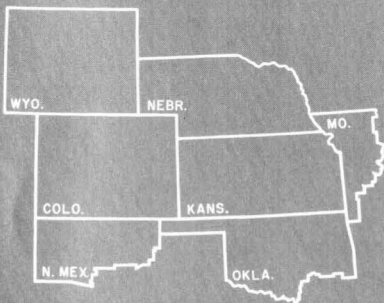


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FEDERAL RESERVE BANK OF KANSAS CITY

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Is the Federal Reserve Hitting Its Money Supply Targets?

By J. A. Cacy

In the spring of last year, the Federal Reserve began to publicly announce its objectives concerning future growth rates of various monetary aggregates. Since that time, a number of observers have devoted considerable attention to the question of whether the Federal Reserve is attaining its stated objectives. Some observers, for example, have viewed any divergence of the actual movements in the aggregates from the targeted objectives as evidence of improper implementation of monetary policy.¹ Other observers, mainly money market participants, have examined actual developments in the aggregates relative to the stated objectives as a hoped for means of determining future Federal Reserve intentions.

This article examines the issue of whether the Federal Reserve is meeting its targeted objectives with respect to the monetary and credit aggregates. The first section of the article briefly reviews the legislative background underlying the publication of the targets and describes the specific targets that have been announced. The next section discusses various criteria for assessing whether the targets have been met. The final section applies some of these criteria to recent movements in the aggregates with a view toward ascertaining the extent to which—if any—the Federal Reserve has

been successful in achieving its targeted growth rates of money and credit.

WHAT ARE THE TARGETS?

On March 24, 1975, the U.S. Congress approved the House Concurrent Resolution 133, which indicated it was the sense of Congress that the Board of Governors of the Federal Reserve System and the Federal Open Market Committee:

- (1) pursue policies in the first half of 1975 so as to encourage lower long-term interest rates and expansion in the monetary and credit aggregates appropriate to facilitating prompt economic recovery; and
- (2) maintain long-run growth of the monetary and credit aggregates commensurate with the economy's long-run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.

The resolution also indicated that, pursuant with these general objectives, the Federal Reserve should consult with Congress at semiannual hearings before the Committee on Banking, Housing and Urban Affairs of the Senate and the Committee on Banking, Currency, and Housing of the House of Representatives. These hearings, the resolution stated, should concern:

... the Board of Governors' and the Federal Open Market Committee's objectives and plans with

¹/See Milton Friedman, "How to Hit the Money Target," *Newsweek*, December 8, 1975.

respect to the ranges of growth or diminution of monetary and credit aggregates in the upcoming twelve months.

The resolution concluded by stating:

Nothing in this resolution shall be interpreted to require that such ranges of growth or diminution be achieved if the Board of Governors and the Federal Open Market Committee determine that they cannot or should not be achieved because of changing conditions. The Board of Governors shall report to the Congress the reason for any such determination during the next hearings held pursuant to this resolution.²

In response to the consultative procedures contained in this resolution, the Chairman of the Federal Reserve Board reported to Congress on three separate occasions in 1975: on May 1, July 24, and on November 4. In the first report to the Senate Banking Committee, the Chairman indicated the Federal Reserve was seeking a moderate rate of expansion in the monetary and credit aggregates. Such a course, it was felt, would promote an increase in the narrowly defined money supply—denoted as M1 and defined to include currency in circulation and demand deposits at commercial banks—at a rate ranging between 5 and 7½ per cent from March 1975 to March 1976. Accompanying this growth rate would be higher rates of increase in the other aggregates—ranging from 8½ to 10½ percent for M2, defined as M1 plus time deposits at commercial banks other than large CD's; 10 to 12 per cent for M3, defined as M2 plus time deposits at nonbank thrift institutions; and 6½ to 7½ per cent for the bank credit proxy.³

These targeted ranges in the aggregates were submitted with two important qualifications. The first was that, in a dynamic economy such as ours, the economic and financial outlook could change quickly and dramatically. The Federal Reserve, therefore, might need to modify promptly its views

on the appropriate growth rates in the aggregates to minimize possible economic and financial difficulties. The second qualification was that, while the announced growth rates were considered appropriate in the existing environment of high unemployment and unused industrial capacity, the growth rates were high by historical standards and could not be maintained indefinitely without running a serious risk of releasing new inflationary pressures.

The second consultative hearing was before the House Banking Committee on July 22-24, 1975. At that time, the economic prospects were deemed not materially different from a few months previously, so the Federal Reserve reaffirmed its intent to seek the same growth rates in the aggregates announced earlier. A change was made, however, in the method of computing the base from which the growth rates were projected. Whereas a single-month base was employed previously, i.e., March 1975, the growth rates for the aggregates were now projected to cover the 12-month span from the second quarter of 1975 to the second quarter of 1976. A quarterly base was employed because a 3-month average was considered less subject to erratic movements in money balances than a single-month base.

The third consultative hearing was held on November 4, 1975, before the Senate Banking Committee. At the time of the hearing, the recovery in the economy was proceeding but inflation was still a disturbing problem. Consequently, the Federal Reserve indicated its intent to continue to pursue a course of moderation in monetary policy. To implement that policy, the targeted growth ranges of the monetary aggregates differed little from those announced previously. Specifically, the growth range for M1 was again 5 to 7½ per cent, while the range for M2 and M3 was widened by reducing the lower end 1 percentage point. Accordingly, the range was 7½ to 10½ per cent for M2 and 9 to 12 per cent for M3. Similar to the practice announced earlier, these growth ranges applied to the period extending from the third quarter of 1975 to the third quarter of 1976.

2/“First Meeting on the Conduct of Monetary Policy,” Hearings before the Committee on Banking, Housing and Urban Affairs, U. S. Senate, 94th Congress, April 29-May 2, 1975, p. 3.

3/First Meeting . . . , p. 172. The bank credit proxy includes total member bank deposits subject to reserve requirements, plus Eurodollar borrowings, loans sold to bank-related institutions, and certain other non-deposit items.

METHODS OF ASSESSING TARGET ACHIEVEMENT

Various methods can be employed to assess the extent the Federal Reserve accomplishes its objectives for the monetary aggregates. One method is to compare the growth rates achieved at the end of the target period with the targeted growth rate ranges. For example, the actual growth rate of M1 over the target period from March 1975 to March 1976 would be compared with the 5 to 7½ per cent range targeted for M1. If M1's growth rate from March 1975 to March 1976 were at least 5 per cent, but no higher than 7½ per cent, the M1 target would be achieved. This method, which is probably consistent with the Federal Reserve's approach to target achievement, is the only definitive way to assess whether the targets have in fact been met. However, the method allows an assessment to be made only after a target period has ended. As such, it does not allow for the useful procedure of assessing target achievement at various times during a target period.

Another method of assessing target achievement is to compare the growth rates of money during subperiods of a target period with the targeted growth rate ranges. Subperiods could be any length, such as a week, a month, or a quarter. For instance, if in the preceding example M1's growth rate in any month exceeded 7½ per cent or was less than 5 per cent, an assessment would conclude that the M1 target was not achieved in that month. While this method allows an assessment to be made during a target period, it has the disadvantage of placing undue emphasis on the short-term behavior of the monetary aggregates. Overemphasis of short-term behavior would be especially serious if the subperiods were as short as a week or a month.

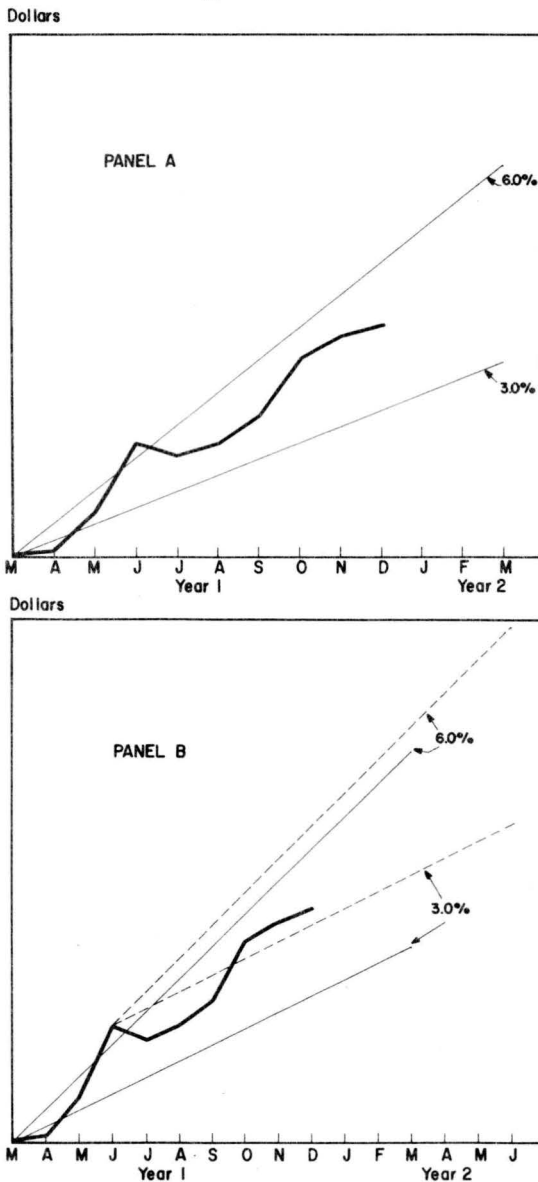
The method used in this article to assess target achievement may be referred to as the "ray" approach. This approach focuses on the behavior of money during intervals from the starting point of the target period to various points within the period. Behavior during these intervals is then compared with the behavior that was targeted for the entire

period. In other words, at any point in time, the approach answers the question: How is money behaving so far relative to its targeted behavior for the entire target period? Thus, the ray approach is similar to the previous method in that it allows an assessment of target achievement to be made during a target period. It differs from the previous method, however, by placing less emphasis on short-term movements of money and allowing an assessment of target achievement from a longer run perspective.

Use of the ray approach is illustrated in Chart 1. In Panel A of the chart, it is hypothetically assumed that a target period extends from March of Year 1 to March of Year 2, and that the targeted growth rate range is 3 to 6 per cent. The target path, or ray, has its starting point, or apex, at March of Year 1—the base period. The lower boundary of the ray shows the route that money would follow if money increased throughout the target period at a rate of 3 per cent, which is the lower bound of the target growth rate range. The upper boundary of the ray traces a growth rate of 6 per cent, which is the upper bound of the target range. If the actual level of the money supply is within the ray at any point, the growth rate of money during the interval from the base period to that point is within the 3 to 6 per cent target range. For example, the level of the money supply in May is within the ray, so money's growth rate from March to May is between 3 and 6 per cent. In June, however, the level of the money supply is above the ray, which means the March-June money growth rate exceeds the 6 per cent upper bound of the target growth rate range.

A problem with assessing target achievement by using the ray approach is that the method places rather narrow limits on short-term variations in money growth during the initial part of the target period. As such, undue emphasis might be accorded the short-term behavior of the aggregates in the initial phase of the period. On the other hand, the ray approach allows wide variations in short-term growth rates during the later parts of the target period. In Panel A of Chart 1, for example, the growth rate of money in April must be between 3

Chart 1
MONEY SUPPLY AND TARGET RAYS
A Hypothetical Case



and 6 per cent for the money supply to be within the ray in April. The growth rate in January, however, could range considerably beyond these values

and still allow money to be within the target ray.

The problem of narrow limits in the initial part of the target period can be resolved in several ways. Reasonable deviations from the ray may be accepted, or the ray may be widened somewhat for the initial part of the period. The problem of wide variations in the later part of the target period is—in practice—automatically resolved. That is because, prior to the end of any target period, a new target period and a new money growth rate range are established. The ray for the new period puts limits on acceptable short-term growth rates in the initial part of the new period, which is the later part of the previous period.

The practice of establishing new target periods prior to the end of the previous periods complicates the assessment of target achievement. It means that the money supply at any point in time may be compared with more than one target ray. Panel B of Chart 1 illustrates a case with two target rays. The ray from Panel A is shown in Panel B and another ray is added. The second ray assumes a target period from June of Year 1 to June of Year 2, and a target growth rate range from 3 to 6 per cent. The starting point of the new ray is the money supply's actual level in June of Year 1, the new target period's base period.⁴ For any point after June of Year 1, the money supply may be compared to both rays. For example, in July, August, and September money supply targets established in March were achieved, but those established in June were not achieved. In October, November, and December, however, both targets were achieved.

AN ASSESSMENT OF TARGET ACHIEVEMENT

The ray approach described in the preceding section is now used to assess the extent that the

⁴The actual level of the money supply is not the only possible choice for the base level. An alternative would be the level of money that would have existed in the base period if, during the interval from the previous base period to the new base period, money had increased at a rate equal to the midpoint of the previous target growth rate range. This alternative can be referred to as the "midpoint" method of selecting a base level. Under this method, new rays will always fall within all previously established rays as long as the target growth rate range does not change. Thus, if money is within any particular ray, it is within all previous rays, also. In other words, if money supply targets established at any particular time are achieved, targets established at all previous times are also achieved.

money supply targets are being achieved. In using the ray approach, it is first necessary to select a type of time series for money to use in comparing money growth with the target rays. A number of time series could be selected, including quarterly, monthly, weekly, or multi-weekly time series. Moving averages of these periods also could be employed. The method used in this article is to select the same period length for the time series that the Federal Reserve employs when designating the base level. Thus, if the Federal Reserve uses a month for the base period, a monthly money supply series is used to compare with the target rays. If the Federal Reserve designates a quarter as the base level, a quarterly series is employed to compare money with the target rays.

Specifically, a monthly time series is used here to compare the behavior of money with the target ray for the target period beginning in March 1975 because the base level for the March target period is the month of March. For the target period beginning in the second and third quarters of 1975, a 3-month moving average series is selected because the base level for these target periods is the average level of money in the second and third quarters, respectively. Also, by using a 3-month moving average series, an assessment of target achievement can be made each month. If an ordinary quarterly series were used, an assessment could be made only once each quarter.

Target achievement for the March 1975-March 1976 target period can be assessed with the help of Chart 2. Ordinary monthly time series for M1, M2, and M3 are shown in the chart along with a target ray for each measure of the money supply.⁵ Each ray's starting point is the actual level of the money supply in March 1975, the month the Federal Re-

serve designated as the base period. For example, the starting point for the M1 ray in Panel A of Chart 2 is \$284.1 billion, the level that M1 averaged in March 1975. Boundaries for the rays are established by the target growth rate ranges for the March 1975-March 1976 target period.

As seen in Chart 2, M1 was outside the March 1975-March 1976 target ray during most of the initial part of the target period. However, M1 moved into the ray in September and remained inside the ray from October through December, the latest month for which data are available. The behavior of M2 relative to its target ray was similar to that of M1. After moving outside its ray in the first part of the target period, M2 fell within the ray in the last four months of 1975. (See Panel B, Chart 2.) M3 was above its target ray throughout most of the period from April 1975 to November 1975, and then moved within the ray in December 1975.

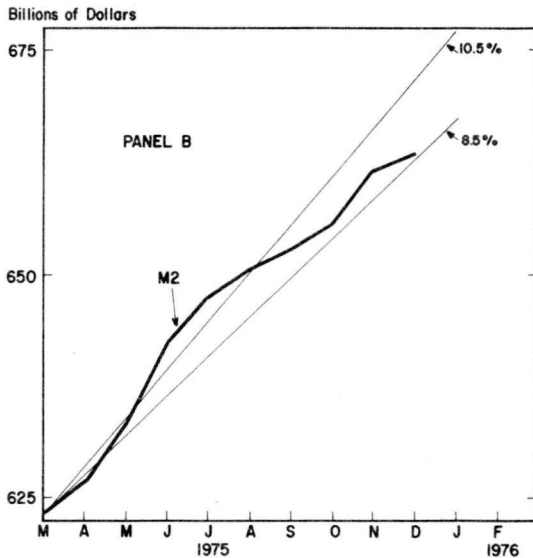
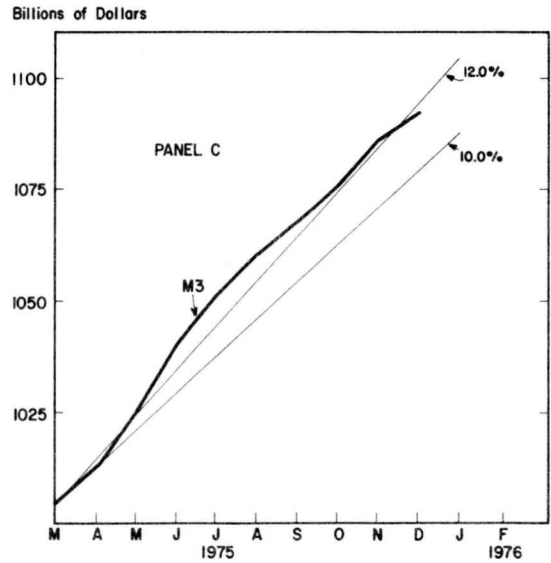
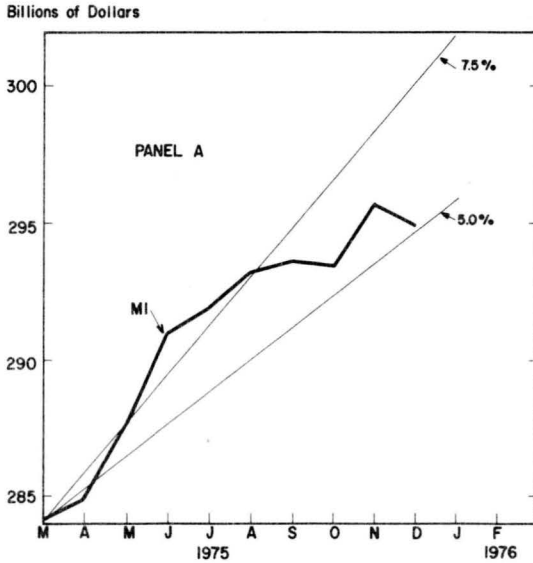
Target achievement for the second quarter 1975-second quarter 1976 period and the third quarter 1975-third quarter 1976 period can be assessed with the help of Chart 3. This chart shows the behavior of money relative to the target rays for both target periods. The two periods are treated in one chart because the base levels of both periods are averages of data for a quarter. For the same reason, 3-month moving average series for M1, M2, and M3 are used in Chart 3 to compare the behavior of money with the target rays. The starting points for the rays applicable to the second quarter-second quarter target period is the level that money averaged in the second quarter of 1975, i.e., in the three months ending June 1975. Similarly, the starting points for the rays applicable to the third quarter-third quarter target period is the level that money averaged in the third quarter of 1975, i.e., in the three months ending September 1975.⁶ Each ray's boundaries in Chart 3 are established by the target growth rate ranges.

⁵The analysis of target achievement in this article is confined to M1, M2, and M3 because growth rate ranges for these money supply measures were given in each of the Federal Reserve's consultative reports to the U. S. Congress. In the first and second reports, a growth rate range was indicated for the bank credit proxy. In the third report, however, a target for the credit proxy was not given.

Current estimates of money supply data are employed in this article. Experience suggests, however, that these data may be subsequently revised. Substantial revisions could alter the conclusions of not only this article but of any assessment of target achievement.

⁶In Chart 3, the starting points for the target rays and the 3-month moving average series are shown on an end-month-of-quarter basis. For example, the starting point for the second quarter target ray, which is the average level of money in the 3 months ending June 1975, is plotted as of the month of June.

Chart 2
MONEY SUPPLY MEASURES AND TARGET RAYS
March-March Target Period



October and November. In December, however, M1 fell slightly below its second quarter-second quarter target ray. M1 has remained below its third quarter-third quarter ray throughout the period that the ray has been applicable.

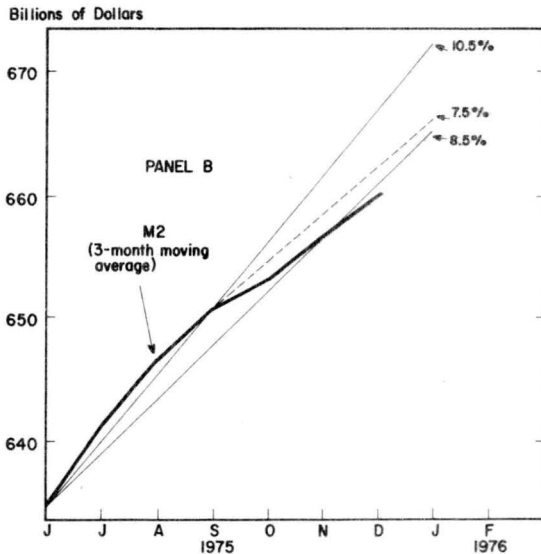
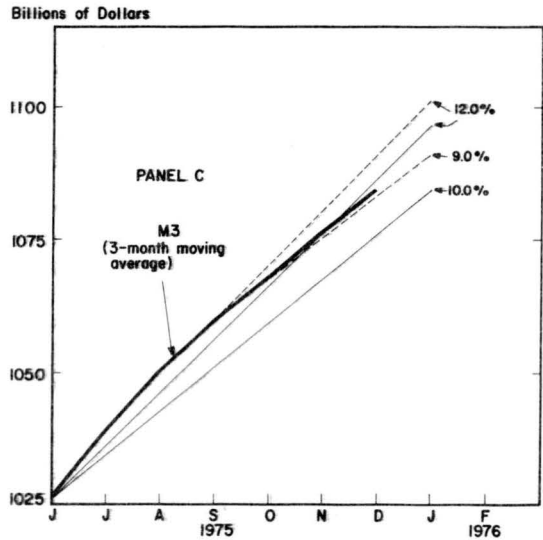
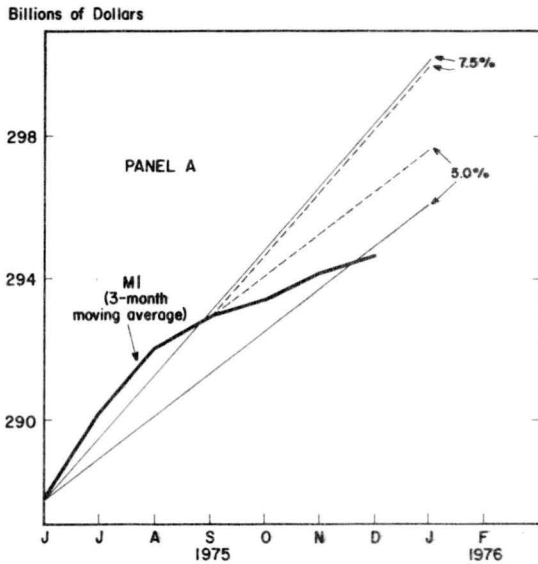
Similar to M1, M2 was above its second quarter 1975-second quarter 1976 ray in the initial part of the target period. M2 then fell within the ray in September, October, and November and moved below the ray in December. (See Panel B.) M2 joined M1 in falling below the third quarter-third quarter ray throughout the applicable period. Panel C of Chart 3 shows that M3 was above its second quarter-second quarter ray from July through November, and fell inside the ray in December. M3 has moved within its third quarter-third quarter ray throughout the applicable period.

As seen in Chart 3, M1 was above its second quarter 1975-second quarter 1976 target ray in the initial part of the target period. M1 moved into the ray in September and stayed within the ray in

CONCLUSIONS

Several conclusions can be drawn from this article's assessment of the extent to which the Fed-

Chart 3
MONEY SUPPLY MEASURES AND TARGET RAYS
Second Quarter-Second Quarter and
Third Quarter-Third Quarter Periods



eral Reserve is meeting its money supply targets. One conclusion is that the actual behavior of the money supply measures has tended to be more on target in the later stages of target periods than in

the earlier stages. Target misses in the earlier stages should not be unexpected, though, because precise short-term control over money is difficult to achieve. Control over longer periods is more precise because Federal Reserve actions affect money with a time lag. Also, actions designed to correct errors in the first part of the target periods help to keep money on target in the later stages of the target periods.

Another conclusion is that, in the later part of 1975, M3 moved in line with its target more closely than either M1 or M2. For example, in December, M3 was in line with the target specified for the period from the third quarter of 1975 to the third quarter of 1976. Also, M3 in December was consistent with targets specified for the second quarter 1975-second quarter 1976 and the March 1975-March 1976 period. However, in December M1 and M2 were in line with only the March-March targets and were below both the second quarter-second quarter and third quarter-third quarter targets.

The difference between the behavior of the money supply measures relative to their targets underscores a basic problem inherent in establishing and attempting to achieve multiple money supply targets. The problem arises because the Federal Reserve has little ability to control one of the monetary aggregates independently of others. Actions designed to expand or contract one aggregate will generally tend to expand or contract the other aggregates. Thus, for each of the targets to be achieved, the set of targets must be consistent with one another. If inconsistencies develop, however, which is likely in a dynamic economy, the Federal Reserve will be faced with a dilemma. For example, if the System had acted more vigorously to expand the monetary aggregates in the later part of 1975, M1 and M2 may have been kept within their second quarter-second quarter and third quarter-third quarter target rays. However, such action also may have pushed M3 above its target rays. In brief, after a set of targets has been established and then divergences occur in the growth patterns

relative to the targets, it is difficult for the Federal Reserve to correct for the divergent behavior in the aggregates.

A final conclusion is that care should be taken to avoid simple generalizations regarding whether or not the Federal Reserve is hitting its money supply targets. The existence of multiple money supply targets combined with multiple target periods suggests that any such generalizations could easily be misleading. As the evidence presented here has shown, some of the money supply targets are being met for certain time periods and some are not. Especially misleading would be simple generalizations based on comparing money growth rates for short-term periods with targeted growth rate ranges. Such comparisons may wrongly imply that money supply targets are not being achieved because short-term movements in the aggregates are sometimes quite volatile. The ray approach used in this article helps avoid misleading comparisons by placing the assessment of target achievement in a longer run perspective.

In early February, Chairman Burns presented to the House Committee on Banking, Currency, and Housing the target growth rate ranges of the monetary aggregates for the year ending in the fourth quarter of 1976. These ranges differed only a little from those announced previously. For M2 and M3, the growth ranges remain at 7.5 to 10.5 per cent and 9 to 12 per cent, respectively. The growth range for M1 has been widened somewhat, to a 4.5 to 7.5 per cent range, from the previous range of 5 to 7.5 per cent. The lowering of the bottom end of the range takes into account, among other factors, the transfer of funds from demand balances to business savings accounts at commercial banks—a development that lowers the growth rate of M1 but leaves unaffected the growth rates of M2 and M3.

UNEMPLOYMENT INSURANCE

Part I: Programs and Procedures

By Steven P. Zell

Like many of this country's major social programs, the Federal-state system of unemployment compensation had its inception during the Great Depression. Since that time the program has grown in both size and scope far beyond the level envisioned by its creators. A subject of controversy years before economic and social conditions made its existence essential, the unemployment insurance system is now undergoing both its greatest expansion and its closest scrutiny.

Two examples of the tremendous growth of the system are seen in the annual benefits paid and the number of new beneficiaries. In 1940, one year after all of the states began paying benefits, 5.2 million persons received their first benefit checks and \$519 million in benefits were paid. By contrast, it is estimated that under the same regular state programs, over 12.2 million persons began a period of compensated unemployment in 1975, and total benefits paid to these persons and to those continuing their unemployment from 1974 exceeded \$12 billion. In addition, another \$4.3 billion in benefits was paid under two recently enacted extended benefit programs.¹

Yet, despite the fact that the unemployment insurance (UI) system directly affects millions of

families, employs about 100,000 persons, and costs over \$1 billion to administer, very few Americans really understand its functionings. This article provides a guide to the UI system by examining three of its most important aspects: its programs, its procedures, and its problems.

ORIGIN AND OBJECTIVES

While the unemployment insurance system has undergone numerous changes since its inception, much in it has remained the same. In particular, its original philosophical underpinnings—who should be compensated, under what conditions, and for how long—have influenced the system throughout its existence. Thus, to understand the current system, it is first necessary to examine it at its beginning.

Origin

The Federal-state system of unemployment insurance originated in 1935 as Titles III and IX of the Social Security Act. The concept of unemployment insurance, however, was not new to the Great Depression. As early as 1920, Professor John R. Commons of the University of Wisconsin succeeded in having a bill for a state program introduced into the Wisconsin legislature and finally in having it passed in 1932. Even before that date, many state legislatures had discussed the desirability of some form of unemployment insurance, yet each was unwilling to levy a tax against its em-

¹*Unemployment Insurance Financial Data, 1938-1970*, U. S. Department of Labor, Manpower Administration, 1971, pp. 141-46, and *Information on Unemployment and Unemployment Compensation Programs*, prepared for the Subcommittee on Unemployment Compensation, House Committee on Ways and Means, September 22, 1975, Exhibit 12 (U. S. Department of Labor estimates, revised January 1976).

ployers that was not also levied by its neighboring states.

Recognizing that some form of Federal legislation was necessary, President Roosevelt appointed the Committee on Economic Security in June 1934 and asked it to draft a comprehensive program for the income protection of the unemployed. Realizing that the depression-level unemployment had national causes and thus required national solutions, the Committee members recommended a joint Federal-state unemployment system for several reasons. Some of the members preferred to see labor and social legislation administered on the state level, at least partly in fear of the results of imposing a uniform system on the diversified U. S. economy. For the most part, though, a state administered system was proposed on the expectation that a purely Federal system would be declared unconstitutional by the Supreme Court. As shall be noted later, a similar fear strongly influenced the definition of the objectives of the system.

In establishing a framework for the system, the Committee was influenced by both the enormous debt accumulated by the British system of unemployment compensation, as well as by the overly high cost estimates made by its own actuary. As a result, it recommended limiting UI benefits to a maximum of 12 to 16 weeks, with an opportunity for government employment for those who remained unemployed after they exhausted their benefits.²

As finally enacted by Congress, a provision of the Social Security Act (later incorporated as part of the Internal Revenue Code and called the Federal Unemployment Tax Act) established a Federal-state unemployment insurance system based on the Committee's recommendations. Under the law, the states were individually free to join or not join the system and to adopt coverage and benefit provisions as they saw fit. To "encourage" the states to join, however, the law provided that certain categories of employers with eight or more workers must pay

a Federal tax equal to 3.0 per cent of their payroll. This tax was due the Federal government whether or not a state had an unemployment insurance law. However, employers who were covered by both the Federal law and by a state law meeting certain Federal requirements could deduct 90 per cent (or 2.7 per cent) of this tax liability by paying this portion to the state for use in the payment of unemployment claims.³ The 0.3 per cent that went to the Federal government was to pay all of the administrative costs of the program.

At their option, states could offer broader or narrower coverage than that specified by the Federal law. But since narrower state coverage penalized uncovered employers (who were still liable for the Federal tax) without benefiting the state, there was little incentive to adopt this option. Effectively, then, the choice available to the states was whether or not to join a costless unemployment insurance system. Employers in the state paid the same tax in either case. The result was that by 1938, every state, as well as Alaska, Hawaii, and the District of Columbia, had joined the system. Puerto Rico joined the system in 1960.

Primary Objective

The new unemployment insurance system was a radical departure from previous welfare and relief programs. The primary objective of the new system was, literally, to *insure* individual workers against loss of wages as a result of adverse economic conditions. The beneficiaries of the insurance were individuals who *earned* their benefits by virtue of prior employment and whose benefits were proportional to their prior earnings (as a proxy for lost wages). This contrasted sharply with existing welfare programs which were aimed at families, and whose benefits were determined on the basis of needs.⁴ The original UI programs were thus clearly designed for a very specific clientele, and the continuing efforts at both the Federal and state levels

²Merrill G. Murray, *Income for the Unemployed* (Kalamazoo: The W. E. Upjohn Institute, April 1971), pp. 7-8.

³As shall be explained, employers may continue to take the full 2.7 per cent credit even if their state UI tax rate is below this level, provided that it has been so reduced through experience rating.

⁴George S. Roche, *Entitlement to Unemployment Insurance Benefits* (Kalamazoo: W. E. Upjohn Institute, September 1973), p. 1.

to circumscribe the group of beneficiaries represents perhaps the strongest influence on the development of the system and its regulations.

In particular, the program was never intended to protect all workers against all wage losses. Instead, it attempted to adhere to some loose common notion of the type of worker who should be compensated, and, seemingly more important, of the type of worker who *should not* be compensated and the type of behavior that was unacceptable for a worker who really wanted a job. This attempt to define who may or may not be compensated is largely responsible for the enormous complexity and diversity of the state laws today.⁵

The system was specifically aimed at the unemployed *regular* worker, a full-time worker who had just lost a permanent job due to economic conditions and who would either be rehired or would find new, permanent employment. Unemployment benefits were intended to be of relatively short duration. On the other hand, the system specifically excluded the highly seasonal worker through its explicit exclusion of agriculture and its initial requirement that covered employers must employ eight or more workers for at least one day in each of 20 weeks. Finally, many of the complicated entitlement provisions and disqualifications which today apply to all claimants originated as legislative or administrative responses to the problem of paying benefits to workers who were neither "regular" nor "seasonal," but rather who operated in that part of the labor market now increasingly referred to as the "secondary sector."⁶ The labor market attachment of both seasonal and secondary sector workers was suspect, and this was viewed as grounds for disqualification.

Other Objectives

In addition to its primary objective of providing protection against wage loss, the system as established incorporated three other general goals: (1) stabilizing the economy in the face of an eco-

nomie downturn by maintaining the purchasing power of laid-off workers; (2) establishing economic incentives to encourage employers to stabilize their employment; and (3) providing placement, training, and counseling services to unemployed workers to assist them in finding employment.⁷

The first of these goals, stabilization of the economy, represents one of the strongest arguments in favor of the UI system. It is predicated on the belief, later espoused by Keynes, that government transfer payments in an economic downturn will tend to moderate that decline by maintaining purchasing power and thus preventing a drastic cutback in consumption in the face of lost wages.⁸

The second of these goals, stabilizing the employment practices of employers, was adopted to varying degrees by the states. Basically, it was hoped that if employers perceived that their UI tax rate would rise with the frequency of their layoffs, they would be encouraged to practice a more stable employment policy. This would be accomplished through what is known as *experience rating*. Under this system, separate accounts exist for each employer, and these accounts are credited with all tax payments he has made and charged with all benefits paid to his workers who have become unemployed and are eligible. The net balance determines his "experience" and his tax rate, usually within some specified range. The effectiveness of this procedure as implemented is questionable, however, and some of its problems will be discussed later in this article.

The third general objective was to provide a program to assist the unemployed in finding reemployment as soon as possible. Accomplishment of this goal was attempted principally through affiliating the UI system with the U. S. Employment

⁵*Ibid.*, pp. 6-7.

⁶*Ibid.*, pp. 6-11. See Steven P. Zell, "Recent Developments in the Theory of Unemployment," Federal Reserve Bank of Kansas City *Monthly Review*, September-October 1975, pp. 7-10.

⁷Roche, p. 2. While these were all legitimate objectives, they were adopted, in part, to provide "an element of public interest that was needed if the courts were to hold the [Federal and state] laws constitutional as a valid exercise of "police power" under which our governments can act to protect the general welfare," rather than declaring "that the taxes were a taking of private property without due process of law. . . ."

⁸The symbol of the UI system is a gyroscope with the words, "Unemployment Insurance • Income Stabilizer."

Service (ES) which had been created in 1933 under the Wagner-Peyser Act. All UI claimants were, and still are, required to register with the ES as a prerequisite for receiving benefits. The public employment office was supposed to verify both the claimant's availability and willingness to work (two prerequisites for benefits in all states), test the applicant's abilities, and provide suitable job references. For many years, the ES was so inundated by this affiliation that it became known as the "unemployment service." Currently, the ES has expanded its services to aid other special population groups, and the UI system has taken on more of the responsibility of verifying the appropriate job search of its claimants. The ES and UI system remain cooperative but independent programs administered by the Employment and Training Administration (formerly the Manpower Administration) of the U. S. Department of Labor.

TERMINOLOGY AND PROCEDURES: MISSOURI

One of the best ways to understand the data, terminology, and concepts of unemployment insurance is to consider them in the context of the actual operations of a representative state system. For this purpose, this article examines the regulations and procedures of the Missouri Division of Employment Security (MDES).⁹

In Missouri, as in all other states, the great majority of UI claimants and most of the benefits paid are administered under the *regular state program*. In addition, each state also administers separate "regular" programs for ex-servicemen (UCX) and for ex-Federal civilian employees (UCFE). The rules and regulations governing these separate programs vary from state to state but are the same as those that pertain to each state's own regular program.¹⁰

Not all workers, however, are eligible for benefits under the regular UI programs. Above and beyond the qualifying procedure through which every

claimant must pass, an unemployed worker who seeks to collect unemployment compensation in Missouri must first have been employed in covered employment for at least two quarters and earned sufficient wage credits there to qualify as an insured worker.¹¹ With the exception of employment in such specifically disqualified sectors as agriculture and domestic work, from 1937 to 1955 covered employers (those subject to the Federal unemployment tax on their payrolls) were defined as those who employed eight or more workers in at least 20 weeks during the calendar year. The present Federal standard, effective since January 1, 1972, defines covered employers as those employing one or more workers for at least 1 day in each of 20 calendar weeks, or having a payroll of \$1,500 or more in any calendar quarter.¹²

A worker in covered employment in Missouri who becomes unemployed begins the procedure to collect unemployment compensation by reporting to his local Missouri Division of Employment Security (MDES) office. There, he first registers for work with the Employment Service. The job of the ES is to collect a detailed summary of the applicant's qualifications and work history and to try to match him with a suitable job opening which has been listed with the service by a cooperating em-

10/Railroad workers have a completely separate system administered by the Railroad Retirement Board. Each state system also administers a Federal-State Extended Benefits (EB) program and a Federal Supplemental Benefits (FSB) program for individuals who have exhausted their regular benefits (including ex-servicemen and ex-Federal civilian employees) and a Special Unemployment Assistance (SUA) program for some population groups previously not covered by UI. The EB program is a permanent part of the system while both the FSB and SUA programs are temporary. The general purpose of these three programs, which went into effect when the unemployment rate exceeded a specified level, is to alleviate the severe effects of the present recession on employment. See Part II of this article in a subsequent *Monthly Review* for a more detailed examination of these special extended programs.

11/The specific wage eligibility requirements are discussed in detail later. Because of these restrictions on covered employment and wage eligibility, new entrants to the labor force and many reentrants who have not been employed for some time, are not eligible to receive unemployment compensation, although they may technically be unemployed by the usual definition. See Steven P. Zell, "A Labor Market Primer," Federal Reserve Bank of Kansas City *Monthly Review*, January 1975.

12/Thirty-one states, including Missouri, use this definition of covered employment. The remaining states generally provide broader coverage. In addition, from January 1, 1972, UI coverage throughout the nation was extended to workers in state hospitals, colleges and universities, and to workers employed by certain nonprofit organizations which employ four or more workers in a calendar quarter. Self-employment is excluded from coverage in all states. For further exclusions and qualifications, see: *Information on Unemployment and Unemployment Compensation Programs*, pp. 5-6.

9/The author is indebted to John A. Moorman, Claims Supervisor, for his kind cooperation in providing information on the operations of the Missouri Division of Employment Security. Additional information was obtained from a publication of that Division, "Introduction To Unemployment Insurance," May 1975.

ployer. No fee is charged to either the employer or the applicant for this service. Following this application, the unemployed worker moves to the unemployment insurance section and files his *initial claim*.

Filing a Claim

The initial claim, a notice filed by a worker that he is starting a new period of unemployment, is the keystone of the UI system. In Missouri, as in all states except New Hampshire, it establishes both the worker's *benefit year* and *base period*.

The benefit year is a 1-year period generally beginning with the first day of the week (Sunday, in Missouri) in which an initial claim is filed. The base period is a 1-year period preceding the filing of the initial claim. In Missouri, and in the majority of states, this period is the first four of the last five *completed* calendar quarters prior to the beginning of the benefit year. For example, if an initial claim is filed in a week in which the Sunday falls in either July, August, or September of 1975 (the third quarter), the benefit year extends for the next 52 weeks. The base period does not include either the uncompleted third quarter of 1975, or the second quarter, known as the lag quarter. Instead, it includes the 1st quarter of 1975 and the 4th, 3rd, and 2nd quarters of 1974. The base period thus runs from April 1, 1974 through March 31, 1975. The claimant's earnings in covered employment during the base period determine both the weekly benefit and the total amount of benefits which he can receive during the benefit year.

After an initial claim is filed in Missouri, the worker is given an identification card and is told to report back to the office, generally in 2 weeks. During this 2-week period, two determinations are made. The first is whether the claimant is eligible, by virtue of having accumulated sufficient wage credits in his base year, to qualify as an *insured worker*. In Missouri, to qualify as an insured worker, a claimant must have been paid wages in covered employment of \$300 or more in one quarter of his base period, earned some wages in at least another quarter, and received total base period

wages of at least 30 times his Weekly Benefit Amount.¹³ The second determination, to be discussed below, is whether the worker had done anything in his base period work experience which might disqualify him from receiving benefits. If he is found to have earned sufficient wages to be eligible, he is notified by mail and told his *Weekly Benefit Amount*, his *Maximum Benefit Amount*, the wages that were paid him by each employer in each quarter of his base year, and the start of his benefit year.¹⁴ These data are automatically calculated for each claimant with eligible wage credits even if he never actually collects any benefits.¹⁵

The Weekly Benefit Amount (WBA) in Missouri is simply the payment that an eligible claimant may receive for each week he is unemployed. Subject to an \$85 maximum and a \$15 minimum, the WBA is calculated as 1/20 of the total wages paid to the claimant in that base period quarter in which his highest wages were earned.

Most other states also calculate the WBA as some fraction of the highest quarterly wage (HQW), the rationale being that earnings in the high quarter are considered to most nearly reflect the wages that would be lost by unemployed full-time workers. As noted earlier, of course, compensating these workers was the central emphasis of the original system. Thus, if the fraction of HQW compensated is 1/26, a worker with 13 full weeks of employment in his high quarter will receive a weekly compensation of 50 per cent (13/26) of his lost average weekly high quarter wage in each week of unemployment, provided this figure does not exceed the statutory maximum. Missouri's provision of 1/20 of the HQW is more liberal, and is based on the premise that for many workers, even the highest quarter of earnings may include some unemployment. Of course, this means that some claimants who worked 13 weeks in their high quar-

13/See definition in the following paragraph. Note that the two quarter earnings requirement is included to avoid paying benefits to seasonal and secondary sector workers.

14/The wage data for each employee are submitted by employers to the MDES at the end of each calendar quarter and recorded by the worker's social security number.

15/An eligible worker might never collect benefits if he either finds a job in a few days or is subsequently disqualified for a variety of reasons to be discussed later.

ter will receive as much as 65 per cent of their average weekly high quarter wage.¹⁶

Similarly, the Maximum Benefit Amount (MBA) is the total a claimant is eligible to receive in a benefit year. It is calculated by crediting him with the wages actually paid to him in insured work during each quarter of his base period or with \$2,210 per quarter, whichever is less. The MBA is then further restricted to, at most, 26 times his WBA while not exceeding 1/3 of his total allowable wage credits. These restrictions were established because it is the MBA, in conjunction with the WBA, which determines the potential duration of benefits in weeks, up to a statutory maximum of 26 weeks of compensation. The way these concepts interact can best be understood by considering the examples in the adjoining box.

To recapitulate, following the filing of his initial claim, the worker is told to report back to the MDES office, generally after 2 weeks. During this time, the worker's wage credit eligibility is determined. In addition, all of his former base period employers are notified by mail that the unemployed worker is filing a claim. While 33 states consider that the circumstances of the worker's last separation are the only ones affecting his entitlement to benefits, Missouri and 18 other states consider *all* separations in the base period. Generally speaking, if the worker either voluntarily left work without good cause attributable to his work or to his employer, was dismissed for misconduct, or refused to accept suitable work, various penalties are applied to the employee's benefits, ranging from the delay of payments to the cancellation of wage credits.

When employers are informed of the filed claim, they have 10 days after the mailing of the notification to contest that claim. The incentive for an employer to contest a claim is provided by the experience rating system mentioned earlier. Under this system, though the basic tax rate paid by an employer in Missouri is 2.7 per cent of the first \$4,200 of an employee's earnings, the rate is flexible within a range of 0.0-3.6 per cent.¹⁷ Thus, an employer who has few unemployment claims

¹⁶That is, if $WBA = 1/20 \times HQW$, then $WBA = 1/20 \times (\text{lost wages per week in HQ}) \times (\text{no. of weeks in HQ})$ and if no. of weeks in HQ = 13,

EXAMPLES

Man A worked 10 weeks per quarter in each of three quarters in his base year and 12 weeks in the fourth. In all cases, his average weekly wage was \$120 per week.

Total Earnings	Allowable Wage Credits	HQW	WBA	MBA	Benefit Duration (weeks)
\$5,040	\$5,040	\$1,440	\$72	\$1,680	23.3

- HQW = (12 weeks/quarter) x (\$120/week) = \$1,440/quarter.
- WBA = HQW ÷ 20 = \$72/week.
- MBA = 26 x WBA = \$1,872 **but not exceeding** MBA = 1/3 x Allowable Wage Credits = \$1,680.
- Benefit Duration = MBA ÷ WBA = (\$1,680) ÷ (\$72/week) = 23.3 weeks.

Man B worked in all 52 weeks in his base year at \$150 per week.

Total Earnings	Allowable Wage Credits	HQW	WBA	MBA	Benefit Duration (weeks)
\$7,800	\$7,800	\$1,950	\$85	\$2,210	26

- HQW = (13 weeks/quarter) x (\$150/week) = \$1,950/quarter.
- WBA = HQW ÷ 20 = \$97.50 **but not exceeding** \$85.00 maximum.
- MBA = 26 x WBA = \$2,210 **but not exceeding** MBA = 1/3 x Allowable Wage Credits = \$2,600.
- Benefit Duration = MBA ÷ WBA = (\$2,210) ÷ (\$85/week) = 26 weeks.

Man C worked in only three quarters in his base year for 13 weeks per quarter. He earned \$230 per week in two of the quarters and \$250 per week in the third quarter.

Total Earnings	Allowable Wage Credits	HQW	WBA	MBA	Benefit Duration (weeks)
\$9,230	\$6,630	\$3,250	\$85	\$2,210	26

- HQW = (13 weeks/quarter) x (\$250/week) = \$3,250/quarter.
- WBA = HQW ÷ 20 = \$162.50 **but not exceeding** \$85.00 maximum.
- Allowable Wage Credits = Total Earnings not exceeding \$2,210 per quarter = \$6,630.
- MBA = 26 x WBA = \$2,210 **but not exceeding** 1/3 x Allowable Wage Credits = \$2,210.
- Benefit Duration = MBA ÷ WBA = (\$2,210) ÷ (\$85/week) = 26 weeks.

NOTE: The percentage of average high quarter weekly wages reimbursed was, respectively, for

- Man A: $78/120 = 65\%$;
 Man B: $85/150 = 56.7\%$;
 Man C: $85/250 = 34\%$.

then $WBA = 13/20 \times \text{lost wages per week in HQ}$. If a worker's lost wages were high enough that this expression exceeded \$85 per week, however, the percentage of his lost wage that would actually be reimbursed would be less than 65 per cent.

¹⁷Effective January 1, 1976, this wage base was raised to \$4,500 and a 0.5 per cent tax rate surtax was applied to all employers. These raises are an attempt to partially compensate for the tremendous growth in benefits paid out by the system during the present recession.

charged against his account may eventually end up paying no state UI tax, while an employer with a heavily charged account may pay as much as a 3.6 per cent state UI tax for each employee. Note that even if an employer pays no state UI tax, he can still deduct 2.7 per cent from his 3.2 per cent Federal UI tax liability.

Claim Not Contested

Consider first the case where none of the claimant's former employers contest the claim for unemployment compensation and no issue is raised by information furnished by the claimant. When the claimant returns to the MDES office after 2 weeks, he is asked to file two *continued claim* cards. Each card certifies that the claimant has just experienced 1 week of unemployment and that during that week he fulfilled three requirements for eligibility. First, he must have been "available for work" during that week. This is interpreted as meaning that the applicant both desires work and is willing to work under circumstances in which he might reasonably expect to find work. For example, if he insisted on working only at a type of job which no longer existed in his town, he would be declared unavailable and thus ineligible for benefits. Similarly, if he moved to a remote area where there was little chance of his finding employment in his field, he would be declared unavailable for work.¹⁸ Second, he had to have been physically "able to work" in the type of employment he was seeking. And third, he must have been "actively seeking work" above and beyond merely registering for work with the ES. Basically, he must have been following a reason-

able procedure, similar to what he had done in the past, which seemed designed to result in his finding employment.

If these qualifications are met, and the worker is not currently participating in a labor dispute, he is eligible for his first benefits. In his first check, however, usually received a few days after filing the first two continued claims, the claimant is only compensated for 1 week of unemployment, because most states define the first eligible week of unemployment as a "waiting week," which is not compensable. All subsequent continued claims for eligible weeks of unemployment are compensable. However, in Missouri, if 9 consecutive weeks are paid, the waiting week at the beginning will be compensated.¹⁹ Finally, the worker is given a series of dated continued claim cards in envelopes and is asked to complete and mail in one card for each week of eligible unemployment that may follow. Generally, he must come in to check with the ES about potential jobs approximately every 60 days. At that time, he will be given more continued claim cards if he has not exhausted all of his benefit eligibility. Aside from his certification on each card that he has satisfied the necessary eligibility requirements, no intermediate check is made on him. After a period of time, however, if he is still unemployed, he will probably be required to lower the wage level he considers acceptable and/or to broaden the work categories he considers suitable. In addition, once every quarter, all claims and earnings records are audited to determine whether any employee worked in a week in which he also received benefits.

If a worker collects some benefits in his benefit year, is reemployed for a few weeks, then is laid off before the expiration of his benefit year, he files a renewed claim. This allows him to receive the remainder of his benefit entitlement which was determined when his initial claim was filed. Though this renewed claim is counted in the published initial

18/An excellent example of this rule was tested in a New York State court on July 5, 1972. Under what is known as the "reciprocal benefits" agreement, all states have agreed that if a worker earns wage credits in one state, becomes unemployed through no fault of his own, and moves to a second state, he can file for UI benefits, which, if all requirements are met, will be paid on these credits by the first state.

In January 1968, the state of New York began enforcing what was known as the "12 per cent rule" against persons who had earned wage credits in New York, were laid off, and then moved to Puerto Rico. This rule stated that persons changing their residence to a geographical area in which the unemployment rate was 12 per cent or higher, were effectively removing themselves from work availability and, therefore, in the eyes of the state of New York, were no longer eligible for unemployment compensation. In the case entitled "Vicente Calvan and Marcelino Torres versus Louis K. Levine, Industrial Commissioner of the State of New York," the court decided that while the 12 per cent rule was constitutional, it had been selectively designed and applied only against applicants from Puerto Rico and was thus illegal in this case.

19/The weekly count of continued claims is referred to in the published data as the amount of *insured unemployment*. It is frequently, though incorrectly, defined as the number of persons receiving unemployment compensation. However, because it includes waiting weeks, as well as some claimants who are subsequently determined either ineligible by reason of insufficient wage credits or who are disqualified, it is often a significant overcount of the number of beneficiaries. Surprisingly, no exact count of the number of beneficiaries is published.

claim statistics, *administratively* there is only one initial claim and one waiting week during any benefit year. If this worker exhausts his benefit entitlement, he cannot file again for compensation until the first benefit year expires. After that, if still unemployed, he files a new initial claim, establishes a new base period and benefit year, and, if eligible, must serve a new waiting week before receiving benefits.²⁰

Claim Contested

The alternative to an uncontested claim is a case where one or more of the former base-period employers chooses to contest a claimant's assertion that he is unemployed through no fault of his own and is thus eligible to receive unemployment compensation. Under the Missouri law, a claimant who would otherwise be eligible to receive benefits may be disqualified if he either: (1) left his job voluntarily without good cause attributable to his work or to his employer; (2) has been discharged or suspended for misconduct connected with his work; or (3) failed, without good cause, to accept suitable work offered through the ES or by a former employer.²¹ Before considering these disqualifications, it is instructive to examine how employers' accounts are charged when a claimant collects benefits.

20/ All states that have a lag between the base period and benefit year place limitations on the use of lag-period wages for the purpose of qualifying for benefits in the second benefit year. The purpose of these special provisions is to prevent benefit entitlement in two successive benefit years following a single separation from work, a procedure known as "double-dipping." From *Information on Unemployment*, . . . , p. 8. In Missouri, the restriction is that a worker must have earned 5 times his WBA in covered employment or 10 times his WBA in any employment before requalifying to receive benefits in a new benefit year. If a worker files an initial claim before this, it fixes his new base and benefit years, though he cannot collect benefits until he satisfies this requirement. A possible advantage in so filing is that it allows his lag-period wages to be included in his new base year wage credits. These credits would be lost if he did not file until the second quarter after the end of his first benefit year since the new base year includes only the first four of the last five completed quarters.

21/Effective September 28, 1975, Missouri Senate Bill 358 eliminated the previous automatic ineligibility of a pregnant claimant for 3 months prior to the expected date of birth and for 4 weeks after the birth of her child. Now, determinations will be made for pregnant claimants on the basis of their individual ability to work and on their availability.

In 19 other states, pregnancy is still grounds for an automatic disqualification. This policy appears likely to be invalidated, however, by a November 18, 1975 Supreme Court decision. In a Utah case, the Court ruled that the presumption that all women in or beyond their sixth month of pregnancy are unable to work is a violation of the 14th Amendment. Lesley Oelsner, "Supreme Court Upholds Jobless Pay In Pregnancy," *New York Times*, November 18, 1975.

If a filed claim is not contested, benefits are drawn and charged to the accounts of base period employers in reverse chronological order. A maximum of one-third of the wages paid by any base period employer can be charged against him, but these charges cannot exceed one-third of \$2,210 for any base period quarter or a total of \$2,210 for the entire base period. Total charges to all employers cannot exceed the maximum benefit amount for which the claimant is eligible. If, however, a claimant is disqualified for any of the above reasons, a variety of penalties, depending on the offense, will be assessed.

The typical penalty is a delay in the payment of benefits. If a claimant is still unemployed after serving his penalty period, he is, in general, entitled to receive his full benefits (for each subsequent week of unemployment) following a waiting week which must be served at the end of his disqualification. However, should the disqualifying employer's account be reached in the process of paying these benefits, it is fully protected against being charged. Instead, a special fund, set up for this purpose, pays the benefits. This protection tends, over time, to improve the experience rating of the employer and, thus, to lower his tax rate.²²

The 19 states that determine benefit entitlement on the basis of all job separations in the base period, disqualify a claimant who *voluntarily left any of these employers without good cause*. In addition, 14 of these states, including Missouri, restrict the consideration of "good cause" to that directly attributable to the claimant's work or to his employer. For example, quitting a job because one disliked the color of the uniforms would not be good cause. However, though quitting a job in order to take care of an ill spouse would be good cause, it would still result in a benefit disqualification since it was not

22/One of the criticisms of experience rating, however, is that the maximum and minimum tax rates tend to greatly attenuate both the hoped for job stabilization effect as well as the incentive to protest unjust claims. If an employer has a strong surplus in his account and is thus paying the minimum tax rate, a marginal increase or decrease in the number of claims filed against his account will not affect his tax. Similarly, if already at the maximum tax rate, an employer with an unstable layoff history has no incentive to improve since additional layoffs do not result in any additional cost under the UI tax system.

job related.²³ If a worker is disqualified in Missouri for voluntarily quitting, the penalty is an indefinite delay in benefits until the claimant has worked at other jobs, earning at least 10 times his Weekly Benefit Amount (determined when the initial claim was filed), and then is once again unemployed through no fault of his own.

This same penalty is applied in Missouri if disqualification results from a claimant's *refusal to accept suitable work*. The concept of "work suitability" is a largely subjective one which tends to change with the duration of unemployment. In essence, a potential job is examined as to the kind of work it represents, the wages it pays, its working conditions, and its distance from the claimant's residence. These factors are then compared with those of the typical work experience of the claimant. If they compare favorably, he must take the job or be disqualified from receiving UI benefits. In addition, just as in the "availability" determination, a worker cannot set "suitability" standards which are unrealistic given the community in which he lives. Finally, if his unemployment persists, a claimant may be required to accept work which would have initially been termed "unsuitable."

If a worker is disqualified because he was *discharged or suspended for work related misconduct*, the penalty depends on the seriousness of the offense. Misconduct is usually defined as any action, detrimental to the interests of the employer, which was either deliberate or within the power of the employee to control. Thus, dismissal due to an absence for an illness might not be a disqualifying offense, while discharge due to an absence for drunkenness or due to an unauthorized trip probably would be. Similarly, an incompetent or unintentionally slow worker would not be disqualified if he had been discharged for this reason, while a purposely careless or lazy worker would be disqualified. The penalty for this type of disqualification is a delay in the receipt of benefits from 1 to 8 weeks. During

this period, the claimant is required to file weekly claims for compensation, but benefits cannot be started until a waiting week has been served following the end of the period of disqualification.

Lastly, the most serious disqualifying offense is *aggravated misconduct*. In these cases, which involve theft, dishonesty, or "wanton disregard of the employer's interest which might result in serious loss of property," a dual penalty is applied. Not only is there an automatic 8-week delay in the receipt of benefits, but all or any part of the claimant's wage credits earned while employed by the discharging employer may be cancelled at the discretion of the UI agent.

Either party, claimant or employer, receiving an adverse ruling on a disqualification charge, has the right to appeal within 10 days of the mailing of the determination.²⁴ Within about 3 weeks after the filing of the appeal, a hearing is held by a representative of the MDES, known as an appeals referee. Hearings are informal and based on all available evidence although testimony is taken under oath. Either party may have a lawyer or a witness present and a decision is usually rendered within 10 days. Further appeals, if desired, may be taken to the State Labor and Industrial Relations Commission, which is simply a board of review, and then to the courts.

SUMMARY

The Federal-state system of unemployment insurance was created by the Social Security Act of 1935 as an outgrowth of recommendations made by President Roosevelt's Committee on Economic Security. Membership by the states was not required. However, the Federal Unemployment Tax that was imposed on each state's employers was so constructed that by 1938 all of the states, as well as Alaska, Hawaii, and the District of Columbia, had joined the system. Puerto Rico joined in 1960.

²³The law does specify that neither leaving a job to accept a better job nor quitting a temporary job to return to one's regular employer is grounds for disqualification. Note, in fact, that in order to be eligible for benefits, a claimant must establish that he is looking for full-time work, even if he has a history of part-time work which has given him monetary eligibility. This requirement is an attempt to conform to the "regular" worker focus of the original UI system.

²⁴The one exception to this is the case of former Federal employees, where, by agreement with the Secretary of Labor, the Federal Government's determination of the facts of a case must be taken as true. This, however, is likely to be changed in a new UI law currently under consideration by the Congress.

The primary objective of the system was to protect individual workers against a loss of wages due to adverse economic conditions. Benefits were considered as earned by virtue of prior employment. The program was aimed specifically at the unemployed regular, full-time worker. Other objectives included stabilizing the economy by maintaining purchasing power, encouraging employers to stabilize their employment, and providing assistance to workers in finding employment. These objectives remain the focus of the modern UI system.

Over the years, the procedures for determining eligibility, benefit size, and benefit duration have become increasingly complex and varied. Each state now administers a variety of programs, but the great majority of benefits are paid under the regular state programs. To be eligible for benefits, a claimant must first have earned sufficient wage credits in covered employment as defined by the state. State laws tend to include in their definitions of covered employment at least those employers specified by the Federal law. They may have broader or narrower coverage, but the narrower coverage penalizes employers and offers no advantage to the state.

An unemployed worker must register for a job with the employment service and file an initial claim for benefits. The date of filing establishes

both the wages which are examined to determine his potential benefits as well as the period over which he might be eligible to receive these benefits. However, eventual benefit receipt depends on several factors. During each week of unemployment, a claimant must establish that he is available for work, able to work, and actively seeking full-time work.

Further, a claimant must be unemployed through no fault of his own. In Missouri and 18 other states, a claimant may be disqualified from receiving benefits if it is established that he either voluntarily left work without good cause attributable to his work or to his employer or was dismissed for misconduct related to his work. In addition, once unemployed, he may be disqualified for refusing to accept suitable work. Various penalties may be assigned depending on the offense. Either the claimant or the former employer may appeal an adverse determination.

The second part of this article, to appear in a subsequent *Monthly Review*, will examine the variety of programs which exist among the states and the special extended benefit and expanded coverage programs which are in effect during the present recession. In addition, some major criticisms and problems of the UI system and some proposed solutions will also be studied.