

**JOINT REPORT
TO THE
GENERAL ASSEMBLY
OF
RECOMMENDATIONS FOR AMENDING
THE PENNSYLVANIA UNEMPLOY-
MENT COMPENSATION LAW**

PART 2

**EMPLOYER EXPERIENCE RATING
IN UNEMPLOYMENT COMPENSATION**



**BY
THE JOINT STATE GOVERNMENT COMMISSION
AND THE
JOINT LEGISLATIVE COMMITTEE TO STUDY
UNEMPLOYMENT COMPENSATION PROVISIONS**

JANUARY, 1941

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JOINT REPORT
TO THE GENERAL ASSEMBLY

OF

RECOMMENDATIONS FOR AMENDING THE
PENNSYLVANIA UNEMPLOYMENT
COMPENSATION LAW

PART 2

Facts and Arguments For and
Against Employer Experience
Rating in Unemployment
Compensation



BY THE
JOINT STATE GOVERNMENT COMMISSION
AND THE
JOINT LEGISLATIVE COMMITTEE TO STUDY
UNEMPLOYMENT COMPENSATION PROVISIONS

Commonwealth of Pennsylvania
Joint State Government Commission

January, 1941

Capitol Building

Harrisburg, Pennsylvania

JOINT STATE GOVERNMENT COMMISSION OF THE GENERAL ASSEMBLY

(Created in 1937. P. L. 2460, as amended 1939 P. L. 1084)

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LETTER OF TRANSMITTAL

To the Members of the General Assembly of the
Commonwealth of Pennsylvania:

In pursuance of House Resolution, Serial No. 136 and Senate Concurrent Resolution, Serial No. 127, of the Regular Session of 1939, and under the authority of the Act of July 1, 1937, P. L. 2460, as amended by the Act of June 26, 1939, P. L. 1084 (Act creating Joint State Government Commission), we submit herewith a Joint Report of Recommendations for Amending the Pennsylvania Unemployment Compensation Law, Part 2, Employer Experience or Merit Rating in Unemployment Compensation.

Elwood J. Turner, Chairman,
Joint State Government Commission

Weldon B. Heyburn, Chairman,
Joint Legislative Committee to Study
Unemployment Compensation Provisions.

January, 1941.

FOREWORD

This report is Part II of the study on Unemployment Compensation by the Joint State Government Commission and the Joint Legislative Committee to Study Unemployment Compensation Provisions. Part I did not consider the subject of experience rating but was confined to other proposals to amend the Pennsylvania Unemployment Compensation Law. This part contains the available facts, statistics, and data on the effect of experience rating in the States in which it is in operation and the arguments generally advanced for and against experience rating.

Hearings were conducted, meetings held, surveys made, and considerable statistics, data, and information were assembled by the Joint Legislative Committee to Study Unemployment Compensation Provisions and are included in this report. Representatives of employers of virtually hundreds of thousands of employes in industry and business manifested considerable interest in the subject and submitted their divergent views and oral and written briefs, statistics, and arguments in support of their respective positions.

The advocates contend that it will encourage industrial stabilization of employment, introduce equity in the payment of contributions, prevent unnecessary idle reserve surpluses, and bring about efficient and just administration. The opponents, on the other hand, disagree with the claim of the proponents and insist that stabilization will produce undesirable results, contribution rate differentials will be unfair to certain unstable industries, and if the reserves are to be reduced, a flat reduction should be adopted.

Every effort has been directed toward an impartial presentation of such facts and data as are available. The information gained at the hearings and through many reports on the subject from other states has been utilized in presenting the arguments of both sides.

The data and information as well as the arguments for and against experience rating contained in this report indicate definitely that the subject is a highly debatable one. Nevertheless, it must be pointed out that in four states experience rating is now in operation and will go into operation in thirteen additional states in 1941. Therefore, serious legislative consideration of this subject cannot be avoided.

The Joint State Government Commission and the Joint Legislative Committee, having been charged to make this study, recognized their responsibility and completed as much of the study as is possible. This report points out that the Joint Committee has been unable to complete that phase of the survey which would determine definitely what effect experience rating would have on different enterprises in Pennsylvania. In the Joint Report, Part I, a continuance of this study is recommended. This proposal is repeated in this report.

Special attention is directed to the valuable information and statistics contained in the tables beginning with page 46 to the end of the report. In the supplement to this report, are contained additional valuable studies prepared by the Research and Statistics Section of the Bureau of Employment and Unemployment Compensation, showing the employment experience of Pennsylvania industries over a limited period of time and other information concerning the operation of the Unemployment Compensation Fund.

I desire to make acknowledgment to Honorable Lewis G. Hines, Secretary of Labor and Industry and Mr. Ernest Kelly, Director of the Bureau of Employment and Unemployment Compensation. Special thanks are due the following members of the bureau: Mr. Roland S. Wallis, Chief of the Research and Statistics Section; Mr. William E. Orr, Jr., advanced statistician; and Mr. Harry Hoyle, Chief of Standards, Methods, and Planning, who have aided considerably in furnishing much of the information and statistics utilized in the preparation of this report. They have been generous with their time and effort.

A. ALFRED WASSERMAN, *Director*

JOINT STATE GOVERNMENT COMMISSION

TABLE OF CONTENTS

	Page
Foreword	v
Summary	1
Recommendation	5
Introduction	7
Section I. The Objectives of Experience Rating and Arguments For and Against These Aims.	
Four major arguments for experience rating	11
Arguments for and against these Claims of:	
1. Stabilization of Employment	12
2. Equity in Assessing Social Costs	18
3. The Prevention of Excessive Reserves	20
4. Efficiency of Claim Administration	22
Section II. The Methods Used in Rating Experience of Employers.	
1. General Observations	23
2. Reserve Ratio	23
3. The Texas Plan	25
4. Connecticut's Compensable Separation Plan and Minnesota's Beneficiary Wage Plan	29
5. The Benefit Ratio	30
6. Charging of Employer's Accounts	32
Section III. Experience Rating in Practice.	
1. Present Status and General Observations of the Operation of Experience Rating in the States	34
2. Wisconsin's Law and Experience	35
3. The Laws of Kentucky and Nebraska, and Experience of Nebraska	40
4. The first year of rate reduction in Indiana and South Dakota	42
5. Experience Rating - - - States Reducing Rates in 1941	44
6. The Significance to Pennsylvania of the Experience of Other States	44
Table I. Contributions by Employers, Benefit Payments to the Unemployed, and Balance in the Unemployment Compensation Fund, For Pennsylvania, By Month—January 1937 to December 1940	46
Table II. Estimated Contributions Collected Compared with Estimated Unemployment Benefits paid, By Industry, For Specified Periods Through September 1940 ...	49
Table III. Cumulative Collections and Interest, Cumulative Benefit Payments to the Unemployed and Balances in Unemployment Compensation Funds, By States and Territories, at the End of the Years 1937, 1938, 1939, and on June 30, 1940	52
Table IV. Employment Fluctuations in Major Pennsylvania Manufacturing Industries During the Past Seven Years	54
Table V. Employment Fluctuations in Major Pennsylvania Non-Manufacturing Industries During the Past Seven Years	56
Table VI. Wisconsin Experience Rating Accounts Classified By 1940 Contribution Rates and Industry	57
Table VII. Nebraska Experience Rating Accounts Classified By 1940 Contribution Rates and Industry	60

SUMMARY OF REPORT ON EMPLOYER EXPERIENCE RATING

Introduction

1. **Definition**—"A method of contribution-rate adjustment based on the relative amount of unemployment for which the employer has been responsible in the immediate past."
2. Federal Social Act has provision allowing states to have "experience rating."
3. Any experience rating plan that Pennsylvania might adopt must provide:
 - a. That the measure of experience that is applied to the individual must be with respect to unemployment or other factors bearing a direct relation to "unemployment risk."
 - b. No reduced rate can apply to any individual account unless the agency has been able to measure the "experience" of the employer in question for a period of at least three years.

Section 1—THE OBJECTIVES OF EXPERIENCE RATING AND ARGUMENTS IN CRITICISM OF THESE AIMS

A. STABILIZED EMPLOYMENT

"EXPERIENCE RATING," BY PROVIDING AN INCENTIVE OF A LOWER CONTRIBUTION RATE, RESULTS IN MORE STABILIZED EMPLOYMENT.

PRO

1. Greater stabilization can be achieved by better planning, scheduling production, inducing customers to buy more regularly, additional or specialized warehousing facilities, training employes to be versatile, manufacturing to stock, working repairs in with production, and adding complementary lines of goods.
2. Such a continuous incentive will center and intensify the attention given by employers to the problem of unemployment.
3. It creates a steadier income for workers and encourages industry to make its operations as efficient as possible by better utilizing the skills and energies of its workers.

CON

1. The individual employer can do something to stabilize his employment, but his ability is often limited.
2. The type of unemployment that can be reduced by the individual employer is mostly the "intermittent" or seasonal type.
3. In inducing employers to stabilize, the prospect of a financial saving through a reduced contribution rate is important.
4. Various efforts to avoid the payment of benefits, particularly extreme work spreading, also induced by the prospect of a reduced contribution rate.
5. Under the Wisconsin Act, only a small percentage (11%) were able to accomplish an "appreciable" amount of stabilization as a direct result of the act. But nearly two-thirds of the firms were encouraged to do something toward more regular employment, even though negligible in many cases.
6. It tends to stabilize under-employment. Partial benefit payment at a relatively high level would set a limit on work spreading.
7. In the desire to stabilize employment by filling in the slack season, some firms may engage in producing articles which are the chief source of revenue for other firms.
8. Stabilization reduces the flow from the ranks of the employed to the ranks of the unemployed, and vice versa.

B. EQUITY IN ASSESSING SOCIAL COSTS

BECAUSE OF THE WHIMSICAL BUYING HABITS ON THE PART OF THE PUBLIC, OR THE NATURE OF THE COMMODITY PRODUCED, SOME INDUSTRIES HAVE PEAKS AND VALLEYS OF EMPLOYMENT, AND THE CONSUMERS OF SUCH PRODUCTS SHOULD BEAR THE EXTRA SOCIAL COST. EXPERIENCE RATING, IT IS CLAIMED, WOULD PROVIDE A JUST MEANS OF ASSESSING THESE HIGHER SOCIAL COSTS EQUITABLY.

PRO

1. It is contrary to good public policy to provide hidden subsidies to industries which cannot operate without large labor reserves.
2. If Pennsylvania does not adopt experience rating, many industries will be at a disadvantage with their competitors in states that do.
3. The absence of experience rating is a deterring factor to new industries contemplating situating in Pennsylvania.
4. The maximum contribution rate would remain at its present level, 2.7 per cent. Those paying less than the maximum would still be partly paying for the benefits of the employes of those industries with poor experience ratings.

CON

1. Economic life is inter-related and the phenomena of unemployment is of a broad social character. Unemployment in one industry may have been partially caused by the decisions of another industry.
2. Marginal or declining enterprises, who because of competitive factors, technological change, or shifts in demand, may find that they must contract their employment. They would be forced to carry a tax rate greater than more fortunate competitors.
3. A three year experience is necessary before an employer can qualify for reduced rates. Therefore, a new employer entering an industry in which a majority of employers had qualified for lower rates, would face a slight tax disadvantage during a period which is generally the most difficult one.
4. It is doubtful if "compensable" unemployment is a fair measure to determine compensation rates.

C. THE PREVENTION OF EXCESSIVE RESERVES

BOTH PROPONENTS AND OPPONENTS OF EXPERIENCE RATING AGREE THAT THE RESERVES SHOULD NOT GROW INDEFINITELY, BUT SHOULD BE KEPT AT A REASONABLE LEVEL.

PRO

1. The large reserve fund which has been built up means millions of dollars of purchasing power tied up. It can best be released by adoption of experience rating.
2. Too great a liberalization will set a rigid schedule of benefits which in times of major depressions will endanger the solvency of the fund. Under experience rating, when the reserves fall, the contribution rates automatically rise.

CON

1. The 3 percent rate was assumed by actuaries to be a reasonable rate of contribution. The limits of protection given to covered workers were conservative and it appears now that they could have been made more liberal.

2. The reserve fund can also be reduced by a flat reduction in contribution rate provided the Federal Act is amended to authorize such action.
3. "Adequacy" of a fund difficult to determine.

D. EFFICIENCY OF CLAIM ADMINISTRATION

EXPERIENCE RATING WILL INDUCE EMPLOYERS TO COOPERATE MORE FULLY WITH THE ADMINISTRATORS.

PRO

1. If the employer has a definite stake in the payment or denial of benefits, he will cooperate more to make certain that unjustified claims are not honored.

CON

1. Investigations reveal that the percentage of fraudulent or doubtful claims are negligible.
2. Employers may be tempted to avoid outright layoff or dismissal, and may make efforts to construe terminations of employment as voluntary.
3. Since Pennsylvania does not have partial payments, an employer will be at liberty to reduce employment to one day out of seven, if he so desires, without affecting his experience rating account.

Section II--THE METHODS USED IN RATING EXPERIENCE OF EMPLOYERS.

A. RESERVE RATIO--

Benefits drawn by employes or former employes are charged against the contributions paid by an employer. These balances, expressed as a percentage of payroll, can then be used to measure the relative solvency or insolvency of an employer's reserve. Rates are then determined by comparison with statutory reserve limits.

1. Necessitates tremendous bookkeeping.
2. Can be used by states with pooled fund laws, if provision is made for experience rating accounts.
3. The higher the reserve ratio the lower the contribution rate which must be paid: In some states, if the reserve ratio falls below a certain point a penalty rate is added.

THE NEED FOR SIMPLER MEASURES

The Reserve ratio method, is too cumbersome and costly to administer in states having a large number of covered employers paying into a pooled fund because of the necessity of booking each benefit payment.

When workers move from employes to employer there is the additional problem of applying complicated charging rules to debit accounts.

Some plans have one charging operation for an entire benefit series instead of a charging operation for each check disbursed.

B. THE "TEXAS PLAN"

(Generally advocated for Pennsylvania)

Attempts to meet objections of:

1. Difficulty of administration.
2. Danger to solvency of Unemployment Compensation reserves.

PLAN BASED ON:

1. Offering each employer direct and continuous incentive to regularize employment and also securing a reasonable allocation, as between employers, of the cost of unemployment benefits. (Contribution rates would range from a maximum of 2.7% to a minimum of 1.0%.)

2. Requiring adequate yet not excessive reserves.
3. Constantly replenishing the fund.
4. Providing for administrative simplicity.

The plan charges a claimant's base period wages at the time benefits are first paid to the accounts of employers from whom these wages were earned. The "benefit wages" of the last three completed calendar years is divided by the payroll for the same period and the resulting "benefit wage ratio" is multiplied by a "State Experience Factor" which takes into consideration the status of the fund.

SAFETY FACTOR. If the fund falls to a certain point in relation to benefits paid in previous years, then contribution rates are increased until the fund reaches a certain specified point.

C. OTHER PLANS. Connecticut and Minnesota have plans, the former using a technique of ranking employers and assigning to them contribution rates in inverse order of the magnitude of the merit rating index of employers. Minnesota uses an average contribution rate. It then assigns payroll categories ranged according to beneficiary wage ratios, to contribution rates on either side of the average.

Utah and Michigan also have ranking plans.

CHARGING OF EMPLOYER'S ACCOUNTS

The entire theory of experience rating must stand or fall on the justice with which charging is done. In attempting to allocate the responsibility of unemployment upon employers, the states have set up "charge-back" procedures that are frequently unjust and usually complex, especially when a claimant reports two or more employers.

Section III—EXPERIENCE RATING IN PRACTICE.

A. GENERAL OBSERVATIONS OF THE OPERATION OF EXPERIENCE RATING IN THE STATES

Provisions in the several state laws vary so greatly that comparisons and analyses are difficult to make.

B. WISCONSIN'S EXPERIENCE

1. Wisconsin has the employer reserve accounts plan.
2. There were considerable differences in rate distribution between industries for both 1939 and 1940.
3. In 1940 all classes showed the majority receiving lower rates. The proportion of employers receiving rate reductions tended to increase with the size of payroll, and the proportion receiving rate increases tended to decrease with the size of payroll up to \$20,000, and thereafter to increase, excepting the very highest payroll class. The proportion continuing to pay 2.7 percent tended to decrease with increasing payrolls.

C. THE LAWS OF KENTUCKY AND NEBRASKA AND THE EXPERIENCE OF NEBRASKA

1. Kentucky and Nebraska have employer-reserve laws closely related to Wisconsin's plan. Kentucky provides for rate reduction by means of an automatic statutory schedule while Nebraska uses a disbursement ratio."

2. For 1940, 31 percent of the employers in Wisconsin qualified for rate reduction of which 27 percent of the total paid at the lowest rate. Some were aided by a Federal refund. A greater proportion of the "large" employers received rate reductions than did the "small" employers. There seemed to be a direct relationship between opportunity for rate reduction and size of payroll.

D. STATES IN WHICH EXPERIENCE RATING GOES INTO EFFECT IN 1941

In 1941, experience rating is scheduled to begin operating in 14 states.

E. THE SIGNIFICANCE TO PENNSYLVANIA OF THE EXPERIENCE OF OTHER STATES

Pennsylvania differs decidedly from the states examined in its industrial composition, its size, in the number of employers covered and in its unemployment compensation law. Therefore the Joint State Government Commission and the Joint Legislative Committee to Study Unemployment Compensation Provisions make their recommendation for further study of experience rating.

RECOMMENDATION

The Joint State Government Commission and the Joint Legislative Committee to Study Unemployment Compensation Provisions undertook the study of Experience or Merit Rating for Employers. The Joint Legislative Committee conducted hearings, held meetings, made surveys, accumulated and assembled considerable data, information and statistics on the subject. It has been unable to complete one aspect of the study, namely, the effect that experience rating for employers would have on different enterprises in Pennsylvania. Although it has obtained some data showing the effect for a short period of time, it has not completed this study. The data, therefore, is preliminary and incomplete.

The Joint State Government Commission and the Joint Legislative Committee, therefore, do not make a negative or an affirmative recommendation as to the adoption of any plan of experience or merit rating for employers in Pennsylvania, but do recommend further inquiry to complete this study.

Attention is directed to Recommendations Nos. 5, 6 and 23 on pages 1 and 3 of the Joint Report and Recommendations Part 1 by the Commission and the Joint Committee to the General Assembly on amending the Pennsylvania Unemployment Compensation Law, dated January, 1941. These recommendations contain proposals which are related to the question of experience rating.

INTRODUCTION

Experience rating for employers in unemployment compensation systems may be defined as a method of contribution-rate adjustment based on the relative amount of unemployment for which the employer has been responsible in the immediate past. Viewed broadly, there would appear to be no disagreement with the concept on which it is based. Should not employers who maintain their working forces in bad times as well as good, and prevent, sometimes to their own loss, the individual suffering and economic maladjustment that comes with mass layoff and insecure tenure, be rewarded by a lower unemployment tax; and, conversely, should not employers whose personnel practices create long lines of claimants for unemployment benefits at the unemployment offices' windows be penalized by the necessity of paying for the unemployment they bring about? It is this "bad" and "good" attitude that was responsible for the term "merit rating," a term which within the past year has been replaced by "experience rating."

The first really serious thinking, on a large scale, about the problem of mass unemployment and the possibility of exercising social control to prevent it, as well as to aid its victims, occurred in the early years of the decade just past. To meet the emergency facing the American people, systems of aid were devised which proved after brief experience to be faulty. With a recognition of this came realistic attempts to meet the problem, and there came into being the methods of dispensing unemployment relief on the basis of need. These still form the nuclei of our systems of public assistance.

Along with this came a feeling that the millions of American unemployed were not responsible for their plight, that their hardships should be reduced to a minimum that they should not be subjected to unnecessary investigation into the amount of their resources or need. It was felt, vaguely at first, that there was a substantial difference between those permanently—or for long periods—unable to win a livelihood and those who were left temporarily without means because of the caprices of the labor market. It was also felt that an employer who had irresponsibly thrown his employes on the public purse was far different from one who had shared the resources of his firm with his workers, weathering the storm of depression with them. In endeavoring to make these distinctions, American legislators and administrative experts cast about looking for whatever had been thought or done on the problem. Unemployment Compensation, as we know it, was the result.

Congress in setting up the broad outlines in the Social Security Act gave the States wide latitude as to the type of past experience and thinking from which they might draw, and the fact that there is not a greater diversity in the provisions of the various acts is due to the limitations prescribed by the provisions of the Social Security Act, interpretations made by the administrators of the Act, and a public opinion that drew hazy but perceptible limits as to what could and could not be done in regard to eligibility and benefit provisions. On two points, however, there was no unanimity of thinking or feeling because of differences between the theorists of unemployment compensation—type of fund and method of tax-rate determination. At the time, these differences were satisfied by including in the Act as possible fund types and contribution methods all that had commanded a respectively large following or—in the case of Wisconsin—had been actually placed in operation.

Three types of plans were recognized as acceptable to the Social Security Administrations. If a state adopted any one of the three or a combination of them, and met other stipulations, its employers of eight or more were entitled to charge off against the 3.0 percent Federal tax all amounts paid to the state up to 90 percent of the tax, however, the differential tax rate was of the very essence of two of the possible plans, the Act had to include some provision which would make it possible for the employer whose record entitled him to a state tax rate lower than 2.7 percent to retain the advantage he had gained. This was accomplished by means of the "additional credit" feature of the social Security Act and, subsequently, of the Internal Revenue Code.

While later amendments have modified these provisions, in detail the main outlines still exist. A state may pool its contributions in one fund; it may pool part and maintain the balance in individual employer reserve accounts; it may credit all of an employer's contributions against a reserve account from which his workers are paid, or it may, with or without contributions, allow employers to set up their own plans of guaranteed employment. The first of these plans, i.e., that of mingling contributions and paying workers from the pooled fund,¹ can exist with or without special provision for differential contribution rates.

These plans rest on either one of two entirely different concepts of unemployment compensation, or straddle across the concepts in the belief that a system can be created which will square with each viewpoint. Basically, both the pure guaranteed employment plan and the pure employer reserve system are premised on a belief that employment and unemployment are the results of the efforts or lack of efforts of individual employers; that they can, working individually and collectively, to a large degree stabilize operations, and that those who cannot, should by right pass along the extra social cost of their operations to the public in the form of higher prices; that the most effective way of accomplishing this is by taxation of employers, the proceeds of such taxes being held for the benefit of those of each employer's employees who lost his or her employment.

The pooled fund without provision for rate variation starts from a somewhat different notion. To its protagonists, unemployment is largely beyond the control of the individual employer; that the vagaries of the market, the change of seasons, and the competitive necessity of technical improvement are factors which employer efficiency and good will cannot control; that it is, nevertheless, the responsibility of the State (and good sense for business) to provide the short-time unemployed with the right to certain benefits; that employers should be taxed for these costs as a class each paying on the basis of the number of workers he may employ.

Between these viewpoints is the belief that these are but different facets of the same problem, and that by a proper control of tax rates the individual employer may be encouraged to stabilize at the same time that the unemployed worker retains full benefit rights regardless of the fate of his employer's reserve or guaranteed employment account. Depending on the initial plan of a particular State Legislature, and the degree to which its members were influenced by one philosophy or another, compromises have been effected which now range from the employer's reserve with a pooled account made up of the fund's earnings, through employer's reserve with a portion of the contribution going into a pool, and straight pooled funds with variable rates to the pure pooled fund into which covered employers pay at an equal rate. (As of March 1940 only four States made provision in their laws for "guaranteed employment" plans, and in one of these the plan cannot operate under the Federal Internal Revenue Code).

The formal recognition of these different types of systems in the Federal Statute is made necessary because of the possibility of reduced rates held out to employers under all but the straight pooled fund without experience rating. As revised in 1939 and appended to the Internal Revenue Code "Section 1602. Conditions of Additional Credit Allowance," it reads:

"(a) State Standards. A taxpayer shall be allowed an additional credit under section 1601 (b) with respect to any reduced rate of contributions permitted by a State law, only if the Board finds that under such law:

(1) No reduced rate of contributions to a pooled fund or to a partially pooled account, is permitted to a person (or group of persons) having individuals in his (or their) employ except on the basis of his (or their) experience with respect to unemployment or other factors bearing a direct relation to unemployment risk during not less than the three consecutive years immediately preceding the computation date;

(2) No reduced rate of contributions to a guaranteed employment account is permitted to a person (or a group of persons) having individuals in his (or their) employ unless (A) the guaranty or remuneration was fulfilled in the year preceding the computation date; and (B) the balance of such account amounts to not less than 2½ per centum of that part of the pay roll or payrolls for the three years preceding the computation date by which contributions to such account were measured; and (C) such contributions were payable to such account with respect to three years preceding the computation date;

(3) Such lower rate, with respect to contributions to a separate reserve account, is permitted only

¹ The plan adopted in Pennsylvania.

when (A) compensation has been payable from such account throughout the preceding calendar year, and (B) such account amounts to not less than five times the largest amount of compensation paid from such account within any one of the three preceding calendar years, and (C) such account amounts to not less than 7½ per centum of the total wages payable by him (plus the total wages payable by any other employers who may be contributing to such account) with respect to employment in such State in the preceding calendar year.

(4) Effective January 1, 1942, paragraph (3) of this subsection is amended to read as follows:

'No reduced rate of contributions to a reserve account is permitted to a person (or group of persons) having individuals in his (or their) employ unless (A) compensation has been payable from such account throughout the year preceding the computation date, and (B) the balance of such account amounts to not less than five times the largest amount of compensation paid from such account within any one of the three years preceding such date, and (C) the balance of such account amounts to not less than 2½ per centum of that part of the pay roll or pay rolls for the three years preceding such date by which contributions to such account were measured, and (D) such contributions were payable to such account with respect to the three years preceding the computation date.'

"(b) Certification by the Board with respect to Additional Credit Allowance—

(1) On December 31 in each taxable year, the Board shall certify to the Secretary of the Treasury the law of each State (certified with respect to such year by the Board as provided in section 1603) with respect to which it finds that reduced rates of contributions were allowable with respect to such taxable year only in accordance with the provisions of subsection (A) of this section.

(2) If the Board finds that under the law of a single State (certified by the Board as provided in section 1603) more than one type of fund or account is maintained, and reduced rates of contributions to more than one type of fund or account were allowable with respect to any taxable year, and one or more of such reduced rates were allowable under conditions not fulfilling the requirements of subsection (a) of this section, the Board shall, on December 31 of such taxable year, certify to the Secretary of the Treasury only those provisions of the State law pursuant to which reduced rates of contributions were allowable with respect to such taxable year under conditions fulfilling the requirements of subsection (a) of this section, and shall, in connection therewith, designate the kind of fund or account, as defined in subsection (c) of this section, established by the provisions so certified. If the Board finds that a part of any reduced rate of contributions payable under such law or under such provisions is required to be paid in one fund or account and a part into another fund or account, the Board shall make such certification pursuant to this paragraph as it finds will assure the allowance of additional credits only with respect to that part of the reduced rate of contributions which is allowed under provisions which do fulfill the requirements of subsection (a) of this section.

(3) The Board shall, within thirty days after any State law is submitted to it for such purpose, certify to the State agency its findings with respect to reduced rates of contributions to a type of fund or account, as defined in subsection (c) of this section, which are allowable under such State law only in accordance with the provisions of subsection (a) of this section. After making such findings, the Board shall not withhold its certification to the Secretary of the Treasury of such State law, or of the provisions thereof with respect to which such findings were made, for any taxable year pursuant to paragraph (1) or (2) of this subsection unless, after reasonable notice and opportunity for hearing to the State agency, the Board finds the State law no longer contains the provisions specified in subsection (a) of this Section or the State has, with respect to such taxable year, failed to comply substantially with any such provision.

"(c) Definitions—As used in this section—

(1) Reserve Account—The term 'reserve account' means a separate account in an unemployment fund, maintained with respect to a person (or group of persons) having individuals in his (or their) employ, from which account, unless such account is exhausted, is paid all and only compensation payable on the basis of services performed for such person (or for one or more of the persons comprising the group).

(2) Pooled Fund—The term 'pooled fund' means an unemployment fund or any part thereof (other than a reserve account or a guaranteed employment account) into which the total contributions of persons contributing thereto are payable, in which all contributions are mingled and undivided, and from which compensation is payable to all individuals eligible for compensation from such fund.

(3) Partially Pooled Account—The term 'partially pooled account' means a part of an unemployment fund in which part of the fund all contributions thereto are mingled and undivided, and from which part of the fund compensation is payable only to individuals to whom compensation would be payable from a reserve account or from a guaranteed employment account but for the exhaustion or termination of such reserve account or of such guaranteed employment account. Payments for a reserve account or guaranteed employment account into a partially pooled account shall not be construed to be inconsistent with the provisions of paragraph (1) or (4) of this subsection.

(4) **Guaranteed Employment Account**—The term 'guaranteed employment account' means a separate account, in an unemployment fund, maintained with respect to a person (or group of persons) having individuals in his (or their) employ, who, in accordance with the provisions of the State law or of a plan thereunder approved by the State agency,

(A) guarantees in advance at least thirty hours of work, for which remuneration will be paid at not less than stated rates, for each of forty weeks (or if more, one weekly hour may be deducted for each added week guaranteed) in a year, to all the individuals who are in his (or their) employ in, and who continue to be available for suitable work in, one or more distinct establishments, except that any such individual's guaranty may commence after a probationary period (included within the eleven or less consecutive weeks immediately following the first week in which the individual renders services), and

(B) gives security or assurance, satisfactory to the State agency, for the fulfillment of such guaranties, from which account, unless such account is exhausted or terminated, is paid all and only compensation, payable on the basis of services performed for such person (or for one or more of the persons comprising the group), to any such individual whose guaranteed remuneration has not been paid (either pursuant to the guaranty or from the security or assurance provided for the fulfillment of the guaranty), or whose guaranty is not renewed and who is otherwise eligible for compensation under the State law.

(5) **Year**—The term "year" means any twelve consecutive calendar months.

(6) **Balance**—The term "Balance," with respect to a reserve account or a guaranteed employment account, means the amount standing to the credit of the account as of the computation date; except that, if subsequent to January 1, 1940, any moneys have been paid into or credited to such account other than payments thereto by persons having individuals in their employ, such term shall mean the amount in such account as of the computation date less the total of such other moneys paid into or credited to such account subsequent to January 1, 1940.

(7) **Computation Date**—The term "computation date" means the date, occurring at least once in each calendar year and within twenty-seven weeks prior to the effective date of new rates of contributions, as of which such rates are computed.

(8) **Reduced Rate**—The term "reduced rate" means a rate of contributions lower than the standard rate applicable under the State law, and the term "standard rate" means the rate on the basis of which variations therefrom are computed."

Pennsylvania is one of the 45 jurisdictions to adhere to the pooled fund, hence any experience-rating plan adopted, besides being consistent with the Commonwealth's constitution and with the other provisions of both the Federal Social Security Act and the Pennsylvania Unemployment Compensation Law, must square with Section 1602 (a) (1), quoted above, i.e.

1. The measure of experience that is applied to the individual must be with respect to unemployment or other factors bearing a direct relation to "unemployment risk."

2. No reduced rate can apply to any individual account unless the Agency has been able to measure the "experience" of the employer in question for a period of at least three years.

It should be added that during the course of the hearings held by the Joint Legislative Committee to study Unemployment Compensation Provisions, the opponents claimed that any differential in the contribution rate established by experience rating would be unconstitutional because of the provision in the Constitution² that all taxes shall be uniform upon the same class of subjects. The proponents stated that they believe experience rating to be constitutional, and that "all of the courts which have ruled on the subject of unemployment compensation have upheld the constitutionality of the law fundamentally, including experience rating provisions wherever they existed."³

An examination of the unemployment compensation laws in the 51 jurisdictions (48 states, two territories and the District of Columbia), shows that no less than forty have adopted some form of statutory provision for experience rating and ten others have made statutory provision for study of the subject. With the exception of the resolutions setting up this particular study, no provisions have been made in Pennsylvania for studying or adopting experience rating. In Part I of this report the Joint State Government Commission and the Joint Legislative Committee to Study Unemployment Compensation Provisions have recommended that further study be made of experience rating especially as it would apply to Pennsylvania.⁴

² Pennsylvania Constitution, Art. IX, Sec. 1.

³ Cliffe, F. B., Statement made at a hearing before the Joint Legislative Committee to Study Unemployment Compensation Provisions, Aug. 13, 1940, Harrisburg, Pa.

⁴ See Recommendation No. 6, *Joint Report to the General Assembly of Recommendations for Amending the Pennsylvania Unemployment Compensation Law (Part 1)* by the Joint State Government Commission and Joint Legislative Committee to Study Unemployment Compensation Provisions, January, 1941.

SECTION I

THE OBJECTIVES OF EXPERIENCE RATING AND ARGUMENTS FOR AND AGAINST THESE AIMS

The arguments for experience rating may be summed up under four heads:

1. The past history of American business includes many examples of unstable organizations who, by means of more intelligent scheduling of their operations, the development of new products or lines of activity, the production for inventory during slack seasons, or by "spreading work" among employes, have been able to iron out the peaks and valleys of their employment curves to the mutual advantage of management and labor. It is believed that with the incentive of a lower contribution rate many firms now unstable would be led to reconsider their employment policies, and would find that they too could provide more regular work to their employes.

2. It is argued that the variation of contribution rates according to the employes' individual records in furnishing continuing employment to their employes provides a means of equitably assessing the cost of unemployment benefits. There can be, it is said, no sound reason why enterprises and industries whose workers count on continuous employment should be forced to pay unemployment benefits for establishments which, because of the nature of their business or the ineptitude of their managements, cannot or will not provide such regular employment.

3. Although experience rating necessarily need not be a device for the control of the size of the reserve, most systems that have been designed thus far have, in part, this purpose implied. It is pointed out that the enormous reserves accumulated under the law represent a withdrawal of valuable purchasing power that industry might well be using to advantage. Without questioning the wisdom of laying by a backlog of cash for the period of unusual decline, the proponents of experience rating claim that it provides a means of keeping funds at a reasonable level.

4. Finally, it is stated that experience rating gives the individual employer a stake in the system, and lays the problem of efficient claim administration squarely before him. If his employes or former employes now file claims for benefits to which they are not clearly entitled under the Law, it is no concern of the employer, individually, if the State does or does not honor them. He has paid his tax and beyond that he need not worry. If each such benefit or each such honored claim had a direct bearing on his future contribution rate, he might be inclined to cooperate more fully with the administrators of unemployment compensation in uncovering the facts.

These are arguments of weight. Encouragement of industrial stabilization, equity, prevention of idle governmental surpluses, and efficiency of claim administration are the objectives, and if action by government helps to achieve them, the proponents insist it should be taken and point out further that:

"This objective of such legislation was well enunciated by the President when, in recommending Social Security legislation to the Congress in 1935, he said 'an unemployment compensation system should be constructed in such a way as to afford every practicable aid and incentive toward the larger purpose of employment stabilization.' Recognizing the soundness of this principle, Congress incorporated into the original Social Security Act, Section 909, which grants to employers who reduce their contribution rates under an approved state experience rating plan the full 90% credit against the federal tax to which they would have been entitled had they paid the maximum rate provided by the state law."⁶

Opponents of such plans point out that when the subject of experience rating was recently considered in connection with unemployment compensation insurance in the District of Columbia, Congress took no action which, in their opinion, is an indication that Congress is not as much in

⁶ Pamphlet entitled "The Experience Rating Plan Being Proposed For Incorporation Into Pennsylvania's Unemployment Compensation Act and How It Would Work," p. 2. Pennsylvania Employers' Conference, 3900 Chestnut St., Philadelphia, Pa. October 28, 1940.

favor of experience rating as was the case when the original unemployment insurance measures were enacted.

Arguments for and against these four claims

1. Stabilization of Employment

In considering these points it is well to choose first "Encouragement of Employment Stabilization." As a goal this antedates Unemployment Compensation by many years. In the chapter on Management in the Report of the Committee on Recent Economic Changes, to President Hoover, Henry S. Dennison wrote:⁶

"To judge from the companies of this survey, the beginnings of substantial progress have been made, since the Unemployment Conference in 1921, in moderating the severities of seasonal irregularities. In about one-half of the companies it was found that definite measures had been put into effect; in 4 per cent especially trying conditions had increased irregularly; in 5 per cent nothing had been done to attempt to mitigate the effect of seasonal fluctuations; and in 40 per cent the problem had never been acute. Among the measures reported are increased standardization of products, better planning, scheduling production, inducing customers to buy more regularly, additional or specialized warehousing facilities, training employes to be versatile, manufacturing to stock, working repairs in with production, and aiding complementary lines of goods. The ladies' garment industry in Cleveland in 1921, and the men's clothing plants in Chicago in 1923, took steps toward regularization of employment through guaranteed employment and unemployment insurance plans. In 1928, the garment industry in Rochester and in New York City began the establishment of unemployment insurance funds. All of these arrangements have been worked out through the cooperation of employers and unions. A few individual companies in various lines of manufacturing have established unemployment compensation plans which have helped to regulate workers' income."⁷

For the most part the aim was to reduce seasonal fluctuations brought about by the buying habits of the public, the nature of their product, or the availability of the materials with which they worked. For example, the Sherwin-Williams Paint Company helped to change a spring demand to a round-the-year demand by a "Paint in the Fall" campaign. National Cloak and Suit Company and Sears-Roebuck and Company introduced January and June sales with special catalogues, to take up the slack that had always occurred after the Christmas and Easter Holidays. Repackaging of Mueller Macaroni reduced spoilage and made increased summer sales possible. The use of fireworks in the celebration of Christmas in the South was successfully exploited by Northern fireworks manufacturers, who always had suffered from slumps during the winter months. Within the past generation, ice cream has become a year-round food.

The opponents contend, however, that this type of stabilization is the result of new business created by sales promotion and is not applicable to industries engaged in manufacturing capital goods or in selling to a market that is more or less fixed. Such industries are faced with a far more difficult problem. The capacity of the buying public to consume more radiators or coal, or the ability of American business to invest in cash registers is limited. Here recourse to seasonal price differentials (anthracite as early as 1900, American Radiator Company) or planned production for inventory and future sale (Packard Motors, Proctor and Gamble, National Cash Register, Allis-Chalmers) has made it possible to avoid the feverish hire and fire policy that marks many seasonal industries.⁸

Another device that has become common is the development of "side lines" or "fillers." Douglas and Director cite among others, Dennison Paper Company, who progressively developed crepe paper, labels, tags, and a variety of other products to fill in gaps; Beechnut Packing Company, whose chewing gum and peanut butter keeps employment steady during the winter months; and A. C. Gilbert Company, who moved from a strictly Christmas toy trade to the development of all sorts of motor driven household appliances.

These few typical methods do not by any means exhaust the possibilities. Exchange of

⁶ "Recent Economic Changes in the United States," Report of the Committee on Recent Economic Changes of the President's Conference on Unemployment, 1939, McGraw-Hill Book Company, Inc.

⁷ See Herman Feldman, "Regularization of Employment" 1925; and "Business Cycles and Unemployment," National Bureau of Economic Research, 1923.

⁸ See "The Problem of Unemployment," Douglas and Director, 1934, Chapters VII and VIII.

workers by employers having different seasonal peaks, training of workers to perform two or more different jobs at different periods, utilizing productive employes for maintenance during off-seasons, and other plans and combinations of plans have all been either tried or suggested. The National Association of Manufacturers prepared a monograph⁹ that was published just a few months ago which lists more than 80 cases of stabilization and describes in some detail the plans utilized by each of the firms studied.

Advocates of experience rating insist that the surface has only been scratched, and that American management, given the proper encouragement, will show itself capable of providing much greater stability of employment.

They claim that experience rating will provide a continuous incentive for an employer to do the best job he can in furnishing regular work and "if you have 100,000 employers subject to the act, each doing their part in furnishing regular work, you will have gone a long way towards solving the problem of unemployment in the state. You will not have evolved the solution, but you will have made great progress."¹⁰ They claim further that relatively few employers in the country have done much toward furnishing steady work; that there are many employers who do not do a good many things they should do until it is brought to their attention forcefully and the contribution rate saving is forceful for a great many employers and will direct attention to the job they ought to be doing anyhow, and cite as an illustration the experience with this subject in the State of Wisconsin.

In that state, the proponents state, 60% of the employers have handled their employment in such a way as they are now paying (for the year 1940) less than the 2.7 percent standard rate of contribution, and that they have learned how to do a better job of managing their business; that the variable tax rate or contribution rates have served as a notice or signal lamp to employers to do things that many of them have been trying to do before and that many of them have completely neglected during the past years."¹¹

As a study,¹² conducted by Dr. Charles Myers indicates something can be done, although it is significant that he finds the possibilities distinctly limited and some of the gains offset by an actual increase in total unemployment. The conclusions he reaches after a thorough study of 247 Wisconsin firms are of such importance that extensive quotation from his summary and conclusion is warranted.

"The principal findings of the study and the conclusions with respect to stabilization of employment are summarized as follows.

"1. *The individual employer can do something to stabilize his employment, but his ability is often limited.* Although the interviews showed clearly that employers in many lines of business can reduce some types of employment irregularity, limitations are obvious. Factors making stabilization possible are not found in equal degrees between industries, or even between firms within the same industrial classification. This point needs emphasis because at times, proponents of the Act have talked in terms of certain employers doing a 'better job' of stabilizing than others who are doing a 'worse job,' implying that the latter could do 'better' if they only tried. In many cases this may be true, but in others the use of the terms confuses inability to stabilize with unwillingness or lack of sincere effort to stabilize.

"2. *The type of unemployment that can be reduced by the individual employer is mostly the 'intermittent' or seasonal type.* When employers attempted to stabilize employment as a result of the Act, they usually adopted certain devices, if they had not already done so before, and if such devices were practical in their particular businesses. Employment management was centralized, and the work force selected more carefully. There was greater effort to transfer employes between departments to avoid lay-offs, and some retraining was undertaken with that end in view. Sometimes employes were used for maintenance and repair jobs when there was not enough work to keep them busy in their regular departments. Where possible, the product or its parts were manufactured for stock during slack seasons, probably according to a production budget, so that it would be unnecessary to make so many lay-offs then or hire so many extras at a later peak. Other stabilization

⁹ See "Employment Regularization," National Association of Manufacturers, 1940.

¹⁰ Cliffe F. B., Statement made before the Joint Legislative Committee to Study Unemployment Compensation Provisions, Aug. 13, 1940, Harrisburg, Pa.

¹¹ *Ibid.*

¹² "Employment Stabilization and the Wisconsin Act," by Charles A. Myers, Employment Security Memorandum No. 10, Social Security Board, 1940.

devices, such as diversification of products and markets, dovetailing, and booking business in advance of the season were used less frequently. The tendency to maintain a small, stable work force meant hiring fewer extras at the peaks, thus adding somewhat to the total volume of unemployment.

"Earlier advocates of the 'Wisconsin idea' argued that employers and bankers could control the business cycle, and that the unemployment compensation law would induce them to do so. This suggestion was never seriously supported by persons instrumental in the passage of the Groves bill. Instead, they contended that 'chronic irregular' or 'intermittent' unemployment, and seasonal unemployment, would be reduced. Their prediction has in some measure been borne out.

"Where the Act has induced stabilization efforts, it has reduced that type of 'intermittent' unemployment which resulted when a man was hired for a temporary rush and then soon laid off, or when a new worker was being hired for one department while employes (who could have been transferred) were being laid off in another. In other words, the Act has forced more regularity in day-to-day employment matters in these firms. Furthermore, in many cases, particularly through manufacture for stock in the slack season, it has been instrumental in reducing the severity of seasonal unemployment. Except for work spreading, which cannot usually be regarded as stabilization, employers can do little or nothing to reduce cyclical unemployment. They admit that they are powerless in the face of general declines in business, and few will avoid the temptation of taking on extra employes as business seems to be rising. In no important case, furthermore, did an employer say that the Act had caused him to postpone a technological labor-displacing change. The anticipated profit from such a change was held to outweigh possible financial savings from contribution rate reductions.

"Experience rating, then, whether it be under the employer-reserve type of law or the 'automatic' type under a pooled fund, should not be expected to produce miracles in the prevention or reduction of unemployment. The purpose ought to be to give employers an incentive to reduce those types of instability of employment which they can reduce, and these are necessarily limited.

"3. *In inducing employers to stabilize, the prospect of a financial saving through a reduced contribution rate was important.* 'Keeping down benefits' in the hope of qualifying for the reduced tax rates was a concern of all of the firms which attempted to stabilize in some measure under the Act. Although careful accounting might have indicated that the costs of irregular operation were sufficient incentive to stabilize, comparatively few employers know their own costs so well or act so wisely. A tangible financial charge against their accounts, such as benefit payments, assumed a psychological importance out of proportion to its relative financial significance. Foremen, in particular, appeared to be impressed by benefits when other, less tangible costs aroused little interest.

"But the incentive provided under the reserve-percentage formula of the present law may be considerably weakened after a time because firms in naturally stable industries are able to qualify for the lower rates with very little effort on their part, whereas firms in relatively unstable industries may never be able to reach the necessary levels even though they make a more genuine effort to stabilize than do their competitors in the same industry.³⁵ This is a real objection to the reserve-percentage type of experience rating found in the Wisconsin law, as well as in most other State laws with provision for contribution rate variations. Some firms in Wisconsin despaired of ever being able to reach the necessary percentages because of the inherent instability of the industry. Others in more stable industries felt certain that without making an additional effort they could secure the reduced rate eventually. It should be pointed out, however, that although some Wisconsin employers thought that the reserve percentage method might work unfairly in their particular cases and thus discourage further attempts to stabilize employment, this was not the general belief, even among most employers in the unstable industries.

"4. *Various efforts to avoid benefits, particularly extreme work spreading, were also induced by the prospect of a reduced contribution rate.* About half of the firms interviewed had done more work spreading under the impetus of the Act, although only a minority had carried it to a point just above that at which benefits were payable. Not particularly common, but nevertheless significant, was benefit avoidance by means of other devices, such as probationary-period hiring and the hiring of ineligible. The existence of these practices indicated that a law which rewarded the employer who had a low benefit record would encourage some attempts, within the legal framework of the statute, to avoid benefits directly as well as through bona fide stabilization.

"5. *Only about 11 per cent of the 247 firms interviewed between July 1, 1937, and July 1, 1938, were regarded as having accomplished an 'appreciable' amount of stabilization as a direct result of the Act. But*

³⁵ "Employment Stabilization and the Wisconsin Act," by Charles A. Myers: "In view of this, it is difficult to agree with the following statement, attached to the 1938 and 1939 Wisconsin statistical tables: 'A system of experience-rating based on individual employer accounts fully recognizes both industrial and individual variations. (Such a system, while encouraging each employer to employ his workers as steadily as he can, makes his contribution rate depend on his actual unemployment benefit record,—just as his premium rate for accident compensation varies with his accident hazard and experience.)' The analogy between accident compensation and unemployment compensation appears to the writer to be fallacious. Under the former, there are industry rates (known as 'manual' or 'average' rates) based upon the accident hazard, and then further variations from these based upon accident experience. There are no separate industry rates for unemployment hazard under the Wisconsin Act."

nearly two-thirds of the firms were encouraged to do something toward more regular employment, even though negligible in many cases. In addition to the 'appreciable' group, this included not only firms which had accomplished 'some' stabilization under the Act, either because their efforts began earlier for other reasons or because success was limited by difficulties, but also firms whose stabilization under the Act had been 'negligible' for similar reasons. The Act caused no change in only 39 per cent of the firms interviewed, and nearly half of these had stabilized before, or were in naturally stable businesses.

"6. *Reduced contribution rates in effect in 1938 were not indicative of the future results of experience rating.* Most of the 114 firms that received reduced rates qualified for them either because their 1937 payrolls were smaller than in previous years, thus automatically making their reserve percentages higher, or because they made a voluntary contribution before the end of the year to bring their reserve up to the necessary percentage of pay roll. Stabilization efforts were unimportant in qualifying for lower rates in this first year.

"7. *Experience rating in 1939 may be more indicative of probable future developments than the 1938 experience.* Over a third of the eligible employers qualified for the 1 per cent rate and 5 per cent for the zero rate. Firms which had done little or nothing to stabilize under the Act because they had done so before or were in naturally stable businesses were rewarded along with those which made genuine efforts to stabilize as a result of the Act. Higher-than-standard rates on 'irregular' employers were also first effective in 1939. Nearly 10 per cent of the employers whose rates could be modified were required to pay 3.2 per cent on their payrolls because their accounts had been overdrawn or their benefits had exceeded contributions in 1938. Most of these were firms in which stabilization was difficult or impossible because of the nature of the business. It should be noted, however, that some increased rates were assessed against firms in naturally stable businesses, just as some rate reductions occurred in industries generally regarded as unstable.

"8. *Against the stabilization accomplishments of the Wisconsin Act must be placed the fact that it has tended to stabilize under employment and has added somewhat to the volume of total unemployment.* The results of this study indicated that there has been an increase in stability of employment in some Wisconsin firms. Partly offsetting this gain in improved industrial relations, however, is the fact that under-employment and total unemployment have been increased as a result of the Act.

"For the most part, the increased work spreading that occurred under the Act in about half of the firms interviewed must be regarded as benefit avoidance and stabilization of under-employment rather than as stabilization of employment. To the extent that its use is widespread, extreme work spreading may enable employers to qualify for lower contribution rates just as much as if they had accomplished genuine stabilization, which approaches full-time employment. This is not an inherent defect in the Wisconsin law, however, since an amendment raising the level at which partial benefits are payable would set a higher limit on work spreading, and at the same time allow some sharing of the work which may be desirable to prevent temporary cessation in employment and income.

"There has also been a tendency for the total number of unemployed persons to increase insofar as stabilization efforts under the Act have meant that fewer workers were needed at peak periods, and insofar as the hiring of casual labor has been discouraged. This is a normal result of any successful stabilization of employment by individual firms, whether encouraged by experience rating under unemployment compensation or not. Although important, the seriousness of the tendency in Wisconsin can easily be exaggerated, since it was estimated that only about 2 per cent of the workers employed by firms interviewed were adversely affected. Furthermore, those who condemn stabilization on this account must be willing to accept, as a lesser evil, continued irregular and haphazard employment for the rest of the workers.

* * * * *

"Although many of the original claims concerning the Act have not been borne out in subsequent experience, it is an indication of progress in industrial relations that Wisconsin employers under the Act have been more concerned with employment problems than they were before. It is a positive gain that many employers have made genuine efforts under the impetus of the Act to reduce or eliminate intermittent and seasonal irregularity of employment where it is possible to do so. Many of the undesirable aspects of work spreading could be remedied by an amendment to the law, but some increase in total unemployment (at least in the short run) appears to be an inevitable accompaniment of thoroughgoing individual stabilization efforts.

"As long as something positive has been accomplished toward stabilization of employment among some Wisconsin firms, and inasmuch as no workers have yet been denied benefits because of exhaustion of their former employers' accounts, the Wisconsin Unemployment Compensation Act should be accepted as a significant contribution to social legislation. It may not be better than or even as good as experience rating under pooled-fund laws in encouraging employer efforts to stabilize employment, but the final answer must await further experience under the pooled-fund laws and under the Wisconsin Act."

While Dr. Myers found that the tax-saving did in fact operate as an incentive, his conclusion is a carefully qualified one. Where a large organization has built up its methods of production and marketing over a long period of time, and where its management has not found more stable operation profitable for other reasons opponents of experience rating hold that the prospect of a slight re-

duction in contribution is not likely to be sufficiently appealing to encourage any very important changes in policy (a reduction of the rate by one-third from 2.7 percent to 1.8 percent, represents a saving of nine thousand dollars to a company with a million dollar payroll).¹⁴

The opponents call attention to the fact that in some types of enterprise stability appears to be virtually impossible. A contractor cannot build houses or roads for inventory, and is seriously limited in the extent to which he can utilize the same trades in different operations. Where the chief products of a concern are of the "built-to-order" type of much heavy special-purpose industrial machinery, employment is dependent entirely on the orders received. A slight degree of stabilizing is possible in some industries engaged in the processing of perishable commodities, but there are well-marked limits; coal cannot be stored indefinitely without loss, and the processors of perishable food products are still dependent in a large measure on the growing season. Indeed, one of the accepted methods of filling in the seasonal valleys for certain of these types of enterprise, that of the "side-line," may in the long run cause more unemployment than it cures. If in their desire to fill their regular slack season, firms of industry A engage in the manufacturing of an article which is the chief source of revenue for firms of industry B, they may imperil the very existence of these other companies since their competitive position often enables them to produce the product at what seems to be a much lower cost.

This is not the only flaw that the critics of stabilization find in the arguments of the proponents. One that is fraught with far greater consequence is touched on in point 8 of Dr. Myers' conclusion. It does not deal with the efficacy of tax incentives as a means of inducing stabilization, but challenges the desirability of employment stabilization itself. Of all arguments the opponents advance this is the most serious, since it is not a criticism of the means but a rejecting of the goal.

The proponents of experience rating state that the employers in this state, representing the state as a whole, have a very real community of interest in a sound unemployment compensation law. "We are aware," they say, "of special conditions affecting special industries. Granting there are special problems and special industries, the protagonists strongly question the wisdom of attempting to solve this problem by a payroll tax levied on the other employers of the state, which tax, in a competitive situation, if overloaded, only tends to increase the very unemployment which is sought to be reduced."¹⁵

Employment stabilization is generally construed to mean relative regularity of employment for the *same* group of workers. Obviously, it is theoretically possible for a company to report the same volume of employment or payroll month after month, and yet exhibit a labor turnover that involves the constant dismissal and hire of workers. Under all experience rating plans now in effect¹⁶ such a company would be "unstable" and probably would be penalized by a higher rate. If, however, industry can stabilize in the first sense and is encouraged to do so, one result is inevitable. Whereas some employment each year was provided for 1,000 men by Company A, more employment will be provided for 750. This may or may not be desirable but the conclusion seems inescapable. At present there tends to be a constant flow from the ranks of the employed to the ranks of the unemployed, and vice versa. Here the critics insist that insofar as industry stabilizes, this process is slowed down or stopped altogether, since it can be taken as axiomatic that an employer will stabilize at the point of lowest labor cost. One of the examples of what can be done by attempts on the part of industry is that of the "decasualization" of longshore work on the Pacific Coast. In discussing this experience Lester and Kidd Comment:¹⁷

"In support of experience rating it has been said that 'the miracle of longshore decasualization' in the port of Seattle indicates how a differentiation in tax rates under reserve-ratio rating 'might serve national needs.'"

¹⁴ Under the "Texas Plan," which is the one most strongly advocated for Pennsylvania in the hearings held before the Joint Legislative Committee to Study Unemployment Compensation Provisions, Aug. 13, and Sept. 17, 1940, minimum rates were set at 1.0 percent which would provide for correspondingly greater savings.

¹⁵ Evans, T. L. Statement made in a hearing before the Joint Legislative Committee to Study Unemployment Compensation Provisions, Aug. 13, 1940, Harrisburg, Pa.

¹⁶ See, however, "Merit Rating and Unemployment Compensation," by Karl Pribram and Phillip Booth, Social Security Board, 1937.

¹⁷ "Case Against Experience Rating," by Richard A. Lester and Charles V. Kidd, Industrial Relations Counselors, Inc., 1939.

A plan of employment 'regularization' through central registration and dispatching was put into operation in Seattle in the middle of 1921. It involved strict limitation of entrance to the trade, so that the work available would be conserved for the registered men. The number of men registered under the scheme was gradually reduced from 722 in 1922 to 664 in 1929, despite the fact that 'work picked up' and that there was 'increased cargo' to handle during the period. Because the labor supply had been decreased, the earnings of practically all Seattle longshoremen before the depression ranged from \$1,300 to \$2,500 a year. After 1929 no replacements were made when men quit or died, with the result that the number of registered workers declined from 664 in 1929 to 525 in 1933. Indeed, the plan proved to be such an extremely tight closed-shop arrangement that the sons of longshoremen were not able to register for longshore work during the four years prior to 1934, when the joint plan terminated. The plan was criticized on the ground that it did 'nothing to relieve the general problem of unemployment' but instead aggravated the problem. The operators of this closed-shop arrangement and the registered workers benefiting from it, however, adopted the attitude that what happened to the 'outsiders' as a result of the closed employment doors at the waterfront was not their responsibility."

NOTE: Quotations made by Lester and Kidd are from F. P. Foisie, "Decasualizing Longshore Labor and the Seattle Experience."

In regard to regularization, Feldman and Smith say:¹⁸

"Regularization admittedly has certain limitations, but there are misconceptions concerning its intended accomplishments. Experience rating would not immediately reduce unemployment. Indeed, there is good reason to believe that if it succeeded in increasing stability of employment all at once, it would increase the volume of unemployment at that time since it would concentrate a given volume of unemployment on certain persons. Superficially examined, this result appears to be objectionable, and one may ask: Why give further attention to a proposal that seems so contrary to public policy?"

"Such criticism apparently assumes that irregular employment is a great asset and that the more inefficient and profligate in its use of labor an enterprise is, the more effectively it is providing employment. If a concern, in a seasonal industry in which all work irregularly, reduces fluctuations, 100 men may be employed regularly instead of, possibly, 130 who previously obtained intermittent employment in the same plant. Because the number of part-time employes may be larger than the number of full-time employes, should it be concluded that chronic irregularity is a desirable economic or industrial practice? If so, the objective would be to discourage concerns from providing steady work, and millions would be made insecure in their jobs in order to give occasional employment to the rest. Indeed, the reasoning of many persons appears to justify such a situation. But the aim of regularization is to build up industry to the point where an employe may have a reasonable sense of security on the job. Such security can more readily be achieved when good management technique and low costs of operation prevail than when management is poor and costs are high, from such productive industry the costs of taking care of the excess labor reserve may be met most effectively."

This criticism of stabilization is closely allied in principle to another. Where technological changes in an industry have already been responsible for a growing army of unused labor, is it wise to accelerate the process by encouraging further rationalization and reduction in staff?

Thus, stabilization of employment can be viewed as a worthwhile aim in that it creates a steadier income for those workers who are employed, in that it encourages industry to make its operations as efficient as possible by utilizing the skills and energies of its workers to the maximum. On the other hand, its critics point out that these are not unmixed blessings and question whether we are prepared to face all of the implications. On the second level of discussion, advocates of experience rating believe that this device is the one best calculated to secure stabilization, while opponents—even some who believe in the virtues of stabilization—doubt if slight reductions in contributions to unemployment compensation are sufficient incentive to employers, many of whom cannot achieve real stability because of the nature of their businesses.

Before passing to a second point of debate, it is important to take note of one argument advanced by the advocates of experience rating and contested by its opponents. It is a reasonably well-known fact that rate differentials in Workmen's Accident Compensation Laws have led employers to the adoption of safety devices, to the conduct of safety campaigns among employes, and, in general, to the development of factories and shops that are far less hazardous for the workers than were the factories and shops of an earlier generation. Accident statistics are evidence of this. Would it not be possible that rate differentials might lead employers to throw similar safeguards around

¹⁸Feldman, Herman and Smith, Donald M., *The Case For Experience Rating in Unemployment Compensation and a Proposed Method*. pp 8 and 9. Industrial Relations Counselors, Inc., New York, 1939.

job tenure? The opponents hasten to claim that to the extent that the employer has it within his power to eliminate undesirable personnel practice the analogy is sound, but his control over his machinery and working conditions, and his control over the demand for his product and services, are not strictly comparable. While there is a point of diminishing returns, employers can and do make jobs safer and safer with each passing year, but the opponents insist, there is a point at which increased effort to solve problems of employment meets with factors outside of the control of the individual employer.

2. Equity in Assessing Social Costs

There are admitted limits to the extent to which all industries can stabilize, and serious question as to the ability of some industries as now constituted to achieve any very appreciable results in this direction. Even the warmest advocates of experience rating do not expect it to achieve the impossible. The protagonists ask, however, whether it is not unsound and contrary to good public policy to provide hidden subsidies to industries that cannot operate without large labor reserves. If because of whimsical buying habits on the part of the public, or the nature of the commodity produced, peaks and valleys are a necessary feature of an industry's employment pattern, then the consumers of that industry's products should bear this extra social cost in the form of higher prices. Experience rating would, it is claimed, provide a just means of assessing these extra social costs equitably.

It was in recognition of these areas of business that the term "merit rating" was abandoned and "experience rating" substituted. For, as pointed out in dealing with enterprises of this type the argument for stabilization loses much of its force. It is not so much a question of encouraging stability as of distributing the benefit burden fairly. If you reside in a frame building in the neighborhood of a gasoline storage tank you realize that your fire insurance premium is bound to be higher, and while the installation of fire extinguishers will have some effect on your rate, there is a limit to what your efforts can accomplish.

A statement of this position is the following,¹⁹ quoted and criticized by Herman Feldman and Donald M. Smith in "The Case for Experience Rating in Unemployment Compensation and a Proposed Method":

"The most probable result of merit rating in operation will be a rate structure which will impose low rates on all employers who participate in the production of goods for a relatively stable market, high rates on all employers who take part in the production of goods for a market subject to severe fluctuations. The rates paid by the producers of necessary consumers' goods and services will be cut. The rates paid by the producers of durable goods, capital goods, and luxury goods will be maintained or increased. The reward of rate reduction will go to employers who have done nothing to earn it. The penalty of high rates will be imposed upon employers who are not so much inefficient as unlucky. Thus merit ratings will bear little or no relation to merit. Their determination will depend less upon good management than upon good fortune."

It is pointed out that the chief flaws found in the argument of equity are those due to the inter-relatedness of economic life and the broad social character of the phenomena of unemployment. It would not always be the industry or the individual enterprise responsible for unemployment that would be forced to carry the burden of the higher rate. A large utility might cease deriving its power from coal by the substitution of water power. Its employment, however, might remain the same and it would qualify for a good rate. The industry that was affected, the mining industry, on the other hand, would find itself penalized and, following the logic of the equity argument, would be forced to raise the price of coal supplied to its other consumers.

The critics emphasize that the very process of "stabilization" on the part of those enterprises so situated that they can stabilize, in many instances would seriously upset the employment patterns of other industries and create unemployment. The possible dangers of "side lines" were alluded to above, but equally important is the advantage given to one of two competing industries when

¹⁹ "Merit Rating in State Unemployment Compensation Laws," by Clair Wilcox, *American Economic Review*, June 1937, quoted in "The Case for Experience Rating in Unemployment Compensation and a Proposed Method" by Herman Feldman and Donald M. Smith, *Industrial Relations Counselors, Inc.*, 1939.

the one industry is dependent largely on labor, while the other is either more mechanized or does not have to process its product to the same extent. Of course they contend that this is not a statement that an inefficient industry should be encouraged at the expense of an efficient one, it is merely a question as to the wisdom of using incentive taxation in a way that might create inequities in competition while trying to assess costs more equitably.

Another question which opponents of experience rating ask is, ought the State by means of incentive taxation discourage the marginal or declining enterprise? If because of competitive factors, technological change, or shifts in demand, an employer finds he must contract his employment, should his business be forced to carry a tax rate greater than his more fortunate competitor who finds that he is able to continue or increase his total employment? Probably no employer wants to dismiss employes. If he has a way of employing more and showing a profit, he will do so. Experience rating might have the effect of administering the coup de grace to a number of businesses that are operating on the thinnest of margins, and of hastening the decline of industries that are already finding it difficult to operate profitably. The Majority Report of the Committee on Employer Experience Rating²⁰ points out:

"As new industries or inventions emerge, as consumption habits shift, and as natural resources are depleted, many manufacturing enterprises, many service enterprises, many of our wholesale and retail enterprises, will undoubtedly suffer severe declines. Many new occupations will arise, and many existing occupations will cease to exist. It is inevitable that these changes will produce immediate unemployment, even though the workers displaced are later absorbed in other enterprises.

"To reward an industry which is rapidly expanding and at the same time to penalize an industry in a state of gradual decline manifestly would be a discrimination and result in many inequities. Such situations, we are confident, were not contemplated by those who first advocated differential rates in unemployment compensation. To believe the stability or regularization of employment can be achieved in the face of new inventions, shifts in consumption habits, and depletion of resources, is, we believe, unrealistic."

An allied problem of intrastate competition arises because of the nature of specific experience rating provisions required by Federal Law. A state having pooled fund cannot reduce an employer's contribution rate unless it has a record of at least three years of his experience while covered by its law. If all or the majority of employers within a given industry had so stabilized their employment as to qualify for lower rates, new employers would face a slight tax disadvantage during a period which is generally the most difficult one.

The opposite viewpoint on the question of competition, however, is pointed out by the proponents. An employer in Pennsylvania may be paying a contribution at the 2.7 percent rate while his competitor in another state which has experience rating may enjoy a much lower rate even though the employment experience of both employers be the same. It is further stated that, although not a conclusive factor, the failure to adopt experience rating would be one more deterrent to industries contemplating coming to Pennsylvania.

The final criticism of the "equity" argument arises because of the nature of unemployment benefits. Assuming that the entire theory behind equitable assessment of costs be sound, it is doubtful if "compensable" unemployment is a fair measure. Not all of those who are unemployed apply for benefits, and not all of those who do apply and qualify experience the same duration of benefits. An employer who dismissed his employes at a time when other employers happened to need their services would not affect his experience rating account in the slightest degree, and yet could be guilty of the worst type of personnel practice. Another firm that after an excellent record of fair dealing had the misfortune to contract employment at a time when the dismissed workers could not be immediately reabsorbed by industry, would find its account charged with the benefits or benefit wages of those compensated.

In summarizing, the opponents point out that unemployment can be controlled by the individual employer in only a very limited fashion. Secular declines in his industry due to changing techniques of production, changing demands for products, or other factors, cannot be arrested by

²⁰ Volume II--Majority Report, Committee on Employer Experience Rating of the Interstate Conference of Employment Security Agencies, September, 1940.

him. He shares with all others the rises and falls of the business cycle, and unless he is fortunate beyond most of his class, he will have to adjust his payroll to the pattern of his sales. Efforts to reduce seasonal peaks and valleys may meet with some success, but it may be accomplished by adding to the total volume of unemployment. The only area in which he can operate effectively is in the very narrow one of sound personnel administration. He can avoid a ruthless hire-fire policy, spread his employment as far as this device is consistent with a living wage for the worker, intelligently plan his production, and in general manage his affairs to the best of his ability. It is hardly "equitable" to increase his taxes during lean years when secular or cyclical change forces contraction.

However, advocates of experience rating for Pennsylvania carefully point out that the plan advanced by them would not increase the tax above the present 2.7 percent level. Those employers who, because of better employment experience, qualify for lower contribution rates, would, still be paying more in contributions than their employees received in benefits and this excess would help towards paying the benefits of employees in those industries.

3. The Prevention of Excessive Reserves

Experience rating is a device that could be used to increase or decrease reserves, depending on the base rate adopted and the scale of reductions and increases permitted. It has been, however, the rate reduction aspect that has been stressed from the very beginning of its history, and it is this phase that makes it possible for its advocates to present it as a means of reducing or stabilizing what seem to be extremely large fund balances.

Even those who oppose experience rating do not take the wholly untenable position that unemployment compensation reserves should be permitted to grow without limit. If the present rate of increase in many of the State funds continued year after year for a long period of time, the effect on American economic life might indeed be serious. The annual withdrawal of millions of dollars from the usual channels of trade in the form of unemployment compensation contributions is defensible only if a substantial portion of these millions is permitted to flow back again as benefits to the unemployed. The problems arise, however, first, as to what constitutes a reasonable reserve against risks regarding which we know little and, second, if too much purchasing power is being dammed up in idle balances, as to the best method of releasing it.

In the current agitation for reduction of employer contribution rates one important fact is lost sight of. The benefit provisions that were written into the various State laws are premised, for the most part, on the estimates of the actuaries of the Committee on Economic Security. These actuaries assumed the 3 percent contribution rate to be reasonable, and then estimated how adequate a policy the American people could buy against unemployment. Since there were many unknowns in the computations, the experts were conservative. As a result it was considered advisable to limit the amount and duration of benefits which were to be obtained only after a waiting period of several weeks. While sufficient experience is still lacking to form a final judgment, some believe that the actuaries were over-cautious and that the outlines sketched by the Federal Government and filled in by the states could have been more liberal to the claimant.

²¹ "The real difficulty is that our unemployment compensation experience is too limited. To understand this experience we should reconsider the work of the Committee for Economic Security on which the present system was based. This committee, in search of a sound actuarial basis for an unemployment compensation scheme, was confronted with a distressing paucity of data. It is no criticism of the Committee to say it did not achieve the impossible and was, therefore, forced by practical consideration to adopt a conservative policy. It was realized that any unemployment insurance scheme worthy of the name had to compensate for a sufficient portion of the wage loss to protect the worker against exhausting personal resources or resorting to relief immediately upon the loss of employment. Long waiting periods and small weekly benefit amounts paid over relatively short periods were not considered because they were accepted as being socially desirable, but because it was thought that more liberal benefits were impossible within the financial limitations, the Committee, for reasons

²¹ "The Problem of Increasing Reserves in Unemployment Compensation." by Louis Levine, Technical Publications Digest. Prepared by Bureau of Research and Statistics, Social Security Board, January 18, 1940.

of expediency, was willing to accept. The Committee seems to have clearly erred, however, when it added a 30 percent safety factor to its original estimates and then readjusted the benefit formula accordingly. After readjustment it was concluded that with a 3 percent contribution rate, benefits equivalent to 50 percent of wage loss up to \$30 a week could, after a 2-week waiting period, be paid for 10 weeks. One additional week of benefits might be paid if the waiting period were lengthened by a week. It was on the basis of such conservative advice that provisions for small benefit amounts and for relatively brief periods found their way into State laws. Many states failed to provide for any effective minimum benefit amount, and a maximum duration of 13 to 16 weeks in a year became a standard pattern."

Pennsylvania has a relatively higher wage scale and the provision of a \$7.50 minimum prevents the payment of the fantastically meager benefits that are disbursed by some states. Pennsylvania is one of five²² states that does not pay benefits for partial unemployment; at present it provides a three-week rather than a two-week waiting period for benefits, and while an analysis of the benefit provisions of the law are beyond the scope of this report, some liberalization in terms of duration and rate might be reasonably considered.²³ Studies of claimants whose benefit years ended during the first six months of 1940 revealed that over 50 percent had exhausted all their benefit rights. What proportion of this group later became the responsibility of the County Boards of Assistance is not known, although the Department of Public Assistance reported that it had opened 12,520 cases during the first six months of 1940 in which the immediate cause of need was the cessation of benefit payments.

On the other hand, the publication "Social Security,"²⁴ has taken the stand that the unemployment compensation reserve funds should be greatly reduced by lowering the unemployment insurance wage tax from 3 percent to 2 percent. The Board of Directors of the American Association for Social Security are unanimous in declaring for the reduction. They feel that "at this time, the immediate reduction of over \$300,000,000 annually in unemployment insurance taxes is not only most socially desirable for the welfare of the nation as a whole but also warranted from every point of view." It should be remembered, however, that the Federal Act must be amended to permit the state to adopt such revision.

In answer to those who advocate greater liberalization the Board felt that "the type of liberalization generally demanded and actually possible under the present benefit structure can be achieved in practically all states even under a reduced tax."

As a warning to those who propose too extensive a liberalization of benefits as a solution to the large reserve funds, it is pointed out that when "the benefit level is raised at the time when business is good so that it soaks up all the money being currently collected, the administration is committed to a benefit level that cannot be continued when business drops because, then, collections drop off and the number of claimants increase rapidly."²⁵

Beyond this problem of liberalization, however, is the more difficult one of fund adequacy. With the limited experience the states have had with Unemployment Compensation administration, it is impossible for anyone, regardless of how expert he may be, to state categorically that a fund of certain stated size is "adequate." Adequacy can be measured only in terms of probable drains, and the estimation of these must, in turn, depend on an estimation of the probable future of employment conditions. Certainly any catastrophic decline such as that experienced during the early 1930's would drag the fund balance with it, and it would be wishful thinking to indulge in the fancy that the Nation will not again experience a major depression. If the current era of expansion and activity due to defense preparations should be followed by a violent downward reaction, it seems safe to assume that only a comfortably large reserve will insure the payment of all benefits to all eligible claimants. Let us assume that one-third of a potential 2,400,000 covered Pennsylvania workers were to lose employment and were forced to apply for benefits. Assume an average weekly rate of \$10 and a full thirteen weeks of benefits. The product is in excess of \$100,000,000.

²² Mississippi, Montana, New Jersey, New York, and Pennsylvania.

²³ Recommendations were made to reduce the waiting period to two weeks, raise the minimum benefit wage to \$8, and to make further liberalizations. *The Joint Report To The General Assembly of Recommendations For Amending The Pennsylvania Unemployment Compensation Law (Part I)*. January 1941.

²⁴ "Social Security," (Abraham Epstein, editor) June-July 1940—Vol. XIV No. 6.

²⁵ Cliffe, F. B. Hearings held before the Joint Legislative Committee to Study Unemployment Compensation Provisions. Aug. 13, 1940.

4. Efficiency of Claim Administration

The statement is frequently made that experience rating would aid in the improvement of claim administration. If the employer has a definite stake in the payment or denial of benefits he will make certain that unjustified claims are not honored. This point, of course, rests on the assumption that there is an appreciable number of fraudulent or, at least, doubtful claims filed, an assumption that does not seem warranted. Investigations made, in fact, reveal that the percentage is negligible.

One development, however, is bound to occur if experience rating is adopted. The employer, being in the position of one whose favorable contribution rate is placed in jeopardy by each claim for benefits, may be tempted to avoid outright layoff or dismissal, and may make every effort to construe terminations of employment as voluntary. The critics of merit rating point out further that since Pennsylvania does not pay benefits for partial unemployment, an employer will be at liberty to reduce employment to one day out of seven if he so desires without affecting his experience rating account. Benefit avoidance devices, such as the substitution of a contractual for wage relationship, may become more common and while employers will be encouraged to take an interest in the prevention of fraudulent claims, it is possible that some employers will attempt to stop legitimate ones. The proponents, on the other hand, contend that the employees are generally vigilant of their rights and welfare, are well organized, and can fully protect their interests against the small percentage of unfair employers.

Section II

THE METHODS USED IN RATING EXPERIENCE OF EMPLOYERS

I. General Observations

Much that is written on the subject of employer experience rating is kept safely in the realm of generalities. It is assumed by many persons that there is a well-defined method of measuring an employer's experience which has been generally agreed on and could be, with little difficulty, incorporated in a State law. Such is not the case. Section IV of the Majority Report of the New York Unemployment Insurance Advisory Council opens with a statement which describes the present situation with admirable brevity—"Existing experience rating provisions in other States show wide confusion."²⁶

One reason for the somewhat bewildering complexity of some provisions is the necessity of designing the details of an experience rating clause so that it is consistent with all other provisions of the State law. Methods of charging employers' accounts, limits on the amounts chargeable, and other administrative processes cannot be independent of the balance of an unemployment compensation structure, but must be made an integral part of it.

This necessity for legal consistency, however, is not the chief reasons for the intricate provisions of many State experience rating clauses, and the diversity of design between States. Once the legislators had decided that the principle of basing the contribution rate on the employer's employment experience was a good one, it was necessary to decide how this measurement was to be made. Deciding this is no easy matter, because the actualities of economic life do not nearly conform to the realm of the stabilization theory.

2. Reserve Ratio

The oldest method in point of time and the most obvious one is derived from the Wisconsin Employer Reserve Law: debit the employers' accounts with the benefits drawn by their employes or former employes, and credit these accounts with the contributions paid. These balances, expressed as a percentage of payroll, can then be used to measure the relative solvency or insolvency of an employer's reserve. Rates are then determined automatically by comparison with statutory reserve limits. If the problem of the worker with a number of employers is ignored, this type of measurement has the advantage of being easily understood by both worker and employer. It is not easy to administer, however, since it necessitates a staggering amount of bookkeeping. Each benefit check paid must be charged against the proper account, and since the employer has a direct interest in the amount by which his reserve is being diminished, he must be notified of the charges made.

The reserve ratio formula (contributions less benefits divided by payroll) can also be used by States with pooled fund laws, if provision is made for experience rating accounts. It has, in fact, been adopted by many States with pooled funds, the impetus having been given by its inclusion in the Social Security draft bills. In these laws three variants of the formula are found, the chief difference being in the payroll figure that serves as the denominator of the fraction $\frac{C - B}{P}$. Ten States average the annual payrolls of the last three or five years and use whichever total is higher, three States average for three years only, and five States average payrolls for three or five years but adjust the contribution figure in the numerator, using only contributions in excess of 1 percent.

The States' laws generally specify that a reserve ratio of from 7.5 to 10.0 percent entitles an employer to a contribution rate of 1.8 or 2.0 percent, and that a reserve ratio in excess of 10.0 percent carries with it a reduction to 0.9 percent or 1.0 percent. (There are, however, a number of variations

²⁶ Report of the New York Unemployment Insurance State Advisory Council on the Subject of Experience Rating. Part One, Page 13—March 1, 1940.

in this schedule). On the other hand, penalty rates are applied by a number of States if the employer's ratio falls below a stipulated percentage or if benefits exceed contributions over a stated period of time.

While the majority of laws of the employer-reserve type or of the pooled fund type that makes provisions for computing an employer-reserve ratio, make rate determination automatic, a few merely set limits and leave rate variation to the administrative agency. For example, the Nebraska agency which operates under an employer-reserve law, first computed the reserve ratio to measure the employer's eligibility for rate change in 1940, and then computed a "disbursement ratio," (1939 benefits divided by 1939 contributions) and assigned 1940 rates according to the following schedule:

Disbursement Rates	Contribution Rate
Over 13½% to and including 16⅔%	2.5%
Over 10½% to and including 13½%	2.0%
Over 7½% to and including 10½%	1.5%
7½% or less	1.0%

The Agency, however, points out in its statement to employers that this method "will be effective only for the year 1940 and will not necessarily be the method followed in subsequent years in establishing contribution rates."²⁷

The Need For Simpler Measures

It should be obvious that States with a large number of covered employers paying into a pooled fund will find the reserve ratio method, either automatic or non-automatic, cumbersome and costly to administer, because of the necessity of booking each benefit payment. If, in addition, the employment of the State is marked by any large amount of "mobility," i.e. movement of workers from employer to employer, the administrator is faced with the problem of applying complicated charging rules debiting accounts, for example, in "inverse chronological order" to the wages paid, all benefits up to a certain fraction of the wages payable by the employer during a stipulated period.

This administrative problem was a challenge to the ingenuity of economists, tax experts, and legislators, and it has led to a wide variety of suggestions as to better methods of measuring employer experience with respect to unemployment. As stated in the recent report of the Experience Rating Committee of the Interstate Conference of Employment Security Agencies:²⁸

".....an entirely acceptable measure of an employer's experience with respect to unemployment should meet at least four standards:

1. It should give weight to the frequency with which unemployment occurs.
2. It should give weight to the duration of each occurrence of unemployment.
3. It should be as free as possible from the influence of chance factors resulting from the techniques employed in the measuring process.
4. It must be reasonably simple and economical of administration."

In exploring the possible types of measurement, a number of interesting and illuminating discoveries have been made. One of the most significant has been that the concept of employer stability itself had not been too clearly outlined. Is an employer stable if he provides employment for the same number of persons over a given period, even though they are not the same persons, and even though the volume of employment may vary from time to time? Is the absence of fluctuations in the volume of employment as measured in man-hours worked or steadiness in monthly payroll an indication of stability? These types of stability can be measured, and experience rating systems based on these measurements have been proposed, although no State has enacted such legislation. A periodic count of persons separated from the payroll also could become the basis of measurement,

²⁷ Letter dated December 27, 1939, from the Unemployment Compensation Division of Nebraska to Nebraska employers.

²⁸ "Experience Rating Under Unemployment Compensation Laws," Unanimous Report of the Committee on Employer Experience Rating of the Interstate Conference of Employment Security Agencies, Volume I, September 1940.

but this too has met with no legislative favor although the wording of the Federal Internal Revenue Code is broad enough to permit the adoption of laws based on any of these concepts.

All the new measurements finally adopted depend, as does the reserve-ratio formula, on the experience of the employer with respect to *compensated* unemployment. Two States (Michigan and Utah) use a ratio of benefits to payroll, seven States (Texas, Illinois, Delaware, Massachusetts, Virginia, Alabama, and Minnesota) a ratio of "benefit-wages" to payroll, and one State (Connecticut) an index based on weighted compensable separations.

The benefit-ratio method does not simplify the administration of the law, since the charging problem remains and will be discussed below as a fund protection device. The use of the "benefit-wage ratio" and the "index of compensable separations" are, however, administratively far simpler since there is but one charging operation for a benefit series instead of a charging operation for each check disbursed.

3. The Texas Plan

This plan is being proposed for Pennsylvania by the advocates of experience rating. This fact was brought out in hearings held by the Joint Legislative Committee to Study Unemployment Compensation Provisions.²⁹

One of the outstanding advocates of simplified experience rating has been Mr. F. B. Cliffe, Assistant Comptroller of the General Electric Company. To a large extent, the development of the plan now adopted by Texas, Delaware, Illinois, Massachusetts, Virginia, and Alabama has been due to his efforts. With considerable ingenuity the "Texas" plan attempts to meet two of the objections raised by opponents of experience rating: 1—That it is difficult to administer; 2—That it endangers the solvency of Unemployment Compensation reserves.

The advocates of the "Texas Plan" submit that it is based on the following principles:³⁰

- (1) Offering each employer direct and continuous incentive, in the form of lower contributions, for regular employment of the largest possible proportion of his employees and at the same time securing a reasonable allocation, as between employers, of the cost of unemployment benefits.
- (2) Requiring that the fund be adequate to assure the payment of benefits under all probable conditions, without withdrawing from industry an unnecessary amount of funds.
- (3) Maintaining this fund by replenishing it, over a period of years, for the amount of withdrawals made.
- (4) Meeting the foregoing objectives in a way that will have great administrative simplicity, and therefore very low cost to the state agency.

Briefly, the plan depends on the charging of a claimant's base period wages at the time benefits are first paid to the accounts of the employers from whom these wages were earned. At the end of the year the "benefit wages" charged for the three most recently completed calendar years are summed for each employer, and the total divided by the payroll for the three most recently completed calendar years. These "benefit wage ratios," however, do not take into consideration the status of the Fund, so each is multiplied by a "State Experience Factor" which is calculated by dividing all benefits paid during the three most recently completed calendar years by all "benefit wages" of all claimants during the same period. Within limits stated in each law this product will give the employer's contribution rate for the ensuing year. In practice, a table is written into the law in which the products are rounded and adjustments are made to provide for the maximum and minimum rates.

²⁹ Hearings held before the Joint Legislative Committee to Study Unemployment Compensation Provisions, Aug 13 and Sept. 17, 1940, Harrisburg, Pa.

³⁰ "The Experience Rating Plan being proposed for incorporation into Pennsylvania's "Unemployment Compensation Act and How It Would Work." Pennsylvania Employers' Conference, 3600 Chestnut Street, Philadelphia, Pa., October 28, 1940.

Symbolically, if:

- P = An employer's payroll for the period
- bw = Employer's payroll benefit wages for the period
- BW = Statewide benefit wages for the period
- B = Statewide benefits for the period

Then:

$$\frac{bw}{P} = \text{Employer's benefit wage ratio}$$

$$\frac{B}{BW} = \text{State experience factor}$$

And,

$$\frac{bw}{P} \times \frac{B}{BW} = \text{Employer's rate}$$

If we manipulate the above fractions, the theory underlying the Cliffe plan becomes clear:

$$\frac{bw}{BW} = \text{The individual employer's percentage of all "benefit wages"}$$

$$\frac{bw}{BW} \times B = \text{The individual employer's proportionate share of benefits}$$

$$\frac{BW}{bw} \times \frac{P}{B} = \text{That share expressed as a percent of payroll.}$$

Further explanation of the formula with an illustration was advanced by the Pennsylvania Employers' Conference.³¹

$$\frac{\text{Total Benefit Wages Charged Employer A}}{\text{Employer A's Taxable Payroll}} \times \frac{\text{State Total Benefits Paid}}{\text{State Total Benefit Wages}} = \text{Contribution Rate}$$

Illustration of Principle *—Assuming only three employers in state.

	Company A	Company B	Company C	State Total
(a) Payroll	\$600,000	\$2,000,000	\$1,900,000	\$4,500,000
(b) Benefit wages	300,000	400,000	200,000	900,000
(c) Benefits paid				90,000
(d) "State experience factor" (c ÷ b)				10%
(e) Employer's share of benefits (b × d)	30,000	40,000	20,000	
(f) Employer's tax rate (e ÷ a) — calculated	5%	2%	1.1%	
(g) Employer's tax rate as per table	2.7%	2.5%	1.5%	
(h) Amount of employer's tax (a × g)	16,200	50,000	28,500	94,700

Notes

* (1) The actual amount of tax collected would be \$4,700 more than benefits paid, thus providing a safety margin.

(2) The principles are illustrated by the above figures; the actual operations would be still simpler. The employer's benefit wages (b) would be divided by his payroll (a). The resulting percentage (Company A, 50%; Company B, 20%; Company C, 10%), called his benefit wage ratio, would be located on a table in reference to the current "state experience factor" (10% illustrated); the table indicates the resulting tax rate—Company A, 2.7%; Company B, 2.5%; Company C, 1.5%. The table and explanation that would appear in the law would be as follows:

The tax rate for each employer shall be the percentage indicated at the head of the first column from the left in the following table (excluding Column 1, the "state experience factor") in which, on the same line as the current "state experience factor," there appears in any other column a percentage in excess of such employer's benefit wage ratio, or if no percentage in excess of such employer's benefit wage ratio appears on said line, then such employer's contribution rate shall be 2.7 percentum.

³¹ Ibid. PP. 5 and 6.

Col. 1 State Experience Factor	Col. 2 1.0%	Col. 3 1.5%	Col. 4 2.0%	Col. 5 2.5%	Col. 6 2.7%
1%	100%	150%	200%	250%	
2	50	75	100	125	Equal to, or in excess of, benefit wage ratio in Col. 5 (Co. A)*
3	33	50	66	83	
4	25	38	50	63	
5	20	30	40	50	
6	17	25	34	42	
7	14	21	29	36	
8	13	19	25	31	
9	11	16	22	28	
10	10 (Co. C)*	15	20 (Co. B)*	25	
11	9	14	18	23	
12	8	13	17	21	
13	8	12	15	19	
14	7	11	14	18	
15	7	10	13	17	
16	6	9	12	16	
17	6	9	12	15	
18	6	8	11	14	
19	5	8	11	13	
20	5	8	10	13	
21	5	7	10	12	
22	5	7	9	11	
23	4	7	9	11	
24	4	6	8	10	

* These refer to foregoing illustration.

"In the construction of this table, all fractions have been rounded up against the employer. Thus, if the formula indicates a contribution rate of 1.3% the table calls for the employer paying 1.5%. Thus, all employers except those who are paying the maximum state rate are paying the cost of benefits to their own employees plus a contribution to the general fund. These contributions offset approximately, the losses to the fund by reason of the remaining employers whose payment at even the maximum rate is less than the benefits received by their employees. This wide distribution of part of the cost of the least stable employers corresponds to the contributions to a 'partial pool' or 'balancing account' which are provided in all of the employer-reserve laws."

The bulk of the debate on experience rating for the past two years has been on the merits of the Cliffe plan. The New York State Legislature has in two sessions passed bills embodying it, and has seen both bills vetoed. During 1939 Illinois and Massachusetts, and during 1940 Virginia and Alabama were added to Texas and Delaware, the two States originally accepting this method of rating.

Fundamentally, all of the criticisms that are directed at experience rating in general may be applied to the Cliffe plan in particular, but the special claims of administrative simplicity and "Fund Replenishment" makes it desirable to consider it apart from other plans.

Admittedly, if a State adopts a plan involving the charging of individual employer accounts, that plan is easiest to administer that involves the fewest charging operations. As Mr. Cliffe describes the method in the November 1940 issue of "Personnel," it does not seem to be extremely difficult.³²

³² "The Texas Plan of Experience Rating," by F. B. Cliffe, Assistant Comptroller, General Electric Company, "Personnel," November 1940.

"When a claimant first applies for benefits, the agency must of necessity consult his wage history as reported by his various employers during the base period. Having determined that he is eligible for benefits, and having fixed his weekly benefit rate from such records, the first step taken under the experience rating provisions is a simple refiling of such records, after the first benefit check has been issued, according to the employer who paid the wages during the base period. As a part of such refiling, the employer may be notified immediately or periodically of the benefit wages that are being charged against his account, resulting from the claim of 'employee , Social, Security Account No. , base period wages'. At the end of each year, the total amount of benefit wage records filed under the number of each employer (or a summary of the periodic reports rendered to the employer) will be determined. This total, plus the corresponding figures for the preceding two years, will be divided by the employer's total taxable payroll for the same three years, in order to determine the 'employer's experience factor.'"

This procedure, however, would have to be modified if the claimant had two or more different employers during his base period.

The Fund Replenishment argument is far more difficult for the opponents to accept, although the theory underlying the idea is absolutely sound. If, during a given period, it is desired to replace benefits paid out and each employer is required to replace his pro rata share, it obviously brings the Fund back to its initial size. However, the fact that this pro rata share is expressed as a percentage of a future payroll that may not be as great as the average payroll during the experience period, does not at all, the critics charge, mean Fund Replenishment. Furthermore, the imposition of an arbitrary maximum (2.7 percent in the plans most recently adopted) may or may not be offset by the provision of a minimum. In fact, during a period of steady decline, this plan will result in depletion of reserves as certainly as any other.³³

In recognition of this problem, the variants of the Cliffe Plan adopted by Illinois, Massachusetts, Virginia, and Alabama, contain so-called "safety factors" which are designed to provide a measure of protection to the reserves of the State. As Mr. Cliffe frankly states:³⁴

"The original Texas plan has been modified in the laws adopted by Illinois, Massachusetts, Virginia, and Alabama. They contain what has been referred to as a 'safety factor,' that is, a special increase in the contribution rates if the fund falls below a predetermined point, and usually a corresponding special decrease in the contribution rates if the fund exceeds another and higher specified point. This provision seems desirable because contribution rates have had no relation to benefit disbursements for the first five years that the laws have operated in each state. It is also recognized that even thereafter the contribution rates provided in the Texas plan may not exactly replenish the fund. If there is a long trend or bias of the fund upward or downward, it will be corrected by this so-called safety factor, so that the fund will be kept within the predetermined limits."

The provision Massachusetts wrote into its statute may be taken as an example of such a safety factor. If the Fund falls below the highest annual amount of benefits paid during the last ten years, the lowest four rates are each increased by 0.5 percent, and the 2.5 percent rate becomes 2.7 percent. If the Fund still remains below this minimum, all rates are automatically increased to 2.7 percent until the reserve equals 150 percent of the highest annual benefits.

The "Safety Factor"—How It Works

In the plan advocated for Pennsylvania,³⁵ "the maximum contribution rate for any employer at any time would be set at the present 2.7%, thus protecting more irregular employers from paying higher contribution rates than they now pay.

"The minimum contribution rate would be set at 1.0%, thus providing a contribution from even the most stable employer toward paying the benefits to employees of the least stable employers.

"An individual employer's rate would annually be graded between these limits according to the regularity of his recent employment record, thus providing every employer with an incentive to better his performance and an opportunity to reduce his contributions. To lessen fluctuations and

³³ See "Notes on the Cliffe Plan of Experience Rating," by Adolph Appleman, "Personnel," August 1940.

³⁴ "The Texas Plan of Experience Rating," by F. B. Cliffe, Assistant Comptroller, General Electric Company, "Personnel," November 1940.

³⁵ "The Experience Rating Plan being proposed for incorporation into Pennsylvania's Unemployment Compensation Act and How It Would Work," pp. 3, 4, 6 and 7, Pennsylvania Employer's Conference, 3900 Chestnut Street, Philadelphia, Pa., Oct. 28, 1940.

to provide for the collection of most of the necessary funds during periods of rising payrolls, the "state experience factor" and each "employer's benefit wage ratio" would both be based upon the three years' experience immediately preceding the calendar year for which the contribution rate is being established.

"A safety factor finally would be included to insure a *safe and adequate* balance in the reserve fund at all times. Subject always to the 1% minimum and 2.7% maximum, this would provide for an automatic proportionate increase in the contribution rates of employers contributing at less than the maximum rate if and whenever the fund balance falls below an amount equal to 1½ times the maximum amount disbursed in the worst year of the last ten. Similarly it would provide for a corresponding automatic decrease in such contribution rates if and whenever the fund balance exceeds an amount equal to two times the maximum annual disbursements."

When an employer has been subject to the experience rating provisions of the law for three consecutive calendar years immediately preceding the fixed computation date, his *normal contribution rate* shall be that established in accordance with the procedure and table explained above. At the end of each calendar year starting with 1941, if the balance in the fund is less than 150% of the largest amount of benefits expended in any one of the last ten years, employers contributing at less than the maximum rate of 2.7% will sacrifice some of their calculated saving. Their rates will be scaled proportionately upward according to the balance in the fund as shown in the following table:

Balance as a percentage of largest year of benefits				
Normal Rate	135-149% Adjusted Rate (Col. 1)	120-134% Adjusted Rate (Col. 2)	105-119% Adjusted Rate (Col. 3)	Under 105% Adjusted Rate (Col. 4)
2.7%	2.70%	2.70%	2.70%	2.70%
2.5	2.55	2.60	2.65	2.70
2.0	2.18	2.35	2.53	2.70
1.5	1.80	2.10	2.40	2.70
1.0	1.43	1.85	2.28	2.70

If the fund's balance computed as above is in excess of 200%, the contribution rates of employers paying less than the maximum shall be scaled down proportionately, increasing their savings, in accordance with the following table:

Balance as a percentage of largest year of benefits				
Normal Rate	201-215% (inclusive) Adjusted Rate (Col. 1)	216-230% (inclusive) Adjusted Rate (Col. 2)	231-245% (inclusive) Adjusted Rate (Col. 3)	246% and over Adjusted Rate (Col. 4)
2.7%	2.70%	2.70%	2.70%	2.70%
2.5	2.45	2.40	2.35	2.30
2.0	1.83	1.65	1.48	1.30
1.5	1.20	1.00	1.00	1.00
1.0	1.00	1.00	1.00	1.00

4. Connecticut's Compensable Separation Plan and Minnesota's Beneficiary Wage Plan

Allied to the Texas plan of experience rating, although superficially different, are those adopted by the States of Connecticut and Minnesota. The latter State insures that the *average* rate of contribution will not fall below certain statutory minima by ranking employers in order of their

"beneficiary wage ratios" (similar to benefit wage ratio), and then taking equal payroll categories, to each of which a rate fractionally above or below the average is assigned. As described in a recent release⁸⁶ made by the State of Minnesota:

"After the average rate is determined, the law requires that a schedule of contribution rates for the year be prepared, the various rates in this schedule being graduated in equal number above and below the average with a difference of one-fourth of one percent between each of the various rates. The total state payroll must be applied to this schedule, assigning employers' payrolls in equal amounts to each rate, giving the employers with the most favorable employment experience the lowest rate available in the schedule and those with the least favorable employment experience the highest rate therein provided. For the purpose of illustration, there is shown hereafter a schedule using as the average rate 1.5 percent since that is the first rate shown in the schedule (above) provided by law for determining the average rate. This rate, however, would apply only if the State as a whole had an unusually favorable employment experience and the condition of the Fund were unusually good.

CHART SHOWING APPLICATION OF EXPERIENCE RATING PROVISIONS OF MINNESOTA UNEMPLOYMENT COMPENSATION LAW

	Rate Schedule	Divisions of State Payroll	Range of Beneficiary Wage Ratios	Amount of Contri- bution
Minimum	0.50%	\$50,000,000	Lowest ratio group	\$ 250,000
Below Average	0.75	50,000,000	Second " "	375,000
	1.00	50,000,000	Third " "	500,000
	1.25	50,000,000	Fourth " "	625,000
Average	1.50	50,000,000	Fifth " "	750,000
	1.75	50,000,000	Sixth " "	875,000
Above Average	2.00	50,000,000	Seventh " "	1,000,000
	2.25	50,000,000	Eighth " "	1,125,000
Maximum	2.50	50,000,000	Highest " "	1,250,000
		\$450,000,000		\$6,750,000

Connecticut utilizes the ranking technique, although it has a 2.7 percent ceiling (no reductions, however, unless Fund's assets exceed benefits paid for last two calendar years). The charging operation, however, has been reduced to its simplest terms.⁸⁷

Each employer is assigned a merit rating index which is determined by dividing total payrolls of the past three completed calendar years by the sum of the weekly benefit rates of compensated claimants. These are arranged in inverse order of magnitude, thirteen equal payroll parts taken and rates ranging from 1.5 to 2.7 per cent assigned at 0.1 intervals.

5. The Benefit Ratio

One other device for measuring employer experience which has found its way into the statute books is the benefit ratio. Since each benefit must be charged, there is no particular gain in administrative simplicity over the "reserve ratio." The two laws (Michigan and Utah) which use this type of measurement do, however, provide for Fund protection devices that are calculated to insure the maintenance of an average contribution rate that is consistent with a safe level of reserves.

Michigan's law establishes twelve categories of employer's experience indices, and assigns to each category a base rate which ranges from a low of 1.0 per cent to a high of 4.0 per cent through

⁸⁶ Form MES-16, Division of Employment Security of Minnesota, dated September 5, 1940.
⁸⁷ See, however, article by David Pinsky, Claims Examiner, entitled, "Merit Rating: Charging Separations," Monthly Bulletin of Placement and Unemployment Compensation Division, November 1940, Connecticut Department of Labor and Factory Inspection.

0.3 per cent intervals. Each year, however, the Agency computes a State Experience Factor similar to that described under the Texas plan, and adjusts the base rates upward or downward by 0.1 per cent increments or decrements, according to the State Factor.

Utah, like Minnesota and Connecticut, resorts to ranking of employers, using the benefit ratio for that purpose. Commerce Clearing House in setting forth how 1941 rates will be determined, explains the procedure as follows:²⁸

"After each subject employer's benefit ratio for a given calendar year has been computed, his contribution rate for the succeeding calendar year is determined in the following manner: the sum of each subject employer's annual payrolls for the two years preceding the calendar year for which his benefit ratio was computed, in the example above this was 1940, is listed in the order of the magnitude of his benefit ratio, beginning with the employer whose benefit ratio was lowest. The total of such payrolls is then computed and sub-totals are taken at points nearest to 12%, 24% and 76% of the total. The employers are then classified into groups A, B, C, and D, according to whether their payrolls appear in the list immediately preceding the sub-total taken at 12%, 24%, 76% or the total, respectively. Each employer's contribution rate will be determined upon the basis of his group classification for the preceding calendar year, and his rate will be the percent which appears in the following table in Column II on the line in which in Column I appears his group classification with respect to the preceding calendar year:

Column I Group Classification	Column II Contribution Rate
A	1.7%
B	2.2%
C	2.7%
D	3.2%

"To illustrate, assume that there were only eight subject employers in Utah and that the sums of their annual payrolls for 1939 and 1940, and their benefit ratios for the year 1941 were as follows:

Employer	Benefit Ratio for 1941	Sum of Annual Payrolls for 1939 and 1940
S .....	.003571	\$ 98,000
T .....	.0073	110,000
U .....	.008255	200,000
V .....	.00902	50,000
W .....	.0352	10,000
X .....	.037083	168,000
Y .....	.115384	130,000
Z .....	.200616	146,000
Total		\$912,000

"The employers in the above example are listed in the order of the magnitude of their benefit ratios, with the employer having the lowest ratio at the top of the list. The total of the payrolls is \$912,000. The sub-total nearest to 12% of such total, without dividing the sum of any employer's annual payroll, is \$98,000, the amount of the payroll of employer S. According to the above table, S would be in group A, and would therefore have a contribution rate of 1.7% for 1942. The sub-total nearest to 24% of the total is \$208,000, the sum of the payrolls of S and T. Therefore T would fall in group B and have a contribution rate for the year 1942 of 2.2%. The sub-total nearest to 76% of the total is \$636,000, the sum of the payrolls of S, T, U, V, W, and X. The four employers last named, U, V, W, and X, would be classified in group C and have a contribution rate for 1942 of 2.7%. The remaining employers, Y and Z, would fall in Group D and have a contribution rate of 3.2% for 1942. However, if either Y or Z could show to the satisfaction of the

²⁸ Commerce Clearing House. Unemployment Insurance Service, P. 47031.

Commission that his experience in the previous calendar year was due to fire or catastrophe or an act of civil or military authority, directly affecting the place in which the individuals were employed by him, his rate would not be more than 2.7%."

6. Charging of Employer's Accounts

So many references have been made to the problem of charging accounts that some discussion of the complexities of this phase of experience rating is warranted.

Since the charging of an experience rating account is the States' method of allocating the cost of unemployment, the entire theory of experience rating must stand or fall on the justice with which this charge is made, and in no other sections of the States' laws do we find such diversity.

The immediate cause of a claimant's unemployment is the employer who has just dismissed him. If the worker has had a record of many years with this employer no problems as to the justice of the benefit or benefit wage charges nor the method of making them can arise. Unfortunately not all cases are so simple and in attempting to allocate responsibility the States have set up "charge-back" procedures that are frequently unjust and usually complex.

A few of the questions that arise when a claimant reports two or more employers are:

1. Should the charges be made against the most recent employer when the employment has been of a temporary nature? Or if the employment has been of reasonably long duration is it just to charge benefits to the most recent employer based in wages paid by the base period employer or employers?
2. If, on the other hand, the account of the base period employer is charged, is it just to thus allocate the costs to a firm whose record of employment is a good one? In fact, the claimant in question may have resigned from the employment provided by the base-employer to accept a job with the employer who dismissed him.
3. If there have been a number of employers, in what order should the accounts be charged and what limits should be placed on total charges?
4. If the employer normally chargeable is not subject to the law, whose account can be charged?
5. In case of concurrent employment, how should charges be allocated if an employer bases both positions simultaneously?

Of the states with experience rating, 32 have systems involving the charging of benefits paid, 7 charge benefit wages and 1 charges compensable separations.

Only one State, New Hampshire, charges all benefits to the most recent employer, although it seems like the most reasonable method if experience rating is to be used to penalize the immediate cause of the worker's unemployment. This method, however, can be extremely unjust as some New Hampshire employers have learned. If for example, a firm offers temporary employment, even though it be for only a day, it will incur liability for all the benefits paid to those it has given the employment.

To remedy this situation five States (Arizona, New Mexico, North Dakota, Tennessee, and West Virginia) charge the most recent employer only if the claimant has earned from him during the lag and current quarters an amount equal to his possible benefits. Otherwise the next most recent employer's account is also liable. Nine States (Colorado, Florida, Kansas, Kentucky, Missouri, New Jersey, Ohio, Oklahoma, and South Carolina) charge all recent employers in inverse chronological order of the claimant's employment. Wisconsin also charges accounts in inverse chronological order but stops liability 68 weeks after the end of a workers employment.

Michigan has a unique plan. "One-third of the benefits paid to an individual during a benefit year shall be charged against the experience records of his last regular employer and the

remainder of his benefits shall be charged against the employer in whose employ the claimant earned the largest amount of wages during his base period." In this instance a regular employer is one who has paid wages of at least \$150 during or after the last quarter of the base period.

All of these States attempt to make recency of employment the method of determining liability for charges. An entirely different approach is taken by States who charge the accounts of those employers who provided employment during the base period. Six States (Arkansas, Indiana, Iowa, Nebraska, South Dakota, and Vermont) charge the most recent employers in the base period in inverse chronological order and three States, California, North Carolina and Utah, and the territory of Hawaii, charge the accounts of all base period employers simultaneously in proportion to the wages paid.

All of the States using the "Texas" plan, or a variant of it, charge the benefit wages to the accounts of all base period employers, and Connecticut charges the weekly benefit rate to "all employers by whom the claimant was employed during 4 calendar weeks over an 8-week period preceding the first compensable week in each spell of unemployment."³⁹

Five States omitted instructions as to charging methods from their Acts or specified that the agency was to provide a method. Curiously enough, Maine and Mississippi provided charging procedure but did not enact experience rating.

³⁹ Comparison of State Unemployment Compensation Laws, Employment Security Memo No. 8, Social Security Board.

Section III

EXPERIENCE RATING IN PRACTICE

I. Present Status and General Observation of the Operation of Experience Rating in the States

Discussion of experience rating is generally kept on the plane of theory, because as yet there is an insufficient body of facts on the effects of its operations. Wisconsin began decreases in contribution rates in 1938, and increases in 1939; Indiana, Nebraska, and South Dakota made their provisions effective in January of 1940. While thirteen more states are using or intend to use the experience of prior years in setting the rates for 1941, and while other states have been charging benefits, benefit wages, or separations, there is so little information available on the results of these operations that adequate presentation is impossible at this time. The following table¹ gives the effective dates embodied in the various state laws, although in a few instances it is questionable whether the Social Security Board will find the dates or the provisions acceptable under the provisions of the Federal Internal Revenue Code.

January 1938 (1 law)	January 1940 (3 laws)	January 1941 (11 laws)	July 1941 (2 laws)	January 1942 (19 laws)	July 1942 (2 laws)	January 1943 (1 law)
Wisconsin	Indiana Nebraska S. Dakota	Arizona California Kentucky Minnesota N. Hampshire Tennessee Texas Utah Vermont Virginia W. Virginia	Connecticut Oregon	Alaska Arkansas Colorado Delaware Florida Iowa Kansas Massachusetts Michigan Missouri Nevada New Jersey New Mexico N. Carolina N. Dakota Ohio Oklahoma S. Carolina Wyoming	Hawaii Dist. of Columbia	Illinois

The difficulty does not end here. The majority of the states, with or without experience rating, operate on pooled-fund laws, while the four states in which rate reductions were effective during 1940 are all using either employer-reserve systems or modifications of it which permit partial pooling. Furthermore, other provisions in the laws of these states and differences in their coverage and industrial structure so complicate analysis that the results are not only inconclusive but, unless carefully used, apt to be misleading.

Several general observations may be made on the comparison of data derived from the experiences of different states:

¹ From "Comparison of State Unemployment Compensation Laws as of October 1, 1940," Employment Security Memorandum No. 8, Revised October 1940, published by the Social Security Board. (Alabama has passed a provision for experience rating, but must wait for a proclamation from the Governor to make it effective.)

1. A favorable or unfavorable record of experience may be secured under any type of experience rating by the provision in the law of eligibility rules or a benefit structure designed to keep either a low or high average of benefits.
2. If a state law provides for special treatment of seasonal or casual labor, or permits the employer to give "learners" special status, the resulting rate distribution will be biased.
3. "Escape" clauses which exempt employers from charges under unusual circumstances (acts of God, civil or military authority, exhaustion of a mine or quarry, etc.) can result in low rates of contribution even though a substantial amount of benefits have been paid.
4. Since the employer's payroll is the denominator used in the computation of the reserve ratios which measure the right to rate reduction in many states, under certain limited circumstances it is possible for an account to yield a lower contribution rate merely because a decline in payroll has not been compensated for by an increase in chargeable benefits.
5. Some employer-reserve laws permit voluntary contributions to accounts by employers. This device permits the employer to avoid the higher rate that he may have expected.
6. A narrow or broad coverage of a law will be reflected both in the distribution of rates and on the effect of experience rating on the state's Fund. Thus, a state covering firms having only eight or more employes may be expected to find experience rating easier to administer and somewhat more predictable than a state with a coverage of one or more. Business turnover tends to be greater among small businesses, and while Federal law forbids rate reduction until one or three years' experience² with new employers, there is no way of protecting against the loss of expected income that is entailed because of employers going completely out of business, even though they have enjoyed rate reductions during earlier periods. (This, too, can have the effect of giving a fictitious appearance of stability to the employment provided by small employers.)
7. Experience rating for most states will be effective for the first time during a period of rapidly rising production and markets. In addition, the experience of 1939 and 1940 has been favorable. The latter will be reflected in the statistics in lower average rates, while the former will probably result in reserves that will remain high in spite of rate reduction. It must be remembered that exactly the reverse can be expected in periods of general economic decline.
8. Most important of all is the danger that lurks in industrial comparisons between states. Statistical compilation necessitates broad and uniform classification. Generally such classes are created by grouping all those who produce products of the same type or perform services that are roughly comparable. "Food Products," however, includes entirely different kinds of activity and runs the gamut from the small seasonal canning establishment to the giant industrialized brewery or sugar refinery; "Personal Service" includes barber shops, shoe repair shops, and power laundries; and the general class "Machinery (Except Electrical)" ranges from the manufacture of carbon paper and office equipment to the production of machine tools and steam turbines. Before attempting to compare or contrast data for the same major industrial class in different states, it is essential that the competent lines of business be known.

2. Wisconsin's Law and Experience

Only one state, Wisconsin, has had a long enough experience to permit any safe analysis, and the results of these analyses cannot be too safely used in interpreting the experience of other states.

More than three years before the passage of the Federal Social Security Act, Wisconsin concluded a decade of "Huber bills"³ by passage of America's first Unemployment Compensation Act. Although its principles have been recognized in whole or in part in the laws of other states,

² Depending on the type of unemployment-compensation fund.

³ Designed in accordance with the beliefs of Professor John R. Commons. The "Groves Bill" which became law in 1932 differed somewhat from these bills.

and although the original Wisconsin Act has been amended repeatedly, it is still in some respects unique.

The claimant's weekly benefit rate is based on 50 percent of an average weekly wage computed from his actual earnings during a specified period. The period is generally the preceding calendar year, but may in some instances differ. Base year and benefit years are not mentioned as such, and the potential duration of a claimant's benefit period depends on the worker's accumulation of "credit weeks" of employment. Partial unemployment benefits are paid. Eligibility depends on prior employment of at least four weeks by an employer. (The employer's account remains liable to charges for 68 weeks after a worker becomes unemployed.) If the worker qualified in this respect, and has waited two weeks, he may receive between \$6.00⁴ and \$15.00 per week until he has received benefits which account for a total of one-third of a week's benefit for each credit week of employment from previous liable employers. He may not, however, receive any benefits from the account of an employer from whom he has voluntarily quit, or who has dismissed him for cause, and any credit weeks he may have earned from earlier employers cannot be honored until an additional waiting period has been served. Salaried workers who have earned \$200 or more per month for ten months of the year, students, and cannery workers, are disqualified; and those whose unemployment is the result of a labor dispute are disqualified for the duration of the dispute. If unemployment is caused by "act of God, fire, or other catastrophe, or act of civil or military authority," no benefits are paid or can be chargeable.

Benefits are paid from and charged against the individual employers' reserve account, although earnings of the Fund are pooled to provide for workers who are eligible for benefits from exhausted accounts. The employer's contribution rate is determined by the status of his account at the end of the last calendar year, the measure being the reserve percentage.⁵ If the employer finds it to his advantage to make voluntary contributions to improve his balance he is permitted to do so. Rate determination is as follows:⁶

"An employer may pay contributions at a reduced rate only if (1) benefits have been payable from his account throughout the preceding calendar year, and (2) the net reserve of his account amounts to not less than five times the largest amount of benefits charged against the account in any one of the three preceding calendar years, and (3) the reserve percentage of his account at least equals 7½%. If these conditions are fulfilled, the employer's rate will be 1% if the reserve percentage is at least 7½% but less than 10%; if the percentage is 10% or more, no contributions will be required for the year. "If an employer's reserve percentage is 2½% or more, but less than 4%, his contribution rate for the next year is 3.2%; if his reserve percentage is less than 2½% his next year's contribution rate is 3.7%; if his account is overdrawn his rate is 4%. In no case, however, may an employer's rate exceed by more than 0.5% whichever is the higher of the standard rate of 2.7% and the rate which applied to him at the beginning of the previous year. Beginning December 31, 1939, if the fund's 'balancing account' at the close of any month has a net unencumbered balance of less than \$500,000, each employer from whose account benefits have been potentially payable during the three previous calendar years will be liable for an additional contribution in an amount equal to 1% of the account's positive net reserve at the end of the previous calendar year."

The law permitted reduction of contribution rates for 1938, but few employers could qualify. This was because the lower contribution rates of the early years of Wisconsin's program made it impossible for most employers to accumulate a reserve equal to 7.5 percent of their 1937 payroll. In fact, the agency notified employers late in 1937 that "reduced rates are not likely to apply to Wisconsin employers until 1939." Nevertheless 114 accounts were judged to be eligible for rate change; 84 for 1.0 percent, and 30 for complete exemption. Dr. Myers comments on the reasons behind many of the reductions:⁷

⁴"An eligible employe whose weekly benefit rate from a given employer is less than \$6.00 shall be paid benefits from that employer's account for his weeks of total or part-total unemployment as if his weekly benefit rate with respect to such employer were \$6.00 Charges to the employer's account, however, are made at the lower rate. (Paragraphs 108.05 and 108.06. Wisconsin Unemployment Reserves and Compensation Act.)

⁵ See Section II.

⁶ Summarized from Wisconsin Law by Commerce Clearing House, Unemployment Insurance Service—p. 52,003. Edition of July 14, 1939. (Citations to Law included in summary have been omitted from the above quotation.)

⁷ "Employment Stabilization and the Wisconsin Act," page 126 et seq. By Dr. Charles A. Myers, Social Security Board. See, however, Dr. Myers' qualifying footnote.

"Although employers were first eligible to qualify for reduced contribution rates in 1938, as a matter of fact relatively few could do so. This was because an employer with a constant annual payroll, and no benefit payments, would not secure a reserve percentage equal to 7.5 percent or more until the end of 1938. Most employers had a higher payroll in 1937 (a good year) than in preceding years, which made the reserve percentage (based upon the preceding year's payroll) even smaller. In view of this, the Unemployment Compensation Department announced in November 1937 that it would not compute the reserve percentage for any account as of December 31, 1937, unless an employer submitted figures to show a probable percentage of 7.5 or more.

"Subsequently, a number of employers offered evidence of the necessary percentages, and after careful audits by the department, 114 were eventually approved for reduced contribution rates in 1938. Thirty firms had reserve percentages of 10 percent or more, or enough to exempt them from contributions (the zero rate), while 84 others qualified for the 1 percent rate.

"Most of these firms, however, qualified for lower 1938 contribution rates because of unusual circumstances. Only one of the 30-zero-rate firms had really stable employment, and even then it had to make a large voluntary contribution to attain a reserve percentage of 10 percent. The usual case in the group was one in which the company had a smaller payroll in 1937 than in 1934-1936, when the reserve fund was being built up. This occurred when operations were curtailed in the second half of 1936 or in 1937 because of less work (as in the case of contractors) or because the company sold part of its business to another firm. In the latter cases, some of the company's employees were often hired by the succeeding firm, although the reserve fund accumulated during previous years was retained.

"For example, an ice cream company sold a plant to another firm, leaving only a small 1937 payroll. The reserve built up on the higher payrolls of earlier years than equalled or exceeded 10 percent of this small 1937 payroll. In another case, a bulk gasoline dealer with retail gas stations sold the stations to another company which hired many of the same employees. While the reserve fund remained intact, a smaller 1937 payroll and higher reserve percentage resulted. Again, a construction company had a large amount of work in 1934 and 1935, building up its reserve and having no benefits charged. In 1937, fewer contracts were secured, and the payroll was small enough to make the necessary reserve percentage possible."

The rate changes in 1939 and 1940 were more significant. Furthermore, amendments were provided which made rate changes less dependent on unusual payroll values. Instead of using the preceding year as had been done in computing 1938 rates, the average of two years was used for 1939 and the average of three years for 1940.⁸

During the first of these years, 2,431 accounts, approximately 34.2 percent of the 7,113 which had been liable for benefits for one year, were eligible for a reduction to 1.0 percent; 3,637, or 51.1 percent, remained at 2.7 percent, and 656, or 9.2 percent were required to pay 3.2 percent. There were 389, or 5.5 percent, of the experience rating accounts exempt from any contribution whatsoever. In 1940, there were 8,121 accounts that had the year of benefit-paying experience required by law. Of this number, 11.1 percent were exempt from contributions, 49.4 percent were eligible for reduction to a 1.0 percent rate, 32.1 percent remained at the standard 2.7 percent rate; while 4.7 percent were raised to a rate of 3.2 percent, and 2.8 percent to a rate of 3.7 percent.

DISTRIBUTION OF WISCONSIN EXPERIENCE-RATING ACCOUNTS^a BY 1939 AND 1940 CONTRIBUTION RATES

Contribution Rate (Percent)	1940		1939	
	Number of Accounts	Percent	Number of Accounts	Percent
Total	7,113	100.0	8,121	100.0
0	389	5.5	903	11.1
1.0	2,431	34.2	4,009	49.4
2.7	3,637	51.1	2,603	32.0
3.2	656	9.2	381	4.7
3.7	...	...	225	2.8

^a—Does not include all covered employers. In 1940, for example, approximately 3,600 employers were not eligible for rate change and paid 2.7 percent.

⁸ Further providing that an amount equal to half of the employer's largest payroll for any year shall be used as the payroll for any year in which the actual payroll was less than such amount.

In line with expectations, there are considerable differences in rate distribution between industries for both 1939 and 1940. During 1939, for example, 54.1 percent of apparel enterprises, 45.0 percent of firms manufacturing transportation equipment, and 61.3 percent of the "automobile industry" paid 3.2 percent of payroll, the maximum rate for that year. On the other hand no accounts in Printing and Publishing, Communications, Utilities, Finance or Insurance showed advances in rates, while substantial proportions showed reductions. In 1940 all industrial classes showed an improvement in the proportion obtaining lower rates, but again those industries which seemed blessed with a natural stability showed the greater number of accounts with rate reduction. Balancing this, to a degree, were records of the 381 firms whose rates were set at 3.2 percent and the 335 firms whose rates were advanced to the 3.7 percent limit permitted for 1940. Construction, Manufacturing, Trade, and Amusement Places contributed the bulk of the penalty contribution.^a

**DISTRIBUTION OF WISCONSIN EXPERIENCE-RATING ACCOUNTS
BY MAJOR INDUSTRY CLASS AND 1940 CONTRIBUTION RATES ***

Major Industry Class	Exper. ^b Rating Accts.	Accounts Paying at Specified Rate									
		Zero		1.0%		2.7%		3.2%		3.7%	
		No.	%	No.	%	No.	%	No.	%	No.	%
Total	8,121	903	11.1	4,009	49.4	2,603	32.0	381	4.7	225	2.8
Forestry, Agriculture, and Fishing	35	2	5.7	12	34.3	14	40.0	3	8.6	4	11.4
Mines and Quarries	58	5	8.6	15	25.9	23	39.7	4	6.9	11	18.9
Construction	746	54	7.2	124	16.6	376	50.4	150	20.2	42	5.6
Manufacturing	2,183	184	8.4	1,028	47.1	800	36.6	81	3.7	90	4.1
Communication, Transportation, and Utilities	327	43	13.1	164	50.2	106	32.4	5	1.5	9	2.8
Wholesale and Retail Trade	3,237	418	12.9	1,846	57.0	903	27.9	53	1.6	17	0.5
Finance, Insurance, and Real Estate	499	66	13.2	328	65.7	93	18.6	7	1.4	5	1.0
Service Industries	1,024	129	12.6	485	47.4	285	27.8	78	7.6	47	4.6
Other N. E. C.	9	...	...	7	77.8	2	22.2	...	...	...	...
Unknown	3	2	66.7	...	...	1	33.3	...	...	...	...

a—Based on reports to Social Security Board.

b—See note on preceding table.

Since there has been much discussion of the relative effect of experience rating on "large" and "small" business, some presentation of Wisconsin's experience may be of value. Wisconsin's Law provided for a gradual broadening of coverage by specifying that employers of eight or more were to be covered in 1937, employers of seven (during 1937 or thereafter) were added during 1938, and employers of six (during 1938 or thereafter) were added during 1939. Since one year's experience is necessary before an account is eligible for rate reduction, 1940 is the first year in which a distribution can be made which is comparable with any similar distribution for the future.

Although a greater proportion of those employers with payrolls of less than \$5000 were exempt from payment than was true for any other group, this was partly offset by the smaller proportion eligible for a reduction to 1.0 percent and the larger proportion paying the penalty rates of 3.2 percent and 3.7 percent.

At the other extreme of the payroll distribution were those employers paying wages of \$1,000,000 or more. Although they comprise but slightly more than one percent of the total—only 96 employers—the distribution of their contribution rates is of substantial importance to the Wisconsin Fund. Not only did 68 employers qualify for rate reduction, but in addition they exhibited as a class relatively fewer penalty rates, only 4 employers being affected.

Between these extremes lie the great majority of Wisconsin employers. The greatest concentration is in the three lower payroll classes—\$5,000 to \$9,999, \$10,000 to \$19,999, and \$20,000 to \$29,999—which include more than three-fifths of the total. For these three classes approximately the same proportions received the zero rate, although the percentage with a rate of either zero or 1.0 percent of payroll increased with increases in payroll total. Employers paying between \$30,000 and \$39,999 and those paying \$40,000 to \$49,999 in payroll show larger

* Detailed industry tables are appended to this section.

proportions of rate reductions, larger proportions paying penalty interest, but smaller proportions with the zero rate.

**DISTRIBUTION OF WISCONSIN EXPERIENCE-RATING ACCOUNTS
BY SIZE OF PAYROLL AND 1940 CONTRIBUTION RATES ^a**

Size of Payroll	Exper. ^b Rating Accts.	Accounts Paying at Specified Rate									
		Zero		1.0%		2.7%		3.2%		3.7%	
		No.	%	No.	%	No.	%	No.	%	No.	%
Total	8,121	903	11.1	4,009	49.4	2,603	32.0	381	4.7	225	2.8
Below \$5,000	739	167	22.6	213	28.8	272	36.8	54	7.3	33	4.5
\$5,000-\$9,999	1,393	149	10.7	618	44.4	516	37.0	79	5.7	31	2.2
\$10,000-\$19,999	2,130	238	11.2	1,045	49.1	739	34.7	73	3.4	35	1.6
\$20,000-\$29,999	1,058	114	10.8	568	53.7	313	29.6	36	3.4	27	2.5
\$30,000-\$39,999	686	75	10.9	362	52.8	203	29.6	24	3.5	22	3.2
\$40,000-\$49,999	390	34	8.7	225	57.7	98	25.1	22	5.6	11	2.8
\$50,000-\$99,999	834	59	7.1	476	57.1	222	26.6	43	5.2	34	4.0
\$100,000-\$999,999	793	58	7.3	443	55.9	214	27.0	48	6.0	30	3.8
\$1,000,000 and over	96	9	9.4	59	61.4	24	25.0	2	2.1	2	2.1
Unclassified	2					2	100.0				

a—Based on reports to Social Security Board.

b—See note on preceding table.

For those large employers who pay more than \$50,000 but less than \$1,000,000 the significant items are that they exhibit the lowest proportions with zero rates and, with the exception of those paying less than \$5,000, the highest proportions with penalty rates. In this class are 1,627 employers of whom 117 paid nothing, 919 paid 1.0 percent, 436 paid the normal 2.7 percent, 91 paid a penalty rate of 3.2 percent, and 64 paid a penalty rate of 3.7 percent.

Thus, while all classes showed the majority receiving lower rates, the proportion of employers receiving rate reductions tended to increase with the size of payroll, and the proportion receiving rate increases tended to decrease with size of payroll up to \$20,000, and thereafter to increase; excepting the very highest payroll class. The proportion continuing to pay 2.7 percent tended to decrease with increasing payrolls.

Wisconsin's experience, while longer than that of any other state, is still not long enough to warrant sweeping generalizations either as to the theoretical soundness or unsoundness of experience rating, or as to the probable long-run effect on employers of various industries and sizes. Two attitudes are expressed in the following. Paul Raushenbush, director of the Wisconsin Unemployment Compensation Department, speaking before the First Wisconsin Conference on "Steadier Jobs," on June 21, 1940,¹⁰ said:

"Here in Wisconsin we have at least seen the beginnings of what experience rating can do to promote steadier jobs by recognizing the performance of individual employers. It is all very well for some of its critics to say, 'Most employers can't do anything much about steadier employment. Why bother with experience rating?' But the fact that 4,900 employers in this state are now paying reduced rates cannot be explained away merely by saying 'They just naturally operated steadily.' We know that isn't true of several thousand of them. Their industries are not just 'naturals.' They don't just have a rate reduction drop into their laps. True, not all Wisconsin employers have made the kind of successful efforts you have heard about today. Many of them, however, are giving increasing attention to the problem."

In the December 1940 issue of "Social Security," Abraham Epstein and his Associates of the American Association for Social Security,¹¹ say:

"Thus, while Wisconsin cannot prove genuine stabilization of work even after almost three years of merit rating, there can no longer be any doubt of the anti-labor and anti-social effects of this scheme, effects which the American Association for Social Security has constantly predicted and warned against—avoidance of benefits, low benefits, reduced employment, increased under-employment, lowered wages, new threats to our social structure through the reduction of temporary jobs, and a myriad of other anti-labor practices. With these

¹⁰ "The First Wisconsin Conference on Steadier Jobs," June 21, 1940, printed by the Industrial Commission of Wisconsin, 137 E. Wilson St., Madison, Wisconsin.

¹¹ "Social Security," December 1940—Vol. XIV No. 9.

results becoming more evident every day the position of the Wisconsin organized labor forces, which have continued to stand by their state system in defiance of the strong opposition to merit rating by the American Federation of Labor and the C. I. O., is becoming more and more untenable. In view of the growing opposition on the part of industry and labor throughout the country, Wisconsin labor cannot much longer continue to support a program which, in the name of 'progressivism,' sacrifices the basic rights and welfare of the State's workers."

3. The Laws of Kentucky and Nebraska, and the Experience of Nebraska

The State of Wisconsin has the purest form of the employer-reserve type of law now on the statute books. While other states have (to a lesser degree) utilized the employer-reserve, none of them have been as consistent in their adherence to the theory behind it. Most closely related are the laws of Kentucky and Nebraska, both of which credit contribution and debit benefits to the individual accounts of employers. In Nebraska, as in Wisconsin, the only monies pooled are the earnings of the Fund, but Kentucky supplements the "pool" with employe contributions. Both states provide for decreases in contribution rates when the individual's reserve ratio warrants it, Nebraska by means of a "disbursement ratio" devised by the Agency, and Kentucky by an automatic statutory schedule. Kentucky assesses a penalty rate when the employer's reserve falls below 3 percent, while Nebraska's maximum is fixed at 2.7 percent of payroll. Both States use a base period to define weekly benefit amount, qualification, and maximum potential benefits, and provide for an individual benefit year which runs for 52 weeks from the first valid claim; and, although definitions differ, both pay benefits for partial unemployment. Benefit rates are based on high-quarter earnings in Nebraska and on annual earnings in Kentucky. Disqualifications for varying periods can occur in both states because of voluntary leaving of employment, discharges for misconduct, and labor disputes; while Nebraska disqualifies students, women who have lost employment because of marriage, workers suspended because of misconduct, and salaried workers receiving \$200 or more per month.

Since Kentucky amended its law during 1940 postponing rate reductions for six months, the rate distribution of Nebraska is the only available guide to the experience under this type of law. At the end of the first quarter of 1940 Nebraska had 3,333 experience-rating accounts. Of these, 69 percent failed to qualify for rate reduction, continuing to pay 2.7 percent of payroll, while 31 percent obtained lower rates varying from 2.5 percent to the minimum of 1.0 percent. Of those who did receive rate reductions, the great majority (27 percent of the total) paid at the lowest rate.

An important factor in obtaining reductions for many Nebraska employers was the amount refunded to Nebraska by the Federal Government under the provisions of House of Representatives Bill No. 8174. By legislative enactment this \$1,330,836, representing 1936 contributions, was credited to the individual accounts of employers. For many accounts these credits made rate reductions possible.¹² Commenting on this, a release of the Bureau of Employment Security¹³ says:

"The only direction given to the Commissioner by the statute, in connection with the determination of individual rates, is that:

'contributions shall only be such a per centum, not exceeding 2.7 percent, as the commissioner finds necessary to maintain such reserve account at 7½ percent of his annual payroll during the ensuing calendar year.'

"Upon the basis of the statutory requirement that the employer's reserve balance must be equal to 7.5 percent of his annual payroll, it would appear that very few employers would be able to qualify for rate reductions. This arises from the fact that only 1.8 percent of taxable wages had been collected for 1937, and 2.7 percent in each of the years 1938 and 1939, with the result that a total of 7.2 percent of payrolls has been credited to employers' accounts for these 3 years (assuming that payrolls were uniform for the period). This reserve balance of 7.2 percent necessarily fell short of meeting the minimum 7.5 percent reserve requirement set forth in the statute. By enactment of legislation during 1939, which made it possible to credit to an employer's reserve account his contributions under the Federal act for the year 1936, this deficiency was overcome. If an employer's account could be credited with an additional .9 percent of payroll, this would permit the possible accumulation of a reserve balance of 8.1 percent of his annual payroll."

¹² Another provision of the Nebraska law that made reduced rates possible for 172 employers was that permitting voluntary contributions to accounts. This device was used more by employers with large payrolls than by the less substantial contributors.

¹³ "Experience Rating in Nebraska—1940," Released by the Bureau of Employment Security in December 1940.

**DISTRIBUTION OF NEBRASKA EXPERIENCE-RATING ACCOUNTS
BY MAJOR INDUSTRY CLASS AND 1940 CONTRIBUTION RATES ^a**

Major Industry Class	Exper. ^b Rating Accts.	Accounts Paying at Specified Rate									
		1.0%		1.5%		2.0%		2.5%		2.7%	
		No.	%	No.	%	No.	%	No.	%	No.	%
Total	3,333	903	27.1	80	2.4	39	1.2	24	0.7	2,287	68.6
Forestry, Agriculture, and Fishing	13	1	7.7	..	..	..	..	..	..	12	92.3
Mines and Quarries	21	3	14.3	..	..	..	..	1	4.8	17	80.9
Construction	252	20	7.9	4	1.6	1	0.4	2	0.8	225	89.3
Manufacturing	470	121	25.7	17	3.6	8	1.7	3	0.6	321	68.3
Communication, Transportation, and Utilities	168	36	21.4	4	2.4	3	1.8	1	0.6	124	73.8
Wholesale and Retail Trade	1,751	513	29.3	44	2.5	21	1.2	14	0.8	1,159	66.2
Finance, Insurance, and Real Estate	265	118	44.5	2	0.8	..	..	..	..	145	54.7
Service Industries	393	91	23.2	9	2.3	6	1.5	3	0.8	284	72.3

a—Based on reports to Social Security Board.
b—Does not include all covered employers. On January 1, 1940 there were 3,410 employers. Some of them, however, had not been covered long enough to qualify.

More than half of the experience-rating accounts were for employers engaged in wholesale or retail trade, the state's most important type of enterprise. Generally speaking, the experience of employers in these groups was favorable, more than one-third obtaining reductions. Nebraska's rate structure, however, partially obscures the record, since overdrawn accounts remain at 2.7 percent and employers with perfect records can receive no reduction beyond 1.0 percent. For example, 678 accounts in wholesale and retail trade had no benefits charged against them, only 9.1 percent of the aggregate contributions for the group was paid out in benefits, and but 2.4 percent of the accounts were overdrawn. "Finance, Insurance, and Real Estate" and "Transportation, Communication, and Utilities" were the only industrial groups with better records.

PERCENTAGE OF NEBRASKA ACCOUNTS OBTAINING REDUCED RATES FOR 1940, WITH NO BENEFITS CHARGED, WITH OVERDRAWN ACCOUNTS, AND RATIOS OF BENEFITS TO CONTRIBUTIONS, BY PRINCIPAL INDUSTRY DIVISIONS ¹⁴

Principal industry division	All Accounts					
	Number	Percent with reduced rates	Ratio of benefits to contributions ¹	Accounts with no benefits charged ¹		Percent of accounts overdrawn
				Number	Percent	
TOTAL	3,333	31.4	11.5	1,170	34.5	2.5
Agriculture	13	7.7	25.8	2	2	2
Mining	21	19.1	51.8	6	2	2
Construction	252	10.7	44.1	57	22.7	11.5
Manufacturing	470	31.7	11.2	99	20.5	1.9
Transportation, etc.	168	26.2	7.5	52	30.9	2.4
Trade	1,751	33.8	9.1	678	38.3	1.4
Finance, Insurance, etc.	265	45.3	4.6	145	54.7	.4
Service	393	27.7	13.7	131	30.8	2.5

¹ Based upon data for 3,395 accounts active as of January 31, 1940.
² Percentages not computed.

Slightly more than one-quarter of Nebraska's manufacturers obtained the 1.0 per cent rate, better than two-thirds remained at 2.7 per cent, and the balance paid at one of the three intermediate rates. Nebraska's manufacturing is largely concentrated in food products industries, and includes

¹⁴ Experience Rating in Nebraska—1940," Released by the Bureau of Employment Security in December, 1940.

highly seasonal canning as well as more stable enterprises such as baking and dairy products. Approximately one-fourth of the state's covered workers are employed in manufacturing enterprises. Other measures of significance are the proportion of accounts with no charges (22.7 per cent) and the proportion of accounts overdrawn (1.9 per cent).

As in Wisconsin, the seasonal and fluctuating employment provided by the construction industry is reflected in the low percentage of accounts receiving rate reductions. Of the 252 employers engaged in construction work only 20 qualified for the 1.0 per cent rate, 4 for the 1.5 per cent rate, 1 for the 2.0 per cent rate and 2 for the 2.5 per cent rate. The balance, 225, paid 2.7 per cent. Included in the latter group were a large proportion of the state's overdrawn accounts, 11.5 per cent of all construction accounts being overdrawn.

**DISTRIBUTION OF NEBRASKA EXPERIENCE-RATING ACCOUNTS BY
AVERAGE ANNUAL PAYROLL AND 1940 CONTRIBUTION RATES ^a**

Average Annual Payroll	Exper. ^b Rating Accts.	Accounts Paying at Specified Rate									
		1.0%		1.5%		2.0%		2.5%		2.7%	
		No.	%	No.	%	No.	%	No.	%	No.	%
Total	3,333	903	27.1	80	2.4	39	1.2	24	0.7	2,287	68.6
Below \$5,000	366	125	34.2	..	..	2	0.5	..	..	239	65.3
\$5,000-\$9,999	544	153	28.1	7	1.3	8	1.5	5	0.9	371	68.2
\$10,000-\$19,999	724	209	28.9	12	1.6	11	1.5	7	1.0	485	67.0
\$20,000-\$29,999	288	98	34.0	9	3.1	5	1.7	3	1.0	173	60.1
\$30,000-\$39,999	153	55	35.9	8	5.2	1	0.7	1	0.7	88	57.5
\$40,000-\$49,999	109	45	41.3	9	8.3	..	..	..	..	55	50.4
\$50,000-\$99,999	232	98	42.2	14	6.0	7	3.0	3	1.3	110	47.4
\$100,000-\$999,999	168	68	40.5	15	8.9	3	1.8	2	1.2	80	47.6
\$1,000,000 and over	12	9	75.0	1	8.3	..	..	..	..	2	16.7
Unclassified	737	43	5.8	5	0.7	2	0.3	3	0.4	684	92.8

^a—Based on reports made to Social Security Board.

^b—Does not include all covered employers. On January 1, 1940 there were 3,410 employers. Some of them, however, had not been covered long enough to qualify.

In discussing Wisconsin it was noted that a relatively greater proportion of employers with "large" payrolls received rate reductions than did employers with "small" payrolls. This tendency is even more marked in Nebraska. Excepting the employers with average annual payrolls less than \$5,000, 35 per cent of whom earned reduced rates,¹⁶ there is a direct relationship between payroll size and percentage of accounts with reduced rates.

An inspection of the last column in the above table is evidence that opportunity for rate reduction seems to go hand and hand with magnitude of payroll, the highest percentages of rate decreases—with one exception—was exhibited by the group of employers having payrolls of \$1,000,000 and more, the lowest by the group of employers meeting payrolls of from \$5,000 to \$10,000 a year. The one exception mentioned is the group labeled in the table as "Unclassified," which includes those accounts whose business history was less than the three years needed to compute the average annual payroll.

4. The First Year of Rate Reduction in Indiana and South Dakota

Four states have effected compromises between the employer-reserve and the pooled fund by crediting part of the employer's contribution to individual accounts and part to a pool. North Carolina credits 75 percent to the employer, South Dakota 5/6 (83-1/3 percent), Vermont all amounts in excess of 0.54 percent of the average annual payroll, and Indiana all amounts in excess of 0.135 percent of the average annual payroll—the balance in each case being pooled. Two of these states provided for rate changes in 1940—South Dakota and Indiana—both states having automatic experience-rating provisions. Indiana rates can vary from a minimum of 0.135 percent to a

¹⁶ This group will always tend to show a relatively better record, since it is generally the more stable small employers who stay in business. A larger enterprise will weather a bad year and will appear in the table with a high contribution rate; a small employer is apt to disappear altogether, leaving only the "better" accounts.

penalty rate of 3.7 percent; South Dakota provides no rates greater than 2.7 percent, but will permit reductions to zero.

While benefit and eligibility provisions, disqualifying clauses, and methods of charging have just as important an influence on experience rating in these states as in those already discussed, the effect of the partial pooling of contributions has been to make qualifying for rate change more difficult during the early years. Indiana calculates reserves by crediting 5/6 (83-1/3 percent) of the contributions for 1936, 1937, and 1938, and all other past contributions in excess of 0.135 percent of annual payroll, minus all benefits, divided by payroll for preceding year. South Dakota subtracts benefits from 5/6 (83-1/3 percent) of past contributions, and divides by the preceding annual payroll. In both laws the reserve must be equal to at least five times the largest amount of benefits charged in any one of the three preceding years, while the reserve ratio must be at least 75 percent before rate reduction is possible.

**DISTRIBUTION OF EXPERIENCE RATING ACCOUNTS FOR
INDIANA AND SOUTH DAKOTA BY MAJOR INDUSTRY
CLASS AND 1940 CONTRIBUTION RATES^a**

Major Industry Class	Exper. ^b Rating Accts.	INDIANA					SOUTH DAKOTA				
		No. Accts. Paying At Specified Rates					Exper. ^b Rating Accts.	No. Accts. Paying At Specified Rates			
		0.135%	1.0%	2.0%	2.7%	3.7%		Zero	1.0%	2.0%	2.7%
Total	10,217	51	19	209	9,938	....	1,623	28	15	76	1,504
Forestry, Agriculture, and Fishing	26	1	..	2	23	....	6	..	..	..	6
Mines and Quarries	287	2	..	5	280	....	42	1	1	1	39
Construction	767	6	2	3	756	....	143	2	..	4	137
Manufacturing	2,521	5	3	30	2,483	....	161	..	..	5	156
Communication, Transportation, and Utilities	572	2	..	4	566	....	66	..	1	6	59
Wholesale and Retail Trade	4,190	22	5	109	4,054	....	959	20	9	46	884
Finance, Insurance, and Real Estate	613	10	4	19	580	....	114	2	..	8	104
Service Industries	1,241	3	5	37	1,196	....	130	3	4	6	117
Other N. E. C. ....	..	..	..	..	..	....	2	..	..	..	2

a—Based on reports to Social Security Board.

b—Does not include all covered employers. See notes on earlier tables.

Because of this, the industry and size classifications of accounts have little meaning as yet. In Indiana the accounts remaining at a rate of 2.7 percent of payroll were in excess of 95 percent for all industrial classes except for "Agriculture, Forestry, and Fishing," where the number of accounts is too small to give a percentage significance. Substantially the same thing is true for South Dakota.

One important provision of the Federal Internal Revenue Code was evidently overlooked by some of the legislators who drafted partial pool provisions. L. A. Pietz, chief accountant for the South Dakota Unemployment Compensation Commission, discusses its effect as follows:

"The Federal tax under Title IX is 3% of the payroll, but the law permits a credit to 90% of that tax for payments made to a state or for credits allowed by a state under an *approved* experience rating plan.

"It was supposed that when the contribution rate was reduced to 2% an additional credit of .7% would be granted on the Federal tax, and likewise when the contribution to the state was not required, a full credit of 2.7% would be allowed.

"However, Section 1602 (b) (2) of the Internal Revenue Code, as amended in 1940, provides: 'If the Board finds that under the law of a single state more than one type of fund or account is maintained and reduced rate of contributions to more than one type of fund or account were allowable with respect to any taxable year the Board shall on December 31 of such taxable year certify to the Secretary of the Treasury only those provisions of the State law pursuant to which reduced rates of contributions were allowable under conditions fulfilling the requirements of subsection (a)

"Subsection (a) provides: 'A taxpayer shall be allowed an additional credit with respect to any reduced rate of contributions permitted by a state law, only if the Board finds that under such law (1) No

reduced rate of contributions to a pooled fund or to a *partially pooled fund* is permitted to a person except on the basis of his experience with respect to unemployment or other factors bearing a direct relation to unemployment risk¹⁶

"Our law is classed as a partially pooled fund. The condition of the individual employers's reserve account under our present law is the sole basis for determining reduced contribution rates. No consideration is given to the contributions to, withdrawals from, or the condition of the pooled account of the Agency, in determining reduced rates. That portion of the reduced contributions which would have gone into the pooled fund (one-sixth) therefore fails to comply with the provisions of the Federal Act, and only five-sixths of the reduced rate will be allowed as *additional credit*.

"For each \$1,000 of an employer's payroll, the result will be as follows:

Rate	State Contribution	Credit Allowed by State	Credit Allowed by Federal	Federal Tax
2.7%	\$27.00	None	\$27.00	\$3.00
2%	20.00	\$7.00	5.83	4.17
1%	10.00	17.00	14.17	5.83
None	None	27.00	22.50	7.50

"From this it would be seen that the Federal Tax increases from .3% to .75% for the reason that credit is allowed by the Federal Government only on the reduction in contributions to the reserve account."¹⁶

¹⁶ "Unemployment Compensation Comments," December 1940, "Pooled-Reserve Account With Experience Rating versus Pooled Fund With Experience Rating," by L. A. Pietz, chief accountant, Unemployment Compensation Commission of South Dakota.

5. Experience Rating—States Reducing Rates in 1941

The year 1941 marks the addition of several more states to the list of those which have effective experience-rating provisions in their unemployment compensation laws. The unemployment laws of the following additional states provides for reduced contribution rates in 1941:

Alabama	Oregon
Arizona	Tennessee
California	**Texas
*Connecticut	**Utah
Kentucky	*Vermont
Minnesota	*Virginia
*New Hampshire	*West Virginia

Of these additional states, however, only those marked by an asterisk have had their merit-rating provisions definitely approved by the Social Security Board so as to enable the employers with reduced rates to obtain the additional credit provided by the Federal Act. The experience-rating provisions of Texas and Utah (marked by a double asterisk) have been held not to comply with the additional credit provisions of the Federal law because of failure, to require three years of individual benefit payment experience. Further amendment will be necessary in these states. The other jurisdictions either have not yet submitted their laws or are awaiting approval. In Alabama, the Legislature has passed a provision, but it cannot become effective until proclaimed by the Governor.

6. The Significance to Pennsylvania of the Experience of Other States

The experiences of those states included in the foregoing discussion, and the limited data received from other jurisdictions whether or not included in this report, raise the question whether a cautious approach to experience rating in unemployment compensation is desirable. Certainly many employers in those states in which rate changes have become effective must have been surprised to find that anticipated reductions did not materialize, while many others probably have fared better than they expected. In Wisconsin there is evidence to show that some stabilization of employment was actually effected, but there is also evidence to show that accidental factors or inclusion in a sheltered industry were just as effective in obtaining lower contribution rates. Larger enterprises seem to have a relatively better opportunity for rate reduction than smaller ones, although more must be known regarding the industries of the large employers before generalization is conclusive. In the states studied the lower

¹⁷ See Commerce Clearing House, pages 46.525 et seq. and 47.544.

average rate has meant a reduction in income which has been compensated for in part by rigid eligibility and benefit provisions which operate to cut down state outgo. Construction, Heavy Manufacturing Industries, and Mining tend to have a larger percentage of employers subject to higher rates, while Finance, Insurance, Trade, and Utilities have uniformly higher percentages of employers subject to low rates.

Pennsylvania differs decidedly from the states examined in its industrial composition, its size, in the number of employers covered, and in its unemployment-compensation law. While its Fund has grown, the rate of growth has not been excessive.¹⁸ Only recently has the balance between collections and payments been tipped heavily to the collection side.

If experience rating were adopted with a maximum rate of 2.7 percent, it should be done with full recognition that any large-scale industrial depression would hit Pennsylvania with even greater force than it would affect most other states, therefore adequate safety and protective measures should be adopted. Mining, steel manufacturing, construction, and other types of enterprise frequently marked by wide employment fluctuations comprise a more important place in Pennsylvania's economy than they do in the industrial structures of most other states.

The only available quantitative data on Pennsylvania that are directly relevant to the problem of experience rating take the form of comparisons for relatively short periods,¹⁹ of benefits to contributions by industry and an analysis of the swings from high to low have marked the employment patterns of many lines of manufacturing enterprise. Tables are appended which present both types of information.

¹⁸ See Statistical Information Bulletin No. 18, "The Pennsylvania Unemployment Compensation Fund—Contributions, Benefit Payments, and Fund Balances, January 1937-June 1940," and Weekly Financial Summaries for the Growth of the Fund, Included in Supplement to this report.

¹⁹ See Statistical Information Bulletins Nos. 17 and 19 in Supplement to this report.

Table I

**CONTRIBUTIONS BY EMPLOYERS, BENEFIT PAYMENTS TO THE UNEMPLOYED, AND
BALANCE IN THE UNEMPLOYMENT COMPENSATION FUND, FOR PENNSYLVANIA,
BY MONTH—JANUARY 1937 TO DECEMBER 1940**

Year and Month	Additions to the Fund				Benefits Paid From the Fund		Balance in Fund
	Contributions		Interest		Total		
	Amount	Cumulative Amount	Amount	Cumulative Amount	Amount	Cumulative Amount	
1937							
January	\$ 2,444,534.29	\$ 2,444,534.29	\$.	\$.	\$ 2,444,534.29	\$ 2,444,534.29	\$ 2,444,534.29
February	5,985,205.06	8,429,739.35			5,985,205.06	8,429,739.35	8,429,739.35
March	16,774,312.64	25,204,051.99			16,774,312.64	25,204,051.99	25,204,051.99
1st Quarter	25,204,051.99				25,204,051.99		
April	693,143.05	25,897,195.04			693,143.05	25,897,195.04	25,897,195.04
May	869,016.39	26,766,211.43			869,016.39	26,766,211.43	26,766,211.43
June	12,104,683.96	38,870,895.39	53,583.02	53,583.02	12,158,266.98	38,924,478.41	38,924,478.41
2nd Quarter	13,666,843.40		53,583.02		13,720,426.42		
July	2,850,968.62	41,721,864.01			2,850,968.62	41,775,447.03	41,775,447.03
August	12,414,247.22	54,136,111.23			12,414,247.22	54,189,694.25	54,189,694.25
September	386,710.58	54,522,821.81	170,607.65	224,190.67	557,318.23	54,747,012.48	54,747,012.48
3rd Quarter	15,651,926.42		170,607.65		15,822,534.07		
October	3,300,082.55	57,822,904.36			3,300,082.55	58,047,095.03	58,047,095.03
November	11,390,499.17	69,213,403.53			11,390,499.17	69,437,594.20	69,437,594.20
December	423,602.77	69,637,006.30	291,761.56	515,952.23	715,364.33	70,152,958.53	70,152,958.53
4th Quarter	15,114,184.49		291,761.56		15,405,946.05		
Total 1937	69,637,006.30		515,952.23		70,152,958.53		70,152,958.53
1938							
January	5,136,892.38	74,773,898.68	386,855.47	902,807.70	5,523,747.85	75,676,706.38	38,676,706.38
February	10,269,156.97	85,043,055.65			10,269,156.97	85,945,863.35	81,181,083.70
March	462,488.97	85,505,544.62			462,488.97	86,408,352.32	71,637,010.67
1st Quarter	15,868,538.32		386,855.47		16,255,393.79	14,771,341.65	
April	3,414,320.67	89,319,865.29			3,814,320.67	90,222,672.99	66,855,489.19
May	13,650,592.36	102,970,457.65	435,715.21	1,338,522.91	14,086,307.57	104,308,980.56	75,019,413.86
June	426,850.53	103,397,308.18			426,850.53	104,735,831.09	67,474,984.59
2nd Quarter	17,891,763.56		435,715.21		18,327,478.77	22,489,504.85	

Table I (cont.)

Year and Month	Additions to the Fund				Total		Benefits Paid From the Fund		Balance in Fund
	Contributions		Interest		Amount	Cumulative Amount	Amount	Cumulative Amount	
	Amount	Cumulative Amount	Amount	Cumulative Amount					
1938 Continued									
July	\$ 2,632,094.37	\$106,029,402.55	\$ 413,403.59	\$ 1,751,926.50	\$ 3,045,497.96	\$107,781,329.05	\$ 7,872,129.65	\$ 45,132,976.15	\$ 62,648,352.90
August	14,735,548.44	120,764,950.99			14,735,548.44	122,516,877.49	7,824,527.70	52,957,503.85	69,559,373.64
September	614,816.03	121,379,767.02			614,816.03	123,131,693.52	5,932,465.35	58,889,969.20	64,241,724.32
3rd Quarter	17,382,458.84		413,403.59		18,395,862.43		21,629,122.70		
October	2,959,674.51	124,339,441.53	387,331.77	2,139,258.27	3,347,006.28	126,478,699.80	5,083,340.50	63,973,309.70	62,505,390.10
November	14,481,109.32	138,820,550.85			14,481,109.32	140,959,809.12	3,097,923.35	67,971,233.05	72,988,576.07
December	774,715.62	139,595,266.47			774,715.62	141,734,524.74	3,581,926.00	71,553,159.05	70,181,365.69
4th Quarter	18,215,499.45		387,331.77		18,602,851.22		12,663,189.85		
1939									
January	3,722,512.69	143,317,779.16	396,629.43	2,535,887.70	4,119,142.12	145,853,666.86	4,902,568.05	76,455,727.10	69,397,939.76
February	16,433,825.60	159,751,604.76			16,433,825.60	162,287,492.46	3,062,932.95	79,518,660.05	82,768,832.41
March	510,225.64	160,261,830.40			510,225.64	162,797,718.10	5,199,113.55	84,717,773.60	78,079,944.50
1st Quarter	20,666,563.93		396,629.43		21,063,193.36		13,164,614.55		
April	2,948,207.91	163,210,038.31			2,948,207.91	165,745,926.01	5,041,983.50	89,759,757.10	75,986,168.91
May	15,314,635.80	178,524,674.11	449,666.81	2,985,554.51	15,764,302.61	181,510,228.62	7,201,026.30	96,960,783.40	84,549,445.22
June	400,538.81	178,925,212.92			400,538.81	181,910,767.43	6,479,786.75	103,440,570.15	78,470,197.28
2nd Quarter	18,663,382.52		449,666.81		19,113,049.33		18,722,796.55		
July	3,490,209.42	182,415,422.34	481,771.76	3,467,326.27	3,971,981.18	185,882,748.61	4,808,208.25	108,248,778.40	77,633,970.21
August	15,569,368.69	197,984,791.03			15,569,368.69	201,452,117.30	6,104,732.40	114,353,510.80	87,098,606.50
September	459,020.87	198,443,811.90			459,020.87	201,911,138.17	4,133,980.05	118,487,499.85	83,423,638.32
3rd Quarter	19,518,598.98		481,771.76		20,000,370.74		15,046,929.70		
October	3,666,245.93	202,110,057.83	491,656.09	3,958,982.36	4,157,902.02	206,069,040.19	2,714,320.15	121,201,820.00	84,867,220.19
November	15,310,409.93	217,420,467.76			15,310,409.93	221,379,450.12	2,327,661.20	123,529,481.20	97,849,968.92
December	762,688.45	218,183,156.21			762,688.45	222,142,138.57	2,618,222.45	126,147,703.65	95,994,434.92
4th Quarter	19,739,344.31		491,656.09		20,231,000.40		7,660,203.80		
Total 1939	78,587,889.74		1,819,724.09		80,407,613.83		54,594,544.60		

Table I (cont.)

Year and Month	Additions to the Fund						Benefits Paid From the Fund		Balance in Fund
	Contributions		Interest		Total		Amount	Cumulative Amount	
	Amount	Cumulative Amount	Amount	Cumulative Amount	Amount	Cumulative Amount			
1940									
January	\$ 4,714,722.49	\$222,897,878.70	\$ 545,060.89	\$ 4,504,043.25	\$ 5,259,783.38	\$227,401,921.95	\$ 4,024,506.50	\$130,172,210.15	\$97,229,711.80
February	18,316,256.06	241,214,134.76			8,316,256.06	245,718,178.01	4,017,219.00	134,189,429.15	111,528,748.86
March	425,674.80	241,639,809.56			425,674.80	246,143,852.81	4,207,155.75	138,396,584.90	107,747,267.91
1st Quarter	23,456,653.35		545,060.89		24,001,714.24		12,248,881.25		
April	1,492,759.94	243,132,569.50	628,880.84	5,132,924.09	2,121,640.78	248,265,493.59	4,615,856.80	143,012,441.70	105,253,051.89
May	17,767,638.72	260,900,208.22			17,767,638.72	266,033,132.31	5,304,598.40	148,317,040.10	117,716,092.21
June	476,598.66	261,376,806.88			476,598.66	266,509,730.97	3,909,225.15	152,226,265.25	114,283,465.72
2nd Quarter	19,736,997.32		628,880.84		20,365,878.16		13,829,680.35		
July	3,705,735.22	265,082,542.10	675,627.25	5,808,551.34	4,381,362.47	270,891,093.44	4,474,767.00	156,701,032.25	114,190,061.19
August	15,877,276.85	280,959,818.95			15,877,276.85	286,768,370.29	4,054,669.45	160,755,701.70	126,012,668.59
September	360,484.65	281,320,303.60			360,484.65	287,128,854.94	2,918,355.75	163,674,057.45	123,454,797.49
3rd Quarter	19,943,496.72		675,627.25		20,619,123.97		11,447,792.20		
October	5,104,811.61	286,425,115.21	733,471.29	6,542,022.63	5,838,282.90	292,967,137.84	2,726,743.85	166,400,801.30	126,566,336.54
November	14,502,945.55	300,928,060.76			14,502,945.55	307,470,083.39	1,881,052.48	168,281,853.78	* 133,813,597.89
December	707,018.81	301,635,079.57			707,018.81	308,177,102.20	2,126,648.85	170,408,502.63	† 131,069,600.60
4th Quarter	20,314,775.97		733,471.29		21,048,247.26		6,754,445.18		
Total	83,451,923.36		2,583,040.27		86,034,963.63		44,260,798.98		

* Transferred to Railroad Unemployment Insurance Account \$5,374,631.72.

† Transferred to Railroad Unemployment Insurance Account \$1,324,367.25.

Table II
ESTIMATED CONTRIBUTIONS COLLECTED COMPARED WITH ESTIMATED UNEMPLOYMENT BENEFITS PAID, BY INDUSTRY, FOR SPECIFIED PERIODS THROUGH SEPTEMBER 1940 *

Industry	Contributions July-Dec. 1939	Benefits Jan.-June 1940	Ratio (Percent)	Contributions Oct. 1939- March 1940	Benefits April-Sept. 1940	Ratio (Percent)
<i>Total</i>	\$41,435,000	\$26,079,000	62.9	\$41,652,000	\$25,304,000	60.8
<i>Mining</i>	3,799,000	3,372,000	88.8	3,785,000	5,344,000	141.2
Metal Mining	†	†	†	†	†	†
Total Coal Mining	3,551,000	3,168,000	89.2	3,535,000	5,229,000	147.9
Anthracite Mining	1,511,000	1,960,000	129.7	1,502,000	3,075,000	204.7
Bituminous Mining	2,040,000	1,208,000	59.2	2,033,000	2,154,000	106.0
Petroleum and Natural Gas	166,000	52,000	31.3	167,000	62,000	37.1
Non-Metallic Mining and Quarrying	82,000	152,000	185.4	83,000	53,000	63.9
<i>Construction</i>	1,486,000	3,824,000	257.3	1,483,000	1,633,000	110.1
Building Construction	457,000	1,003,000	219.5	439,000	431,000	98.7
General Contractors	369,000	1,186,000	321.4	397,000	465,000	117.1
Construction-Special Trade	660,000	1,636,000	247.7	647,000	737,000	113.9
<i>Manufacturing</i>	19,946,000	12,836,000	64.4	19,885,000	12,753,000	64.1
Food and Kindred Products	1,530,000	715,000	46.7	1,525,000	658,000	43.1
Tobacco Manufactures	227,000	485,000	213.7	230,000	235,000	102.2
Textile-Mill Products	2,403,000	3,374,000	140.4	2,396,000	3,756,000	156.8
Apparel and Other Products from Fabrics	1,576,000	1,417,000	89.9	1,541,000	1,499,000	97.3
Lumber and Timber Basic Products	82,000	104,000	126.8	83,000	90,000	108.4
Furniture and Finished Lumber Products	395,000	313,000	79.2	394,000	269,000	68.3
Paper and Allied Products	539,000	144,000	26.7	541,000	140,000	25.9
Printing, Publishing and Allied Industries	1,049,000	222,000	21.2	1,089,000	274,000	25.2
Chemicals and Allied Products	605,000	158,000	26.1	580,000	177,000	30.5
Products of Petroleum and Coal	290,000	103,000	35.5	292,000	176,000	26.0
Rubber Products	125,000	52,000	41.6	106,000	39,000	36.8
Leather and Leather Products	414,000	407,000	98.3	417,000	442,000	106.0
Stone, Clay and Glass Products	1,141,000	982,000	86.1	1,125,000	841,000	74.8
Iron and Steel and Their Products	4,983,000	2,996,000	60.1	4,990,000	2,838,000	56.9
Transportation Equipment (except auto.)	458,000	195,000	42.6	455,000	200,000	44.0
Nonferrous Metals and Their Products	520,000	118,000	22.7	519,000	115,000	22.2
Electrical Machinery	1,180,000	316,000	26.8	1,188,000	274,000	23.1
Machinery (except electrical)	1,638,000	304,000	18.6	1,625,000	366,000	22.5
Automobiles and Automobile Equipment	354,000	130,000	36.7	353,000	172,000	48.7
Miscellaneous Manufacturing Industries	437,000	301,000	68.9	436,000	292,000	67.0

Table II (cont.)

Industry	Contributions July-Dec. 1939	Benefits Jan.-June 1940	Ratio (Percent)	Contributions Oct. 1939- March 1940	Benefits April-Sept. 1940	Ratio (Percent)
<i>Transportation, Communication, Other Public Utilities</i>	2,682,000	687,000	25.6	2,699,000	572,000	21.2
Street Railways and Bus Lines	412,000	65,000	15.8	419,000	51,000	12.2
Trucking and/or Warehousing	414,000	259,000	62.6	417,000	216,000	51.8
Other Transportation Except Water Transportation	125,000	64,000	51.2	125,000	39,000	31.2
Water Transportation	41,000	14,000	34.1	42,000	25,000	59.5
Services Allied to Transportation N. E. C.	105,000	38,000	36.2	103,000	37,000	35.9
Communication, Telephone, Telegraph, Related Services	597,000	92,000	15.4	608,000	101,000	16.6
Utilities, Electric and Gas	906,000	129,000	14.2	902,000	78,000	8.6
Local Utilities and Local Public Services	82,000	26,000	31.7	83,000	25,000	30.1
<i>Wholesale and Retail Trade</i>	8,629,000	3,658,000	42.4	8,908,000	3,510,000	39.4
Full Service and Limited Function Wholesalers	1,517,000	443,000	29.2	1,458,000	407,000	27.9
Wholesale Distributors	1,395,000	388,000	27.8	1,311,000	329,000	25.1
Retail General Merchandise	1,307,000	565,000	43.2	1,408,000	584,000	41.5
Retail Food	1,079,000	482,000	44.7	1,336,000	456,000	34.1
Retail Automotive	539,000	143,000	26.5	541,000	127,000	23.5
Retail Apparel and Accessories	414,000	249,000	60.1	436,000	310,000	71.1
Retail Trade N. E. C.	911,000	443,000	48.6	916,000	476,000	52.0
Eating and Drinking Places	495,000	466,000	94.1	522,000	416,000	79.7
Filling Stations, Garages, Auto Repair Service	268,000	169,000	63.1	272,000	152,000	55.9
Other Wholesale and Retail Trade	704,000	310,000	44.0	708,000	253,000	35.7
<i>Finance, Insurance and Real Estate</i>	2,074,000	416,000	20.1	2,060,000	390,000	18.9
Bank and Trust Companies	268,000	54,000	20.1	272,000	64,000	23.3
Security Dealers and Investment Banking	125,000	†	†	125,000	11,000	6.3
Finance Agencies N. E. C.	166,000	26,000	15.7	167,000	25,000	15.0
Insurance Carriers	872,000	92,000	10.6	872,000	113,000	13.0
Insurance Agents and Brokers	105,000	26,000	24.8	83,000	25,000	30.1
Real Estate Dealers, Agents, and Brokers	331,000	192,000	58.0	333,000	127,000	38.1
Real Estate, Insurance, Loans, Law Offices	82,000	26,000	21.7	83,000	25,000	30.1
Holding Companies	125,000	†	†	125,000	†	†
<i>Service Industries</i>	2,045,000	1,147,000	56.1	2,066,000	1,037,000	50.2
Hotels, Rooming Houses, Camps, Other Lodging Houses	227,000	167,000	73.6	231,000	150,000	64.9
Personal Services	476,000	298,000	62.6	480,000	265,000	55.2
Business Services N. E. C.	373,000	117,000	31.4	375,000	113,000	30.1
Employment Agencies, Commercial and Trade School	41,000	†	†	42,000	†	†
Misc. Repair Services and Hand Trade	63,000	26,000	41.3	61,000	25,000	41.0
Motion Pictures	207,000	65,000	31.4	208,000	62,000	29.8
Amusement, Recreation and Related Service	144,000	228,000	158.3	147,000	149,000	101.4
Medical and Other Health Services	82,000	52,000	63.4	83,000	62,000	74.7

Table II (cont.)

Industry	Contributions July-Dec. 1939	Benefits Jan.-June 1940	Ratio (Percent)	Contributions Oct. 1939- March 1940	Benefits April-Sept. 1940	Ratio (Percent)
Law Offices and Related Services	82,000	26,000	31.7	83,000	25,000	30.1
Educational Institutions and Agencies	41,000	†	†	42,000	12,000	28.6
Other Professional and Social Service Agencies	82,000	38,000	46.3	83,000	25,000	30.1
Non-Profit Membership Organizations	227,000	130,000	57.3	231,000	149,000	64.5
<i>Establishments Not Elsewhere Classified</i>	774,000	139,000	18.0	766,000	65,000	8.5

† Benefit payments to employes in this industry comprised such a negligible percentage of the sample that reliable estimation is impossible.

* Sample studies have yielded sufficient data to estimate the industrial distribution of benefits paid to workers during the six-month periods Jan.-June 1940 and April-Sept. 1940. In each case these estimates were related to estimated contributions made during the preceding six-month period. Because of the short periods covered the data should be used with caution. Comparison of these results is not advised due to the overlapping quarters.

Table III
CUMULATIVE COLLECTIONS AND INTEREST, CUMULATIVE BENEFIT PAYMENTS
TO THE UNEMPLOYED AND BALANCES IN UNEMPLOYMENT COMPENSATION
FUNDS, BY STATES AND TERRITORIES, AT THE END OF THE YEARS

1937, 1938, 1939, AND ON JUNE 30, 1940 *

(Amounts in Thousands of Dollars)

State or Territory	December 31, 1937			December 31, 1938			December 31, 1939			June 30, 1940		
	Cum. Contr. and Int.	Cum. Ben. Pay.	Bal. in Fund	Cum. Contr. and Int.	Cum. Ben. Pay.	Bal. in Fund	Cum. Contr. and Int.	Cum. Ben. Pay.	Bal. in Fund	Cum. Contr. and Int.	Cum. Ben. Pay.	Bal. in Fund
Total	\$666,292	\$2,263	\$664,029	\$1,506,556	\$395,931	\$1,110,625	\$2,363,629	\$825,233	\$1,537,797	\$2,816,350	\$1,107,504	\$1,707,046
Alabama	8,838		8,838	15,530	8,128	7,402	24,262	12,413	11,849	29,261	14,823	14,439
Alaska	238		238	885		885	1,454	350	1,104	1,650	634	1,016
Arizona	2,014		2,014	3,839	1,902	1,937	6,048	3,422	2,626	7,161	4,129	3,037
Arkansas	1,890		1,890	5,309		5,309	8,893	1,816	7,077	10,719	3,484	7,235
California	67,173		67,173	131,352	23,715	107,637	211,823	62,262	149,561	251,450	97,350	154,099
Colorado	4,717		4,717	8,944		8,944	14,225	3,485	10,760	16,776	5,960	10,815
Connecticut	15,304		15,304	28,520	12,254	16,266	45,750	17,380	27,771	35,579	20,717	34,080
Delaware	1,077		1,077	3,915		3,915	6,421	711	5,710	7,744	1,240	6,507
Dist. of Columbia	5,894		5,894	12,455	1,672	10,788	19,546	3,096	16,450	23,445	4,131	19,314
Florida	2,969		2,969	9,871		9,871	16,652	3,503	13,149	20,272	6,028	14,245
Georgia	4,481		4,481	15,502		15,502	23,950	3,238	20,712	28,713	5,412	23,302
Hawaii	944		944	3,248		3,249	5,200	286	4,914	6,205	465	5,740
Idaho	1,873		1,873	3,577	366	3,211	5,643	2,559	3,094	6,607	4,009	2,598
Illinois	18		18	117,940		117,940	189,827	16,783	173,044	228,083	40,852	187,231
Indiana	22,558		22,558	39,165	16,309	22,856	60,752	26,525	35,227	71,742	31,955	39,787
Iowa	7,169		7,169	11,032	2,586	11,448	22,514	7,809	14,705	26,605	10,381	16,225
Kansas	3,587		3,587	10,181		10,181	15,915	2,288	13,627	18,405	3,543	14,862
Kentucky	9,590		9,590	18,936		18,936	30,574	4,863	25,711	36,272	7,325	28,947
Louisiana	7,652		7,652	16,811	4,007	12,804	26,961	9,941	17,020	32,132	13,170	18,962
Maine	3,759		3,759	6,992	4,536	2,456	11,151	7,563	3,588	13,251	9,480	3,771
Maryland	9,057		9,057	10,414	10,144	9,270	31,817	15,891	15,926	38,409	19,700	18,710
Massachusetts	41,775		41,775	78,829	27,099	51,730	118,120	46,749	71,371	138,921	62,543	76,378
Michigan	43,488		43,488	77,626	39,903	37,723	123,824	77,017	46,807	149,607	88,574	61,033
Minnesota	11,924		11,924	24,289	8,161	16,128	39,031	15,759	23,272	45,939	22,146	23,791
Mississippi	2,350		2,350	4,761	1,414	3,347	7,055	2,858	4,197	8,399	4,056	4,343
Missouri				34,036		34,036	54,844	5,461	49,183	65,335	9,329	56,005
Montana	1,848		1,848	4,772		4,772	7,663	765	6,898	9,065	2,955	6,110
Nebraska	1,941		1,941	7,082		7,082	11,207	1,304	9,903	12,891	2,468	10,422
Nevada	573		573	1,528		1,528	2,515	815	1,700	2,982	1,488	1,493

Table III (cont.)

State or Territory	December 31, 1937			December 31, 1938			December 31, 1939			June 30, 1940		
	Cum. Contr. and Int.	Cum. Ben. Pay.	Bal. in Fund	Cum. Contr. and Int.	Cum. Ben. Pay.	Bal. in Fund	Cum. Contr. and Int.	Cum. Ben. Pay.	Bal. in Fund	Cum. Contr. and Int.	Cum. Ben. Pay.	Bal. in Fund
New Hampshire	4,247		4,247	7,082	2,732	4,350	10,044	4,281	5,763	11,417	5,734	5,683
New Jersey	30,049		30,049	66,691		66,691	114,453	14,906	99,547	139,908	14,161	115,748
New Mexico	1,289		1,289	2,481	9	2,472	3,974	1,235	2,739	4,701	1,846	2,854
New York	98,363		98,363	226,291	87,331	138,960	346,324	167,350	178,974	413,121	217,128	195,993
North Carolina	9,413		9,413	19,411	8,216	11,195	30,901	12,611	18,290	36,841	14,907	21,935
North Dakota	598		598	1,897		1,897	2,935	545	2,390	3,380	965	2,415
Ohio	51,974		51,974	97,884		97,884	156,149	23,662	132,487	187,843	38,544	149,298
Oklahoma	6,442		6,442	13,273	71	13,202	19,190	4,312	14,878	22,593	6,449	16,145
Oregon	5,855		5,855	11,996	5,916	6,080	17,825	9,969	7,856	21,124	12,779	8,345
Pennsylvania	70,540		70,540	142,130	71,545	70,585	222,688	126,148	96,538	267,184	152,225	114,958
Rhode Island	7,939		7,939	16,253	9,293	6,960	24,620	15,039	9,581	29,779	20,233	9,548
South Carolina	4,276		4,276	8,457	595	7,862	12,522	2,739	9,782	14,927	3,987	10,249
South Dakota	1,020		1,020	1,977		1,977	3,160	394	2,768	3,740	627	3,113
Tennessee	7,776		7,776	14,721	6,144	8,577	23,686	10,723	12,963	28,154	13,921	14,233
Texas	19,753		19,753	42,127	9,344	32,783	65,638	20,051	45,587	77,208	25,413	51,795
Utah	2,560		2,560	4,702	2,461	2,241	7,456	4,156	3,300	8,840	4,989	3,852
Vermont	1,412		1,412	2,863	822	2,041	4,447	1,396	3,051	5,047	2,017	2,703
Virginia	8,367		8,367	16,889	5,636	11,253	27,331	10,124	17,207	32,553	13,285	19,288
Washington	6,192		6,192	18,691		18,881	28,318	6,148	22,172	33,890	12,150	21,740
West Virginia	10,200		10,200	19,282	12,065	7,217	29,472	16,276	13,194	34,712	18,155	16,557
Wisconsin	32,430	2,263	30,167	49,515	11,555	37,960	65,203	15,122	50,081	71,315	17,648	53,667
Wyoming	896		896	2,401		2,401	3,858	1,154	2,704	4,453	2,018	2,434

* Based on totals published by the Social Security Board. Fund balances for Connecticut on December 31, 1939 and June 30, 1940 do not include funds transferred to the Railroad Unemployment Compensation Account. Similar adjustments have been made for the June 30, 1940 balances reported for South Carolina and Vermont.

Table IV
EMPLOYMENT FLUCTUATIONS IN MAJOR PENNSYLVANIA MANUFACTURING
INDUSTRIES DURING THE PAST SEVEN YEARS
1933 to December 1940 Inclusive
(Base: 1923-25 = 100)

Industry	Highest Monthly Index of Employment	Lowest Monthly Index of Employment	Percent Decrease from High to Low
All Manufacturing	92.3	58.1	34.2
Iron and Steel	92.6	41.0	50.7
Blast Furnaces	62.4	29.0	33.4
Steel Works and Rolling Mills	88.1	40.0	48.1
Iron and Steel Forgings	96.7	31.9	64.8
Structural Iron and Steel	119.9	54.5	65.4
Heating and Plumbing Supplies	101.5	43.3	58.2
Stoves and Furnaces	101.0	50.1	50.9
Foundries	95.4	40.1	55.3
Machinery and Parts	95.7	41.2	54.5
Electrical Apparatus	109.5	42.4	67.1
Engines and Pumps	160.0	43.4	116.6
Hardware and Tools	114.0	48.3	65.7
Non-ferrous Metal Products	140.9	65.3	75.6
Brass and Bronze	187.9	50.5	137.4
Smelting and Refining	137.2	63.7	73.5
Stamped Enamel and Painted Ware	55.7	7.7	48.0
Jewelry and Novelties	174.6	37.1	137.5
Other	151.6	90.1	61.5
Transportation Equipment	73.1	43.6	29.5
Autos and Motor Trucks	148.3	55.4	92.9
Auto and Truck Bodies and Parts	121.1	24.3	96.8
Locomotives and Cars	49.3	14.4	34.9
R. R. Repair Shops	71.9	51.0	20.9
Shipbuilding	145.2	30.1	115.1
Textiles and Clothing	109.8	81.2	28.6
Textiles	104.8	72.0	32.8
Cotton Goods	84.5	44.0	40.5
Woolen and Worsted Goods	94.7	47.7	47.0
Silk Manufacturing	116.6	67.3	49.3
Textile Dyeing and Finishing	94.0	57.7	36.3
Carpets and Rugs	71.8	32.0	39.8
Hats	97.6	56.7	40.9
Hosiery	150.2	73.5	76.7
Knit Goods, Other	131.6	81.7	49.9
Millinery and Lace Goods	90.4	56.1	34.3
Clothing	131.8	94.8	37.0
Men's	100.8	65.1	35.7
Women's	176.6	113.0	63.6
Shirts and Furnishings	172.0	78.3	93.7

Table IV (cont.)

Industry	Highest Monthly Index of Employment	Lowest Monthly Index of Employment	Percent Decrease from High to Low
Food Products	115.0	79.8	35.2
Bread and Bakery Products	116.0	94.7	21.3
Confectionery	130.0	66.9	63.1
Ice Cream	83.0	46.1	36.9
Slaughtering and Meat Packing	133.4	84.0	49.4
Butter and Creamery Products	175.4	94.4	81.0
Beverages	149.8	41.3	108.5
Flour	100.6	62.5	38.1
Canning	146.2	57.9	88.3
Stone, Clay, and Glass	92.3	46.6	45.7
Brick, Tile	65.8	30.0	35.8
Pottery	137.9	77.1	60.8
Cement	59.0	27.6	31.4
Glass	124.5	62.2	62.3
Marble, Granite, and Slate	88.1	23.3	64.8
Asbestos and Magnesia	155.2	103.3	51.9
Lumber Products	112.8	40.5	72.3
Lumber and Planing Mills	60.3	32.2	28.1
Furniture	97.2	39.5	57.7
Wooden Boxes	58.7	42.6	16.1
Chemicals and Products	100.6	66.4	34.2
Chemicals	136.2	68.3	67.9
Drugs	114.2	59.0	45.2
Coke	67.4	30.2	37.2
Explosives	138.2	54.7	83.5
Paints and Varnishes	136.7	77.6	59.1
Petroleum Refining	128.8	85.1	43.7
Leather and Products	99.2	73.2	26.0
Leather Tanning	107.3	67.2	40.1
Shoes	105.2	79.9	25.3
Leather Goods	87.3	30.4	56.9
Paper and Printing	101.3	77.7	23.6
Paper and Wood Pulp	119.0	74.6	44.4
Paper Containers	119.3	75.5	43.8
Printing	94.7	78.5	16.2
Book and Job	95.2	74.2	21.0
Newspaper and Periodical	97.3	82.5	14.8
Other Manufactures			
Cigars and Tobacco	73.5	43.4	30.1
Rubber Tires and Goods	94.4	60.0	34.4
Musical Instruments	73.9	32.1	41.8

Table V

**EMPLOYMENT FLUCTUATIONS IN MAJOR PENNSYLVANIA NON-MANUFACTURING
INDUSTRIES DURING THE PAST SEVEN YEARS**
1933 to December 1940 Inclusive
(Base: 1933—100)

Industry	Highest Monthly Index of Employment	Lowest Monthly Index of Employment	Percent Decrease from High to Low
All Non-manufacturing	115.5	82.2	28.8
Anthracite Mining	130.7	60.1	54.0
Bituminous Mining	132.5	83.7	36.0
Quarrying	136.4	63.9	53.2
Crude Petroleum Producing	154.3	75.6	51.0
Construction & Contracting	115.9	44.2	61.9
Street, Railway, Bus & Taxi	110.5	90.3	18.3
Motor Freight, Dock, & Warehouse	123.7	81.4	34.2
Telephone, Telegraph, & Broadcasting	110.5	85.6	22.5
Light, Heat, & Power	123.2	96.3	21.8
Retail Trade	143.3	86.0	40.0
Wholesale Trade	124.6	96.3	22.7
Banking & Brokerage	107.6	98.0	8.9
Insurance & Real Estate	111.7	99.3	11.1
Dyeing & Cleaning	115.2	79.3	31.2
Laundries	118.3	96.8	18.2
Hotels	120.8	96.7	20.0

Source: Philadelphia Federal Reserve Bank and Department of Labor and Industry

Table VI
**WISCONSIN EXPERIENCE-RATING ACCOUNTS CLASSIFIED BY
 1940 CONTRIBUTION RATES AND INDUSTRY ***

Industry	Number of Experience Rating Accounts		Experience-Rating Accounts With Specified Rate									
			Zero		1.0%		2.7%		3.2%		3.7%	
			No.	%	No.	%	No.	%	No.	%	No.	%
<i>All Industries</i>	8,121†	903	11.1	4,009	49.4	2,603	32.0	381	4.7	225	2.8	
<i>Agriculture, Forestry, & Fishing</i>	35	2	5.7	12	34.3	14	40.0	3	8.6	4	11.4	
<i>Mining</i>	58	5	8.6	15	25.9	23	39.7	4	6.9	11	18.9	
Metal Mining	4			2	50.0			1	25.0	1	25.0	
Non-metallic Mines & Quarries	54	5	9.2	13	24.0	23	42.5	3	5.6	10	18.7	
<i>Construction</i>	746	54	7.2	124	16.6	376	50.4	150	20.2	42	5.6	
Building Construction	212	13	6.1	30	14.1	120	56.6	44	20.8	5	2.4	
General Contracting Other Than Building	225	21	9.4	9	3.9	85	37.7	83	36.9	27	12.1	
Special Trade Contractors	309	20	6.5	85	27.5	171	55.3	23	7.5	10	3.2	
<i>Manufacturing</i>	2,183	184	8.4	1,028	47.1	800	36.6	81	3.7	90	4.1	
Food & Kindred Products	511	49	9.6	301	59.0	131	25.6	12	2.3	18	3.5	
Tobacco Manufacture	12	1	8.3	8	66.7	3	25.0					
Textile Mill Products	57	7	12.3	14	24.6	23	40.4	5	8.8	8	14.0	
Apparel & Other Fabric Products	63	4	6.3	17	27.0	16	25.4	8	12.7	18	28.6	
Lumber & Basic Timber Products	137	10	7.3	52	38.0	60	43.7	5	3.7	10	7.3	
Furniture & Allied Products	159	12	7.5	66	41.5	67	42.1	8	5.0	6	3.8	
Paper & Allied Products	96	11	11.5	70	72.9	12	12.5	2	2.1	1	1.0	
Printing & Publishing	232	33	14.2	151	65.1	48	20.7					
Chemicals & Allied Products	68	10	14.7	38	55.9	18	26.4	1	1.5	1	1.5	
Products of Petroleum & Coal	7			5	71.4	2	28.6					
Rubber Products	6			3	50.0	2	33.3			1	16.6	
Leather & Leather Products	95	12	12.6	30	31.6	40	42.1	8	8.4	5	5.3	
Stone, Clay, & Glass Products	64	6	9.4	21	32.8	26	40.6	6	9.4	5	7.8	
Iron, Steel, & Their Products	201	9	4.5	62	30.8	120	59.7	8	4.0	2	1.0	
Transportation Equip. (except Automobiles)	22	2	9.1	3	13.6	12	54.5	1	4.5	4	18.2	
Non-ferrous Metals & Their Products	60	4	6.7	26	43.3	29	48.3	1	1.7			
Electrical Machinery	47	2	4.3	14	29.8	28	59.6	1	2.1	2	4.2	
Machinery, except Electrical	233	9	3.9	107	45.9	106	45.5	8	3.4	3	1.3	
Automobiles & Auto. Equipment	33	2	6.0	5	15.2	18	54.5	5	15.2	3	9.1	
Miscellaneous	80	1	1.2	35	43.8	39	48.8	2	2.5	3	3.7	
<i>Transportation, Communications, & Utilities</i>	327	43	13.1	164	50.2	106	32.4	5	1.5	9	2.8	
Street & Suburban Railroads	8	3	37.5	5	62.5							
Trucking & Warehousing	157	16	10.2	67	42.7	67	42.7	4	2.5	3	1.9	

57

Table VI (cont.)

Industry	Experience Number of Rating Accounts		Experience-Rating Accounts With Specified Rate									
			Zero		1.0%		2.7%		3.2%		3.7%	
			No.	%	No.	%	No.	%	No.	%	No.	%
Other Transportation, except Water	26	6	23.1	8	30.8	11	42.3	1	3.8			
Water Transportation	5					3	60.0			2	40.0	
Allied Services, N. E. C.	24	2	8.3	12	50.0	6	25.0			4	16.7	
Communication	66	11	16.7	44	66.6	11	16.7					
Electric & Gas Utilities	36	4	11.1	24	66.7	8	22.2					
Other, N. E. C.	5	1	20.0	4	80.0							
<i>Wholesale and Retail Trade</i>	<i>3,237</i>	<i>418</i>	<i>12.9</i>	<i>1,846</i>	<i>57.0</i>	<i>903</i>	<i>27.9</i>	<i>53</i>	<i>1.6</i>	<i>17</i>	<i>0.5</i>	
Full-Service & Limited Function Wholesalers	551	65	11.8	342	62.1	135	24.5	6	1.1	3	0.5	
Wholesale Distributors, Other	347	39	11.2	190	54.8	102	29.4	10	2.9	6	1.7	
Retail General Merchandise	212	44	20.8	132	62.3	35	16.5	1	0.4			
Retail Food & Beverage	320	63	19.7	173	54.1	81	25.3	3	0.9			
Retail Automotive	338	38	11.2	209	61.8	90	26.6	1	0.3			
Retail Apparel	294	28	9.5	156	53.1	100	34.0	8	2.7	2	0.7	
Retail Trade, N. E. C.	487	56	11.5	265	54.4	160	32.9	2	0.4	4	0.8	
Eating & Drinking Places	285	31	10.9	141	49.5	97	34.0	16	5.6			
Filling Stations, Garages, & Auto Repair	90	20	22.2	39	43.3	27	30.0	4	4.4			
Other Wholesale & Retail Trade	313	34	10.9	199	63.6	76	24.3	2	0.6	2	0.6	
<i>Finance, Insurance, & Real Estate</i>	<i>499</i>	<i>66</i>	<i>13.2</i>	<i>328</i>	<i>65.7</i>	<i>93</i>	<i>18.6</i>	<i>7</i>	<i>1.4</i>	<i>5</i>	<i>1.0</i>	
Banks & Trust Companies	169	22	13.0	132	78.1	15	8.9					
Security Dealers & Investment Banking	29	4	13.8	14	48.3	11	37.9					
Finance Agencies, N. E. C.	59	8	13.6	36	61.0	15	25.4					
Insurance Carriers	75	4	5.3	57	76.0	13	17.3	1	1.3			
Insurance Agents	29	3	10.3	22	75.9	4	13.8					
Real Estate Dealers	111	20	18.0	51	45.9	29	26.1	6	5.4	5	4.5	
Real Estate, Insurance, Etc., (Combination)	26	5	19.2	15	57.7	6	23.1					
Holding Companies	1			1	100.0							
<i>Service Industries</i>	<i>1,024</i>	<i>129</i>	<i>12.6</i>	<i>485</i>	<i>47.4</i>	<i>285</i>	<i>27.8</i>	<i>78</i>	<i>7.6</i>	<i>47</i>	<i>4.6</i>	
Hotels, Lodging Houses, Etc.	174	22	12.6	88	50.6	53	30.5	6	3.4	5	2.9	
Personal Services	226	43	19.0	133	58.8	44	19.5	4	1.8	2	0.9	
Business Service, N. E. C.	123	15	12.2	78	63.4	28	22.8	2	1.6			
Employment Agencies, & Trade Schools	6	1	16.7	1	16.7	4	66.6					
Miscellaneous Repair	9	3	33.3	2	22.2	4	44.4					
Motion Pictures	98	11	11.2	65	66.3	22	22.5					
Amusement Places, N. E. C.	139	7	5.0	22	15.8	54	38.8	32	23.0	24	17.3	
Medical & Other Health Services	41	7	17.1	28	68.3	6	14.6					
Law Offices & Related Service	20	1	5.0	18	90.0	1	5.0					
Educational Institutions & Agencies	6			3	50.0	3	50.0					
Other Professional & Social Service Agencies	7	2	28.6			5	71.4					

Table VI (cont.)

Industry	Number of Experience Rating Accounts		Experience-Rating Accounts With Specified Rate									
			Zero		1.0%		2.7%		3.2%		3.7%	
			No.	%	No.	%	No.	%	No.	%	No.	%
Non-profit Membership Associations	73	4	5.5	33	45.2	32	43.8	4	5.5	.....	.....
Regular Government Agencies	102	13	12.7	14	13.7	29	28.4	30	29.4	16	15.7	
<i>Other N. E. C.</i>	9	.....	.....	7	77.8	2	22.2	.....	.....	.....	.....
<i>Unclassified</i>	3	2	66.7	.....	.....	1	33.3	.....	.....	.....	.....

* Based on reports to Social Security Board.

† Not all covered employers. Excludes 3,600 employers who were not eligible for rate changes.

Table VII
NEBRASKA EXPERIENCE-RATING ACCOUNTS CLASSIFIED BY
1940 CONTRIBUTION RATES AND INDUSTRY *

Industry	Number of Experience Rating Accounts	Experience-Rating Accounts With Specified Rate									
		1.0%		1.5%		2.0%		2.5%		2.7%	
		No.	%	No.	%	No.	%	No.	%	No.	%
<i>All Industries</i>	3,333 ¹	903	27.1	80	2.4	39	1.2	24	0.7	2,287	68.6
<i>Agriculture, Forestry, & Fishing</i>	13	1	7.7							12	92.3
<i>Mining</i>	21	3	14.3					1	4.8	17	80.9
Crude Petroleum & Natural Gas	3	2	66.7							1	33.3
Non-metallic Mining & Quarrying	18	1	5.6					1	5.6	16	88.8
<i>Construction</i>	252	20	7.9	4	1.6	1	0.4	2	0.8	225	89.3
Building Construction	78	7	9.0	1	1.3					70	89.7
General Contractors Other Than Building	109	9	8.3					2	1.8	98	89.9
Special Trade Contractors	65	4	6.2	3	4.6	1	1.5			57	87.7
<i>Manufacturing</i>	470	121	25.7	17	3.6	8	1.7	3	0.6	321	68.3
Food and Kindred Products	186	34	18.3	13	7.0	3	1.6	3	1.6	133	71.5
Apparel & Other Fabric Products	15	3	20.0							12	80.0
Lumber & Timber Basic Products	8	4	50.0			1	12.5			3	37.5
Furniture & Allied Products	24	5	20.8							19	79.2
Paper & Allied Products	6	3	50.0							3	50.0
Printing and Publishing	85	16	54.1	2	2.4	2	2.4			35	41.1
Chemicals & Allied Products	31	9	29.0							22	71.0
Products of Petroleum & Coal	2									2	100.0
Rubber Products	1									1	100.0
Leather & Leather Products	5	3	60.0							2	40.0
Stone, Clay, & Glass Products	29	2	6.9	1	3.4					26	89.7
Iron & Steel, & Their Products	18	4	22.2			1	5.6			13	72.2
Transportation Equip't. (Except Automobiles)	2									2	100.0
Non-Ferrous Metals & Their Products	12	1	8.3							11	91.7
Electrical Machinery	6	2	33.3							4	66.7
Machinery (Except Electrical)	18	3	16.6	1	5.6	1	5.6			13	72.2
Automobiles and Automobile Equipment	2									2	100.0
Miscellaneous Manufacturing Industries	20	2	10.0							18	90.0
<i>Transportation, Communication, and Utilities</i>	168	36	21.4	4	2.4	3	1.8	1	0.6	124	73.8
Street, Suburban, & Interurban Railways (other than Interstate Railroads)	3	2	66.7							1	33.3
Trucking and/or Warehousing for Hire	75	3	4.0	2	2.7	1	1.3			69	92.0
Other Transportation, except water	20	3	15.0	1	5.9			1	5.0	15	75.0
Services Allied to Transportation N. E. C.	13	2	15.4							11	84.6

69

Table VII (cont.)

Industry	Number of Experience Rating Accounts		Experience-Rating Accounts With Specified Rate									
			1.0%		1.5%		2.0%		2.5%		2.7%	
			No.	%	No.	%	No.	%	No.	%	No.	%
Communication: Telephone, Telegraph & Related Services	33	18	54.5	1	3.0						14	42.4
Utilities: Electric & Gas	19	8	42.1								11	57.9
Local Utilities & Local Public Services, N. E. C.	5					2	40.0				3	60.0
<i>Wholesale & Retail Trade</i>	1,751	513	29.3	44	2.5	21	1.2	14	0.8	1,159	66.2	
Full Service & Limited Function Wholesalers	222	81	36.5	8	3.6	7	3.1	1	0.5	125	56.3	
Wholesale Distributors, other than full-service & Limited Function Wholesalers	462	134		8		8		2		310		
Retail General Merchandise	93	34	36.6	3	3.2			2	2.2	54	58.0	
Retail Food (includes liquor store)	115	18	15.7	3	2.6	1	0.9	2	1.7	91	79.1	
Retail Automotive	153	41	26.8	10	6.5			1	0.7	101	66.0	
Retail Apparel and Accessories	101	30	29.7	2	2.0	1	1.0	1	1.0	67	66.3	
Retail Trade, N. E. C.	164	52	31.7	3	1.8	1	0.6	1	0.6	107	65.2	
Eating and Drinking Places	129	14	10.9			1	0.8	1	0.8	113	87.5	
Filling Stations, Garages and Automobile Repair Services	90	24	26.7	3	3.3	1	1.1			62	68.9	
Other Wholesale & Retail Trade	222	85	38.3	4	1.8	1	0.5	3	1.3	129	58.1	
<i>Finance, Insurance & Real Estate</i>	265	118	44.5	2	0.8					145	54.7	
Banks and Trust Companies	13	7	53.8							6	46.2	
Security Dealers & Investment Banking	22	13	59.1	1	4.5					8	36.4	
Finance Agencies, N. E. C.	37	17	45.9							20	54.1	
Insurance Carriers	90	54	60.0	1	1.1					35	38.9	
Insurance Agents & Brokers	32	7	21.9							25	78.1	
Real Estate Dealers, Agents and Brokers	52	11	21.2							41	78.8	
Real Estate, Insurance, Loans, Law Offices: any combination	17	9	52.9							8	47.1	
Holding Companies (except Real Estate Holding Companies)	2									2	100.0	
<i>Service</i>	393	91	23.2	9	2.3	6	1.5	3	0.8	284	72.3	
Hotels, Rooming Houses, Camps and Other Lodging Places	77	7	9.1			2	2.6	1	1.3	67	87.0	
Personal Services	101	30	29.7	5	5.0	1	1.0	1	1.0	64	63.3	
Business Services, N.E.C.	59	20	33.9							39	66.1	
Employment Agencies, Commercial and Trade Schools	9	3	33.3							6	66.7	
Miscellaneous Repair Services and Hand Trades	13	3	23.1			1	7.7			9	69.2	
Motion Pictures	45	14	31.1	3	6.7			1	2.2	27	60.0	
Amusement and Recreation, and Related Services, N.E.C.	46	3	6.5	1	2.2	1	2.2			41	89.1	
Medical and Other Health Services	22	6	27.3			1	4.5			15	68.2	
Law Offices and Related Services	1	1	100.0									
Other Professional and Social Service Agencies and Institutions	6	3	50.0							3	50.0	
Non-Profit Membership Organizations	14	1	7.1							13	92.9	

* Based on reports to Social Security Board.

† Does not include all covered employers. On January 1, 1940 there were 3,410 employers. Some of them, however had not been covered long enough to qualify.