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COMMITTEE PRINT

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

MATERIAL RELATING TO ADMINISTRATION PROPOSAL ENTITLED

"JOB SECURITY ASSISTANCE ACT"

INCLUDING

Message from the President, and Text of Proposed Bill and Other Material Transmitted to the Congress by the Department of Labor and Referred to the Committee on Ways and Means

ON

MAY 8, 1973

NOTE: This material is printed for information only so as to make it generally available, and is not to be construed as the statement or position of the Committee on Ways and Means or any member thereof.

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MESSAGE FROM THE PRESIDENT

To the Congress of the United States:

Difficult as it may be to live by the old saw, a sunny day remains the best time to fix a leaky roof. That is why today—with civilian employment in the American economy at an all-time record high of 83.9 million workers, with a solid business expansion continuing, and with the rate of unemployment down to 5 percent and likely to decline still further this year—I am requesting prompt action by the Congress on several reforms in our unemployment insurance system.

The principles behind my proposals were originally advanced as part of my unemployment insurance package almost four years ago. Most of that package became law in August, 1970, when I signed the far-reaching Employment Security Amendments of 1970. At that time coverage was extended to some 6 million jobs which had never before been eligible for unemployment insurance; a much-needed provision for extended benefits triggered automatically at high unemployment levels was added to the system; and basic financial and administrative improvements were effected. In all, these were the most significant improvements ever made in our system of assistance for persons between jobs since that system was established in 1935.

Left unfulfilled in the 1970 legislation, however, were several important objectives on this Administration's agenda for working Americans. The Job Security Assistance Act of 1973, which we are proposing to the Congress today would meet those objectives by making three major changes in our unemployment insurance system:

—First, it would establish minimum benefit standards for the States, providing an adequate level of benefits to all workers who are covered by the system.

—It would also extend coverage for the first time to most farm employees.

—Finally, it would set up strong safeguards to preserve the neutrality of the unemployment insurance system during industrial disputes.

GUARANTEEING AN ADEQUATE LEVEL OF BENEFITS

A properly designed system of unemployment insurance should serve a dual purpose—both helping to tide individual workers financially over the periods when they are without a job, and stabilizing the economy as a whole by helping make up for wage losses which would otherwise cut consumer purchasing power and accelerate business downturns.

But effective performance of both of these functions depends on the provision of benefits which are adequate in relation to a worker's usual weekly wage. It is generally accepted that unemployment benefits are

inadequate unless they are equal to at least half what workers would be earning if employed. Otherwise, families relying on the benefits will too often be unable to meet their basic, nondeferrable living expenses, and communities hit by unemployment will find that aggregate benefits are too little to have a significant counter-recessionary impact.

Under present Federal law, the setting of formulas to determine minimum and maximum benefit levels is largely the province of the individual States. On paper, most States do promise the unemployed worker a benefit equal to one-half his usual weekly wage. But many of them also place unrealistically low ceilings on maximum benefit amounts, rendering the guarantee meaningless for a large percentage of workers, especially family breadwinners. In fact, more than two-fifths of all workers now covered by the unemployment insurance system find their benefits limited by State ceilings at a level *below* the half-pay ostensibly guaranteed them.

In my July, 1969, unemployment insurance reform proposals to the Congress, I asked for action by the States themselves to remedy this serious deficiency. I suggested that the maximum benefit ceiling in each State be raised to at least two-thirds of the average wage of that State's covered workers. The goal was to provide at least four-fifths of the Nation's insured work force half-pay or better when unemployed.

While many States responded in part to this request, only four States, whose workers comprise less than 3 percent of the national covered work force, actually established the standard I had recommended. However, States comprising more than three-fifths of the national covered work force still have weekly benefit ceilings that are less than half their average weekly wage levels. Without denigrating the good-faith efforts of numerous legislatures to liberalize the benefit structure, we simply cannot be content with this situation any longer. The time has come for Federal action.

My proposed Job Security Assistance Act would therefore amend the Federal Unemployment Tax Act by adding a provision that every eligible insured worker, when unemployed, must be paid a benefit equal to at least 50 percent of his average weekly wage, up to a State maximum which shall be at least two-thirds of the average weekly wage of covered workers in the State.

The decentralization of our national unemployment insurance system is one of its greatest strengths. This decentralization permits more flexible adjustment to local needs and circumstances, and I believe that it should be preserved. I also believe, however, that the States have a responsibility to adhere to the basic principles of the system, and that it is up to the Federal Government to furnish such standards and guidelines as may be necessary to protect those principles. That is why I am now submitting to the Congress the same benefit reform recommendation that I urged the States to adopt in 1969.

Estimates indicate that this new requirement would result in an average increase of 15 percent in costs to State pooled unemployment insurance funds, which would, in turn, affect the costs of employers whose taxes support our unemployment compensation programs. To put this increase in perspective, however, we should note that unem-

ployment insurance is one of the least expensive of all fringe benefits related to employment—accounting for less than a penny in each payroll dollar. Considering the enormous importance of this protection to unemployed workers and to economic stability in general, the relatively small cost of keeping it adequate and up to date is a very sound investment.

When the new Federal benefit standard goes into effect, our unemployment insurance system would begin delivering on its promise to working Americans in a way it has never delivered before. The special programs which in the past have substituted for inadequate State unemployment benefit payments—such as the special allowances provided under the Trade Expansion Act of 1962 for workers who lose their jobs because of foreign imports—would become unnecessary as unemployment benefits are raised to fairer levels.

Upon passage of the unemployment insurance reforms proposed today and of the trade proposals which I outlined to the Congress earlier this week, trade adjustment assistance would be gradually phased out and replaced with a temporary program of Federal supplements to bring up to an adequate level the State unemployment benefits for workers displaced by import trade. When State unemployment payments come up to the half-pay minimum I am seeking, the Federal supplement payments would be discontinued, since all workers would then be eligible under the liberalized State laws for benefits that are reasonably adequate in amount. Some would even be eligible for larger weekly benefits than they can now receive under the Trade Expansion Act adjustment assistance program.

The Job Security Assistance Act would thus make unemployment insurance protection more equitable for everyone, by assisting all workers evenhandedly regardless of the reason for their loss of job. Unemployment is just as costly to an individual and his family whether it results from trade, environmental constraints, fluctuations in government procurement, declines in business activity, or any other cause. The effect of my proposals would be to remove arbitrary distinctions among such causes in protecting workers who are involuntarily out of work.

UNEMPLOYMENT PROTECTION FOR THE FARMWORKER

Agriculture is America's oldest and largest industry—and increasingly it truly is an industry, not just an individual enterprise. A growing percentage of the people engaged in farming no longer are their own bosses but work as someone else's employees. Most of these employees earn relatively low wages, have only precarious job security, and have no termination pay coming if they are laid off. Many are members of disadvantaged minority groups.

For all of these reasons, I consider it of urgent importance that we act at once to extend unemployment insurance coverage to as many agricultural employees as can feasibly be accommodated in the system.

Farmworkers were originally denied unemployment insurance protection on the ground that it was not administratively feasible to cover many thousands of family-operated farms which kept no pay-

roll records. This objection has since been disproved, however, by the successful extension of income and Social Security taxes to a large number of such enterprises.

In 1970 the Congress postponed action on my recommendations for extending coverage to agricultural labor, directing instead that a study be made on the question. The study was undertaken by the Department of Labor in cooperation with land-grant universities and State employment security agencies, and the results are now in. They conclusively demonstrate the administrative and financial feasibility of extending unemployment insurance coverage to approximately 66,000 agricultural enterprises employing some 635,000 agricultural workers.

Accordingly, the Job Security Assistance Act which I am recommending to the Congress would modify the present agricultural labor exclusion provisions of the Federal Unemployment Tax Act, bringing under the unemployment system any farm operator who employs four or more workers in each of 20 weeks in a calendar year or who pays wages for agricultural labor of at least $5,000 in a calendar quarter. The change would take effect on January 1, 1975, thus allowing State legislatures time to make necessary adjustments in their unemployment compensation laws.

The criterion of payroll size was not included in my 1969 farm coverage proposal. Adding this test strengthens the bill by substantially increasing the number of farm jobs affected. The new bill also includes safeguards to help ensure that migrant workers—who especially need unemployment protection—will not be disqualified because of the special problems associated with record-keeping and tax collection in migrant employment.

The coverage definition I am proposing would provide needed protection to the employees of larger agricultural businesses without needlessly adding to the difficulties of small farm operations. It would achieve coverage for about two-thirds of all hired farm workers while affecting fewer than one in 14 farm employers.

In most States, coverage of the larger agricultural enterprises would be self-financing, with the contributions of these concerns meeting the full cost of benefit payments to their workers who become unemployed. Net increases in benefit costs to State pooled funds should be zero in most cases and negligible in all but two States. Even in these two instances, the net increases would amount to only 20 cents or less per $100 of taxable wages.

I know that many in the Congress share my concern that agricultural employees are too frequently excluded from the rights and protections afforded to workers in other industries, and I hope for prompt Congressional approval of this proposal so that we can begin rectifying the injustice. We cannot in good conscience defer this action any longer.

MAINTAINING NEUTRALITY IN INDUSTRIAL DISPUTES

As we move to establish a uniform Federal standard that would ensure adequate State benefit levels, we must also insist on strong safeguards to preserve the neutrality of the unemployment insurance

system in industrial disputes. The unemployment tax which an employer is required to pay was never intended to supplement strike funds of those engaged in a dispute with the same employer. Neither, on the other hand, was the income protection which unemployed workers are guaranteed under the insurance system intended to be interrupted when an innocent bystander is put out of work by someone else's dispute.

I therefore propose that the Federal Unemployment Tax Act be amended to prohibit both the payment of unemployment insurance benefits to strikers and the practice of denying benefits to nonstrikers. A gray area does exist between the clear-cut extremes of strike participation and non-participation, where complex definitional problems can arise. Resolution of these problems can properly be left to the judgment of individual States. But to deal with the clear cases, it is appropriate for the Federal Government to set a uniform standard on which each State can elaborate. This the Job Security Assistance Act would do.

* * * * * * *

Our unemployment insurance system puts some of America's finest principles into action—including those of prudent provision during times of affluence for times of need; effective compassion for our fellow citizens; creative partnership between the Federal Government and the States; and supportive action by the public sector to help keep our private enterprise system stable, healthy, just, and humane.

The Congress can significantly improve the system's fidelity to each of these guiding principles by enacting the proposed Job Security Assistance Act of 1973. This legislation would bring genuine improvement in the lives of millions of those people on whom the Nation depends most heavily—our working men and women.

RICHARD NIXON.

THE WHITE HOUSE, *April 12, 1973.*

95-094—73——2

LETTER OF TRANSMITTAL

U.S. DEPARTMENT OF LABOR,
Washington, D.C., May 7, 1973.

Hon. CARL ALBERT,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: I am transmitting herewith draft legislation entitled the "Job Security Assistance Act", as recommended by the President in his message on unemployment insurance. I am also forwarding a statement in explanation and justification of the proposed bill.

The draft bill would make a number of needed changes in the unemployment insurance laws. It would establish Federal minimum benefit amount standards, and standards relating to the payment of workers unemployed as a result of a labor dispute. It would extend protections of the program to farm workers. It would extend last year's temporary increase in the Federal Unemployment Tax in order to repay advances from general revenue which were previously made for the emergency unemployment compensation program. The bill would also provide for a better apportionment of costs between the Federal Government and the States with regard to benefits of ex-servicemen and former Federal employees who receive benefits on the basis of both Federal and non-Federal employment.

We estimate that, with an insured unemployment rate of 2.6 percent, the benefit amount standard would result in added annual outlays from the State accounts in the Federal Unemployment Trust Fund of $730 million and the extension of coverage to farm workers would add outlays of $100 million annually, when fully effective.

I urge that early and favorable consideration be given to this bill.

The Office of Management and Budget advises that there is no objection to the submission of this draft legislation and that its enactment would be in accord with the program of the President.

Sincerely,

PETER J. BRENNAN,
Secretary of Labor.

PROPOSED "JOB SECURITY ASSISTANCE ACT"

A BILL To extend and improve the Nation's unemployment compensation programs, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Job Security Assistance Act of 1973."

BENEFIT AMOUNT STANDARD

SEC. 2. Section 3304(a) of the Internal Revenue Code of 1954 is amended by redesignating paragraph (13) as paragraph (15) and by inserting after paragraph (12) the following new paragraph:

"(13) With respect to benefit years beginning on or after July 1, 1975—

"(A) the weekly benefit amount of any eligible individual for a week of total unemployment shall be:

(i) an amount equal to at least one-half of such individual's average weekly wage as determined by the State agency; or

(ii) the maximum weekly benefit amount payable under such State law, whichever is the lesser.

Any weekly benefit amount payable under such State law may be rounded to an even dollar amount in accordance with the provisions of such State law;

"(B) the State maximum weekly benefit amount shall be no less than 66⅔ percent of the Statewide average weekly wage most recently computed before the beginning of the individual's benefit year;

"(C) For the purposes of this paragraph—

(i) 'benefit year' means a period as defined in State law except that it shall not exceed one year beginning subsequent to the end of an individual's base period.

(ii) 'base period' means a period as defined in State law except that it shall be fifty-two consecutive weeks, one year, or four calendar quarters ending not earlier than six months prior to the beginning of an individual's benefit year.

(iii) 'individual's average weekly wage' means: (I) in a State which computes individual weekly benefit amounts on the basis of high quarter wages, an amount equal to one-thirteenth of an individual's high quarter wages; or (II) in any other State, an amount computed by dividing the total amount of wages (irrespective of the limitation on the amount of wages subject to contribution under the State law) paid to such individual during his base period by the number of weeks in which he performs services in employment covered under such law during such period.

(iv) 'high quarter wages' means the amount of wages for services performed in employment covered under the State law paid to an individual in that quarter of his base period in which such wages were highest, irrespective of the limitation on the amount of wages subject to contributions under such State law.

(v) 'Statewide average weekly wage' means the amount computed by the State agency at least once each year on the basis of the aggregate amount of wages, irrespective of the limitation on the amount of wages subject to contributions under such State law, reported by employers as paid for services covered under such State law during the first four of the last six completed calendar quarters prior to the effective date of the computation, divided by a figure representing fifty-two times the twelve-month average of the number of employees in the pay period containing the twelfth day of each month during the same four calendar quarters, as reported by such employers."

PAYMENT OF BENEFITS IN LABOR DISPUTES

SEC. 3. (a) Section 3304(a) of the Internal Revenue Code of 1954 is further amended by adding after the paragraph added by section 2 of this Act the following paragraph (14):

"(14) Compensation shall not be paid to any person who the State finds is a striker under the law of that State. Compensation shall not be denied to any other person otherwise eligible who is unemployed as a result of a labor dispute and who the State finds is an innocent bystander under the law of that State."

(b) The amendments made by subsection (a) shall be effective July 1, 1975.

COVERAGE OF AGRICULTURAL EMPLOYMENT

SEC. 4. (a) Section 3306(b) of the Internal Revenue Code of 1954, as amended, is further amended by deleting the period at the end of paragraph (10) and substituting therefor "; or" and by adding the following new paragraph (11):

"(11) remuneration paid in any medium other than cash for agricultural labor."

(b) Section 3306(c)(1) of the Internal Revenue Code of 1954 is amended to read as follows:

"(c)(1) agricultural labor (as defined in subsection (k) unless performed for an employer who—

(A) during any calendar quarter in the calendar year or the preceding calendar year paid remuneration in cash of $5,000 or more to individuals employed in agricultural labor, or

(B) on each of some 20 days during the calendar year or preceding calendar year, each day being in a different calendar week, employed in agricultural labor for some portion of the day (whether or not at the same moment of time) four or more individuals; excluding, however, for the purpose of sub-

paragraphs (A) and (B) agricultural labor performed by any individual who is an alien admitted to the United States to perform agricultural labor pursuant to sections 214(c) and 101(a)(15)(H) of the Immigration and Nationality Act;"

(c) The amendment made by this section shall apply with respect to remuneration paid after December 31, 1974, for services performed after such date.

LABOR CONTRACTORS

SEC. 5. (a) The Internal Revenue Code of 1954 is amended by redesignating section 3311 as 3312 and by inserting a new section 3311 as follows:

"SEC. 3311. (a) Notwithstanding any other provision of this chapter, any person to whom individuals are furnished by a crew leader or other labor contractor to perform agricultural labor shall keep all records required for the purpose of this chapter with respect to the agricultural labor performed for him by such individuals and the remuneration paid therefor and shall pay the taxes required by this chapter as if he employed such individuals, except that he shall not be required to keep such records or pay such taxes for individuals furnished to him pursuant to a contract to perform "custom work" which includes the furnishing of equipment as well as labor as, for example, in the case of crop dusting or grain harvesting and threshing.

(b) Whether a crew leader or labor contractor, who furnishes individuals to perform agricultural labor for another person or who performs services for such other person as a member of a crew, shall be deemed to be an employee of such person for the purposes of this chapter depends on whether the crew leader or the labor contractor is an employee of such other person under section 3306(i)."

(c) The amendments made by subsection (a) shall apply with respect to services performed after December 31, 1974.

REVENUE FOR EMERGENCY UNEMPLOYMENT COMPENSATION ADVANCES

SEC. 6. (a) Section 3301 of the Internal Revenue Code of 1954 (relating to rate of Federal unemployment tax) is amended by substituting "1973, 1974 and 1975" for "1973", in the last sentence thereof.

(b) Section 6157(b) of the Internal Revenue Code of 1954 (relating to payment of Federal unemployment tax on quarterly or other time period basis) is amended by striking out the second sentence thereof and substituting the following:

"In the case of wages paid in any calendar quarter or other period during 1973, 1974 and 1975, the amount of such wages shall be multiplied by 0.58 percent in lieu of 0.5 percent."

(c) Section 903(b) of the Social Security Act is amended by striking out paragraph (3) thereof.

(d) Section 204(b) of the Emergency Unemployment Compensation Act of 1971 (85 Stat. 811) is amended by substituting "905(d)" for "903(b)(3)."

(e) Section 905(b)(1) of the Social Security Act is amended by substituting for the last sentence thereof the following:

"In the case of any month after March 1973 and before April 1976 the first sentence of this paragraph shall be applied by substituting 'thirteen fifty-eighths' for 'one tenth'."

PAYMENT TO STATES

SEC. 7. (a) Section 8505(a) of Title 5, United States Code is hereby amended to read as follows:

"Each State is entitled to be paid by the United States with respect to each individual whose base period wages included Federal wages an amount which shall bear the same ratio to the total amount of benefits paid to such individual as the amount of his Federal wages in his base period bears to the total amount of his base period wages, computed to the nearest percentage point."

(b) The amendments provided in subsection (a) shall apply with regard to all new claims for compensation filed on or after July 1, 1974.

EXPLANATION AND JUSTIFICATION OF "JOB SECURITY ASSISTANCE ACT OF 1973"

The attached bill "to extend and improve the Nation's unemployment compensation programs" effectuates the President's recommendations for Federal legislation to improve the Federal-State unemployment insurance system.

INTRODUCTION

The Federal-State unemployment insurance program is designed to protect workers during periods of unemployment between jobs. The bill would strengthen the program by—

Extending its protection to farm workers;

Assuring that the program's weekly benefit amounts are a sufficient percentage of lost weekly wages to sustain the individual worker; and

Maintaining neutrality in industrial disputes.

The program is also designed to protect the economy by maintaining spendable income. It automatically pays out more money as unemployment increases, thus sustaining purchasing power when it is most important to do so. It thereby acts as a stabilizing force in the economy, helping to prevent an economic downturn from gathering momentum and forcing further declines in consumer purchasing power. In 1972, $6.5 billion was paid out in unemployment benefits to 7.1 million workers. The benefits were counter-cyclical in effect and helped to prevent unemployment from spreading and lasting longer.

The system has been an outstanding example of Federal and State cooperation. Federal tax incentives are relied upon to encourage the States to inaugurate unemployment insurance systems. Each State administers its own program with State employees. The bill would not change the character of the program or the basic relationship between the Federal Government and the States. Like the original requirements, and those which were added in 1970, the new requirements would permit States wide latitude in shaping and administering their programs.

COVERAGE OF EMPLOYMENT IN AGRICULTURE

The bill would extend coverage to a substantial group of workers—those employed in agricultural businesses. Farm workers were excluded from the definition of employment in the original Federal law in 1935 on the ground that it was not administratively feasible to apply the Federal tax to many thousands of family-operated, subsistence farms which kept no payroll records. The extension to agricultural enterprises of income and Social Security taxes, and the extension to farm workers of OASDHI and income tax withholding, on an even broader basis than would be the case under the recommended proposal, have

removed lack of administrative feasibility as a valid objection to discontinuing the original exclusion.

The bill would apply the Federal unemployment tax to farm employers who, during the current or preceding calendar year, (a) employed four or more workers in each of 20 weeks or (b) paid $5,000 in wages in a calendar quarter. This would affect only about 7 percent of all farm employers when the bill becomes effective in 1975 but would achieve coverage for about two-thirds of all farm workers. That is, it would cover about *66,000* farms and about *635,000* farm workers.

The proposal to cover employment on farms employing four or more workers in 20 weeks in a year, or paying wages of $5,000 in a calendar quarter, places emphasis on large scale, industrial-type farm operations. This "four or more" size-of-farm criterion would achieve coverage of a substantial majority of farm workers while adding to the State's volume of contributing employers only a relatively small percentage of farm employers—those operating large-scale, agricultural businesses.

For a large number of businesses engaged in agriculture, the proposed extension of coverage to that industry will not be their first experience with unemployment insurance. Many of these firms are already covered under the Federal Unemployment Tax Act, and under State unemployment insurance laws because of their substantial nonfarm employment. For them, payrolls and workers attributable to the agricultural activities of the firm, now segregated to take advantage of the present exclusion of such activities, would no longer be segregated; these payrolls would be subject to the Federal tax and State contributions, the workers would receive the same "credit" for their employment as other workers for the firm receive, and the unemployment experience of all its workers (farm and nonfarm) would be reflected in the firm's experience rating.

A recently completed study sponsored by the Department of Labor's Manpower Administration transmitted to the Congress as required by the 1970 Amendments, indicates that the proposed extension of coverage is feasible at this time.

The study indicates that providing unemployment insurance benefits to eligible farm workers who become involuntarily unemployed would have little or no impact on overall unemployment insurance cost rates in the 18 States surveyed. In two States—California and Florida—the inclusion of farm workers in the unemployment insurance program would increase the overall benefit cost rates of the program to a small degree.

The bill also continues the exclusion from coverage of foreign workers imported to work in agriculture in peak periods under the provisions of section 214(c) and 101(a)(15)(H) of the Immigration and Nationality Act. There are approximately 10,000 to 13,000 of them each year, most of them employed in Florida. The workers are returned to their country of origin as soon as their work has been completed, and they rarely, if ever, would qualify for or receive unemployment benefits. Taxing their wages would substantially increase the wage costs of employers who utilize this type of short-term help without contributing anything to the welfare of farm workers or the economy of the area in which they are employed.

The bill also provides that farm operators who employ workers through "crew leaders" or other types of labor contractors will be responsible for recordkeeping and tax payments for unemployment insurance purposes. The crew leader himself would not be considered an employee of the farm operator for these purposes unless he was also an employee under the usual common law rules applicable in determining employer-employee relationships. An exception to the "crew leader provision" would be provided in the case of individuals furnished to a farm operator pursuant to a contract to perform "custom work" such as in the case of crop dusting or grain harvesting or threshing.

The extension of the Federal unemployment tax under the bill would be effective with respect to remuneration paid after December 31, 1974, for services performed after that date. The effective date affords time for State legislatures to provide for coverage of agriculture in their State laws.

BENEFIT AMOUNT STANDARD

To the several requirements for approval of State laws (and for the continued receipt of full tax credit by a State's employers), the bill would add an adequacy requirement with respect to the weekly benefit amounts furnished under State law.

The purpose of the benefit amount requirements is to assure that the unemployment insurance system provides adequate benefits to the workers whom it insures and provides the Nation with reasonably full protection against reduction in consumer purchasing power resulting from wage losses attributable to unemployment.

The Federal-State unemployment insurance system has not been as effective as it could be, either as a device for restoring individual wage losses or for restoring lost purchasing power to the economy, in large part because its benefit levels have lagged behind wage levels. More than half of all beneficiaries in 1970 and 1971 received the State maximum rather than a benefit equal to 50 percent of their average weekly wage. Even in 1972, when the "claimant mix" included fewer high-paid and more low-paid workers, over two-fifths of them found themselves cut off by and prevented from receiving "half-pay" by State maximums.

Benefit adequacy was heretofore left entirely to State initiative. In his July 8, 1969, message to Congress, President Nixon said:

"Up to now, the responsibility for determining benefit amounts has been the responsibility of the States. There are advantages in States having that freedom. However, the overriding consideration is that the objective of adequate benefits be achieved. I call upon the States to act within the next two years to meet this goal, thereby averting the need for Federal action."

The goal referred to by the President was a guarantee that at least 80 percent of insured workers would receive at least 50 percent of their average weekly wages when they are unemployed. To reach this goal, the President pointed out, would require that the ceiling on benefits, or maximum weekly benefit amount, in State laws would have to be at

least two-thirds of the average weekly wage of covered workers in the State.

The principle that wage loss restoration for an individual worker should be at least 50 percent of his average weekly wage has been generally observed by State laws. All State laws have maximums, or ceilings, on individual weekly benefit amounts, however, which are intended to prevent and which do prevent certain workers from receiving the full "half-pay" guarantee.

Since the President's July 8, 1969 message, an intensive campaign was conducted to persuade States to increase maximum weekly benefit amounts to meet the President's goal.

In the 3½ years subsequent to July 8, 1969, these efforts have had some effect. All but one State provided for some increase in the State benefit maximum. As a result of these changes since July 8, 1969:

> * * * The number of States with benefit maximums of 60 percent or more of the statewide average weekly wage increased from three to eleven States (including the District of Columbia and Puerto Rico). However, only 15.5 percent of total employment covered under State UI laws is in these eleven States.
>
> * * * The number of States with basic maximums of 50 to 59 percent of the State's average wage in covered employment increased from 18 to 21 States. The 21 States account, however, for only 24.1 percent of 1971 covered employment.
>
> * * * The number of States with benefit maximums of less than 50 percent of the statewide average wage of covered workers was reduced from 31 to 20. Such States now represent 60.8 percent of 1971 covered employment, as compared to 78.9 percent in 1969. Thus, more than three-fifths of the Nation's covered work force is in States where no individual earning average wages or higher, or even significantly less than average wages, can receive a weekly benefit equal to 50 percent of his average weekly wage.
>
> * * * The number of States which adopted the President's recommended maximum increased from one in 1969 to three in 1973, with a fourth State adopting a close approximation of it (65 percent of the State's average wage of covered workers). However, these four States together account for only 2½ percent of the Nation's covered work force.

It has become evident that the goal for State maximums can only be achieved if the States adopt it simultaneously as the result of a Federal requirement for the approval of State unemployment insurance laws and for the continued receipt by a State's employers of credit against the Federal unemployment tax.

The present bill would add a new requirement that State laws provide an eligible individual with a weekly benefit amount equal to at least 50 percent of his average weekly wage up to a State maximum which is at least 66⅔ percent of the average wage of covered workers in the State.

Enactment of the bill's requirements as to individual and maximum weekly benefit amounts would leave the States wide latitude in other features of their State laws, and, with respect to benefit formulas, to adopt whatever improvements they wished above the basic minimums.

The deficiencies in the benefit amounts provided under State laws has led to proposals in Congress to provide new and special programs, with higher benefit amounts, to meet conditions which arise when certain groups of workers become unemployed.

Proposals to provide special programs for select groups of workers (workers unemployed because of environmental considerations and standards, workers unemployed because of Government procurement cut-backs, etc.) are not appropriate answers to the deficiencies of the Federal-State unemployment insurance program. These special programs have the inherent difficulty of having to distinguish among the causes of a worker's unemployment. Reform of the basic unemployment insurance system is a much better answer as it would restore the true wage-relatedness of the program for the average and above-average wage earner as well as for the below-average and low-paid worker. In this way, adequate benefits are available to workers without the need to make these difficult distinctions. Such reform should lessen the demand for these special programs. At present, workers impacted by foreign trade receive special allowances under the Trade Expansion Act of 1962. The Administration's proposed Trade Reform Act of 1973 substitutes Federal supplements to State Unemployment Insurance payments which will bring the unemployment insurance benefits of trade-impacted workers up to the minimum levels specified in this bill. Thus, when this bill becomes effective, no more Federal Unemployment Insurance supplements will be paid to such workers.

LABOR DISPUTES

It is fundamental to unemployment insurance that benefits should be payable for unemployment that is involuntary and not payable for unemployment that is voluntary and unjustified. It is equally essential that unemployment insurance preserve its neutrality in labor disputes.

The bill builds upon these principles. It provides that unemployment benefits not be paid to any person who the State finds is a striker under the law of that State. It further provides that unemployment benefits must be paid to otherwise eligible individuals who are unemployed as a result of a labor dispute and who the State finds are innocent bystanders under the law of that State.

The bill would thus establish sound and fair principles governing the payment of benefits to those unemployed as a result of a labor dispute and affords the States wide latitude in the interpretation and application of these principles.

REVENUE TO REPAY ADVANCES FOR EMERGENCY UNEMPLOYMENT COMPENSATION

The Emergency Unemployment Compensation Act of 1971 (P.L. 92–224, Title II) authorized additional unemployment benefits for up to 13 weeks for individuals who exhausted their rights to both regular and extended unemployment benefits. Eligibility under this program was to expire on June 30, 1972.

The Act provided that the additional compensation was to be paid out of the extended unemployment compensation account. Since that account did not have sufficient funds, the Act also provided for repay-

able advances from the Treasury, to be repaid when funds in the account are adequate.

In June of 1972, the Congress extended eligibility under the emergency unemployment compensation program for six months, through December 31, 1972 (P.L. 92–329).

At that time, the Federal unemployment tax was increased from 3.2 percent of wages to 3.28 percent to pay the cost of the extension of the program. Sections 905(b)(1) of the Social Security Act and 6157 of the Internal Revenue Code were also amended. Section 6157 of the Internal Revenue Code provides for the payment of the Federal unemployment tax on a quarterly or other time period basis. The net rate in section 6157 was increased from 0.5 percent to 0.58 percent. The employment security administration account is the initial repository of Federal unemployment tax receipts. Section 905(b)(1) provides for the transfer of a specified fraction of those receipts to the extended unemployment compensation account. Funds in that account were used for both the extended and emergency unemployment compensation programs. P.L. 92–329 increased that fraction (from 1/10 to 13/58) to reflect the increased tax and provide additional funds for the extended unemployment compensation account.

However, as noted above, the revenue from the increased tax was only sufficient to pay the costs of the 6-month extension of the emergency program. The cost of the program before passage of the increased tax, which was paid out of general revenue, cannot be repaid from the increased tax if it is allowed to terminate as now provided in the law. Approximately $395 million was paid out of general revenue.

As the President noted when he approved the 1971 emergency compensation program, "To require the general taxpayer to bear the costs of this program means a sharp departure from the previous practice under which employer taxes have been used to finance such aid * * *". This bill would provide for an extension of the increased tax for two years, the period estimated to be necessary for full repayment out of Federal unemployment tax revenues. It is estimated that revenue from the additional tax could range between $375 million and $448 million.

Section 6(a) of the bill provides for extension of the increased tax. Sections 6(b) and (e) provide for similar extensions of the increase in the quarterly payment and in the fraction for transfer between accounts as described above.

Section 6(c) of the bill deletes section 903(b)(3) of the Social Security Act which provides for a special method of repayment of advances made for the emergency program. Since this bill would continue the increased tax, funds in the extended account will be adequate to repay advances and the special method of repayment is not necessary. Section 6(d) of the bill changes the reference in the Emergency Unemployment Compensation Act from section 903(b)(3) to section 905(d) of the Social Security Act. Advances which have been made out of general revenue for the emergency program will therefore be paid back in the same manner as advances for the extended compensation program. If any excess results from continuing the increased tax, it will remain in the extended unemployment compensation account.

CHANGE IN METHOD OF ALLOCATING UCFE–UCX BENEFIT COSTS

The bill proposes a revision in section 8505(a) of Title 5 of the United States Code which now specifies that Federal reimbursements to State funds for benefits paid to the ex-servicemen and former Federal employees be determined by the "additional cost" method of computation. The bill would substitute the "pro rata" method of computing reimbursement amounts.

Most ex-servicemen and former Federal employees claim unemployment insurance benefits solely on the basis of their Federal service and Federal wages; they have no other base period employment. In such cases, the Federal Government must reimburse the States for 100 percent of the benefits paid under any method of computation. In fiscal year 1971, of the total Federal expenditure of $401,289,201 for UCFE–UCX benefits, $394,912,887, or 98.37 percent, was expended for this type of case.

The proposed change from the "additional cost" method to the "pro rata" method of computation, therefore, would apply only to the small minority of cases in which the base period of individuals included both Federal wages and service and wages and employment subject to the State laws. The Federal Government's "share" of the benefit costs for this type of case in the fiscal year 1971, computed on the "additional cost" method, was $6,529,215, or 1.63 percent of total Federal expenditures.

The "additional cost" method of computing Federal reimbursements is cumbersome, difficult to apply, complicated to operate, and expensive to administer. While only a small number of cases is involved so long as the Federal Government was virtually the only "reimbursing" employer, the complications arising from the use of the "added cost" method could nevertheless be overcome. With the addition to the unemployment insurance system (as the result of the enactment of P.L. 91–373, August 10, 1970) of large numbers of other reimbursing employers (nonprofit organizations, State government agencies, etc.), and with the introduction of a mandatory wage combining arrangement among States (also as a result of the enactment of P.L. 91–373), the use of the "added cost" method of computation has become increasingly complicated and difficult to apply. For the most part, States found it necessary to use the "pro rata" method for reimbursing employers other than the Federal Government, and Federal regulations require that the "pro rata" method be used in cases of wage combining among States. For UCFE–UCX cases, the proration of costs, on a percentage basis, is administratively preferable, equally equitable for both the Federal Government and State unemployment insurance funds, and its use would make little difference in the ultimate distribution of benefit costs.

A survey and analysis of UCFE–UCX cases with benefit years ending in fiscal 1971, and a comparison of the application of both methods of computation to each case, indicated a difference of only 65/100 of one percent.

Inasmuch as the complications and administrative expenses attributable to the use of the "added cost" method are out of proportion

to any advantage derived therefrom, the bill proposes to revise section 8505(a) of Title 5 of the United States Code to provide for prorating the costs of benefits paid to ex-servicemen and ex-Federal employees. The Federal Government would reimburse the States with respect to each UCFE–UCX claimant an amount which shall bear the same ratio to the total amount of benefits paid as the amount of his Federal wages in the base period bears to the total amount of his base period wages, computed to the nearest percentage point.

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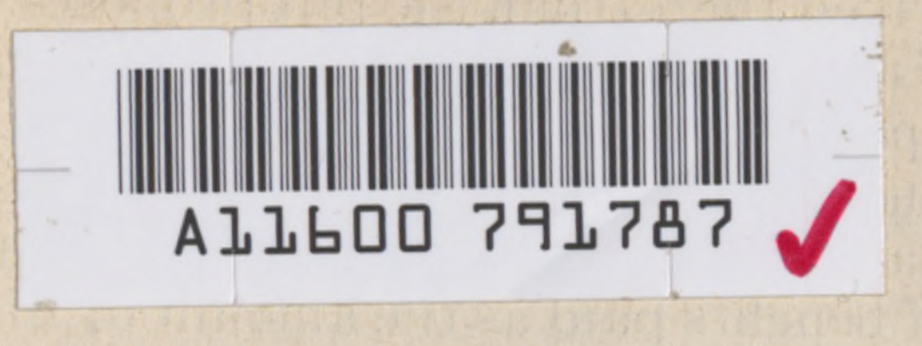
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