits by their earnings, why not by UI benefits?

Part of the reluctance to permit such supplementation arises from how involuntary the unemployment may be. Many social security beneficiaries who work do appear to limit their earnings to the amount at which benefit reduction starts. If such action is deliberate, these beneficiaries are really unavailable for work during the remainder of the year and thus incligible for UI benefits under a tight administration of the program.

Tight administration also could eliminate most of the difficulty that arises when a newly retired worker immediately claims UI benefits. In most States the provisions for disqualification for voluntary leaving without good cause limit the extent to which workers can draw UI benefits immediately upon retirement and before having other employment. In a few States separation under a compulsory retirement plan is regarded as "good cause" for leaving and does not result in disqualification. Voluntary retirement in most situations does constitute voluntary leaving and results in disqualification for the duration of unemployment and in many States until after a specified amount of subsequent employment and earnings.

When the UI system was first set up, it was assumed that the requirement that claimants register for work at the State's employment service would establish an effective test of their availability for work. Over the years it has become clear that this cannot be relied upon. The employment service fills only a small percentage of all job openings, even in good economic times. Furthermore, proportionately fewer older workers are placed by the employment service than younger workers. As noted earlier, a number of States, presumably in recognition of this situation, have adopted special administrative procedures to test the genuineness of pensioners' search for work. Claims examiners may be instructed to interview pensioners in more detail and to look more carefully into such questions as the reasonableness of claimants' restrictions on wages and working conditions, whether or not they would accept employment even if their pension were thereby reduced, and the proof of active search for work. These tests may not be easy to apply, particularly in periods of high unemployment and to those for whom employment opportunities are limited. But they do represent an attempt to define and differentiate rationally and equitably pensioners who are genuinely unemployed.

The task of administration would be easier if individuals could be neatly categorized on the basis of objective criteria. Statutory restrictions on the benefit rights of pensioners represent, in part, an attempt to make individual administrative judgments unnecessary. Insofar as such provisions result in uniform or more nearly consistent treatment of individuals in similar circumstances, they may be constructive and useful. The difficulty of finding categories that reflect all important differences without overburdening and complicating administration is, however, very great.

The existing statutory provisions that limit UI benefit payments to pensioners are blunt instruments, but they do permit some discrimination. Most treat differently pensions based entirely on earnings prior to the claimants' base period for unemployment compensation and pensions based, in part, on earnings during that period. The former are disregarded, while the latter result in a reduction or elimination of the UI benefit. In effect, the lapse of time gives legitimacy to the claim of continued attachment to the labor force.

The variations in the definition of a base period and individual differences in employment experience and prospects make this test unrealistic for some workers. The beginning of the base period can be as long as 18 months and is usually at least 12 months prior to a claim for benefits. Some workers will become genuinely unemployed during this time. Under such provisions, however, workers are again permitted to qualify in later periods if their individual circumstances support the claim.

The rationale for reducing benefits because of the receipt of a pension is perhaps a compromise in an ambiguous situation. The most extreme position that the UI system could take would be simply not to pay unemployment compensation to anyone drawing a pension—in effect, to say that receipt of a pension would be construed as evidence of withdrawal from the labor force. Such a position flies so sharply in the face of reality that it is not taken by many people. Reduction in the amount of the UI benefit during the year or year and a half after a worker retires could be regarded as a kind of practical and pragmatic recognition that unemployment is particularly difficult to prove or disprove during at least the first part of this period. In many cases, the UI benefit would be larger than the prorated pension. Unemployed workers would thus get something from the unemployment compensation system but not the full weekly amount that they would be entitled to if their unemployment were regarded as completely proven. In most States, a reduction in the weekly benefit amount simply extends the number of weeks for which benefits can be paid. Workers could, however, have their weekly UI benefit reduced to zero and receive nothing throughout the benefit year in which their UI benefit rights would run out. Different workers would suffer very different penalties, depending on the level of their postretirement earnings as compared with their preretirement earnings (the size of the pension relative to the current weekly benefit amount).

Beyond this initial period following retirement, a different rationale has to be sought for reduction of the UI benefit. The pressures for such reductions reflect efforts to cut public expenditures and to hold down taxes. They gain force from a common failure to recognize that overlapping payments are not necessarily duplicative. There

appears to be no reason within the concept of unemployment insurance to reduce the UI benefit of an eligible worker because of concurrent receipt of another benefit based on a different risk and financed in a different way.

Administrative problems

Although statutory requirements relating to pension income may ease some administrative problems, they create others. It may be too difficult to determine for a given month whether claimants are receiving a private pension or a pension based on government service (civilian or military) or whether they are getting an old-age retirement benefit. Up to the present, the retirement test for social security benefits has involved a monthly as well as an annual employment test. Recent amendments have done away with quarterly reporting of earnings by employers and placed the retirement test on an annual basis. OASDI benefits will be suspended for a given number of months in a year, depending on the amount the individual earns in the year. No doubt some rules could be developed to charge benefit payments for specific months, but these rules would be complicated and the results not always realistic, and the determination might not occur until many months after the period of unemployment.

Number of Pensioners Involved

Where there is no statutory disqualification applying to pensions, how many pensioners or social security old-age beneficiaries actually claim and receive unemployment compensation? What are their characteristics, and what proportion of all UI beneficiaries do they represent? One can expect that both the number and proportions will vary with economic conditions, the size of the aged population in a State, the duration of benefit payments (a larger proportion of those drawing extended benefits are older workers), and other factors.

There are only a few State studies to provide answers to these questions. Most of those that deal directly with pensioners were carried out in the early 1960's, when pension receipt was less nearly universal. Sample surveys in 13 States in 1961–62 found that 8 percent of all eligible claimants were receiving a pension, with the proportion varying by State from 3 to 13 percent. Almost 90 percent of the pensioners (7 percent of all eligible claimants) were receiving social security benefits, a fourth (2 percent of all claimants) were receiving private or other pensions in addition to social security, and 12 percent (1 percent of all claimants) had other pensions only. New York State, which had the second highest proportion (12 percent) of UI claimants who were pensioners (Vermont was highest, with 13), also showed the highest proportion (11 percent) of eligible claimants aged 65 and over (Louisiana was lowest with 2 percent). In a New York State study of pensioners among claimants in August 1959, 9 percent of all eligible claimants were found to be receiving pensions. The difference between 9 and 12—insofar as it is real (the 1959 study was for a 1-month period, the 1961–62 study covered about 9 months)—may reflect economic recession and a large proportion of long-term unemployed in the later year.

Washington State also did its own study of pensioners in 1961–62. Like New York, at that time it had no statutory restriction on payments to pensioners. The study found that 8 percent of the eligible claimants were getting pensions. Most were social security benefits, but almost one-tenth (1 percent of all claimants) were military pensions.

Hawaii made special studies of the pensioners on its benefit rolls in 1964, 1965, and 1967. In 1967 pensioners represented 3.7 percent of all eligible claimants and 85 percent of all those eligible who were aged 65 or over.

Both the special New York State and the Washington State studies had some information indicating the extent to which pensioners had worked between the time they started drawing a pension and the time they claimed UI benefits. In Washington, over half the pensioners had applied for their pensions a year or more before the claim for UI benefits. Some 5 percent of the men and 3 percent of the women had gotten their pensions at least 10 years earlier (half of this group were military pensioners).

In New York, about half the pensioners in the 1959 study had had some base-year employment after they filed for the pension. New York classified 60 percent of the pensioners as having retired voluntarily; however, almost half had been retired a year or more before claiming UI, and about a third had filed for a pension after being laid off, probably seeing little chance of being recalled to work soon. About one-fourth of the 40 percent of the pensioners who were classified as having retired involuntarily still did not claim UI until a year or more after compulsory retirement. They must have had some substantial amount of work after retirement in order to qualify for unemployment compensation.

In 1963 New York began to reduce its UI benefits because of private pensions paid by a worker's base-period employer and financed at least 50 percent by the employer. The State made a study of the effect of this new provision on benefit payments in the period July 1963 to June 1964. It found that unemployment compensation benefits were reduced for about 10 percent of the pensioners who qualified (about 0.7 percent of all new claimants). The net saving in benefits was less than 0.3 percent of total benefit outlays, and about 0.3 percent of the covered employers realized a reduction in the amounts charged to their accounts.

A few more recent State UI studies have included information on the proportion of UI beneficiary house-

holds with social security or pension income. These are mostly studies of benefit adequacy, and most deal with the families of persons who have exhausted their benefit rights. A report that household income includes social security payments could mean benefits are received by a grandfather in the household or by an orphaned child or a wife or widow who was not an earner or not the UI beneficiary. Clearly, any estimates derived from such studies can do no more than suggest possible outer limits for the proportion of UI claimants also drawing retirement pensions.

The few bits of data available from these studies suggest that the overlap of retirement benefits and UI benefits has not grown much, if at all, in recent years. A 1975 study of recipients of Federal supplemental benefits (which extended duration of benefit payments under the regular unemployment compensation program to 65 weeks) showed that 12 percent of the households drew social security benefits and 7 percent received other pensions in that year. There is, no doubt, considerable overlap in these two groups, as most persons with private pensions are also on social security. A special analysis that charged eligibility for various types of benefits on the basis of each family's income and composition—and that counted only social security retirement benefits payable to those aged 62 to 71—resulted in an estimate of 5.9 percent of all recipients of extended UI benefits also getting social security at some time during the benefit year.

A small pilot study of the UI recipients of Columbus, South Carolina, in the summer of 1971 collected information on beneficiaries with household income from pensions, including social security, in the month prior to receipt of UI (when earners were employed) and in a month when they were receiving UI benefits. In husband-wife households where the UI beneficiary was the sole earner, the percentage of households with some pension income was 12 in the employed month and 19 in the unemployed month. In households headed by men but with other earners present, the corresponding percentages were 17 and 17. Clearly, in a significant number of cases, household income from social security or private pensions was not that of the unemployment compensation claimant. It would also appear that, when unemployment occurred, a number of the older workers either became eligible to receive social security benefits that had been suspended while they were earning or decided to file for social security benefits for the first time. About 10 percent of the sole-earner male beneficiaries were estimated to be aged 62 or over. South Carolina is one of the States that does not disqualify claimants or reduce their benefit amount because of the receipt of social security or other pension, provided claimants demonstrate that they want a job.

Current information on the proportion of claimants who receive pensions and the characteristics of those who are qualified and those whose claims are denied would be helpful to this analysis. Such information is available only through special surveys, which, because they take time, should be started as soon as possible.

Unemployment and Early Retirement

This analysis has focused on the question of unemployment among older workers who could qualify for a social security old-age benefit. In relation to the issues regarding their right to receive UI benefits while getting social security, it was not important to distinguish between those aged 62 to 64 and those aged 65 and older. A far larger proportion of those who retire at 62 to 64 than of those who retire at 65 or over do not continue or go back to paid employment. In a 1968 survey of aged persons, half of the men who retired at 62 to 64 but only one-fifth of those who retired at 65 gave health as the main reason for leaving the last job. Among male wage and salary workers, 14 percent of those who retired at age 62 and 5 percent of those who retired at age 65 cited layoff as the reason. Among self-employed persons, 21 percent of those who retired at 62 and 16 percent of those who retired at 65 cited layoff or poor business.

The overlap of social security, retired-worker benefits, and unemployment compensation benefits occurs primarily in the still-vigorous 65-to-69 age group, many of whom want to continue working at least part time and are generally able to find work but sometimes lose one job and fail to find another. For them, as for younger workers, unemployment compensation benefits take the place of earnings.

A different kind of policy question arises both in the context of UI and in that of social security retirement. It concerns workers who are on the borderline between ill health and partial disability, unemployment or even unemployability in existing economic conditions, and retirement for old age. During periods of recession and long-continued unemployment, the Federal Government has supplemented the regular UI benefits by providing for an extended duration—up to 65 weeks, under the 1974 special legislation. Extended benefit duration has sustained many younger families in the past few years. It has also provided income for a disproportionate number of older workers and probably for marginal workers as well.

A question of increasing importance for overall social policy is whether a permanent extended UI benefit program should be adopted, and, if so, what its provisions should be, in particular whether it should be an insurance or an assistance program. At the same time, questions are being raised about the desirability of providing disability benefits under somewhat more liberal definitions of disability for persons aged 55 or over. Some countries pay early retirement benefits to workers who have been continuously unemployed for 1 year (or 2

years). The conjunction of such institutional changes would create new areas of possible overlap. It is beyond the scope of this report to deal with such possible future developments, but it is clear that the principles adopted for the regular UI program will have relevance for the protections provided in the future.

Notes

1. The exempt amount for beneficiaries under age 65 remains at the levels established before the 1977 amendments—$3,240 in 1978, with automatic adjustment to average wage levels in subsequent years. This lower amount will apply to workers who retire early, disabled workers, and dependents and survivors under age 65.

2. The special problem of duplicate benefit rights under social security (OASDI) and the Federal civil service pension system resulting from continued noncoverage of Federal civilian employment under social security lies outside the province of this report.

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Shared-Work Compensation as Part of a Temporary Worksharing Program

Robert Crosslin

Worksharing is a broad term that has been applied to several forms of alternative work patterns. The pattern referred to in this report is the *temporary* sharing of a *reduced* amount of available work among employees of a single firm. This arrangement should be clearly distinguished from *permanent* jobsharing, in which two individuals or more share one full-time position, each on a part-time basis. Proposals to pay partial unemployment benefits to workers on temporary worksharing have been given several different labels: the Poses plan, short-time compensation, and shared-work compensation (SWC). The last, SWC, is currently in use by the Department of Labor, and this label is used in this report.

The objectives of SWC are to:

- reduce actual job loss during short economic downturns, especially among workers with little or no seniority and skills, many of whom are youth and minorities;
- maintain the skills and advancement opportunities of more workers;
- maintain the incomes and fringe benefits of more workers, especially those with low seniority and work experience, who are less likely to be eligible for regular unemployment insurance (UI) benefits if completely laid off;
- maintain work-force productivity within the firm by retaining its skilled labor force during short downturns; and
- reduce the hiring and training costs associated with rebuilding the firm's skilled labor force after an economic downturn.

Using SWC in periods of temporary economic decline, a firm could reduce all employees' hours (or those of one or more selected units) instead of completely laying off a number of workers. The workers on a shorter week would be eligible to receive a prorated percentage of their potential UI weekly benefit amount. For example, workers whose weekly hours were reduced from 40 to 32 (by 1 day) would receive their normal wages for 4 days of work plus a partial UI payment equal to 20 percent of the unemployment benefits payable to them if they had been unemployed for a full week.

This type of worksharing is not feasible or desirable for all firms in the economy and is not presented as a substitute for other public and private policies for dealing with economic downturns. Rather, SWC is an alternative that some firms and workers may find preferable to ordinary layoffs when employment cutbacks are necessary. It is therefore important that such a program be voluntary for both employers and employees.

Many questions regarding the operation of an SWC program in the United States remain unanswered. How would it be funded? How closely would it be integrated with the existing UI program? How long would SWC benefits be available? Should some firms be excluded? Following is a discussion of the advantages and disadvantages of SWC, highlighting the experiences of those who have been involved in such programs. SWC programs presently exist in several Western European countries, including West Germany and France. This report touches on these programs and briefly explores a pilot program in Canada and a recently implemented program in the State of California.

Advantages and Disadvantages

Numerous advantages and disadvantages of SWC as part of worksharing have been discussed.[1] Whether or not the advantages and disadvantages addressed here will accrue in significant proportions is an empirical matter. In the following section, tentative observations on the programs in Europe, Canada, and California provide insight into the potential impacts of SWC programs.

Why SWC should work

For workers in general, SWC holds many advantages. Primarily, the plan allows all workers to retain their

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jobs—to continue their worklives without interruption. By more equitably distributing the burden of unemployment caused by economic downturns, SWC lets new entrants, reentrants, and minority workers (who would probably be the first laid off under a "first-hired, first-fired" principle) remain employed. Also, by keeping workers employed, albeit for fewer hours, the plan significantly reduces the amount of fringe benefits lost (primarily life and health insurance and pension rights) and, in fact, maintains higher incomes and living standards than laid-off workers would realize otherwise. This is especially true for a large proportion of the new entrants, reentrants, and minority workers, who either would not have qualified for UI at all or would have received only a small amount of UI benefits.

For employers, SWC means the maintenance of a trained, productive work force. In the normal layoff situation, not only do new workers have to be hired and trained when economic conditions and production pick up again, but rehired workers must regain their previous productivity, and many have to be retrained. Not all those rehired are able to return to their former jobs; these must be retrained for their new jobs. In addition, if "bumping down" of employees occurs during the downturn, some amount of retraining is necessary for the employees doing the bumping. All of these factors affect productivity and costs. Finally, although SWC would not eliminate turnover, a greater proportion of the employer's skilled work force can be maintained than with the usual layoff situation since there will be less financial incentive for workers to seek new employment.

Society too benefits from SWC in conjunction with temporary worksharing: by retaining the set work force, affirmative action and equal employment opportunity advances are maintained at a higher level than otherwise would be the case. By preserving jobs and income, SWC would help reduce the need for public service employment jobs and lessen expenditures on other forms of government transfer payments, such as public assistance. By offering partial UI benefits, SWC removes current incentives for full layoffs. Under the present structure of UI in all States except California, workers are unable to receive any UI benefits if they are employed for more than 2 to 2½ days per week. Employers are reluctant to propose temporary worksharing with zero replacement of lost earnings, believing instead that they can keep more of their total work force by laying off some workers completely, their UI benefits and poor job prospects keeping them available to the firm when demand strengthens.

Why SWC may not work

Although SWC allows workers to keep their jobs, senior workers who would not have been threatened with layoff without SWC will receive less take-home pay, even after the SWC benefit payment. These workers substitute some amount of leisure for income, some or all of which may not be desirable to senior workers. On the same basis, senior workers will have smaller accruals to pension programs, to the extent that such accruals are proportional to wages and if the workers are below ceiling accrual levels for the period. Similarly, employees who would not have been laid off otherwise will have lower base-period wages and reduced UI entitlement should they become fully unemployed within a year or so after SWC participation. Another disadvantage of SWC to workers is that some employers could successfully attempt "speed-ups"—reducing output by *less* than the reduction in worktime. And, because employers would be able to go to SWC almost immediately when product demand declines and still retain their work force, some employers may begin partial layoffs sooner in a downturn than they would start full layoffs without SWC (reduction in the hoarding of labor when economic activity begins to decline).

Advantages to workers may prove disadvantageous to employers: fringe-benefit costs will be greater under SWC than they would be with full layoffs of a smaller number of employees. Also, work scheduling may be more difficult under SWC. On the other hand, disadvantages to workers can also cause disadvantages for employers: some senior employees may dislike SWC so much that they will quit to take jobs with employers who do not utilize the SWC program.

For society, although fewer public service employment jobs may result, UI costs may increase because more senior workers with higher base-period earnings and weekly benefit amounts would receive unemployment compensation. At the same time, less turnover in the economy will occur, possibly reducing incentives for labor mobility. Furthermore, the statistics of SWC may prove problematic. Although the measured amount of unemployment would be smaller, the actual amount of unemployment would be the same as without worksharing because workers on SWC are partially unemployed; thus, the total amount of worktime reduction in unemployment simply is distributed differently. If economic policymakers should neglect this fact, behaving as though the unemployment situation is not as serious as it actually is, less expansionary economic policy than would normally be called for would be undertaken. Another statistical snag concerns the many government programs triggered by unemployment rates in political subdivisions. Unless some method of accounting for the partially unemployed on SWC is devised, areas in which SWC is used heavily may receive less government revenue than otherwise.

The Experience of Europe and Canada

Various SWC programs have been utilized in Europe

since about 1920. Most Western European countries include SWC as a major countercyclical tool for dealing with unemployment.[2] Austria, Belgium, Denmark, France, Italy, Luxembourg, the Netherlands, Norway, the United Kingdom, and West Germany head the list. At the height of the 1974–75 recession, the average number of West German workers on SWC reached 773,334. Recent estimates of the effect of SWC suggest that the amount of registered unemployment in West Germany would have been about one-sixth higher without SWC.[3] In West Germany, the duration of SWC benefits is normally 26 weeks; however, this can be extended to up to 52 weeks under certain conditions. France and Italy allow such benefits for up to 52 weeks also. Except for France, which pays a flat amount, the replacement rate for SWC in Western Europe varies from 60 to 80 percent of gross earnings.[4]

Although SWC benefits are paid to a minority of unemployed workers in Europe, most observers consider these programs successful in meeting their limited goals. However, given the many differences between the European and U.S. economies and labor markets, it cannot be concluded that SWC would be either desirable or feasible for the United States. Canada's economy closely resembles our own, and recently that country has been experimenting with SWC (Canada terms it "worksharing benefits"). In 1977, Canada's Parliament enacted legislation permitting the Employment and Immigration Commission to implement a nationwide SWC program, after a period of experimentation. The enabling legislation was very general, leaving specific regulations to be determined by the Commission. The experimentation process was intended to provide sufficient information for determining program characteristics: eligibility requirements, duration of benefits, and so on. The experimentation period was originally set at 1 year, from January 1978 to January 1979. However, the Commission decided to continue experimentation for at least 1 additional year.[5]

Canada's first year of experimentation was limited to the Commission's contracting individually with about 20 private firms in different industries; these firms were experiencing a period of temporary economic decline and were willing to implement SWC in lieu of full layoffs.[6] The firms were required to document that the decline was out of management's control; however, the Commission officials admitted that such a condition was difficult to determine and was very subjective. The potential duration of SWC benefits varied from firm to firm, depending on projected needs. As of this writing, evaluation of the results for the first 20 firms has not been received.

Several employees from the U.S. Department of Labor (DOL) traveled to Canada to meet with Canadian officials and with several employers and employees participating in the worksharing program. They returned sharing the general impression that both workers and firms believed the program to be worthwhile and successful. Some senior workers were not as pleased with the program in its first year, saying they would have suffered no income loss if not for worksharing; despite this, however, almost all workers (including senior ones) found the program desirable and effective. The program met greater acceptance in smaller cities, a finding attributable to the greater sense of commonality in smaller communities. It is important to note that all employers in the Canadian program maintained full fringe benefits (except for wage-related items like social security).

No comparison of program costs vis à vis regular layoffs was available at this writing. Also, no information was available about the reasons for other firms' lack of application or participation. More complete evaluations of the Canadian program are expected during 1980.

The California Experiment

In anticipation of layoffs resulting from its budget-cutting Proposition 13, California amended its law in July 1978, allowing for payment of SWC to workers in firms with approved worksharing applications. The legislation stipulated the following:

- Only firms in covered (UI) employment can participate; these must have an approved application with the Employment Development Department.
- Firms whose workers are represented by a union must have the signature approval of the appropriate union business agent.
- Workers must meet the normal UI qualifying requirements for earnings in the base period.
- Workers receive a weekly benefit amount proportional to the amount of reduction in regular work hours reported by the firm. No payments are made for less than a 10 percent (½-day) workweek reduction.
- SWC benefits are paid out of the State UI trust fund and are charged (experience-rated) to the employer in the same way as regular UI benefits.
- Firms with a negative balance on their experience-rated reserve account must pay an additional surcharge to participate in the program.

The amendment provided for expiration of the program on December 31, 1979. By August of that year, a 1-year extension had passed the California Assembly and was awaiting action by the State senate. An evaluation of the program by the legislative audit staff of the State legislature was due in March 1979; however, this consisted mainly of a status report and a recommendation to extend the program for an additional year so that a thorough evaluation could be made before there was a final decision on whether to make it a permanent feature of the California UI law.

As of May 31, 1979, 182 firms representing about 5,000 employees either had participated or were participating in the California program. Only 6 were public employers; 176 were private firms. The percentage of reduction in worktime varied from 10 to 60 percent, with slightly over half the firms at a 20 percent (1-day) reduction. Approximately 15 percent of the firms were union employers. All employers contacted were maintaining full fringe benefits except for wage-related items, such as social security.

A thorough evaluation of the California program by both State and Federal officials is scheduled for 1980. It is to include interviews with workers, unions, and employers who participated in the program and with those who did not. Preliminary contacts with almost all participating employers disclosed a generally favorable attitude toward the program. The only major problem cited was the amount of paperwork involved, and the State is taking steps to correct this problem. The "take-up" rate, or the proportion of total layoffs participating in the program, at that time was very small—less than 1 percent. Although this cannot be judged as either good or bad, it should be noted that participation has been increasing rapidly; the number of participating firms more than tripled from February to May of 1979.

Judgments about whether SWC proves successful in California must await further experience and evaluation. Neither business nor labor groups opposed the original bill or its proposed extension.

The DOL is planning a comprehensive evaluation of the California program. The purpose of the evaluation is to answer many of the questions about SWC raised by different interest groups.

The more important questions to be addressed by the evaluation are:

- What types of firms are, and are not, likely to participate, and why?
- What effects does SWC have on turnover and productivity and on hiring and training costs within a firm?
- What is the nature and magnitude of increased fringe-benefit costs to firms? To what extent are workers protected from fringe-benefit loss?
- Are aggregate UI costs higher, lower, or the same under SWC?
- How do workers view the program from economic, social, and personal perspectives?
- What employer abuses are likely to occur under an SWC program?
- How does SWC affect the incomes of various groups of workers, compared to the normal layoff situation?
- How do workers on SWC spend their increased leisure time?
- Are unionized firms more or less likely to participate than nonunion firms? How does SWC interact with contracts and the labor-management relationship?
- Are affirmative action and equal employment opportunity gains more easily retained under SWC?
- What special administrative problems are associated with an SWC program?
- Should operation of an SWC program be separate from the existing UI system?

The answers to these and other questions would be of great value to program drafters in making policy decisions regarding SWC. However, if States other than California begin to consider such programs as SWC, the Federal Government will have to decide what role (if any) it should play in encouraging or discouraging the concept.

The options open to the government concerning its policy toward SWC are many. It could take no position, permitting individual States to decide whether they want such a program and, if so, in what form. The government could also play a watchdog role, establishing guidelines for the duration, benefit levels, or other program characteristics. Most of these would be tantamount to Federal standards. As an advocate of SWC, the government could provide partial funding through either general revenues or the Federal Unemployment Taxation Act tax. The amount of Federal funding could be triggered in the same way that extended benefits are allowed. Taking a more active role, the Federal Government could implement a program funded out of general revenues, with uniform standards for qualifications, benefit duration, and the benefit formula. This option could also be triggered by unemployment rates. A more tentative move would be to implement any of these options favoring SWC as a pilot program, to expire at the end of a designated period—for example, 5 years. A congressionally mandated study of the experience during the pilot period could provide the information needed to decide on the program's future. Finally, if, for philosophical or empirical reasons, the government believed SWC to be undesirable in the United States, it could recommend to the States that they not legislate such a program.

Recommendation Requested

Given the widespread use of worksharing programs in Western Europe, the fact that Canada and California are currently experimenting with extensions of their UI laws in this direction, and the increasing nationwide attention being focused on this issue, the National Commission on Unemployment Compensation should take a definite position on SWC in its Final Report by addressing the question of whether worksharing is a desirable program for the U.S. economy and its workers.

Notes

1. For a detailed listing of advantages and disadvantages, see Fred Best, "Short-Time Compensation and Work Sharing" (Washington, D.C., National Commission for Employment Policy, April 1978).

2. For a comprehensive review of the European experience, see Peter Henle, *Work Sharing as an Alternative to Layoffs* (Washington, D.C., Library of Congress, Congressional Research Service, July 1976); *Reexamining European Manpower Policies* (Washington, D.C., National Commission for Employment Policy, August 1976, Special Report No. 10); and Paul Fisher, "Work Sharing in the Federal Republic of Germany" (Washington, D.C., U.S. Department of Labor, Employment and Training Administration, Office of Research and Development, September 1978).

3. Best, "Short-Time Compensation."

4. Axel Mittelstadt, "Unemployment Benefits and Related Payments in Seven Major Countries," *Reexamining European Manpower Policies* (Washington, D.C., National Commission for Employment Policy, 1976).

5. Information on the Canadian worksharing initiatives was obtained in correspondence and meetings between officials of the U.S. Department of Labor and the Canadian Employment and Immigration Commission. See also Paul Fisher, "The Canadian Program," *Unemployment Compensation: Studies and Research* (Washington, D.C., National Commission on Unemployment Compensation, 1980).

6. One firm was making the transition to a *permanently* smaller labor force. In this case, SWC was intended to allow those workers who would eventually lose their jobs permanently to maintain their incomes and search for new work during the hours released by the shorter workweek.

Employer-Provided Group Health Plans and the Unemployed

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As the principal source of health insurance coverage for workers is the group health plans offered through employment, unemployment often leads to loss of coverage and exposure to the risk of high health care costs. However, because of the complex eligibility provisions contained in these plans, loss of coverage is not automatic, nor is the period of loss necessarily coincident with the period of unemployment. Based on a random sample of 901 employment-related group health plans, this report describes the three basic types of eligibility systems (status-, tenure-, and hours-based) and interprets how they lead to lags after employment before coverage is acquired—entry lags—and lags after separation before coverage is lost—exit lags. Average entry and exit lags are computed for different industries and types of workers. The estimated average lags are combined with data on the distribution of the unemployed by duration of unemployment to estimate the proportion of the unemployed who lose coverage; and the average duration of coverage loss observed at a point in time for various groups. Implications for public policy are discussed.

For the vast majority of Americans, individual and family health insurance is linked to employment. Most workers receive health insurance benefits from group health plans (GHP's) provided by their employers. Almost 80 percent of workers in the private nonfarm sector receive their health benefits through such plans;[1] approximately 62 percent of the total U.S. population is covered by GHP's of one sort or another.[2] This link between health insurance coverage and employment implies that unemployed persons not only face loss of income, but also are vulnerable to the high cost of medical care. In periods of declining economic activity and general inflation this problem becomes even more acute because existing public programs are not designed for, or financially capable of, supporting the medical needs of growing numbers of unemployed workers.[3] Yet very little is known about the extent to which workers can retain their group health coverage during periods of unemployment.[4]

It is important to recognize that many workers neither lose health insurance upon layoff nor become covered immediately upon hire. Eligibility provisions associated with GHP's often provide coverage beyond the date of layoff and often specify a waiting period after hire before the health insurance becomes effective.

This report describes the types of eligibility practices associated with employer-provided group health plans and discusses the implications of these practices for the unemployed. The report focuses on variations in eligibility rules across firms and industries and on the interaction between the unemployment experience of workers and the practices governing their health insurance coverage.

Data for the study came from a randomly drawn, national sample of business establishments. The summary plan descriptions of GHP's offered by employers were examined.[5] The eligibility information contained in these summaries was used to estimate the average period for which typical workers could expect to retain coverage beyond the date of layoff (exit lag), and the average waiting period before coverage becomes effective after hire (entry lag). In seven major industry groups, the estimates of these lags and the unemployment experience of workers were used to estimate both the percentage of the unemployed who lose insurance coverage and the average duration of coverage loss among all workers who had lost coverage. The purpose of this estimation was to ascertain whether, because of differences in lags and unemployment durations of workers in various industries, loss of coverage among the unemployed differed across the industries.

Background

Eligibility provisions of GHP's have been a subject of discussion among insurance companies and GHP ad-

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ministrators for a long time.[6] However, the impact of these provisions on the health insurance coverage of the unemployed has begun to receive attention only as a result of growing concern about providing coverage to the increasing numbers of workers unemployed during periods of recession. Escalating health care costs and proposals for mandatory, employer-provided national health insurance schemes also have increased interest in existing employer-provided GHP's and their administration.

Generally, it has been assumed that unemployment automatically means loss of job-related health insurance coverage, and that, conversely, employment by a firm offering a group health plan implies coverage. Several recent inquiries have indicated otherwise.[7] Many GHP's have provisions permitting participants to continue membership in the plan for some period of time after they are laid off. However, attempts to determine the extent to which workers can retain their benefits beyond the layoff date have been limited because of lack of suitable data.

Based on a sample of reports (D–1 and D–2 forms) submitted to the Department of Labor by sponsors of employment-related health plans, a Bureau of Labor Statistics (BLS) study found that at least two-fifths of the workers could expect their benefits to continue for at least 1 month beyond the date of layoff, and that 10 percent of the workers could continue to receive benefits for 6 months or more after they were laid off.[8] Using the same data, Novotny found wide variation across industries in average entry waiting periods, that is, the weeks of work required before benefits could be received.[9] For example, in 1974 only 8 percent of workers in the construction industry had no waiting period, in contrast to 50 percent of workers in communications and public utilities, and 85 percent in the mining industry. Up to 25 percent of workers received benefits from plans with waiting periods of 3 months or longer. However, these studies were based on an unrepresentative sample. The filing requirements systematically excluded small firms; in addition, incomplete records and misplaced files resulted in substantial loss of information. Furthermore, it was not possible to determine whether all firms required to submit D–1 and D–2 forms actually did so.[10] And none of these studies provided a description of the eligibility provisions or an explanation of how the waiting periods were computed from those provisions.

McCaffree and others[11] used a sample of health and welfare plans jointly trusteed by unions and management to study this question. They found that the average waiting period upon employment ranged from 4 to 28 weeks, depending upon industry and region. The average period of eligibility retention beyond layoff varied across industries from about 4 weeks to as long as 31 weeks. The percentage of unemployed workers who lost their job-related health insurance in 1975 varied from 54 to 93 percent across industries; average duration of coverage loss ranged from 19 to 24 weeks. As this study was based on a sample of only 110 plans and covered a special segment of the labor force, the usefulness and generalizability of their findings are limited.

None of these studies had the benefit of a data set providing a complete picture of the practices governing employer-provided plans and the influence of such practices on the coverage of the unemployed. In this study it was possible to overcome many of the deficiencies of previous studies by having access to a much more complete and representative data set.

Source of the Data

The data used in this study were derived from summary descriptions of the GHP's offered by 901 randomly selected, private, nonfarm business establishments. These data were collected as part of a larger survey effort undertaken during two research projects sponsored by the Department of Labor.[12] The survey used a national probability sample of all private, nonfarm business establishments having two or more employees. The sample was drawn from Dun and Bradstreet's credit investigation files—a list containing the names of more than 3.5 million establishments. The sample was stratified by region, employment size, and industry. Certain cells were oversampled to guarantee that estimates could be drawn with sufficient confidence and precision for each industry, region, and employment-size group.[13] These data were collected by telephone surveys conducted in late 1978 and early 1979. Written summaries of GHP's were obtained from the survey respondents. These summaries contain information on the eligibility provisions that determine who will or will not be covered by the GHP.

The summaries were used to estimate entry and exit lags. In many instances, information on the length of lags could not be ascertained directly from the summary description of the plan. Each summary described the provisions used by the plan to determine each participant's start and termination of insurance coverage under the GHP. Therefore, procedures were developed to convert these descriptions into estimates of the lengths of entry and exit lags faced by an average worker. The various provisions and procedures used to estimate entry and exit lags are described below.

Eligibility Provisions of Group Health Plans

The eligibility provisions of employer-provided health plans can be complex and often do not specify fixed entry or exit lags. Instead, the length of employment

and hours of work requirements that must be met for a worker to receive benefits are specified.

The central goal of this research was to convert these descriptions into estimates of average entry and exit lags. This issue can best be addressed by dividing employer-provided health plans into three groups, determined by the nature of their eligibility provisions. The first group consists of plans in which eligibility for health benefits is determined by the *employment status* of the worker; basically, benefits are provided if the worker is employed. Plans in this group might not provide coverage immediately upon employment, nor is coverage necessarily lost immediately upon losing employment. Nonetheless, the eligibility for coverage is largely independent of any work requirements. The most common examples are those plans under which coverage begins with employment or on the first day of the calendar month following employment. This system is referred to as *status-based eligibility.*

The second group comprises plans in which initial eligibility can be obtained only after the worker has satisfied certain work requirements for a specified length of time. After coverage is obtained, continued coverage depends upon continuing employment. Under such a system coverage may be continued for a specified period beyond the date of layoff; this is usually *independent* of the employment history of the worker and typically is longer than that associated with status-based eligibility systems. An example of such a plan is one that requires continuous employment for 3 months. This system is referred to as *tenure-based eligibility.*

Finally, there are plans in which coverage is largely independent of the employment status of the worker, instead depending on the worker's recent history of hours worked. The distinguishing feature of this system is that the employment record during one period becomes the basis for receiving benefits in subsequent periods. High employment in the past can be the basis for continuing one's coverage for extended periods of unemployment. This system is referred to as *hours-based eligibility.*

Status- and tenure-based eligibilities are the most common types of GHP's. The hours-based system is much less common, but it covers a group of workers of special interest to an employer-mandated national health insurance system. These workers are discussed later in this report. The distribution of workers in establishments with GHP's across industries is shown by type of eligibility system in Table 1.[14]

Table 1 shows that 45 percent of workers in establishments with GHP's are associated with a status-based eligibility system; 51 percent are associated with a tenure-based eligibility system; and only 4 percent are associated with an hours-based eligibility system. Tenure-based systems are the most common among establishments in all industries except finance and wholesale trade. In these industries, a larger proportion of GHP's are status-based systems. Hours-based systems are found mostly among construction, manufacturing, and transportation establishments and only rarely in establishments from other industries.[15]

TABLE 1. Proportion of workers in establishments with group health plans with various eligibility systems, and industry

Industry	Eligibility system			
	Status-based	Tenure-based	Hours-based	Total
Construction	29	56	16	100 pct
Manufacturing (includes mining)	43	53	4	100
Transportation	35	59	6	100
Wholesale trade	55	43	2	100
Retail trade	35	64	1	100
Finance	70	30	X	100
Services	50	50	X	100
Private nonfarm sector	45	51	4	100 pct

LEGEND: X = 0 percent.
NOTE: Entries may not sum to 100 percent due to rounding.

For each of the three systems, the kinds of provisions included and their implications with respect to how long workers must wait before qualifying to receive benefits or how long they can retain the benefits after they are laid off are discussed below.

Status-based eligibility system

This system applies to about 45 percent of the workers with GHP's in the private nonfarm sector. It is characterized by short entry and exit lags. Workers covered under such plans are most likely to obtain their group health insurance upon employment and lose it soon after layoff or termination.

In many of these plans, however, the worker's eligibility for benefits is determined on a monthly basis. That is, rosters of workers eligible for coverage are drawn up once a month.[16] This is usually done for administrative ease. Thus, workers face short entry and exit lags of up to 1 month, depending on at what point during the month they are hired or laid off. These short lags may seem of small consequence, but their implication for coverage of the unemployed and the cost of providing coverage in the aggregate is significant. Almost 30 million workers receive benefits under such a system. Many thousands of these workers can be expected to be unemployed for relatively short durations—a few weeks or so. (Typically, 30 to 45 percent of all workers who are unemployed at any given time have an unemployment period of less than 5 weeks.) A significant proportion of workers covered under plans with monthly eligibility determination provisions and short unemployment durations are not likely to lose their health insurance benefits if they are recalled to

their old jobs. Nevertheless, many will lose their benefits, and in the aggregate this results in significant exposure of the population to the risk of being without health insurance coverage.

The major aspects of eligibility provisions among GHP's with status-based systems are summarized in Table 2. Only 24 percent of workers covered by status-based systems have their eligibility determined monthly, rather than continuously. This means that more than three-quarters of the workers in this group obtain eligibility and benefits upon employment. However, some plans specify a period after termination of employment during which workers can retain their group health coverage. In the case of a permanent separation, nearly 40 percent of the workers in this group can retain benefits until the end of the month in which they are laid off. Many plans allow even longer exit lags for workers who are laid off.

While approximately 22 percent of these workers lose coverage immediately upon layoff, an additional 30 percent can retain coverage until the end of the month in which they are laid off. Twenty percent of workers covered by status-based systems can retain coverage for 1 to 6 months beyond the end of the month in which they are laid off.[17] The remaining 30 percent work under plans that allow benefits to be continued at the discretion of the employer if the worker is laid off rather than terminated.

Under this system, few unemployed workers are able to continue their group health coverage for any significant length of time unless they were laid off. At best, they retain benefits until the end of the month in which they lose their employment. As the entry lag for more than 75 percent of these workers is zero (and for others only the remainder of the month in which they are hired), their loss of coverage for all practical purposes coincides with the period of their unemployment. The options for continuation of coverage open to terminated workers are generally fewer than those available to laid-off workers. The precise lags associated with these plans are discussed in a subsequent section.

TABLE 2. A summary of eligibility provisions of group health plans with status-based eligibility system

Characteristic	Proportion with the specified characteristics (pct)	
Determination period		
Continuous	76	
Monthly	24	
Termination provisions	*Layoffs*	*Terminations*
Day of layoff	22	62
End of the month in which laid off	29	37
Up to one month after end of the month in which laid off	5	d
Between 1 to 3 months after the end of the month in which laid off	6	d
More than 3 months after the end of the month in which laid off	9	X
At the discretion of the employer	29	X

LEGEND: d = less than 0.5 percent; X = 0 percent.
NOTE: Components may not add to 100 percent due to rounding.

Tenure-based eligibility system

The key characteristic of the tenure-based system is that a worker must be employed for a specified period of time before becoming eligible to participate in the plan. The work requirements specify full-time or part-time work; in some cases, a minimum number of hours to be worked each week is also specified. In a few instances, a reduced period of employment is specified for workers who are employed, in order it make it easier for them to reinstate their coverage.[18]

The major provisions specified by various plans under this system are summarized in Table 3. Eligibility under these plans is usually determined on a monthly basis. As a result, new hires receive benefits after the end of the month in which they complete their employment requirements; workers who lose their employment can retain benefits until the end of the month, unless otherwise specified.

Work requirements for participation in the plan are specified as months of employment. Approximately 45 percent of the workers covered by these plans must work for 1 month before they qualify to participate in the plan. Another 45 percent need 2 to 3 months of employment to qualify. The remaining 10 percent require more than 3 months of employment, in some cases as much as 9 months of employment.

Such plans sometimes include an additional waiting period after qualifying before the worker begins to receive coverage. This waiting period rarely exceeds 1 month. Thirty-five percent of workers in this group had plans with waiting periods of 1 month; most of the remaining 65 percent had no waiting period.

Work requirements and the waiting period prevent certain types of workers—probationary, temporary, seasonal, part-time, etc.—from participating in such plans with waiting periods of 1 month; most of the administrative purposes (for example, maintaining updated lists of active participants and keeping the insurance companies informed of the number of members of the plan and total premium dues).

Termination provisions in the tenure-based system, although slightly more liberal, are similar to those of status-based systems. Approximately 55 percent of

TABLE 3. A summary of eligibility provisions of group health plans with tenure-based eligibility systems

Characteristic	Proportion of workers covered by a plan with the specified characteristic (pct)	
Determination period		
Continuous	10	
Monthly	90	
Qualifying employment requirements		
1 month	47	
2–3 months	43	
More than 3 months	10	
Waiting period after qualifying to participate in the plan		
None	62	
1 month	35	
2–3 months	d	
Termination provisions	*Layoffs*	*Terminations*
Day of layoff	21	57
End of the month in which laid off	20	28
Up to one month after end of the month in which laid off	8	12
Between 1 to 3 months after the end of the month in which laid off	9	2
More than 3 months after the end of the month in which laid off	10	d
At the discretion of the employer	33	X

LEGEND: d = less than 0.5 percent; X = 0 percent.
NOTE: Components may not add to 100 percent due to rounding.

terminated workers in this group lose coverage immediately upon losing their employment. Among the remaining workers, almost 30 percent can retain their coverage until the end of the month in which they lose their job; about 15 percent can expect to remain covered for up to 3 months after losing their jobs. The provisions for laid-off workers are even more liberal: eighty percent of these workers can retain their coverage for some period of time after layoff—20 percent for more than 1 month and 10 percent for more than 3 months. However, at least 30 percent of these workers must depend upon their employers to determine whether their benefits may be continued, and for how long.

Despite the similarity in termination provisions of status-based and tenure-based systems, the experience of coverage loss among the unemployed varies greatly. Although their exit lags are similar, workers who lose their coverage must satisfy longer entry lags under tenure-based plans; hence the duration of loss of coverage among these workers is likely to be much longer. The loss of coverage is not confined to the duration of unemployment; it also extends into their next employment phase. These considerations are further discussed below.

Hours-based eligibility system

The eligibility provisions of hours-based systems are more complex than those of the other systems because they are especially designed to meet needs created by the employment conditions of the workers covered by such plans. The employment of this segment of the labor force can be characterized as seasonal and sensitive to levels of overall economic activity. In addition, these workers are governed by variable hourly schedules and their jobs often require them to move from one employer to another to maintain continuity of employment. These workers are employed primarily in the construction and transportation trades, but in some cases they work in manufacturing establishments. For example, carpenters work for millwork establishments. Table 1 shows that 4 percent of workers in manufacturing establishments are covered by these plans.

The provisions of such plans do not directly specify entry or exit lags. Instead, requirements are specified in terms of hours of work. If workers satisfy these requirements, they are covered by the group health plan; otherwise they are not covered.[19] Separate provisions are often specified for initial eligibility, reinstatement of eligibility, and maintenance of coverage. Provisions for maintaining coverage determine when a worker can be expected to lose coverage. The main feature of the provisions among these plans is that employment during one period is used as the basis for determining coverage in a subsequent period.

Employees gain future coverage by working a specified number of hours over a specified period of time. For example, a worker may be required to work 300 hours in 3 months. The number of hours required usually depends upon the length of the period specified, typically ranging from 3 to 12 months with average hours of work ranging from 80 to 120 per month during that period. This differs from the tenure-based eligibility system, which requires a fixed number of months of employment before a worker can participate in the plan. In the hours-based system, the total number of hours, rather than the period of employment, is the binding criterion. For example, a worker who was required to work 240 hours in 3 months might satisfy the requirement in 6 weeks and thus could become eligible to participate in the plan without having completed 3 months of employment. The intent of this system is to enable workers to maintain coverage despite frequent short breaks in their employment. The

system also is designed to take into account longer breaks in service due to seasonality of employment.

The complexities of hours-based systems can be extensive, but a reasonably accurate understanding of their operation can be achieved by disregarding some of the details. Table 4 presents a summary of the variation of eligibility provisions among such GHP's.

TABLE 4. A summary of eligibility provisions of group health plans with hours-based eligibility

Characteristic	Proportion of workers covered by a plan with specified characteristics (pct)		
Determination period			
1 month		7	
3 months		89	
4 months		5	
Waiting period after qualifying to participate in a plan			
None		10	
Up to 1 month		74	
More than 1 month		16	
Multiple eligibility provisions			
None		75	
Hour-bank system		16	
Cast-back system		9	
	Implicit rate of 80 hrs/ month or less	Implicit rate of more than 80 hrs/ month	Total
Qualifying work requirements			
Initial eligibility: hours to be worked anytime over			
3 months	16	13	29
4 months	5	X	5
6 months	23	32	55
12 months	8	3	11
All periods	47	53	100
Reinstatement of eligibility: hours to be worked anytime over			
1 month	37	6	43
3 months	7	16	23
4 months	3	X	3
6 months	8	20	28
12 months	2	X	2
All periods	57	42	100
Work requirements for maintaining coverage			
1 month	34	9	43
3 months	16	31	47
4 months	2	X	2
6 months	X	8	8
12 months	d	X	d
All periods	52	48	100

LEGEND: d = less than 0.5 percent; X = 0 percent.
NOTE: Components may not add to 100 percent due to rounding.

Usually, eligibility is determined on a quarterly, rather than monthly basis. Almost 90 percent of hours-based plans have a quarterly determination date. The length of this period has important implications for how long a worker must wait to obtain benefits, as well as for how long benefits can be retained after employment is terminated. A worker who is hired halfway through a 3-month determination period in which 320 hours of employment are required to qualify for health insurance must work 8 weeks at 40 hours per week to satisfy the employment requirement; this is clearly impossible in the 1½ months remaining until the next determination period. Thus, eligibility for health insurance is not achieved until the end of the *second* determination period, a wait of 4½ months. By contrast, a worker hired 1 month into the determination period (2 weeks earlier) would become eligible at the end of the *first* determination period, or after a wait of only 2 months. The longer the determination period, the greater the variation in the length of the entry and exit lags in relation to the timing of the hire or layoff date.

As shown in Table 4, qualifying work requirements are different for both initial eligibility and reinstatement of eligibility, with eligibility requirements less stringent for reinstatement. The required number of work hours depends on the length of the period over which they have to be worked. In most cases the implied rate ranges from 60 to 120 hours per month. Almost 50 percent of the workers in this group are covered by plans that require working at an implicit rate of 80 hours or less per month. The period over which these hours must be worked ranges from 3 to 12 months for initial eligibility and from 1 to 12 months for reinstatement of eligibility.

In general, longer periods mean that it is easier for a worker to maintain job-related health insurance in spite of short spells of slack work. Occasional slack work spells are more likely to be balanced by greater numbers of hours worked during periods of high employment.

However, longer waiting periods for health insurance may deter workers with steady, full-time employment from obtaining health benefits as soon as they might otherwise and may actually prevent temporary and marginal workers from ever obtaining health insurance. In addition, after health benefits have been lost, longer periods for obtaining insurance tend to prolong the time workers remain without health insurance benefits.

These plans also include a waiting period between the time a worker satisfies the work requirements and the beginning of coverage. The waiting period is usually a month, although in the case of 15 percent of workers covered by these plans it is more than a month. For 10 percent of these workers there is no waiting period. Hours-based eligibility provisions are especially preva-

lent in union-management jointly trusted health benefit plans (Taft-Hartley plans). As several employers are involved in these plans, one purpose of the system is administrative: to allow enough elapsed time for the receipt of late employment reports and thereby reduce the number of expensive retrospective adjustments of active participants and premiums. These waiting periods also affect the speed with which a worker can obtain benefits after employment or termination.

Unlike other systems in which coverage is maintained through continued employment, this system requires working a certain number of hours in one period (eligibility period) to qualify for benefits in a subsequent period (benefit period). Work requirements for maintaining coverage are much less severe than those for initial coverage or reinstatement of eligibility, as shown in Table 4. Approximately 65 percent of the workers in this group are required to work at an implicit rate of 80 hours or less in 1 month over a 3-month period to maintain continuous coverage; the remaining workers in this group have longer eligibility and benefit periods, sometimes as long as 12 months.

This eligibility system results in loss of coverage due to unemployment that may not coincide with the unemployment spell itself. In fact, for short durations of unemployment (6 to 10 weeks), a worker is most likely to remain covered. Benefits are lost only *after* failure to satisfy eligibility criteria based on work history over a prolonged period of time. Alternative provisions are provided for about 25 percent of the workers (multiple eligibility provisions), and this helps avoid loss of coverage during unemployment if the worker has a good past employment record. The key feature of such alternative provisions is that they consider employment over periods longer than the current eligibility period. There are two variations of such provisions: one uses a system of crediting hours in a "bank," the other, a system of multiple eligibility periods. These variations are referred to as hour-bank or cast-back systems, respectively.[20] Sometimes these alternative provisions are also used for purposes of determining initial or reinstatement eligibility. Such provisions usually result in making workers' employment over the *entire previous year* the basis for determining whether or not they are covered for the next benefit period. The effect of such provisions is that a high employment record can enable a worker to maintain benefits for months after becoming unemployed.

In general, this results in relatively longer entry and exit lags. It favors workers with good employment records and discriminates against more marginal workers.[21]

In the following section the length of entry and exit lags is estimated from the eligibility provisions of a sample of GHP's and variations across industry and employment-size classes are shown.

Entry and Exit Lags

The critical factor determining the extent of coverage loss among unemployed workers is the length of the exit lag faced by these workers. Then, the duration of covered loss will depend upon the duration of unemployment and the length of subsequent entry lags. In the previous section, it was observed that eligibility provisions vary considerably across GHP's, implying that entry and exit lags faced by workers also vary widely. In this section, eligibility data on GHP's of 901 randomly sampled establishments are used to estimate entry and exit lags for various groups of workers. These estimates are examined to see how they are distributed across various worker groups. First, a brief description of how the entry and exit lags were estimated is presented.[22]

Estimation of entry and exit lags

The length of entry and exit lags among GHP's of various kinds depends on the following factors:

- length of the determination period;
- length of qualifying employment;
- work requirements for obtaining and maintaining eligibility;
- length of the waiting period after qualifying before coverage begins; and
- length of specified periods for which coverage can be retained beyond the date of layoff or termination of employment.

The determination period's influence on lags is the same for all types of plans. If eligibility is not determined continuously, the length of the determination period and the timing of hire or layoff during that period become important for determining the length of entry or exit lags. For example, a worker who is laid off halfway through a 3-month determination period is automatically granted 1½ months of coverage before eligibility will be tested again. To estimate these lags it was assumed that the probability of a worker being hired or laid off is the same at every point within the determination period. Consequently (on average), a lag equal to half the length of the determination period results from the practice of determining eligibility only at discrete points, such as monthly, quarterly, etc. This lag is added to other sources of lag to determine the overall exit or entry lag.

Given this assumption regarding the determination period, the procedure for estimating entry and exit lags for GHP's with the status-based and tenure-based eligibility systems is quite straightforward. In the case of status-based systems, workers qualify for health insurance immediately upon employment (unless eligibility is determined on a monthly basis). Accordingly,

the entry lag faced by workers covered under these plans is either zero or half of a month. Similarly, the exit lag would be zero or half of a month, except in instances where a special provision for additional continued coverage is provided; in these cases the exit lag is extended by the length of that provision. It will be recalled that almost 30 percent of the workers with status-based eligibility provisions are covered by plans allowing the employer to set the length of the period for which a laid-off worker can retain benefits. For purposes of estimating the exit lag for these plans it was assumed that workers were permitted to continue benefits until the end of the month in which they were laid off. Accordingly, an exit lag of half of a month was specified for all plans in which the exit lag was at the discretion of the employer.

Similar procedures were used to estimate entry and exit lags for plans with tenure-based eligibility systems. However, there were few points of difference in the computation of entry lags. The entry lags are longer among these plans because of the initial employment required to qualify for participation in the plan, and also because of the waiting period after a worker qualifies before benefits can be received.

The computation of entry and exit lags was more complex in the case of hours-based systems. Here, it was necessary to convert the number of hours of work required during the eligibility period into the time needed to satisfy the hour requirements. This was done by assuming that a worker worked a regular 40-hour work week upon employment and that workers who had lost their employment had worked a regular 40-hour week for 1 year before leaving their jobs.[23]

Based on the employment experience assumptions mentioned above, the minimum time needed to complete the hours of work required to obtain and maintain eligibility was computed. This figure, combined with the length of determination period and the waiting period (if any), was used to estimate the entry and exit lag for plans with hours-based systems.[24]

Based on these procedures, an entry lag and two exit lags—one for workers on layoff and another for workers who were terminated—were estimated.[25] The variation in these lags is discussed below.

Size and distribution of entry and exit lags

The range, mean, and standard deviation of the entry lag (ENLAG); the exit lag associated with layoff (LEXLAG); and the exit lag associated with termination of employment (TEXLAG) are shown in Table 5. These summary statistics indicate wide variation in all three lags. Even in the case of terminated employment, exit lags can extend to 15.5 months. In the case of layoff the lags can extend even further: up to 18.5 months. Such lengthy lags are the exceptions, however. The average TEXLAG is about half of a month, the average LEXLAG approximately 1 month. A very large proportion of workers covered by GHP's have no exit lag at all. The average entry lag is 1.5 months, somewhat longer than the exit lag, and it exhibits somewhat lower variation.

TABLE 5. Range, mean, and standard deviations of entry and exit lags (in months)

Summary statistics	ENLAG	TEXLAG	LEXLAG
Range			
Maximum	9.5	15.0	18.5
Minimum	0	0	0
Mean	1.65	.6	1.1
Standard deviation	1.6	1.72	2.11

NOTE: Means and standard deviations are weighted by the employment size of establishments offering the group health plans.

The distribution of lags shown in Table 6 provides a better understanding of how well workers with GHP's are protected against risk during their period of unemployment. Almost 60 percent of terminated workers lose their health insurance immediately upon termination, contrasted to only 20 percent of laid-off workers. Only 4 percent of terminated workers can expect their GHP's to continue beyond a month after losing their jobs; almost 20 percent of the laid-off workers can expect their benefits to continue beyond a month after they are laid off. In general, the estimates of entry and exit lags suggest that, in most cases, the unemployed lose their group health coverage within the first month of unemployment. However, a small proportion of unemployed workers can expect to retain benefits over extended periods of time. These workers are found mostly in large firms, or they belong to unions that have been able to extract very favorable health and welfare benefits from employers.

However, this is not a complete picture of health insurance coverage loss among the unemployed. Workers not only lose their benefits for the duration of their unemployment; many do not receive benefits immediately when they are reemployed either. The estimated entry lags show that only 25 percent of workers are

TABLE 6. Proportion of workers covered by entry and exit lags of different lengths

Lags	0 month (pct)	Up to 1 month (pct)	2–3 months (pct)	4–6 months (pct)	More than 6 months (pct)
ENLAG	26	20	35	15	4
TEXLAG	58	38	2	1	1
LEXLAG	21	48	9	6	6

NOTE: Components may not add to 100 percent due to rounding.

covered by plans in which coverage can be received immediately. The remaining workers must wait for a considerable period after being hired before they receive coverage under a GHP. The entry lag for more than 50 percent of workers is longer than 3 months. As average unemployment duration is usually about 10 weeks, the size of the entry lags implies that the duration of coverage loss could as much as double because of the entry lags in these GHP's.

This large variation raises the question of which workers are covered by entry and exit lags of various lengths. This question is examined by estimating the variation in entry and exit lags by type of eligibility system, by industry, and by employment size of establishments of the workers covered by those lags.

Type of eligibility system. The length of lags under the three types of eligibility systems is summarized in Table 7. Major differences among these systems can be observed with respect to entry lags. The shortest average entry lags are found among plans with a status-based eligibility system, the longest among plans with a tenure-based system. Almost all workers face an entry lag of less than 1 month in a status-based system. In contrast, everyone in the tenure-based systems has an entry lag longer than 1 month. Entry lags for the hours-based system are high, but on average not as high as those of the tenure-based system. Almost half of the workers under the hours-based system have an entry lag of 1 month or less.

In the case of exit lags, there is no difference between status-based and tenure-based systems. However, these lags are considerably longer among plans with an hours-based system. For example, only about 50 percent of workers with an hours-based system have TEXLAG of one month or less, compared to almost all workers under other systems. Similar differences also exist in the case of LEXLAG.

The lengths of these lags suggest that the tenure-based system is the most stringent: the entry lag is very long and the exit lags are relatively short. This means that workers covered by the tenure-based system are likely to lose coverage soon after they become unemployed and they are not likely to regain coverage until sometime after reemployment.

TABLE 7. Proportion of workers covered by group health plans by length of lags and by type of eligibility system

Type of lag and eligibility system	0 month	Up to 1 month	2–3 months	4–6 months	More than than 6 months	Total
ENLAG						
Status	57	41	2	X	X	100
Tenure	X	X	65	28	7	100
Hours	X	46	28	22	4	100
TEXLAG						
Status	62	37	1	X	X	100
Tenure	58	39	2	1	X	100
Hours	9	42	4	19	26	100
LEXLAG						
Status	23	57	11	4	5	100
Tenure	22	60	18	5	5	100
Hours	X	42	4	28	26	100

LEGEND: X = 0 percent.
NOTE: Components may not add to 100 percent due to rounding.

TABLE 8. Means and standard deviations of entry and exit lags by industry (in months; standard deviations in parentheses)

Industry	ENLAG	TEXLAG	LEXLAG
Construction	1.91	1.42	1.68
	(1.70)	(3.09)	(3.06)
Manufacturing	1.67	0.25	2.15
(includes mining)	(1.75)	(0.75)	(3.20)
Transportation	1.68	0.64	1.47
	(1.50)	(1.70)	(2.03)
Wholesale trade	1.23	0.25	0.61
	(1.25)	(0.65)	(0.97)
Retail trade	2.08	0.39	0.73
	(1.76)	(0.83)	(0.93)
Finance	1.00	0.12	0.29
	(1.39)	(0.20)	(0.46)
Services	1.39	0.28	0.79
	(1.42)	(0.36)	(0.46)

Industry. Table 8 shows the means and standard deviations of entry and exit lags by industry.[26] The standard deviations show that the within-industry variation in lags was large in all industries. Average entry lags varied from 1 month in the finance industry to approximately 2 months in the retail trade and construction industries. Differences in average entry lags across industries were statistically significant in all cases, with the exception of those between the manufacturing and transportation industries.

Larger differences across industries were observed in the case of exit lags. The exit lag upon termination of employment was longest in the construction industry: 1½ months. In contrast, the average termination exit lag in almost all other industries was less than half of a month, and was lowest in the finance industry at 0.12 months. Not only was the TEXLAG high in the construction industry; the variation in the lag within the industry was also very large.

In all cases the exit lag upon layoff was significantly larger than the termination exit lag. In the manufacturing industry the lag jumps from 1 week (TEXLAG) to almost 9 weeks (LEXLAG), suggesting that workers in manufacturing are better protected during temporary layoff than workers in the other industries. Except in the construction, manufacturing, and transportation in-

dustries, the period for which even laid-off workers can retain benefits is only 1 to 3 weeks.

The longer exit lags in manufacturing are a reflection of the extensiveness of plans offered by large firms. However, the longer exit lags in the construction and transportation industries are due to the hours-based eligibility system of their GHP's. Almost all unionized construction workers can participate in these GHP's, which are designed to cover them through long periods of slack employment. However, these plans are also associated with long entry lags. Consequently, many workers are not able to satisfy the work requirements necessary to obtain coverage, making the long exit lags of less value to them.

A better understanding or how workers covered by GHP's are distributed across industries and different lengths of lags can be gained by examining Tables 9, 10, and 11. For the majority of workers in all industries, the entry lag does not exceed 3 months. In general, workers in wholesale trade and finance have relatively shorter entry lags, and in the case of these industries, the entry lag for the majority of workers is 1 month or less (Table 9).

In all industries except construction, the majority of workers have no exit lag upon termination of employment (Table 10). Only about 20 percent of all terminated workers are able to retain benefits for 1 month or more. Only in the construction industry can a significant proportion of workers maintain benefits beyond 1 month.

Exit lags upon layoff are more liberal than those upon termination (Table 11). In all industries, the majority of workers can retain benefits for some period after they are laid off. However, in most cases LEXLAG does not exceed 1 month. Significant proportions of workers (20 percent or more) in the construction, manufacturing, and transportation industries can retain benefits for more than 1 month after layoff. For significant proportions of workers in construction (20 percent), and manufacturing (more than 10 percent), the retention period can exceed 6 months. In other industries relatively few workers can retain benefits more than 1 month beyond layoff.

Employment size of establishments. Table 12 presents differences in the average value of lags associated with GHP's offered by establishments classified by employment size.[27] The difference in the average entry lag is very small, but larger differences occur in the case of exit lags. Average exit lags on employment termination are shorter among larger establishments and longer among smaller establishments, contrary to expectations. However, in absolute terms, these differences in average TEXLAG only vary from one-third to one-half of a month. Average LEXLAG ranges from three-quarters

TABLE 9. Proportion of workers covered by group health plans, by entry lag and by industry

Industry	0 month	Up to 1 month	2–3 months	4–6 months	More than than 6 months	Total
Construction	d	1	3	1	d	5
Manufacturing (includes mining)	9	8	15	4	3	40
Transportation	1	1	2	1	d	5
Wholesale trade	2	3	3	1	d	9
Retail trade	2	2	5	3	1	14
Finance	4	1	1	2	X	8
Services	6	4	6	4	d	20
Total	25	20	35	15	4	100

LEGEND: d = less than 0.5 percent; X = 0 percent.
NOTE: Components may not add to 100 percent due to rounding.

TABLE 10. Proportion of workers covered by group health plans, by exit lag upon termination of employment, and by industry

Industry	0 month	Up to 1 month	2–3 months	4–6 months	More than than 6 months	Total
Construction	2	2	d	d	1	5
Manufacturing (includes mining)	25	13	1	X	d	40
Transportation	3	1	d	d	d	5
Wholesale trade	6	3	X	d	X	9
Retail trade	7	7	d	X	X	14
Finance	5	3	X	X	X	8
Service	10	10	d	X	X	10
Total	21	58	2	6	6	100

LEGEND: d = less than 0.5 percent; X = 0 percent.
NOTE: Components may not add to 100 percent due to rounding.

TABLE 11. Proportion of workers covered by group health plans by exit lag upon layoff, by industry

Industry	0 month	Up to 1 month	2–3 months	4–6 months	More than than 6 months	Total
Construction	1	3	d	d	1	5
Manufacturing (includes mining)	8	19	3	4	6	40
Transportation	1	2	1	1	d	5
Wholesale trade	2	7	1	d	d	9
Retail trade	3	9	2	d	d	14
Finance	4	3	d	d	X	8
Services	3	15	2	d	d	20

LEGEND: d = less than 0.5 percent; X = 0 percent.
NOTE: Components may not sum to 100 percent due to rounding.

TABLE 12. Mean and standard deviations of lags by the employment size of establishments with group health plans (in months; standard deviation in parentheses)

Employment size	ENLAG	TEXLAG	LEXLAG
2–9 employees	1.47	0.51	0.91
	(1.47)	(1.51)	(1.64)
10–49 employees	1.62	0.40	.75
	(1.43)	(1.07)	(1.15)
50 or more employees	1.50	0.30	1.60
	(1.72)	(0.91)	(2.78)

of a month in medium-size establishments to more than 1½ months in large establishments.[28]

In the following section, the interaction between these lags and the duration of unemployment by industry are examined to determine the percentage of unemployed likely to lose coverage and for how long a period coverage will be lost.

Loss of Group Health Coverage Among the Unemployed

Variation in entry and exit lags has important implications for predicting the proportion of the unemployed who will lose insurance coverage and the duration of that loss. These implications are highlighted by estimating the expected extent of coverage loss among the unemployed and illustrating the variations in loss of coverage across industries and resulting from changes in unemployment rates.

The key variable factor determining the extent to which the unemployed are covered at any point is the *distribution of unemployed by duration of unemployment*—that is, the proportion of unemployed who have been out of work for less than five weeks, for five to ten weeks, and so on. Longer average durations of unemployment imply that larger number of workers are losing their group health coverage. In general, durations of unemployment increase during periods of rising unemployment and decrease during periods of falling unemployment. The effect of changing unemployment rates on the loss of coverage is shown by estimating coverage loss using unemployment data for each of the years from 1972 to 1978.

Loss of coverage is estimated in terms of two variables:

- the percentage of the unemployed who will lose their insurance coverage at some time (PULC) and
- the average duration of coverage loss among the unemployed at any point (ADLC).

Each of these variables was estimated both for workers whose employment was terminated (based on TEXLAG), and for workers who were laid off (based on LEXLAG). These estimates were made using the data on entry and exit lags computed above and the distribution of the unemployed by duration of unemployment. Data on the latter were obtained from the monthly unemployment duration data published by the Bureau of Labor Statistics in the *Employment and Earnings* series. In making these estimates it was assumed that workers covered by GPH's have the same distribution by duration of unemployment as all workers in that industry; that laid-off workers and terminated workers have identical distributions by unemployment duration; and that the duration of unemployment does not exceed 52 weeks. (The last assumption is for computational convenience only; as only a very small proportion of the unemployed remain out of work for more than 1 year, they have a negligible effect on the estimates.)

The proportion of the unemployed who have lost coverage (PULC) at some point was estimated in two steps.

- For each observation (plan), the proportion of the unemployed who would lose coverage, assuming that plan's exit lag applied to the entire industry, was calculated.
- PULC was then a weighted average of these proportions, where the weights were the relative number of workers in each plan.

Next, for those workers who had lost coverage, the duration of loss of coverage was determined by finding the difference between the number of weeks of unemployment and the exit lag. ADLC becomes the weighted average of these numbers, where the weights are the relative number of workers with each duration.

The estimation of these variables was complicated by the form in which the unemployment duration data are published. These data list the proportions of workers who, at the time of the survey, had been unemployed for less than 5 weeks, 5 to 14 weeks, 15 to 26 weeks, and 27 weeks or more. (The December data of each year were used to make the estimates.)

It was assumed that the proportion of unemployed in each duration category was distributed equally across the weeks within that category. This enabled allocation of workers by each week of unemployment duration, and made it possible to obtain the desired estimates by using the number of unemployed with various unemployment durations as weights in estimating the variations in coverage loss.[29]

The industry-wide PULC estimates based on exit lags for terminates and layoffs for different years are shown in Table 13, which also provides yearly unemployment rates. Because exit lags for terminates are shorter than those of laid-off workers, a larger per-

TABLE 13. Estimates in percent of unemployed who lose insurance coverage by termination and layoff

Year	Construction			Manufacturing[1]			Transportation			Wholesale trade		
		PULC			PULC			PULC			PULC	
	UR	Term.	LO	UR	Term.	LO	UR	Term.	LO	UR	Term.	LO
1972	10.3	0.78	0.70	5.6	0.94	0.67	6.4	0.87	0.67	6.4	0.93	0.83
1973	8.8	0.77	0.68	4.3	0.92	0.63	3.0	0.88	0.70	5.6	0.92	0.79
1974	10.6	0.79	0.74	5.7	0.92	0.63	3.2	0.87	0.67	6.4	0.92	0.80
1975	18.1	0.81	0.74	10.9	0.95	0.73	5.6	0.91	0.79	8.7	0.94	0.85
1976	14.4	0.81	0.75	7.9	0.94	0.70	4.7	0.88	0.71	8.6	0.94	0.85
1977	12.7	0.78	0.70	6.7	0.93	0.67	4.7	0.87	0.68	8.0	0.94	0.84
1978	10.6	0.78	0.69	5.5	0.93	0.65	3.7	0.88	0.70	6.9	0.92	0.81

Year	Retail trade			Finance			Services		
		PULC			PULC			PULC	
	UR	Term.	LO	UR	Term.	LO	UR	Term.	LO
1972	6.4	0.89	0.79	3.4	0.96	0.90	5.3	0.90	0.79
1973	5.6	0.86	0.75	2.7	0.95	0.89	4.8	0.89	0.77
1974	6.4	0.87	0.77	3.1	0.96	0.91	5.1	0.91	0.80
1975	8.7	0.91	0.83	4.9	0.97	0.93	7.1	0.93	0.84
1976	8.6	0.90	0.83	4.4	0.97	0.93	6.1	0.93	0.84
1977	8.0	0.89	0.81	3.9	0.96	0.92	6.9	0.92	0.82
1978	6.9	0.88	0.77	2.1	0.96	0.91	5.7	0.91	0.81

LEGEND: UR = unemployment rate; LO = layoff; PULC = proportion of unemployed who have lost coverage; Term. = termination.
[1] Manufacturing includes mining.

centage of the terminates lose coverage. However, the difference between the coverage loss among both terminates and laid-off workers varies considerably across industries. For example, in manufacturing, laid-off workers are 20 to 30 percent less likely to lose their benefits than terminates, and in the transportation industry they are 15 to 20 percent less likely to lose their benefits. On the other hand, among the other industries, laid-off workers are only about 10 percent less likely to lose their benefits. In the case of terminates, the best protection against coverage loss is offered by plans in the construction industry—about 20 percent do not lose their benefits, even in years of high unemployment. The least protection is offered by plans in manufacturing, finance, and the wholesale trades—only about 5 percent of these workers do not lose their benefits. In the remaining industries, approximately 10 percent of the terminates have retained their benefits. The proportion varies from year to year because the distribution of the unemployed by duration of unemployment changes from year to year.

The pattern of protection against loss of coverage for laid-off workers is quite different across industries. Plans in manufacturing offer the best protection—30 to 35 percent of laid-off workers do not lose their benefits—followed by the transportation and construction industries, with about 20 and 25 percent, respectively. In other industries 15 to 20 percent of laid-off workers are protected, except in finance, where only 5 to 10 percent of the laid-off workers can expect to retain their coverage.

Table 13 shows a clear positive relationship between PULC and unemployment rates in the industry. The proportion of the unemployed who lose coverage increases as the rate of unemployment rises. This is not surprising, although the relatively small magnitude of the increase in PULC is interesting. A doubling of the unemployment rates results in an increase of only a few percentage points in the estimate of PULC, with the effect being more pronounced among laid-off workers.

The ADLC among the unemployed was estimated using exit lags for terminates and laid-off workers. The average duration estimates were virtually the same for both types of workers, with the difference rarely exceeding half of a week. Therefore, only the estimates generated using the exit lags of terminates are presented.

The estimates of ADLC by industry and by year are shown in Table 14. The average duration of coverage loss does not vary greatly across industries. It ranged from almost 9 weeks in the construction industry to more than 11 weeks in the transportation industry in 1973, a year of low unemployment. During the high unemployment year 1975, the average duration of coverage loss ranged from a low of 13 weeks (construction) to a high of 19 weeks (manufacturing and transportation). Increases in unemployment rates increase the average duration of coverage loss by a considerable amount at any given point. For example, between 1973 and 1975, the unemployment rates in wholesale and retail trade and in services rose by about 50 percent, with a corresponding increase in the average

TABLE 14. Average duration of loss of coverage, by industry and year

Year	Construction		Manufacturing (including mining)		Transportation		Wholesale trade		Retail trade		Finance		Services	
	UR	ADLC	UR	ADLC	UR	ADLC	UR	ADLC	UR	ADLC	UR	ADLC	UR	ADLC
1972	10.3	9.2	5.6	13.0	3.5	10.8	6.4	11.2	6.4	11.5	3.4	11.2	5.3	11.2
1973	8.8	8.7	4.3	10.0	3.0	11.4	5.6	9.3	5.6	9.6	2.7	9.8	4.8	9.8
1974	10.6	9.2	5.7	10.2	3.2	10.7	6.4	10.0	6.4	10.3	3.1	11.1	5.1	11.0
1975	18.1	13.2	10.9	19.0	5.6	18.6	8.7	14.0	8.7	14.3	4.9	15.1	7.1	15.1
1976	14.4	13.4	7.9	15.6	4.7	13.2	8.6	14.9	8.6	15.2	4.4	14.7	6.1	14.7
1977	12.7	10.9	6.7	13.3	4.7	11.2	8.0	12.7	8.0	13.0	3.9	13.7	6.6	13.7
1978	10.6	8.6	5.5	11.3	3.7	12.7	6.9	9.9	6.9	10.2	2.1	11.7	5.7	11.7

duration of coverage loss. In the construction, transportation, and finance industries, the increase in unemployment was between 80 and 100 percent, but the corresponding increase in average duration of coverage loss was only 50 to 60 percent. The highest unemployment rate increase was observed in manufacturing: 150 percent. This was accompanied by a 90 percent increase in the average duration of loss of coverage. These estimates suggest that increases in unemployment rates can have a considerable impact on the average duration of coverage loss.

It is important to note that these estimated periods of coverage loss apply to all workers unemployed at some point, and hence represent incomplete spells of unemployment. An additional piece of information that would be of interest is the total person-weeks of coverage lost by a particular cohort of workers, or over a particular year.

In this study, total person-weeks of lost coverage have not been estimated because the focus of this work is the protection or exposure of unemployed workers, rather than aggregate cost. However, such estimates would certainly be important for any national health plan that proposed to extend coverage to unemployed workers. It would be possible to modify and extend the estimates made in this study to create estimates of total person-weeks of lost coverage.

It should also be recognized that, in addition to the length of coverage loss due to a complete spell of unemployment, workers might remain uncovered for another 1–2 months after reemployment because of provisions for entry lags in GHP's.

Finally, it should be noted that total coverage loss depends upon the total number of unemployed workers. Although the percentage of unemployed who lose coverage increased by only a few percentage points in the face of sizable increases in the unemployment rate, this proportion is presently being applied to a much larger base. As a result, the *number* of workers who lose their benefits might more than double. At the same time, the average duration of the loss of coverage also is increasing substantially, depending on the industry. The total person-weeks of lost coverage during periods of recession could, therefore, be considerable.

Summary and Conclusions

The most important points to draw from this study are the complexity of coverage provisions under employment-related health insurance plans and the amount of variation in these provisions, both within and across industries. No single type of plan dominates the field.

The existing system of private GHP's does a fairly adequate job of providing coverage to workers whose unemployment spells are infrequent and brief—on average, approximately 80 percent of unemployed workers covered by plans can retain coverage for some period of time after losing their jobs. On average, workers who are laid off can retain their coverage for more than a month; those on permanent separation for more than half of a month. (Of course, significant numbers of workers are never offered such plans at all. These workers were outside the scope of this study, but for a description of them see Malhotra and others.)[30]

An important finding is the importance of entry lags of all covered workers. Seventy-five percent face some sort of entry lag for coverage; for a full 44 percent of workers the entry lag is 2 months or more—the overall average is 1.65 months. This suggests that the problem of health insurance among the unemployed extends beyond unemployment spells into initial phases of employment. The majority of workers are covered by tenure-based eligibility plans; 35 percent of these workers have entry lags exceeding 3 months.

Among industries, the most restrictive entry lags were found in construction and retail trade. Presumably this reflects the employment composition of these industries—high turnover with heavy seasonal employment and relatively frequent changes of employer. By contrast, the finance, insurance, and real estate sec-

tor showed the smallest entry lags (as well as the smallest exit lags), reflecting the salaried, white collar, stable nature of employment in those industries.

The most liberal exit lags were found in the manufacturing, transportation, and construction industries, especially for layoffs. Among these industries almost 30 percent of laid-off workers at any point were found not to lose coverage. This is important to note, as unemployment rates increase most radically among these industries during periods of recession. (See unemployment rates between 1973 and 1975 in Table 13.)

Unlike other industries, construction presents an interesting mix of long entry and long exit lags. This seeming contradiction is in fact a reflection of provisions permitting workers with high and steady employment to gain coverage and retain benefits, despite extensive breaks in the continuity of their employment. Another effect of such provisions is that workers whose attachment to the labor market is weak (for example, workers with a high turnover and a low number of hours worked) are unable to qualify to participate in the plan. It should be noted that while these workers are free (theoretically) to participate in the plans offered by their employers, they in fact never get to participate. Such plans with long entry and exit lags are also found among other industries, particularly manufacturing and transportation.

As the unemployment rate rises, both the proportion of workers losing coverage and the average duration of coverage loss increase, although the former shows much less sensitivity to the unemployment rate. Nonetheless, because the slightly higher proportion is being applied to a larger base, and because the average duration of coverage loss is increasing simultaneously, the total person-weeks of coverage lost tends to be very sensitive to changes in the unemployment rate.

For workers who lose their jobs, simultaneous exposure to the risk of heavy health care expenses is a serious threat. Given reduced incomes and uncertainty over how long their spell of unemployment will last, purchase of private, short-term individual health insurance policies is not an expedient method of securing coverage.[31] The description of existing GHP eligibility systems and the other findings presented in this report highlight several problems relevant to development of public programs (especially national health insurance) for extending health insurance protection to unemployed workers who have lost coverage. Public policy addressing the loss of health insurance among the unemployed should be particularly aware of the following general problems:

1. The existing system of worker coverage was developed over time, in response to economic factors such as the character of employment and characteristics of the workers. Consequently, there is a great variation in the provisions for coverage. Any simple scheme for providing health insurance to the unemployed that does not recognize these variations will have a very poor chance of success.

2. The industry does not appear to be the appropriate level at which to target responses to the problem. A more useful distinction can be made among the three general types of coverage—status-based, tenure-based, and hours-based. The coverage provisions of employment-related GHP's appear to be more sensitive to the types of workers involved than to the industry. For example, firms with heavy seasonal employment can be expected to adopt plans with certain characteristics (such as longer entry lags); these types of firms appear in all industries. Unfortunately, the data base used in this study is not amenable to a thorough investigation of the relationship between characteristics of workers and types of plans adopted by employers.

3. Just as the existing system of benefit plans developed in response to economic factors, it will respond to changes that are externally imposed. Two examples of this are important:

a. At present, employed workers and employers are bearing the cost of providing coverage to the unemployed workers who remain covered, but this support could evaporate if the unemployed were automatically eligible for some form of public health coverage. In effect, every firm will try to get the general public to share in the expense of providing coverage to its unemployed. It must be recognized that extending health coverage to the unemployed through public assistance presents an incentive to cancel the health coverage provided in existing plans. It cannot be assumed that the existing system would remain unchanged if presented with new incentives and constraints.

b. In many plans, the system of entry and exit lags has the effect of transferring income from workers marginally attached to the labor force to senior workers, whose employment is more stable and continuous. This occurs because employers frequently make contributions on behalf of workers from the day of employment, even though many such workers will not become covered for several months, or perhaps not at all. Thus, some workers are in effect paying for benefits they do not receive, with an implicit subsidy going to other workers. Again, this represents a feature of the labor market which will not disappear by fiat. Proposals which eliminate this element can be expected to have repercussions in other dimensions.

4. At least half of the problem of coverage lies not simply with coverage loss during the period of unemployment, but with the subsequent entry lag that occurs when workers are reemployed. Given the length of the average unemployment spell, person-weeks of lost cov-

erage occurring after reemployment are an equally serious problem. Yet they have not been addressed in the various public discussions of the problem. In part, entry lags are a response to the simple administrative difficulties of accounting for a shifting eligible population. Proposals to address the problem of entry lags must be made with an awareness of the administrative elements involved.

5. Finally, there is the problem of changing levels of economic activity. Any scheme to extend coverage to workers during their unemployment period must recognize that the number of unemployed workers and the length of unemployment duration vary with changes in the level of economic activity. These considerations could be critically important to maintaining the financial viability of any proposed scheme.

These problems are presented to emphasize the complexity of the unemployed worker's health insurance problem, not to suggest that there is no effective way of addressing the issue. Clearly, longer exit lags and shorter entry lags could be specified to improve the existing situation. However, such proposals are not likely to provide a complete answer to the problem. Alternatively, other options—such as a supplementary insurance scheme similar to the existing system of unemployment insurance, or a more comprehensive national health plan—could be applied.

In either case, it is essential that proposals for public action be made with the recognition that the existing employee benefit system evolved in response to a number of economic and administrative factors, and that these factors will continue to influence the success of any public program in this area.

Notes

1. Malhotra and others, "Employment Related Health Benefits in Private Nonfarm Business Establishments in the U.S. vol. 2: *Selected Description,* a report prepared under contract for the U.S. Department of Labor (Seattle, Battelle Human Affairs Research Centers, 1980), p. 24.

2. Congressional Budget Office, "Profile of Health Care Coverage: The Haves and Have-Nots," a background paper (Washington, D.C., March 1979), p. 36.

3. The public programs are mainly designed to protect the old, the handicapped, and the poor.

4. Concern regarding this problem is heightened during a recession. For instance, during the 1974–75 recession at least 17 different bills were introduced in the Congress to meet the medical needs of the unemployed. Some bills even suggested provision of health benefits along with unemployment insurance compensation.

5. The Employee Retirement Income Security Act of 1974 requires plan sponsors to prepare booklets summarizing the eligibility and benefit information of their plans, and to distribute these to the participants in the plan.

6. For example, several references on eligibility provisions and their influence on coverage can be found in textbook series titled *Textbook for Employee Benefit Plan Trustees, Administrators, and Advisors,* 1958 onwards. This is an annual publication of the proceedings of the "Annual Educational Conference" of the International Foundation of Employee Benefit Plans.

7. See Bureau of Labor Statistics, "Health Benefit Coverage of Laid-Off Workers," *Department of Labor News Release,* February 28, 1975; K. M. McCaffree, S. Malhotra, and G. L. Glandon, "The Impact of Rising Unemployment on the Loss of Job-Related Health Insurance Coverage," Report to the National Center for Health Services Research (Seattle, Battelle Human Affairs Research Centers, 1977); and A. Novotny, "Private Industry Health Insurance Plans: Employment Requirements for Coverage in 1974," *Social Security Bulletin,* March 1977.

8. Bureau of Labor Statistics, "Health Benefit Coverage."

9. A. Novotny, "Private Industry Plans."

10. K. M. McCaffree and others, "Impact of Rising Unemployment."

11. Ibid.

12. Battelle Human Affairs Research Centers' contracts J–9–P–7–0139 and J–9–P–7–0150 with the Labor Management Services Administration, U.S. Department of Labor.

13. For a detailed description of the sampling and survey procedures see Malhotra and others, "Employment Related Health Benefits in Private Nonfarm Business Establishments in the U.S.," vol. 2: *Sampling and Survey Strategy,* 1980. A report prepared under contract to the U.S. Department of Labor by Battelle Human Affairs Research Centers.

14. It should be noted that the data used to provide the estimates here underestimate workers in the construction industry; accordingly it may not reflect the true distribution of workers in establishments with plans by various eligibility systems. This is because the employee information in the survey was obtained for permanent and full-time employees only, and does not include a large number of construction workers who do not have a regular association with any establishment. Exclusion of these workers may yield a lower estimate of employees among plans that cover construction workers who seek employment through union hiring halls.

15. Distributions of group health plans by various eligibility systems and employment size of the establishments offering the plan were also examined, but no distinct pattern by size was observed. This might result from the fact that about 20 percent of the establish-

ments are part of a larger company. Hence, many small establishments could be expected to reflect the characteristics of larger companies.

16. The length of time elapsing between successive dates upon which workers are "tested" for eligibility is henceforth called the *determination* period.

17. One case in the sample provided up to 18 months of coverage to workers who were on temporary layoff.

18. Only about 5 percent of plans have reinstatement provisions less stringent than the eligibility provisions for new employees.

19. On the average, job-related health insurance will take longer to acquire, and can be retained longer, in plans with longer determination periods. Consequently, for any given pattern of employment, seasonal or otherwise, the choice of determination dates and the determination period could have an important effect on the timing and the rate at which workers within a plan obtain or lose job-related health insurance.

20. The hour-bank system of determining eligibility involves crediting all hours worked to an individual hour-bank account, then drawing out the hours necessary to satisfy eligibility requirements for maintaining health insurance coverage. Hour-bank provisions usually specify the maximum number of hours that can be held in the account. On the other hand, the cast-back system for maintaining health insurance coverage tests the number of hours worked over several periods, and a worker can maintain coverage if the work requirements can be satisfied over *any one* of the specified periods; for example, working 80 hours in the past month *or* working 240 hours in the past 3 months, etc.

21. It is interesting to note that contributions are made into the plan by employers on behalf of every hour worked by workers, irrespective of whether the worker is covered. This allows the possibility that workers with insufficient hours continue to make payments into the plan without ever receiving coverage.

22. This discussion is condensed to capture the most important features. For a more lengthy discussion, see McCaffree and others, "Impact of Rising Unemployment."

23. Precise information on the recent employment experience of the average laid-off worker was not available. Any assumption regarding their employment experience is arbitrary, but in all likelihood alternative assumptions only insignificantly affect the estimates of entry and exit lags.

24. This computation becomes quite complicated in the case where alternative provisions for determining eligibility are provided. The precise formulae used to estimate the entry and exit lags in these cases can be obtained from the authors on request.

25. Entry lag was estimated based on provisions for initial eligibility. A separate entry was also estimated using provisions for reinstatement of eligibility. The reentry lag was found to be very similar to the entry lag, as in most cases, the provisions are the same. Accordingly, the reentry lag estimates are not presented in this report.

26. The distribution of the sample across industries is as follows: Construction, 132; Manufacturing, 168; Transportation, 96; Wholesale Trade, 126; Retail Trade, 147; Finance, 69; and Services, 163 (total industries in sample: 901).

27. Three employment-size classes were defined to ensure a different number of sample segments in each class: 2–9 employees (345); 10–49 employees (355); and 50 or more employees (201).

28. The distribution of proportions of workers covered by group health plans with varous lengths of lags across employment-size classes were also examined. No revealing differences were found. Accordingly, tables containing this information are not presented here.

29. The precise formulae used to make these estimates can be obtained from the authors upon request. It would be possible to refine these estimates in several ways, all of which were precluded by the schedule of this project.

30. S. Malhotra, K. M. McCaffree, and J. Baker, "Employment Related Health Benefits in Private Nonfarm Business in the United States," a report to the Labor Management Administration and Assistant Secretary for Policy, Evaluation and Research (Seattle, Battelle Human Affairs Research Centers, 1980).

31. Some group health plans allow workers to continue participation in the group plan by making self-payments for a specified period of time. These provisions are designed to avoid loss of coverage during short periods of unemployment. Alternatively, plans contain conversion provisions permitting workers to convert the group plan into a private policy. The importance of these features is limited because they are not provided extensively. For example, these data indicate that only 4 percent of workers with plans had the option of making self-payments to continue their group benefits. Also, when these options exist they are rarely exercised because unemployed workers with reduced incomes are not inclined to make premium payments. (McCaffree and others, "Impact of Rising Unemployment.")

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The Effect of UI Payments on Health Insurance Coverage

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Unemployment not only reduces the income of workers but often also results in the loss of health insurance coverage. Over 70 percent of the population receives all or some of its health insurance through employer-provided group health plans.[1] Unemployment insurance (UI) payments serve to moderate the effects of loss of income. In this report the authors examine the extent to which UI payments enable workers to retain their health insurance coverage during periods of unemployment, using the data from the 1976 Survey of Income and Education (SIE).

The findings of this analysis are reported here in five sections. The first two sections provide a brief background to the study and describe the data base. The next section contains a tabular description of the health insurance coverage of unemployed workers, especially those workers who are neither new entrants nor reentrants to the labor force. (These workers are called "job losers.") The next section describes the statistical analysis of the effect of UI payments on the health insurance coverage of unemployed workers, and discusses the results of the analysis. The final section summarizes the major findings and includes some comments.

Background

For the bulk of the population, health insurance is purchased through an employment-related group health plan, while a significant minority purchases health insurance through individual or family plans (typically at a higher premium). Thus, for many workers unemployment not only reduces income, but also entails the loss of health insurance coverage.

Many workers who are covered by employment-related group health plans do not automatically lose their coverage immediately on losing their jobs. Many group health plans contain provisions that enable workers to retain their coverage after their employment is terminated. There are three ways in which unemployed workers *may* be able to continue their health insurance coverage, based on the provisions contained in the employer-provided group health plans. These are:

1. *Automatic continuation.* Among many plans the coverage can be automatically continued for a specified period, or for a period that is based on the employment record of a worker. These continuation periods, also referred to as exit lags, can sometimes extend over a year, but more commonly do not exceed a month or two.[2]

2. *Self-pay option.* Under this option workers can avoid losing their coverage by making premium payments into the plan. Typically, this option requires workers to pay the employer's share of premium payments as well as their own share. Self-pay provisions are included in plans to enable workers to continue their participation in the group health plan during temporary periods of layoff or unemployment. The period over which unemployed workers can exercise the self-pay option does not usually exceed 12 months. Only about 7 percent of the group health plans provide such an option.[3]

3. *Conversion option.* This option permits workers to continue their health insurance coverage by converting from a group health plan to a private individual health plan. The major difference between this and the self-pay option is that under this option the worker ceases to be a member of the group plan. The major advantage of this option is that workers can continue their coverage without a break, and do not have to satisfy any special conditions to buy an insurance plan.[4]

In addition to these options, unemployed workers have the option of purchasing a private individual plan

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on losing their group health plan coverage. Indeed, for workers without group health plans this was always the principal option, and the question now is one of continuing to bear the expense of the plan. In addition, some workers have other alternatives through which they can remain covered during their unemployment. These alternatives include being covered under:

- a health plan of a spouse;
- a health plan of the parents (if the individual is young); and
- a public plan.

Since these alternatives are not open to most people, however, many unemployed workers are faced with a decision of whether to continue their health insurance coverage by exercising a self-payment or conversion option, or purchasing or continuing to pay for a private insurance plan. Unemployment insurance (UI) can be expected to influence this choice. The question is: to what extent does the receipt of UI benefits enable unemployed workers to maintain health insurance coverage during their unemployment period?

Workers' income is considerably reduced, if not completely eliminated, by the loss of their job. Under these circumstances, workers would be more inclined to pay for health insurance if they were receiving UI benefits than if they were not.

UI, however, is not the only factor that would have a bearing on workers' decisions to retain health insurance coverage while they are unemployed. Among other factors influencing the decision are family income, family wealth, availability of a health plan through another family member's job-related plan, eligibility for public assistance to cover medical expenses such as Medicaid and Medicare, family composition, medical condition of family members, and expected duration of unemployment. These variables were all directly available from the SIE.

Data

To carry out the proposed analysis, it was necessary to have a sample of unemployed individuals with data on the relevant variables: source of health insurance coverage, personal and family characteristics, and whether these individuals were receiving unemployment benefits. The 1976 Survey of Income and Education (SIE) provided a source for most of these data, though, as will be discussed later, information on some important variables was not directly available and had to be constructed. Here is a brief description of how four key variables used in the analysis were constructed from the SIE data. For a detailed description of the variable construction algorithms, which were quite involved, and for further information on the SIE, see the Appendix.

The four key variables constructed from the SIE were: labor force status, unemployment benefit status and amount, source of health insurance coverage, and family status. Each is discussed in turn.

Labor force status

Unemployed individuals show varying work histories and degrees of attachment to the labor force. Individuals might be new entrants, recent job losers, or reentrants to the labor force after a period of absence. The different groups display different socioeconomic characteristics (for example, new entrants are heavily teenagers), and can be expected to have different demands for health insurance coverage. An algorithm was constructed that assigned individuals to one of the following eight labor force statuses:

1. New entrants—individuals who have never held a permanent job. Most frequently these individuals are teenagers.

2. Reentrants—individuals who are returning to the labor market after a period of retirement, ill health, or school, or who have been in the Armed Forces, jail, raising a family, and so on. Most frequently these individuals are teenagers or adult family members who are not family heads.

3. Job losers—individuals whose current unemployment began because of:

a. Temporary layoff—individuals who have been laid off from a job, but have been instructed to return to work on a definite date within 30 days of their layoff.

b. Indefinite layoff—individuals who have been laid off more than 30 days or have no definite prospect for returning to work.

c. Quit—individuals who voluntarily separated from their last job.

d. Lost job—individuals involuntarily, permanently separated due to firing, firm permanently shutting down, or job being eliminated.

Benefit status and amount

The SIE data did not contain information on whether the individual was receiving UI benefits at the time of the survey. However, the data set contained information on sources and amounts of income, including the amount of UI benefits received, for the previous calendar year. Using these data it was possible to construct each individual's UI benefit status as well as the weekly benefit amount received. An algorithm was defined that assigned each individual to one of four benefit statuses:

- Ineligible—the individual fails to qualify for UI benefits.
- Benefits exhausted—the individual qualified for

benefits, but has remained unemployed for longer than the allowable benefit period.

- Receiving benefits—the individual qualifies and is presumed to be receiving benefits.
- Waiting—the individual qualifies for benefits but has not yet been unemployed long enough to start receiving benefits.

The assignment algorithm was quite long; it involved computerizing each State's qualifying criteria, and testing all individuals against these criteria on the basis of their work histories. As one step in the algorithm, each individual's estimated weekly benefit amount was computed, based on State benefit formulas published by the Department of Labor (DOL). The provisions of the Federal Supplemental Benefits (FSB) program, and the Special Unemployment Assistance (SUA) program, both of which were in effect at the time of the survey, were incorporated into the calculation. The complete computer program that gives all relevant formulas for each State is in the Appendix.

Source of health insurance coverage

For individuals with health insurance coverage, the SIE ascertained the source of coverage and in whose name the coverage was carried. This information was used to define the following coverage variables:

- Own employment-related coverage—COV1: equal to 1 if the individuals were covered under a previous employment-related plan, carried in their own names.
- Own employment-related or other private coverage —COV2: equal to 1 if the individuals were covered under another private plan, either group or individual, in their own name or that of another family member.
- Public coverage—COV3: equal to 1 if the individual was covered under a public plan such as Medicaid, Medicare, veterans' benefits, or Civilian Health and Medical Program of Uniformed Services (CHAMPUS).

Family status

Finally, each individual was assigned to one of four "family statuses," defined below:

- Teenager: any individual 19 or under.
- Adult head of household: an individual 20 or over and listed by the survey as head of a family with at least 1 dependent (where spouse is considered a dependent).
- Adult single individual: an individual 20 or over living alone.
- Adult family member: an individual 20 or over living with a family but not the head of the family.

The various other variables extracted from the SIE survey were straightforward, and are defined in context.

Health Insurance Coverage of the Unemployed

To examine the effect of UI benefits on the insurance coverage decision, the authors focused on those unemployed workers who: were likely to have had their own health insurance coverage, prior to their unemployment; were likely to be eligible for UI benefits; and were not dependents of other adults. This group was defined using three variables: family status, labor force status, and eligibility for publicly provided health insurance programs.

The key family-status group of interest was adult heads and single persons. Unemployed teenagers or adult family members were excluded because their decision to retain health insurance is likely to be confounded by the health insurance status of their parents or family heads. Based on labor force status, the group of interest was those workers whose current unemployment spell began as a result of losing a job. New entrants and reentrants were excluded because they cannot qualify for UI benefits.[5] Finally, unemployed workers who were covered by a public plan were excluded, because they do not face the choice between private coverage or no coverage, which is the subject of this report.

Therefore, to isolate the effect of UI payments on the decision to retain health insurance coverage on becoming unemployed, the focus is on job losers who are adult family heads or single persons and are not eligible for public plans. The tables in this report describe this group in terms of the entire unemployed population; survey the health insurance coverage of all unemployed workers; and, for the focus group, describe the differences in coverage among subgroups defined by UI eligibility, family income, duration of unemployment, health status, and race.

All unemployed workers

Source of health insurance coverage by family status is summarized in Tables 1, 2, and 3 for new entrants, reentrants, and job losers, respectively. Eighteen percent of the unemployed workers are new entrants, and among them 80 percent are teenagers, and another 15 percent are adult family members. Over 80 percent of the new entrants in their teens are covered by a health plan, but 70 percent of them are covered under a private plan, which is almost certainly in the name of another family member, such as a parent, and only about 15 percent of them are covered by a public plan. Similarly, nearly 60 percent of adult family members among new entrants have health insurance coverage, and about 50 percent of them are covered under a private plan; again, this is likely to be in the name of another family member. Relatively few new entrants are adult family heads or single persons. Although over 75 percent of the new entrants who are family heads

TABLE 1. Proportion of unemployed new entrants to labor force by source of health insurance coverage and by family status (18 percent of total unemployed)

Item	Source of coverage	Family status (in percent)				
		Adult family heads	Adult single persons	Adult family members	Teenagers	All persons
1	Proportion of new entrants	4	2	15	80	100
2	Own employment-related	—	—	—	—	—
3	Other private	13	24	48	70	65
4	Own employment-related or other private	13	24	48	70	65
5	Public	63	32	10	14	16
6	Covered—private or public	74	56	58	82	78
7	Not covered	26	44	42	18	22

NOTE: Items 4 and 5 do not sum to item 6 because of duplicate source of coverage. Also, components may not sum to totals because of rounding.

TABLE 2. Proportion of unemployed reentrants to labor force by source of health insurance coverage and by family status (35 percent of total unemployed)

Item	Source of coverage	Family status (in percent)				
		Adult family heads	Adult single persons	Adult family members	Teenagers	All persons
1	Proportion of reentrants	21	9	44	26	100
2	Own employment-related	12	9	3	1	5
3	Other private	32	29	65	66	55
4	Own employment-related or other private	43	36	68	67	59
5	Public	39	25	10	15	19
6	Covered—private or public	72	55	76	79	74
7	Not covered	28	45	24	21	26

NOTE: Items 2 and 3 do not sum to item 4, and items 4 and 5 do not sum to item 6 because of duplicate sources of coverage. Also, components may not sum to totals because of rounding.

TABLE 3. Proportion of unemployed job losers by source of health insurance coverage and by family status (47 percent of total unemployed)

Item	Source of coverage	Family status (in percent)				
		Adult family heads	Adult single persons	Adult family members	Teenagers	All persons
1	Proportion of job losers	36	15	39	10	100
2	Own employment-related	27	15	9	5	16
3	Other private	29	24	51	53	39
4	Own employment-related or other private	52	37	58	57	53
5	Public	14	10	6	9	10
6	Covered—private or public	73	45	72	64	60
7	Not covered	37	55	38	36	40

NOTE: Items 2 and 3 do not sum to item 4, and items 4 and 5 do not sum to item 6 because of duplicate sources of coverage. Also, components may not sum to totals because of rounding.

have health insurance coverage, they are mostly covered through public plans (over 60 percent), unlike teenagers and adult family members. The coverage of new entrants who are adult single persons is similar to that of family heads—slightly over 55 percent have some health insurance coverage and a large majority of them receive their coverage through public plans.

Thirty-five percent of the unemployed workers are reentrants (Table 2). As in the case of new entrants, relatively few of them are adult family heads or single persons. A large majority of them are adult family members (nearly 45 percent) or teenagers (over 25 percent). Slightly over 20 percent are family heads and nearly 10 percent are single persons. The source of health insurance coverage among them is quite similar to that of new entrants. Reentrants exhibit a different pattern of source of coverage only to the extent that adult family heads and single persons have a much higher likelihood of receiving coverage under private plans rather than public plans. Unlike new entrants, some of these workers receive coverage from plans related to their previous employment. (The evidence suggests that over 10 percent of adult reentrants were not out of the labor force for any significant amount of time, hence this observation is plausible.) Nearly 75 percent of the reentrants have *some* form of health insurance coverage. Overall coverage levels do not vary by family status, except for adult single persons, who have lower coverage levels. Most reentrants (55 percent) receive health insurance through private plans, while about 20 percent are covered by public plans. Nearly half of those covered by public plans also have some sort of private health insurance.

Table 3 describes the remaining 47 percent of the unemployed—job losers. Over 35 percent of job losers are adult family heads, and 15 percent are adult single persons. Job losers have lower levels of health insurance coverage—only 60 percent are covered, compared to over 75 percent of new entrants and reentrants. The reason is simple—teenagers and adult family members, who dominate the new entrant and reentrant groups, are able to receive health insurance as dependents in the plans of their parents or spouses, who presumably are employed. Among job losers, the adult single person is least likely to be covered. Only 45 percent of them have health insurance coverage, compared to over 70 percent of adult family heads and family members.

Relatively more job losers (over 15 percent) have employment-related plans than new entrants or reentrants, but relatively fewer (about 40 percent) are covered by other private plans. The employer-related plans are found mostly among adult family heads or single persons. In contrast, adult family members and teenagers are principally covered by private plans that are not related to their employment. Relatively few job losers (10 percent) are covered by public plans. This is not surprising, since workers who have held jobs recently are unlikely to qualify for public health plans.

In summary, the problem of coverage is more acute among the job losers than among new entrants or reentrants. Not only do they have a relatively low overall coverage (only 60 prcent), but also the large majority of unemployed adult family heads and single persons are found among them. These workers are much less likely than adult family members and teenagers to be covered as dependents on a private plan in another family member's name. These reasons make job losers who are adult family heads or single persons a key target group for policy purposes. Accordingly, focus is on them in the subsequent tables. (This is also the population of unemployed workers most likely to qualify for UI benefits, and therefore, is central to the subject of this report.)

Job losers

The association between UI benefits and health coverage for job losers of various family status categories is summarized in Table 4. Among adult family heads a majority of workers are eligible for UI benefits. Eligible workers are more likely to be covered by health insurance than ineligible workers, even though a larger proportion of ineligible workers are covered by public plans. (This ratio of items 5 and 7 in Table 4 is greater for eligible workers than for ineligible workers.) A similar pattern is observed in the cases of adult single persons and adult family members, although the majority of these workers are not eligible for UI benefits. The large majority of teenagers (nearly 80 percent) are not eligible for UI benefits, but interestingly, these ineligible workers are *more* likely to be covered by a health insurance plan. Among all job losers, workers eligible for UI benefits have nearly a 10 percentage point higher probability of being covered (ratio of item 5 and item 7) than those who are ineligible.

Another point to note in Table 4 is how the likelihood of receiving health insurance coverage from the various sources varies with eligibility for UI benefits. Among adult family heads and single persons, job losers eligible for UI benefits are about 50 percent more likely to be covered by a private plan than those who are not eligible for UI benefits. Such a significant difference in private coverage is not observed between the eligible and ineligible adult family members; and among teenagers, the opposite relationship is observed. Also note that among adult family heads and single persons, job losers eligible for UI benefits are twice as likely to have an employer-related plan than those who are not eligible for UI benefits. This is another result of the availability of coverage to teenagers and family members under a private plan in someone else's name. These

TABLE 4. Proportion of unemployed job losers by source of health insurance coverage for each family status category by UI benefit eligibility status

Item	Source of coverage	Family status (in percent)										
		Adult family heads		Adult single persons		Adult family members		Teenagers		All persons		
		Eligible	Not eligible	Eligible	Not eligible	Eligible	Not eligible	Eligible	Not eligible	Eligible	Not eligible	Total
1	Proportion of job losers	36		15		40		10		100		
2	Own employment-related	19	8	10	5	6	3	2	2	11	5	16
3	Other private	16	13	13	11	22	28	10	42	17	22	39
4	Own employment-related or other private	32	20	21	15	27	31	12	45	26	26	53
5	Public	5	9	3	7	2	4	1	8	3	7	10
6	Covered private or public	35	28	23	21	28	35	13	51	28	32	60
7	Not covered	18	20	20	35	11	26	7	28	15	25	40
8	Proportion of job losers in each family status	53	47	44	56	39	61	21	79	43	57	100

NOTE: Items 2 and 3 do not sum to item 4, and items 4 and 5 do not sum to item 6 because of duplicate sources of coverage. Also, components may not sum to totals because of rounding.

workers are therefore less likely to opt for self-pay or conversion options on losing their jobs. Correspondingly, the higher incidence of employment-related health plans among adult family heads and single persons implies that in many instances maintaining health insurance coverage through employment-related plans is critical, because there is no already existing alternative private source.

The observed difference in the frequency of employment-related plans between eligible and ineligible workers suggests that UI benefits encourage workers to maintain their employment-related coverage, though it should be recognized that eligible workers may also be more likely to have worked for firms that offered health plans, and that have relatively longer continuation options in their health plans. This question is analyzed in a multivariate framework in a subsequent section.

The positive association between eligibility for UI benefits and health insurance coverage is also observed among other, nonemployment-related private plans, but only for adult family heads and single persons. In fact, among *all* job losers, a relatively higher proportion of UI-ineligibles than eligibles are covered under private plans. This negative association stems from the fact that large proportions of adult family members and teenagers who are not eligible for UI benefits have health insurance coverage through their families. Finally, as one might expect, eligibility for UI benefits is negatively associated with coverage from public plans.

Since the relationship between UI benefits and health insurance coverage of adult family members and teenagers is confounded by their being covered under family plans, the authors focus the remainder of this discussion on adult job losers who are also family heads or single persons.

Adult job losers who are family heads or single persons

Source of health insurance coverage by family income and UI benefit eligibility status. Table 5 summarizes the information on source of coverage by family income for adult job losers (family heads and single persons) who are eligible for UI benefits; and Table 6 presents the same information for those who are not eligible for UI benefits. (The proportion of adult family head or single person job losers who were eligible for UI benefits was almost exactly 50 percent.) Health coverage among both eligible and ineligible workers increases as family income rises. Among families with incomes of over $12,000 (in 1976 dollars), nearly 80 percent of the workers are covered by health insurance, but only about 45 percent of the adult job losers who make less than $9,000 are covered by a health plan. Overall, 63 percent of job losers who are eligible for UI benefits have health insurance coverage, with over 55 percent receiving coverage through a private plan.

TABLE 5. Proportion of unemployed adult job losers who are family heads or single persons and are eligible for UI benefits, by source of health insurance coverage for each income class [1]

Item	Source of coverage	Family income (in percent) $0–2,999	$3,000–5,999	$6,000–8,999	$9,000–11,999	$12,000+	All incomes
1	Proportion of job losers	3	16	20	17	43	100
2	Own employment-related	5	12	24	31	47	33
3	Other private	32	20	23	29	37	30
4	Own employment-related or other private	35	32	41	54	77	57
5	Public	17	17	8	6	7	9
6	Covered by private or public plans	42	47	48	59	79	63
7	Not covered	58	53	52	41	21	37

[1] Fifty percent of all unemployed adult job losers are eligible for UI benefits.

NOTE: Items 2 and 3 do not sum to item 4, and items 4 and 5 do not sum to item 6 because of duplicate sources of coverage. Also, components may not sum to totals because of rounding.

TABLE 6. Proportion of unemployed adult job losers who are family heads or single persons and are not eligible for UI benefits, by source of health insurance coverage for each income class [1]

Item	Source of coverage	Family income (in percent) $0–2,999	$3,000–5,999	$6,000–8,999	$9,000–11,999	$12,000+	All incomes
1	Proportion of job losers	21	30	17	11	22	100
2	Own employment-related	2	6	15	18	32	14
3	Other private	12	16	24	29	50	25
4	Own employment-related or other private	14	22	37	44	77	37
5	Public	30	20	14	11	6	17
6	Covered by private or public	42	39	48	52	80	51
7	Not covered	58	61	52	48	20	49

[1] Fifty percent of all unemployed adult job losers are not eligible for UI benefits.

NOTE: Items 2 and 3 do not sum to item 4, and items 4 and 5 do not sum to item 6 because of duplicate sources of coverage. Also, components may not sum to totals because of rounding.

In comparison, among those who are not eligible, only 50 percent have health insurance coverage, and only 35 percent receive coverage through a private plan. Note that eligibility for UI does not increase the probability of having a plan among higher income workers—those earning $12,000 or more—but among each of the other income groups, eligibility for UI benefits is positively associated with a higher likelihood of coverage through private plans.

While the probability of having private health insurance coverage increases with income and with UI eligibility, the probability of being covered by a public plan decreases. As a result, the overall likelihood of being covered by a private *or* a public plan does not vary between eligible and ineligible workers among those job losers who are family heads or single persons.

Source of health insurance coverage by unemployment duration and UI benefit eligibility status. The differences in the relationship between UI benefits and health insurance coverage among job losers with different levels of unemployment duration are summarized in Tables 7 and 8. The first thing to notice is that there is no systematic association between the length of unemployment duration and the extent to which workers are covered by health insurance. This is true both for workers who are eligible for UI benefits (Table 7) and those who are not (Table 8). However, in the case of private health insurance coverage, there are several interesting differences between the eligible and ineligible job losers. Those who are eligible for UI benefits have a higher likelihood of being covered than those who are unable to qualify. However, the extent of this difference varies with the length of unemployment duration—the association between eligibility for UI benefits and increased coverage is in general more pronounced among workers with longer unemployment durations. Also, only about 25 percent of job losers with an unemployment spell of less than 15 weeks have nonemployment-related private insurance, compared to about 40 percent of job losers with 15 to 24 weeks of unemployment. This finding suggests that the workers react to persisting unemployment by purchasing private health insurance coverage, but that only those with UI benefits are able to accomplish this.

Source of health insurance coverage by health status of workers and their families and by UI benefit status. Tables 9 and 10 summarize the differences in the extent of coverage between job losers who are health impaired and those who are not (Table 9) and job losers who

TABLE 7. Proportion of unemployed adult job losers who are family heads or single persons and are eligible for UI benefits, by source of health insurance coverage for each unemployment duration category [1]

Item	Source of coverage	Unemployment duration (in percent)						
		1–4 weeks	5–9 weeks	10–14 weeks	15–19 weeks	20–24 weeks	25 or more weeks	All job losers
1	Proportion of job losers	24	20	13	10	9	26	100
2	Own employment-related	29	34	27	34	33	25	33
3	Other private	25	26	24	43	39	32	30
4	Own employment-related or other private	48	54	50	66	67	56	57
5	Public	10	5	9	6	7	11	9
6	Covered by private or public plans	68	59	56	68	71	62	63
7	Not covered	32	41	44	32	29	38	37

[1] Fifty percent of all unemployed adult job losers are eligible for UI benefits.
NOTE: Items 2 and 3 do not sum to item 4, and items 4 and 5 do not sum to item 6 because of duplicate sources of coverage. Also, components may not sum to totals because of rounding.

TABLE 8. Proportion of unemployed adult job losers who are family heads or single persons and are not eligible for UI benefits, by source of health insurance coverage for each unemployment duration category [1]

Item	Source of coverage	Unemployment duration (in percent)						
		1–4 weeks	5–9 weeks	10–14 weeks	15–19 weeks	20–24 weeks	25 or more weeks	All job losers
1	Proportion of job losers	27	15	9	5	6	36	100
2	Own employment-related	18	12	14	10	14	12	14
3	Other private	25	21	29	17	21	29	25
4	Own employment-related or other private	39	31	41	26	34	40	37
5	Public	13	11	23	13	19	21	17
6	Covered by private or public plans	50	41	61	37	47	57	51
7	Not covered	50	59	39	63	53	43	49

[1] Fifty percent of all unemployed adult job losers are not eligible for UI benefits.
NOTE: Items 2 and 3 do not sum to item 4, and items 4 and 5 do not sum to item 6 because of duplicate sources of coverage. Also, components may not sum to totals because of rounding.

TABLE 9. Proportion of adult job losers who are family heads or single persons, by source of health insurance coverage for health status of the worker by UI benefit eligibility status [1]

Item	Source of coverage	Not health impaired (in percent)			Health impaired (in percent)		
		Total	Eligible	Not eligible	Total	Eligible	Not eligible
1	Proportion of job losers	100	52	48	100	42	58
2	Own employment-related	24	18	7	16	9	7
3	Other private	28	15	13	26	12	14
4	Own employment-related or other private	49	30	18	39	20	20
5	Public	12	4	7	20	5	15
6	Covered by private or public plans	57	33	25	57	24	32
7	Not covered	43	19	24	43	17	26

[1] Fifteen percent of the group are health-impaired.
NOTE: Items 2 and 3 do not sum to item 4, and items 4 and 5 do not sum to item 6 because of duplicate sources of coverage. Also, components may not sum to totals because of rounding.

TABLE 10. Proportion of adult job losers who are family heads or single persons, by source of health insurance coverage, health status of the family members, and UI benefit eligibility status [1]

Item	Source of coverage	Family of the worker (in percent)					
		Not health impaired			Health impaired		
		Total	Eligible	Not eligible	Total	Eligible	Not eligible
1	Proportion of job losers	51	49	100	47	53	100
2	Own employment-related	16	6	22	16	9	25
3	Other private	16	12	28	13	13	26
4	Own employment-related or other private	29	18	47	27	20	47
5	Public	4	7	11	6	13	18
6	Covered by private or public plans	32	24	56	31	31	62
7	Not covered	19	25	44	16	22	38

[1] Twenty-five percent of this group have a family with at least one health-impaired member.
NOTE: Items 2 and 3 do not sum to item 4, and items 4 and 5 do not sum to item 6 because of duplicate sources of coverage. Also, components may not sum to totals because of rounding.

have someone in the family who is health impaired and those who do not (Table 10). Table 9 shows that there is little difference in the extent of health insurance coverage *from all sources* between workers who are health impaired and those who are not. However, over 85 percent of covered workers (ratio of item 3 to item 5) who are not health impaired are covered under a private plan, while less than 70 percent of covered workers who *are* health impaired are covered by private plans. Those eligible for UI benefits have a higher probability of having private health insurance than those who are not eligible among workers who are not health impaired, but a similar difference is not observed among workers who are health impaired. In fact, among the health-impaired, ineligible workers are slightly *more* likely to have health insurance coverage. This is presumably due to higher access to public plans among the noneligible group—they have a relatively higher proportion of low-income workers. The relatively low private health insurance coverage among the health-impaired is not surprising, especially when one recognizes that these workers have relatively low incomes that compound the difficulty of acquiring coverage in the first place.

Similar relationships can be observed when health status of the entire family is considered (Table 10). Here, however, private health insurance coverage is not lower among families with health-impaired members than among others, as was the case when only the health status of the workers themselves was considered. Also, there is evidence of somewhat higher health insurance coverage (6 percentage points) among workers with health-impaired individuals in the family than the workers with healthy families. Once again, this is a result of a larger proportion of workers with health-impaired families receiving health benefits through public sources.

Source of health insurance coverage by race and by UI benefit status. The differences in health insurance coverage between blacks and nonblacks are shown in Table 11.[6] About 55 percent of both black and nonblack job losers were covered by some sort of health insurance. However, only 33 percent of the blacks have private health insurance coverage, whereas among nonblacks over 50 percent have private health insurance coverage. Similarly, fewer blacks are covered by their own employment-related plans—14 percent of black job losers are covered by such plans compared to 26 percent of nonblack job losers. Eligibility for UI benefits is associated with about the same amount of increased private coverage among both blacks and nonblacks. However, ineligible workers among the blacks are more likely to be covered by public plans, whereas ineligible nonblacks are more likely to be covered by other private plans.

TABLE 11. Proportion of adult job losers who are family heads or single persons, by source of health insurance coverage, race and UI benefit eligibility status [1]

Item	Source of coverage	Nonblacks (in percent)			Blacks (in percent)		
		Total	Eligible	Not eligible	Total	Eligible	Not eligible
1	Proportion of job losers	100	52	48	100	42	58
2	Own employment-related	26	18	8	14	10	4
3	Other private	29	16	13	20	11	9
4	Own employment-related or other private	51	31	20	33	20	13
5	Public	11	4	7	23	6	17
6	Covered by private or public plans	58	33	25	54	25	29
7	Not covered	42	19	23	46	17	29

[1] Eighteen percent of this group of adult job losers are black.
NOTE: Items 2 and 3 do not sum to item 4, and items 4 and 5 do not sum to item 6 because of duplicate sources of coverage. Also, components may not sum to totals because of rounding.

The Influence of UI Benefits on Health Insurance Coverage

What is the effect of UI benefits on the retention of health insurance by the unemployed? Does the receipt of UI increase the likelihood that the individual will remain covered? Is the effect strong or weak? In particular, what is the effect on the retention of employment-related plans, and what is the effect on the likelihood of being covered through any private source?

As the discussion in the previous section highlighted, the unemployed population is composed of a mix of individuals unemployed for different reasons, and with different socioeconomic characteristics. Some of these individuals are adult heads of households, on whom an entire family may rely for health insurance coverage. Others are youth or second earners in a family, who may have other sources of health insurance coverage and for whom unemployment poses no threat of loss of coverage. Similarly, new entrants and reentrants are different from job losers in that they did not suffer a reduction in income or lose an employment-related health plan on becoming unemployed.

Accordingly, in the empirical work that follows, teenagers and adult family members are excluded from the sample. This resulted in a more direct and considerably simpler specification for studying the relationship between UI benefits and retention of health insurance coverage. Also, new entrants and reentrants were excluded from the sample, since the objective was to study the retention of health insurance coverage by workers faced with income loss, and new entrants and reentrants have typically not undergone this drop in income.

Two other groups of individuals were excluded: (1) individuals 65 years of age or over, since the presence of the Medicare option can be expected to affect their decision about private health insurance, and (2) individuals who were receiving benefits through some form of public health assistance, e.g., Medicaid, veterans' benefits, or Civilian Health and Medical Program of Uniformed Services (CHAMPUS), for the same reason.

Empirical specification

The model used to estimate the impact of UI compensation on health insurance coverage was the linear probability model. According to this model the probability that individuals will retain their health insurance coverage is a linear function of a set of explanatory variables; that is,

$$P_i = Pr\,[C = 1] = \sum_i a_i X_i \qquad (1)$$

where $C = 1$ denotes that the ith individual retains health insurance coverage, and the X_i include such factors as income, family characteristics, etc. Of course, P_i cannot be observed directly. Instead, observers note only where health insurance coverage was retained. Hence, the equation to be estimated is

$$C_i = \sum_i a_i X_i + u_i \qquad (2)$$

where $C_i = 1$ if individuals retain health insurance coverage; 0 otherwise; and u_i is an error term measuring the discrepancy between C_i and P_i. The coefficients in equation (2) represent the effect of a one unit change in an explanatory variable on the probability that individual i will retain health insurance coverage.

Equation (2) is estimated using ordinary least squares. There are a number of empirical issues associated with this model, and these have been widely discussed in the econometric literature.[7]

Explanatory variables. The principal purpose of the estimation was to gauge the effect of UI benefits on the decision to retain health insurance coverage and not to analyze in detail all of the determinants of this decision. Nonetheless, the key determinants of the decision to retain benefits were identified and included as control variables.

UI benefits. Two variables were defined to capture the effect of UI benefits on the retention of health insurance coverage. These variables were: weekly benefit amount (WBA), and a dummy variable (ELIG)

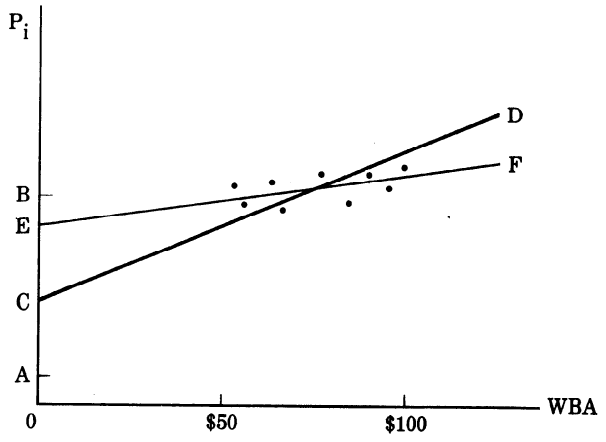
equal to 1 if the individual was eligible to receive UI benefits, and 0 otherwise. These variables could not be observed directly, since the survey had not collected this data. Therefore, they were estimated using the employment and earnings history of each respondent. The algorithm for constructing these estimates, which involved the computerization of benefit and qualifying formulas for all 50 States plus the District of Columbia, is discussed in detail in the Appendix.

UI benefits are equivalent to receiving an income subsidy. Since health insurance coverage is a normal good, the effect of UI benefit variables on retention of health insurance coverage should be positive. It might be argued, however, that a threshold effect operates. The drastic reduction in current income from being unemployed might cause individuals to drop health insurance coverage completely from their consumption bundle, even when they are receiving UI benefits (since it is available only in discrete quantities). In this case, one would not expect UI benefit variables to have any effect on the retention of health insurance coverage.

Even if the expected relationship between UI benefits and retention of health coverage is positive, one might not observe a positive coefficient for the ELIG variable, if both variables are entered simultaneously in the equation. The reason is that ELIG no longer captures the increased probability of having coverage among eligible workers, but has the effect of adjusting the slope with respect to the WBA variable that permits a more accurate measurement of the effect of UI benefits. Accordingly, the coefficient estimate of ELIG might be either positive or negative.

The use of ELIG permits a better estimate of the effect of WBA by allowing the two groups, recipients and nonrecipients, to have different intercept values.[8] The situation is illustrated in Figure 1. In this example, WBA varies between $50 and $100 per week for eligible workers, with all the ineligible workers clustered at $0, i.e. no benefits. The scattergram of points with positive WBA reveals a distinct slope. The value of P_i on the vertical axis represents the probability of retaining coverage. In this example, let OA represent mean $P_i|\text{ELIG} = 0$, and OB represent mean $P_i|\text{ELIG} = 1$. If ELIG is entered in the equation by itself, its coefficient estimate will be equal to OB—OA. If only WBA is entered in the equation, its coefficient estimate will reflect the slope of line CD, clearly a biased estimate. Introducing ELIG into the regression has the effect of estimating the line EF, which reflects the unbiased slope of WBA. But in this case the coefficient of ELIG is given by OE—OA, which is clearly smaller than OB—OA. (It is theoretically possible to construct a case where OE—OA may be negative.) This means that correct specification requires better variables to be entered in the equation. However, interpretation of the coefficient of those variables becomes more complex, as will be seen in the results section.

FIGURE 1. The effect of WBA and ELIG on the probability of retaining health insurance coverage



Other explanatory variables. As mentioned previously, other variables were entered as control variables, rather than as objects of study in their own right. Given the wealth of data contained in the SIE survey, a large number of possible control variables can be identified. The authors experimented with a variety of different combinations. In general, the variables that appeared to be *irrelevant* were eliminated; that is, those whose coefficient was not significantly different from 0 and whose presence or absence did not appreciably affect any other coefficients. However, certain variables were retained, even though they appeared to be irrelevant, on the grounds that they are such common socioeconomic control variables that their absence might be troublesome to a reader unable to verify that their effect was indeed nil. (Number of dependents was one such variable.)

A complete list of the control variables and how they were measured is contained in Table 12.

TABLE 12. Definition of variables

Variable name	Definition
Dependent variables	
COV1	1 if the individual is covered under an employment-related health plan
	0 otherwise
COV2	1 if the individuals are covered by health insurance from any private source, whether in own name or through another family member
	0 otherwise
Explanatory variables	
	Unemployment benefits:
WBA	Weekly benefit amount
ELIG	1 if the individual is eligible for unemployment benefits
	0 otherwise

TABLE 12. Definition of variables (*continued*)

Variable name	Definition
Financial variables:	
TOTINC	Total family income in 1975
LLIQ	Log of total family liquid assets
POVSTAT	1 if the family income is below the poverty line
	0 otherwise
OTHEMP	1 if another family member is currently employed
	0 otherwise
Demand for insurance:	
PERSIC	1 if any member of the family is health-impaired
	0 otherwise
DPCOV1	1 if the unemployed individual has dependents, and the dependents are covered by a health plan
	0 otherwise
DPCOV2	1 if the individual has dependents and the dependents are covered by health insurance *other than* the individual's own employment
	0 otherwise
PHA	1 if the individual has within the past year used public health services
	0 otherwise
ACTCOV	1 if the individual is covered by a public health plan or a plan in the spouse's (or other family member's) name
	0 otherwise
Family characteristics:	
FAMPOS	1 if the individual is a family head with dependents
	0 otherwise
LDEP	Log of (number of dependents plus one)
PERU6	1 if the family includes any children under 6
	0 otherwise
Personal characteristics:	
LAGE	Log of the age of the individual
LWUN	Log of weeks currently unemployed
Industry of last employment:	
(Set of dummy variables: public sector = excluded category)	
INDUM1	Agriculture
INDUM2	Construction
INDUM3	Mining and manufacturing
INDUM4	Transportation and utilities
INDUM5	Wholesale trade
INDUM6	Retail trade
INDUM7	Finance
INDUM8	Services

Dependent variables. Equations were estimated to explain two different dependent variables—COV1 and COV2. These variables are defined in Table 12. The basic difference between the two variables is that COV1 applies to coverage through an employment-related plan in the name of the unemployed worker, whereas COV2 applies to coverage through any private plan. This could include:

- a group plan through a former employer;
- an individual plan purchased in an individual's name; or
- a group or family plan acquired through a spouse or other family member.

The precise definitions of COV1 and COV2 were dictated by the information available in the SIE data. There is a difficulty in the definition of COV1. The purpose was to determine whether workers eligible for UI are more inclined to make additional payments to retain health insurance coverage than workers not eligible. By the definition of COV1, however, workers are classified as retaining an employment-related plan when in fact they might be covered under the exit lag of the plan—its automatic continuation. These workers do not face the necessity of making out-of-pocket payments to retain health insurance coverage, unlike workers who must exercise the self-pay or conversion options. Including these workers covered under the exit lag in the sample is harmless if one can assume that the likelihood of workers receiving UI benefits is the same for workers covered under the exit lag as it is for workers covered under self-pay and conversion options. In any case, the form of the data requires making this assumption.

Further, there is the question of availability of alternative coverage through plans in the name of other family members or through duplicate plans. Workers with these alternative coverage sources do not face the choice between retaining coverage versus no coverage, but rather between retaining the original coverage and some unspecified alternative coverage. This problem affects both COV1 and COV2. Fortunately, to some extent it can be resolved by including explanatory variables to capture the differences in the availability of alternative coverage to the workers and their dependents (see variables ALTCOV, DPCOV1, and DPCOV2 in Table 12). The results of the estimated equation are discussed below.

Results

The estimates of the regression equation COV1 and COV2 are displayed in Table 13. The table displays the results of the final regression equation from a stepwise regression in which WBA and ELIG were entered initially and all control variables then entered one at a time.

In both equations, ELIG and WBA both display positive coefficients. In the equation explaining retention of employment-related plans (COV1) the coefficient of WBA is statistically significant and the coefficient of ELIG is not; the opposite was the case for coverage under any private plan (COV2). What this suggests is that both the probability of retaining an employment-related plan and the probability of being covered by any private plan increase with receipt of unemployment benefits. However, in the case of employment-related plans, variation in the dollar amount of weekly benefits has a measurable effect on the probability of retaining these plans; this is not so in the case of coverage under any private plan. The coeffi-

TABLE 13. Results of regression of COV1 and COV2 on different control variables (t-statistics in parentheses)

Variable code	COV1 [2]	Variable code	COV2 [3]
1. constant term	− .37 [1]	constant term	− .29 [1]
	(4.09)		(2.61)
2. WBA	6.45 [1]	WBA	1.99
	(3.43)		(.85)
3. ELIG	1.78	ELIG	4.79 [1]
	(.84)		(1.82)
4. DPOTH3	− .38 [1]	TOTINC	1.36 [1]
	(16.7)		(6.89)
5. TOTINC	1.21 [1]	DPCOV	− .51 [1]
	(7.61)		(13.6)
6. FAMPOS	.15 [1]	LLIQ	3.40 [1]
	(5.0)		(10.7)
7. LLIQ	2.26 [1]	OTHEMP	.12 [1]
	(8.72)		(5.26)
8. INDUM2	.05 [1]	LAGE	.14 [1]
	(2.76)		(4.18)
9. LAGE	.14 [1]	PHA	− .13 [1]
	(5.55)		(4.69)
10. LWUN	− .04 [1]	INDUM2	.03
	(5.97)		(1.22)
11. PHA	− .07 [1]	FAMPOS	.09
	(3.25)		(2.37)
12. INDUM5	− .13 [1]	INDUM7	− .08
	(5.35)		(2.89)
13. INDUM7	− .10 [1]	LWVN13	− .02 [1]
	(4.76)		(1.83)
14. INDUM8	− .16 [1]	INDUM3	− .09 [1]
	(3.27)		(2.24)
15. INDUM6	− .14 [1]	INDUM5	− .07 [1]
	(3.17)		(2.30)
16. INDUM4	− .09 [1]	PERU6	− .03
	(2.55)		(1.20)
17. INDUM3	− .08 [1]	INDUM1	− .08
	(2.35)		(1.33)
18. ALTCOV	− .04 [1]	INDUM8	− .07
	(1.85)		(1.22)
19. LDEP	− .03	LDEP	− .03
	(1.21)		(1.06)
20. INDUM1	− .06	SICK	.01
	(1.22)		(.61)
21. PERU6	− .01	INDUM4	− .02
	(.71)		(.53)
22. POVSTAT	− .01	INDUM6	− .01
	(.48)		(.18)
23. OTHEMP	− .01	POVSTAT	− .00
	(.32)		(.14)
24. SICK	− .01		
	(.29)		

[1] Indicates significantly different from zero at $\alpha = .1$ (two-tail).
[2] In COV1 for readability of coefficients, variables 3 and 7 are multiplied by 100; variable 2 by 10,000; and variable 5 by 100,000.
[3] In COV2 for readability of coefficients, variables 3 and 6 are multiplied by 100; variable 2 by 10,000; and variable 4 by 100,000.

cient of WBA in the equation explaining COV1 is more than 3 times as large as the same estimate in the case of COV2. On the other hand, the coefficient of the ELIG variable is nearly 3 times as large in the COV2 equation as the same estimate in the COV1 equation. As a result, the magnitude of the combined effect of WBA and ELIG on the probability of retaining coverage is nearly the same for both types of coverage.

The magnitude of the effects of receiving typical amounts of weekly benefits—$50 and $100—are compared for both COV1 and COV2 in Table 14. As can be seen from the table, the combined effect of ELIG and WBA is very similar for both types of coverage. The probability of retaining employment-related coverage is more sensitive to changes in the weekly benefit amount, and increases from 5 to 8 percentage points as WBA increases from $50 to $100. In comparison, a similar increase in WBA increases the probability of being covered under any private plan by only 1 percentage point.

The reasons for this difference are unclear, but in any case the differences in the magnitude of the combined effects of ELIG and WBA on COV1 and COV2 are so small as to be of little consequence. More important questions are: are these estimates robust, or are they sensitive to minor changes in the specification? Do the UI benefit variables make a significant contribution to the overall determination of whether to retain coverage?

The question of robustness can be addressed by examining the stepwise result shown in Table 13. In both equations the magnitudes of the coefficients of both WBA and ELIG vary less than half of a percentage point as additional variables are added. The standard errors associated with coefficients also remain the same as the number of included variables is increased. This confirms that the magnitude of the association between unemployment benefits and health insurance coverage is stable and not sensitive to changes in control variables, etc.

As can be seen from the regression results, several other variables contributed significantly to the explanatory power of the equation. This raises the question of how important the UI benefit variables are to the explanation of whether a worker retains coverage. The overall importance of ELIG and WBA variables were tested by suppressing ELIG and WBA and testing whether the decline in the residual sum of squares was statistically significant. The test revealed that the contribution of the unemployment variables to the explana-

TABLE 14. Effect of receiving UI benefits (WBA = $100 and $50) on probability of retaining health insurance coverage

Benefit level	Percentage increase in probability of coverage if individual eligible for benefits	
	COV1	COV2
WBA = $50	3	1
ELIG	2	5
Total effect	5	6
WBA = $100	6	2
ELIG	2	5
Total effect	8	8

TABLE 15. Summary of tests to confirm whether UI benefit variables contribute significantly to the explanatory power of the COV1 and COV2 regression equations

COV1	COV2
$H_n : \alpha_1 = \alpha_2 = 0$	$H_n : \alpha_1 = \alpha_2 = 0$
$H_a : \sim H_n$	$H_a : \sim H_n$
$RSS_n = 401.70$	$RSS_n = 262.87$
$RSS_a = 399.48$	$RSS_a = 259.09$
$S^2 = .17354$	$S^2 = .11260$
# restrictions = 2	# restrictions = 2
$n - k = 2300$	$n - k = 2300$
$F = 6.37$	$F = 16.82$
$F_c(2,2300) = 4.6$ (1% level)	$F_c(2,2300) = 4.6$ (1% level)
Conclusion: Reject H_n	Conclusion: Reject H_n

where
a_1 = coefficient of WBA;
a_2 = coefficient of ELIG;
RSS = residual sum of squares; and
S^2 = residual variance

tory power was significant in both cases at a 99 percent level of confidence. The details of the tests are summarized in Table 15. Clearly, the UI benefit variables make a significant contribution to explaining the variation in health insurance coverage.

Other variables were also important, in some cases more important, in explaining coverage levels. Among these were family income, the liquid assets of the family, and coverage of dependents through alternative plans. These three variables were important in both the COV1 and COV2 equations. In addition the presence of another employed family member was an important variable explaining coverage under any private plan (COV2); and whether the worker is a family head (FAMPOS) was important in explaining the retention of employment-related health insurance coverage (COV1). These variables were both highly significant and had the expected signs. A number of other variables were also statistically significant and most of them had the expected sign, as can be seen in Table 13. The magnitude of their effect, however, was small.

In summary, the multivariate analysis reported in this section provides strong evidence to suggest that the availability of unemployment benefits increases the probability of retention of employment-related coverage, as well as of coverage through any private plan. The magnitude of the increase is about 5 to 7 percentage points in the range of typical levels of benefits.

Conclusions

It is clear from the analysis of the health insurance coverage and UI benefits of the unemployed that the receipt of UI benefits has a significant effect on the likelihood of retaining health insurance benefits when unemployed. Individuals who are eligible for unemployment benefits are more likely to retain employment-related group health plans or individual private plans than workers who do not receive UI benefits. For average amounts of weekly benefits received by workers, the effect of UI benefits is to increase the probability of retaining coverage by slightly over 5 percentage points. However, there is considerable variation in the influence of UI benefits on coverage among different groups of workers, which is a reflection of the fact that many other factors enter the decision process of individuals, especially their income and wealth positions. In fact these other considerations are the dominant determinants of retention of health insurance coverage among the unemployed.

In addition, during the tabular analysis, the authors found that more than half of the unemployed workers in the sample were new entrants or reentrants.[9] Ninety-five percent of new entrants and 70 percent of reentrants are dependent and among them over three-fourths are covered by some sort of a health plan—55 to 60 percent through private plans and 15 to 20 percent through public plans. Among the job losers the insurance coverage is lower—60 percent. About 50 percent of them are covered through private plans and about 10 percent through public plans. Single-person households are least likely to be covered—only about 50 percent of them have any health insurance coverage.

In general, eligibility for UI benefits does not increase the likelihood of coverage among teenagers and adult family members. The extent of coverage among them is governed by the availability of benefits to these workers as dependents on a family plan.

In the case of unemployed adult family heads and single persons, eligibility for UI benefits increased the likelihood of being covered by a private plan and decreased the likelihood of being covered by a public plan. The effect of UI eligibility on employment-related plans was much more pronounced than on other types of private plans. Workers eligible for UI benefits were twice as likely to have employment-related plans but less than a fourth as likely to be covered by other private plans as workers not eligible for UI benefits.

The effect of UI eligibility on private health insurance coverage varied by income; it was more pronounced among low-income workers than among high-income workers. In fact the effect of eligibility became negligible among unemployed workers with family incomes of over $12,000. The effect of UI eligibility on private coverage was less pronounced among those workers who are themselves health-impaired or have family members who are health-impaired. Race and length of unemployment duration did not seem to affect the influence of eligibility.

Several policy-relevant conclusions can be drawn from these and other findings presented in this report. Some of the major conclusions are summarized below:

1. New entrants and reentrants to the labor force generally display high coverage levels, even though for the most part they are not eligible for UI benefits. This group consists mostly of teenagers and second earners who are covered by family health insurance plans. Adult single individuals display systematically lower coverage levels than heads of families, family members, or teenagers. Presumably this reflects both a decreased opportunity to acquire private coverage (e.g., through the plan of a spouse or another family member) and a decreased demand for coverage, since the individual is not also responsible for insuring an entire family with dependents. This implies that the key target group of policy significance is family heads and adult single persons. They comprise 35 percent of the unemployed, two-thirds of them are job losers, and most of the remainder are reentrants. By increasing the coverage among these workers one can also expect coverage among teenagers and adult family members—65 percent of the unemployed—to be automatically enhanced.

2. Health insurance coverage among the unemployed is considerably increased by the availability of public plans to the unemployed poor—nearly 15 percent of the unemployed receive benefits from public sources. As a result, those not covered among the unemployed are the low-income families who are unable to qualify for public programs. Coverage among families with high incomes ($12,000 or more) is considerably higher than among other groups. This suggests that decreasing the qualifying standards for public programs could help the most needy among the unemployed who are not currently covered.

3. While it is true that UI benefits promote the acquisition and retention of private health insurance coverage, changes in the number of workers receiving UI benefits or increasing the amount of benefits received would only have a limited effect on the coverage levels among the unemployed. There are two reasons for this: (a) A sizable proportion of workers not eligible for UI benefits receive coverage through a public source such as Medicaid, hence the *overall* coverage levels between eligible and ineligible workers do not vary greatly. Since an expansion of UI benefits would promote private health insurance coverage it would presumably somewhat reduce the use of public programs. (b) UI benefit receipt is only one of many factors that influence the decision of workers to retain health insurance coverage during periods of their unemployment.

4. Finally, a large proportion of the unemployed have relatively short durations of unemployment. For instance, among job losers who are adult family heads or single persons, nearly 45 percent have unemployment durations of less than 8 weeks, and one-third of them have no coverage. The health insurance problem among this group could be addressed by seeking provisions for longer exit lags—lags after job separation before coverage is lost. In this connection, it should also be recognized that employment-related plans have entry lags—lags after employment begins but before coverage is acquired. Entry lags are a source of a considerable amount of loss of health insurance coverage associated with unemployment.[10] Consequently, shorter or nonexistent entry lags would also help to reduce the health insurance problem of the unemployed.

Finally, it might be emphasized that the severity of the health insurance problem among the unemployed varies by their family status, wealth position of their family, availability of UI income, and several other variables. Accordingly, no one policy short of universal national health insurance can be expected to deal with the problem completely. Nonetheless, efforts in the various areas mentioned could make significant progress towards resolving the problem of health insurance coverage among the unemployed.

Notes

1. Congressional Budget Office, 1979.

2. For a more detailed description of the provisions of group health plans and the length of entry lags see the related report "Employer-Provided Group Health Plans and the Unemployed," in *Unemployment Compensation: Studies and Research* (Washington, D.C., National Commission on Employment Compensation, 1980).

3. Suresh Malhotra, Kenneth M. McCaffree, John Wills, and Jean Baker, *Employment Related Health Benefits in Private Nonfarm Business Eestablishments in the United States* (Washington, D.C., U.S. Department of Labor, 1980).

4. For instance, disabled workers or workers with a medical condition could, under the conversion option, maintain health insurance coverage on losing their jobs. But such workers would have extreme difficulty obtaining coverage without the conversion option.

5. It is true that some reentrants who remained out of the labor force for a relatively short period could qualify for UI benefits. They were excluded because it was not possible to identify them using the SIE data.

6. Race was defined as black and nonblack as opposed to white/nonwhite or some finer distinction because the coding conventions used with the SIE data made these latter distinctions much less reliable.

7. These issues are not discussed in this report, but for a summary see Robert S. Pindyk and Daniel L. Rubinfeld, *Econometric Models and Economic Forecasts* (New York, McGraw-Hill, Inc., 1976), chapter 8.

8. To speak of "recipients" and "nonrecipients" as identical with "eligible" and "not eligible" individuals is somewhat misleading, since there are two small groups who pass the "eligible" tests, but who are not receiving benefits. These are UI exhaustees, who did

receive benefits but now have been unemployed for longer than their benefit period; and waiters, who have not yet satisfied the (very short) initial waiting period for benefits. This analysis revealed that both of these groups are so small that for practical purposes UI-eligible individuals can simply be considered recipients; and henceforth there will be no distinction made between the terms.

9. The reader should be cautioned that the magnitude of the effect of receipt of UI benefits on private coverage levels is overstated in the tabular analysis, since one simply looks at the difference in average coverage levels between eligible and noneligible individuals. This is because there are systematic socioeconomic differences between the two groups that account for the difference.

10. Suresh Malhotra and John Wills, "Employer-Provided Group Health Plans and the Unemployed," in *Unemployment Compensation: Studies and Research* (Washington, D.C.: National Commission on Unemployment Compensation, 1980).

Appendix: Description and Use of the Survey of Income and Education

The Survey of Income and Education (SIE) was conducted in April–July 1976 by the Bureau of the Census, primarily for the purpose of providing State-level data on the number of children living in poverty and the numbers of persons who have limited English-speaking ability. (Such information is required for the administration of several Federal programs.) The sample design was a stratified multistage cluster design. Low-income primary sampling units (PSU's) were oversampled in order to provide better estimates for the poor population. This feature makes the SIE a good source of information on the unemployed.

Data were collected for a total of approximately 150,000 households, representing approximately 440,000 individuals. Information was gathered for every individual in each surveyed household, with slightly different questions asked for children under the age of 14. Information acquired for adults included work history, income and sources, a number of personal characteristics, health insurance coverage, and health status.[1]

Construction of variables

The SIE was the best data set available for this project, but it was not perfect. Two problems were particularly significant:

1. The labor force status of individuals without jobs was sometimes difficult to discern. Individuals not currently employed might have lost a previous job, or might be new entrants or reentrants to the labor force. Since the different types of unemployed workers represent distinct socioeconomic groups it was important to distinguish among them for policy purposes.

2. Most importantly, whether the individual was *currently receiving* UI could not be ascertained, since income source questions were for the previous calendar year.

Neither of these problems was insurmountable. But both required the construction of proxy variables that would measure the desired characteristic.

Two sets of algorithms were constructed. The first assigned each individual to one of eight labor force status categories (e.g., new entrant, layoff, quit) and is called the labor force status algorithm. The second assigned each individual to one of four unemployment compensation categories (e.g., ineligible, benefits exhausted) and is called the UI status algorithm. As a byproduct of this second algorithm, the weekly benefit amount and benefit period were calculated for each eligible individual. The two algorithms are described in detail.

The labor force status algorithm. Each individual contained in the SIE has a code that indicates whether the individual is "unemployed" (P10).[2] This variable does an adequate job of separating out certain types of "not in labor force" reasons—in school, unable to work, and so on—but does not distinguish among the many different reasons for being unemployed. By combining information from a number of other items in the survey, the authors assigned each unemployed individual to one of eight labor force status categories. The categories are as follows, and are defined more fully in the text: (1) new entrant; (2) reentrant type I; (3) reentrant type II; (4) reentrant type III; (5) temporary layoff; (6) indefinite layoff; (7) quit; (8) lost job.

In assigning individuals to one of the labor force status categories, each individual was passed through a series of filtering questions. Based on the answer to each question, the individual was either assigned to a final status or passed on for further "filtering." Table A–1 summarizes the labor force status distribution.

Judgment was required at several points, since the answers to the questions often contain some ambiguity. In these cases the SIE *Interviewer's Manual* was often helpful. Also, because of the fairly complicated skip logic contained in the SIE questionnaire, many questions were not asked of every individual. These individuals contain a "Not In Universe" (NIU) code for questions not asked. In these cases the individual was automatically passed on to the next filter.

Table A–2 presents evidence that suggests that the classification scheme developed here is valid. For each final status the authors computed the proportion of

TABLE A–1. Allocation of unemployed individuals to final status

Status	Percent of population (estimated)
New entrant	17.6
Temporary layoff	2.7
Indefinite layoff	11.3
Quit	10.4
Reentrant I	11.4
Lost job	22.7
Reentrant II	8.6
Reentrant III	15.2

TABLE A–2. Percent of sample case who received unemployment benefits in 1975, by labor force status[1]

Status	Percent
New entrant	0
Temporary layoff	30
Indefinite layoff	47
Quit	8
Reentrant I	8
Lost job	38
Reentrant II	5
Reentrant III	16

[1] This table only based on a sample from the New England States. All other data based on entire data set.

sample cases that had received UI benefits in 1975. One would expect this number to be 0 for new entrants, low for reentrants and quits, and higher for layoffs and other permanent separations. The figures in Table A–2 confirm this pattern. (Table A–2 is based on a subsample of the entire tape that was used as a test file.)

The UI status algorithm. At the time the survey was taken, the interviewer ascertained the current health insurance coverage of the individual. Whether the individual was currently receiving UI benefits was not ascertained; information on sources and amounts of income was obtained for the previous calendar year. Therefore, it was necessary to attempt to reconstruct each individual's UI status from other information that was available on file. This reconstruction took place in three steps: definition of possible final statuses; construction of a set of "filtering" questions that allocated individuals to final statuses (akin to the algorithm discussed previously); and creation of a set of formulas for computing for each individual the several variables necessary to apply the filtering algorithm. Each of these is discussed in turn.

Final statuses. Four possible final statuses were defined:

- Ineligible—the individuals failed to qualify for UI benefits.
- Benefits exhausted—the individuals qualified for benefits, but have remained unemployed for longer than their allowable benefit periods.
- Receiving benefits—the individuals qualified and are presumed to be receiving benefits.
- Waiting—the individuals qualified for benefits but have not yet been unemployed long enough to start receiving benefits.

Every individual was assigned to one of these final statuses. Note that it is assumed that an eligible individual will file for benefits, although it is known that in the real world some eligible individuals do not file. There simply is no reasonable way of guessing whether a particular eligible individual will choose to file for benefits.[3]

Construction of assignment algorithm. The first question automatically assigns new entrants to the labor force to the ineligible status. All others are passed on to the first eligibility test, which is the core of this algorithm.

The first eligibility test asks whether individuals are "apparently eligible" for benefits. This question is resolved by examining their 1975 work and earnings experience, and comparing it to the qualifying conditions for the State in which they reside. (The formulas for comparing individuals' experiences to their States' qualifying tests are described in the next subsection.)

Recognizing that the eligibility filter might be imperfect, some individuals were also passed through a secondary test as follows: if they had been employed in 1975 but had *not* collected benefits (despite their apparent eligibility), they were assigned to the ineligible status. This presumably screened out individuals who were ineligible for reasons that could not be ascertained from the SIE data, as well as some of the previously mentioned "never-filers." Obviously, however, this secondary test could be applied only to the subset of the currently (1976) unemployed who had also been unemployed in 1975.

Finally, eligible individuals were allocated to the exhausted, receiving, or waiting statuses by comparing the length of their current unemployment spells to their benefit periods and to the waiting period for their States. The following tabulation describes the allocation of individuals to UI final status categories.

Status	*Percent of Population (estimated)*
Ineligible	70.2
Benefits exhausted	1.1
Receiving benefits	27.2
Waiting	1.5

Formulas for testing eligibility. In order to determine whether particular individuals are eligible for UI, their personal work and earnings history must be tested against the qualifying conditions of their State. In most States the basic test involves comparing individuals' base-period wages (BPW) to a qualifying wage (QW), which is computed in different ways in each State. Often there are ancillary qualifying conditions that must also be met; for example, high-quarter wages (HQW) must also meet some minimum amount. The qualifying wage is most frequently a function of the individual's weekly benefit amount (WBA), which in turn often depends on their high-quarter wage and their average weekly wage, though the statewide average weekly wage and their number of dependents might also enter the equation. In this study the authors assumed that calendar 1975 was each individual's base period. This assumption, which was made necessary by data availability, is actually quite reasonable, since the base period is most commonly defined as the first 4 of the last 5 quarters, and the SIE was conducted in Spring, 1976.

Thus, for each individual the following magnitudes were computed: weekly benefit amounts; qualifying wage (and other qualifying conditions); and benefit period. The formulas for these variables are often complicated and differ from State to State. Judgment had to be used in reducing some of the States' provisions to mathematical formulas, though these cases were rare. One area where judgment was required was in the estimation of high-quarter wages. The authors were able to calculate average weekly wages from the SIE file, but it was not possible to know how many weeks had been worked in the high quarter. The chart below shows the assumption used in this study.

Weeks worked in 1975	*Weeks worked in high quarter*
30 or more	13
25–29	12
20–24	11
15–19	10
14–	weeks worked in 1975 : 2

The complete set of formulas was computerized, and each individual in the sample was "passed through" the algorithm. The program developed for this purpose is available from the authors. The following are the variable definitions:

- BP = Benefit period
- BPW = Base-period wages
- HQW = High-quarter wages
- QW = Qualifying wage
- WBA = Weekly benefit amount

Construction of these formulas was based on information contained in "Significant Provisions of State Unemployment Insurance Laws, January 5, 1976" and "Comparison of Unemployment Insurance Laws," both published by the DOL Unemployment Insurance Service (UIS). The provisions of the Federal Supplemental Benefits (FSB) program, and the Special Unemployment Assistance (SUA) program, both of which were in effect at the time of the survey, were incorporated into the calculation. (See "The Emergency Compensation and Special Unemployment Assistance Act of 1975," Research and Statistics note published by the Office of Research and Statistics, Social Security Administration, No. [SSA] 75–11701, September 18, 1975.) Extensive help in clarifying the different States' rules, and 1976 statewide average weekly wages (from ES202 reports) was provided by personal communication with the UIS.

Notes to Appendix

1. For a detailed description of the SIE see Paul Manka, "Technical Documentation of the 1976 Survey of Income and Education," Data Users Services Division, Bureau of the Census.

2. Records on the SIE are laid out by household (H), family (F), and person (P). The data file created for the project required extracting data from all three types of records; that is, once an unemployed person had been selected, all of the information from the corresponding household and family records was attached to that case file. Whenever a specific data item from the SIE is referred to, it is identified by its record-type letter (H, F, or P) and position. Thus, the variable referenced above is located in position 10 on the "person" record.

3. For a further discussion of this, see Abt Associates Inc., "Delayed and Never-Filers for Unemployment Insurance Benefits: Identification Procedures," report to the Unemployment Insurance Service, U.S. Department of Labor, Contract No. 99–6–803–04–19, February 1979.

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The Employment Service Role in Unemployment Compensation

Carol R. Lubin

The first section of this report describes the history, functions, and funding problems of the Employment Service and should be useful in understanding later sections of the report.

History

In 1933, Congress enacted the Wagner-Peyser Act, creating the United States Employment Service (USES), within the Department of Labor (DOL). Its objective was to find jobs for people and people for jobs at a time when an estimated 13 million workers were seeking employment. The Act established a Federal-State partnernership and required each State to submit a plan to the DOL that would establish a State employment agency.

Originally, funding came from matching Federal and State grants. In 1935, the Social Security Act established Title III, the present system of Unemployment Insurance (UI) and Title IX, the UI Trust Fund.[1] The trust fund provides Grants-to-States to operate employment agencies. These funds come primarily from moneys derived from the Federal unemployment tax (FUTA) assessed on employers by States and deposited in the fund. General revenue funds make up the remaining part of Grants-to-States funds. Title III also requires States to use their local employment security (ES) offices to take claims and register UI claimants.

During World War II, the State ES system was "federalized" and became part of the war manpower system, but in 1946 the ES was returned to the States to resume the former Federal-State structure.[2]

The responsibilities outlined in the Wagner-Peyser Act have remained virtually unchanged since it was enacted in 1933. However, the USES and the State agencies have also been involved in administering 25 other laws, 19 Executive Orders, 14 agreements with other Federal agencies, and 6 State-ES cooperative agreements. (A list of these laws and agreements is in Appendix A.) These programs, such as the Comprehensive Employment and Training Act (CETA), the Work Incentive Program (WIN), and others provide some additional funding to help the ES to carry out the responsibilities of these programs, yet these additional funds are not always adequate.

In the 1960's, partially as a result of congressional urging, USES made a major shift from its longstanding focus on general placement to emphasize finding jobs for the poor or disadvantaged. Resources followed policy. To find time to work more with the disadvantaged, offices cut back on employer visits and applicant screening. The shift had a negative impact on the placement of job-ready workers, including UI claimants. Both employers and workers lost confidence that the ES could or would provide good service to any but the disadvantaged.

During the early 1970's it became clear that, if the ES were to serve a diverse public and meet the different needs of those in the UI system, including the increased numbers of covered employers and workers along with the disadvantaged, it must greatly increase and improve its labor-exchange operations. It was also evident that the requirements for placing job-ready unemployed were not the same as the requirements for placing individuals who first needed job preparation. These responsibilities were handled at the State level in a way necessarily related to the amount of funds made available to each State, to the nature of the employment market in that State, and to other responsibilities allocated by separate legislation.

From 1933 to 1975 the allocation of Title III funds to States had been on the basis of agreements negotiated between the Federal Government and the individual States. In 1975 a new system was devised, adapting the Performance Based Budgeting Plan to the needs of the ES by the use of a formula known as the Balanced Placement Formula (BPF). In 1977 this formula was modified and became known as the Resource Alloca-

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tion Formula (RAF). The detailed criteria used in allocating funds to the States are described fully in a special study submitted to the National Commission on Unemployment Compensation (NCUC) and in a recent memorandum prepared for the DOL.[3]

The basic purpose of the RAF was to reward States that increased their performance and obtained a higher placement rate. The consequence, however, was that it penalized States with high unemployment and related barriers to placement—both for the job-ready and the disadvantaged.

Because of the criticisms of the RAF, the USES developed a new formula for 1980 allocations, but 98 percent of the funds were still distributed in accordance with the criteria of the RAF. There is also a "hold harmless" provision preventing any State from receiving less than before. The basic allocation problems continue at present.[4]

Administration

Related problems concerning the administrative relationship of the ES and the UI also affect the ways in which the ES has carried out its functions. The Federal Bureau of Employment Security, which had responsibility for both the UI and the ES systems from 1948 to 1969, was abolished in 1969 and two separate program units were established within the DOL.[5] One result of this central administrative reorganization was a reduction in the ES staff in the regional offices and in particular the elimination of a single senior regional office administrator with direct responsibility for overseeing the operation of both the ES and the UI divisions at the State level. The ES and UI administrative structures at the State level have varied from State to State, ranging from full integration of services to complete separation of responsibility. The advantages of administrative separation have been debated at every level up to the present, and a new reorganization has occurred.

In 1976, two congressional subcommittees held extensive hearings on the relationship between the ES and UI programs.[6] In a report resulting from these hearings, concern was expressed over the confusing mandates given to the ES and the great variations in the quality of performance among the State programs.[7]

One continuing source of confusion is that, while the initial social security legislation of 1935 established a close financial and administrative link between the UI system and the ES, subsequent legislation has substantially affected the operation of the ES by giving it duties that are not related to unemployment compensation (UC) and that tend to decrease the link with the UC administration.

For example, the 1967 Amendments to the Social Security Act (Title IV A) require able-bodied applicants for Aid to Families with Dependent Children (AFDC) between ages 16 and 65 to register for employment and training services as a condition of eligibility for AFDC benefits and to participate in work or training offered through WIN. Under regulations issued jointly by the DOL and the Department of Health, Education and Welfare (Health and Human Services as of April 1980), the employment-related responsibilities are undertaken by the ES.[8]

The food stamp legislation also includes a work requirement administered by the ES.

The CETA program and in particular the 1978 CETA Amendments call for use of the ES whenever appropriate and provide funds for this purpose. Yet linkage as well as duplication have frequently resulted from CETA–ES mandates. Other programs and responsibilities that have led to confusion include the Airline Deregulation Act, the Trade Regulation Act of 1974 (TRA), and the various arrangements for legal aliens admitted for employment as well as for migrant workers covered by the Ritchie Court order.[9]

The role of the ES with respect to UI includes conflicting as well as complementary activities allocated to the ES as a result of Federal or State legislation.

The effectiveness of the ES in placing or assisting UI claimants is necessarily linked both to the economic and employment situations in various localities and to the nature of the local industries (as, for example, the difference between a largely single-industry area, such as Detroit, and diverse, basically service-category areas, such as New York City).

Government officials and experts in administration and employment have made frequent attempts to arrive at a definition of objectives for the ES that would satisfy the intentions of Congress, the goals of the States, the demands of employers, and the needs of applicants. The DOL provides a recent, rather limited definition and suggestions in its report to Congress on the Wagner-Peyser Act, June 1980. The Interstate Conference of Employment Security Agencies has identified a number of issues.[10] These issues include determination of such questions as:

- Is there still a need for and value in a non-fee-charging placement agency for all job applicants?
- Should ES concentrate on meeting employer needs or applicant needs? Can it do both?
- What relative priority should be given to specific ES "target" responsibilities under the Wagner-Peyser and Social Security legislation and under various separate programs, such as CETA, WIN, food stamps, and so on?
- To what extent do ES placement responsibilities duplicate those of other agencies (private as well as public)?

Ultimately Congress must be prepared to answer the questions and define ES objectives and functions.

Functions of the ES

Placement

The major traditional function of the ES is to serve as a labor exchange, matching employer requests and vacancies with job applicants who are either qualified as job-ready or have potential capacity to be trained for the job. The effectiveness of the ES in carrying out its labor-exchange functions and, in particular, the placement component of the exchange, has varied over the years with the national economic situation and the conditions of employment in individual States.

Experience indicates that placement effectiveness varies not only by State but also by locality, categories of applicants, employer requirements, flexibility of local management, and staff sensitivity.

In 1979, according to DOL statistics, 15.5 million job seekers registered with the ES, representing 75 percent of the 20 million persons estimated by DOL to be unemployed. (91 percent of applicants were unemployed.)

In 1979, 4.5 million individuals were placed from all fund sources; more than 4.2 million individuals were placed from Title III grants. The cost (in 1979) per individual placed was $166.[11] Of those placed in 1979, 665,000 were UC claimants (out of 3.4 million applicants); 1.5 million were economically disadvantaged; 2.0 million were youths (under 22); 1.9 million were women; 705,000 were veterans; 211,000 placements were WIN participants (whose placement cost was met from separate funds); and 196,000 were other welfare recipients (whose placement costs were also paid for from separate funds); another 251,000 were food stamp applicants, paid for from Department of Agriculture funds. Of course, some overlapping of categories occurs. These figures illustrate the variety of categories placed —and the relatively small number of placements of UC claimants. The figures do not indicate the quality of the placement, although the DOL has said that, in 1979, 2.9 million placements lasted more than 151 days and the average hourly wage paid was $3.69.[12]

The difficulty of the ES has always been in deciding which job openings, which employers, and which applicants should be the focus of activity to increase "placement productivity." The DOL in its 1980 Report on the Wagner-Peyser Act made a number of recommendations to Congress. It does not, however, fully address some of the options Congress could consider. For example, Congress could

1. mandate that the ES give priority to meeting employer needs;

2. mandate that the ES give priority to the needs of UI claimants (even if this means ES inability to place long-term or hardcore applicants with equal or greater needs);

3. mandate equal treatment between UI claimants and "target" groups (minorities, disadvantaged youth, women, the handicapped, veterans, migrants, and so on);

4. mandate that the ES give equal treatment to all applicants who register, without regard to UI or targeted status or sources of funds;

5. authorize the ES to determine its own priorities for placement, taking into consideration labor market supply and employer demand, availability of different kinds of jobs requiring different skills, and potential of other "placement" agencies to deal with special categories of applicants. (The relationship of placement "productivity" to Federal funding is dealt with later in this report.)

6. recommend greater flexibility in dealing with the individual States to permit determination of priorities wholly on the basis of local need.

The NCUC preferred option 4 and recommended that the ES should be "blind" to the persons who wish to use its services, irrespective of funding and program relationships. It should serve all persons seeking assistance in obtaining employment and serve all segments of society.

Labor market information

An integral part of the labor-exchange function is the collection and distribution—local, statewide, interstate, and national—of accurate and comprehensive labor market information (LMI).[13] This function, like that of placement, has been executed with varying degrees of success during different periods of the ES operation. The variation has been largely the result of changing administrative concepts and emphases—both national and State—that have determined the level of financing of the service and the consequent size and capacity of the staff.

The labor-exchange function and the labor market information role are combined in ES activity as a labor market clearinghouse, a role specifically attributed to it under the provision of the Wagner-Peyser Act. Detailed knowledge of the State and national labor markets and also of the local vicinity is an essential tool for placement and training of applicants. Experience has indicated that when local offices know which plants are hiring or are about to hire and keep such information current, referral and placement operations are more likely to be effective. Moreover, especially in large urban areas, knowledge of potential vacancies is more likely to be kept up-to-date if mechanized or computerized job banks and job-match procedures can be used cost effectively.

The labor market intermediary role requires the development of more substantial and more accurate nationwide, regional, State, and local labor market infor-

mation and the provision, to a much greater extent than is currently the practice, of clearinghouse or labor-exchange services that can facilitate referral, training, and placement of UI claimants and other applicants for employment. A number of proposals exist on how the labor market intermediary operations can be best carried out. The following alternatives could be considered for congressional action:

1. the ES could be mandated to collect labor market information from all sources and to distribute this information to all "placement agencies";

2. the ES could be required to collect such labor market information but not be responsible for its distribution;

3. other agencies could be made responsible for the collection of information, leaving to the ES responsibility for distributing the information; or

4. the ES could be made responsible for developing, in cooperation with other agencies, comprehensive and detailed local, regional, and national clearinghouse procedures that would ensure that labor market information be locally up to date and available to all public placement agencies.

If the last alternative were adopted, it would still be necessary to determine whether the ES, once the system was in place, should be responsible for the collection of information or its distribution or both.

Services to employers

The ES, if it is to be an effective clearinghouse and placement instrument, must provide satisfactory service to employers. Employers will only seek applicants to fill vacancies through the ES if they believe the ES is capable of meeting their needs. Moreover, since the largest part of the funding of the ES comes from employer taxes, covered employers have a special concern about its functioning.

While some employers find the ES a useful labor market mechanism, others feel it merely adds an extra bureaucratic level. In some cases, employers have taken a positive role in increasing the effectiveness of the ES. In others, requirements to register openings are seen as an unnecessary "harassment."

When employers do not consider the services to be effective—or indicate a preference for other means to meet their requirements—an ES failure needing analysis and correction is indicated.[14]

Almost all of the services to employers derive from the basic Wagner-Peyser/Social Security legislation, while some services come from legislation relating to mandatory job listing by employers (described later).

Regular ES services include

1. screening of applicants to avoid unsuitable referrals or too many referrals to a limited number of jobs;

2. recruiting of workers in shortage occupations, farmworkers, and skilled workers;

3. outstationing of ES staff in plants or in conveniently located places such as shopping centers;

4. providing space in ES offices for employers to screen and interview applicants;

5. providing appropriate labor market information on a local, regional, and/or national scale;

6. aiding employers in setting up training and apprenticeship programs and in locating "support" services (such as child care and the like).

Mandatory listing. Wide difference of opinion has existed over the past years as to the value of mandatory listing by employers. Supporters of mandatory listing argue that it is an essential tool for the ES to have full knowledge of the labor market and to develop effective job banks. Those who oppose requiring all employers to list their job openings state that such listing will not necessarily increase appropriate referrals and may, in practice, be a waste of both employer and ES efforts. Some employers believe that the practice of mandatory listing constitutes harassment.

Current mandatory listing derives from legislation that requires employers with Federal Government contracts or subcontracts of $10,000 or more to list all their job openings with the ES and take affirmative action to employ and advance qualified disabled veterans and Vietnam-era veterans.[15]

Legislation and subsequent Executive Orders provide the following exemptions from such mandatory listing: jobs that are covered by civil service registers, jobs that employers fill from within as an "in-house" promotion, professional or administrative employment paying $25,000 or more, jobs covered under hiring provisions of union contracts, openings that will be filled by persons laid off and on recall lists, openings for temporary employment of 3 days or less, and any special exemption decided on at the discretion of the Secretary of Labor.

Multiple problems have arisen in the implementation of the program. This is partly because the extent of employer cooperation has been related to the current economic situation and to the nature of their government contracts. For example, should a conglomerate be covered in its entirety? Rulings indicate that, where an enterprise within a conglomerate is unrelated to the government contracts concerned, it does not need to be included in job listings. In most cases, however, all vacancies must be covered.

The basic difficulty concerns the nature of the enforcement. In many cases there is only pro forma processing, and in almost all cases the program has been implemented by persuasion and not by penalty. In many cases where employers conform, the jobs are filled before the ES can include them in the job bank.

Increasing employer participation. A special effort was made to increase employer participation in the operations of the ES as a follow-up to a series of recommendations made by the National Employers Committee (formed in 1971). These recommendations resulted in the establishment of the Job Service Improvement Program (JSIP). Under the auspices of this program, over 1,100 local Job Service Employer Committees (JSEC's) have been set up, representing 22,000 employers. Similar committees are being organized at the State level. The committee structure has proved valuable in improving the relationship between employers and the ES and in indicating those services of greatest local need.

In some cases, however, problems have arisen between the ES committee structure and the parallel structure that has been established to implement CETA Title VII, the Private Sector Initiative Program (PSIP). The PSIP was designed to provide incentives to industry to employ the disadvantaged unemployed. Under this program private industry councils (PIC's) are established by CETA prime sponsors; these operate at local, regional, and State levels. There is no requirement for either the ES or CETA to ensure interlocking membership between JSEC's and PIC's. This problem has now been resolved in some but not all States. At present one half of the members of the National Employers Committee are in practice also members of one or more PIC's. PSIP has special funds available both for the operation of PIC's and for the provision of services. These funds are an incentive to employers to work directly in the program. Over the last 2 years, $367 million was made available to the program and over half was used for classroom training and approximately 19 percent for on-the-job training (OJT).[16]

Many of the services currently provided by the ES to employers are optional services, depending on local or State guidelines. Frequently a conflict arises between what the employer believes should be the role of the ES and what the local office is capable of providing. Priorities should be established for services, and better cooperative arrangements should be made. Suggestions on how this can be achieved include

1. requiring State and local ES offices to develop systems for screening so that no more than a fixed number of applicants will be referred to any given employer;

2. mandating employers to list openings with the ES at least for a given period;

3. requiring outstationing, on request, of ES staff to all employers of over x number of persons on a fixed time schedule; and, as appropriate, providing mobile offices;

4. calling for special assistance in the recruitment of workers in shortage occupations, as well as the special programs developed for migrant and seasonal farmworkers (MSFW's) in consequence of Judge Ritchie's court order;

5. providing special assistance to employers in meeting affirmative action obligations.

Services to applicants

The ES, in addition to serving employers and acting as a clearinghouse to match job-ready applicants with available jobs, carries out a series of special functions designed to assist individuals to enter or reenter employment. Some of these services to applicants are specified in the Wagner-Peyser Act. Some are clearly required in order to fulfill the mandate of assisting UI claimants. Still others have developed from the need to establish comprehensive employment and training programs, or from legislation (such as TRA) to meet particular needs, or from programs such as the MSFW program.[17]

These service activities include, for example, vocational guidance and job counseling, job-search assistance, individualized job development, and preparation for employment, referral to training and supportive services, occupational testing and assessment, and special outreach services and training for targeted groups, such as youth, the handicapped, minorities, older workers, ex-offenders, refugees, women, MSFW's, and other categories of disadvantaged workers.

Many of these activities call for specialized staff skills and knowledge of local as well as regional or even national potential labor market needs. They also call for close liaison or links with agencies such as departments of education and other organizations equipped to provide the vocational and training skills required. The ES staff has not always been adequately prepared to carry out these activities—especially in periods when unemployment has been high, and ES staff has been required to give priority to registering UI claimants and taking claims.

On the positive side, programs that have linked placement and job preparedness and provided a team approach have demonstrated both the dimensions of the problem and the importance of "intensive" individualized work with applicants.

Several demonstration programs have made use of UI and ES staff working as a team in order to provide instruction on UI requirements, labor market information, counseling, and training resources.[18]

Another relatively recent program, developed as a component of intensive ES involvement, is based on group job-seeking services. One method used is to establish job-finding clubs, usually consisting of 10 to 15 job seekers working with one full-time staff member specially assigned to the program. Evaluation of programs indicates that those most successful have included the following elements:

- teaching the basic skills of job seeking and job development with emphasis on innovative approaches,

- supervising full-time daily participation of clients,
- using a group setting and peer support,
- assigning responsibility for job development to the client, and
- using the telephone as the primary means of employer contact.

Experiments with 1,000 WIN clients in 5 States were undertaken in 1977–78, while a substantial number of similar experiments under CETA auspices were carried out in 1979–80. The ES is beginning to use the same job-finding mechanisms. A number of studies indicate that the job-club/peer-group approach might usefully be undertaken on a much larger scale.[19]

One of the arguments used in the enactment of CETA (and its predecessor programs in the manpower field) was that the ES was not providing the services needed for the disadvantaged to acquire skills and become employable. Therefore, provision was made for CETA to provide such services either directly or in cooperation with ES (through "financial" or "nonfinancial" agreements).

The first consequence of this legislation was duplication of services in many areas and undercutting of the role of ES.

The 1978 CETA amendments provide for links with the ES. Moreover, at the local level, an increasing number of "financial" and "nonfinancial" agreements exist between CETA sponsors and ES district offices (or in the case of Balance-of-State sponsors, directly with the State ES) that provide for "teams" or divide the functions of job development and job preparation between the agencies.

Another specific service for applicants, allocated by the Secretary of Labor to the ES under the Trade Expansion Act of 1972 (as amended in 1974 by P.L. 93–618) requires that the ES give special services to employees in affected industries, assist them in relocation, certify their availability for work, and register them for employment and special benefits. This is an example of a function that the ES has been mandated to undertake, without full consideration of the staff costs involved or the consequences for other functions of the ES.

Summary. All of these service functions for applicants are interrelated and the choice of emphasis depends on the determination of which categories of clients should be served first or most extensively. Under present law, regulations, and practice, there are no specific requirements and few guidelines to determine what focus ES should take in meeting the needs of its different clients (employers and applicants) and little indication of what priorities constitute the "intent" of Congress at any given moment. Moreover, individual States offer different services, and their employment services place different emphasis on the services they provide.

In determining which services should be given major emphasis by the ES, consideration should be given not only to legislative and regulatory requirements but also to sources of funds, amount of unemployment, the likelihood of future economic change, and the nature of employer demands. Appendix B provides a chart of the various ES activities and the source of their authorization.

The basic question that must be answered first is: Should the ES maintain and deliver comprehensive employment and training programs for both job-ready and non-job-ready applicants or should it limit its functions to serving the job-ready, with major focus on meeting employer needs?

Only in light of the response to this question can decisions be made as to appropriate specific service functions of the ES. NCUC has recommended the broad concept of full service to all applicants and all employers.

Options for Congress. If the Congress accepts this view, it might mandate the ES to provide services that prepare UI claimants for new employment, including retraining, counseling, and vocational guidance (with intensive claimant interviewing by teams from UI and ES where appropriate), and mandate the ES to increase its services, including intensive job-search workshops to give special assistance to hard-to-place applicants (whether UI claimants, targeted groups, or the long-term unemployed) to increase their opportunities for employment by job-readiness programs, retraining, counseling, job-seeking clubs, and so on.

If the more limited goals for the ES were to be preferred by Congress, it might authorize the ES to refer hard-to-place claimants of all types to other agencies, such as CETA agencies, for employment preparation and training services. In any case, it might mandate the ES to establish closer relations with educational and counseling services and to subcontract job-preparation activities. Finally, Congress should mandate the ES, after initial screening, to refer UI claimants and UI exhaustees to other agencies concerned with income maintenance that have developed job-preparation programs as an alternative to welfare.

Work-test and job-search functions

Many of the current operations of the ES are directed to the administration of certain aspects of work-test and job-search requirements imposed by legislation. These operations tend to compete or even interfere with other ES responsibilities for serving employers or claimants and, in general, for acting as a labor market intermediary.

UI work test. The ES has been given specific responsibilities under the UC program to certify that a claimant

has registered for work and to inform the UI division of what steps have been taken to refer the claimant to employment or training.

The UI division itself determines whether a valid job search has been made and, if a job offer has been refused, that it is for a "legally" valid reason. The conditions of job search, the definition of availability for work, and the suitability of job offers vary since State eligibility requirements are often stricter than Federal legislation or regulations.

Insofar as the ES is financed by UI funds, and the application of a work test is a requirement for the determination of benefit eligibility, the ES is expected to give priority to this function. However, in periods or places in which unemployment is high and "suitable" work is not likely to be offered, the test may be a formality or else a waste of applicant, staff, and employer time.

Whether administering the UI work test is an appropriate ES activity or whether it should be a UI function or a joint function of both branches needs reexamination. Some suggest that the ES should not be made solely responsible for this aspect of job search. Since the requirements on availability for work, the definition of suitable work, and the disqualification for benefits are basic UI responsibilities, some suggest that the work test should be undertaken jointly with UI staff.

The ES has also been allocated responsibility for administering a work test under a number of Federal and State programs that are based on income eligibility and that contain requirements and exemptions different from those of UI. The problems facing the ES on the various work tests are compounded by differences in definitions of appropriate work, in duration of search, and in duration of sanctions—definitions that differ between Federal programs as well as among the various States.

Food stamps. Food stamp legislation requires the ES to certify that applicants for food stamps (if they are between ages 16 and 65) are able to work and have not refused suitable work that would have brought their income above the eligibility level for food stamps. The Department of Agriculture's budget contains funds that are intended to meet the cost of the work test. In some past years, the appropriations for this function have not met the full cost of the operation. An agreement reached between the DOL and the Department of Agriculture in 1980 raised the amount to the level requested by the DOL. UI claimants or exhaustees who may be eligible on the basis of income to receive food stamps are sometimes required to undergo an additional work test even though they have already taken a work test for the similar purpose of claiming UI.

Recently, new regulations were proposed by the Department of Agriculture (*Federal Register*, Friday, August 8, 1980), clarifying the job-search requirements for food stamp eligibility. The guidelines were developed jointly with the DOL (Employment and Training Administration) and include specific delineations of the roles assigned to the State agencies of the Department of Agriculture and the State Employment Security agencies. The funding levels to administer both the program and the specific job-search activities (including exemptions from work search, a new classification system for applicants, and reporting procedures) will be contained in a new interagency agreement between the two departments.

Welfare-employment programs. A related function of the ES is the administration of work tests and similar procedures to meet the requirements of some State welfare-employment programs. For example, in some States local ES offices administer a work test for home relief and other general assistance programs that includes referring an applicant to public or nonprofit agencies to work off their benefits.

One of the most significant welfare-related programs is WIN, which was originally enacted as an amendment to Title IV (parts A and C) of the Social Security Act.[20] The WIN program is administered jointly by the Secretary of Labor and the Secretary of Health and Human Services (HHS). Administration is delegated to the DOL's Assistant Secretary for Employment and Training and the Health and Human Services Assistant Secretary responsible for the Office of Human Development Services. The Assistant Secretaries constitute a National Coordination Committee, which functions through an Executive Director. Within each region a WIN Regional Coordination Committee is established (by the regional representatives of the two Departments). These committees are responsible for review and approval of State WIN plans developed jointly on an annual basis by the State WIN sponsor (usually the State ES) and the State Welfare Agency (usually the State Department of Social Services). A similar joint structure operates at the local level.

Formal agreements are negotiated for the administration of the program, including the division of functions and of funds to pay for the various activities. In general, the welfare agency is responsible for the support services and for income-eligibility determination (including whether the individual is exempt from the work program). The WIN sponsor, the local ES office, must register all individuals found to be nonexempt and all individuals who volunteer for WIN when they appear at the WIN sponsor office.[21] The WIN sponsor is responsible for developing an "employability" plan for each individual and must certify that the individual has not refused employment or training "without good cause."

The WIN certification procedures, training, and counseling services, support services, conditions for "suitability," and complaint and sanction procedures are all specified in the regulations issued jointly by the two Departments. They have been amended from time to

time but seem to be more specific than most of the similar programs that include "work tests." At present, an effort is being made to change the concept of "participation" to a work requirement. In practice, wide diversity exists in the administration of the requirements among the States and at the local level.

Funding is also a substantial factor in the use of the WIN program because it is based on a specific annual Federal allocation with a local 10 percent "contribution." When sufficient funds are not available, the number of WIN registrants is decreased—an action that in some cases frustrates volunteer registrants or increases the welfare rolls. Partly for this reason some suggest that the WIN program be phased out and be replaced by more CETA slots as part of welfare reform. The responsibilities of the ES in case of such changes have not been clearly specified so far.

Summary. Suggestions have been made to simplify the "work test" in all programs to (1) give greater flexibility to ES staff administering the provisions at the local level, (2) permit the same criteria to be used in all work tests to avoid duplicate tests and recordkeeping, and (3) prevent unnecessary referrals to unsuitable or nonexistent job openings.[22]

Appendix C is a table, prepared by the DOL. It compares the various work tests administered by the DOL in 1975 and indicates the role of the ES. Since then there have been some changes in the requirements, but the basic activities and questions remain the same.

ES policing conformity

Another series of functions allocated to the ES by the Congress, with only marginal relationship to the UI system, have been classified as *policing* responsibilities. They are believed by many to be inappropriate activities for the ES. They relate, for example, to the housing of immigrant workers, to certain aspects of fraud elimination, to implementation of mandatory registration by Federal contractors, and to some aspects of the TRA and similar special programs for unemployed workers who have been displaced. (An example of such activities undertaken in 1979 was the processing of 42,445 permanent immigrant worker applicants and certification of 32,544 of these workers as well as 18,277 additional workers for temporary work in agriculture and logging.)

These functions have sometimes been said to conflict with the overall best interests of UI employers and claimants. However, some activities such as housing inspection of migrant quarters would not have been undertaken by any other agency, although today some inspections are randomly carried out under the Occupational Safety and Health Act. Such activities were not envisaged as the role of the ES when it was established by the Wagner-Peyser Act or by Title III of the Social Security Act. The inclusion of this type of function—usually without allocation of adequate additional funds—emphasizes the need for a new, much clearer definition of the goals, functions, and funding of the ES today, especially in relation to the UI system as a whole.

Funding Problems

Sources of funds

The objectives of the ES and the functions it undertakes are today largely determined by the sources and level of its funding. The role of the Federal Government in allocating the funds to the States is a substantial factor in directing the emphasis of the ES. Many State administrators claim that if States were able to use these funds without regard to guidelines (based on funding sources, among other factors) they could tailor the operations of the ES to meet local needs more effectively. However, the effective, expanded role of the ES in the manpower field during the wartime period of federalization seems to counter this argument. In any case, the history of the funding of the ES and consequent staffing levels must be examined in relation to the feasibility of the ES undertaking extended or decreased functions.

At first the Wagner-Peyser Act authorized Federal and State funds on a matching basis. Later the Wagner-Peyser Act was amended and the matching provisions eliminated. Today, while a State may provide additional funds for functions undertaken by the State ES, it is not required to do so. In practice, almost no States have made such funds available.

The primary source of ES funding since 1935 has been the taxes paid by employers under FUTA, 26 U.S.C. 3301. These taxes, deposited in the Unemployment Trust Fund, cover the payment of unemployment benefits and the administration of the ES as well as UI.

As previously mentioned, Congress appropriates these funds for allocation by the DOL as Grants-to-States to meet "the total cost of administering the system of public employment offices in accordance with the Act of June 6, 1933, as amended" (29 U.S.C. 49–49n).[23]

In determining the appropriate amount of funds, according to Sec. 901(d)4 of the Social Security Act (Title III), the President, after consultation with the Secretary of Labor, "shall take into account such factors as the relationship between employment subject to State laws and the total labor force in the United States, the number of claimants and the number of job applicants, and such other factors as he finds relevant."[24] It is not clear that these factors have been followed in determining the policies that, in practice, have changed from time to time.

On the grounds that funds from employer taxes

should be used primarily to assist individuals with prior attachment to the labor force and that, under the Wagner-Peyser Act, the ES should provide employment assistance to a wider range of applicants, the Grants-to-States financing also includes funds appropriated from general revenues.

The proportions of ES funds from the FUTA and from general revenues for the basic Grants-to-States have changed from time to time, according to rules developed largely by the DOL to meet legislative requirements.

The 1970 Employment Security Amendments first provided for a "mix" of the FUTA and general revenue funds, and in 1973 the mix was set at 85 percent from FUTA and 15 percent from general revenues, solely on the basis of the percentage of persons in covered employment. In 1975 the mix was changed to 86/14. Then, as a result of the 1976 amendments to the Social Security Act extending the coverage of UC, the proportions were changed to 87/13 and in 1978 to 92/8. Currently, the Grants-to-States for most ES activities are 97 percent from FUTA and 3 percent from general revenues.

In addition to the funds available from these sources to finance the basic ES operations, other appropriated funds cover some of the operations carried out by the ES for separate programs, such as CETA, WIN, food stamps, and the Bureau of Labor Statistics (BLS).

According to estimates of the DOL, about 64 percent of the $1.1 billion of total Federal resources provided in 1979 for the support of the State ES system came from the Unemployment Trust Fund (e.g., the 97 percent from the UI system).

The $1.1 billion included, in addition, in 1979

- $178.5 million from CETA through contractual agreements between prime sponsors and State agencies,[25]
- $160 million from the Department of Health and Human Services for activities in connection with WIN,
- $27 million from the Department of Agriculture to help meet the cost of administering the work test required for receipt of food stamps, and
- $4 million from the BLS for labor market information, surveys, and the like.

Some funds were also available as a result of the various laws and Executive Orders that require the ES to undertake special services (such as policing conformity with immigration requirements and other regulatory actions).

Other DOL estimates relate the number of "staff years" of ES operations to available funds in 1978 and 1979; these estimates indicate some increase in basic ES grants and some decrease in funds from other sources.

Year	Cost	Staff years
1978	$670 million for basic grants	30,000
	$420 million (CETA, WIN, food stamps, and BLS funds)	19,170
1979	$720 million for basic grants	30,000
	$343 million (other funds)	18,450

The increases in basic grants covered the increased costs involved in maintaining the same 30,000 staff years.

Funding alternatives. Determination of the sources that should be used to fund a Federal-State public ES and the level of such funding must take account of the purposes and responsibilities of the system and the changes that have been made in these functions during the various operating periods. During the 1976 congressional hearings on CETA, and in preparation for the hearings on the Wagner-Peyser Act, various alternatives for funding were put forward by the DOL, by various witnesses presenting testimony (including representatives of State governments, business, labor, and consumers), and by other experts.[26] These alternatives include measures to

1. continue the current system of primary reliance on funding through the FUTA tax;

2. continue use of the FUTA tax as a major source of funding but supplement such funding by greater appropriations from general revenues to take account of increased responsibilities and labor costs;

3. increase existing sources of funding by requiring State participation according to some formula based on population, amount of Federal grants, and so on; or

4. provide an additional source of funds by authorizing the ES to charge fees for specified services, especially those provided to employers or potential employees not covered by UI.

Alternative two seems the most acceptable at the present. State legislatures are not likely to approve of new financial commitments. Acceptance of alternative four would change the whole concept of the ES as a non-fee-charging agency. Assuming acceptance of alternative one or two, consideration is needed on how best to fund some of the additional functions undertaken by ES either because of separate legislation or by administrative decision of the DOL or other Federal or State departments.

Some of these functions, described earlier, concern services for certain categories of employment applicants (new entrants, displaced homemakers, hard-to-place applicants, veterans, and welfare recipients), while others concern work-test programs. Still others are primarily regulatory or policing functions (which, it has been suggested, might be eliminated). It seems inappropriate to rely on funds from UI-covered employers to finance

these activities even if they are supplemented by a limited amount of general revenue.

Some of these activities are already funded by direct appropriations and some by transfers from programs in which the ES is a participant. However, in some instances this special funding has been inadequate to meet the costs of the activities.

Alternative sources of additional funding might be to

1. require that all services other than those directly related to UI be fully funded either by special appropriations or as part of the legislation calling for the use of the ES;

2. provide block grants to States from general revenue to cover all of these activities (an approach preferred by consumers); or

3. provide for earmarked program funding from general revenue for all functions called for by special legislation or special programs and provide block State grants to permit expansion of ES functions of general concern (such as LMI, development of clearance procedures, research, and demonstration projects).

Funding and staff levels

The statistics for the costs of operation emphasize the relationship between the functions undertaken by the ES and the sources from which its funds are derived. Another significant factor in determination of the activities undertaken is the staff levels that can be assured from the total funds available.

In 1966, for the first time, the level in staff years for the ES as a whole was set at 30,000. Prior to 1966 the figure had varied, but the total had been somewhat lower. The round figure of 30,000 includes all ES employees (whether on State or Federal payrolls) working in the individual States. It includes staff working on regular activities funded under the Title III Grants-to-States (both FUTA and general revenue funds) and staff working on special demonstration projects, research, and planning. It also includes staff assigned to improved management, new services, and special activities required by the many congressional acts and Executive Orders. In only a few cases have special budget allocations made possible employment of additional staff, outside of the maximum of 30,000 staff years. (The 30,000 does not include staff paid under appropriations for CETA, WIN, and some other programs.)

Since 1966, the determination of the maximum staff levels has not taken adequate account of the changes in the civilian labor force (CLF), the changing unemployment rates, and the demographic issues. The staff level also has not been adjusted for the experience obtained on the ratio of staff to individuals served needed to achieve maximum productivity in making placements and carrying out related activities.

A number of studies have analyzed the extent to which reduction of staff availability has occurred during the last 10 years, have suggested different methods for determining appropriate staff levels (both federally and by individual States), and have noted the need to take account of demographic changes.[27]

Calculations of productivity have been based primarily on the number of placements made per staff year. These in turn affect the size of the allocation of funds to States, a process frequently characterized as the "placement numbers game."

Estimates are that average-adequate or optimum staff productivity (defined as individuals placed per staff year worked) is obtained with 4.0 staff positions per 10,000 CLF, but maximum productivity according to DOL studies sometimes calls for 5 to 6 staff-year positions when intensive services are provided to applicants.

This figure may still be low in States with high unemployment and especially low in States with high concentrations of urban areas, youth, minorities, and women. On the other hand, it may be higher than necessary in other States where the economy makes productivity easier to achieve. A realistic average figure may be 4 to 5 staff-year positions if no exceptional contingencies are taken into the calculations.

Table 1 shows the relationship of CLF and unemployment rate to ES and SESA staff levels.

Numerous studies indicate that the current staff level is too low as a total figure, that the CLF concept should be incorporated into the methods for determining the budget levels, and that the methods for allocating funds (staff positions) to the States should be revised to take account of current need based on the current CLF, demographic factors, and unemployment rates. An increase of at least 20 percent in the number of staff positions is needed even to maintain the 1967 staff levels.

In 1967 a ratio of 4 ES staff years per 10,000 CLF provided 30,605 staff years. At present, the ratio is 2.88 ES staff for 10,000 CLF. If the ratio was brought back to 4, it would result in a staff level of 42,000. If the increases in the CLF since 1967 are taken into account, an approximate level of 50,000 staff years would be required for the ES by 1985.

Consideration should also be given to the special functions allocated to the ES such as registering, testing, and placing UI claimants as well as LMI, job development and work search, service to UI employers, and services to diverse categories of applicants.

When the ES is called to undertake exceptional functions including demonstration and research projects, services under special legislation, such as TRA, airline deregulation, Redwoods, and so on, more funding (and therefore staff) should be added to the "regular" level determined in the annual funding. ES also needs a special contingency fund, as proposed by the DOL in its 1980 budget defense, similar to the UI contingency fund

TABLE 1. Relationship of CLF and unemployment rate to ES and SESA staff levels

Year	(1) CLF	(2) Unemployment rate (percent)	(3) ES staff years [1]	(4) CLF/ authorized positions (col. 1/col. 3)	(5) Unemployed/ SESA staff
1967	77,347,000	3.8	30,605 (4.0 per 10,000 CLF)	2,527	96
1971	84,113,000	5.9	31,003 (3.7 per 10,000 CLF)	2,713	160
1975	92,613,000	8.5	28,429 (3.1 per 10,000 CLF)	3,260	277
1979	102,158,000	5.8	30,000 (3.0 per 10,000 CLF)	3,403	198
1980	103,452,000	5.4	30,000 (2.9 per 10,000 CLF)	3,448	186

[1] For ratio of ES staff per 10,000 CLF.
[2] Estimate.
NOTE: The CLF and unemployment figures for 1967, 1971, and 1975 are on a calendar basis. All other figures are for fiscal years.
SOURCE: Columns 1 and 2 for 1967, 1971, and 1975 are from *Monthly Labor Review*, vol. 99, no. 10, October 1976, p. 63. The 1979 and 1980 CLF estimates are from *Five Year Budget Projections: Fiscal Years 1979–1983* (Technical Background), Congressional Budget Office, January 1978, p. 133. The 1979 and 1980 unemployment rates are from the 1978 *Mid-Session Report of the President.*

beyond regular funding to provide extra staff for emergencies.

Because of the concept of zero-based budgeting, any current proposals for increase (including 1981 budget requests) are unlikely to be accepted by the Office of Management and Budget, even if they can obtain approval of the internal DOL budget processes. Recommendations, such as those made by the NCUC, directed to the congressional budget, finance, and appropriations committees to use general revenue funds for the necessary increases are probably the only way to obtain a more effective staff level for the ES.

Many concerned groups, including the Interstate Conference of Employment Security Administrators, the National Association of Counties, and others, have called for not only increased but also "continuous" funding.

Alternatives for funding. A series of alternatives in terms of objectives, functions, and effective operations could be considered by the Congress even in the current budget-minded atmosphere. These include

1. maintaining the present level of funding and the present staff size to cover the Federal administrative responsibilities but increasing the funds available to maintain the current labor market services (especially those affecting UI claimants) and to permit additional services targeted to CETA participants, welfare recipients, and other persons facing barriers to employment;

2. increasing the funds available to the DOL to enable more planning, evaluation, and research; more use of advisory committees; more sensitive relationships with other Federal departments; and better Federal-State linkages; or

3. combining one and two so as to provide continuously those funds needed (from FUTA, from general revenue, and from special appropriations) to obtain a fully functioning labor exchange based on an adequate LMI system with services appropriate to the varying national, State, and local needs, including the services called for by the Wagner-Peyser Act, the Social Security Act, and other legislation.

Unless increased staff years for ES functions alone are funded (and additional special resources and contingency funds provided), it is unrealistic for Congress to believe that the ES can function in a manner that even approaches its optimum objectives.

Allocation of funds to States

One of the most controversial issues in recent years has been over the criteria used by the Federal Government in allocating funds (especially those financed from FUTA sources) to the States for the operation of the ES. The methods used to allocate to each State its allotment of funds (and staff positions) by the DOL have been changed three times but the actual amounts received by each State have not varied as greatly as might appear from the protests of the States.

As discussed in the "History" section of this report, in 1977 the BPF was modified to become the RAF. The RAF was designed to reward States that increased their performance and obtained a higher placement rate, but in practice it often penalized urban States that, because of high unemployment, large numbers of disadvantaged residents, and few expanding industries, could not achieve higher placement rates. The RAF also penalized States that already had good placement records since bonuses were given for improvement.

The RAF formula gives a preponderant weight (65 percent) to performance by a State in obtaining placements. In measuring performance, consideration is given to the "quality" of the jobs filled and to the numbers placed from priority groups. Little weight, however, is given to the length of placement (there is frequently little or no follow-up) or to the difficulty of finding ap-

propriate jobs. Consequently, there is frequently an incentive to play the "numbers" game and give preference to easy or quick placements.

About 35 percent of the RAF is allocated on the basis of need, measured by the size of the CLF, with some adjustments to take account of adverse labor market conditions. Some extra weight is given to the placement of veterans, migrants, UI claimants, youth, minorities, the disadvantaged, women, the handicapped, and older workers, but these broad categories sometimes tend to cancel each other out.

The DOL concluded in 1979 that the RAF was not based on fully satisfactory criteria and proposed a number of alternatives to the States. No agreement exists on the alternatives, but there is agreement that the present formula should be altered to take much greater account of need, with some regard to "exemplary" performance. There is also a "hold harmless" provision ensuring that, although some States would receive more funds on the basis of need, none should receive less than they did previously.

For 1980 there was a change in the allocation method, but since no State received less than 98 percent of the positions it received under the RAF, the change had little effect. The whole system is again being restudied by the DOL.[28]

Fund allocation to the States for the operation of the ES and distribution of these funds by function, staff positions, and dollars is explained in the instructions issued by the DOL Administrator of Field Operations, Employment and Training Administration, to regional administrators. It describes the fiscal year 1980 State agency resources and activity planning targets. These instructions specify how each State budget should be built up and the allocation of funds by program.

Alternatives to system of allocating funds to States. Currently a number of alternatives may be considered for appropriate changes in the system of allocating funds.

1. Retain the current system (RAF) for 1981 and mandate further study of criteria that would relate placement to labor market needs, economic change, and the impact of intensive service, counseling, training of hard-to-place applicants, and improved ES services to employers.

2. Require immediate modification in the RAF to give less weight to the numbers placed and more weight to the quality of placement, to other job services rendered, and to the CLF.

3. Specify that the allocation of basic State grants should immediately be put on a needs-based formula and be determined primarily by the proportional share of a State's CLF as compared to the share of other States. Rural States should receive equitable treatment by the establishment of a minimum funding level for each State.

4. Develop a wholly different system for the allocation of funds from general revenues for special intensive services by ES to applicants who are harder to employ than UI claimants or other applicants with workforce attachment while continuing a modified RAF for FUTA funds.

5. Provide extra allocations for intensive service activities on the condition that these activities be closely integrated with regular placement activities and other services to UI claimants.

Discretionary funding. Even if Congress should agree to one or more of these measures for the allocation of FUTA and general revenue funds for the regular operation of the ES, consideration should be given to the need for contingency and discretionary funds allocated for use at national, State, and local levels.

Experimental or demonstration programs including, for example, those concerned with improved delivery of services, use of automated machinery, increased reliance on advisory committees, use of mobile ES offices, and other mechanisms to ensure flexible responses to local needs, have been made possible by grants from discretionary funds. However, discretionary funds tend to be among the first victims of budget cuts. The consequence of decreased funds for such purposes in recent years has been cutbacks in useful demonstration projects—at both Federal and State levels. In many cases inadequate discretionary funding has resulted in disincentives for Governors to concern themselves with eliminating duplication (as between CETA and ES) or with developing local links. Discretionary funds frequently provide essential incentives for better administration. The provision and use of such funds can be at different levels, with allocations tailored to local needs as well as the national economy and varying rates of employment and unemployment. Discretionary funds can be made available through

1. yearly allocations from the UI Trust Funds to be used at the discretion of the Secretary of Labor for research and demonstration projects undertaken under the supervision of the DOL by an appropriate number of States with a view to improving the effectiveness of ES in serving covered employers and employees;

2. allocation of such funds for discretionary use by the Secretary of Labor to strengthen the capacity of the DOL to service the State employment security agencies by providing increased technical assistance, by staffing national and regional advisory committees (including employer committees and employment service improvement committees), and by coordinating improved national LMI;

3. appropriation of funds from general revenue to be used under the same conditions as those previously suggested; and

4. allocation both from FUTA funds and general

revenue of increased funds to be *used at the discretion of individual States* to develop demonstration and research projects, to ensure links between the ES and other State or local agencies concerned with employment development, and to adapt the provision of ES and LMI to local needs.

Whatever system is agreed on, it seems clear that increased discretionary funding is an important tool for the improvement of ES operations and for making possible a new and better "public image."

Problems Relating to Administration and Linkages

The administrative problems considered here are Federal-State relationships; the relationship of the ES to UI; links between the ES and other employment service agencies such as CETA and WIN; and particular administrative problems that affect planning, coordination, advisory committees, and computerized and automated operations.

Federal-State relationships

The way in which the Federal-State relationships affect the operation of the ES has been a matter of debate ever since the establishment of the ES in 1933. Proposals for change have been advocated since then and have ranged from federalizing the whole system through Federal mandating of performance and other standards to delegating much greater discretionary authority to Governors for use of funds for ES operations. These conflicting proposals reflect the different approaches to the ES advanced by unions, employer organizations, governors, State legislators, and administrators. The common denominator is the universal desire for more cost-effective administration and improved service delivery.

Moreover, the respective roles of the Federal and State Governments have been interpreted differently not only by the Federal and State administrations but also among the States and by regional administrators.

Some State administrations object to Federal regulations that seek to tighten up on standard-setting, monitoring, reporting, and goal-setting. Some of these regulations have been considered an obstacle to State performance. An example is a statement in a California memorandum:

> The States today are still prevented from tailoring an ES program that is fully responsive and effective in meeting local area needs because they are overregulated and constrained by their Federal partner. In addition to to the Wagner-Peyser Act, the ES is involved in the administration of 22 other laws, 17 Executive Orders and 14 agreements with various Federal agencies. Federal Regulations and guidelines proliferate each year. While the public perceives the local ES as a State agency, the Federal controls leave the Governors with no freedom to provide direction regarding service priorities, target groups or program content. It is hardly surprising that the Governors' minimal authority over the ES results in a minimal responsibility for the agencies' responsiveness to State and local needs.[29]

Other States have been less negative with respect to Federal regulations but more concerned with the duplication of effort involved in the establishment of local sponsorship of placement services by specially created congressional programs (CETA, Vietnam Era Veterans, and the like) and by the need to develop formal agreements to cope with these problems. Some are specifically linkage issues. Others involve gaps in priority services. All affect the morale of the staff and the effectiveness of the services provided.

Alternative approaches. The following series of proposals reflects different approaches to the Federal-State issue. Although at the present time federalization seems unlikely, it is included here since it is a proposal still strongly backed by many groups and experts. Alternatives for action are to

1. federalize the system;

2. ensure that the DOL go beyond administrative policy setting and by regulation set performance standards for State implementation, require more detailed reports and evaluations of State and local operations, and require annual reports to Congress on the effectiveness of both the ES and UI systems in fulfilling the intent of the Congress;

3. maintain current Federal-State administrative relations without major change but require annual reports to the Congress on the implementation of policy by the different States;

4. delegate by legislation greater specific responsibilities to the States and provide adequate funds to Governors to be used at the local level for (a) demonstration or experimental projects to ensure improved management and policy implementation; (b) new methods for improved delivery of services to UI claimants and UI employers; and (c) procedures for dealing with language issues, discrimination and other problems affecting women, the elderly, the handicapped, and minorities (including affirmative action programs).

The last proposal is one that needs consideration whether or not action occurs on the other suggestions.

The relative roles of Federal and State governments clearly affect not only the ES but also the employment security system as a whole. The amount and nature of the oversight operations of Congress on the one hand and those of State legislatures on the other can determine scope, functions, and effectiveness of each branch

of the system and are necessarily related to the source and levels of funding.

Link of the ES to UI

Although the ES was established before the UI system was created, close administrative and financial links within the system were made possible in the legislation (Title III of the Social Security Act) establishing UC as well as by actions taken by the Social Security Board.

After the elimination of the Bureau of Employment Security and its replacement by two separate administrators, operational consequences at the Federal and regional levels occurred. UI regional directors continued to have full responsibility for field operations for governing UI, while the field operations of the ES were handled separately.

Integration or independence of the two services has continued to be an issue. Various administrations have reorganized the DOL and shifted administrative controls (and allocation of funds) both in Washington and in the regions.

Under the earlier structure, the UI system (including the secretariat of the Federal Advisory Council for UI; the Office of Research, Legislation, and Program Policies; and the Office of Program Management) reported to one administrator. Another parallel level administrator was responsible for the ES and its various subdivisions. A third administrator was responsible for all the field operations of the Employment and Training Administration (ETA) as a whole. CETA and coordination of WIN programs were organized under another official. There was a separate Office of Youth Programs.

A recent reorganization replaced the single Deputy Assistant Secretary (to whom all ETA programs reported) with three deputies. One of these deputies was made responsible for both the ES and UI and the regional offices. Another carried responsibility for the various CETA programs, the youth programs, the Job Corps, apprenticeship programs, policy evaluation, and the so-called national programs. A third deputy assistant secretary was made responsible for veterans' employment.

The organization has again been changed. Now there is one deputy assistant secretary for Veterans Affairs (as required by statute). Another deputy assistant secretary is responsible for the balance of the activities of the ETA (with the exception of the Office of Investigation and Compliance, which reports directly to an assistant secretary). The responsibilities of the deputy assistant secretary for the ETA are divided among nine administrators: (1) the Office of Administration and Management (for internal matters); (2) the Office of Policy, Evaluation and Research (OPER); (3) the Bureau of Apprenticeship and Training; (4) the Office of Management and Assistance (which includes all field operations, and consequently the regional structure); (5) the United States Employment Service (USES); (6) the UI Service; (7) the Comprehensive Employment Development Division (both CETA and WIN); (8) Youth Programs; and (9) the Office of National Programs. Each of these administrators reports to the same deputy assistant secretary.

In each of the 10 regions, there are a regional administrator and a deputy regional administrator, who report through the Office of Management and Assistance (for field operations) and are responsible for the substantive operation of all the programs, including ES, UI, CETA, WIN, apprenticeship, and youth. How much this reorganization will affect linkage issues remains to be seen.

At the State level, the relationship between programs and their administration varies according to State laws, differing priorities, and implementation of Federal regulations by State authorities. In a State where a board or commission is responsible for the operation of the UI or ES, there is little incentive for the Governor to strengthen the relationship with other agencies or to improve the "image" of the ES.

At the local level the issue of separation or integration affects the priorities for service to employers and applicants, the location of offices, and the use of staff. The same problems arise at the local level in developing linkages between ES/UI and CETA, WIN, and other programs for training and employment. The extent of colocation of offices for each of these programs is an example of the diversity of practice among the States. Table 2 indicates the numbers of offices and illustrates the diversity of practice. Joint management or single management of all the programs in a single office, can facilitate the most efficient use of staff, especially in a crisis. From the point of view of the applicant, a one-step operation clearly has advantages. The arguments for separation of offices and of staff are based on differences in approach to the various programs and, during crisis periods, the disadvantages of having job applicants and employers confused by the lines of claimants for UI benefits.

A number of proposals have been suggested to create a closer relationship between the UI programs and the ES. They include

1. reestablishing a single administrative service, such as the former Bureau of Employment Security, to be responsible for the execution of policy at the Federal level;

2. continuing the current structure of two separate administrations (in which reporting is done to a single deputy assistant secretary) but ensuring that the administrators have joint responsibility for support services and the development of guidelines governing regional and State activities, including reporting procedures, eligibility review program (ERP), and so on;

TABLE 2. Number of local offices by State, type, and function as of February 1980

State	Full-time	Year-round	Other than year-round	UI only	ES only	WIN only	UI-ES	UI-WIN	ES-WIN	UI-ES-WIN
National total	3,469	3,453	16	498	915	385	877	13	254	527
AL	61	61		17	7				37	
AK	20	20		2	10	1	6			1
AZ	55	55		3	23	5	24			
AR	75	74	1		26	10	39			
CA	295	287	8	17	131	2	47		22	76
CO	43	43			1		17			25
CT	40	40		4	3	14	19			
DE	9	9		1	3	2			1	2
DC	1	1								1
FL	89	89		40	25	1			23	
GA	52	52		18			2		16	16
HI	20	20		8	5	1			6	
ID	27	27					14			13
IL	123	123		57	54	11	1			
IN	59	59		2	2		11		2	42
IA	99	99		11	51	9	28			
KS	67	66	1	6	53	8				
KY	129	129		29	75	1			24	
LA	31	31		2	3	1	19		1	5
ME	23	22	1		7	1	1			6
MD	39	39		1	1	14	23			
MA	122	122		39	41	41	1			
MI	166	165	1	1	29	55	81			
MN	124	121	3	6	83	35				
MS	57	57		18	7				32	
MO	92	92			24	13	44			11
MT	32	32				8	9			15
NE	39	39		7	27	5				
NV	23	23		2	5	2	9			5
NH	11	11					11			
NJ	90	90		40	37				13	
NM	42	42			6	4	32			
NY	184	183	1	57	60	21	46			
NC	55	55							14	41
ND	18	18			3					15
OH	137	137		6	10	11	1	9	9	91
OK	52	52			2	6	44			
OR	52	52			5	5	20			22
PA	109	109		11	5	2	63	3	2	23
RI	26	26		16	4	1				
SC	48	48		6	9	4	3		3	23
SD	22	22		1						21
TN	90	90		41	9	1			39	
TX	134	134			2	13	119			
UT	26	26					11			15
VT	16	16		3					3	10
VA	82	82			17	24	25		2	14
WA	39	39					22			17
WV	69	69		26	43					
WI	124	124			6	52	66			
WY	16	16								16
GUAM	2	2				1	1			
PR	10	10					10			
VI	3	3			1			1		1

NOTE: Total offices with ES element = 2,573.
SOURCE: DOL, 1980.

3. strengthening the regional organization by providing for increased operational authority to develop closer ES-UI relationships in the States covered by each region;

4. using Federal funding tools to ensure closer integration of UI and the ES at State and local levels;

5. reexamining the feasibility of using joint offices and coordinated staff lines in suburban and rural areas with the option of using "nearby" offices in urban areas for both ES and UI as a condition for funding;

6. reorganizing the local offices to provide greater outreach and outstationing of ES and UI staff to ensure

clearer supervision and follow-up of claimant registration and provision of adequate LMI at the work place; and

7. placing increased emphasis through regulation and funding devices on the use of teams from both UI and ES staff to provide adequate intensive assistance to UI claimants to help them obtain employment.

Links between ES, UI, CETA, and WIN

The problems involved in establishing adequate links, avoiding duplication, and undermining of one agency by another have been recognized ever since the Congress enacted the first Manpower and Development Training Act (amended in 1973 to become CETA). In the CETA reauthorization act of 1978, this problem was dealt with more specifically than in the earlier legislation, but major difficulties remain.

The structure of CETA makes full coordination difficult since the ES is a Federal-State agency and CETA is set up as a Federal agency primarily funded by use of "prime sponsors," which are city or county based. (The problems are easier for the "Balance-of-State" prime sponsors, which are State agencies and usually part of a State's Department of Labor.)[30]

Initially CETA was in competition with the ES in undertaking many employment and training operations. CETA sponsors frequently operated their own recruitment, training, and placement offices with little regard for ES activities partly because they believed (or found) that the local ES office was not sufficiently responsive or sensitive to the needs of the CETA "targeted" employment applicants.

The ES was also criticized as being too dependent on Federal and State funding criteria to provide full service to the "hard to place" applicants who would be eligible for CETA assistance. UI claimants, who are often considered "hard to place" and therefore in need of similar special assistance, frequently are not "income eligible" for CETA job slots or training programs. UI exhaustees are more often CETA eligible; CETA "exemployees" are in most cases UI eligible and subject to ES certification.

The importance of linking the administration of the ES, UI, and CETA is evident. The problem is how best to do this given differences in the economic concepts, objectives, and political concerns that underlie each program.

Various procedures for forging the links have been used with differing degrees of success. These include formal "financial" and "nonfinancial" agreements between CETA sponsors and, as appropriate, State and/or local ES offices. They also include informal exchanges of information and in some instances interlocking advisory committees.

The following problems must be dealt with at all levels before CETA and ES-UI can provide the optimum services intended by Congress in the 1978 amendments to the CETA: basic lack of communication, inadequate coordination even within the separate agencies, fragmentation of operations at the local level, inadequate concern for "marketing" the needs of employers, and centralized data pooled for use by all "employment" and training agencies.

At the Federal level, the DOL has taken steps to solve many of the linkage and coordination issues involved. In May 1980, the DOL issued final regulations implementing various aspects of the CETA legislation, including procedures for coordinating and arriving at agreements with other agencies. (These regulations clarify many of the definitions of terms that gave rise to confusion.) The regulations specify that, in order to maximize the level of coordination and minimize duplication, each prime sponsor shall enter into a written cooperative agreement with the State Employment Security Agency (SESA). The agreement must delineate the responsibilities of each and provide at a minimum

1. coordination of the employment and training services under the prime sponsor's plan with those funded under the Wagner-Peyser Act, 29 U.S.C. 49 *et seq.;*

2. a description of arrangements for coordination of employer contacts and other activities involving employers;

3. allowance payment systems;

4. arrangements to coordinate activities, including income determination, referral, and publicity functions under the Targeted Jobs Tax Credit program established by the Revenue Act of 1978, P.L. 95–600; and

5. arrangements to provide the SESA with information on available public service employment positions so that this information may be provided to UI recipients and other applicants for services from the SESA, Sec. 122(1).

The regulations also contain detailed instructions of how each provision is to be carried out.[31]

In similar actions paralleling the CETA regulations, the DOL has indicated how it proposes to change the operation of the ES to permit greater coordination of activities. In June 1980, the DOL submitted a report to Congress on the Wagner-Peyser Act, This report reviewed the operations of the ES (Job Service) "particularly in terms of its relationship to CETA and other parts of the employment and training system." The report called for synchronizing the timing of the CETA and ES planning process as well as for decentralizing ES procedures to improve coordination at the local level.

If the current approach of the DOL is continued, greater coordination should be achieved at the national and probably at the regional levels. The basic problem, however, is to coordinate and improve the delivery of services by both agencies at the State and local levels.

Related problems arise for some existing welfare programs. The issue will have increased importance if Congress ultimately passes any of the current versions of the welfare reform bill. Today the major work-related welfare program, financed 90 percent from Federal funds, is WIN. WIN is a joint effort of the DOL and HHS. Under the specified division of responsibility, HHS determines income eligibility and provides support services, and the DOL is responsible for training and employment. Mechanisms for joint action are provided by law and developed in regulations issued on behalf of both Departments by the executive director of the National Coordination Committee (consisting of the Assistant Secretary for Employment and Training of the DOL and the Assistant Secretary for Human Services of HHS).

A similar mechanism operates at the regional level, where the assistant regional administrator of the ETA and the regional office of HHS carry out the WIN program and establish the WIN Regional Coordination Committee (RCC) responsible for approving all State WIN plans. By regulation, the RCC's enter into agreements with the State WIN sponsor (usually the State ES) and State Welfare Agency (the separate administrative unit designated by the State welfare agency) for the overall administration of the State WIN plan.

Guidelines for coordination and division of responsibility at the local level are included in the national regulations, although considerable flexibility is provided so that WIN programs can be adapted to local needs.

The regulations and the jointly developed *Handbook of Policy Guidelines* require coordination and links with other agencies and programs, including CETA, Title XX (social services under the Social Security Act), State adult education programs, food stamp programs, the State employment and training council, the State ES, publicly supported work programs, and other pertinent employment and training and welfare programs.[32]

The effect of the WIN program differs from region to region and within States. It often depends on the characteristics of the unemployed, and the attitude of the local administrators. A report by the Urban Institute states that "those local and State WIN staffs [Employment and Training and separate administrative units] who maintain open lines of communication, who jointly plan and train staff, and hold regular meetings to resolve operational problems and to design new approaches for serving registrants are among the most effective and efficient WIN programs."

A serious limit on the effectiveness of WIN has been the funding ceiling, which determines the number of eligible entrants to the program and the nature of the services available—whether they be training and support services or employment in subsidized jobs. The small size of the WIN program in relation to the numbers who are eligible raises the issue of its feasibility as a welfare-work mechanism. Its success has been proven in the substantial proportion of "positive placements" of its participants.

If the 1979 proposals for welfare legislation are adopted, the WIN employment program may be merged with other employment programs—and greater responsibility given to Governors. Approximately 620,000 CETA Public Service Employment jobs were provided in the 1979 bills for welfare "eligibles," including 400,000 CETA work and training opportunities. There are special provisions for job training, child care, and job services to provide self-support and as a condition for receipt of benefits. But how the ES would be used or how far the current WIN mechanism would be followed for linkage of the income maintenance, social service, and employment programs, is not clear in any of the bills.

A related linkage issue discussed previously in this report stems from the different requirements under the various programs for job search, and the varying criteria used to determine eligibility for benefits under the programs. Administrative linkage, at least, is needed to resolve problems with the various work-test and job-search programs.

Links must be forged at different levels of government. Some may be primarily administrative, some may be required in State plans, but all should be considered a significant function for advisory committees. Links are essential to avoid duplicate services and information collection. Links are a significant factor in cost-effective management.

Underlying some of the difficulties in developing effective administrative and program links is the absence of sufficient practical incentives (including financial incentives) to motivate competing or parallel administrations to formulate joint programs.

As noted earlier, the differing degree of Federal authority and responsibility inherent in the Federal-State structure of the ES and the UI system, in the Federal-local structure of CETA (with a limited State role), and in the role undertaken by the Federal authorities in the WIN program and the proposed income-transfer employment programs calls for innovative approaches to linkage issues. To date, innovative approaches have been undertaken primarily by a few imaginative State administrators. There is a challenge to Congress to facilitate linkages and a challenge to administrators at all levels to implement congressional intent.

To solve these problems requires "hard" decisions, including the selection of the most capable agency to carry out each of the varied responsibilities. One decision might be a requirement that the Federal and regional administrators of the DOL and HHS develop the essential link between programs for which they are

responsible and make coordination a condition of funding.

Congress could require that any funded program operated by one or more departments report to Congress on the specific mechanisms developed to ensure that appropriate formal agreements between the agencies govern the operation and division of functions at the local level.

To improve the administration of both UC and ES, steps should be taken by the DOL to

1. Enhance joint planning at the national, regional, and State levels.

2. Encourage, through discretionary funding, the operation of joint UI-ES advisory committees at national, State, and local levels. This should include coordination of advisory committees such as unemployment advisory councils (UI-ES) and employment and training councils (CETA) at national, State, and local levels. There should also be coordination and some common membership between ES and CETA employer advisory committees.

3. Encourage, where feasible, through technical assistance and demonstration funding, colocation or nearby location of local ES, UI, WIN, and CETA offices.

Measures relating to management

The basic legislation establishing the ES contains few requirements on the structure or organization of the employment agencies at the State level or the methods to implement national policies. Consequently, wide diversity exists in administrative structure among the States, in the location and authority of the ES agencies, and in the methods of implementing functions at the local level.

State plans and management controls. Regulations issued by the DOL provide administrative guidelines, especially on State plans (which must be approved by the regional office in order to be funded), and annual or periodic reports including financial reports. Proposed rules issued on January 11, 1980, clarify the content of both numerical and nonnumerical reports—including ones on "self appraisal" and the importance of financial sanctions—to ensure that the most effective mechanisms are used in all States. Much of the responsibility for oversight, for evaluation of State plans, and for management controls, however, is delegated to the regional organization. Yet, in practice, considerable diversity exists in the authority and control by the regional administrators.

One of the most significant administrative tools is the "State plan." It is required from each State before receipt of funds and must indicate how a State will use the funds and carry out its operations in conformity with Federal law and regulations. State plans relating to the ES are approved at the regional level, and the funding involved is allocated by or through the regional administrator. However, the roles of the regional administrators responsible for UI or ES have differed from region to region (and from time to time) while the State plans for UI and ES are not always used as a "coordinating" mechanism for employment programs.

The proposed rules were intended to provide clearer guidelines on the contents of State plans. In most cases, there has not been full agreement between the DOL and the responsible State officials on the amount of flexibility needed to take account of local diversity in terms of categories of unemployed individuals (whether UI claimants, target groups, and so on); of employment, unemployment, and economic structure; and of geographic distinctions. If the content of State plans were either agreed on or mandated, it could be used to provide the basic information for coordinated programs, improved management, and cost evaluations. The analysis could supply Congress and the public with a clearer picture of ES operations at all levels.

However, rigid Federal requirements imposed on States in preparing their State administrative plans sometimes have a potentially negative effect—unless provisions are flexible enough to take account of diverse local needs and, as was stated earlier, to permit the States to tailor local operations in accordance with local needs.

The fact that few reports have up to now been submitted to Congress makes it difficult to evaluate programs at the national level and is probably one of the factors that led to the enactment of laws such as CETA, which established specific administrative requirements and tended to bypass or duplicate State ES operations.

The DOL's report to Congress on Wagner-Peyser provides a review of the operations of the ES and "contains the results of consultations with a wide variety of interest groups, including representatives of State and local officials." In it the Secretary of Labor states "that it is desirable to make a number of changes in the Job [Employment] Service" including administrative changes. The report states "the Job Service is currently facing the challenge of rationalizing its relationship to other labor market intermediaries, and employment development institutions, such as the CETA system, which have come into existence since the original passage of the Wagner-Peyser Act."

The report contains recommendations for change. Some of these recommendations are likely to be challenged by the Congress, and others by the States. One, likely to be approved by all, refers to the need for joint local planning in the provision of intensive services to those needing such services.

Many, but not all, of the recommendations agree with those adopted by the NCUC, some of which are included in its Final Report. One proposal calls for a

substantial administrative change to decentralize planning and strengthen the Federal role. The DOL report states

> Federal leadership should consist of setting broad short and long-term policy, goals and objectives and establishing a framework and agenda for achieving them. More explicitly, the Federal government should encourage and reward good performance and innovation. A strong program of technical assistance should be established to improve performance and to stimulate the replication of successful new ideas. A forceful Federal monitoring role would complement the Department's current efforts to improve the management of its overall employment and training delivery systems, with particular emphasis on CETA. The Federal role should also include the application of sanctions when Job Service agencies fail to achieve the goals set forth in their locally initiated plans. Although current regulations include sanctions, a generally accepted set of performance criteria covering the entire range of Job Service activity does not exist. As a result, sanctions have not been effectively utilized.

The implementation of these recommendations will still require the consideration of a number of alternative approaches. Some of these approaches might be to

1. continue the current system of preparation and approval of State plans but also have DOL provide a national summary and evaluation with a view to annual State plan submission to Congress for review and oversight;

2. continue to require the development of State plans as a condition for funding but limit the Federal administrative role to one of indicating matters to be included, leaving to the individual States responsibility for the detailed content; or

3. remove the mandatory tone of the regulations of State plans, leaving greater flexibility to the States for content and implementation.

If alternatives two and three should be undertaken, consideration should be given to requiring summary reports to Congress on State plans and their implementation.

Computerization and automated operations as management tools. The effectiveness of the ES in carrying out its various responsibilities has depended both on the quality of leadership and staff and on the mechanical processes available to staff, employers, and applicants. The usefulness of the mechanical processes, whether employment security automated reporting systems (ESARS) or other systems, also depends on the quantity of data, the geographic and occupational spread of the persons served, and the labor market supply and demand at given times.

Some States, such as New York and California, have used automated processes to keep their knowledge of potential vacancies updated and to provide for direct job matches. Examples of the use of automated procedures are in California, Ohio, and New York. However, in New York State automation has not always resulted in improved performance except in large urban areas. In practice, New York has been limiting the use of automated processing to areas in which it has been found to be cost effective.

Other States, such as Nevada, have demonstrated their own preference for more intensive staff and case worker operations, without necessarily making use of automated systems either for recordkeeping or job "matching."

Use of such systems should be encouraged where appropriate, with consideration that the initial increased expenditure for automated processes may be offset in the long run by smaller expenditures on staff, shorter periods of unemployment benefits, and long-term placements.

Some questions still exist about which automated systems are most effective (New York State has claimed its methods are better than those advocated or required by the Federal Government), the circumstances under which they are effective, and whether there has been sufficient trial to warrant funding one or another system. Several alternative measures need further consideration:

1. provision of Federal funds to all States prepared to establish mechanized data collection and distribution and use of computer programs for matching claimants with job-bank information;

2. provision of funds only to States that have already demonstrated their capacity to use such mechanisms effectively; or

3. funding of more demonstrations before reaching any more widespread decisions on the value and cost effectiveness of each of the systems.

Use of advisory committees. One of the mechanisms for planning and coordination used with varying success over the last 10 to 15 years is an advisory committee structure at different levels of government. Successful operation of advisory committees is dependent on a clear mandate, clear definition of function, and adequate staff.

At present, there is no ES advisory committee fulfilling this purpose at the national level. There is a UI council (the Federal Advisory Council on Unemployment Insurance) whose mandate does not include many ES operations. Some regional advisory committees deal with all aspects of employment security but they are not in all regions.

Advisory councils dealing with some aspects of employment security exist in all but four of the States and the District of Columbia, but their structure, membership, and functions vary. In three of the States existing councils are not mandated by State law. Most State councils include employer, employee, and public mem-

bers; some councils are appointed by the Governor; others are appointed by the employment security agency director or commissioner or by the head of the DOL or similar office. Some councils report to the Governor or the legislature or both.

The State advisory councils also have widely differing responsibilities. Some, as in New York State, cover both UI and ES; others deal only with UI. In Colorado, the council must approve expenditures from the special administrative fund.

In 29 States there are local, industry, or special councils (in addition to the statewide advisory council), but only in 5 States are these mandatory, and again their functions are diverse.

A related mechanism, not currently used to its maximum capacity, is a network of employer advisory committees that can serve the dual purpose of keeping employers informed of administrative needs and helping governments understand and solve problems faced by employers.[33] Currently, this structure seems to be undermined in some areas by the establishment under CETA guidelines (for CETA Title VII) of PIC's with membership that does not necessarily interlock with the employer advisory committee structure of the ES. Moreover, operating funds have been allocated to PIC's, which tends to give them more realistic functions and credibility than is sometimes the case with the JSIP structure.[34]

The WIN organization makes full use of national, regional, State, and local coordination committees. These are interdepartmental administrative bodies with operating rather than advisory functions.

The Federal Government refrains from guiding the States on structure or use of advisory committees or councils as coordination tools. Where there is adequate staff and understanding of their purpose, the advisory councils play a constructive role. But there is no systematic analysis or evaluation at either the regional or Federal level of the work of the State and local committees—and their recommendations seem to have largely local impact. If their structure were strengthened and their reports given serious consideration at the Federal level, they could again become a useful planning, coordinating, monitoring, and public relations instrument.

For this purpose a number of alternative proposals are suggested, possibly for congressional action.

1. Fund and mandate the establishment of Federal and regional advisory committees or councils (with the same scope and functions as the national advisory committees or councils) to deal specifically with ES problems.

2. Fund and mandate the establishment of a single system of advisory committees or councils at the Federal, regional, and local levels to deal with UI, ES, CETA, and other related labor intermediaries.

3. Provide special incentives to Governors to establish effective advisory committees or councils at the State level, and mandate the transmission of reports from these bodies to the DOL for summary and analysis to be used as a basis of congressional oversight.

4. Provide for the establishment of a coordinated advisory committee structure with interlocking committee membership. As an incentive to regular committee work, provide funds, the amount of which to be determined by the regularity of attendance and the work agenda.

The public image of the ES. The public image of the ES today is confused both by its history and by its current problems. If the ES is to provide maximum service to its varied clients, the public must become aware of its present and potential capacity. Advisory committees, adequately staffed and appropriately used, can be effective management and public relations tools. The role of advisory committees should include communicating the views of their constituents (the consuming public, employers, claimants, providers of service, public and private agencies, labor, women, minorities, and commerce and industry) to the administrators of policy and operators of programs. The committees can also make known their understanding of program issues and propose solutions to Congress.

The media can both assist and damage the operation of the ES programs, especially if public opinionmakers are not fully informed on the issues involved—including the causes and effects of proposals under consideration by Congress. Advisory committees can play a role in informing the media of problems but only if the administrators concerned make full information available to the committees.

A new public image for the ES is vitally needed. How this may be achieved has been discussed by technical experts at various levels, by groups such as the National Commission on Employment Policy, and in meetings of administrators. The issue has not, at least in recent years, been discussed with a view toward recommending methods to Congress for strengthening and restructuring the ES into an instrument capable of dealing with the major employment needs of employers, applicants, and taxpayers.

The NCUC recognized the potential value of the ES and stated:

> The Commission believes that the U.S. Employment Service should be strengthened to enable it to serve more effectively as the major Federal and State labor exchange agency. It should provide free placement, counseling, testing, job development services, labor market information and other employment-related activities (such as job search and work tests) as needed.[35]

To this end, the Commission also recommended a substantial increase in funds, elimination of the current

staff limitation (30,000), and urged regular review of the level and allocation of funds to account for the increased labor force and the number and the changing needs of the unemployed.[36]

Notes

1. The funding provisions of Title IX are now incorporated in the Internal Revenue Code.

2. An indication of the temporary nature of the federalization is that the State salary schedules were maintained through the period.

3. A comprehensive analysis is provided in an NCUC report by the Interstate Conference of Employment Security Agencies (ICESA) and Macro Systems, Inc., *Description and Critique of Unemployment Insurance Service and Job Service Grants-to-States Funding.* Extracts of this report are "Employment Security Administrative Financing: ICESA Recommendations Based on Analysis of Recommendations by Macro Systems, Inc., With Comments by the Employment and Training Administration of the Department of Labor," *Unemployment Compensation: Studies and Research* (Washington, D.C., National Commission on Unemployment Compensation, 1980).

The most recent analysis, which includes several substitute proposals, is entitled *A Performance and Needs Based Methodology for Allocating Employment Service Grants: Final Report* (Cambridge, Mass., Abt Associates, Inc., April 30, 1980), Contract 2020-25-79-64.

4. "Report to Congress on Wagner-Peyser," U.S. Department of Labor, June 12, 1980.

5. In 1947 the ES was transferred to the Federal Social Security Administration and the Bureau of Social Security established. The following year the Bureau, which was responsible for both the ES and UI, was transferred to the DOL. In 1969, following the change in administration, the Bureau was abolished.

6. Joint hearings before the Subcommittee on Manpower, Compensation and Health and Safety of the Committee on Education and Labor and the Subcommittee on Unemployment Compensation of the House Committee on Ways and Means, 94th Congress, second session, Carl D. Perkins, Chairman, Washington, D.C., 1977.

7. "Finding Jobs for Workers: The Performance of the U.S. Employment Service and its State Partners," Committee on Government Operations, September 28, 1976, H.R. 94–1708.

8. In 1978, $228,081,000 from general revenue was made available to the ES for this purpose (20.9 percent of its total funds). The 1979 edition of the *WIN Handbook* (No. 318) contains copies of all regulations, guidelines, and forms for the administration of WIN and the division of responsibility between DOL and HHS at the Federal, State, and local levels.

9. NAACP, Western Region, August 9, 1974.

10. "The Public Employment Service: What Is it? What Should It Be?" ICESA, June 2, 1977.

11. In 1945, during the wartime federalization, placement reached 12.5 million. The lowest level was in 1975 when ES accounted for 3,138,000. The 1978 placement figures were higher (by 100,000) than in 1979, and the cost per individual placed was lower.

12. Statistics included in a briefing paper of the DOL.

13. A number of studies are available on the implications of the role of LMI, whether provided by government or private agencies in the United States, and of the parallel experience of other countries. One of the most extensive studies is "Labor Market Intermediaries," National Commission on Manpower Policy, March 1978.

14. During 1979, 6.8 million openings were filled—71.2 percent of the openings registered by the ES. Of the openings filled, 4.2 million provided starting wages at $3 or more per hour (61.5 percent of total openings filled); 2.6 million paid $3.50 or more per hour (38.7 percent of total openings filled).

15. P.L. 92–540 is the Vietnam Era Veterans Readjustment Assistance Act of 1972. This Act was amended by P.L. 93–508 in 1974 to meet some of the problems that have arisen. An Executive Order issued on June 16, 1971, and amended in 1973 and 1974, helped implement this legislation. Statistics indicate that the highest number of listings received and openings filled by the ES was in 1978 followed by a small decline in 1979. Mandatory openings received, openings filled, and individuals placed were respectively 13.2 percent, 10.8 percent, and 14.9 percent of the total operations in 1978.

16. PSIP (Title VII) funds were authorized as a 2-year demonstration project, through the end of fiscal 1980. The appropriation is still before the Congress. Particularly interesting examples of the special services provided include classroom training and OJT for sheet-metal processing in Wichita, Kansas; for television in Solano City, California; for skilled machinists in San Diego, California; for the furniture industry in Louisiana; for high technology in Boston; and for diesel mechanics in the Lehigh Valley, Pennsylvania. Some programs have been developed in cooperation with other CETA titles. In several areas—such as Topeka, Kansas; San Francisco, California; Georgia (the Balance of State); Wayne County, Michigan; and Yakima, Washington—the PIC program has worked directly with the ES in generating targeted job tax credit activities. In a number of other areas the emphasis has been on economic development projects, and in still others, the emphasis is on target groups such as disadvantaged women, the physically handicapped, and drug abusers

according to "Examples of Private Industry/CETA Title VII Activities," memorandum, U.S. Department of Labor, and *ETA Interchange,* vol. 6, no. 7 (July 1980).

17. In 1977, regulations were issued which took into account the court order in the case of *NAACP* v. *Marshall.* In the 3 years in which the 1977 regulations have been implemented, there has been extensive experience at State and national levels with the operation of the program and the problems involved. Consequently, new regulations are currently under consideration and are designed to deal with the special needs of this group of workers, including complaint procedures and language problems. Proposed regulations were published in the *Federal Register* on January 11, 1980.

18. The Nevada claimant placement project is an example of successful intensive service to individuals by a team. This project was carried out from February 28, 1977, to March 1, 1978; 3,545 claimants took part in the demonstration; two test claimants per control claimant, 65 percent were men, and 87 percent were white. The potential duration of UC was 22.4 weeks. The payments were reduced by $753.71 from the estimated amount or an average of $318 per claimant. See a report on the project by John P. Steinman, Nevada Employment Security Department, June 1978.

19. Nathan Azrin, *Final Report: The Job Finding Club as a Method of Obtaining Employment for Welfare-Eligible Clients: Demonstration, Evaluation, and Counselor Training,* July 28, 1978, DOL Grant No. 51–15–76–05. See also Robert Wegmann, "Job Search Assistance: A Review" (Houston, Texas, University of Houston at Clear Lake City, July 1979). Also see Mervin Hans, "Expansion of Group Job Seeking Activities" (U.S. Department of Labor, April 18, 1979), National Coordination Committee Operating Memo No. 14–79.

20. A series of regulations in the *Federal Register* describe in detail the way WIN operates. See *Federal Register,* vol. 41, no. 210, October 29, 1976, and vol. 43, November 17, 1978. The *WIN Handbook* contains all the specifications including forms for reports. The third edition of the *Handbook,* No. 318, was issued in October 1979 as a joint publication of the DOL and the Department of Health, Education and Welfare (now HHS).

21. As in the case of CETA, WIN sponsors may subcontract to nonprofit agencies for some of the operations for which they are responsible.

22. A 1977 General Accounting Office report to Congress made recommendations to improve the administration of the work test. The DOL, in accepting the recommendations, also indicated that many steps (such as ERP) had already been taken to improve work test procedures. Many are incorporated in the Department's *Administrative Handbook.* The recommendations include encouragement to State agencies to establish "suitable work criteria." The extent to which this has been done needs further study.

P.L. 96–265, enacted on June 9, 1980, includes a specific job search requirement as a condition for AFDC benefit eligibility. It states: "Every individual as a condition for eligibility shall register for manpower services, training, employment and other employment related activities (including but not limited to employment search activities)."

23. A full analysis and evaluation of the Grants-to-States funding for the Job Service Program is presented in the ICESA and Macro Systems, Inc., reports "Description and Critique of Unemployment Insurance Service and Job Service Grants-to-States Funding" and in its final volume (submitted March 19, 1980) "Conclusions and Recommendations on Unemployment Security Administrative Financing," NCUC.

24. Under Sec. 5b of the Wagner-Peyser Act, the Secretary of Labor is authorized to certify for payment to each State "such amounts as the Secretary determines to be necessary for the proper and efficient administration of its public employment offices."

25. These agreements are negotiated between a State and the prime sponsors within the State, which may be cities or counties or a consortium, or the Balance of State for which a State's Department of Labor is the prime sponsor.

26. Oversight Hearings on Comprehensive Employment and Training Act, Part 2, June 16 and 17, 1976; Report to Congress on Wagner-Peyser, February 1979; Report of the Comptroller General of the U.S., HRD-76-169, February 1977; "Labor Market Intermediaries—A Special Report of the National Commission for Manpower Policy," are all examples of available material.

27. ICESA and Macro Systems reports suggest maximum productivity figures per staff year, as does the recent report by Abt Associates that provides detailed analysis and statistics.

28. *A Performance and Needs Based Methodology for Allocating Employment Service Grants: Final Report,* Abt Associates, 1980.

29. Martin Glick, Director of the Department of Employment Development of the State of California, circulated a paper on this in 1979.

30. The CETA legislation provides that the State shall be the sponsor for CETA programs in those counties that have either too small a population to qualify as a sponsor or that for some reason do not wish to become prime sponsors. The State agency then becomes a Balance-of-State sponsor and can act directly for or in consultation with the counties and cities within the Balance-of-State area. It is not necessary for such counties to be contiguous.

31. *Federal Register,* vol. 45, no. 99, May 20, 1980. The original CETA regulations were published April 3,

1979. The proposed changes were issued for comment on April 4, 1980.

32. *The WIN Handbook* stresses the importance of coordination between WIN and other employment and training and social services programs. It describes the methods of formalizing linkages at every level and summarizes the role of each linked agency (for example, UI Services are to be used for all payment procedures, and, in instances where the WIN Employment and Training (E&T) Agency is other than the State ES, the WIN E&T Agency should coordinate all employment and training services with the ES to gain access to that agency's comprehensive LMI system.

33. A National Employers Committee has been operating since 1971; Job Service Employer Committees have been established in almost all States; there are 100 local employer committees, representing 22,000 employers.

34. Half of the members of the National Employers Committee also serve on PIC's, which have been established by 469 of the 470 prime sponsors. This program was funded as a 2-year demonstration program. As of July 1980, Congress had not renewed the program, but was expected to do so. (Renewal is currently included in the National Youth Act of 1980 adopted by the House but is, as of September 1980, still in Senate Committee.)

35. *Final Report of the National Commission on Unemployment Compensation* (Washington, D.C., NCUC, 1980).

36. *Final Report of the National Commission on Unemployment Compensation* (Washington, D.C., NCUC, 1980).

Appendix A: Federal Legislation, Executive Orders, and Cooperative Arrangements Affecting the U.S. Employment Service

The basic mandate: The Wagner-Peyser Act

The Wagner-Peyser Act (June 6, 1933, 29 U.S.C. 49 *et seq.*, and 39 U.S.C. 338) as amended, provides the initial legislative basis for the establishment of the USES and its affiliated State employment services.

In Section 3(a), the Act provides as follows:

> It shall be the province and duty of the Bureau to promote and develop a national system of employment offices for men, women, and juniors who are legally qualified to engage in gainful occupations, including employment counseling and placement services for handicapped persons, to maintain a veterans' service to be devoted to securing employment for veterans, to maintain a farm placement service, to maintain a public employment service for the District of Columbia, and, in the manner hereinafter provided, to assist in establishing and maintaining systems of public employment offices in the several States and the political subdivisions thereof in which there shall be located a veterans' employment service. The Bureau shall also assist in coordinating the public employment offices throughout the country and in increasing their usefulness by developing and prescribing minimum standards of efficiency, assisting them in meeting problems peculiar to their localities, promoting uniformity in their administrative and statistical procedure, furnishing and publishing information as to opportunities for employment and other information of value in the operation of the system, and maintaining a system for clearing labor between the several States.

Section 8 provides as follows:

> Any State desiring to receive the benefits of this Act shall, by the agency designated to cooperate with the USES, submit to the Secretary of Labor detailed plans for carrying out the provisions of this Act within such State. Such plans shall include provisions for the promotion and development of employment opportunities for handicapped persons and for job counseling and placement of such persons, and for the designation of at least one person in each State or Federal employment office, whose duties shall include the effectuation of such purposes. In those States where a State board, department, or agency exists which is charged with the administration of State laws for vocational rehabilitation of physically handicapped persons, such plans shall include provision for cooperation between such board, department, or agency and the agency designated to cooperate with the USES under this Act. If such plans are in conformity with the provisions of this Act and reasonably appropriate and adequate to carry out its purposes, they shall be approved by the Secretary and due notice of such approval shall be given to the State agency.

Other laws affecting the employment service

The Social Security Act. The legislative base for the ES system is further amplified by the provisions of the following titles of the Social Security Act of 1935, as amended.

Title III, Section 303(a)(2)—Grants-to-States for Unemployment Compensation Administration.

> The Secretary of Labor shall make no certification for payment to any State unless he finds that the law of such State, approved by him under the Federal Unemployment Tax Act, includes provisions for unemployment compensation solely through public employment offices or such other agencies as the Secretary of Labor approve; . . .

The FUTA (26 U.S.C. 3301 *et seq.*) Sec 3304(a)(1) provides that "all compensation is to be paid through public employment offices or such other agencies as the Secretary of Labor may approve; . . ."

Title IX. This title sets forth in Section 901(a) the establishment in the Unemployment Trust Fund of an Employment Security administration account. Section 901(c) (as amended by PL 91–373, August 10, 1970,

the Employment Security Amendments of 1970) states that

> There are hereby authorized to be made available for expenditure out of the Employment Security administration account for the fiscal year ending June 30, 1971, and for each fiscal year, thereafter—
>
> (A) such amounts . . . as the Congress may deem appropriate for the purpose of—
>
> (i) assisting the States in the administration of their unemployment compensation laws as provided in title III (including administration pursuant to agreements under any Federal unemployment compensation law),
>
> (ii) the establishment and maintenance of systems of public employment offices in accordance with the Act of June 6, 1933, as amended (29 U.S.C., secs. 49–49n), and
>
> (iii) carrying into effect section 2003 of title 38 of the United States Code; . . .

This section (as amended by the Vietnam Era Veterans Readjustment Assistance Act of 1973) provides that

> The Secretary of Labor shall assign to each State a representative of the Veterans Employment Service to serve as the veterans' employment representative, and shall further assign to each State one assistant veterans' employment representative per each 250,000 veterans of the State veterans population and such additional assistant veterans' employment representatives as he shall determine, based on the data collected pursuant to section 2007 of this title, to be necessary to assist the veterans' employment representative to carry out effectively in that State the purpose of this chapter. These purposes include assuring that veterans receive services that provide them with a maximum job opportunity.
>
> (B) Such amounts . . . as Congress may deem appropriate for the necessary expenses of the Department of Labor for the performance of its function under—
>
> (iii) the provisions of the Act of June 6, 1933, as amended, . . .
>
> (4) For purposes of paragraph (1)(A)(ii) and (1)(B)(iii) the amount authorized to be made available out of employment security administration account for any fiscal years after June 30, 1972, shall reflect the proportion of the total cost of administering the system of public employment offices in accordance with the Act of June 6, 1933, as amended, and of the necessary expenses of the Department of Labor for the performance of its functions under the provisions of such Act, as the President determines is an appropriate charge to the employment security administration account, and reflects in his annual budget for such year. The President's determination, after consultation with the Secretary, shall take into account such factors as the relationship between employment subject to State laws and the total labor force in the United States, the number of claimants and the number of job applicants, and such other factors as he finds relevant.

Title II—Federal Old-Age and Survivors Insurance Trust Fund and Federal Disability Insurance Trust Fund. This Section 221(a) allows disabled workers who apply to Social Security offices under the OASDI program to have their names referred to their State vocational rehabilitation agencies in accordance with the previously stated provisions.

The State rehabilitation agencies have agreements with State ES under which they refer, as needed, such claimants to local employment offices for selective placement service, including job-market information and counseling regarding employment problems.

Title XVII. The sections 1701–1704 (Section 5 of the Maternal and Child Health and Mental Retardation Planning Amendments of 1963—PL 88–156, 77 Stat. 273, October 24, 1963) provides grants for planning comprehensive action to combat mental retardation. The ES is involved in State planning activities, especially those related to employment and rehabilitation aspects of this program.

Title IV, Part C. This work incentive program for recipients of AFDC was amended in 1971 by sections 430 and 433(b)(3).

Food Stamp Act (PL 91–671, Work Requirements Amendments, January 11, 1971). This was amended by the Food Stamp Act of 1977 (PL 95–113) and the Food Stamp Act of 1980 (PL 96–249, May 26, 1980).

The basic ES responsibility under the food stamp program is to (1) maintain a food stamp recipient tracking system in cooperation with the State agency concerned through local office cross-index files of food stamp case numbers; (2) provide work registration forms to food stamp applicants required to register for work with the ES; (3) provide food stamp recipients with services provided all ES applicants; and (4) notify WIN, welfare, and/or agriculture offices of referrals of food stamp recipients to employment, or of recipients' refusal to accept call-in, or referral, to employment. (The Department of Agriculture and the Department of Labor work together to develop joint regulations implementing the work-registration and job-search requirements.)

Age Discrimination in Employment Act of 1967 (PL 90–202, December 15, 1967) Sections 4(b) and (c). The purpose of this Act is to promote employment of older persons based on their ability, to prohibit arbitrary age discrimination in employment, and to help employers and workers find ways of meeting problems arising from the impact of age on employment.

Demonstration Cities and Metropolitan Development Act of 1966 (PL 89–754, November 3, 1966, as amended). This Act provides manpower services to those cities participating in the Model Cities program and in most cases these services are provided by sub-

contract to the Concentrated Employment Program (CEP) by the ES.

Exemplary Rehabilitation Certification (PL 89–690, October 15, 1966). Part II of subtitle A of title 10, U.S. Code was amended on October 15, 1966, by the addition of a Chapter 89 which provides for consideration and issuance of a certificate for persons discharged or dismissed from the armed forces under conditions other than honorable. This program is carried out by the ES.

Immigration and Nationality Act (PL 89–236, Amendments to the Act, October 3, 1965, 8 U.S.C. 1101 et seq.). The DOL's responsibility under the Amendments is primarily derived from Section 212(a)(14). Before an alien can obtain a visa to permit employment, the Secretary of Labor must determine and certify that "(A) there are not sufficient workers in the United States who are able, willing, qualified, and available . . ." and "(B) the employment of such aliens will not adversely affect the wages and working conditions" of United States workers similarly employed. These responsibilities are delegated to the USES.

Housing and Urban Development Act of 1970 (PL 89–117, August 1965, as amended). This Act provides for Federal grants for urban renewal projects in areas designated as redevelopment areas on the basis of substantial and persistent unemployment. The Secretary of Labor finds the facts that lead to designation as redevelopment areas.

The Public Works and Economic Development Act of 1965 (PL 89–136, as amended). The ES is involved under Section 401. The Secretary of Labor makes findings on the basis of area unemployment data developed by State ES agencies, on substantial and persistent unemployment for an extended period of time, and in those areas in which he determines there has been a substantial loss of population due to lack of employment opportunity. The Secretary of Commerce bases designation of redevelopment areas on these findings.

Appalachian Regional Development Act (PL 89–4, March 9, 1965, as amended). The ES offices in every area of Appalachia are expected to provide employment and unemployment trends and occupational and related job-market information.

Farm Labor Contractor Registration Act of 1963 (PL 88–582, September 7, 1964, 7 U.S.C. 2041 et seq.). ES issues forms to contractors and transmits completed forms to the regional offices of the ESA. Farm labor contractors must observe the requirements of the law and the regulations of the Secretary of Labor in recruiting and transporting migrant workers for interstate agricultural employment.

Economic Opportunity Act of 1964 (PL 88–452, August 20, 1964, as amended, 42 U.S.C. 2701 et seq.). Parts A, B, and E of the Economic Opportunity Act have been repealed, effective June 30, 1974, by the Comprehensive Employment and Training Act of 1973. The ES has a role under a number of programs previously authorized under this Act and now altered under CETA. These include programs for improving the employability of low-income persons and for development of new sources of employment for such persons. Programs may include public service employment, work experience, a concentration of different types of manpower services for a target area, or Job Corps training.

Civil Rights Act of 1964 (PL 88–352, July 2, 1964). In accordance with this Act and with national policy, all services of public employment offices must be provided without regard to race, color, creed, sex, or national origin. The USES, in cooperation with the Manpower Administration Office (now Employment and Training) of Equal Employment Opportunity, is responsible for insuring that State ES agencies comply with the Act. With the 1972 amendments to the Act, State government employment was covered.

Vocational Education Act of 1963 (PL 88–210, December 17, 1963), 20 U.S.C. 1535 et seq. (amended by PL 90–576, Vocational Education Amendments of 1968, October 16, 1968). The Act authorizes Federal Grants-to-States to assist them in maintaining, extending, improving, and developing programs of vocational education, and provides for part-time employment for youths who need the earnings from such employment to continue their vocational training.

Section 123(a)(8) provides for cooperative arrangements with the system of public ES offices in the State, approved by the State Board and head of such State system, with such offices making available to the State board and local educational agencies occupational information regarding reasonable prospects of employment in the community and elsewhere.

Trade Expansion Act of 1962 (PL 87–794, October 11, 1962) 19 U.S.C. 1802, 1806, 1901, 1902, 1931–1978 (now the Trade Act of 1974, PL 93–618). Section 326(a) of the Act states

> To assure that the readjustment of adversely affected workers shall occur as quickly and effectively as possible, with minimum reliance upon trade readjustment allowances under this Chapter, every effort shall be made to prepare each such worker for full employment in accordance with his capabilities and prospective employment opportunities. To this end, and subject to this chapter adversely affected workers shall be afforded where appropriate, the testing, counseling, training, and placement service provided for under any Federal Law.

See also Executive Order 11075.

The Manpower Development and Training Act of 1962 (PL 87–415, March 5, 1962, as amended). The Manpower Development and Training Act (MDTA), as amended, has been repealed effective June 30, 1974, by the Comprehensive Employment and Training Act of 1973 as amended in 1978. The MDTA authorized occupational training and retraining, institutional and on the job, for unemployed and underemployed workers who could not reasonably be expected to secure full-time employment without such training. The ES responsibilities included various aspects of LMI, cooperation in the development of training plans and placement of graduates, and the development of job-matching programs. These responsibilities of the ES continue up to the present time and, in some cases, are funded under CETA.

The Rehabilitation Act of 1973 (PL 93–112). This Act replaced the Vocational Rehabilitation Act of 1963 and extends and revises the authorization of Grants-to-States for vocational rehabilitation services, with special emphasis on services to those with the most severe handicaps. The Secretary of Health, Education and Welfare (now HHS) has the major responsibility for carrying out the provisions of the Act. The Act directs the Secretary of Labor to cooperate with the President's Committee on Employment of the Handicapped as that committee carries out its functions as provided in the Act.

Vocational Rehabilitation of Disabled Veterans (PL 16, 1943, as amended, Chapter 31, Title 38, U.S.C. 1501–1511). These sections charge the Veterans Administration with responsibility for providing vocational rehabilitation to disabled veterans to restore the employability that has been lost by virtue of a handicap due to a disability incurred in or aggravated by active military service during certain periods of service. The ES provides counseling, testing, and job-market information, refers veterans for vocational rehabilitation and training provided by these laws, and, on completion of rehabilitation or training, helps them find suitable employment.

The Vietnam-Era Veterans Readjustment Assistance Act of 1972 (PL 92–540) 41 U.S.C. 2001 et seq. PL 92–540 amended 38 U.S.C. 41, Job Counseling, Training and Placement Service for Veterans, in its entirety. This law stipulates that the Secretary of Labor shall provide an effective job counseling and employment placement service for any veteran "who served in the active military, naval or air service and who was discharged or released therefrom with other than a dishonorable discharge." Section 2005 stipulates that "All Federal agencies shall furnish the Secretary of Labor such records, statistics, or information as he may deem necessary or appropriate in administering the provisions of this chapter and shall otherwise cooperate with the Secretary in providing continuous employment and training opportunities for eligible veterans."

The law details the duties of the State veterans employment representatives and their assistants (assistant veterans employment representatives are assigned on the basis of State veteran population) and requires that there be a full-time local veterans employment representative in each local office unless there is a demonstrated lack of need for full-time services.

Fair Labor Standards Act of 1938 (as amended, 29 U.S.C. 201 et seq. 29 CFR 522.1). This Act establishes minimum wage, maximum hours, overtime pay, equal pay, and child labor standards for covered employment. The ES cooperates by providing data regarding the availability of experienced workers in the community in which the applicant for the learner certificate is located. Requests involving information on an interstate or industry-wide basis are directed to the national office of USES.

An Act to Establish the Cabinet Committee on Opportunities for Spanish-Speaking People, and for other Purposes (PL 91–181, December 30, 1969). The committee established by the Act is to insure that Federal programs are reaching all Spanish-speaking people, that these programs are providing the assistance these people need, and that needed new programs will be sought. The DOL is represented on the committee, and the ES implements its recommendations as appropriate.

Disaster Relief Act of 1970 (PL 91–606, December 31, 1970). The law provides for assistance to persons affected by major disasters. Reemployment assistance services, as provided for under other laws, are to be made available to persons unemployed as a result of a major disaster. (See Executive Order 11575.)

Consolidated Farm and Rural Development Act of 1972 (PL 92–419). This law provides loan guarantees by the Federal Housing Administration to new businesses in rural areas subject to certification by DOL that industry or jobs will not be adversely affected or that the purpose is not to establish a "runaway" plant. USES national office involvement includes assessment of labor market facts from areas concerned, issuance or denial of certification, and preparation of supporting statement.

The Comprehensive Employment and Training Act of 1973, as amended in 1978 (PL 92–203 and PL 95–524) and Regulations (20 CFR Parts 657–80) issued in Federal Register, May 20, 1980, replacing regulations published April 3, 1979. The Act provides for job training and employment opportunities for disadvan-

taged, unemployed, and underemployed persons to be established through a flexible and decentralized system of Federal, State, and local programs. Comprehensive services authorized for payment under the Act that may be provided directly by the DOL by prime sponsors at the local level or by purchase of service from other public and nongovernmental agencies include outreach, assessment, referral, orientation, counseling, education, supportive services, institutional skill training, OJT, public service employment, Job Corps, special Federal programs, allowance payments to trainees, and some payments to employers to encourage hiring, evaluation, demonstration, research, development of LMI, and job bank and job matching.

Prime sponsors may be States, units, any combination of units of general local government having a population of 100,000 or more, or some other unit specially designated by the Secretary of Labor. Where a local unit of government either does not qualify or does not wish to serve as a prime sponsor, the Secretary of Labor may authorize the Governor or a designated agency such as the State's Secretary of Labor to establish a Balance of State prime sponsor. Units within a Balance of State are not necessarily contiguous. Certain Indian tribes and migrant organizations also serve as prime sponsors.

Each prime sponsor must establish a planning council that is representative of the client community, community-based organizations, and other departments including the ES. The council submits recommendations concerning program plans, goals, policies, and procedures. It also monitors and provides for evaluation of programs and continuing analysis of manpower needs.

Prime sponsors must submit an annual plan detailing the services they intend to provide and include how it will use services and facilities already available, with or without reimbursement of reasonable cost, to the extent the prime sponsor deems appropriate. The ES is to be used appropriately before services are provided directly or purchased from other agencies. Prime sponsors must plan to coordinate services with other DOL-assisted programs, including ES, to the extent feasible.

State sponsors must meet certain special requirements on advisory councils and annual plans. State plans must, in addition to describing activities undertaken by all prime sponsors, include provision for emphasizing coordination with the ES and detail arrangements for enforcing mandatory listing. The State prime sponsor must also set up an employment and training council and a Balance of State planning council that includes representatives of ES as well as of prime sponsors within the State, other State agencies, labor, business, the public, and community organizations. The councils review prime sponsor and State agency plans, make recommendations for better coordination and improvement, monitor, and report annually to the Governor. In addition, the State must establish a youth council responsible for activities described in the youth titles of CETA.

Areas of substantial unemployment may qualify for a public service employment program. Special consideration under this program is to be given to veterans, and efforts must be coordinated with ES services to veterans.

The 1978 amendments also established a new Title VII dealing with private industry initiatives and providing for PIC's at State, area, and local levels. Special funds were included for the program, which was established as a 2-year demonstration. Its reauthorization is currently before the Congress. Details are specified in the 1980 Regulations (Parts 679–695).

The 1978 Amendments also included additional youth programs (originally enacted separately) and gave greater emphasis to meeting youth needs. The ES was charged with implementing this new emphasis. The Secretary of Labor was also charged with providing special programs for offenders, persons of limited English-speaking ability, older workers, Indians, and migrants. Another change in the 1978 amendments provided special services for displaced homemakers and called upon USES to aid them. The Federal Government is also to insure that the required number of assistant veterans employment representatives are assigned to each State and that its other ES programs related to serving veterans are carried out.

Selection, screening, counseling, and testing for Job Corps is to be done by ES, which is to be used to the fullest extent possible in placement of those enrollees completing training. Readjustment allowances are paid through ES at the termination of an enrollee's training and ES keeps records on the placement or training outcome for each enrollee sent to it for placement service.

The National Commission for Employment Policy (formerly the National Commission for Manpower Policy), established under CETA, is responsible for identifying manpower needs and goals. The Commission also examines and evaluates manpower and related programs and studies the relationship of manpower training programs with closely associated programs such as ES, WIN, and other programs of a similar nature.

The Redwoods Act and Amendment Establishing National Parks, 1978 (PL 95–250). Eligible workers receive relocation, training, and job-search benefits in addition to other benefits. The California Employment Development Department, making use of its ES, administered the program.

The Airline Deregulation Act of 1978 (PL 95–504). This Act is administered by the Employment and Training Administration of the DOL. Eligible workers receive reemployment assistance, comprehensive job listing with the ES, priority hiring rights, and special assistance for up to 72 months.

Selected Executive and other orders affecting the ES

Executive Order 11701, January 24, 1973, Employment of Veterans by Agencies and Government Contractors and Subcontractors. The order delegates the Secretary of Labor as the administrator of the mandatory listing program authorized by PL 92–540, and requires the ES to carry out its requirements at the local level. The order requires that the Secretary of Labor gather information on the effectiveness of the mandatory listing program and on the extent to which the ES is fulfilling the employment needs of veterans.

Executive Order 11490, October 30, 1969, as amended. This order assigns emergency preparedness functions to Federal departments and agencies including the DOL. The public ES functions as the main operating agency in the field for the DOL in carrying out its assigned manpower responsibilities. Local employment offices have been provided with guidelines for use in a preattack mobilization period, in a limited war, and in a postattack situation for immediate survival and reconstruction. Streamlined procedures to provide needed workers immediately in any emergency have been developed and prepositioned with each State and local office. Guidelines and procedures are reviewed and revised as needed to maintain a current readiness status.

The Secretary of Commerce and the Secretary of Labor are required to maintain and issue lists of essential activities and critical occupations that may be required for emergency preparedness purposes.

Executive Order 10650, January 6, 1956. This order prescribes regulations governing the selection of certain persons who have critical skills for enlistment in units of the ready reserve of the Armed Forces. The State ES agencies provide much of the basic occupational data used to develop the list of critical occupations.

Executive Order 11190, December 29, 1964. This order provides for the screening of the ready reserve of the Armed Forces. The DOL develops and maintains a list of critical occupations. It screens people in the ready reserve with certain critical occupational skills in such numbers as are in excess of the requirements of the ready reserve. This minimizes the impact on the defense-supporting economy during mobilization.

The President's Statement on the Construction Industry. In March 1970, the President directed the DOL to communicate to the State and local agencies of the ES the serious national shortage of construction workers, to encourage local surveys and reports on specific manpower needs in the construction industry, and to examine the feasibility of establishing an LMI system for the construction industry, tied in with the ES job-bank system. The President also recommended that the Governors encourage cooperative planning aimed at expanding the supply of construction manpower on a statewide basis, involving the State ES, the vocational education agency, the State Cooperative Area Manpower Planning System (CAMPS), and other agencies and advisory groups.

Executive Order 11422, August 15, 1968, establishing the Cooperative Area Manpower Planning System (CAMPS). CAMPS was designed to achieve interagency manpower coordination in the planning and execution of all federally supported manpower training and supportive manpower services programs. ES offices provide Governors and mayors reports on program performance, including monitoring reports, program evaluation studies, ESARS periodic reports and summaries, and other evaluative or operating data as they become available throughout the year under the CAMPS evaluation role.

U.S. Department of Labor, Manpower Administration Order No. 12, November 1963. This order called for the establishment and operation of Apprenticeship Information Centers in

> appropriate job market areas, particularly in areas where there are substantial minority groups in the work force . . . Centers shall be operated as separate entities within the organizational structure of ES local offices and each one shall be prominently identified as 'Apprenticeship Information Center', so as not to be confused with any other ES function within which or near which it is located.

Executive Order 11307, September 30, 1966, concerning agricultural and rural area development. The order requires coordination of Federal programs affecting agricultural and rural area development. The ES through mobile teams identifies and inventories the manpower in the area and opportunities and existing training programs. It also assists in establishing new training programs.

Presidential Directive, September 30, 1936, concerning rejected draftees. In accordance with a directive of the President issued on September 30, 1963, to execute a program of service to those rejected by Selective Service for educational deficiencies, the ES initiated a program in cooperation with the Selective Service system and the Armed Forces Examining Stations.

Executive Order 10582, December 17, 1954, implementing the Buy American Act. This order prescribes uniform procedures for certain determination under the Buy American Act. The Manpower Administration, through its regular area labor reporting and classification system based on data submitted by State ES agencies, identified areas of substantial unemployment eligible for preference under this Executive Order.

Defense Manpower Policy No. 4, as amended (basic legislation: The Defense Production Act of 1950, 64 Stat. 815). Defense Manpower Policy No. 4 authorized Federal procurement agencies to extend a degree of preference in the awarding of certain Federal Government contracts to firms located in areas of persistent or substantial unemployment, as well as firms located in or near areas of concentrated unemployment and underemployment designated by the Secretary of Labor that agree to hire disadvantaged workers. Amendments to this policy since 1965 emphasize the employment of the disadvantaged through contract letting in areas of high unemployment and other localities. Preference certificates are filled out by local ES offices, are valid for 6 months, and can be renewed as long as a firm continues to meet the hiring requirements and the area continues to be one of high unemployment or otherwise eligible. Participating employers are required to report monthly to their local ES office total new hires. They are also required to list the number and source of any disadvantaged workers hired.

Executive Order 11075, January 15, 1963. This order, which provided for implementation of the 1962 Trade Expansion Act, was continued in effect under the Trade Policy Act of 1974. The order states in Section 8: "There are hereby delegated to the Secretary of Labor the authority to certify, conferred upon the President by the provisions of Section 302(c) of the Act, to the extent that such authority is in respect of groups of workers, and the authority conferred upon the President by the provisions of Section 302(e) of the Act."

Executive Order 11575, January 5, 1971. The order provides for the administration of the Disaster Relief Act of 1970, as amended. Authority to administer the Act is delegated to the Direector of the Office of Emergency Preparedness. Further delegation has been made by the Director of the Office of Emergency Preparedness to the Secretary of Labor and has operating implications for the ES.

Selected USES arrangements with various Federal agencies

U.S. Civil Service Commission. The Civil Service Commission and its successor agencies require that Federal agencies, before placing a specific referral order with a nonprofit ES, place a similar order with the State ES office serving the community in which the recruiting office is located.

Orders placed with the State ES must be no more restrictive in employment requirements than those placed with nonprofit professionally sponsored employment services.

> Agencies are urged to make full use of Employment Service facilities in recruiting outside registers. When it is necessary to make positive efforts to recruit (i.e., seek out applicants through publicity or personal contacts), an order must be placed with the Employment Service office in the area where the vacancy exists and with the Employment Service in any other areas where recruitment is undertaken.

Department of Defense Referral of Contractors' Terminated Employees to ES. Armed Services procurement regulation 8–203, Notice of Termination, 16 April, 1973, Rev. 6, sets forth, in part, the recommended actions to be taken by contractors to minimize the impact on their personnel if the termination of a contract, together with all other terminations, will result in a significant reduction in the contractor's work force.

Agency for International Development Manpower TAT for Foreign Governments. The DOL (including USES) provides technical assistance and training in manpower program developments to representatives of foreign governments under the terms of a March 1965 agreement.

Bureau of Indian Affairs Assistance to Indians. An understanding of July 1, 1955, with the Bureau of Indian Affairs (BIA) provides for assistance and cooperation in the relocation of Indians and for the extension of ES and facilities to reservation Indians.

Department of Health, Education and Welfare (amended in 1980 to become the Department of Education).

ES-School Cooperation. In 1964, the ES and the Office of Education (now Department of Education) agreed on a listing of suggestions for cooperative arrangements at the local level. The guidelines that have been continued suggest that services provided by local ES offices include the following:

1. employment counseling for dropouts and terminal students referred by the school;

2. job placement in a wide range of job openings suitable for students about to enter the labor force, and placement services for part-timc and summer employment;

3. analyses of labor market data and provision of information about types of jobs, trends of employment, and related local, State, and national occupational facts;

4. provision of General Aptitude Test Battery, the Interest Checklist, and assessment instruments developed by the ES to aid certified school counselors trained in the administration and interpretation of these instruments;

5. assignment to a qualified person of the responsibility for maintaining liaison with the schools;

6. in-service training for ES staff in those areas with

which both school and ES counselors are concerned (e.g., records maintained by the school, counseling techniques, and other effective methods); and

7. follow-up services to those counseled and/or placed.

Vocational Education Act. Agreements between the State Board of Vocational Education and the State Employment Security System generally include provisions:

- ES is to provide education agencies with available information dealing with job opportunities, job requirements, aptitude tests, and other assessment instruments.
- Education agencies are to provide ES with information on available vocational training courses.
- ES will refer certain applicants to vocational education programs.
- Education agencies refer school dropouts and graduates to ES for counseling and placement services.

Labor certification, immigration. ES has an agreement with the Department of Education on information about comparability of foreign schools, colleges, and universities to similar institutions in the U.S.

Federal Bureau of Prisons, Department of Army Correction Center, Navy Department Corrective Services and the Probation Division of the Administrative Offices of U.S. Courts—services for released prisoners and parolees. The ES makes available the use of the placement, employment counseling, and testing services of local employment offices to assist in the placement or job adjustment of inmates who are currently being released from Federal correctional institutions.

Railroad Retirement Board—services to railroad workers. A cooperative arrangement provides that ES will

- cooperate with the Railroad Retirement Board in filling orders from employers covered by the Railroad Unemployment Insurance Act;
- use the facilities of the Railroad Retirement Board in filling orders from employers not covered by the Railroad Unemployment Insurance Act;
- use railroad applicants to fill railroad orders whenever possible;
- exchange information with the Railroad Retirement Board relative to Railroad Retirement Board claimants directed to the ES; and
- facilitate the placement of former railroad workers.

Office of Federal Employees' Compensation—Disabled Federal Employees (TESPL 2785). The ES and the State employment security agencies cooperate with the DOL's Office of Federal Employees' Compensation to accomplish the vocational rehabilitation and employment of handicapped persons who are disabled while working as civilian employees of the Federal Government.

Veterans Administration—services for veterans. Under the terms of the joint agreement with the Veterans Administration dated June 1, 1967, the ES performs a number of specific actions including referral and exchange of information.

President's Committee on Employment of the Handicapped—promotion of employment for handicapped. The ES, in cooperation with the President's Committee, promotes an annual "National Employ the Handicapped Week."

Occupational Safety and Health Administration Housing for Agricultural Workers, Federal Register, March 4, 1980 (also 29 CFR 1910–142 and 20 CFR 654). On March 4, 1980, new standards were issued by the DOL to replace the existing (20 CFR 620) procedures for inspection of housing of agricultural workers (including migrant farm workers). For housing built or occupied before that date, the former housing inspection standards apply. New housing is covered by the revised standards and implemented as appropriate by the ES and by the OSHA.

Department of State and Department of Justice, Immigration and Naturalization Service (INS)—Labor Certification, Immigration. When certain immigrant workers seek to enter the United States for employment, the Secretary of Labor must determine and certify to the Department of State and the INS (1) that there are not sufficient U.S. workers who are able, willing, qualified, and available at the time of application and at the place where the work will be performed and (2) that the employment of such aliens will not adversely affect the wages and working conditions of workers in the United States similarly employed. Certification is carried out by the ES. There is a trilateral agreement among the departments of State, Justice, and Labor relating to the coordination of procedures and standards in the immigration of alien workers into the United States under DOL certification.

Department of Justice, INS—Labor Certification, Immigration. By administrative regulation, aliens immigrating for certain types of temporary employment must have a labor certification. ES for the Secretary of Labor certifies these workers.

Food and Nutrition Service, Department of Agriculture Food Stamp Program. An agreement dated September 26, 1973, and revised in 1980, provided that ES offices accept registrations for employment by Food Stamp Program participants required to register for employ-

ment by the Food Stamp Act. These applicants are given service in a manner consistent with local staffing and facilities and are furnished as necessary the full range of employment services available at the office.

ES offices coordinate registrations for work or training by members of AFDC households who are required to register by amendments to the Social Security Act, and who are participating in the Food Stamp Program.

The ES furnishes information statements to local welfare offices showing details of acceptance of employment or failure or refusal by registrants to comply with the provisions of the Food Stamp Act. Quarterly reports are submitted to the Department of Agriculture. Regulations published in the *Federal Register* on August 8, 1980, implement the 1977 Food Stamp Act as amended, and provide for improved administrative procedures respecting the entire work-registration system, including the requirement that work registrants actively seek employment. Responsibilities of the State Agency (Department of Agriculture) and the State Employment Security Agency are delineated, and compliance, exemptions, and penalty provisions are clarified.

In accordance with the regulations, an Interagency Agreement (effective October 1, 1980) between the Department of Labor and the Department of Agriculture determines the precise division of functions and funding levels based on projections of workload levels and the types of services to be provided.

State ES-level cooperative arrangements

Many State ES agencies have agreements with other State or local agencies to provide certain services or to exchange information. Agreements of this type would include State ES/welfare agency agreements necessitated by State welfare reform laws or outstationing of staff in UI offices or community action agencies.

State agencies are also frequently called on to gather specialized information to assist in fulfilling research contracts, evaluations and special projects for different components of the DOL and for other agencies.

Vocational rehabilitation agencies.

Services for the handicapped. Each State employment security agency has an agreement with the State vocational rehabilitation agency to provide for the maximum use of the services of each agency to ensure maximum benefits and services to handicapped persons.

State financial and nonfinancial agreements. ES training and OJT came from the former MDTA agreements and have been carried over. Many new CETA agreements developed at the local and county levels between the ES and CETA prime sponsors.

Apprenticeship agencies. Many State ES agencies have established liaison with field representatives of the Bureau Apprenticeship and Training and other apprenticeship agencies and with local joint apprenticeship committees.

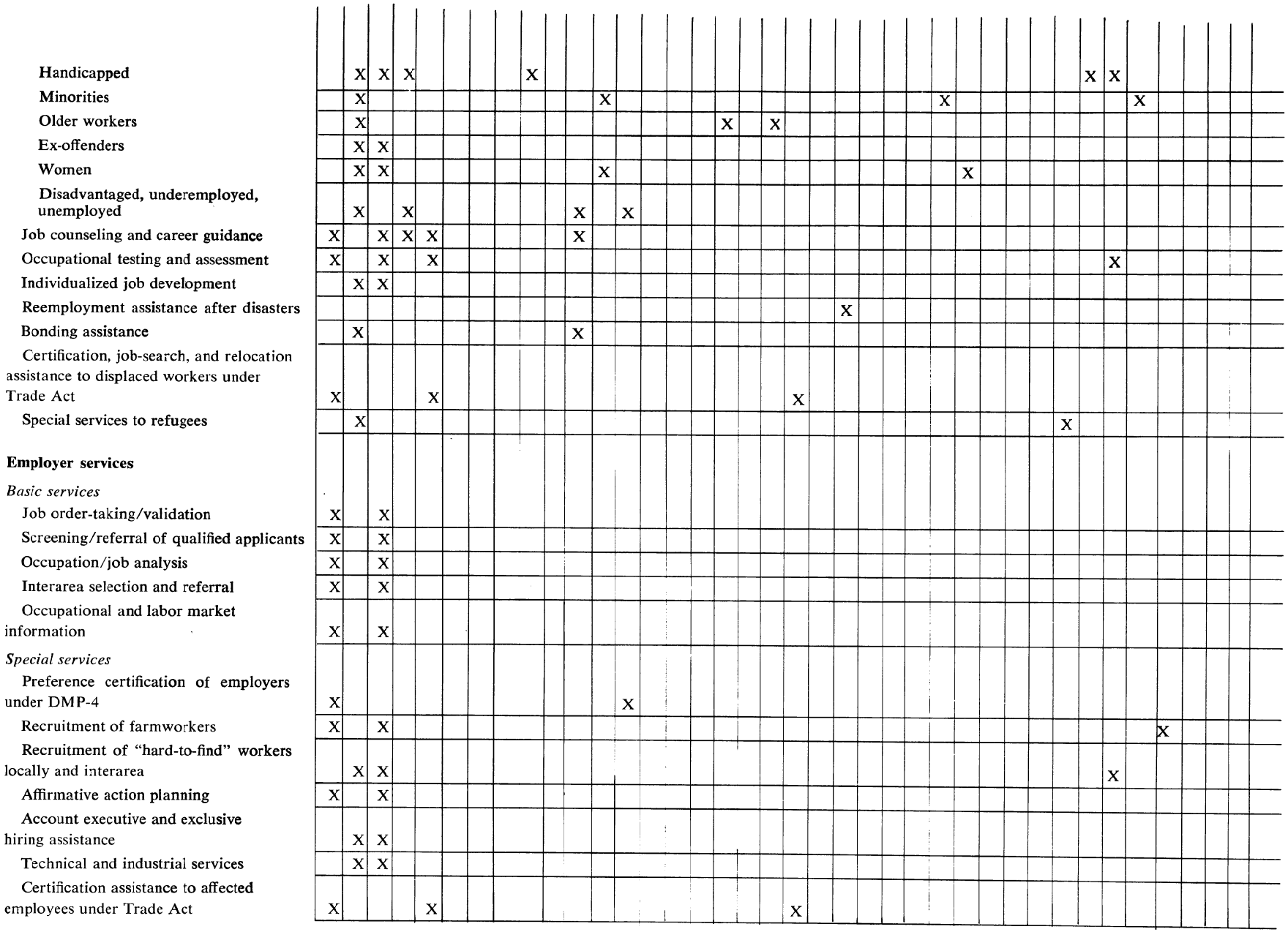
Regional offices of the OSHA, and the Employment Standards Administration of DOL—agricultural workers. Related to the implementation of OSHA standards noted above, regional ETA offices have entered into agreements with regional OSHA offices to exchange information and handle complaints on housing, working conditions, and wages for agricultural workers.

Local offices of the Bureau of Indian Affairs—services for Indians. State ES agencies have worked out agreements at the operating level in many States to implement the national-level BIA-DOL agreement for cooperative relationships.

State health departments—housing for agricultural workers. A number of State ES agencies have agreements with State health departments to inspect seasonal housing for agricultural workers recruited through the interstate clearance system. The agreements between the State or local health department and the ES describe the working arrangements necessary to carry out the provisions of 20 CFR 620, Housing for Agricultural Workers as amended by 20 CFR 654 and 29 CFR 1910.

Job service mandates

Job service Functions and responsibilities	Service requirement		Authorizing legislation															Executive/secretarial orders										Interagency agreements										Judicial order
	Mandatory	Optional	Wagner-Peyser Act of 1933	Social Security Act (II, III, IV, IX)	Trade Act (1974)/Trade Expansion Act (1962)	Vietnam Era Veterans Readjustment Assistance Act	Consolidated Farm and Rural Development Act (1972)	Immigration and Nationality Act	Rehabilitation Act (1973)	Food Stamp Act	Comprehensive Employment and Training Act (1973)	Civil Rights Act (1964)	Defense Production Act (1950)	Vocational Education Act (1963)	Buy American Act	Fair Labor Standards Act	Age Discrimination in Employment Act (1967)	EO 11701	EO 11141	EO 11075	EO 11190	EO 11749	EO 10582	EO 10650	EO 11490	SO 4-73	SO 16-66	Immigration and Naturalization Service	Veterans Administration	Bureau of Apprenticeship and Training	Department of Defense	Social and Rehabilitative Services	U.S. Civil Service Commission	Bureau of Indian Affairs	DOL Employment Standards Administration	Department of Agriculture	State Welfare Agencies	DOL Office of Federal Contracts Compliance	Contract Order No. 2010-72, NAACP Western Region vs. Brennan et al.
Applicant services																																					
Basic services																																					
Application-taking, interviewing, vocational guidance	X		X																																		
Occupational and labor market information	X		X																																		
Job search assistance	X		X																																		
Selection and referral to job opening	X		X																																		
Referral and placement follow-up	X		X																																		
Referral to training and other supportive services	X		X		X						X																			X							
Supportive or intensive services																																					
Preferential services to veterans, especially disabled veterans	X		X			X			X		X							X											X									
Specialized outreach services for: MSFW	X		X																																			X
Youth		X	X																																		


Handicapped
Minorities
Older workers
Ex-offenders
Women
Disadvantaged, underemployed, unemployed
Job counseling and career guidance
Occupational testing and assessment
Individualized job development
Reemployment assistance after disasters
Bonding assistance
Certification, job-search, and relocation assistance to displaced workers under Trade Act
Special services to refugees
Employer services
Basic services
Job order-taking/validation
Screening/referral of qualified applicants
Occupation/job analysis
Interarea selection and referral
Occupational and labor market information
Special services
Preference certification of employers under DMP-4
Recruitment of farmworkers
Recruitment of "hard-to-find" workers locally and interarea
Affirmative action planning
Account executive and exclusive hiring assistance
Technical and industrial services
Certification assistance to affected employees under Trade Act

Appendix B: Employment Service Operations (Continued)

Job service Functions and responsibilities	Job service mandates: Service requirement — Mandatory	Service requirement — Optional	Authorizing legislation: Wagner-Peyser Act of 1933	Social Security Act (II, III, IV, IX)	Trade Act (1974)/Trade Expansion Act (1962)	Vietnam Era Veterans Readjustment Assistance Act	Consolidated Farm and Rural Development Act (1972)	Immigration and Nationality Act	Rehabilitation Act (1973)	Food Stamp Act	Comprehensive Employment and Training Act (1973)	Civil Rights Act (1964)	Defense Production Act (1950)	Vocational Education Act (1963)	Buy American Act	Fair Labor Standards Act	Age Discrimination in Employment Act (1967)	Executive/secretarial orders: EO 11701	EO 11141	EO 11075	EO 11190	EO 11749	EO 10582	EO 10650	EO 11490	SO 4-73	SO 16-66	Interagency agreements: Immigration and Naturalization Service	Veterans Administration	Bureau of Apprenticeship and Training	Department of Defense	Social and Rehabilitative Services	U.S. Civil Service Commission	Bureau of Indian Affairs	DOL Employment Standards Administration	Department of Agriculture	State Welfare Agencies	DOL Office of Federal Contracts Compliance	Judicial order: Contract Order No. 2010-72, NAACP Western Region vs. Brennan et al.
Enforcement/compliance activities																																						
Assistance in mandatory job listing program	X																																			X	
Administration of "work tests" for:																																					
UI	X			X																																	
WIN	X			X																																X	
Food stamps	X									X																									X		
Other benefit claimants		X																																	X		
Administration of MSFW-related activities including:																																					
Inspection/certification of housing for MSFW	X		X																																		
Enforcement of regulations on transportation/recruiting of MSFW	X																																	X			
Conduct of prevailing wage surveys	X		X																																		
Coordinate interstate clearance system	X		X																																		
Certification of immigrant workers	X							X																			X										

Verification of learner certification activities	X															X																			X				
Investigation of complaints regarding working conditions, discrimination, wages, hours, transportation	X		X																																				X
Rural loan certification (FHA)	X						X																													X			
Community and employment services																																							
Participation in CETA planning		X								X																													
Operation of apprenticeship information centers		X																												X									
Collection of labor market information for:	X		X											X	X								X																
Vocational, education, counseling																																							
State/local manpower planning																																							
Affirmative action planning																																							
Mass layoff situations																																							
Worker recruitment during national emergency	X																				X			X	X														
Participation in test development activities	X		X																																				
Conduct of occupational analyses activities		X	X																																				

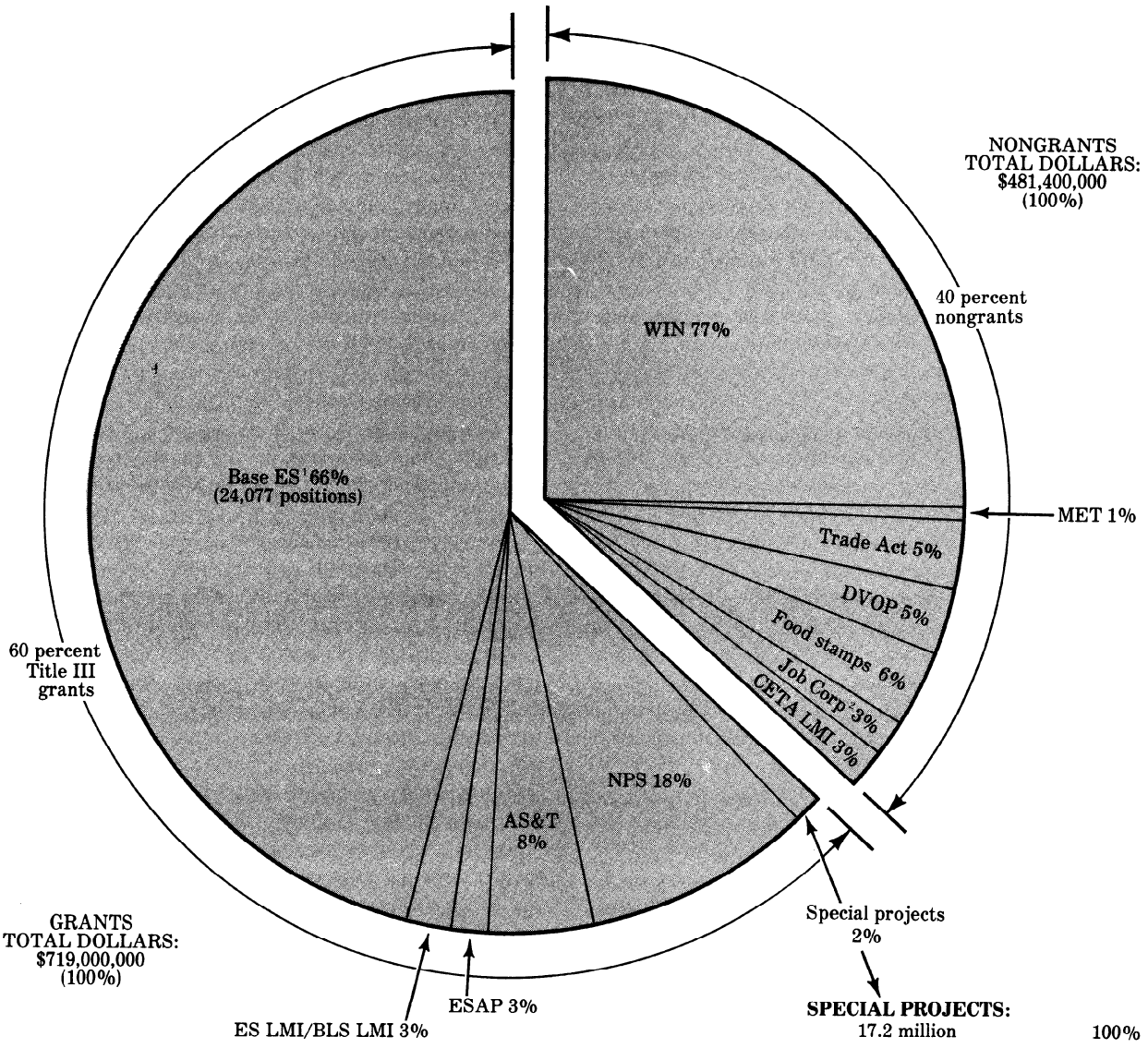
Appendix C: Comparison of Work Tests Administered by the Department of Labor

	Work Incentive Program	Food stamps	Unemployment insurance	FSB
To whom does the test generally apply?	Able-bodied AFDC recipients between the ages of 16 and 65.	Able-bodied food stamp recipients between the ages of 18 and 65.	Unemployed workers with prior wages in covered employment. Must have worked for stipulated time in base period or earned specified amount. Must be available for work.	All FSB recipients.
Who is exempt from the test?	Mothers or other relatives caring for children under 6 or medically incapacitated household members; full-time students (youths).	Mothers or other relatives caring for dependent children under 18 or incapacitated adults; students in accredited schools or training programs.	No recipients exempt.	No recipients exempt.
When may the test be applied?	When registrants are certified as having supportive services needed to work or train.	On application, in sense that must register with Employment Service. (Welfare agency sends registration to Employment Service.)	On application.	On eligibility.
What proportion of nonexempt recipients are contacted?	All registrants.	Less than 25 pct of 2.6 million registrants.	All contacted at time of application but number of subsequent contacts varies over time and among States.	All.
What action may be required of applicants or recipients?	Registration for employment or training. When certified, acceptance of suitable job or participation in Work Incentive Program project determined appropriate by Work Incentive Program staff.	Registration with Employment Service. Response to Employment Service call-in. Acceptance of suitable job.	Normally active job search. Periodic interviews, number varying considerably from State-to-State and over time. Laid-off workers with specified return date usually not interviewed. Acceptance of suitable job.	Interview with Employment Service to determine if training is needed. Participation in available appropriate training.
How is suitable job defined?	Wages must meet or exceed applicable Federal or State minimum wage laws. When laws not applicable, wage must not be substantially less than wage normally paid for similar work in labor market but in no event less than ¾ of FLSA minimum wage for situations when Work Incentive Program income disregard available. When income disregard does not apply, wage less allowable deductions must at least equal family's AFDC benefit.	Same as unemployment insurance for first 30 d, thereafter any minimum wage job that meets minimum health and safety standards.	Normally, job in recipient's usual occupation paying prevailing rate; this standard may be reduced with length of unemployment and unavailability of usual work.	Same as unemployment insurance.
What are the sanctions if fail test?	Loss of benefits of individual refusing to participate (not to entire family).	Entire household loses benefits.	Loss of benefits.	Loss of benefits.

	Work Incentive Program	Food stamps	Unemployment insurance	FSB
What proportion are sanctioned?	About 5 pct of Work Incentive Program participants were sanctioned in fiscal year 1975. (1.5 pct of registrants.)	8 pct of registrants were reported as having failed to comply with the work requirement in fiscal year 1975. Of these, only a fraction lost benefits.	¾ of 1 pct of the total weeks claimed in calendar year 1974 were denied.	Not available.
Employment Service responsibilities.	Provides regular counseling and referral through Work Incentive Program unit. Provides training through Work Incentive Program unit.	Provides job placement and referral services. Provides other normal Employment Service services necessary. Provides results of job referral and placement activities to welfare agency.	Provides job placement and referral services. Provides other normal Employment Service services necessary. Provides results of job referral and placement activities to unemployment insurance.	Examine claimants' prospect for obtaining employment. Refer claimants in need of training to CETA.
Unemployment insurance responsibilities.	Serves as agent in issuing payments.	None.	Determines eligibility for benefits. Determines who must register with Employment Service. Issues payments. Enforces the sanction.	Determines eligibility for benefits. Issues payments. Enforces sanctions.
CETA responsibilities.	Provides training where Work Incentive Program/CETA linkage have been established.	No formalized relationship.	None.	Provides training opportunities to FSB recipients.
Welfare responsibilities.	Determines AFDC eligibility. Provides supportive services.	Determines who is nonexempt from the registration requirement. Registers applicants for employment. Determines continued eligibility or termination. Enforces the sanction.	None.	None.

SOURCE: U.S. Department of Labor, 1975.

Appendix D: Job Service Pool, FY 1979 Planned Expenditures



SPECIAL PROJECTS:
17.2 million — 100%

1.	Immigration certification	25%
2.	Test development	20%
3.	OA field centers	15%
4.	New York center	11%
5.	Apprenticeship information center	9%
6.	JSIP	5%
7.	Monitor advocate	5%
8.	ESSI	5%
9.	Rural loan certification	2%
10.	Job search information	2%

[1] This includes approximately 20 million dollars earmarked as ES discretionary. Discretionary funds set aside during budget formulation are ultimately spread across the Title III grants portion of the "pie" during budget implementation. Also included in the base ES is approximately 47 million in salary and law reserve funds.

[2] Represents funding for Job Corps recruitment and placement.

Source: U.S. DOL/ETA Office of Administration and Management.

The Canadian Program

Paul Fisher

Canada has developed an unemployment insurance system geared to her own needs and institutions. It shares with other such programs the basic purpose of maintaining the income of the short-term unemployed; but, although it was first established in 1940, it follows neither the British nor the United States pattern. Unlike other Canadian social security schemes, unemployment insurance (UI) is a national, federally administered system using a uniform, nongraduated, wage-related benefit formula that adjusts the benefit duration to regional differences in unemployment rates.

Canada has not shied away from innovations and frequent adjustments of its program in response to changing economic situations and concomitant changes in labor market policies. The original Unemployment Insurance Act of 1940 was amended in 1943, 1945, 1946, and every year from 1948 to 1950 and from 1953 to 1959. It was subsequently replaced by the Unemployment Insurance Act of 1971, which forms the basis of present legislation. However, this did not end the adjustment process. Amendments were made every second year thereafter and in 1978. One of the most important changes occurred in 1977, when the Employment and Immigration Reorganization Act reunited the insurance and the employment assistance (manpower) functions under two governing bodies: the Canada Employment and Immigration Commission for policymaking, and the Department of Employment and Immigration, for implementation.

This report does not discuss all the provisions of the present law. Instead, it centers on three major topics: benefits, financing, and relation to the manpower program (including unemployment-insurance financing of job-creation projects and worksharing experiments). In closing, a brief section reports some proposed changes in the Canadian unemployment insurance law as gleaned from the discussion of the U.S. National Commission on Unemployment Compensation with Canadian officials in Ottawa on October 25–26, 1979.

Benefit Provisions

The Canadian unemployment insurance system includes two types of benefits, regular and special. Regular benefits maintain the income of qualifying unemployed workers; special benefits maintain that of the ill, the injured, and the pregnant insured. In addition to cash-sickness and maternity benefits, the special category contains also a prepension lump sum benefit for the worker at age 65.

Focusing first on the regular benefits, this section of the paper will discuss four aspects of them: (1) extent of coverage in the program, (2) eligibility provisions, (3) size of the benefit, and (4) benefit initiation and duration. The focus will then turn to characteristics of special benefits.

Coverage

The compulsory unemployment insurance program covers all employees in Canada who are under a contract of service or apprenticeship. Not covered are most of the self-employed, with the exception of some marginal cases, notably farmers and fishermen, for which special provisions, not discussed here, apply. The Canadian Armed Forces and the police are covered. The law exempts persons 65 and over, certain casual workers, spouses and dependents of claimants, and those employed in job-creation projects. Further exempt are employees of foreign governments and of international organizations. Employees whose earnings are calculated on a time-worked or fixed-salary basis and who are remunerated for less than 20 hours per week are also exempt. Those whose earnings are calculated on any other basis—for instance, piecework—are not covered when their weekly income is less than 30 percent of the maximum weekly insurable earnings. To be covered, agricultural workers must have earned at least $50 or have worked for at least 25 working days a year.

According to the U.S.-Canadian Unemployment Insurance Agreement, persons who pay premiums to United States UI or to the Railroad Unemployment In-

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surance Fund are also excused from compulsory Canadian coverage.

Over 90 percent of all Canadian workers under a contract of service are covered; their numbers reached an estimated 11 million in 1979. About 600,000 employers currently collect and pay contributions.

Eligibility

To become eligible for regular unemployment benefits, workers must have experienced an involuntary interruption of earnings from employment for 7 consecutive days. Lack of earnings resulting from illness, injury, quarantine, pregnancy, or old age (65 or older) are compensated for by special benefits.

Workers may lose eligibility through disentitlement, which suspends the benefit until the cause is removed, or through disqualification, which reduces the number of benefit weeks. An interruption of earnings due to a labor dispute results in disentitlement to benefits. Interruption due to voluntary quits (without just cause) or discharge for misconduct leads to disqualification. Disentitlement suspends benefits until the labor dispute is settled or until employees find new bona fide jobs in their usual occupation or are regularly employed in others. Disqualification leads to a loss of benefits for up to 6 weeks, the precise penalty to be determined by the claim administration on a case-by-case basis.

The labor dispute disentitlement is not applied if claimants prove that they were not participating in, financing, or directly interested in the labor dispute that caused the stoppage of work and if they do not belong to a grade or class of workers that immediately before the commencement of the stoppage included members who were employed at the location and are participating in, financing, or directly interested in the dispute. The penalty for voluntary quits does not apply, and workers' refusal to accept otherwise suitable employment does not disqualify them from receiving benefits, if by remaining in or accepting the employment they would lose the right (1) to become members of, (2) to continue to be members of and to observe the lawful rules of, or (3) to refrain from becoming members of any association, organization, or union of workers. Nor can discharge for misconduct be construed to include loss of employment because of membership in, or lawful activity connected with, any association, organization, or union of workers.

Properly unemployed workers qualify for regular benefits if they had a minimum of 10 to 14 weeks of employment during the 52 weeks preceding their claims or, if they had received unemployment benefits before in that period, since the start of their last claim. The exact number of qualifying employment weeks (10 to 14) depends on the rate of unemployment in the economic region in which the worker ordinarily lives, as shown in the following tabulation:

Regional rate of unemployment (percent)	Weeks of employment required
6.0 and less	14
6.1 to 7.0	13
7.1 to 8.0	12
8.1 to 9.0	11
more than 9.0	10

These regional unemployment rates are established by Statistics Canada, the official central Federal statistical office. The rate is the average of the seasonally adjusted monthly rates for the most recent 3-month period. An unemployment rate of 9 percent or more requires only 10 weeks of insurable employment; a rate of 6 percent or less requires 14 weeks. The qualifying period starts with the Sunday of the week in which the initial claim for benefit is filed. The period can be extended up to 104 weeks for any time during which claimants were ill, injured, under quarantine, pregnant, in jail, receiving temporary total workmen's compensation payments, or attending a training course that was approved by the Canada Employment and Immigration Commission and to which they were referred by the commission.

Persons who must have a maximum of 20 weeks of previous insurable employment are as follows: new entrants; claimants with fewer than 14 weeks of total insurable employment or drawn benefits; and reentrants, those with the prescribed weeks of employment during the 52 weeks *preceding* the qualifying 52 weeks.

All claimants must be able, ready, and willing to work and unable to obtain suitable daily employment. Claimants carry the burden of proof for meeting these requirements, unless they are sick, injured, under quarantine, disentitled because of age, in jail, not in Canada, or pregnant (8 weeks before and 6 weeks after delivery). Claimants lose benefits for each day they fail to prove their qualifications and for up to 6 weeks thereafter. They are disqualified from receiving benefits if they refused or failed to apply for a suitable opening or to accept a job offer; neglected an opportunity for suitable employment; or failed to carry out a written instruction by the commission to assist them in finding jobs, to attend an interview for the same purpose, or to attend a training course to which they were referred by the commission.

"Suitable employment" excludes strikebreaking, and unemployed workers are also allowed to refuse to accept (or maintain) a job in which workers are forced to refrain from joining and staying in a union or to join one. Workers are not forced to accept employment in their

usual occupations at lesser rates of pay or under less favorable conditions than those set by collective bargaining agreements, or, in the absence of such agreements, conditions observed by an employer generally considered good. If offered other employment not in their usual occupation, unemployed workers can refuse it if it offers lower pay or worse conditions than those they might reasonably expect in light of their previous job experience. However, after a lapse of a reasonable interval, claimants may have to accept employment in other than their usual occupations, even if it does not meet their expectations, if they are offered jobs at rates of earnings not lower, and under conditions not less favorable, than those established by collective bargaining, or, in its absence, offered by those recognized as good employers.

Claimants must register with the Canada Employment and Immigration Center, the integrated successor to the pre-1977 Canada Manpower Centers. These centers help unemployed workers find jobs. Counselors there may ask claimants to engage in active job searches and to report on the number of contacts made each day. They may also arrange for interviews and for courses of instruction and training. Unexcused disregard of these measures may lead to disqualification for benefits.

The benefit formula

The formula for determining the size of regular unemployment insurance benefits is 60 percent of the average weekly insurable earnings in the qualifying weeks. The insurable weekly earnings are subject to a ceiling. In 1979, the ceiling was $265, slightly below the average weekly wage for workers in manufacturing. The maximum unemployment benefit, hence, was $159. Approximately 20 percent of all claimants in that year received the maximum benefit.

The Unemployment Insurance Regulations offer elaborate and detailed definitions of earnings. They include, among the usual provisions, vacation pay, sick pay credit, and separation pay.

The ceiling on insurable weekly earnings is adjusted annually according to changes in the average industrial composite earnings index, published by Statistics Canada. It was expected to rise to $290 in 1980. Since the upper limit on both benefits and contributions is affected by the ceiling on earnings, these magnitudes are, in effect, also automatically adjusted to changes in the wage level. There is no need for setting minimums in a short-run social security system where benefits are expressed in percentages of recent earnings. The limit on coverage for workers who are paid neither on a time basis nor on a fixed salary is also expressed in percentages of the ceiling and hence is also subject to annual adjustment.

The first benefit follows a 2-week waiting period and is usually paid within 4 to 5 weeks. All following benefits are paid biweekly. Earnings during the 2-week waiting period are deducted from the first three weeks' benefit payments, the deduction not to exceed the benefits.

All earnings in the benefit period in excess of 25 percent of the gross weekly benefit rate are deducted from the benefit. Earnings include any money received from the last employer (such as vacation pay, wages in lieu of notice, and earnings from occasional or part-time work), net earnings from self-employment, training allowances (excluding living or traveling allowances), and, for farmers, 50 percent of sales and government subsidies.

Unemployment insurance benefits are subject to Federal income tax, and the tax is withheld before benefits are issued. However, employees can deduct their contributions to unemployment insurance from their taxes, and employer contributions are considered labor costs and therefore reduce taxable profits.

The present UI law does not provide for any supplements for dependents. The financial burden of dependent children on a family budget is ameliorated by Canada's family allowance program and the program of refundable child tax credits.

In addition to the initial regular benefits (the first phase of UI benefits) there are two extended benefits (two additional phases). They are the regionally extended benefits and the labor-force-extended benefits. Both are discussed in the following section.

Initiation and duration of benefits

The 2-week waiting period to which regular, maternity, and (as a rule) sickness benefits are subject begins with the last week of insurable employment. It does not apply to the lump-sum payment (severance benefit) for persons age 65 or to the benefits available under job-creation and worksharing pilot projects, and it can be waived in certain cases for the sickness benefit. The duration of benefit payments depends upon two factors: the length of previous employment in the base (qualifying) period and the regional unemployment rate. Total regular benefit duration may not exceed 50 weeks in a 52-week period.

The law distinguishes two classes of claimants: those with 10 to 19 weeks of employment in the qualifying period, *minor-attachment unemployed*, and those with 20 weeks or more of employment, *major-attachment unemployed*.

The first group, the minor-attachment claimants, are entitled to the initial benefit, which allows for 1 week of benefits for each week of preceding insurable employment up to a maximum of 25 weeks. If regional unemployment rates exceed 4 percent, minor-attachment claimants are also entitled to a regionally extended bene-

fit, which provides at most 32 weeks of additional benefits, according to the following scheme:

Regional unemployment rate (percent)	Maximum weeks of regionally extended benefits
4.1 to 4.5	2
4.6 to 5.0	4
5.1 to 5.5	6
5.6 to 6.0	8
6.1 to 6.5	10
6.6 to 7.0	12
7.1 to 7.5	14
7.6 to 8.0	16
8.1 to 8.5	18
8.6 to 9.0	20
9.1 to 9.5	22
9.6 to 10.0	24
10.1 to 10.5	26
10.6 to 11.0	28
11.1 to 11.5	30
Over 11.5	32

The principle underlying this scheme is to extend the benefit period an additional 2 weeks (the total not to exceed 50 weeks) for every one-half percentage point by which the regional unemployment rate exceeds 4 percent. The regional unemployment rates are measured for 48 regions in the 10 provinces. The regions do not coincide with labor-market areas. They do not cross provincial boundaries.

TABLE 1. Weeks of insurable employment required for renewed benefits by regional rate of unemployment and weeks of paid benefits

Weeks of benefits received in qualifying period	Required weeks of intervening insurable employment at various regional unemployment rates				
	6 percent and under	6 percent to 7 percent	7 percent to 8 percent	8 percent to 9 percent	9.1 percent to 11.5 percent
10 and under	14	13	12	11	10
11	14	13	12	11	11
12	14	13	12	12	12
13	14	13	13	13	13
14	14	14	14	14	14
15	15	15	15	15	15
16	16	16	16	16	16
17	17	17	17	17	16
18	18	18	18	17	16
19	19	19	18	17	16
20 and over	20	19	18	17	16

Before they can acquire regionally extended benefits, minor-attachment claimants must first exhaust the initial benefits to which they are entitled.

Qualifying claimants with 26 weeks or more of employment, the major-attachment unemployed, may receive three phases of benefits: 25 weeks of the initial benefit, up to 13 weeks of the labor-force-extended benefit, and the regionally extended benefit, the total not to exceed 50 weeks. The labor-force-extended benefit entitles workers to claim, after exhaustion of the initial benefit of 25 weeks, additional benefits at the rate of 1 week of benefits for every 2 weeks of previous employment, with a maximum of 13 weeks for workers with 50 weeks or more of previous insurable employment. The duration is determined as follows:

Weeks of insurable employment	Maximum weeks of labor-force-extended benefits
27 or 28	1
29 or 30	2
31 or 32	3
33 or 34	4
35 or 36	5
37 or 38	6
39 or 40	7
41 or 42	8
43 or 44	9
45 or 46	10
47 or 48	11
49 or 50	12
More than 50	13

The major-attachment insured have to exhaust their labor-force-extended benefits before they can receive regionally extended benefits.

Repeaters—those who received benefits in the qualifying period—are entitled to renewed benefits but need the number of weeks of insurable employment shown in Table 1. The table relates the number of weeks of benefits drawn during the qualifying period to the rate of unemployment in the respective economic region.

The average duration of the regular UI benefit is between 18 and 22 weeks.

The importance that these three phases of regular benefits—the initial, the regionally extended, and the labor-force-extended—assign to regional unemployment rates makes the benefit more responsive to local unemployment conditions, which vary considerably throughout Canada. In the past, unemployment rates have been much higher on the coasts and in Quebec than in the more stable labor markets of Ontario and the Prairie Provinces. Some Canadian observers see regional unemployment rate application as a form of geographic horizontal redistribution of income.

Special benefits

The three special benefits included in the Unemployment Insurance Act of 1971 (as amended) fulfill different social functions. The benefits paid to ill workers and pregnant workers aim to maintain for up to 15 weeks the income of those whose weekly earnings have fallen below 60 percent of their normal insurable pay for employment and who were employed at least 20 weeks in the base period. The benefit formula and ceiling provision applied to regular unemployment benefits apply to these two special benefits too. Yet, because these two contingencies are considered cases of interruption of earnings due to inability to work, claimants are not entitled to the same benefit duration as is available to the ready, willing, and able unemployed.

The sickness and maternity benefits are subject to the deductions of earnings (workmen's compensation or group sickness [wage-loss] plans, paid sick or maternity leave) received in the benefit period. Such an approach is often found when unemployment insurance is well rooted in the society while health insurance (to which cash-sickness insurance is often joined) is slow to develop or cumbersome in a social security system that divides the jurisdiction over health matters between the national government and that of members of the Federal state. Both programs require medical certificates and a waiting period of 2 weeks. Earnings during the 2-week waiting period are deducted from the first three weeks' benefit payments (exempt are employer or wage-loss indemnity-plan-financed sick pay benefits arising from Commission-approved supplementary unemployment benefit schemes and retirement pay). Maternity benefits are available between the 8th week before and the 17th week after childbirth. The waiting period can be served in the 9th and 10th weeks before delivery.

The one-time special payment of 3 weeks of benefits is available to claimants with at least 20 weeks of insurable employment in the qualifying period at age 65. It is payable, without a waiting period, in the last week of the month in which claimants reach this age. This special severance payment is paid regardless of retirement from the labor force. It is designed to tide claimants over until the first payment of their old-age benefit (under Canada's universal old-age pension) and of the wage-related pension under the Canada (or Quebec) pension plan, which usually takes 1 month or more to begin. The one-time benefit returns to workers some of the value of the unemployment insurance premiums they paid into the system—at least in the last 20 weeks.

These three special benefits do not appear to be too burdensome for the Canadian UI program. In 1979 only 7.2 percent of the claims presented to the system were for the cash-sickness benefit. Requests for maternity benefits accounted for 7.8 percent, and only 1.6 were for old-age (retirement) severance benefits.

Financing the System

The Canadian UI program is financed by three sources: workers, their employers, and the Federal Government. This section of the report discusses first private-sector contributions, then government contributions and the magnitudes involved, and finally the attempts to reduce the cost of UI and to improve the performance of the program in light of public criticisms.

Worker and employer contributions

In 1979 the employee contribution was set at 1.35 percent of weekly insurable earnings. The law established the employer share at 1.4 times the employee premium, or 1.89 percent, in 1979. Hence the total private-sector contribution in that year was 3.24 percent of the weekly earnings up to a ceiling of $265. Employers remit both their and their employees' premiums to the Department of National Revenue/Taxation.

The contributions of employees and employers (including governments acting in this capacity) finance the regular unemployment benefits in their initial and labor-force-extended phases up to an annually established national rate of unemployment—the "threshold rate." This rate is annually adjusted on the basis of a moving average of national unemployment rates over the eight-year period ending on June 30 of the preceding year. Originally established at 4 percent, the threshold rate in 1979 reached 6.2 percent. Additional costs of these two phases, which arise because the actual national unemployment rate exceeds the threshold rate, are covered by the Federal Government, which also finances the entire cost of the third phase, regionally extended benefits.

Private-sector contributions finance all three special benefits (sickness, maternity, and severance pay), most of the first two benefit phases, and the administrative cost of the entire UI program. They also cover the first two phases of UI benefits used for training and instruction courses, in job-creation programs, and in worksharing. The cost for any extended benefits beyond entitlement in the initial and labor-force-extended phases and all costs of the regionally extended portion of the benefits, including those used for training, job creation, and worksharing, are carried by the Federal Government. The government also carries the full cost of the fishermen's unemployment insurance scheme.

In 1979 this self-financing private-sector system showed a surplus of approximately $600 million.

The employee and employer rates of contribution are annually established so that the income from these two sources meets the cost of the program falling upon the private sector as well as any existing deficits from previous years. Surpluses are deducted. Such computations are based upon estimates of the relevant part of the nation's wage bill—that is, employment and wages below ceiling—which form the basis of a projection of the

private-sector benefit and expense load. This projection, in turn, is based upon a moving average of such cost in a 3-year period, ending with the second year preceding the year for which the costs are to be established. To avoid drastic year-to-year fluctuations in the contribution rates, excessive unemployment rates—those higher than the threshold rate of national unemployment—affecting the cost that occurred in the 3-year period are disregarded.

The Canadian system does not reduce employer premiums on the basis of experience. Although allowance for experience appeared in earlier versions of the law, it was discarded because the provisions exempted cyclical and seasonal fluctuations from the calculation of experience. This exemption rendered the remaining variables in unemployment insignificant and failed to justify the cost of administering this provision. However, the employer premium can be reduced if the employer entered and fully or partially financed a Commission-approved group wage-loss plan for illness. The unemployment insurance regulations contain detailed conditions that the employer's plan must meet: generally, it must provide at least the same degree of protection against loss of income as that offered by the special UI benefits for sickness and maternity. The rationale for the reduction in the employer's contribution rests in the saving to the UI program in such cases. To obtain these reductions, employers must register their plans with the commission.

Approximately 25,000 employers benefit from this provision. Some of them share the cost reduction with their workers. Supplementary unemployment benefit schemes, although encouraged by government regulations, do not result in a reduced contribution.

As mentioned earlier, UI premiums are tax deductible; benefits are taxable.

Government contributions

The contributions of the Federal Government as an employer are identical to those of a private employer and result in a charge to the Consolidated Revenue Fund for credit to the unemployment insurance account.

In its role as a major underwriter of the cost of the UI system, the Federal Government, the banker of last resort, covers (as noted earlier) the cost of the regionally extended portion of all unemployment benefits and also the cost of the initial and labor-force-extended benefits when they exceed those targeted on the basis of the threshold unemployment rate. The government also covers the cost of additional benefits (extended in time beyond those to which the claimant was entitled) for training, job creation, and worksharing. In effect, the Federal Government's contribution is high in periods of high national unemployment, whereas the contributions of the private sector are more or less protected from the effects of violent swings in the national unemployment rate. This immunity provides some stability for business planning of labor cost.

In 1975 the government's contribution of $1,707 million (a 51.2 percent share) exceeded that of the private sector ($1,629 million) in spite of the planned design, whereby the private sector's share was expected to carry 60 percent of the total cost. In 1978 the government share came nearer to the goal: it had been reduced to 47.5 percent. The employers' share was 30.6 percent, and the employees' share was 21.9 percent. Table 2 shows the shift in the three shares since 1941. The estimated reduction in the government share for 1979 and 1980 is based on the economic measures enacted in 1977 and 1978 (discussed later in this report).

Magnitudes of cost

In 1978 total UI program costs equaled $4.5 billion (benefits were paid to 2.81 million claimants), with administrative costs accounting for approximately 6 percent. Total UI program expenditures for 1979 are estimated to have fallen to $4.1 billion as a result of the intervening changes in program design.

Program costs in Canada on a per capita basis are among the highest of all industrialized countries. One reason is the highly seasonal character of large portions of Canada's employment, which is due to the severe climatic conditions. Another is the high percentage of women participating in the labor force (48 percent in 1979): according to studies made by commission authorities in preparation for the 1977 amendments, many of these women leave the full-time work force to become full-time housewives while drawing unemployment compensation.

In 1975, the total cost of the UI program equaled 2.1 percent of gross national product and 9.4 percent of total government expenditures. In 1979, facing an un-

TABLE 2. Percentages of the Canadian UI Program cost attributed to the three contributors and unemployment rates, 1941–80

Period or year	Contributor			Unemployment rate for period or year (percent)
	Employee (percent)	Employer (percent)	Federal Government (percent)	
1941–71	40	40	20	—
1972	23.3	32.5	44.2	6.2
1973	24.0	33.5	42.5	5.5
1974	25.9	36.2	37.9	5.3
1975	20.3	28.5	51.2	6.9
1976	25.7	35.9	38.4	7.1
1977	23.6	33.1	48.3	8.1
1978	21.9	30.6	47.5	8.4
1979 [1]	28.9	39.3	32.6	7.1
1980 [1]	30.0	42.0	28.0	—

[1] Estimated.

employment rate of 7.1 percent, UI was expected to reach 20 percent of total government expenditures.

Cost reduction and reform

From the mid-seventies on, Canada, like many other industrialized Western countries, faced a number of economic problems; and its unemployment insurance program, again like similar systems elsewhere, was confronted by a number of complaints.

During that period Canada experienced a relatively high rate of unemployment, which substantially increased the government contribution. This increase in joblessness coincided with two other developments: an elevated rate of inflation and increasing taxpayer resistance. Both factors contributed to a vigorous policymaking effort to reduce government expenditures. Budgetary constraints on expenditures strongly suggested a review of all government programs, including social security. Government expenditures on unemployment insurance were mounting because of high unemployment and higher benefit levels resulting from inflation-fueled boosts in monetary wages, while unemployment simultaneously reduced the share of contributions by employers and employees. The long-standing Canadian tradition of constant liberalization of its UI program was replaced by program restriction and shifting of the financial burden of some program elements from the Federal budget to that of other contributors to the unemployment insurance system.

Latent resistance. There has always been some resistance to social security in general and to unemployment insurance in particular on this side of the Atlantic. In the mid-seventies proponents of old and new arguments against it became extremely vocal and were reinforced by the resistance of the general taxpayer. Unemployment insurance was said to coddle the marginal worker, to destroy the incentive to work, to induce unemployment, to pay taxpayers' money to people who did not need it, and so on.

Contradictory proposals were made: on the one hand there were proposals to return unemployment insurance to a stricter insurance concept—to free it from any welfare or income-redistribution role; on the other hand there were proposals suggesting turning UI more in the direction of an assistance program for the needy. In the assistance context, proponents wanted to relate the benefits not to the (previous) income of the worker but to that of the family. This idea was based on a finding that 75 percent of the families had two wage earners or more.

The joint effect of budgetary constraint, reduced inflow of contributions, and the need to improve the public image, combined with the desire to make long-planned improvements in the system, found its expression in a number of changes between 1975 and 1978:

- *The benefit rate.* The benefit rate, which had been set in the 1971 law at two-thirds of weekly insured earnings, was reduced to 60 percent after January 1, 1979.
- *Dependent supplement.* Originally certain beneficiaries with dependents were accorded a higher-than-normal ratio of benefits to covered earnings (75 percent). This preferential treatment was terminated January 1, 1976, and the support of dependent children was left to the noncontributory Canadian Family Allowance Program. The financial burden of dependents on the budget of the unemployed was further reduced through the Refundable Child Tax Credit Plan, which was enacted in 1979.
- *Older workers.* Beginning January 1, 1976, the age limit for coverage was lowered from 70 to 65. At age 65 the insured cease to make contributions to the unemployment insurance system and receive the UI severance payment, regardless of whether they continue to work or retire. This was made possible through a reduction of the normal retirement age to 65 under the Canadian old-age pension law and the Canada and Quebec pension plans.
- *Minor labor-force attachment claimants.* Several types of workers create a problem for any unemployment insurance program, particularly if entry and reentry into the system are made easy: youngsters who engage in job hopping until they settle down in one occupation and one post; women who enter and leave the labor force before marriage and childbirth and return after the children have grown; part-time workers, some of them without dependents and many of them second earners in the family; and marginal workers with unstable attachment to the labor force, a high dropout rate, and intermittent work patterns. This was the case in the Canadian scheme, which before 1977 required only 8 weeks of previous employment in the base period. The unemployment benefit offered a viable alternative to work and operated in some cases as a disincentive to work, as it reduced the financial inducement to stay on the job or to return to the labor market. These marginal workers made up a far larger share of claimants than corresponded to their share of the labor force: for example, in 1977, youth under age 25 accounted for 28 percent of the labor force but 49 percent of the claims.

For part-timers working less than 35 hours per week, the respective figures in that year were 9.2 percent and 18 percent. These groups, in total, formed the bulk of the minor-attachment claimants, and their number was increasing. There was a suspicion that, because of the protection offered by the unemployment insurance system, these workers did not stay on the job beyond the 8 weeks and delayed their reentry into the labor market—a case of induced unemployment. The administration proposed to raise the minimum-previous-employment requirement from 8 to 12 weeks, leaving to public

assistance the task of meeting the needs of the 8-to-11-week group. In the end a variable minimum requirement of between 10 and 14 weeks, depending upon the regional unemployment rates (discussed earlier), was established.

- *Waiting period and benefit duration.* The 1971 increase in the waiting period from 1 to 2 weeks had already simultaneously produced another cost-reduction measure and reduced the disincentive effect. This increase also affected the maximum benefit period, which was reduced from 51 to 50 weeks within the time span of 52 weeks. Benefit duration for minor-attachment claimants in regions with low unemployment was also curtailed. The 1978 amendments, which increased the previous-employment requirement for repeaters and for new entrants and reentrants into the labor force (20 weeks) also had a cost-reducing effect. So did the introduction of the 20-week rule for the special benefits and, of course, the reduction of the benefit rate to 60 percent.
- *Relating benefits to need.* Responding to the criticism that unemployment insurance benefits reached many insured who did not need such payments, the law was changed to provide for the recovery of benefits from high-income claimants, similar to what the British would call a "claw-back" provision. When claimants' annual income exceeds one and one-half times the maximum yearly insurable earnings (in 1979, $52 \times \$265 \times 1.5 = \$20,670$), they have to repay 30 percent of the lesser of: the total benefits received in that year, or the portion of their income that exceeds one and one-half times the maximum yearly insurable earnings. This break with the "insurance" concept replaces, in part, a graduated contribution-and-benefit formula.
- *Jobs versus jobless pay.* There is a persistent and captivating proposition, strongly supported by the manpower community, that funds spent on unemployment insurance are wasteful expenditures, only feeding consumption, and that at least some of them would be better spent on creating new jobs, preferably in the private sector. In the mid- to the late seventies this doctrine gained many adherents, who observed with dismay the growing UI benefit load and the increasing number of repeaters (in 1975, repeaters accounted for nearly 50 percent of total claims).

The various reforms mentioned above led to a reduction in the cost of the system. These savings could then be used for job-development projects, which in turn would offer the unemployed a chance to maintain their skills, to acquire new ones, and to maintain work attitudes; in short, to find a productive use for their time while on claim. The funds could now be used to equip the unemployed with the necessary skills to find and hold jobs; to train them in more marketable skills; to provide youngsters with work experience in the private sector; and to experiment with a cost-effective alternative to full-scale unemployment, namely subsidized part-time work in the old job, called worksharing (all discussed later in this report).

Unemployment Insurance and Manpower Strategy

Unemployed workers have to register with a Canada Employment and Immigration Center as a condition for the receipt of benefits, for two main reasons: to facilitate job location and to enable the administration to enforce the conditions for continued receipt of benefits—that claimants be capable, available, and willing to work and seeking employment. The next section of this report centers on the first reason, the manpower function. The discussion starts with a review of those general manpower programs that the Centers administer: (1) the general job-creation projects in the public and private sectors; and (2) placement, referral, and particularly training and mobility assistance. In closing, the section describes changes in the training and job-creation programs and in worksharing that are supported financially by the unemployment insurance program.

As mentioned earlier, unemployment insurance and manpower have been jointly administered by the Canada Employment and Immigration Commission and the Department of Employment and Immigration since 1977. On the local level these two functions are performed by the 300 to 400 Canada Employment Centers. The manpower assistance is open to the entire labor force, including potential and actual new entrants and workers who have exhausted their rights to an unemployment insurance benefit.

General job-creation programs

Of interest here are two major job-creation efforts: Canada Works (terminated April 1, 1980) and the Employment Tax Credit Program (ETCP). Canada Works created jobs in the public sector; ETCP performs the same service in private employment. The community-centered Canada Works program subsidized labor-intensive, nonprofit projects in communities hard-hit by unemployment. These projects, making up the economic growth component, are likely to make a lasting socio-economic contribution. Other Canada Works projects, which constituted the disaster component, were supported in communities suffering temporary unemployment due to such emergencies as natural disasters or the failure of the main source of employment.

When Canada Works was terminated, the emphasis was shifted toward ETCP. ETCP allows an income tax credit for employers who hire unemployed workers under age 65 who have been registered for at least 2 weeks with a Canada Employment Center. The jobs must be additions to the normal work force, last a minimum of 3 months, offer employment of at least 35 hours

per week, and pay at least the minimum wage or, in its absence, 25 cents an hour more than the tax credit. The tax credit, limited to $1.50 per hour in some areas and $1.75 in others, is offered for a maximum of 12 months of 40-hour weeks.

Other sources of private employment assistance include the Economic Development Assistance Program, directed primarily to small business, and the Local Employment Assistance Program, which assists the socially disadvantaged, handicapped, and chronically unemployed. Some programs offer temporary employment to the young and to students.

Labor market information, referral, training, and mobility assistance

Of direct application to unemployment insurance claimants are the manpower functions of referral, counseling, training, and mobility assistance.

Labor market information and referral are greatly aided by the integration of unemployment insurance and manpower activities into the "one-stop" Canada Employment Centers. In addition, on a pilot basis, two existing computer services have been linked—the Metropolitan Order Processing System, which distributes job orders within metropolitan labor markets; and the unemployment insurance on-line computer, which instantaneously delivers up-to-date claim information and allows direct input by service centers into the central computer. Once nationwide computer service is established, current, accurate, and comprehensive countrywide information on job vacancies can be made immediately available to the claimant.

Vocational counseling and aptitude testing, through the integration of manpower and insurance functions in the same office, have also been made more accessible. Claimants whose chances of finding employment are poor because of their lack of skills, or because their skills have been termed inappropriate or obsolete in the relevant labor market, can be referred to and voluntarily join one or more training courses established under the Adult Occupational Training Act of 1967: the Canada Manpower Training Program (CMTP) provides skills training, basic academic upgrading, job readiness and work adjustment, and language fluency training. The Canada Employment and Immigration Commission arranges for these services through colleges, vocational schools, and training centers and provides claimants' tuition fees; training allowances; and, where necessary, commuting allowances. When workers decide to live at the training site, the commission provides living allowances and travel grants at the beginning and end of the course.

Skills training courses also include the classroom portion of apprenticeship programs. Basic academic upgrading provided through CMTP is designed to equip workers with the required basic knowledge or the designated academic level required for learning a particular skill—basic training for skills training. Workers who lack the basic skills for finding and holding a job may obtain them in the job-readiness training, and those who chronically encounter difficulties in getting jobs and require preparation for and adjustment to the world of work can benefit from the work adjustment training and concurrent counseling. Language fluency training is offered to migrant Canadians and immigrants who require fluency in either English or French.

In 1979, emphasis was placed on the Canada Manpower Industrial Training Program (CMITP), in line with a policy of emphasizing instruction in higher skills for Canadians and permanent residents in order to reserve such skilled jobs for them. Such policy also dictated that immigration should no longer serve as the primary tool for filling higher-level jobs for which Canadians did not have the skills. Both thoughts are expressed in the Immigration Act of 1976.

CMITP encourages employers or their associations to provide training or retraining for their own full-time employees through on-the-job, classroom, or special-training-area instruction. Workers must be at least age 17, Canadian citizens or permanent residents, and likely to enjoy increased employability and/or earning capacity from receiving training in marketable or transferable skills not readily available on the local labor market. Such training must last at least 5 days and at most 52 weeks and pay the legal minimum hourly rate. Employers who offer such training are partially reimbursed for the wage cost by the commission, with which the employer has contracted: 60 percent of wages paid to unemployed workers, 40 percent of wages to employed workers, and 85 percent of wages to handicapped workers. Employers are reimbursed fully for the cost of instructors and training equipment.

Unemployed workers, those about to be unemployed, and the underemployed whose skills are not needed in their home areas and who confront the absence or shortage of employment opportunities there are assisted by the Canadian Manpower Mobility Program to search for employment in other parts of the country, to respond to permanent or temporary job opportunities in the new location, and to relocate in other communities in case a permanent job has been secured. In addition to the usual travel grants, relocation funds, and other assistance, the government provides a portable wage subsidy: persons permanently laid off carry with them a wage subsidy to which a new employer in another geographic area becomes entitled.

Unemployment insurance support

As mentioned earlier, the 1977 amendments to the Unemployment Insurance Act of 1971 aimed at, among other things, using the savings arising from the deliberalization of the program to fund job development pro-

grams—programs that would ensure productive use of time by the unemployed while on claim—and other programs designed to prevent unemployment. This policy is reflected in changes in the financing of claimant participation in training and in UI-financed job-creation pilot programs and others concerned with worksharing.

Training. Prior to the 1977 amendments, all participants received a training allowance regardless of UI benefits received. Since then, UI beneficiaries receive either a training allowance or the benefit, whichever is greater. Weeks of training allowances are now deemed weeks of benefits paid and reduce the claimant's potential future entitlement to UI benefits. If the benefit duration does not suffice to cover the entire training program, it is extended to cover that time. The benefit period or its extension also covers 6 weeks after the end of instruction, to support workers during their job search. The 50-week benefit duration limitation is thereby raised to 104 weeks. The cost of benefits extended beyond those to which the participants in training and job-creation projects are entitled is carried by the government, including the 6-week extension for job search. For this extended period the government also assumes all other costs of training, including tuition fees, cost of course material, allowances for living away from home, relocation grants, and so on.

Job creation. Two pilot projects are under way to enroll volunteering UI claimants in public or parapublic community jobs, similar to those sponsored by the economic growth component and the disaster component of the Canada Works program. Participating workers receive either UI benefits or, if higher, the rate of pay established by the commission. The duration of the benefit is extended, as indicated earlier, for UI-financed trainees, up to a maximum of 58 weeks. However, unlike other trainees, the workers must remain capable of and available for other employment.

A shift of financing also took place in the Job Experience Training Program (JET), which provides actual work experience in the private sector for young Canadians and permanent residents between ages 16 and 24 who are eligible for UI, unemployed for at least 4 weeks, registered for unemployment, and out of school for a minimum of 3 and a maximum of 36 months. Participating employers must prove that they are offering these young workers supervised employment for at least 26 weeks, with the prospect of permanent employment at the end of the contract period, and that their action will increase their work force above the planned level and will not dislocate those already employed. The employer must offer at least minimum hourly wages for 30 hours or more per week. To offset the lower productivity of the participants, the employer is reimbursed for 50 percent of the hourly wage minimum, up to $1.50 per hour and up to $1,560 for 26 weeks.

The purpose of this program is to assist young workers in gaining a basis for successful integration into the labor force and to help them get that first job. These workers, who are paid regular wages—at least not less than the minimum hourly wage—are encouraged to demonstrate their potential as permanent employees. In its early phases the program was directed toward dropouts and potential dropouts who needed exposure to an actual work environment and prolonged employment counseling. It was then fully financed from the budget of the Department of Employment and Immigration. The wage subsidy is now charged to the UI account. The experience program is offered for a maximum of 56 weeks in a 58-week period, plus 6 weeks for job search in case the program fails to lead to a permanent job with the participating employer.

Worksharing. Like Great Britain and the United States, Canada displays some interest in a program (common to some continental European countries) whereby the government encourages firms and the work force to agree on a plantwide or departmentwide reduction in working hours instead of a layoff of a number of employees. The government offsets some of the wage loss by paying unemployment insurance benefits for the forgone earnings. Viable enterprises facing unforeseen, nonseasonable, temporary, nonrecurrent, and uncontrollable difficulties must obtain the consent of the labor union, or otherwise that of all workers concerned, to implement worksharing. The workers are to receive, either directly from the UI system or indirectly through their employer, unemployment benefits for the part of their earnings that they lost through the reduction in worktime.

The advantages of such a program for the UI system lie in reduced expenditures, in the hope that the workers will remain fully employed after the temporary emergency, and in the workers' and employer's continued contributions based on the reduced earnings.

The workers maintain contact with their employers and can expect to return to working full time after the temporary setback. They will not experience the shock of being divorced from the labor force. Neither their skills nor their motivation and attitude toward work will be eroded. The benefits paid on lost earnings will, as a rule, not affect their entitlement for a UI benefit, which they can draw if they become fully unemployed. The law waives the waiting period.

Employers retain full, cohesive, trained work teams and save the recruiting and training costs they would incur when laid-off workers who failed to return would have to be replaced.

Under this program the economy is not confronted with sharply reduced consumer demand, for the sum of reduced earnings and UI benefits that apply to the wage loss is, as a rule, not too far below that of the previously earned wage. It is certain to be larger than that of fully

unemployed beneficiaries or that of workers who have exhausted their UI benefits.

However, this attractive scheme faces a number of difficulties in the Canadian setting. Unions see in it a sharing of misery and a threat to the seniority system. Workers fear a reduction in some public insurance and in private fringe benefits, such as pensions, where the reduced earnings may affect the size of the benefit. Employers are hesitant to shoulder the cost of fringe benefits as long as the costs remain based upon regular and full earnings, and they are unwilling to forgo the savings that a full shutdown often affords.

To explore the nature and severity of these problems, the Canadian UI program, based upon the 1977 law and with the help of some guidelines in the pertinent regulations, has conducted and financed over a score of pilot projects.

Preliminary project results show that per capita worksharing benefits were 140 percent higher than per capita UI benefits. The difference was largely caused by the elimination of the 2-week waiting period in the worksharing program. Prediction of the benefit duration also caused difficulties: most of the worksharing benefits had to be granted for 48 to 50 weeks (as opposed to an average duration of 18 to 22 weeks for UI benefits). Some of the experiments failed to restore full employment in the plants and led to layoffs. The psychological impact of worksharing on the participants, however, was deemed excellent.

The U.S. Government is greatly interested in the forthcoming evaluation of the Canadian experience with the pilot projects. Indications are that the high cost of the projects will preclude further pilot studies.

Proposed Changes in the Canadian System

The continued high Canadian Government deficit has stimulated discussion of a variety of measures to further lessen the Federal share of the cost of unemployment insurance. The present surplus of $600 million in the employer-employee part of the UI account is an obvious way for the administration's policymakers to shift some of the financial burden now carried by the Federal Government to the private sector. In late October 1979 the following measures were under consideration:

- Double the taxable wage base by employers and employees from the 1979 annual level of $13,780 (52 × $265) to $25,000, but reduce the benefit rate for those earning more than $13,780 from 60 percent to 40 percent.
- Charge the private sector with the full cost of the first and second benefit phases (the initial and labor-force-extended benefits) by replacing the present.

These changes are expected to increase the rate of vertical redistribution of income by the system.

Other cost-reduction proposals are also considered under the heading of simplification:

- Remove the cash-sickness, maternity, and severance pay provisions to restore the program goal to one mission. This suggestion would bring about a saving of $600 million.
- Study the effectiveness of the job-training, job-creation, and worksharing provisions and eliminate UI financing from those that have been found to be cost-ineffective.
- Restudy, and, if possible, eliminate unemployment benefits to fishermen. Presently, this part of the system accounts for expenditures of $65 to $75 million while producing a premium income of only $4 million. The necessity for subsidizing a politically powerful industry appears lessened, as the self-employed fishermen are earning—since the extension of the fishing limit to 200 miles—up to $20,000 in their short season.
- Encourage part-time employment (at present not covered by UI) and the acceptance of lower-paid employment.
- Tighten up the disentitlement and disqualification provisions, particularly those applying to voluntary quits and discharge for misconduct.
- Reduce the access to and the provision of benefit periods in the present system due to regional unemployment, by review of the tables.
- Clamp down, if administratively possible, on long-term benefits in multiple-earner families. This is designed to reduce induced unemployment and "antiselection."
- Restudy maternity benefits with the view of reducing the duration of benefits.

It is recognized that the enactment of the last two items would require a change in popular attitude and behavior.

Data Collection and Analysis

The Financing System: An Econometric Model

Henry Saffer

This report is a methodological description of and user's guide to an econometric model of unemployment insurance (UI) tax receipts. The model was developed as a policy analysis tool for the National Commission on Unemployment Compensation. It allows for estimation of UI tax revenue and trust fund balances under a variety of legislative options and economic scenarios. The model is completely State-specific; each State's tax revenue and fund balance is estimated by a unique set of equations. The user may supply State-specific or nationally aggregated data.

The model is processed in two stages. The first stage provides the user with instructions and, through a series of questions and answers, allows the simulation of policy option and economic condition inputs. In the second stage, the user submits the program, the computations are performed, and the output produced.

Because the model was designed to complement a benefit forecasting model, benefit costs on a year-by-State level can be read directly from an input file or supplied manually by the user. The output of the model includes a State-by-State forecast of tax rates, taxable wages, and ending fund balances. In addition, the policy and economic parameters in effect for each State, as input by the user, are repeated in the output. Also, an optional summary table is available. This table is an aggregate for the set of States used in the simulation.

Overview of the System

The UI system is a Federal-State program established by the Social Security Act of 1935. Federal law provides a general framework, while each State has evolved its own specific system of financing and paying benefits. The Federal Government sets minimum standards for the States and operates an independent program for ex-military and Federal employees. In addition, under the extended benefits program the Federal Government finances one-half of the extended benefits.

Federal law requires a 3.2 percent tax on taxable wages. This is credited to the State up to some fixed amount, if the State has an approved taxation system including experience rating. The State may set its rates above the 3.2 percent level and devise its own experience-rating criteria and devices for switching tax schedules. Federal law sets a minimum wage base, which the States may exceed, if they wish. As a result of the wide latitude permitted by the Federal Government, each State has a unique set of regulations for financing benefits.

While there is great diversity in specific State systems, the essential nature of each system is the same. Revenue equals tax rate times taxable wages. Revenue and interest refill the trust fund, and benefit payments reduce the fund. The experience-rating system provides lower tax rates for employers who have had relatively few layoffs. A variety of surtaxes, tax tables, and triggering formulas change average tax rates as the fund balance rises or falls. Each State has developed its own complex set of rules for controlling tax rates.

Each State also determines what shall count as taxable wages. However, the State's power is limited here to adjustment of the wage base, that is, the maximum amount of wages paid to a worker by any one employer that shall be taxed. This amount may be set at a specific dollar amount or at some percentage of average annual wages in the State. The wage base must be at least equal to the Federal minimum.

As the financing process is analogous in all States, it is possible to define a generalized mathematical structure that can be applied to any system. The use of State-specific data to estimate the exact nature of the relationships in the structure captures the uniqueness of each system.

Structure of the Model

Before turning to the generalized model the role of the tax schedules and of the distribution of taxable wages

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must be considered. The tax rate is defined as contributions divided by taxable wages; it is a weighted average rate within each State. Due to experience ratings, employers' tax rates vary. Multiplying each tax rate by the amount of taxable wage to which that rate applies, then summing, yields contributions. Dividing contributions under a particular tax rate by total taxable wages weights it by the appropriate amount of taxable wages. Thus, the weights are equal to the amount of taxable wages at each rate. Variations in tax schedules or in the distribution of taxable wages will alter this weighted average.

Actual distributions of taxable wages by tax rates are determined both by tax schedules and by the distribution of taxable wages by experience rating of employers. Variations in the distribution of taxable wages among tax rates can result from changes both in tax schedules and in the distribution of taxable wages by experience factor. The source of the variation is easily obscured by the choice of data-reporting format. Theoretically, if tax schedules were continuous functions ranging from negative infinity to positive infinity, the distribution of taxable wages by tax rate would appear as a relatively symmetrical monomodal function. Considering the process by which a firm's experience factor is computed and considering the large number of firms in a State, it is likely that the distribution of taxable wages by experience rating is approximately normal. However, when this distribution is aggregated by tax intervals, normality is lost.

Tax schedules can vary as rates are changed and as the experience-rating criteria for particular tax rates change. Generally, the States have not been consistent in the choice of experience-rating values assigned a given tax rate. This implies that the taxable wages at any tax rate can change simply as a result of altering the tax-rate intervals on the experience-rating distribution. The mean tax rate could change simply as a result of these variations. This type of change is independent of any change in the distribution of taxable wages by experience factor. For example, assume the distribution of taxable wages is constant and that all employers with an experience factor better than 3 are assigned a tax rate of 1 percent. Simply changing this cutoff point to an experience factor of 3.5 will raise the average tax rate and lower the percentage of taxable wages at a 1 percent tax rate. This type of change is not at all uncommon and accounts for part of the change in average tax rates.

A second type of change in average tax rates results from a change in the distribution of taxable wages by experience factor. In most States the experience factor is computed to account for the firm's history in the UI tax system. This tends to prevent very rapid changes in a firm's experience rating. There are several major causes of shifts in the distribution of taxable wages.

First, there are long-run structural changes in a State's economy. If a State is in a long-run decline there will be a tendency for firms to shift toward the high end of the tax schedule. In a reserve-ratio State, this will result in a shift of the taxable wage distribution toward lower experience factors. A long-run expansion of existing firms will generally result in contributions exceeding charges and in firms moving toward lower tax rates. Firms' exit from or entry into an industry have opposite effects: as faltering businesses shut down, the percentage of taxable wages at maximum rates declines; new firms are typically assigned the highest rate, which increases the percentage of taxable wages at the maximum tax rate.

A second influence on the distribution is the cyclical variation in economic activity. Cyclical activity results in firms moving gradually toward higher rates after the downturn and moving back after the upturn. The adjustment lag depends on the type of experience-rating formula chosen by the State in question.

Another change in the distribution of taxable wages results from changes in the taxable wage base. An increase in the wage base increases taxable wages. This increase will tend to be larger for firms with high turnover of low-wage employees; these firms will probably be at the high end of the tax distribution. Another result of a higher wage base is a temporary increase in contributions. This tends to push firms to lower tax rates until a new equilibrium is established.

This process implies that the distribution of taxable wages by experience rating is relatively stable, at least in the short run. The total dollar value of taxable wages will increase with employment, but the shape of the distribution tends to be stable. It is more likely that short-run variations in the distribution by tax rates will result from variations in the tax rates. Whatever the type of the change may be, it will be reflected in the observed average tax rate.

The immediate difficulty is that given the multiple dimensions of the tax rate, the analyst is frustrated in attempting to supply reasonable values for simulation. However, there is an alternative to this awkward situation. While the setting of tax rates is unquestionably a policy option, there may be some systematic nature to this process. Perhaps the policymakers are guided by the demands of their situation to limit their choice of rates. Declining fund balances suggest that greater additions to revenue are needed if the fund is to remain positive. The recent experience of many States suggests that the level of tax rates required to guarantee a solvent UI fund may be considered an excessive strain on the local economy. The need for solvency is weakened by the availability of interest-free, open-ended Federal loans. However, tax rates do vary with trust fund balances and other variables. Thus, if the behavioral relationships governing tax rates can be uncovered, a fore-

cast estimate of the average tax rate is possible. More formally stated, the tax rate can be assumed to be an endogenous part of the financing system.

The basic mechanics of the financing system provide the starting point for a generalized model of the system. The starting balances, plus revenue and interest, minus benefits, equal the ending balance. Revenue equals the tax rate times taxable wages, and the current year's ending balance becomes the following year's starting balance. Interest payments are equal to the current interest rate times the fund balance, and benefit costs are assumed to be exogenous to this model. All of these relationships are deterministic and require no estimation. The problem is that taxable wages and the tax rate are unknown and thus must be forecast.

The process that generates taxable wages provides the basis for an estimating equation. The taxable wage for each employee equals wages up to the wage base for each job held during the year. For the majority of a State's labor force, the total wage will exceed the wage base, and most workers will hold only one job during the year. Some workers will have annual earnings less than the wage base. Others will have had more than one employer so that their total wages will be taxable beyond the wage-base dollar amount. Employment approximates the size of the State's labor force and the number of the unemployed is used to approximate labor turnover. This implies that the wage base, employment, and unemployment should be related to taxable wages. The wage base is considered exogenous and the ratio of unemployment to employment equals the Insured Unemployment Rate (IUR), which is also considered exogenous. Exact specification is more an empirical problem than a theoretical one, as the object of this research is to predict rather than to uncover causality. The exact specifications are provided in Appendix A.

Tax rates are assumed to be related to the fund starting balance, or to some function of the lagged and current starting balance. This occurs because the lag process in setting rates enhances the countercyclical nature of the UI program. Generally, as fund balances fall, tax rates should tend to rise if solvency is to be maintained. Again, specification is an empirical question, as prediction takes precedence over causality.

Figure 1 represents an abstraction of the operation of the finance system. It provides the basis for a mathematical model and a computer model of the UI system.

Estimation of the Model

The generalized model of the UI system shown in Figure 1 can be restated in the following mathematical equations:

$$F = S + R + I - B \quad (1)$$

$$I = [i/(i+1)]F \quad (2)$$

$$R = tm \quad (3)$$

$$t = f(S) \quad (4)$$

$$m = f(w,u,e) \quad (5)$$

where:

t = tax rate
w = wage base
m = taxable wages
B = benefit cost
u = average weekly insured unemployment
S = fund start balance
F = fund end balance
e = average weekly insured employment
R = revenue
IUR = u/e
I = interest payments to the fund
i = interest rate

Equation (1) states that the fund end balance equals the fund start balance, plus revenue, plus interest, minus benefit costs. The fund start balance is given, and benefit costs are exogenous to the model. Interest and revenue are calculated by equations (2) and (3), respectively.

Equation (2) simply states that interest payments equal the interest rate on the end balance before interest is included. The interest rate is exogenous to the model. If the fund balance is negative, a different interest rate may be applicable. Both positive and negative balance interest rates are available as user-supplied options. Equations (1) and (2) could be reduced to a single equation for mathematical convenience.

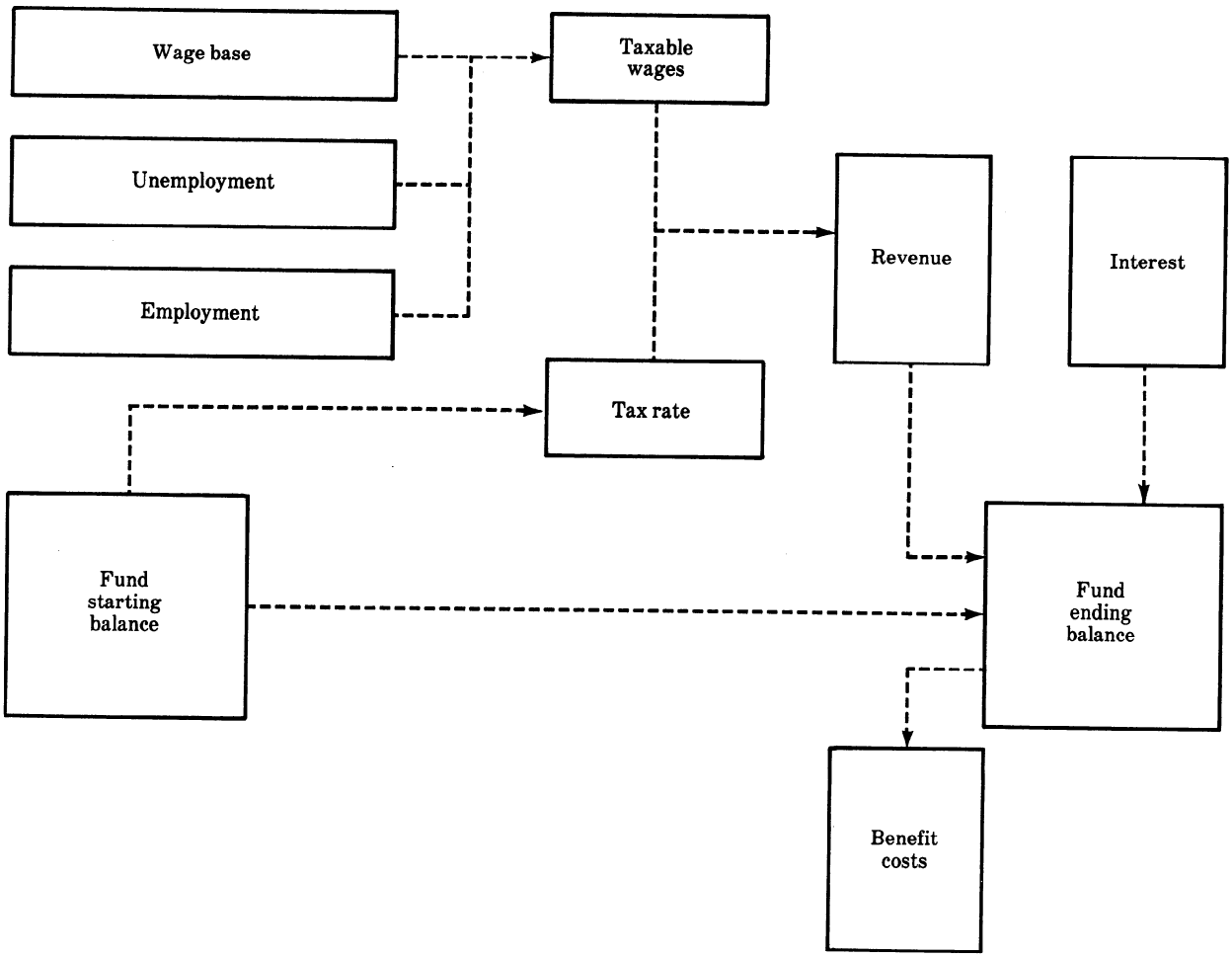
Equation (3) states that revenue equals the tax rate multiplied by taxable wages. Because the tax rate is defined as revenue divided by taxable wages, this equation is a simple tautology.

Equation (4) states that a functional relationship exists between the tax rate and the fund start balance. The exact nature of this relationship is unknown; it is assumed a priori that the tax rate should be inversely related to the start balance.

Equation (5) states that there is a functional relationship between taxable wages, the wage base, covered employment, and covered unemployment. Again, the specification of this relationship is an empirical question. The *a priori* assumptions are that taxable wages are positively related to the wage base and to employment. Also, taxable wages are assumed to be negatively related to unemployment.

Equations (1) to (5) correspond to Figure 1 and constitute a structural model of the UI financing system. Equations (1) to (3) are deterministic and do not need to be estimated. These three relationships can be simply computed by the model using internal or user-supplied data. Equations (4) and (5) must be estimated, for

FIGURE 1. Operation of the State UI system



they are stochastic and their exact nature is not known. The estimation procedure used is regression analysis. Both equations were estimated separately for each of the 52 State UI systems; the parameter values reflect the interstate variations in UI programs.

All data used to initialize the model and estimate the stochastic relationships came from the *Handbook of Unemployment Insurance Financial Data,* a time-series dataset of State aggregate data. Observations from 1949 to 1977 were used for the estimation of equations (4) and (5). These equations were run separately for each of the 52 States; the results are presented in Appendix A.

The empirical specification of equation (4) is a complex process. The tax-rate variable is a weighted average of the rates in the tax schedule. The weights are the percent of taxable wages taxed at each rate. As a result, the weighted average tax rate can change due to a change in the tax rates, a change in weights, and a change of the experience-factor intervals for any rate. Most States have multiple schedules triggered by varying fund balance conditions. The various schedules need not be consistent with regard to intervals chosen for the various rates. Even if the rate intervals are consistent, the distribution of taxable wages shifts with economic conditions.

Changes in the distribution of taxable wages across experience ratings are not large, and they lag behind changes in the IUR. This stability is caused by the formula used for computation of a firm's experience-rating factor. The formula used by most States reflects the difference between cumulative contributions and benefit costs, counted as a percentage of the previous 3 years' average total wages. As a result, even extreme increases in current benefit costs only slightly change a firm's experience factor. While the mean may shift as economic conditions change, the variance of this distribution is relatively stable. The reason that large shifts in taxable wages at minimum, maximum, and intermediate rates appear is the change in the reserve-ratio values chosen to come under each rate.

All of these changes, as well as local or Federal legis-

lative actions, affect the weighted average rate. The observed average tax rates are quite unstable. Because States tend to change wage bases less frequently, tax rate changes are used for most of the compensation for cyclical variations in revenue and fund balances. The wide choice of tax options chosen across States implies considerable variation in the behavioral process. The estimation of a unique equation for each State attempts to capture this variation in the parameter estimates. The average tax rates show a consistent inverse relationship with lag values of the fund balance. This variable alone, however, does not capture rate variations adequately for prediction.

The process that determines the average tax rate suggests that the current starting balance as well as the previous year's starting balance may affect current tax rates. Empirically, it was found that the previous year's starting balance correlated well with the current tax rate. However, the current starting balance proved to explain current tax rates better when specified by its component variables. These variables are the previous year's taxable wages, benefit costs, and tax rate. Current tax rates show a higher correlation with the previous year's benefit cost than with the previous year's end balance. This may result from the influence of the IUR on the experience rating of firms. Higher unemployment and higher benefit costs, holding other things constant, tend to shift the weights applied to individual tax rates. This will cause the weighted average tax rate to change. Specifications and parameter estimates vary considerably by State, probably reflecting local variations in the rate setting process. A complete description of the equations is included in Appendix A.

The estimation of taxable wages, equation (5), is a less complex problem. The process by which taxable wages are related to the dependent variables has been considered in a number of earlier studies. The actual mechanical process on the firm level is quite simple. Taxable wages are wages paid up to the wage base for each employee per year. Labor turnover each year will also affect the level of taxable wages. High turnover will produce a higher ratio of taxable to total wages. There are thus incentives to minimize turnover, which can be accomplished by limiting layoffs or by limiting the hiring of workers who might have to be fired or laid off or who have a greater probability of quitting. As taxable wages are in most cases much less than total wages, firms that pay low wages have a higher ratio of taxable to total wages. In addition, as high-turnover jobs often pay low wages, the effect is reinforced.

The problem of estimating taxable wages for a State implies some type of aggregation of the firm-level formula. It is clear that the wage base and a measure of turnover should appear as variables. The taxable wage equation was estimated for each of the States, using a variety of linear and nonlinear functional forms. The best results are shown in detail in Appendix A. As expected, the variation in functional forms was considerably smaller than for the tax rate equations. Generally, a linear form using wage base, IUR, and several control variables for growth of the system yielded good results. A 1-year lag value for IUR proved more significant in several States, perhaps due to variations in the tax year. Because the IUR was used as a proxy for turnover, the parameter estimates reflect the size of each State's UI system.

How the Computer Model Forecasts

The UI financing system is a dynamic process and the model is structured to reflect this. It is the current tax rate's dependence on the previous year's starting and ending balance that makes it a dynamic system. The current year's ending balance becomes the following year's starting balance. Therefore, it is necessary to initialize the model with data from the period preceding the first forecast year. The forecast period is the years 1979 to 1984, and data from 1976 to 1978 are used to initialize the model. This information is stored in the default dataset and is not available to the user.

The computer model consists of two main programs and four datasets (see Figure 2). The first program is interactive with the user and creates an input file containing the data and control options to be used for estimation. The user can request any one of three input files to begin the editing process: the active file, the working file, and the permanent file. The file selected becomes the active file and may be saved as the working file. The permanent file cannot be replaced. The second program carries out the computations using one of the edit datasets and the default dataset. The default dataset contains the equation coefficients and initialization values. Output can be routed to the terminal, a printer, or a disk file.

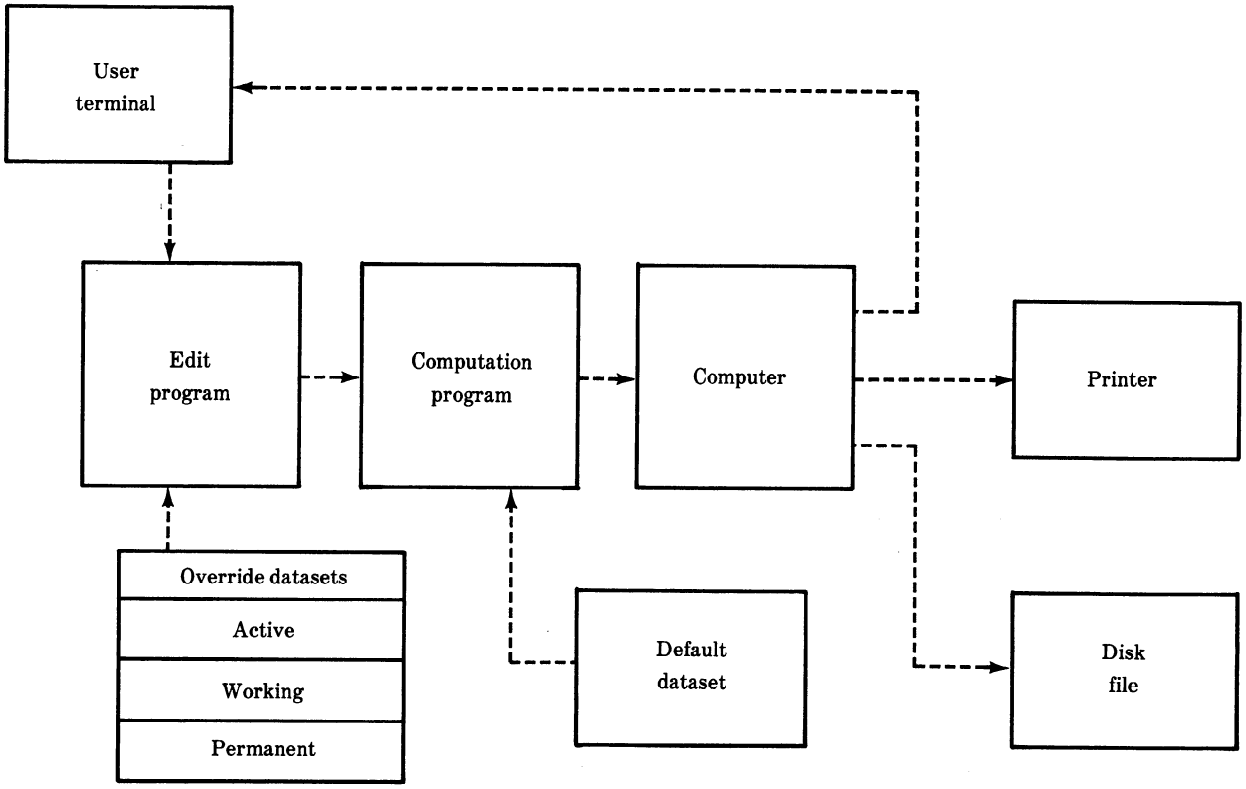
The following example is presented to explain how the estimated equations are used in the model. For California, the taxable wage equation was estimated as:

$$m = -33064570 + 5634(WB) - 228376(\text{IUR}) + 480428(\text{YEAR})$$

If values for *WB*, IUR, and YEAR are supplied for this equation and the computations carried out, *m*, taxable wages, will be generated. Directly or indirectly the user supplies the *WB* and IUR. YEAR value is internally generated, and the program reads the coefficient values from the default dataset.

Similarly, tax rates are generated by another set of equations. Taxable wage and tax rates are then multiplied to produce revenue. The starting balance is read from the default dataset, and interest payments are calculated from the user-supplied interest rate times the revenue plus start balance minus benefits. Interest then is added to revenue plus start balance minus benefits,

FIGURE 2. The computer model



and the end balance results. All of these variables are printed out and saved in an array. The first year's ending balance becomes the next year's starting balance, and all current data become the following year's lag data. The processing of the equations is carried out again with the new data; this process continues until the end of the forecast period is reached.

The execution of the model is a two-stage process. The first stage consists of an editing procedure allowing the user to supply the desired data and select from a number of options. In the second stage, computations are performed on the data according to the selected options.

During the editing stage, one of three datasets can be selected. These are a working file, an active file, and a permanent file. The user will be informed of the controls in effect on the file chosen. These control variables allow the input either of State-specific IURs and benefit costs or of national aggregate data. If State-specific data are selected, the user will be instructed to supply values for all necessary variables and for all selected States. If the national data option is chosen, the user is instructed to supply a single national value and the model will allocate an estimated value for each State. These estimates for the IUR and benefit costs are based on the average relationship between State and national values for the period 1974 to 1977. Appendix B contains a detailed list of all allocation coefficients.

The wage base used for estimation can be a single value applied to all States or a set of State-specific values. An additional option computes the wage base as a percentage of average weekly wages. Several States use a floating wage base system (see Appendix B). If the user supplies fixed wage base values, they will replace the floating system if they are greater than the floating values. If the user selects a floating system, user-supplied values will override default data when greater wage bases are generated. The user supplies the percentage of average annual wages and a rate of growth for wages. Again, all supplied data can be a single value applicable to all States or State-specific values. Any wage base data can be modified by user-supplied minimum increment and rounding options. The minimum increment is the amount the wage base must increase in any sequential year before the model will replace the existing value. If the minimum increment is not satisfied, the previous year's wage is used. The rounding option simply rounds down the computed wage base in accord with a selected value.

Benefit costs used as inputs should include both regular and extended benefit payments. Extended benefits are computed as a function of regular benefits and cov-

erage. The ending balance is computed with interest payments added and with one-half of the estimated costs of extended benefits subtracted.

The user may also supply a solvency criterion. This is based on the highest ratio of benefit costs to taxable wages during the previous 10-year period. The model computes the tax revenue needed to satisfy the solvency criterion. The fund balance that would result and the tax rate required in order to reach the target are included in the output. For each year, the fund balance required to satisfy the criterion is reported. The necessary tax rate for reaching the target by the end of each period is also reported by year. This is the rate that must be in effect for each preceding year to reach the solvency target.

All output data that are computed by State are also computed for the aggregate of the States used on the run. These values are calculated by totaling all State values and carrying out the same computations used on the State level. Thus, data represent weighted averages of all States used.

User's Guide

This model is currently available for use on the Boeing Computer Network. The program is accessed on CTS on user ID DOL212. The password is available from the Division of Actuarial Services, Unemployment Insurance Service, Department of Labor. Sample input and output are provided in Appendix C. The user should be aware of the following control techniques:

- The break key stops execution. If a session must be ended before completing a program, a break, followed by HX, will halt execution and return the user to CTS.
- The symbol / (slash) will end any line and instruct the program to go on to the next line.
- The symbol * (multiplication symbol) can be used to enter multiple values. For example, if 50 must be entered 6 times, 6 * 50 will produce this result.
- The symbol @ will produce one backspace each time it is used.

As the user proceeds with the model, a series of questions and current values are provided. The current values in effect are those contained on the selected override dataset. The user is shown each of the current values and asked if any changes are to be made. The dataset ID is the name of the run; it can be used to give each run a unique label. Next, the control variables (CV) are supplied for inspection and possible change. These variables control the source of input data, the type of output data, and the selection of States to be used on the run. After the control variables are displayed, the user will be instructed on how to make any desired changes. The user is next shown the data values in effect and told how to change these to any new values desired. The data made available in this section result from the choice of control variables chosen in the first section. These data variables or scenario variables can be entered on a State or national level. If the national data option is chosen, the program will generate State-specific data from user-supplied national values, or as a single value applicable to all States. In each step of the program, the user is shown how changes can be made.

After logging on to CTS DOL212, the user will receive current system messages. The terminal width is 80 for narrow carriage and 130 for wide carriage terminals. To enter the program, the user must type MODEL. The user is then asked whether instructions are needed. If the user desires to change any options or data, the EDIT command is used.

In the edit procedure, the ID is the first variable available for change. Then the control variables are displayed. Each variable is set to the code shown under the column-labeled value.

The first CV determines the origin of the data on benefits and has three options. One of the options, the Urban Institute Benefit Model, refers to a benefit forecasting model that is not currently available. Option two allows the user to supply benefit costs by State. Option three allows the user to provide a single national value for benefits; the model will then allocate benefit costs to each State.

The second CV controls the origin of the taxable wage base. Option one is user-supplied; option two generates a floating wage base. This procedure creates a wage base that is a percentage of the average weekly wage. If this option is chosen, the user will be asked in the data section for the percentage and for a growth rate for average weekly wages.

The third CV controls the origin of the tax rate: option one allows the user to supply a tax rate; option two will cause the model to generate tax rates.

The fourth and fifth CV's control the type of output. Control variable four, option one will result in the aggregate table only. Option two results in the aggregate table and a detailed table for each State. Control variable five, option one suppresses output of the matrix, a table of taxable wages and revenue for all States used during the run. Options two and three control the size of the matrix table. Option two output is small enough for standard photocopy machines.

The sixth CV controls the origin of the IUR. Option one allows for the user to supply all State-specific values. Option two allows the user to supply a single national value; the model will then calculate an estimated IUR for each State. The user should be aware that there are no restrictions with the model on the relationship between benefit costs and the IUR. Therefore, it is the user's responsibility to provide consistent benefit costs and IURs.

The seventh and eighth CV's control wage base incre-

ments and rounding. The user must supply a numeric value for each of them. The minimum increment is the amount by which the calculated wage base must increase before the existing wage base is replaced for the next forecast year. The rounding option rounds the calculated wage base to the next lower multiple of the value supplied.

The ninth CV is the solvency criterion. The user must supply a numeric solvency ratio. This ratio is the multiple of the high-cost year's benefits to taxable wages. The solvency ratio is then used by the program to calculate how much tax revenue must be generated to satisfy the criterion. The tax rate needed to reach this goal is given by year as the rate that must be in effect for each preceding year in order to reach a fund balance satisfying the solvency criteria.

The tenth and eleventh CV's are the interest rates applicable to positive and negative fund balances, respectively. The user must supply a rate for each one of these for each year.

The next control is for the State or regions chosen. This information is displayed immediately after the last CV. The institutions for its control refer to it as CV twelve.

When the control section is completed, the data section will follow. The variables made available in this section are the variables needed to comply with the choices made in the control section. The data values existing on the chosen override dataset are displayed and instructions on how to make changes are provided. After this process is completed, any data that were entered can be displayed and changed. In addition, the control variables can be returned for inspection or changes.

This completes the editing process. New information can now be processed. If the output is routed to the terminal, printing will begin immediately. Sample output appears in Appendix C. The ID, State name, and relevant control data appear at the top of the output tables. These data are followed by the computed or user-supplied input data and forecast data by year. The output variables are defined in Appendix C.

Appendix A: Breakdown of Taxable Wage and Tax Rate Equations by State

The variables listed in Table A–1 and A–2 are:

COV, covered employment;
WAGE, average weekly wage;
IURL1, insured unemployment rate lagged 1 year;
YEAR, current year minus 1900;
IUR, insured unemployment rate;
WAGE BASE, taxable wage base;
COVL1, covered employment lagged 1 year;
TAXL1, taxable wages lagged 1 year;
RATEL1, tax rate lagged 1 year;
BENEL1, benefit costs lagged 1 year;
RESL2, starting fund balance lagged 1 year.

TABLE A-1. Taxable wage equations (t^2 values in parentheses)

State (1)	Constant (2)	WAGE BASE (3)	IUR (4)	YEAR (5)	IURL1 (6)	WAGE (7)	COV (in millions) (8)	R^2 (9)
Alabama (01)[1]	−5487105	1065	−16215	64103				0.98
		(375.029)	(0.959)	(237.257)				
Alaska (02)	−1173572	68	−18042	20866				0.58
		(1.276)	(0.750)	(1.539)				
Arizona (04)	−4013818	555	−3988	51228				0.94
		(57.536)	(0.017)	(53.626)				
Arkansas (05)	−3233952	577	−20927	39437				0.98
		(331.836)	(5.115)	(268.633)				
California (06)	−33064570	5633	−228376	480428				0.98
		(337.321)	(3.185)	(174.864)				
Colorado (08)	−5097838	917		55992	−3867	9499		0.97
		(122.803)		(141.057)	(0.011)	(8.758)		
Connecticut (09)	−3783499	803	−52746	64450				0.99
		(562.513)	(18.580)	(328.302)				
Delaware (10)	−940202	131	−14165	15866				0.96
		(14.698)	(5.172)	(110.847)				
District of Columbia (11)	−1334760	247	−52583	23368				0.98
		(115.341)	(16.414)	(381.773)				
Florida (12)	−19496060	3514		196947	−72559			0.98
		(305.170)		(243.644)	(1.101)			
Georgia (13)	−9116238	1387	−66442	122366				0.98
		(382.032)	(3.914)	(270.648)				
Hawaii (15)	−550575	263	−11902			108238		0.98
		(1480.600)	(1.006)			(15.265)		
Idaho (16)	−875330	184		11032	−5464			0.97
		(314.520)		(49.299)	(0.292)			

TABLE A-1. Taxable wage equations (t^2 values in parentheses) (*continued*)

State (1)	Constant (2)	WAGE BASE (3)	IUR (4)	YEAR (5)	IURL1 (6)	WAGE (7)	COV (in millions) (8)	R^2 (9)
Illinois (17)	−13841690	3611	−148472	194677				0.98
		(263.638)	(6.891)	(229.585)				
Indiana (18)	−7068733	1665	−103231	96203				0.98
		(308.936)	(16.563)	(293.196)				
Iowa (19)	−3732352	742	−30099	47295				0.99
		(840.134)	(1.586)	(373.051)				
Kansas (20)	−3271754	788	−10395	32429				0.96
		(161.871)	(0.153)	(81.932)				
Kentucky (21)	−4713037	1056	−16580	49928				0.97
		(177.800)	(1.392)	(90.760)				
Louisiana (22)	−5945186	1185	−48997	70263				0.96
		(97.367)	(1.500)	(98.258)				
Maine (23)	−1272451	317	−4206	14762				0.98
		(334.044)	(1.751)	(191.833)				
Maryland (24)	−5691014	1111	−51658	76123				0.99
		(475.980)	(16.028)	(663.630)				
Massachusetts (25)	−5371567	1342	−48943	97071				0.97
		(36.990)	(3.042)	(63.978)				
Michigan (26)	−9486618	2641	−72746	127652				0.96
		(77.163)	(2.510)	(28.629)				
Minnesota (27)	−3413264	612			84001	−240159	0.00479	0.99
		(72.750)			(8.831)	(6.431)	(116.780)	
Mississippi (28)	−4101879	738	−8323	44305				0.98
		(270.930)	(0.557)	(181.350)				
Missouri (29)	−6029865	1461	−92765	78588				0.98
		(275.300)	(8.257)	(200.890)				
Montana (30)	−641300	184	−2691	7118				0.98
		(352.200)	(0.809)	(95.073)				
Nebraska (31)	−2350751	462	−3849	26826				0.98
		(285.800)	(0.063)	(289.270)				
Nevada (32)	−1866751	275	−20540	22436				0.95
		(84.561)	(2.120)	(58.176)				
New Hampshire (33)	−1327230	290	−2525	14915				0.97
		(143.650)	(0.283)	(64.629)				
New Jersey (34)	−9149058	1993	−92536	140864				0.99
		(360.760)	(6.250)	(235.124)				
New Mexico (35)	−1707410	333	−2947	19133				0.88
		(34.115)	(0.015)	(26.250)				
New York (36)	−12548100	3369	−303954	310340				0.99
		(203.169)	(23.159)	(497.580)				
North Carolina (37)	−11295990	2077	−79983	132083				0.99
		(358.500)	(8.301)	(349.300)				
North Dakota (38)	−265202	62			−685		0.00399	0.98
		(15.263)			(0.032)		(201.890)	
Ohio (39)	−11233890	3335	−205640	155631				0.98
		(300.500)	(20.759)	(190.100)				
Oklahoma (40)	−4141929	914	−14773	42257				0.97
		(177.840)	(0.351)	(102.900)				
Oregon (41)	−1448126	791	−68500			443738		0.94
		(427.900)	(4.990)			(18.282)		
Pennsylvania (42)	−9151666	3957	−28625	97788				0.96
		(67.069)	(0.340)	(13.260)				
Puerto Rico (43)	−8232997	453		121311	−38425			0.90
		(7.334)		(22.545)	(2.336)			
Rhode Island (44)	−1414286	233			−1846		0.0056	0.98
		(194.370)			(0.542)		(208.712)	
South Carolina (45)	−5345440	998	−20867	60407				0.98
		(200.500)	(1.290)	(206.089)				
South Dakota (46)	−92525	42		−3690	685		0.00522	0.99
		(10.686)		(10.965)	(0.047)		(121.768)	
Tennessee (47)	−7853581	1775	−6206	72196				0.98
		(127.090)	(0.069)	(56.060)				
Texas (48)	−25331500	4977	−222761	268238				0.96
		(123.430)	(1.225)	(108.027)				
Utah (49)	−1413495	248	−8190	19403				0.94
		(101.716)	(0.080)	(29.810)				
Vermont (50)	−504469	201	−640			112271		0.98
		(1045.600)	(0.067)			(106.100)		

TABLE A-1. Taxable wage equations (t^2 values in parentheses) (*continued*)

State (1)	Constant (2)	WAGE BASE (3)	IUR (4)	YEAR (5)	IURLI (6)	WAGE (7)	COV (in millions) (8)	R^2 (9)
Virginia (51)	−9104348	1644		103658	−7980			0.98
		(207.430)		(195.250)	(0.031)			
Washington (53)	−3730939	832	−62732	58841				0.98
		(558.700)	(9.237)	(107.270)				
West Virginia (54)	−1483715	641		11461	12338	−121119		0.83
		(13.064)		(1.332)	(0.864)	(1.665)		
Wisconsin (55)	−5180149	1313	−29486	63830				0.98
		(495.300)	(1.022)	(122.690)				
Wyoming (56)	−296312	22	−2940				0.0066	0.99
		(11.830)	(4.281)				(1660.4)	

[1] State numeric codes accompany State names.

TABLE A-2. Tax rate equations (t^2 values in parentheses)

State	Constant	RESL2 (millions)	BENEL1 (millions)	RATEL1	TAXL1 (millions)	YEAR	COVL1 (millions)	R^2
Alabama	0.3828873	−0.0033135	0.0126375	0.6848037	−0.0016718			0.88
		(0.056)	(66.394)	(30.662)	(8.572)			
Alaska	1.711440	−0.0023723	0.0311166	0.3268697				0.74
		(0.195)	(6.635)	(4.196)				
Arizona	1.062964	−0.0042352	0.0090222	0.3685417				0.43
		(10.386)	(18.963)	(2.218)				
Arkansas	0.5499385	−0.0019381	0.0109993	0.6026793	−0.0000743			0.88
		(1.261)	(49.816)	(19.914)	(1.722)			
California	1.035653	−0.0003119	0.0016250	0.5649389	−0.0000243			0.84
		(1.668)	(19.852)	(17.749)	(2.475)			
Colorado	0.7386885	−0.0065613	0.0271854	0.4164776	−0.0000963			0.76
		(3.383)	(24.482)	(7.768)	(0.545)			
Connecticut	0.746642	−0.000428	0.0033008	0.674211	−0.0000947			0.82
		(0.816)	(7.818)	(25.485)	(0.824)			
Delaware	−1.099252	−0.0112438	0.0191771	0.66643	−0.0008846	0.0331134		0.79
		(0.946)	(3.598)	(21.935)	(0.198)	(0.662)		
District of Columbia	−0.0422758	−0.0029405	0.0403774		−0.0011172	0.0240229		0.93
		(1.353)	(57.403)		(10.198)	(4.568)		
Florida	−0.2353622	−0.0022402	0.0050999	0.5183243	0.0000076	0.01437767		0.84
		(3.09)	(28.641)	(9.389)	(0.038)	(0.765)		
Georgia	0.3691848	−0.0007676	0.00355756	0.7344524				0.87
		(12.029)	(98.766)	(26.23)				
Hawaii	0.4007406	−0.0007407	0.0275882	0.6504178	−0.0002189			0.91
		(0.010)	(9.144)	(11.228)	(0.344)			
Idaho	0.8972163	−0.0073525	0.0202158	0.5746705				0.48
		(1.531)	(2.434)	(12.16)				
Illinois	0.7531635	−0.00067	0.0023486	0.6469449	−0.0000392			0.74
		(1.265)	(13.487)	(22.473)	(1.506)			
Indiana	0.4016436	−0.0007593	0.0042934	0.6195903				0.89
		(9.756)	(90.163)	(62.332)				
Iowa	0.6335286	−0.0087907	0.0018396	0.1571332	−0.0000853	0.0167695		0.95
		(41.72)	(119.920)	(2.08)	(1.231)	(7.797)		
Kansas	0.2751602	−0.0027127	0.0012542	0.8150211				0.89
		(3.004)	(13.466)	(79.62)				
Kentucky	0.8817006	−0.0019868	0.01196242	0.5382273	−0.0000955			0.79
		(2.119)	(34.436)	(17.495)	(1.783)			
Louisiana	0.9568036	−0.0041103	0.0072367	0.426691	−0.0000061	0.0036656		0.65
		(4.532)	(3.224)	(6.791)	(0.002)	(0.064)		
Maine	0.5767607	−0.0035501	0.026502	0.5903874	−0.0000702			0.91
		(0.775)	(25.466)	(15.845)	(0.064)			
Maryland	0.536412	−0.0027084	0.0097879	0.7726589	−0.0000845			0.89
		(4.404)	(15.331)	(95.859)	(0.789)			
Massachusetts	1.7983780	−0.0028303	0.00380102	0.3075706				0.73
		(10.287)	(14.385)	(4.057)				
Michigan	0.7562576	−0.0006902	0.0021416	−0.6193078	−0.0000076			0.80
		(1.670)	(16.91)	(14.718)	(0.035)			
Minnesota	−0.058368	−0.001338	0.0049305	0.3457073	−0.0000377	0.01377472		0.86
		(2.66)	(15.435)	(3.376)	(0.330)	(1.435)		

TABLE A-2. Tax rate equations (t^2 values in parentheses) (*continued*)

State	Constant	RESL2 (millions)	(millions) BENEL1	RATEL1	TAXL1 (millions)	YEAR	COVL1 (millions)	R^2
Mississippi	0.9884387	−0.0291803	0.0407059	0.1601306	−0.0002263		0.0049335	0.90
		(28.905)	(69.103)	(1.301)	(1.48)		(15.349)	
Missouri	0.692995	−0.0012756	0.0077903	0.394971	−0.00018618			0.82
		(1.616)	(28.388)	(6.344)	(0.112)			
Montana	0.945315	−0.0086885	0.043564	0.4568353	−0.00349504			0.61
		(2.127)	(6.251)	(5.162)	(0.260)			
Nebraska	0.7594788	−0.0002525	0.0558805	0.236264	−0.00049667			0.90
		(0.501)	(109.176)	(5.268)	(8.601)			
Nevada	0.8219607	−0.00063772	0.0277652	0.593798	−0.004263			0.74
		(0.011)	(5.341)	(13.498)	(0.892)			
New Hampshire	1.025041	−0.00412132	0.036509	0.3870235	−0.0005061			0.83
		(0.577)	(46.75)	(6.765)	(3.638)			
New Jersey	−0.7567567	−0.00076798	0.0013035		−0.00016339	0.0489733		0.85
		(4.494)	(2.497)		(0.038)	(8.11)		
New Mexico	1.062413	−0.0121222	0.0246515	0.4003442				0.78
		(6.132)	(16.608)	(6.578)				
New York	0.9585932	−0.00054296	0.0010077	0.5200017	−0.00001081	0.0094839		0.78
		(4.615)	(6.86)	(16.578)	(0.047)	(0.12)		
North Carolina	1.140351	−0.0013022	0.00272743	0.3107985				0.59
		(9.391)	(15.336)	(2.172)				
North Dakota	1.041598	−0.0322145	0.1588432	0.3923804	−0.0010858			0.78
		(2.489)	(13.99)	(4.98)	(1.028)			
Ohio	0.8088947	−0.0024304	0.0027686	0.1484785	−0.0000633		0.00049032	0.89
		(15.562)	(53.588)	(0.634)	(0.065)		(7.254)	
Oklahoma	0.5394872	−0.044085	0.0274113	0.6095886	−0.0002574			0.82
		(1.436)	(33.077)	(17.716)	(7.225)			
Oregon	0.3970009	−0.0003405	0.01581712	0.7855906	−0.0002923			0.83
		(4.082)	(22.139)	(37.263)	(4.082)			
Pennsylvania	0.5878276	−0.00008682	0.00114487	0.7767375	−0.0000308			0.83
		(0.042)	(7.208)	(33.709)	(0.529)			
Puerto Rico	4.083724	−0.0017082	0.00359429	−0.5041488				0.47
		(5.209)	(11.589)	(2.327)				
Rhode Island	1.925519	−0.0100371	0.0151808	0.1899160	−0.00009368		0.00141373	0.85
		(5.796)	(11.066)	(0.614)	(0.060)		(0.574)	
South Carolina	0.7086965	−0.0020739	0.0085757	0.487345				0.78
		(11.437)	(65.134)	(17.554)				
South Dakota	0.5271913	−0.02697	0.0441134	0.4701414	−0.00004101	0.0042435		0.49
		(4.776)	(3.302)	(9.216)	(0.005)	(0.213)		
Tennessee	0.5280584	−0.0006893	0.001894	0.6879275				0.69
		(4.943)	(9.308)	(31.379)				
Texas	0.4484225	−0.0017109	0.0052575	0.4639195	−0.00008678		0.00033125	0.80
		(1.994)	(33.647)	(5.896)	(5.527)		(2.593)	
Utah	−0.2230218	−0.0024367	0.00420176		−0.00004433	0.0270839		0.70
		(0.312)	(0.32)		(0.018)	(4.931)		
Vermont	0.8608156	−0.022036	0.0074257	0.6426592				0.79
		(12.063)	(0.711)	(31.386)				
Virginia	0.8149527	−0.0047047	0.0082212	0.3170434	−0.0000887	0.0314428		0.73
		(8.15)	(21.315)	(3.564)		(4.719)		
Washington	2.93245	−0.0085707	0.003471	0.3085607	−0.001441	0.1703883		0.40
		(8.879)	(1.502)	(0.59)	(18.023)	(12.509)		
West Virginia	0.5212666	−0.0013064	0.023823	0.6325245	−0.0002945			0.63
		(0.106)	(12.941)	(16.293)	(0.988)			
Wisconsin	0.4747905	−0.0034051	0.0045227	0.2853234	−0.00002442		0.00129497	0.97
		(31.78)	(74.104)	(5.387)	(0.646)		(26.449)	
Wyoming	0.2634931	−0.008454	0.0001741	0.5600573				0.83
		(0.928)	(33.992)	(28.871)				

Appendix B: Floating Wage Bases and Allocation Factors

TABLE B-1. Floating wage base States

State	Percentage of average annual wage
Hawaii	100
Idaho	100
Iowa	66
Nevada	66
New Mexico	65
North Dakota	70
Oregon	80
New Jersey	54
Utah	100
Washington	80

TABLE B-2. Allocation factors

State	Unemployment rate allocation factor	Benefit cost allocation factor
Alabama	1.049	1.284
Alaska	0.967	1.023
Arizona	1.066	0.546
Arkansas	1.295	0.608
California	1.049	12.195
Colorado	0.541	0.783
Connecticut	1.148	2.315
Delaware	0.902	0.380
District of Columbia	0.623	0.643
Florida	0.738	1.994
Georgia	1.000	1.402
Hawaii	0.738	0.539
Idaho	0.869	0.288
Illinois	0.951	7.765
Indiana	0.885	1.173
Iowa	0.607	1.061
Kansas	0.557	0.668
Kentucky	1.016	1.082
Lousiana	0.672	1.723
Maine	1.344	0.618
Maryland	0.902	1.489
Massachusetts	1.328	3.370
Michigan	1.443	4.874
Minnesota	0.721	1.717
Mississippi	0.918	0.442
Missouri	0.984	1.612
Montana	0.852	0.317
Nebraska	0.623	0.284
Nevada	1.049	0.405
New Hampshire	1.098	0.198
New Jersey	1.328	6.076
New Mexico	0.902	0.252
New York	1.148	10.999
North Carolina	1.164	1.681
North Dakota	0.475	0.253
Ohio	0.836	4.407
Oklahoma	0.656	0.568
Oregon	1.180	1.156
Pennsylvania	1.246	9.630
Puerto Rico	2.557	1.808
Rhode Island	1.590	0.727
South Carolina	1.279	0.814
South Dakota	0.475	0.116
Tennessee	1.115	1.282
Texas	0.361	1.546
Utah	0.738	0.398
Vermont	1.344	0.249
Virginia	0.557	1.096
Washington	1.377	1.986
West Virginia	0.885	0.672
Wisconsin	0.934	2.123
Wyoming	0.344	0.088

Appendix C: The Computer Model

The output variables mentioned below are:

IUR, insured unemployment rate;
BASE, taxable wage base;
RATE, weighted average tax rate;
DIFF, percentage change in the tax rate by year;
FRAC, percent of average annual wages used as a wage base;
WAGE, average weekly wages;
GROW, percentage increase in average weekly wages;
TXBLE, taxable wages;
DRAIN, benefit costs;
POSRT, interest rate applied to positive fund balances;
NEGRT, interest rate applied to negative fund balances;
INTER, interest payments;
REVNU, tax revenue;
FUND, ending fund balance;
TARGT, fund balance required for solvency;
TGTRT, tax rate required for solvency.

```
C>MODEL
C (193) R/O
B (192) R/O
D (292): 0 FILES; 5 REC IN USE, 261 LEFT (of 266), 2% FULL (1 CYL), 3330, R/W
Do you want instructions? (Yes or No)
>YES
When you see the prompt, "COMMAND:", you have the following choices:

Edit--Call the editing program to prepare the input file.
      May be followed by a letter to indicate where to get the initial values:
      "Edit A" to start with the current active input file, "W"
      to start with the working file, or "P" for the permanent file.
      If none specified, the active file will be used if it exists.
      The results of the editing program will become the active
      input file.

Run --Run the model itself.  You may specify the input file to be used:
      "Run A" for the active file, "W" for the working, or "P"
      for the permanent.  "A" is the default.

      You may follow the input specification with an output specification:
      "P" to direct output to the printer,
      "T" to the terminal,
      "D" to a disk file (called SAFMODEL LISTING A).
      "P" is the default.

    Example: to use the active input file and write the output
    to disk, enter
      Run Active Disk
     (only the first letter of each word is required, as indicated
      by the capitalization.)

Save--Copy the active input file to the working file, overlaying the current
      working file.

Quit--Exit from this control routine.  Output which you have directed
      to the printer, if any, will not be actually released for printing
      until you log off.

Cms--Enter CMS subset mode.  (From there, "RETURN" will
     set you back to this exec.)

COMMAND:
>EDIT W
EXECUTION BEGINS...
DATA SET ID IS:
 JUNE 2, 11:47
ENTER NEW ID OR TYPE X TO KEEP CURRENT ID.
>TEST
CURRENT CONTROL VARIABLES (CV'S) IN EFFECT:

CV#     DEFINITION                                                    VALUE

 1   BENEFIT SOURCE: 1=URBAN MODEL, 2=USER BY STATE, 3=USER US TOTAL     3
 2   TAXABLE WAGE BASE: 1=USER SUPPLIED, 2=MODEL GENERATED               2
 3   WEIGHTED AV. TAX RATE: 1=USER SUPPLIED, 2=MODEL GENERATED           2
 4   PRINTOUT WANTED: 1=SUMMARY ONLY, 2=STATE DETAIL+SUMMARY             1
 5   MATRIX PRINTOUT WANTED: 1=NONE, 2=80 CHAR., 3=132 CHAR.             3
 6   IUR SUPPLIED: 1=BY STATE, 2=NATIONAL AVERAGE                        2
 7   TWB MINIMUM INCREMENT                                            1000
 8   TWB ROUND DOWN TO NUMBER                                            0
 9   SOLVENCY RATIO WANTED(=0 IF NOT USED)                             1.5
10   INT. RATE FOR + FUND BAL. BY YR=  5.50  5.50  5.50  5.50  5.50  5.50
11   INT. RATE FOR - FUND BAL. BY YR=  0.0   0.0   0.0   0.0   0.0   0.0

STATES CHOSEN: ALL

IF YOU WANT AN EXPLANATION OF HOW THE TWB MINIMUM INCREMENT
AND ROUND OPTIONS ARE USED (CV'S 7 & 8) TYPE A 1,
FOR NO EXPLANATION HIT CR
?
>1
TAXABLE WAGE BASE FOR ANY GIVEN YEAR, INPUT OR MODEL GENERATED, MUST BE .GE.
EXISTING TWB, OR EXISTING TWB WILL BE USED. IN ADDITION, CV'S 7 & 8 ALLOW
YOU TO PUT CONDITIONS ON THE YEARLY INCREASE IN TWB BY 1) ALLOWING YOU TO
SPECIFY A MINIMUM AMOUNT (X) SO THAT IF THE INCREASE IS LESS THAN X THE PRIOR
```

```
YEAR VALUE WILL BE USED WITH NO INCREASE; AND BY 2) ALLOWING YOU TO SPECIFY
A NUMBER (Y, IE. 100) TO ROUND DOWN TO, SO THAT A TWB WOULD BE ROUNDED DOWN
TO THE NEAREST Y .GE. (PRIOR YEAR + X). SETTING Y = 0 INDICATES THAT TWB
CAN INCREASE ONLY IN INCREMENTS OF X. SETTING Y = 1 IN ESSENCE ELIMINATES
ROUNDING, SINCE THE TWB IS THEN ROUNDED DOWN TO THE NEAREST INTEGER. X AND
Y BOTH MAY HAVE INTEGER VALUES FROM 0 TO 1000.
TO CHANGE A CV OPTION TYPE CV# AND NEW VALUE.
TO CHANGE INTEREST RATES, CV'S 10&11, TYPE CV# AND A SLASH(/)
TO CHANGE STATES OR REGIONS RUN TYPE A 12 AND THE TOTAL # OF STATES OR
REGIONS TO BE RUN. HIT CR IF DONE WITH CV'S.
?
>4 2
CONTINUE WITH NEXT CV, OR HIT CR IF DONE.
?
>12 2
IF ENTERING STATES TYPE A 1, IF REGIONS TYPE A 2.
?
>1
ENTER ALPHA CODES OF STATES TO BE RUN, EACH INCLOSED IN SINGLE QUOTES AND
SEPARATED BY A COMMA OR SPACE.
 2 ALPHA CODES SHOULD BE ENTERED.
?
>'NJ' 'NY'
CONTINUE WITH NEXT CV, OR HIT CR IF DONE.
?
>
CURRENT CONTROL VARIABLES (CV'S) IN EFFECT:

CV#     DEFINITION                                                    VALUE

 1   BENEFIT SOURCE: 1=URBAN MODEL, 2=USER BY STATE, 3=USER US TOTAL     3
 2   TAXABLE WAGE BASE: 1=USER SUPPLIED, 2=MODEL GENERATED               2
 3   WEIGHTED AV. TAX RATE: 1=USER SUPPLIED, 2=MODEL GENERATED           2
 4   PRINTOUT WANTED: 1=SUMMARY ONLY, 2=STATE DETAIL+SUMMARY             2
 5   MATRIX PRINTOUT WANTED: 1=NONE, 2=80 CHAR., 3=132 CHAR.             3
 6   IUR SUPPLIED: 1=BY STATE, 2=NATIONAL AVERAGE                        2
 7   TWB MINIMUM INCREMENT                                            1000
 8   TWB ROUND DOWN TO NUMBER                                            0
 9   SOLVENCY RATIO WANTED(=0 IF NOT USED)                             1.5
10   INT. RATE FOR + FUND BAL. BY YR=  5.50  5.50  5.50  5.50  5.50  5.50
11   INT. RATE FOR - FUND BAL. BY YR=  0.0   0.0   0.0   0.0   0.0   0.0

STATE(S) CHOSEN: NJ NY

IF THE ABOVE VALUES ARE OK JUST HIT CR
IF THERE'S AN ERROR TYPE A 1.
>

IF YOU WANT SV VALUES LISTED BEFORE MAKING A CHANGE TYPE A 1;
HIT CR FOR NO LISTING.
>1
SCENARIO VARIABLES (SV'S) AVAILABLE FOR USE, DETERMINED BY CONTROL VARIABLES
CHOSEN. AS EACH VARIABLE IS LISTED INDICATE IF AND HOW YOU WISH TO CHANGE
VARIABLE VALUES FOR USAGE AS FOLLOWS:
TYPE A 1 TO INDICATE STATE-BY-STATE VALUES WILL BE ENTERED;
TYPE A 2 TO INDICATE A COMMON VALUE FOR ALL STATES BEING RUN WILL BE ENTERED;
HIT CR TO KEEP VARIABLE VALUES UNCHANGED.
A USAGE OF 0 INDICATES VAR. WASN'T USED IN LAST RUN.
(IF YOU WANT TO CHANGE VAR. VALUES KEEPING THE SAME USAGE
 TYPE IN THE USAGE. HITTING CR WILL KEEP USAGE AND VALUES UNCHANGED)

IUR              CURRENT USAGE = 2
NOW SET TO:      3.10      3.10      3.10      3.10      3.10      3.10
>2

% INCR. IN AWW   CURRENT USAGE = 2
NOW SET TO:     10.00     10.00     10.00     10.00     10.00     10.00
>

TWB % OF AWW     CURRENT USAGE = 2
NOW SET TO:     50.00     50.00     50.00     50.00     50.00     50.00
>

BENEFIT AMT.     CURRENT USAGE = 2
NOW SET TO:12200000.0012200000.0012200000.0012200000.0012200000.0012200000.00
>
```

```
ENTER COMMON VALUES FOR IUR                    6 NUMBERS
>3.10 3.20 3.40 3.50 3.60 3.70
AT THIS POINT YOU CAN HAVE LISTED THE VALUES FOR SOME OR ALL OF THE STATES
YOU HAVE WORKED ON. TO HAVE ONLY SOME OF THE STATES LISTED TYPE IN THE
NUMBER OF STATES YOU WANT, FOLLOWED BY EACH STATE ALPHA CODE IN SINGLE
QUOTES, ALL SEPARATED BY A COMMA OR SPACE.
TO HAVE ALL STATES WORKED ON LISTED TYPE A 1 FOLLOWED BY 'ALL' IN SINGLE QUOTES.
FOR NO LISTING HIT CR.
>
IF YOU'RE DONE HIT CR, IF YOU HAVE FURTHER CHANGES TO MAKE TYPE A 1.
>
Edit program finished
T=0.19/0.79 16:30:59
COMMAND:
>SAVE
Working file last saved at 11:50 on 6/02/80
OK to replace that copy?
>YES
Active file saved as working file.
T=0.03/0.10 16:31:25
COMMAND:
>RUN W T
EXECUTION BEGINS...

          NATIONAL COMMISSION ON UNEMPLOYMENT COMPENSATION
       STATE ALLOCATION FINANCIAL FORECAST ECONOMIC RESEARCH MODEL
                        S A F F E R   M O D E L

JUN  9, 1980                                                    VERSION 06
                TYPE OF RUN: TEST
                      STATE: NJ (34)
        YEAR STARTING WITH: 79
NUMBER OF YEARS TO FORECAST:  6
  NUMBER OF STATES FORECAST:  2
           BENEFIT ORIGIN: USER SUPPLIED,MODEL ADJ.NAT'L VALUE
  TAXABLE WAGE BASE ORIGIN: COMPUTED FROM AVG. WEEKLY  WAGE
  WGT.AVG. TAX RATE ORIGIN: COMPUTED
             IUR ORIGIN: USER SUPPLIED,MODEL ADJ.NAT'L VALUE
       SOLVENCY CRITERION:  1.5
           OUTPUT PRINTED: STATE SPECIFIC AND AGGREGATE
       FINAL SUMMARY PAGE: 132 CHARACTERS

            1979        1980        1981        1982        1983        1984

 IUR         4.1         4.2         4.5         4.6         4.8         4.9

BASE      8000.       8800.       9700.      10600.      11700.      12800.

RATE      3.9508      4.1446      4.1251      4.0217      3.8583      3.6336

DIFF         1.6         4.9        -0.5        -2.5        -4.1        -5.8

FRAC       54.00       54.00       54.00       54.00       54.00       54.00

WAGE      284.05      312.45      343.70      378.07      415.87      457.46

GROW       10.00       10.00       10.00       10.00       10.00       10.00

TXBLE  17547788.   19271317.   21181927.   23104826.   25426464.   27748101.

DRAIN    741272.     741272.     741272.     741272.     741272.     741272.

POSRT       5.50        5.50        5.50        5.50        5.50        5.50

NEGRT        0.0         0.0         0.0         0.0         0.0         0.0

INTER         0.          0.       2609.      18612.      38346.      60662.

REVNU    693282.     798719.     873785.     929198.     981035.    1008261.

 FUND   -343375.    -185503.      50044.     357007.     735540.    1163617.

TARGT   1610193.    1771212.    1948333.    2143167.    2357483.    2593232.

TGTRT     14.6053      9.0339      7.0728      6.0326      5.3518      4.8625
```

*** NOTE--DATA REPORTED IN 1000: TAXABLE WAGES,BENEFIT DRAIN,INTEREST ON FUND,REVENUE & END BALANCE.

NATIONAL COMMISSION ON UNEMPLOYMENT COMPENSATION
STATE ALLOCATION FINANCIAL FORECAST ECONOMIC RESEARCH MODEL
S A F F E R M O D E L

JUN 9, 1980 VERSION 06

TYPE OF RUN: TEST
STATE: NY (36)
YEAR STARTING WITH: 79
NUMBER OF YEARS TO FORECAST: 6
NUMBER OF STATES FORECAST: 2
BENEFIT ORIGIN: USER SUPPLIED,MODEL ADJ.NAT'L VALUE
TAXABLE WAGE BASE ORIGIN: COMPUTED FROM AVG. WEEKLY WAGE
WGT.AVG. TAX RATE ORIGIN: COMPUTED
IUR ORIGIN: USER SUPPLIED,MODEL ADJ.NAT'L VALUE
SOLVENCY CRITERION: 1.5
OUTPUT PRINTED: STATE SPECIFIC AND AGGREGATE
FINAL SUMMARY PAGE: 132 CHARACTERS

	1979	1980	1981	1982	1983	1984
IUR	3.6	3.7	3.9	4.0	4.1	4.2
BASE	7200.	8200.	9200.	9200.	10200.	12200.
RATE	4.4971	4.9462	4.9103	4.4155	3.6002	2.6638
DIFF	10.8	10.0	-0.7	-10.1	-18.5	-26.0
FRAC	50.00	50.00	50.00	50.00	50.00	50.00
WAGE	293.73	323.10	355.41	390.95	430.05	473.05
GROW	10.00	10.00	10.00	10.00	10.00	10.00
TXBLE	35149842.	38795112.	42405489.	42680936.	46326207.	53341302.
DRAIN	1341878.	1341878.	1341878.	1341878.	1341878.	1341878.
POSRT	5.50	5.50	5.50	5.50	5.50	5.50
NEGRT	0.0	0.0	0.0	0.0	0.0	0.0
INTER	30883.	73755.	127968.	174293.	211244.	236647.
REVNU	1580711.	1918891.	2082224.	1884597.	1667824.	1420907.
FUND	592400.	1414759.	2454663.	3343265.	4052045.	4539311.
TARGT	2934428.	3227871.	3550658.	3905724.	4296297.	4725926.
TGTRT	10.8127	6.9916	5.6386	5.0074	4.5757	4.2053

*** NOTE--DATA REPORTED IN 1000: TAXABLE WAGES,BENEFIT DRAIN,INTEREST ON FUND,REVENUE & END BALANCE.

NATIONAL COMMISSION ON UNEMPLOYMENT COMPENSATION
STATE ALLOCATION FINANCIAL FORECAST ECONOMIC RESEARCH MODEL
S A F F E R M O D E L

JUN 9, 1980 VERSION 06

TYPE OF RUN: TEST
STATE: STATE AGGREGATE
YEAR STARTING WITH: 79
NUMBER OF YEARS TO FORECAST: 6
NUMBER OF STATES FORECAST: 2
BENEFIT ORIGIN: USER SUPPLIED,MODEL ADJ.NAT'L VALUE
TAXABLE WAGE BASE ORIGIN: COMPUTED FROM AVG. WEEKLY WAGE
WGT.AVG. TAX RATE ORIGIN: COMPUTED
IUR ORIGIN: USER SUPPLIED,MODEL ADJ.NAT'L VALUE

```
SOLVENCY CRITERION:  1.5
    OUTPUT PRINTED: STATE SPECIFIC AND AGGREGATE
FINAL SUMMARY PAGE: 132 CHARACTERS
```

	1979	1980	1981	1982	1983	1984
IUR	3.7	3.8	4.1	4.2	4.3	4.4
BASE	7439.	8379.	9349.	9618.	10648.	12379.
RATE	4.3152	4.6802	4.6487	4.2772	3.6917	2.9957
DIFF	8.1	8.5	-0.7	-8.0	-13.7	-18.9
FRAC	51.19	51.19	51.19	51.19	51.19	51.19
WAGE	290.84	319.92	351.91	387.10	425.81	468.39
TXBLE	52697629.	58066430.	63587417.	65785762.	71752670.	81089403.
DRAIN	2083150.	2083150.	2083150.	2083150.	2083150.	2083150.
POSRT	5.50	5.50	5.50	5.50	5.50	5.50
NEGRT	0.0	0.0	0.0	0.0	0.0	0.0
INTER	30883.	73755.	130577.	192905.	249590.	297309.
REVNU	2273993.	2717611.	2956010.	2813795.	2648858.	2429169.
FUND	249025.	1229256.	2504707.	3700272.	4787585.	5702927.
TARGT	4544621.	4999083.	5498992.	6048891.	6653780.	7319158.
TGTRT	12.0756	7.6705	6.1157	5.3533	4.8403	4.4295

*** NOTE--DATA REPORTED IN 1000: TAXABLE WAGES,BENEFIT DRAIN,INTEREST ON FUND,REVENUE & END BALANCE.

RUN ON JUN 9, 1980 — NATIONAL COMMISSION ON UNEMPLOYMENT COMPENSATION — PAGE 1 OF 1
STATE ALLOCATION FINANCIAL FORECAST ECONOMIC RESEARCH MODEL
S A F F E R M O D E L

STATE	1980 TAXABLE WAGES	1980 TAX REVENUE	1981 TAXABLE WAGES	1981 TAX REVENUE	1982 TAXABLE WAGES	1982 TAX REVENUE	1983 TAXABLE WAGES	1983 TAX REVENUE	1984 TAXABLE WAGES	1984 TAX REVENUE
NJ(34)	19271317.	798719.	21181927.	873785.	23104826.	929198.	25426464.	981035.	27748101.	1008261.
NY(36)	38795112.	1918891.	42405489.	2082224.	42680936.	1884597.	46326207.	1667824.	53341302.	1420907.
TOTAL	58066430.	2717611.	63587417.	2956010.	65785762.	2813795.	71752670.	2648858.	81089403.	2429169.

```
SUCCESSFUL END OF JOB - SAFFER MODEL
Run complete
T=0.19/0.83 16:36:19
COMMAND:
>QUIT
T=0.49/2.18 16:36:42
R>

C>
```

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A Simulation Model of Unemployment Compensation Benefits

Wayne Vroman

Since October 1978, the Urban Institute, under contract with the U.S. Department of Labor (DOL) and the National Commission on Unemployment Compensation, has been constructing a microeconomic simulation model of unemployment insurance (UI) capable of examining UI issues. Three major applications of the model are:

- to provide estimates of benefit outlays, by State, under different unemployment rates;
- to provide cost estimates, by State, of possible changes in benefit formulas and eligibility criteria; and
- to provide measures of income loss replacement by benefits.

A working version of the 1980 model is in use both at the Urban Institute and at the DOL. Although the model needs further development, it can now be used to make program cost estimates by State and to examine replacement rates on a worker-by-worker basis.

An Overview of the Microsimulation Model

The Urban Institute UI model is a larger-scale microsimulation model that may be used for research, policy analysis, and forecasting. It is built on a State-representative data base so that individual States may be examined as well as national aggregates. The model is flexible, allowing the user to analyze different calendar years, to assume different national and State-specific unemployment rates, and to change the most important program parameters in any State. Since it uses microrecords, the model can examine both individual workers and aggregations.

This model combines, within a consistent framework, micro detail on each worker's labor force and unemployment status, previous work history, and other relevant information. It simulates annual experiences of workers and their families using parameters derived from several data sources. Since receipt or nonreceipt of unemployment compensation (UC) is the primary concern, the model has decision rules on applications, eligibility determinations, benefit levels, and possible benefit exhaustions. Model parameters reflect both the statutory provisions and the administrative behavior of 51 separate State UI programs. The complete model, which also simulates tax payments and the possible receipt of other transfer payments, can estimate the extent of income loss replacement afforded by program benefits.

The Survey of Income and Education (SIE) is a primary source of data for the model.[1] This survey, which was conducted for the Department of Health, Education, and Welfare in 1976, gives the model a data base with unique advantages for conducting research on UI. The SIE was a large-scale survey of about 150,000 households with primary sampling units in every State. Included in its microrecords are data on previous-year labor market experiences, demographics (age, race, sex, and schooling), income sources of each family member, and the family's State of residence. The data base for the model is large, comprehensive, reasonably current, and State-representative. Although the SIE was conducted during 1976, its microrecords can be used for other years. By using another Urban Institute microsimulation model, the TRIM model, the data base can be "aged" to the other years.[2] The SIE data base is currently being used to forecast State UI benefit outlays for 1980.

The Urban Institute UI model's structure is recursive with three major blocks or modules.[3] The ordering of the modules is as follows: the current labor market module, the UI benefits module, and the income adjustment module. When the model is being used, the input-output routine of each module is the same. An input tape is read and detailed model computations then determine simulated outputs. The outputs are displayed in a set of tabulations and can be appended to the microrecords of the original input tape. The ap-

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pended tape then becomes the input tape for the next module. The first two modules operate entirely with individual, or person, records. After passing through these modules, the person records for all workers with unemployment are matched with the family records. The combined person-family records then serve as inputs into the income-adjustment module. This module relies heavily on the Urban Institute TRIM model to estimate the effect of unemployment on net family income.

Table 1 displays selected summary information. The first column identifies three modules and a fourth substantive area—labor supply feedback effects. This fourth area interfaces with the first module, but output from the income adjustment module is needed before labor supply effects can be estimated. Within the first two modules, the model structure is again recursive. Column 2 shows the ordering of the endogenous variables. Earlier variables in the lists—reason for unemployment—enter into the determination of later variables—duration of unemployment. Fringe benefits, work expenses, and age-earnings growth are determined simultaneously in the income adjustment module. Other transfer payments are then determined in an order reflecting their respective program definitions of countable income. Finally, taxes are simulated. All of these determinations are made by passing combined person-family records through a version of the TRIM model.

Since the UI model has a recursive structure, a behavioral relation can be changed in one module and the consequences examined. The specification and programming of the decision rule for a particular endogenous variable are changed by the user and the module is recompiled (or reassembled). By making before-after comparisons, the effects of the change can be seen. In contrast to a fully simultaneous equation structure, this recursive structure is much easier to modify.

TABLE 1. Structure of the microsimulation model

Specific module	Endogenous or decision variables
Current labor market module	Labor force participation, Unemployment occurrences, Reason for unemployment, Duration of unemployment, Weeks of employment, Weeks in the labor force
Unemployment insurance benefits module	Model base period work experience, UI coverage, UI applications, Monetary determinations, Nonmonetary determinations, Exhaustions, Duration of benefits, Weekly benefits, Total benefits, Gross weekly replacement rates
Income adjustment module	Fringe benefits, Work expenses, Age-earnings growth, Other transfer payments, Taxes, Weekly net replacement rates
Labor supply feedback effects	Effects of benefits and potential duration on duration of unemployment and duration of employment

A major output of the income adjustment module is the ratio of weekly benefits to weekly net income loss. This ratio or replacement rate is an important factor in determining the work disincentive effects of UI benefits. After the replacement rate is computed, it can be appended to the current labor market module, and unemployment duration can be computed. In this cycle, workers with high replacement rates will have longer unemployment duration. Durations will be shorter among those with low average replacement rates. After recomputing weeks of unemployment, the records can be passed through the benefits and income adjustment modules a second time. Outputs from the second iteration can be based on various labor supply feedback assumptions. To date, labor supply feedback effects have not been programmed into the model.

The simulated outputs of each module can be summarized as follows. The current labor market module yields annual work experience estimates of labor force participation, workers with unemployment, total weeks of unemployment, and total weeks of employment. These estimates can be displayed either nationally or by State. The benefits module then makes estimates of various State UI program-related variables, including number of covered workers, number of benefit applicants, number of monetary and nonmonetary determinations, weeks of benefits, number of exhaustions, average weekly benefits, and total benefit outlays. When outputs from the first two modules are combined, they can produce measures such as weeks compensated as a fraction of total weeks unemployed and gross replacement rates. Primary outputs of the income adjustment module are measures of net replacement rates. A major strength of the model is its ability to measure replacement rates in microrecords as well as under several alternative replacement-rate definitions.

A unique feature of the benefits module is a rectangular matrix of parameters pertaining to the important statutory provisions and administrative features of each State's program. There are 51 rows (one for each State and D.C.) and 45 columns of parameters, covering base period earnings requirements, benefit formulas, disqualification rates, penalty periods, and maximum benefit durations. A simple algorithm accompanying the matrix allows the user to change individual matrix entries, entire rows, or entire columns. Up to 10 different configurations of this parameter matrix can be examined in a single pass through the benefits module. Each of the 10 options may contain several hundred modifications of the baseline matrix, which has the historic program parameters for the year of interest. Using the complete model, the range of policy analyses

TABLE 2. The current labor market module of the UI model

Basic sequence in the model	Behavioral decisions
Labor force participation	Labor force participant: Yes–No
Occurrence of unemployment	Unemployment occurrence: Yes–No
Reason for unemployment	Reason: loser, leaver, reentrant, or new entrant
Unemployment duration	Duration: in weeks
Weeks of employment	Duration: in weeks
Weeks in the labor force	Identity: weeks of unemployment plus weeks of employment

includes not only cost estimates but also estimates of the distributional consequences of changes in the State UI program.

The Current Labor Market Module

The model simulates current-year labor market experiences for each person in the civilian, noninstitutional population aged 16 and older. Detailed microeconomic decision rules determine labor force participation, unemployment occurrences, and unemployment duration. These simulated experiences then serve as background variables in the benefit application–benefit determination process.

Six microeconomic variables are endogenous in the current labor-market module. As indicated in Table 2, five variables are determined by behavioral relations, and the sixth is an identity. The variables are simulated sequentially. Labor force participation is determined first and the identity defining weeks in the labor force is determined last.

The variables in the current labor market module are simulated by calendar year with labor force participation and unemployment occurrences both assigned zero-one variables. Multiple occurrences within the year are not distinguished from single occurrences. Weeks of employment and weeks of unemployment are both annual totals. Each worker experiencing unemployment is assigned to one of four mutually exclusive "reason-for-unemployment" categories, since these reasons often determine potential eligibility for UI benefits.

Use of a calendar-year perspective has advantages and disadvantages. A major advantage is the comparison of simulated output with annual data from DOL work experience reports. These data serve as external benchmarks. A second advantage is that a 12-month period closely agrees with the "benefit year" concept used by State UI programs. Once unemployed workers establish a valid benefit claim, they are eligible for a maximum number of weeks of benefits in that benefit year. That established eligibility then applies to any other unemployment spells the worker has during that benefit year.

However, the calendar-year perspective is not useful for data published only on a per-spell basis. For these variables, there are no available benchmarks with which to align model outputs. Also, since the model assigns only a single reason for unemployment, it will not fully reflect the possibility that persons with multiple spells of unemployment may have multiple reasons for unemployment. This simplification will not greatly affect model estimates of eligibility and benefit payments.

There are two other problems associated with simulating annual unemployment. First, estimates of total annual unemployment based on work experience data are lower than estimates based on the monthly labor force survey. The size of the understatement, documented in papers by Morgenstern and Barrett [4] and Vroman,[5] is especially large for women and younger workers. Unfortunately, there is no good way to determine the source of the underestimates. In the model, we assume the underestimates are equally divided between unemployment occurrences and unemployment durations. Second, reliable data on unemployment by State do not exist. Such data are vital, however, if the model is to produce accurate State estimates of benefit outlays. Since 1976, the DOL's monthly household labor force survey has produced annual State estimates of unemployment. In States with large populations, the estimates are undoubtedly quite accurate. In smaller States, however, the sampling errors may be quite large.[6] These State unemployment estimates were used as benchmarks for the model, but there is potential for large sampling errors in many States.

The current labor market module has a sequential or recursive structure. Each variable in the sequence acts as a determinant of subsequent variables. Labor force participation, the first step in the sequence, is a necessary precondition if the worker is to experience unemployment. Similarly, the reason for unemployment affects unemployment duration which in turn influences weeks of employment. This recursive model structure is a convenient approximation of a labor market. The labor supply of individual workers may respond to aggregate demand for labor, to the level of State UI benefit payments, or to the stringency of program administration.[7] The initial modeling of labor supply responses will focus on the effects of weekly benefits on unemployment duration. The details of the labor supply feedback effects, however, have not yet been determined.

It will be useful to describe the content of five behavioral relations listed in Table 2.

Labor force participation

Labor force participation rates vary widely across the various demographic subgroups in the population. In the model, labor force participation depends on previous participation, a large number of personal and family characteristics, and the income characteristics of individual households. The participation parameters are largely based on the participation relationship used in the Urban Institute microsimulation model DYNASIM.[8] Labor force participation is heavily conditioned by participation in the previous year. In developing the DYNASIM model, Urban Institute researchers examined annual worker participation using 1968–1973 data from the University of Michigan Panel Study of Income Dynamics.[9] These longitudinal data show clearly the importance of previous participation on the current year's participation decision. Several personal and family characteristics also influence labor force participation; DYNASIM explicitly includes age, sex, race, educational attainment, marital status, disability status, and, for married women, the presence of children under 6 years of age. A final determinant of participation is family income (total income, nonwife income, and selected transfer payments). The full labor force participation relation in DYNASIM is displayed in Orcutt et al.[10]

One variable not present in the DYNASIM labor force participation function is an unemployment rate or some other measure of overall labor market demand. When aggregate demand rises, there is no additional worker effect or discouraged worker effect (see Mincer [11] and Dernburg and Strend [12]) to change aggregate labor force participation. Although the omission of a labor force participation response to unemployment may cause some errors in aggregate participation rates, the size of the errors is comparatively modest. An advantage of this simplification is that it allows the current labor market to have a recursive structure, rather than a simultaneous structure in which participation is dependent on the unemployment rate.

Unemployment occurrences

Each year, a substantial proportion of the labor force, 15 to 20 percent of the total, experiences at least one unemployment spell. The aggregate proportion of unemployment is very responsive to the economy's overall unemployment rate. At the micro level, unemployment occurrences are strongly associated with such worker characteristics as age, sex, race, occupation, self-employment status, industry of employment, and State of residence. A primary data source showing the association between these variables and unemployment is DOL work experience reports. The model relies heavily on these data in developing the parameters that determine unemployment occurrences.

For each microrecord, the probability of unemployment is determined as the product of nine separate factors. The form of the occurrence function is as follows:

$$P_{it} = PB_{it} \cdot XO_{it} \qquad (1)$$

where P_{it} is the probability of unemployment for workers in the ith demographic group in year t; PB_{it} is the basic probability of unemployment for workers in selected age-sex groups in year t; and XO_{it} is a proportionate adjustment to the basic probability of unemployment. In relation (1), PB_{it} was examined for 16 age-sex groups using Bureau of Labor Statistics work experience data for the 11-year period from 1967 to 1977. Regressions were fitted to explain time series variation in PB_{it} with the unemployment rate for white men aged 35–54 and a linear trend as explanatory variables. Generally, the fits were satisfactory with the unemployment variable being significant in all 16 regressions.

The variable XO_{it} in relation (1) is a multiplicative adjustment that is the product of six proportional adjustments. These adjustments are for the worker's race, self-employment status, industry, occupation, State of residence, and for the underreporting of unemployment in work experience data, respectively. Except for the State-of-residence adjustment, these adjustments are all based on data published in work experience reports. State-of-residence adjustments are based on monthly labor force survey estimates of unemployment by State.

The underreporting adjustment deserves more explanation. Annual average unemployment can be estimated in two different ways: as the average of a number of monthly or weekly observations, or as the product of persons with unemployment times the average (mean) fraction of the year they are unemployed. The first type of measure can be obtained from averages of data in 12 monthly labor force surveys and the second can be obtained from work experience reports. Papers by Morgenstern and Barrett [13] and by Vroman [14] show the work experience reports yield consistently lower unemployment estimates than the monthly survey averages. Both papers conclude that the source of the discrepancy is underreporting of unemployment in the work experience reports. The simulation model assumes the underreporting to occur equally in the occurrences and in the duration of unemployment. This is the reason for the underreporting adjustment in XO_{it}.

Reason for unemployment

A major objective of UI is to provide benefits to job losers. Those who quit their jobs and other job leavers are more likely to be disqualified by State UI programs. Because of differences in program eligibility, it is im-

portant to distinguish unemployed job losers from unemployed job leavers.

Annual work experience data do not distinguish different reasons for unemployment. Data from the DOL's monthly labor force survey make such distinctions and classify unemployed persons into four categories: job losers, job leavers, labor force reentrants, and new entrants into the labor force. Reentrants and new entrants represented 42 percent of all unemployment in calendar year 1977, particularly among younger and female workers.

In the model, each unemployed worker is assigned only one of these four reasons for unemployment. This one assigned reason is considered the major reason for unemployment, accounts for the largest number of weeks, and is analogous to the major industry and major occupation assigned to workers who hold two or more jobs in a single year.

Workers in three of the four unemployment categories (job losers, job leavers, and labor force reentrants) have held jobs previously. Therefore, these workers have accumulated base period earnings credits and may be eligible for State UI benefits. All unemployed reentrants are either job losers or job leavers. It is necessary to make this distinction because job losers are more likely to become program beneficiaries than are job leavers.

Workers are assigned one of the four reasons for unemployment on a probabilistic basis. Five controls are used in the model to determine the probabilities for each microrecord: age, sex, race, the overall unemployment rate, and the number of weeks worked during the previous year. The unemployment rate is a major control because the job loser proportion rises sharply in recessions and falls in upturns. The weeks in labor force control is also very important. Tabulations of data in the SIE showed new entrants to have by far the fewest weeks in the labor force in the previous year—often zero weeks—while job losers were the most likely to have been active in the labor force during all 52 weeks.

The reason for unemployment probabilities are determined according to the following relation:

$$PR_{ijt} = PRB_{ijt} \cdot XR_{ijt} \qquad (2)$$

where PR_{ijt} is the probability of unemployment due to reason j ($j = 1, \ldots, 4$) among workers in the ith demographic group in year t; PRB_{ijt} is the basic probability of unemployment due to reason j; and XR_{ijt} is a proportionate adjustment to the basic probability. In relation (2), the PRB_{ijt}'s are determined by multiple regressions based on 1967–1977 annual data. For 16 age-sex groups, the basic probability is a function of the unemployment rate for white men aged 35 to 54 and of a linear trend. Job loser proportions are positively associated with the white male 35–54 unemployment rate while the other proportions in general have a negative association with this cyclical variable. The XR_{ijt}'s in (2) introduce the race adjustments and weeks in labor force adjustments into the probabilities. For each demographic cell, the PR_{ijt}'s are constrained to sum to unity. Thus, each unemployed worker has one and only one reason for unemployment.

Duration of unemployment

Among workers experiencing unemployment, the duration of individual spells is highly varied. The approach used in the model is to decompose annual weeks of unemployment into a central tendency and a random component that deviates about the central tendency:

$$D_{ijt} = \overline{D}_{ijt} + (D_{ijt} - \overline{D}_{ijt}) \qquad (3)$$

The central tendency in (3) ($\overline{D}_{ijt}$) is dependent on 10 control variables while the random component ($D_{ijt} - \overline{D}_{ijt}$) is estimated by drawing random numbers from a negative exponential distribution whose mean is $\overline{D}_{ijt}$. Since the negative exponential is a one-parameter distribution, its mean is sufficient for determining the individual deviations. In the aggregate, this distribution closely approximates the actual unemployment duration distribution.

Relation (4) illustrates how the mean duration of unemployment is determined for each microrecord.

$$\overline{D}_{ijt} = \overline{DB}_{it} \cdot XD_{ijt} \qquad (4)$$

where $\overline{D}_{ijt}$ is the mean duration of unemployment for workers in the ith demographic group with the jth reason for unemployment in year t; $\overline{DB}_{it}$ is the mean basic duration of unemployment for workers in demographic group i in year t; and XD_{ijt} is a proportionate adjustment to the mean basic duration of unemployment. The mean basic duration ($\overline{DB}_{it}$) is determined on the basis of multiple regression equations for 16 age-sex groups. These equations use the unemployment rate for white men aged 35 to 54 (current and lagged one year) and a linear trend to explain mean duration for the 11 years 1967 to 1977. Positive coefficients were found for both current and lagged unemployment in these regressions.

The proportionate adjustment (XD_{ijt}) introduces into relation (4) additional controls for race, occupation, student status, industry, State of residence, reason for unemployment, and work experience data undercounts of unemployment. Reason for unemployment is an important control because job losers typically have the longest unemployment durations. Tabulations of 1975 data from the SIE show that mean durations vary widely by State. The State duration adjustments actually used are based on monthly labor force survey estimates of unemployment by State.

In subsequent versions of the model, unemployment duration can be modeled to depend on the level of State UI program benefits. There can be an explicit

proportionate adjustment that depends on the ratio of weekly benefits to weekly net income loss due to unemployment. This "replacement rate" effect can be specified and aligned after weekly benefits and weekly net income losses have been determined elsewhere in the model. As of July 1980, no explicit labor supply feedback effects have been incorporated into the model.

The model uses a negative exponential distribution to approximate the actual distribution of unemployment. Compared to actual distributions, these simulated distributions underestimate the proportions of workers with very short and very long unemployment durations. Despite this shortcoming, the negative exponential provides a good overall approximation and is very convenient to use. An estimated mean can determine the entire distribution of unemployment durations. The means, of course, are estimated with considerable microeconomic detail using relation (4).

Weeks of employment

Most adult workers choose active employment on a year-round basis. Their weeks of employment can be determined by subtracting weeks of unemployment and sick leave from 52. Among younger and female workers, however, other responsibilities (taking care of one's family or attending school) reduce labor force availability. This group and workers on prolonged unemployment are separated from the labor force for a substantial period. Determining weeks of employment for them is much more complicated. At the micro level, precise determination of weeks of employment for many demographic groups is currently quite limited.

The simulation model determines weeks of employment for each labor force participant on a probabilistic basis. Within 1 year, each worker will be employed from 0 to 52 weeks. Weeks of employment distributions have been tabulated using 1975 data from the SIE. The tabulations are controlled for worker age, sex, school enrollment status, and weeks of unemployment. Decision rules in the model attempt to reproduce these distributions. For most demographic cross classifications, there are four separate probabilities that sum to unity and determine weeks of employment: (1) the probability of 0 weeks, (2) the probability of $(52-D)$ weeks where D is the duration of unemployment, (3) the probability of $(52-D-S)$ weeks where S is weeks of illness, a random variable distributed negative exponentially between 1 and 12 weeks, and (4) the probability that weeks of employment ranges from 1 to $(52-D-1)$ weeks and is distributed uniformly over that interval. These four probabilities provide very close approximations to the weeks of employment distributions observed in the SIE data.

It should be stressed that the model's treatment of weeks of employment is stochastic and not behavioral. There are two justifications for this. First, weeks of employment is important in the model mainly as a determinant of current-year labor market earnings. Labor market earnings are a major component of family income and a determinant of potential eligibility for income-conditioned transfer payments. Weeks of employment is not directly important to State UI program costs or to replacement rate analysis, which are two main applications of the microsimulation model. Second, accurate modeling of the weeks of employment decision would be a major task, because the relationship is so complex at the micro level.

Weeks of employment and weeks of unemployment are combined to define weeks in the labor force. This identity is the last relation in the current labor market module as depicted in Table 2.

The UI Benefits Module

Total UI benefits received by a worker are the product of the weekly benefit and the benefit duration. The benefits module makes three decisions in simulating program benefit payments: attributing the receipt of benefits to each microrecord (a yes–no determination); assigning a benefit duration (in weeks); and assigning a weekly benefit amount. Like the model's current labor market module, the benefits module has a recursive structure. A large number of predetermined variables is used in making benefit determinations.

The predetermined variables

There are four main types of predetermined variables in the benefits module: (1) personal characteristics like sex, age, and student status; (2) unemployment duration and the reason for unemployment as simulated in the current labor market module; (3) the worker's base period work experience, which includes total earnings and weeks worked by quarter; and (4) the major statutory provisions and administrative parameters of the individual State UI programs. Each of the four influences the likelihood of receiving benefits and/or the weekly benefit amount.

An unemployment variable is used in the benefits module as a dichotomous variable. Every potential beneficiary is either a job loser or a job leaver. The current labor market module, in contrast, identifies four reasons for unemployment: job loser, job leaver, labor force reentrant, and new entrant into the labor force. The reduction from four to two reasons for unemployment is accomplished as follows. It is assumed that none of the unemployed new entrants (who are mainly teenagers) apply for program benefits. The unemployed reentrants are split into job losers and job leavers on a probabilistic basis. Overall, about seven-tenths of the reentrants are assumed to be job losers.

A key element in the benefits module is the amount

of benefit eligibility, which is determined by comparing data on the worker's actual earnings history against minimum State requirements for earnings amounts and/or for weeks of employment. The most common requirement is that the worker's highest quarterly earnings in the base period must exceed a fixed dollar amount. The model must estimate the worker's earnings and weeks of employment in the year prior to unemployment. Estimates of these amounts are based on the 1975 work experience data in the SIE. Weeks of employment per quarter are simulated using demographic and industry seasonal adjustments, along with stochastic factors to allocate the annual total into four parts. Quarterly earnings are then derived by combining these simulations with quarterly estimates of the worker's average weekly wage.

Important State UI program variables have been collected on a State-by-State basis. The major statutory provisions regarding benefit formulas and monetary eligibility requirements are summarized in the DOL's "Comparison of State Unemployment Insurance Laws."[15] Measures of administrative performance in such areas as disqualifications for voluntary job leaving and discharge for misconduct appear in the DOL publication "Unemployment Insurance Statistics."[16] When there were ambiguities in the published material from these sources, the author consulted with experts at the Unemployment Insurance Service of the DOL.[17] The individual values for this fourth category of predetermined variables in the benefits module are contained in a summary matrix, whose entries can easily be changed by the user. The user can thus perform a wide range of policy analyses with the model.

The receipt of program benefits

To receive program benefits, the unemployed worker must (1) apply for benefits, (2) be covered, (3) have sufficient base-period earnings (or be monetarily eligible), and (4) meet nonmonetary eligibility requirements. Since an initial determination of any of these items could be in error, there may also be appeals by workers or employers. Such appeals and resulting final determinations can be viewed as the fifth and final step in the eligibility determination process. Table 3 summarizes a number of main points of the model's treatment of receipt of benefits.

In the model, the five steps determining the receipt of benefits are treated as a sequential process whose ordering is shown in the left-hand column of Table 3. At each step, some unemployed workers are screened out while others advance. The ordering shown in Table 3 conforms closely to the actual sequence of events that occurs in applying for benefits. The model does not explicitly incorporate appeals and final determinations. Less than 5 percent of all claims for benefits lead to appeals of initial determinations. Since appeals are decided both for and against workers, the net effect of the appeals process is to change the number of beneficiaries by less than 2 percent. Thus, each simulated beneficiary will be an applicant who is covered, monetarily eligible, and who satisfies nonmonetary eligibility criteria.

TABLE 3. Receipt of UI benefits: outline of UI model's decision rules

Basic sequence in the model	Behavioral decisions
Unemployment reason and duration	
Application for benefits	Application: Yes–No Application delay: Yes–No Application delay (in weeks)
Coverage	Coverage: Yes–No
Monetary determination	Sufficient wage credits: Yes–No
Nonmonetary determination	Disqualification: Yes–No Length of disqualification (in weeks)
Appeals and final determination	

In reality, the individual steps in the process are more closely interrelated than Table 3 suggests. Specifically, workers' perceptions of benefit eligibility are a major determinant in whether or not they apply for benefits. Those who think they are eligible are more likely to apply than those who think they are ineligible. In simulating benefit applications, the model explicitly incorporates proxy measures of potential eligibility as determinants of the worker's application decision.

It is assumed that unemployed new entrants will not apply for benefits. All other workers are classified into four groups of potential beneficiaries: job losers, job leavers, reentrant-job losers, and reentrant-job leavers. The four are kept distinct because some parameters in the benefit determination process vary across the four types.

Application for benefits

The model's decision rules for applications are based on three propositions.

- Most eligible persons apply for program benefits while most ineligibles do not.
- The proportion of eligibles who apply for benefits rises as their unemployment lengthens.
- The eligibility proportions among job losers are much higher than among job leavers.

For each unemployed worker, there is a yes–no decision on application for program benefits, a decision modeled as a two-step process. First, a long-term appli-

cation probability is assigned to each microrecord. This is the probability of application among workers who experience very long spells of unemployment (26 weeks or longer). Second, among potential applicants, decision rules determine if there are application delays and, if so, the length (in weeks) of such delays. These delays increase the probability that persons with long (rather than short) unemployment spells will apply.

The long-term application probabilities are a function of seven variables: age, sex, student status, reason for unemployment, self-employment status, extent of base period work experience, and State of residence. Within these dimensions, application probabilities are higher among older workers, men, nonstudents, job losers, wage and salary workers, and those with substantial amounts of base period work experience. The model uses, as an empirical approximation to substantial base period work experience, the sum of weeks of employment plus one-half the weeks of unemployment in the base period. Those for whom this variable equals or exceeds 20 weeks are the most likely to apply for benefits.

State of residence is an important determinant of a worker's application probability. Experience with actual benefit simulations for 1976 suggested a wide range of application rates by States.

For each potential applicant, the model then determines if there is an application delay and, if so, the length of the delay. Russell Holden has examined data from the 1976 Survey of Job Seeking Activities that provide one source of information on application delays.[18] These data suggest that the average application delay is rather short. Among eligible workers unemployed 1 or 2 weeks, only 60 to 80 percent have applied, whereas among those unemployed 5 or 6 weeks, about 90 percent have applied.

The model simulates application delays using the worker's unemployment duration and an application delay function that is negative exponential in form. This yields a good approximation to the data on application delays. On average, application delays are somewhat longer for job leavers than for job losers. For workers who delay in filing, the model records the length of the delay since this can affect duration of benefits for job losers and for many job leavers.

Coverage

The model determines program coverage on the basis of the worker's base period industry and self-employment status. Basically, the model simulates 1979 coverage provisions so that practically all State and local government employees are assumed to be covered.

Monetary determinations

An unemployed worker covered by the program may be ineligible for benefits because of insufficient base-period earnings and/or weeks of employment. In each State, eligibility for benefits depends on the stringency of earnings requirements relative to the State's average wage level. Since spells of unemployment lower worker earnings, the conditions of the State's labor market also affects monetary eligibility determinations. Nationally, there is a strong relationship between the business cycle and the proportion of applicants who are monetarily eligible. The model can simulate this cyclical sensitivity by changing the worker's weeks of employment and unemployment in the base period.

In examining monetary determinations by State, we initially selected calendar year 1976, using program requirements for that year and simulated earnings patterns based on 1975 work experience data from the SIE. Comparing the State's earnings requirements with the worker's simulated earnings showed whether or not the worker had sufficient base-period earnings credits.

Nonmonetary determinations

Each applicant who is covered and monetarily eligible is then subject to nonmonetary determinations. In the model, these are summarized in three categories: disqualifications for voluntary leaving, discharge for misconduct, and issues other than separation from work that cover persons unable or unavailable for work. Also included in this third category are disqualifications for the receipt of certain types of income such as disability benefits, refusal of suitable work, and a residual category.

An analysis of State UI program data for the years 1967 to 1977 showed there were significant upward trends in the disqualification rates for nonmonetary determinations. Disqualification rates for voluntary leaving and discharge for misconduct were increasing prior to the severe recession of 1974–75. Disqualification rates are also lower in recession years than in other periods. A multiple regression analysis of disqualifications suggested that the rates fell somewhat in recessions but not enough to affect aggregate data.

Program data on disqualifications for voluntary leaving provide information on the number of job leavers who show up in State UI administrative data. In 1977, for example, there were roughly 2 million job leaver determinations. These represented about 10 percent of the 17.2 million new spells of insured unemployment and about 20 percent of the 10.1 million monetary determinations. The number of job leaver determinations provides benchmarks for the mutually exclusive job loser and job leaver categories. Estimates of these two unemployment counts can be used to compute overall probabilities of disqualification by State and year. The model can then accurately reflect the administrative features of the individual State UI programs.

Nonmonetary determinations involving both separa-

tion-from-work issues and all other issues are determined probabilistically in the model. State laws have provided data on the length of disqualification periods, and data from "Unemployment Insurance Statistics" supplied the disqualification rates for calendar year 1976.

Appeals and final determinations

The model does not now have a decision rule regarding appeals. Appeals effect only a minimal change in the number of beneficiaries. No major inaccuracies are introduced by this omission. Appeals can delay the initial payment but the total amount may not be affected.

The duration of benefits

The benefits module takes the duration of unemployment as given. The duration of benefits is determined by subtracting the following from total unemployment duration: the length of the application delay (if any), the waiting period, the disqualification period, the post-exhaustion period, and the early termination period. Initially, the model assumes there are no voluntary early terminations.

Figure 1 helps clarify the important distinction between unemployment duration and benefit duration for eligible persons. It is convenient to examine the case of a worker with a single continuous spell of unemployment. Actually, more than 30 percent of those experiencing unemployment during a year will have two or more spells, but workers may start to collect benefits without serving additional waiting periods. Therefore, the within-year pattern of unemployment is not crucial. The onset of unemployment is shown in Figure 1 as the point t_0, and the spell of unemployment lasts until t_5, when the worker either becomes reemployed or leaves the labor force. Therefore, $(t_5—t_0)$ is the duration of unemployment.

To receive State UI benefits, the worker must apply for benefits and serve the statutory waiting period (1 week in most States) and possibly a disqualification period as well. These actions are shown respectively as points t_1 and t_2 in Figure 1. For many workers whose benefits start 1 week after the onset of unemployment, the time span $(t_2—t_0)$ will be 1 week. In many other situations, however, $(t_2—t_0)$ will exceed 1 week due to late applications for benefits, disqualification periods, delays in eligibility determinations, and payment lags. In only a few instances will $(t_2—t_0)$ be less than 1 week. A few States have no waiting period and make benefit determinations promptly.

The figure then shows benefits being received during the period $(t_3—t_2)$. Benefits are usually terminated when the worker returns to work. In this case, unemployment and State UI benefit status both end at the same time. However, some unemployed workers stop collecting benefits before their eligibility is exhausted (at t_4), while many others exhaust benefit eligibility. In either situation, benefits will end prior to the end of unemployment, and the time span $(t_5—t_3)$ is some finite number of weeks.

To compute the duration of benefits, the model first simulates the prebenefit period $(t_2—t_0)$ and then calculates potential benefit duration $(t_4—t_2)$. Since weeks of unemployment is a predetermined variable, weeks in benefit status $(t_3—t_2)$ is then mainly determined by comparing the two intervals $(t_4—t_2)$ and $(t_5—t_2)$ and selecting the shorter of the two. Estimating the length of the prebenefit period $(t_2—t_0)$ is central in determining the duration of benefits. The application delay $(t_1—t_0)$ has already been discussed. Drawing random numbers from a negative exponential distribution determines the exact length of the delay for each applicant.

Two factors determine the time interval between the application and the start of benefits, $(t_2—t_1)$ in Figure 1. First, there is a waiting period of either 0 or 1 week. In some States, the waiting period is later compensated for persons receiving benefits longer than a stated number of weeks. The model simulates payment of retroactive benefits to eligible workers. Second, the length of the disqualification period is computed. In many States, disqualifications cover the entire duration of unemployment. For such States, the period $(t_2—t_1)$ equals the entire $(t_5—t_1)$ interval of Figure 1. Although many applicants experience payment delays and lags in eligibility determinations, these are not explicitly incorporated into the prebenefit period of the model. Each of these lags affects the start of benefits collection, but neither affects the amount of benefit payments. Retroactive benefits are paid following such delays. Thus, the model treats benefit payments as if these delays never occurred.

The final issue in determining the length of the prebenefit period involves workers disqualified for voluntary leaving or discharge for misconduct. State practices in this area fall into two main categories. (1) Many workers start the disqualification period from the onset of unemployment. For instance, in Alaska, the waiting period is 1 week and the disqualification period is 5 weeks. A worker could quit a job and delay application for up to 6 weeks. But benefits collection would still start in the 6th week. (2) The disqualifica-

FIGURE 1. Duration of unemployment and duration of UI benefits

Onset of unemployment	Application for UI benefits	Start of benefits	End of benefits	End of potential benefits	End of unemployment
time t_0	t_1	t_2	t_3	t_4	t_5

tion period is dated beginning with the filing date. This is the situation in Oregon, which imposes a 9-week disqualification. A 5-week filing delay would not affect the 9-week penalty. Collection would not begin until the 15th week of unemployment.

In simulating the prebenefit period, then, the model treats workers disqualified for voluntary leaving differently than those disqualified due to discharge for misconduct. The prebenefit period for the disqualified workers is the length of the disqualification period plus the length of the filing delay in States that disqualify from the date of filing. For all other workers, the prebenefit period combines the application delay and the waiting period.

The postbenefit period is determined mainly by comparing the duration of potential benefits (t_4—t_2) with the remaining duration of unemployment (t_5—t_2). The model assumes there are no voluntary early terminations of benefits. Potential benefit duration is determined by using the worker's simulated base period earnings and each State's laws; it is calculated to reflect possible benefit reductions among workers subject to disqualification for voluntary leaving or for discharge for misconduct. If (t_5—t_2) exceeds (t_4—t_2), the worker will exhaust benefits. The number of exhaustees and the length of the postexhaustion period (t_5—t_4) are recorded by the model.

The final aspect of the postbenefit period is that for workers disqualified on nonmonetary issues other than separation from work issues, the model records the exact benefit week in which the disqualification occurs as final for that unemployment spell.

The weekly benefit amount

This is determined by applying the State's benefit formulas to the worker's simulated base period work experience. Included in weekly benefits are dependents' allowances for States that pay such benefits.

Summary

The benefits module gives a reasonably accurate representation of the actual benefit determination process in UI. Using a broad range of predetermined variables and statutory provisions, the module determines the receipt of benefits, the duration of benefits, and the weekly benefit amount. Users of the model can change a few or many of the model's parameters and observe resulting changes in benefit payments. The model is flexible enough to accommodate many simultaneous changes. Output from the benefits module can be used to give aggregate cost estimates of program reform proposals. These estimates are obtained merely by summing the simulated benefit payments in the individual microrecords.

Since output from the benefits module is built up from microrecords, the model can also be used to examine questions about the replacement rates experienced by individual workers. The simulated benefit payments—either total benefits or weekly benefits—enter the numerators of the replacement rate measures derivable from the complete model. To make replacement rate calculations, however, it is also necessary to estimate the loss in family income caused by unemployment.

The Income Adjustment Module

The onset of unemployment for a previously employed worker can cause a large reduction in family income. The worker's average weekly wage, however, may not be a good index of this income loss. While unemployed, the worker will be subject to reduced Federal, State, and local income taxes and payroll taxes. Also, there will be fewer work-related expenses. Reduced taxes and work expenses will cushion the fall in family income. Unemployment also causes the worker to lose eligibility for such fringe benefits as holiday and vacation pay, private pension benefits, and health insurance benefits. And, because UI benefits are based on earnings in some earlier base period, an income loss is associated with the normal year-to-year growth in money wages. This loss will be larger for young workers who have the most rapid rates of annual wage growth. Worker and family well-being are also affected by the increased availability of leisure time and reduced costs of job search. Finally, the reduction in family income due to unemployment may be sufficient to make the family eligible for other government transfer payments. All of these factors must be recognized in assessing the effects of unemployment on the family's net income and well-being.

The framework for calculating net income adjustments

To properly assess the extent of the family's net income loss due to unemployment, it is important to distinguish two questions: (1) how much does the loss in weekly earnings contribute to a reduction in net family income and (2) how much do other transfer payments increase as a consequence of the loss in earnings? The model's income adjustment module considers both questions explicitly. Part of the framework for making these adjustments is provided by the TRIM model, an Urban Institute static microsimulation model that can simulate the payment of income-conditioned transfer payments, family income taxes, and payroll taxes.[19]

In addressing the first question, this module computes four explicit adjustments that cause the loss of net family income to differ from the worker's average weekly wage: personal income taxes and payroll taxes, work expenses, fringe benefit losses (such as vacation pay, health benefits, and retirement income), and infla-

tion and productivity adjustments to base period average weekly wages. The last adjustments reflect the fact that average weekly wages would have risen above their base period level if the worker had not become unemployed. The model does not attempt to put a value on the increased leisure time and reduced costs of job search while unemployed.

Of the four adjustments, the first two (taxes and work expenses) cause the loss in net weekly income to be less than the worker's average weekly wage. The remaining two have the opposite effect. With each of the four adjustments specified to be proportional to the average weekly wage (and the symbols t, x, s, and p representing each adjustment, respectively), the worker's average weekly wage (AWW) and net weekly income (NWY) are related as follows:

$$\begin{aligned} \text{NWY} &= (1 - t - x - s + p) \cdot \text{AWW} \\ &= k \cdot \text{AWW} \end{aligned} \qquad (5)$$

Since the tax adjustment will often be the largest of the four proportional adjustments, the proportion k in (5) will be smaller than unity for many unemployed workers. In other words, the loss in net family income will frequently be smaller than the worker's average weekly wage. Calculation of k is very important for determining net replacement rates on a microeconomic basis.[20]

Unemployed workers and their families can potentially receive benefits from several transfer payment programs. In addressing the second question, the income adjustment module focuses on three programs: Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and Food Stamps. The TRIM model is used to estimate total transfer flows while the worker receives UI benefits and also after these benefits have been exhausted. The TRIM model permits one to examine the total transfer payment costs as well as the State UI program costs associated with unemployment.

Table 4 shows the basic sequence of variables as they are simulated within the module. Use of the TRIM model strongly influences the module's structure. Four sets of decision rules are simulated prior to the use of TRIM (pre-TRIM decision rules). Simulations of income-conditioned transfers and of taxes are then done using TRIM.

TABLE 4. The income adjustment module of the UI model

Basic sequence in the model	Behavioral decisions
Pre-TRIM decision rules	
1. Fringe benefit losses	Paid leave, life, accident and health insurance, private pensions, social security
2. Money wage growth	Real earnings growth, rate of price inflation
3. Work expenses	Probability of transportation expense, weekly transportation expense, probability of child care expense, weekly child care expense
4. Supplemental unemployment benefits (SUB)	Probability of SUB, weekly SUB payment, SUB duration
Decision rules based on TRIM	
1. Income-conditioned transfer payments	Receipt, weekly amount and duration of benefits for SSI, AFDC and food stamps
2. Taxes	Average and marginal tax rates for Federal and State personal income taxes and for payroll taxes

Pre-TRIM decision rules

Worker fringe benefit losses. Unemployment causes loss of pay and fringe benefits. Fringe benefits now represent more than one-fifth of the overall compensation package. Four major categories of fringe benefits are employer expenditures for paid leave; health, accident, and life insurance programs; private retirement programs; and public retirement programs. Combined, all categories of fringe benefits averaged 23.3 percent of total compensation in the private nonfarm economy during 1977.[21]

Fringe benefit losses are simulated for each unemployed worker using fringe benefit data taken from detailed tabulations of the DOL's Expenditures for Employee Compensation (EEC) Survey for 1977. The tabulations show the average sizes of various employer fringe benefit expenditures for workers classified by two-digit industries and by blue-collar or white-collar occupational status. Employer expenditures in the four categories noted above are then translated into estimated worker losses, summed and measured relative to that proportion of compensation which is pay for time actually worked.

The estimates of worker fringe benefit losses can be described briefly. Pay for time not worked is the largest fringe benefit category and its importance is reflected directly in the size of the employer expenditures. Employer expenditures for health insurance is the largest component: 80 percent of expenditures for health, accident, and life insurance. Loss of this fringe benefit is more likely when unemployment duration is longer, and is also more likely for job leavers than for job losers. Unemployment duration and reason for unemployment both enter the model's loss calculation for this category of fringe benefits.

Losses of private and public program retirement benefits are future losses. Unemployment causes the

worker to accumulate fewer preretirement earnings credits, affecting the level of retirement benefits and potential entitlement for such benefits. The model does not attempt a detailed assessment of the effects of unemployment on benefit entitlement. Also, the loss in future retirement benefits is discounted, so that the model calculations for young workers show practically no loss in retirement benefits due to unemployment.

Combined, the four fringe benefit loss categories represent a substantial amount to the unemployed worker. For all unemployed workers, fringe benefit losses are estimated in the model to be .133 of pay for time worked. Of this, over 80 percent of the total is the loss in paid leave.

Growth in money wages. In computing weekly benefit amounts, State UI programs use worker earnings from base periods that extend for 12 or more months prior to the onset of unemployment. Between the base period and the period of unemployment, individual workers typically experience a growth in money wages. Money wage growth is a result of the increased experience and productivity of workers as they grow older. Wage growth from this source is reflected in so-called age-earnings curves, with earnings growth most rapid among young workers, particularly young men. The overall rate of inflation also affects the growth in worker wages. In recent years, this source of wage growth has consistently exceeded 8 percent annually. Because of these two factors, the worker's weekly wage during the period of unemployment would be expected to be higher than the weekly wage of the base period.

In the model, age-earnings growth estimates are based on age-earnings profiles in data from the Social Security Administration's 1 Percent Continuous Work History Sample (CWHS). Profiles from 1968 and 1969, 2 successive years of full employment, have been approximated by fourth degree parabolas using earnings data expressed in prices with 1972 purchasing power. The estimated real earnings growth rates were derived from ratios of 1969 to 1968 predictions for single year birth cohort, e.g., the prediction for 26-year-olds in 1969 divided by the prediction for 25-year-olds in 1968. Growth rates by single year of age for men and women were estimated in this manner. Wage growth caused by inflation is the same for all workers, and can be varied by the model user as the rate of inflation changes.

Earnings growth between the base period and the period of unemployment is dependent on the average time interval between these two periods. The length of the interval depends on how States define the worker's base period. Most States are so-called wage record States, which define the base period as the earliest four quarters of the five quarters preceding unemployment. A worker in such a State would, on average, have a 20-week gap between the end of the base period and the start of the unemployment spell. To estimate the total elapsed time from the middle of the base period to the middle of the unemployment spell, one must also add 26 weeks in the former period to half the duration of unemployment. In a wage record State, this total time period is usually between 39 and 65 weeks. The model assumes a 52-week interval so that annual productivity and price inflation adjustments can be used.

Twelve States are so-called wage request States, which define the base period as the 52 weeks preceding the onset of unemployment. In these States, the model uses 34 weeks as the typical time lapse between the middle of the base period and the middle of the period of unemployment. Thus, the earnings growth factor will be 0.65 (34 ÷ 52) of the annual earnings growth expected on the basis of productivity and inflation adjustments.

In the model, growth in money wages represents a substantial component of income loss for unemployed workers. For all workers employed in 1980, the average wage growth estimate was .222. This large estimate reflects both the high rate of price inflation (0.10 in the model) and the importance of younger workers in the unemployed population. Thus, for example, among men aged 24 the money wage growth proportion was 0.256 whereas for men aged 44 it was 0.139.

Work expenses. Two major categories of work expenses are computed in the model: commuting expenses and child-care costs. Questions about both types of expenses were asked in the Mathematica Policy Research, Inc. survey of the long-term unemployed.[22] These data were examined and regression relationships were estimated to predict the probability of such expenses and the weekly level of the expenses. Control variables used to determine community expenses included number of earners in the family, average weekly wage of the worker and the worker's spouse, hours worked, probability of residing in a metropolitan area, and region of residence.

Child-care expenses are computed for two-income families and single parent families with children aged 0 to 11 years. Controls in the equations used to predict the probability and level of such expenses include number of children 0 to 5, number of children 6 to 11, average weekly wage of the worker and spouse, race, education, occupation, and region of residence.

Both categories of work expenses were measured as a proportion of the unemployed worker's average weekly wage and their sum was constrained to be less than equal to 0.70. Practically all unemployed workers are known to have some commuting expenses, 82 percent, while only 20 percent have child-care expenses. Among those with expenses, commuting expenses averaged 4.8 percent of average weekly wages while child-care costs averaged 21.3 percent. Thus, across all un-

employed workers, commuting expenses averaged 3.9 percent and child care averaged 4.3 percent of weekly wages for a total work-expense proportion of 8.2 percent.

Supplemental unemployment benefit (SUB) payments. Some unionized workers are eligible for SUB payments when they become unemployed. Most prominent among the SUB plans are those of the United Steelworkers, the United Auto Workers, and the United Rubber Workers unions. The income adjustment module simulates SUB payments to workers in these three unions and to some workers in construction and retail trades who are represented by the Sheet Metal Workers and Retail Clerks unions.

Payments from SUB funds are closely coordinated with State UI benefit payments. Eligibility for SUB is associated typically with receipt of UI benefits, and weekly SUB payments are determined in conjunction with weekly UI benefits. The model simulates SUB payments by making three determinations: receipt of SUB (a 0-1 variable), weekly SUB payments, and duration of SUB. In the aggregate, SUB payments are quite small because they are received by relatively few workers. In the model's baseline 1980 simulation aggregate, SUB payments are about $500 million.

Decision rules based on TRIM

After the unemployed workers have been matched with their families, the microrecords of all members can be combined into family records. These records, in turn, can then be submitted to the TRIM model to determine government transfer payments and personal taxes. For both sets of determinations, it is necessary to know family income as well as the income of the person with unemployment.

Receipt of other transfer payments. While the worker is unemployed, the family may be eligible to receive payments from other transfer programs. These benefits may be paid concurrently and/or after State UI benefits have been exhausted. The dollar amounts of other program benefits are crucial in assessing the total social costs of unemployment. The income adjustment module uses the TRIM model to make such calculations.

Family income is derived from three primary sources: labor market earnings, property income (or income from capital), and transfer payments. Some transfer payments (e.g., Old-Age, Survivors, Disability, and Health Insurance [OASDHI] and State UI benefits) are received as a matter of right by individuals who satisfy certain categorical eligibility criteria. Other transfers (e.g., SSI, AFDC, and Food Stamps) are income-conditioned. The definition of income used to determine eligibility for the income-conditioned transfers includes earnings, property income, and other transfer payments.

The model's income adjustment module uses estimates of each of the three main components of family income. Worker wages and earnings are derived as the product of weeks employed and average weekly wages and earnings. Weeks employed is an endogenous variable determined in the current labor market module. The average weekly wage is derived from the worker's base period average weekly wage and the money wage growth factors. Property income (rent, interest, and dividends) is estimated by aging the appropriate income fields in the SIE forward to the year of interest. The determination of transfer payment amounts is more complicated.

For computing the income of each family experiencing unemployment, the calendar year is divided into three accounting periods. The three periods are delineated by the experiences of the adult member with unemployment. That person's annual work experience consists of (1) weeks employed, (2) weeks unemployed and receiving State UI benefits, and (3) all other weeks. The third period combines prebenefit weeks and post-exhaustion weeks while unemployed and weeks out of the labor force. These weeks are alike in that the person receives neither labor market earnings nor State UI benefits. The duration of any of the three accounting periods can be 0 weeks. For the person with unemployment, earnings are received only during the first period and State UI benefits only during the second period. Property income is assumed to be the same in all three periods. Total transfer payments will typically be lowest (usually zero) in the first period and highest in the third period.

The module treats transfer payments as falling into three categories: those received at the same level throughout the year, UI benefits, and income-conditioned transfers. The first category covers several public transfer programs (OASDHI, Railroad Retirement, veteran's retirement and disability compensation, worker's compensation, Federal civilian pensions, and State and local pensions), and private pension benefits. The amounts of all of these transfers as reported in the SIE will be treated as fixed, and received at a constant level throughout the year. Although receipt of these transfers can reduce State UI benefits, the amounts are quantitatively unimportant.

The third category of transfers includes SSI, AFDC, and Food Stamps. This category is the one whose benefits are the most varied across the three income accounting periods. The level of these benefits depends on the sum of earned income, property income, all of the transfers noted above, and private supplemental unemployment benefit (SUB) payments.

After the various transfer payment flows have been estimated, they are measured as weekly flows for each of the three accounting periods. When these computa-

tions have been done, the income adjustment module gives the model the capability of estimating total costs and replacement rates for all transfer programs as well as for State UI programs. The income adjustment module focuses on marginal weekly amounts of the income-conditioned transfers. For example, if a family was eligible for $30 of weekly food stamps in accounting period one (while the unemployed person is working), and $80 in period two (while UI benefits are being received), the weekly transfer flow of interest for period two is $50. The $50 represents the effect of unemployment on weekly food stamp benefits. Use of the TRIM model allows one to make such marginal calculations. A similar marginal calculation is made in accounting period three (for the weeks after State UI benefits have been exhausted).

Taxes. The TRIM model focuses on three major taxes paid by individuals and families: Federal personal income tax, State personal income taxes, and OASDHI (or Social Security) payroll tax. TRIM estimates the employee portion of the latter tax but does not estimate the employer payroll taxes for either OASDHI or State UI. For both income taxes, the taxable unit can be one or more tax filing units within the family, while the unit for payroll taxes is the individual worker. To simulate payment of the two income taxes, TRIM estimates covered income, computes exemptions and deductions, and then applies statutory tax provisions to the resulting estimate of taxable income. Household demographic characteristics as reported in the SIE are used to estimate the number of income tax exemptions. Married couples are assumed to file joint income tax returns and to claim either the standard deductions or itemized deductions. Employee OASDHI contributions are computed by applying the statutory tax rate and tax base to each worker's covered wages.

Government transfer payments, like State UI benefits and AFDC benefits, generally are not taxable. Starting in 1979, half of State UI benefits have been taxable for certain higher income households. The tax functions in the model are specified so that all or a part of State UI benefits can be taxed.

Outputs from the tax computations include the marginal and average tax rates for the three taxes. For all unemployed workers, the average combined marginal tax rate in 1980 was 29.5 percent. With these rates, one can estimate the losses in after-tax weekly wages due to unemployment. One can also examine the distributional and replacement rate implications of making State UI benefits fully taxable.

After family records have been passed through the TRIM model, one can then estimate the net weekly income losses due to unemployment; that is, all variables in relation (5) above are known. One can also study the contribution of other transfer programs (besides State UI) in protecting families against income losses due to unemployment.

Model Alignment

An overview of model alignment

The decision rules in the model's three modules were developed using data published by the DOL, State UI programs, and other sources. Although each decision rule was modeled to reflect labor market behavior accurately, their interaction could yield inaccurate simulations. To guard against such contingencies, a series of alignment simulations was run for all decision rules within a particular module. The simulated outputs of each decision rule were compared with benchmark data. Thus, the effects of changing particular model parameters on all output variables in a module could be examined.

In both the current labor market module and the benefits module, the model simulates the experiences of a well-defined population. The approximate benchmark data were comparatively easy to assemble. For the income adjustment module, however, benchmarks do not exist. The population is defined as families with at least one unemployed member during the year. There are no data on the tax and transfer payment experiences of such families. To align the income adjustment module, we made judgments about the "reasonableness" of summary tabulations. Changes in model parameters were made when these tabulations were not plausible.

Because there were available benchmarks for aligning the current labor market and benefits modules, the discussion of alignment activities will center on these two modules. A detailed description of the alignment simulations is given in the Appendix. Much of the work was devoted to simulations for calendar year 1976, but some attention was also paid to 1980. The major findings of the alignment simulations suggest additional basic research and further refinement of the model are needed.

Aligning the current labor market module

Three aspects of the current labor market's decision rules warrant brief comments: labor force participation rates, unemployment occurrences among persons aged 55 and older, and simulations of workers with very long unemployment durations. Labor force participation is simulated using decision rules taken from the Urban Institute's DYNASIM model.[23] The participation rates by sex, race, and age were benchmarked to 1976 data with a high degree of accuracy. When the model is used in years far removed from 1976, the participation rates should be rebenchmarked. Rates are rising for women of nearly all ages while the rates are declining for older

men. Revising the model's simulated participation rates is a simple procedure.

In benchmarking unemployment occurrences for workers aged 55 and older, we could not reconcile monthly labor force survey (MLS) data with State UI program data. If we aligned the current labor market module to MLS benchmarks, there were far too few beneficiaries aged 55 and older. To simulate the correct number of beneficiaries, it was necessary to increase the estimate of unemployment occurrences by 50 percent above the MLS benchmarks. A major purpose of the model is to simulate aggregate State UI benefit outlays. The model was benchmarked to the State UI program data, giving the current labor market module higher unemployment occurrences among older workers than are reported in MLS data.

The inconsistency in data from the two sources would be worth examining in a separate study. The research design for such a study should include both a survey portion using MLS unemployment questions and a match with State UI program records. People may not understand the MLS questions, or people could be "gaming" the State UI program by claiming to be unemployed when, in fact, they are not seeking work. An advantage of the model is its ability to raise research questions of this type.

Unemployment duration is extremely varied when one examines individual micro observations. As noted, the model estimates a mean duration per worker based on several personal characteristics and on the overall unemployment rate. Actual duration is then determined by using this mean and drawing a random number from a negative exponential distribution. This procedure assumes escape rates from unemployment to be constant as duration lengthens. In fact, escape rates decline as unemployment increases. Thus, the model does not simulate enough long spells of unemployment.

Having too few long spells causes problems in aligning the benefits module in years when extended UI benefits are being paid. If benefits under the regular State UI program are accurately simulated, there will be too few extended benefit payments. If extended benefits are correctly simulated, there will be too many benefits paid under the regular State UI program.

The source of this problem in the benefit simulations lies in the use of the negative exponential distribution to determine unemployment duration. To correct this problem, alternative functional forms need to be examined and tested, and a more accurate form should then be used to determine duration. Work on unemployment duration is an important area for further development of the microsimulation model.

Aligning the unemployment insurance benefits module

The primary macro level outputs from the benefits module are the number of beneficiaries, weeks compensated, and average weekly benefits. To align the benefits module and obtain accurate simulations of benefit outlays, it was necessary to make several modifications of the decision rules as initially specified. Four modifications warrant specific comments: application rates, monetary eligibility in wage request States, job leaver disqualifications, and macro level adjustments.

As originally specified, benefit application rates depended on worker age, sex, reason for unemployment, unemployment duration, and weeks in the labor force during the base period. At first, the application parameters were applied uniformly to workers in each State. Initial simulation results, however, showed very large overestimates of benefit payments in several States. Thus, the decision rule was modified by introducing a State-specific application rate parameter. This was a proportion that allowed the model to lower the application rates for all demographic groups within a State. Column (3) of Table A-1 shows the values of these proportions for each State.

It appears there are many eligible workers, particularly in southern and southwestern States, who do not apply for program benefits. In order to investigate this question properly, however, one needs a State-specific data base that identifies eligible nonapplicants as well as applicants. Lack of appropriation data currently hinders our understanding of State-to-State differences in application rates. Two potentially important influences on application rates are knowledge about eligibility and worker perceptions of the ease of obtaining benefits. Until appropriate data are generated, however, our knowledge of application behavior will remain incomplete.

In aligning the model's determinations of monetary eligibility, we found that eligibility proportions were systematically underestimated in nearly all of the 12 so-called wage request States. To raise the simulated eligibility proportions, we devised a two-stage procedure whereby the earnings of those initially deemed ineligible were multiplied by a factor of 2.5, and eligibility was reestimated on these inflated earnings data. Although the procedure improved the simulated eligibility proportions substantially (see columns (4), (5), and (6) of Table A-1), it raises questions about difference between wage request States and other States in eligibility determination procedures.

At least two explanations for the higher proportions in wage request States can be offered. One explanation is that the lag between the end of the base period and the onset of unemployment is systematically shorter in wage request States than in wage record States. If this interval is one in which the worker has substantial earnings, then higher eligibility proportions would be expected in wage request States. The second explanation is that workers in wage request States may success-

fully exaggerate their base period earnings. This could happen if workers overstate their base period earnings when they apply for benefits, and their former employers do not respond to agency requests for base period earnings data. In such circumstances, the initial worker declarations are used in base period earnings estimates. To address these issues properly, more analysis of monetary determinations in wage request States is needed.

To align the disqualifications of workers for voluntary job leaving, our benchmarks were annual State data on the ratio of disqualifications to the total number of job leaver determinations. Use of these disqualification rates in the model yielded higher job leaver disqualifications than indicated by the program data. To improve the simulated numbers of job leaver disqualifications, we added a "discovery rate" proportion to the decision rule. This is an estimate of the proportion of job leavers identified as such and subject to the disqualification rate suggested by program data. Estimates of the State-specific proportions appear in column (2) of Table A-2. The effect of the discovery rate parameters is to lower the disqualification rates. This would indicate that many more job leavers collect State UI benefits than the program data indicate.

In the model, the workers' State of residence is also the State where they worked in the base period. There is no explicit modeling of interstate claims. Also, because the worker is assumed to be either employed or unemployed in each week of the year, the model does not consider the payment of partial unemployment benefits. To obtain accurate simulations of total program costs, however, interstate claims and partial unemployment benefits must both be considered. The model has State-specific macro adjustments that account for the payment of both types of benefits. After benefit payments to the individual workers have been simulated and summed for all persons in the State, the aggregate dollar amount is then multiplied by a proportion (greater than unity) to obtain the correct total benefit outlay.

A second macro level adjustment is also present in some States. This is a final adjustment used to offset the cumulative effects of errors in the current labor market and benefits modules. The adjustment causes the macro benefit outlay to be in agreement with benchmark totals for each State program. Columns (4), (5), and (6) in Table A-3 show the two macro level adjustments in each State.

A major conclusion following the alignment activities is that developing a complete model allows greater insight than does isolated study of the separate decision rules. Questions are raised that need additional research. Gaps and deficiencies in MLS unemployment data and State UI program data were also highlighted by the model alignment simulations.

Summary

This report has presented a detailed description of the Urban Institute microsimulation model of UI. The model is versatile and flexible. The user can vary the underlying unemployment rate both in the base period and in the current period. The user can change important State UI program parameters in one, a few, or in all States. The user can apply the model in different calendar years. Given its straightforward recursive modular structure, the model's behavioral decisions can be changed rather easily. Output of the model can be displayed to focus on micro detail or State and national aggregations. The model has many potential applications in areas such as cost estimation, policy analysis, and replacement rate analysis.

In assembling a large-scale microsimulation model and aligning it to benchmark data, areas of additional research and model development became apparent. Among the important research areas are the following four: analysis of unemployment reporting by older workers; analysis of application rates by State; analysis of monetary determinations in wage request States; and analysis of voluntary job leaver determinations by State.

Three areas for further model development include: improving procedures for simulating long-term unemployment duration; improving estimates of unemployment duration by State; and improving procedures for determining disqualification rates by State.

Finally, the model will be enhanced when it incorporates explicit feedback from the weekly benefit level and from potential benefit duration to determine the worker's actual unemployment duration.

Appendix: Details of the Model's Alignment

After the initial specification and programming of behavioral relations, the model was subjected to a series of alignment simulations. Outputs from the simulations were compared with appropriate benchmarks and adjustments were made. Alignment activities began as early as March 1979 with tabulations of rates of simulated labor force participation and of unemployment occurrences. The period from July to November 1979, however, was heavily devoted to alignment of both the current labor market module and the benefits module. Output from the income adjustment module was examined during March–July 1980.

Most of the alignment activity focused on the first two modules, using a reasonably complete set of benchmark data from calendar year 1976. Attention was also devoted to aligning the 1980 simulations. Since no set of 1980 benchmarks exists, we used extrapolations of data from 1977 (for benefit duration), 1978 (for State unemployment, disqualification rates, interstate claims,

and partial unemployment), and 1979 (average weekly benefits) as approximations. Obviously, less confidence can be placed in these data as controls for 1980 simulated outputs.

It is convenient to divide the discussion of model alignment activities into seven specific areas: (1) labor force participation; (2) unemployment occurrences and duration; (3) application rates; (4) monetary eligibility; (5) nonmonetary disqualifications; (6) average weekly benefits; and (7) micro-to-macro adjustments due to interstate claims, partial benefits, and all other sources of simulation error. The combined effects of all alignment activities yield accurate simulations of actual program benefits.

Labor force participation

When the output from DYNASIM's labor force participation relation was compared to 1976 benchmarks, large errors occurred for some age groups, particularly for persons aged 16 to 20 and 65 and older. Modifications were made in decision rules governing their age-specific participation rates. The modifications caused the participation rates to increase more continuously in the youngest age groups and to decrease more continuously in the oldest groups. Among young workers, DYNASIM's lower age bound was raised from 14 to 16, to agree with current labor force definitions. The model's aggregate participation rate now matches the 1976 benchmark for persons 16 and older. For 21 of 24 race-sex-age (16–19, 20–24, 25–44, 45–54, 55–64, 65+) cells the simulated participation rates deviate from 1976 benchmarks by less than 2 percentage points.

Unemployment occurrences and duration

As noted in the section on the current labor market module, the model estimates unemployment occurrences and unemployment duration using several control variables. Specific parameters for these controls (overall unemployment, age, sex, race, industry, occupation, and self-employment status) were modified when simulated output deviated noticeably from published data appearing in BLS work experience reports. These modifications were the first step in a four-step alignment process.

The second step was to add in the effects of unemployment undercounts that are known to exist in work experience data. This yielded national unemployment estimates that agreed with estimates from the DOL's monthly labor force survey (MLS). Since 1976, there are also MLS estimates of unemployment by State.

The third step was to make simulated weeks of unemployment agree with the MLS State estimates. In devising this set of adjustments, the author could modify either unemployment occurrences or unemployment duration or both. Since there were no State-specific work experience data on occurrences or duration, average benefit durations by State were examined in choosing the mix of occurrence and duration adjustments. This yielded weeks of unemployment by State that agreed closely both with MLS data on weeks of unemployment and with State UI program data on benefit duration. Columns (1) and (2) of Table A-1 show respectively actual and simulated weeks of unemployment in 1976.

The fourth step in the alignment process was necessitated by a stubborn feature of the benefit simulations. The model consistently underestimated the number of beneficiaries aged 55 and older. This underestimation persisted even after the model's parameters were modified, making these workers the most likely to apply for and receive program benefits. Finally, to raise the number of older beneficiaries, the rate of unemployment occurrences among persons 55 and older was increased by 50 percent.

Admittedly, this is a large adjustment, which may raise objections. The justification is largely empirical: the need for more older beneficiaries. Many people in this age group may be telling two different stories about their labor force status: one to MLS interviewers and the other to local State UI offices. Verification of this supposition, however, is beyond the scope of the project. The fourth step does yield much better model estimates of the number of older beneficiaries. It should also be noted that the model's simulated weeks of unemployment exceed the official MLS estimates by about 5 percent because of this fourth adjustment.

Application rates

The model originally specified application rates as a function of age, sex, student status, reason for unemployment, and unemployment duration. It was obvious from initial benefit simulations that application rates also must vary markedly by State. In some States simulated weeks of benefits exceeded actual weeks by more than half. Large overestimates were found mainly among States in the south and southwest.

To improve the model's estimates, State-specific application rates were introduced. The application rate parameter is a proportion that is applied uniformly to the long-term application rates of all microrecords within the State. Column (3) of Table A-1 shows these proportions for 1976. Fourteen equal unity and 37 are smaller. Three, in fact, are less than 50 percent (New Hampshire, Texas, and Virginia) while five fall between 50 and 59 percent (Colorado, Georgia, Mississippi, North Carolina, and Wyoming). In this group of eight States, it appears there are many potentially eligible workers who are unaware of benefit eligibility or are deterred by some aspect of State UI administration.

TABLE A-1. Model alignment in 1976: unemployment, application rates, and monetary eligibility

	(1) Weeks of unemployment	(2)	(3)	(4)	(5) Monetary eligibility	(6)
	Actual	Sim.	Applic. rates	Actual	Sim. 1	Sim. 2
U.S. total	378,976	385,333	—	.783	.842	.858
AL	5,200	5,198	.79	.765	.843	
AK	728	728	1.00	.846	.892	
AZ	4,784	4,601	.74	.727	.812	
AR	3,224	3,297	.71	.735	.887	
CA	46,176	46,756	1.00	.748	.852	
CO	3,692	3,711	.51	.807	.912	
CT	7,176	7,267	1.00	.587	.863	
DE	1,196	1,215	.90	.784	.820	
DC	1,560	1,611	1.00	.789	.810	
FL	16,172	16,588	.84	.646	.813	
GA	9,308	9,046	.53	.891	.868	
HI	2,028	2,047	1.00	.923	.852	.895
ID	1,092	1,072	1.00	.784	.830	
IL	17,212	18,292	1.00	.757	.824	
IN	7,696	7,651	.80	.774	.874	
IA	2,756	2,735	.96	.833	.848	
KS	2,392	2,374	.87	.802	.836	
KY	4,212	4,353	.85	.706	.822	
LA	5,304	5,239	.78	.778	.888	
ME	2,184	2,174	.80	.645	.850	
MD	6,604	6,568	.66	.758	.875	
MA	13,624	13,662	.82	.953	.831	.880
MI	19,448	19,575	.88	.920	.850	.883
MN	5,720	5,621	1.00	.921	.829	.866
MS	3,224	3,312	.57	.799	.833	
MO	6,916	6,929	.78	.728	.852	
MT	1,040	1,077	1.00	.766	.856	
NE	1,248	1,284	1.00	.728	.837	.862
NV	1,404	1,432	.81	.853	.853	
NH	1,300	1,307	.45	.812	.885	
NJ	17,940	18,781	.88	.910	.808	.868
NM	2,236	2,234	.75	.688	.831	
NY	41,184	43,052	.97	.907	.818	.866
NC	8,268	8,175	.54	.826	.865	
ND	520	536	1.00	.617	.850	
OH	19,188	19,574	.68	.846	.831	.891
OK	3,380	3,633	.98	.718	.881	
OR	5,304	5,507	1.00	.808	.805	
PA	21,008	21,352	1.00	.795	.892	
RI	1,820	1,854	1.00	.885	.792	.878
SC	4,524	4,545	.72	.645	.876	
SD	572	562	.96	.857	.726	
TN	5,720	5,758	.65	.805	.873	
TX	16,640	16,327	.40	.775	.878	
UT	1,508	1,528	.93	.891	.807	.887
VT	988	995	.75	.738	.801	.867
VA	7,072	7,201	.43	.782	.852	
WA	7,124	7,449	.97	.746	.794	
WV	2,652	2,687	.78	.862	.767	
WI	6,344	6,494	.78	.926	.844	.886
WY	364	367	.61	.798	.850	

SOURCE: Columns (2), (5), and (6) are from full model simulations. Column (1) is from Table D4, p. 339 of the U.S. Department of Labor *Employment and Training Report of the President, 1979*. Column (3) was derived by the author. Column (4) is from Table 45B, p. 86 of the March–April 1977 issue of "Unemployment Insurance Statistics." Weeks of unemployment, columns (1) and (2) are measured in 000's.

Monetary eligibility

The model determines monetary eligibility by comparing quarterly earnings, weekly wages, and weeks of employment in the base period against the State's statutory eligibility requirements. For most States, the simulated eligibility proportions were higher than indicated by 1976 program data. The actual aggregate proportion was 78.3 percent, whereas the simulated proportion was 84.2. In most States, the ratio of the actual to the simulated proportion was between 85 percent and 100 percent (31 of 51). Since the model was simulating too few beneficiaries in many States, this pattern did not pose a major problem.

In several States where beneficiary counts were too low, however, the ratio of actual to simulated eligibility proportions exceeded unity. Careful examination of the earnings requirements in these States revealed a characteristic common to many: they were wage request States. States follow one of two patterns in determining the base period earnings of an unemployed worker. Most (39) are wage record States, which means that employers report the earnings of all covered workers automatically each calendar quarter to the State UI agency. Eligibility determinations are usually made by examining the wage records from the earliest four of the preceding five calendar quarters. In the 12 wage request States, the State UI agency contacts the worker's employers of the previous year after an application for benefits has been received. If the employer does not respond to the request, earnings information supplied by the applicant is used to determine eligibility.

Eligibility proportions are generally much higher in wage request States than in wage record States. There are at least two possible reasons for this pattern. First, the base period in wage request States tends to be much closer to the onset of employment, typically the 52 weeks ending just prior to the onset of unemployment. In wage record States, the base period will have ended 1 to 13 weeks before the onset, but the earliest four of the preceding five quarters are then used. Thus, the effective time period for making eligibility determinations will have ended 14 to 26 weeks prior to unemployment. Because more recent earnings will be counted in wage request States, workers should have higher eligibility proportions. A second factor may be that worker earnings declarations in wage request States systematically overstate base period earnings. If employers do not respond to agency requests for earnings data, any exaggerated worker declarations are then treated as valid. When employers are not experience rated, they may not bother to respond to agency requests for wage histories.

To increase the simulated proportions in wage request States, the model now determines monetary eligibility in a two-step process. Step one is the standard determination procedure as employed in wage record

States. Then, for persons deemed ineligible, base period earnings and weekly wages are multiplied by 2.5 and these inflated data are compared with the statutory eligibility criteria. The second step, which clearly increases the proportion monetarily eligible, is an empirical approximation to the more recent base period (and possibly inflated self-reported earnings) of wage request States relative to wage record States.

Columns (4), (5), and (6) of Table A-1 show 1976 monetary eligibility proportions, the actual proportions and the simulated proportions before and after the special second adjustment in wage request States. Column (6) shows simulated proportions for just the 12 wage request States, since the proportions are unchanged in the wage record States. Among wage request States, the model's two-step procedure raises the eligibility proportions by roughly 3 percent to 9 percent. Clearly, there are some large errors in individual States, but these are offset by compensating errors elsewhere in the model.

Nonmonetary disqualifications

The absence of fully suitable benchmarks made aligning the nonmonetary disqualification rates by State more difficult. Program data show disqualifications and disqualification rates based either on spells or weeks of insured unemployment. Nothing is published on an annual per-person basis, the basis used to simulate benefit recipiency in the model. Disqualifications for voluntary leaving and for discharge for misconduct are published on a per-spell basis. They were deflated to a per-person basis using State-specific ratios of persons monetarily eligible to the sum of persons monetarily eligible and persons filing additional claims. These benchmarks appear in columns (1) and (4) of Table A-2.

Initial model simulations using program estimates of disqualification rates for voluntary leaving and for discharge for misconduct produced estimates that often differed markedly from these benchmarks. The most striking error pattern was a rather large overestimate, in many States, in the number of disqualifications for voluntary leaving. It seems clear to us that more job leavers apply for and receive benefits than is indicated by program data on job leaver determinations. To correct for this apparent oversight in program administration, the model has explicit State-specific "discovery rate" parameters (i.e., the proportion of job leavers who are identified as such), and is thus subjected to job leaver disqualification probabilities. A parallel set of discovery rates is also used to determine discharge for misconduct disqualifications. Both are State-specific proportions that fall between zero and unity.

Columns (2) and (5) of Table A-2 show the "discovery rates" used to align simulated and actual disqualifications in 1976. Then the table shows, in columns (3) and (6), simulated disqualifications for 1976 as well. In the aggregate, the model underestimates voluntary leaver disqualifications by 12 percent and discharge for misconduct disqualifications by 17 percent. Many States have accurate simulations of these disqualifications. There are also some obvious large errors; for example, the number of voluntary leaver disqualifications in Florida and Texas.

Aligning disqualifications for issues other than separation from work was hindered by the lack of clearly defined benchmarks. This grouping of disqualifications has four main categories: able and available for work, refusal of suitable work, disqualifying or deductible income, and "all other," which is a catchall category. Program data on numbers in each category are available by State. Depending on the specific reason, a worker may be disqualified for 1 week or for the duration of unemployment. Some States merely reduce the size of the weekly benefit when workers receive certain categories of retirement and/or disability income. In the model, an estimate of mean weeks of disqualification was made for each of the four categories. Combining these means with the numbers disqualified in each category yielded an estimate of total weeks of disqualifications for other than separation from work issues. Column (7) in Table A-2 shows these estimated benchmarks by State in 1976. Column (8) of the same table shows the 1976 model estimates of total weeks disqualified. In most States, the model simulations agree closely with our estimated benchmarks.

Average weekly benefits

Initial simulations yielded 1976 estimates of average weekly benefits that sometimes departed substantially from actual 1976 program data. After several modifications to the model algorithm that computes the base period work experience variables (total earnings and weeks worked by quarter), it was concluded that the source of the error was not primarily in the algorithm but rather in the underlying annual earnings data of the workers simulated to be unemployed.

To make the base period earnings of the workers agree more closely with the earnings of actual beneficiaries, a set of State-specific proportional adjustments was developed and was applied to the workers' simulated base period earnings. By altering these adjustments, the simulated levels of weekly benefits were made to agree closely with actual program data. Columns (1) and (2) of Table A-3 show actual and simulated weekly benefits for 1976. The State-specific adjustments appear in column (3) of the same table. Unemployed workers had somewhat lower base-period earnings than the workers we simulated to be unemployed. Thus, 29 of the 51 proportions are smaller than unity. Of these State-specific adjustments, how-

TABLE A-2. Model alignment in 1976: benefit disqualifications

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Voluntary leaving			Discharge for misconduct			Other than job-related	
	Actual	Discovery rate	Sim.	Actual	Discovery rate	Sim.	Actual	Sim.
U.S. total	811	—	719	302	—	250	5,767	6,481
AL	11	.55	8	4	.85	2	35	4
AK	4	.45	1	1	1.00	0	25	31
AZ	9	.80	9	3	.80	1	41	71
AR	10	.45	7	3	1.00	2	25	22
CA	81	.45	62	30	1.00	30	689	970
CO	22	1.00	14	6	1.00	3	61	45
CT	12	.35	8	3	1.00	3	134	177
DE	2	.25	1	1	1.00	1	15	20
DC	4	.60	2	3	.90	2	18	21
FL	31	1.00	49	13	1.00	8	122	148
GA	26	.65	15	13	1.00	6	55	10
HI	5	.85	4	1	.50	1	47	49
ID	3	.60	3	1	1.00	1	49	46
IL	17	.45	11	10	1.00	7	157	122
IN	18	1.00	26	6	1.00	4	42	40
IA	15	.80	13	4	1.00	4	71	82
KS	6	.70	5	3	.85	3	28	34
KY	11	.85	10	5	.95	5	15	1
LA	18	1.00	17	8	1.00	8	41	61
ME	5	.35	4	1	.70	0	66	90
MD	16	.85	13	6	1.00	5	158	139
MA	21	.45	21	7	1.00	1	121	92
MI	88	1.00	82	16	1.00	15	481	377
MN	40	1.00	28	5	.75	2	64	85
MS	4	.70	8	3	1.00	3	44	4
MO	24	1.00	28	11	1.00	8	19	27
MT	6	.70	3	1	.65	0	11	11
NE	17	1.00	7	3	.75	5	76	80
NV	4	.40	3	1	1.00	1	19	22
NH	3	.45	1	1	1.00	1	23	4
NJ	24	.30	15	12	.85	7	162	166
NM	6	.70	3	3	.70	3	21	74
NY	36	.40	34	17	1.00	15	656	878
NC	25	.35	14	6	1.00	3	39	23
ND	2	.50	1	0	1.00	0	12	17
OH	24	.35	28	19	1.00	16	403	423
OK	26	1.00	15	7	.60	9	30	33
OR	11	.85	12	3	1.00	3	219	275
PA	19	.20	12	10	1.00	5	792	995
RI	4	.50	3	2	1.00	1	29	34
SC	19	.80	18	10	1.00	8	10	0
SD	2	.95	1	0	1.00	0	14	10
TN	12	.35	11	7	.85	2	16	25
TX	60	1.00	40	33	1.00	37	124	143
UT	8	1.00	5	2	1.00	1	34	37
VT	4	.65	2	1	1.00	0	3	5
VA	9	.60	10	4	.85	3	26	17
WA	9	.50	7	2	.80	0	106	138
WV	10	.65	9	2	.65	0	108	107
WI	11	.85	14	5	1.00	4	203	176
WY	1	.65	0	0	.75	0	5	17

SOURCE: Columns (3), (6), and (8) are from full model simulations. Columns (1), (4), (5), and (7) were derived by the author. Voluntary leaving and discharge for misconduct disqualifications are measured in thousands of persons. Other than job-related disqualifications are measured in thousands of weeks.

ever, only seven depart from unity by more than 20 percent.

Macro level adjustments

Two aspects of the model's simulation procedures should be observed. First, the worker's simulated weeks in the labor force are divided into just two categories: weeks of employment and weeks of unemployment. The model does not attempt to simulate situations in which the worker is both employed and unemployed in the same week and thus potentially eligible for partial unemployment benefits. Second, the worker is assigned a single State of residence (and employment) for both the base period and the current period when unemployment is experienced. The model does not explicitly treat interstate claims for benefits associated with either geographic mobility or State of employment–State of residence disparities among some covered workers. The model assumes there are no benefits for partial unemployment and there is a uniform proportion across States in weeks compensated for interstate claims.

To incorporate effects of State-to-State variation in partial unemployment benefits and interstate claims, the model uses a set of State-specific adjustments. The adjustments are explicit proportions that are applied to aggregate estimates of weeks compensated. The adjustments were developed from program data on (1) amounts compensated for partial benefits, and (2) the proportion of weeks compensated for interstate claims that departs from the national average proportion (6.9 percent of the total in 1976). Column (4) of Table A-3 shows these adjustments for calendar year 1976. The proportions exceed 1.1 in 11 States, and are smaller than unity in just two States.

For some States, the model's simulated weeks of regular program benefits were consistently fewer than actual weeks compensated. This discrepancy remained even after unemployment among persons 55 and older was increased by half. As an interim measure to account for the benefit shortfall, a set of proportional adjustments was devised to fill the gap between simulated and actual weeks compensated. Column (5) in Table A-3 displays the adjustments. In the 13 States where the adjustments exceed unity, the model had consistently underestimated total weeks of benefits. This set of adjustments acts in the same way as the partial benefit-interstate claims adjustments. Because the two adjustments are similar in nature, they have been combined into a single overall macro adjustment. Column (6) of Table A-3 shows this overall adjustment, the product of columns (4) and (5).

Aligning the 1980 simulations

As noted, it was possible to align the model in 1976 using actual benchmarks from the DOL's monthly labor

TABLE A-3. Model alignment in 1976: weekly benefits and macro adjustments

	(1)	(2)	(3)	(4)	(5)	(6)
	Average weekly benefits			Interstate and partial unemployment	Undersimulation errors	Combined macro adjustment
	Actual	Sim.	Adjustment			
U.S. total	75.2	75.4				
AL	66.5	67.0	.92	1.004	1.000	1.004
AK	81.8	82.3	.70	1.546	1.554	2.402
AZ	72.6	72.0	1.30	1.049	1.000	1.049
AR	63.3	63.5	1.00	1.061	1.000	1.061
CA	71.1	70.9	.99	1.013	1.025	1.038
CO	84.6	84.8	.99	1.092	1.000	1.092
CT	79.2	79.3	1.01	1.026	1.235	1.267
DE	83.9	84.0	1.11	1.164	1.000	1.164
DC	99.2	99.2	1.02	1.205	1.104	1.330
FL	64.0	63.9	.91	1.017	1.000	1.017
GA	68.5	68.5	1.17	1.016	1.000	1.016
HI	85.2	85.3	1.27	1.047	1.062	1.112
ID	70.1	70.0	.99	1.121	1.073	1.205
IL	91.6	91.7	.83	1.033	1.075	1.110
IN	63.6	63.7	.70	1.002	1.000	1.002
IA	87.2	86.2	.89	1.071	1.000	1.071
KS	70.5	70.5	.87	1.127	1.000	1.127
KY	67.6	67.6	.98	1.011	1.000	1.011
LA	69.1	68.7	1.18	1.025	1.000	1.025
ME	63.0	62.9	.76	1.071	1.000	1.071
MD	73.2	73.3	1.01	1.031	1.000	1.031
MA	76.8	76.2	1.04	1.014	1.000	1.014
MI	87.8	87.8	.80	.979	1.000	.979
MN	80.8	80.6	.91	1.016	1.147	1.165
MS	50.8	50.6	.83	1.016	1.000	1.016
MO	73.1	73.3	1.01	1.040	1.000	1.040
MT	66.2	66.3	.89	1.025	1.166	1.195
NE	68.1	67.9	1.32	1.075	1.340	1.441
NV	73.7	73.7	1.04	1.161	1.000	1.161
NH	65.2	65.0	.93	1.108	1.000	1.108
NJ	77.7	77.6	.71	.995	1.000	.995
NM	59.7	59.3	1.02	1.023	1.000	1.023
NY	73.5	73.7	.86	1.039	1.000	1.039
NC	63.9	63.8	1.03	1.080	1.000	1.080
ND	70.4	70.5	1.00	1.103	1.322	1.458
OH	84.6	84.7	.87	1.007	1.000	1.007
OK	60.8	60.6	.84	1.018	1.000	1.018
OR	69.1	69.9	.66	1.063	1.000	1.063
PA	87.4	87.2	1.09	1.041	1.027	1.069
RI	72.4	72.4	.83	1.018	1.242	1.264
SC	64.4	64.4	1.01	1.032	1.000	1.032
SD	66.1	66.0	.88	1.141	1.000	1.141
TN	61.5	61.7	1.04	1.066	1.000	1.066
TX	55.4	55.5	1.07	1.047	1.000	1.047
UT	74.2	74.3	1.09	1.081	1.000	1.081
VT	69.0	69.5	1.02	1.093	1.000	1.093
VA	69.0	68.3	.92	1.126	1.000	1.126
WA	76.3	76.5	.83	1.059	1.000	1.059
WV	58.8	58.5	.90	1.073	1.000	1.073
WI	85.3	85.4	.92	1.057	1.000	1.057
WY	71.9	72.0	.89	1.352	1.000	1.352

SOURCE: Column (2) is from a full model simulation. Column (1) is from p. 167 of U.S. Department of Labor *Handbook of Unemployment Insurance Financial Data 1938–1976* (1978). Columns (3), (4), (5), and (6) were derived by the author. Average weekly benefits, columns (1) and (2), are measured to the nearest 10 cents.

force survey (MLS) and State UI program statistics. For 1980, no such benchmarks existed. However, an attempt was made to align certain aspects of the 1980 simulations. First, the average weekly benefits received in the second quarter of 1979 were inflated by 11 percent. This served as a rough benchmark for 1980 weekly benefits by State. Second, program data on the average duration of benefits in 1977 were used to develop initial 1980 benefit duration benchmarks. Data from 1977 were selected because the overall unemployment rate for that year (7 percent) was quite similar to our initial midpoint estimate of the rate for 1980 (7.1 percent). After the earliest 1980 simulations, however, the overall 1980 duration estimates were raised, since actual 1980 monthly rates increased sharply during May and June of 1980. Third, 1978 program data were used to devise benchmarks for disqualification rates and the macro adjustment for partial benefits and interstate claims.

In simulating 1980 benefits, it was necessary to age the underlying SIE population from 1976 to 1980. This was accomplished using the Urban Institute's TRIM model. It was also necessary to modify the base-period unemployment rate, since the rate in 1979 was much lower than it had been in 1975. This modification was accomplished by using an Okun's law calculation to simulate increased weeks of employment and higher average weekly wages on the underlying microrecords. The assumed 1979 unemployment rate was 6 percent.

Finally, selected model parameters from 1976 were used in making the 1980 simulations. This was done in the following areas:

- Unemployment occurrences among persons 55 and older were increased by half as in 1976.
- The 1976 State-specific application rates were also used in 1980.
- Monetary eligibility in wage request States was determined using the two-step procedure.
- The State-specific discovery rates used in determining disqualifications in 1976 were also used in 1980.
- The macro adjustments for unknown sources of simulation (more precisely, undersimulation) errors, that is, column (5) of Table A-3, were repeated in the 1980 simulations.

Validation of these procedures must await the actual data from 1980.

Notes

1. U.S. Department of Commerce, Bureau of the Census, "Household Money Income in 1975, by Housing Tenure and Residence, for the United States, Regions, Divisions and States (Spring 1976 Survey of Income and Education)," Current Population Reports,

Series P60, No. 108 (Washington, D.C., U.S. Government Printing Office, 1977).

2. The unemployment insurance model uses TRIM procedures to do demographic aging and economic aging. However, the model does not use TRIM procedures to change unemployment rates. See Margaret Sulvetta, "An Analyst's Guide to TRIM—the Transfer Income Mode," Urban Institute Paper 996-03 (June 1976), chap. 6.

3. The specification and estimation of models with recursive structures was pioneered by Herman Wold. See Herman Wold and L. Jureen, *Demand Analysis* (New York, John Wiley, 1953).

4. Richard Morgenstern and Nancy Barrett, "The Retrospective Bias in Unemployment Reporting by Sex, Age and Race," *Journal of the American Statistical Association*, vol. 69, June 1974, pp. 355–357.

5. Wayne Vroman, "Measuring Annual Unemployment," *Urban Institute Working Paper 1280-1,* February 1979.

6. The Labor Department publishes standard errors for the State estimates of unemployment. For California, the 1976 estimate of unemployment was 889,000 and the associated standard error was 19,500, or 2.2 percent of the unemployment estimate. For North Dakota, the corresponding estimates were 10,000 and 1,000. Here the standard error is 10 percent of the unemployment estimate. A 90 percent confidence interval for North Dakota's true 1976 unemployment would cover the range from 8,400 to 11,600, which is rather wide. These estimates for California and North Dakota were taken from data appearing in Tables 8 and C1 of U.S. Department of Labor (1977).

7. There are several references that are relevant in discussions of labor supply disincentive effects and possible effects of State UI benefits on worker unemployment. Two references provide an overview of labor supply responses: Jacob Mincer, "Labor Force Participation and Underemployment: A Review of Recent Evidence," in R. A. Gordon and M. S. Gordon, eds., *Prosperity and Unemployment* (New York, John Wiley, 1966); Glen Cain and Harold Watts, *Income Maintenance and Labor Supply* (Chicago, Rand-McNally, 1973). A partial list of papers that examine the labor supply effects of unemployment insurance benefits and/or program administration includes the following: Kathleen Classen, "The Effect of Unemployment Insurance on the Duration of Unemployment and Subsequent Earnings," *Industrial and Labor Relations Review*, vol. 20 (July 1977), pp. 438–444; Donald Ehrenberg and Ronald Oaxaca, "Unemployment Insurance Duration of Unemployment and Subsequent Wage Gain," *American Economic Review*, vol. 66 (December 1976), pp. 754–766; Martin Feldstein, "The Effect of Unemployment Insurance on Temporary Layoff Unemployment," *Harvard Institute of Economic Research, Discussion Paper 520* (November 1976); Martin Feldstein, *Lowering the Permanent Rate of Unemployment*, a study prepared for the Joint Economic Committee, 93rd Congress, First Session (1973); Daniel Hamermesh, "Entitlement Effects, Unemployment Insurance and Employment Decisions," *Economic Inquiry*, vol. 17 (July 1979), pp. 317–332; Arlene Holen and Stanley Horowitz, "The Effect of Unemployment Insurance and Eligibility Enforcement on Unemployment," *Journal of Law and Economics*, vol. 18 (October 1974), pp. 403–432; Alan Gustman, "Analyzing the Relation of Unemployment Insurance to Unemployment," mimeographed, Dartmouth College (June 1980).

8. Guy Orcutt and others, *Policy Exploration Through Microanalytic Simulation* (Washington, D.C., The Urban Institute, 1976), chap. 8.

9. James Morgan and others, *Five Thousand American Families—Patterns of Economic Progress* (University of Michigan, Institute for Social Research, 1974), vol. 1.

10. Orcutt and others, *Policy Exploration*, Table 8.2, pp. 154–157.

11. Jacob Mincer, *Prosperity*, pp. 73–112.

12. Thomas Dernberg and Kenneth Strand, "Hidden Unemployment 1953–62: A Quantitative Analysis by Age and Sex," *American Economic Review*, vol. 56 (March 1966), pp. 61–95.

13. Richard Morgenstern and Nancy Barrett, "Retrospective Bias."

14. Vroman, *Measuring Unemployment.*

15. U.S. Department of Labor, Unemployment Insurance Service, "Comparison of State Unemployment Insurance Laws" (Washington, D.C., U.S. Government Printing Office, January 1979).

16. U.S. Department of Labor, "Unemployment Insurance Statistics" (Washington, D.C., Unemployment Insurance Service, January–March 1979).

17. Four persons in the Unemployment Insurance Service should be singled out for their help: Louis Benenson, Robert Brinkman, Joseph Hickey, and Alice Weight.

18. This survey was a special mail questionnaire administered to all persons classified as unemployed in the monthly household labor force survey of May 1976. See Carl Rosenfield, "Job Search of the Unemployed, May 1976," *Monthly Labor Review* (November 1977), pp. 39–43.

19. Margaret Sulvetta, "Analyst's Guide."

20. Wayne Vroman, "State Replacement Rates in 1980" (Washington, D.C., National Commission on Unemployment Compensation, 1980).

21. This estimate is taken from Table 1 of the U.S. Department of Labor (1980).

22. Mathematica Policy Research Inc., "A Study of Federal Supplemental Benefits and Special Unemploy-

ment Assistance," Final Report to the U.S. Department of Labor for Contract 20-34-76-12 (January 1977).

23. Orcutt and others, *Policy Exploration*, chap. 8.

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