

THE RELATIONSHIP BETWEEN UNEMPLOYMENT COMPENSATION AND RELIEF FROM A NATIONAL POINT OF VIEW

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Unemployment compensation, as it has developed in the United States, is in principle sharply differentiated from public assistance or relief. It has frequently been called "the first line of defense" against unemployment. After a short waiting period the unemployed worker who has earned wage credits in covered employment receives benefits as a matter of right, paid to him as an individual regardless of family ties or responsibilities; in only one jurisdiction—the District of Columbia—out of 51 in which unemployment compensation laws have been enacted are benefits varied in accordance with the number of dependents in the family. Both the amount and the duration of benefit payments (except in Ohio) are based upon the previous earnings or amount of employment of the worker.

Thus, in contrast to the British unemployment insurance system, in which certain relief or assistance principles are strongly emphasized, American unemployment compensation is almost wholly divorced from such principles. The American theory is that under normal long-run circumstances the unemployed worker will receive unemployment benefits soon enough and high enough to carry himself and his family through the insured period—that is, until his wage credits (or benefit rights) are exhausted. Then, if he has not succeeded in finding a job, he may have to apply for relief or assistance, which can be considered as a last resort to which the worker appeals only when all his resources and his benefit rights are gone. It is to be hoped and expected that for the large majority of workers in covered occupations unemployment compensation will span gaps of unemployment and obviate necessity for relief. If actual need should develop, it would occur only *after* the worker's relationships with unemployment compensation are ended.

Unfortunately for the unemployment compensation program in this country, this basic relationship between unemployment compensation and

relief has not yet had a chance to develop. At the moment the interrelationship of the two programs is governed largely by temporary administrative situations arising out of the circumstances under which the unemployment compensation program began to function.

The reasons for this condition are now fairly obvious. In 21 States and the District of Columbia, benefits first became payable in January 1938 (Wisconsin had already begun payments in August 1936). In April 1938 two more States began benefit payments, and in July three more, with the remainder beginning later in 1938 or in 1939. For the great majority of the States which began benefit payments in January 1938, the base period for wage-record purposes was 1937; that is, the earnings of covered workers in certain quarters of that year constituted the wage credits on the basis of which benefits were payable for the first quarter of 1938. Workers who were employed in covered industries in 1937 long enough to earn the minimum qualifying wage credits, as specified in the various State laws, acquired benefit rights, which, however, could be exercised only when benefits became payable.

Meantime, business, which was good in the first half of 1937, slumped rapidly in the second half of the year. The recession soon was reflected in unemployment, which increased markedly during the autumn and winter. Workers who had been employed in the spring and summer and who had earned the necessary wage credits for unemployment compensation benefits were laid off in the late summer and early fall, with several months to go before benefits were payable. When their own resources were exhausted, these workers had no choice but to apply for relief, and by the end of the year large numbers of prospective unemployment compensation beneficiaries were on the rolls of State and local relief agencies or working for the WPA. The effect of these developments was to invert the normal relationship between the programs in that workers were already "on relief" before they received unemployment compensation.

In the eyes of unemployment compensation

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agencies this was simply one of a number of pressing administrative problems. They realized that when the benefit-paying machinery was finally put into operation they would be swamped with claimants—covered and noncovered, eligible and ineligible, employed and unemployed, relief and nonrelief. They expected that eventually the workers on relief or in WPA jobs would present their claims for unemployment compensation, which would be paid in due course; but they hoped that the relief agencies—and the WPA—would not bring pressure to force the immediate transfer to unemployment compensation of all eligible cases. On the other hand, relief administrators were themselves under pressure. Throughout the country two vital questions were being raised: (1) What will be the effect of unemployment compensation benefits upon relief expenditures? and (2) How can officials of the various agencies meet the administrative problems of transferring to the unemployment compensation agencies thousands of cases already on the relief rolls or working for the WPA?

The first of these questions involved considerations of financial policy. Harassed State and local officials—governors, State legislators, city and county officials—hoped that the inception of unemployment benefits would relieve to some extent the financial pressure on relief. WPA officials also were interested in knowing the extent to which the payment of unemployment benefits would relieve their situation. This problem was intensified by the knowledge that millions of dollars previously set aside in State accounts in the unemployment trust fund were available for benefit payments, while relief funds were nearly exhausted. In some States there was a strong movement to advance the established dates for beginning unemployment benefit payments so that the edge of the unemployment problem could be taken off by the use of the money in the trust fund.

Relief administrators also discovered very early in the year that there were additional administrative complications involved in this process of transfer from relief or Works Program employment to benefit rights. (The unemployed workers and their families had certain advantages in their existing situation and were, to some extent, reluctant to change to a benefit status.

The reasons for this reluctance on the part of the workers are readily understandable. The most obvious fact was that unemployment compensa-

tion requires a waiting period of from 2 to 4 weeks during which no benefits can be paid. Administrative delays might increase this period for some weeks more. Furthermore, the benefits in unemployment compensation for some families did not compare favorably with the grants for direct relief and the WPA security wage. In such cases there was little incentive to change. Again, since unemployment benefits for total unemployment were limited in time to a maximum of 13, 14, or perhaps 16 weeks, there was apparently more security in direct relief or in a WPA job than there was in unemployment compensation. Finally, workers were faced with the fact that having accepted unemployment compensation they might have administrative difficulties some weeks or months later in getting back on relief or in obtaining another WPA job. In view of this general attitude it is not surprising that in some instances relief administrators found it necessary to bring a certain amount of pressure in order to force the workers to make use of their acquired compensation rights. This problem still exists to some degree, and it will arise again in States which begin benefit payments later this year.

The answer to the first question—the effect of unemployment compensation upon relief expenditures—can be supplied only when adequate statistical data become available from actual operations. No one knew or could know how many persons eligible for unemployment compensation were on relief or in WPA jobs when benefit payments began in January. At a meeting of the American Public Welfare Association in Washington, D. C., December 13–14, 1937, this problem was discussed by statisticians of State and local welfare departments. It was the sense of the group that in the months to come an effort should be made by the statisticians in their various communities to obtain the best possible data on this subject. Accordingly, statistical reporting systems were instituted in a number of large cities and in one State (Pennsylvania) by means of which it would be possible to determine currently from month to month the extent to which relief cases were being closed because of the receipt of unemployment benefits. The data here presented were made available to the Social Security Board by these State and local cooperating agencies.

For a whole State, the only answer to this question has been supplied by Pennsylvania,

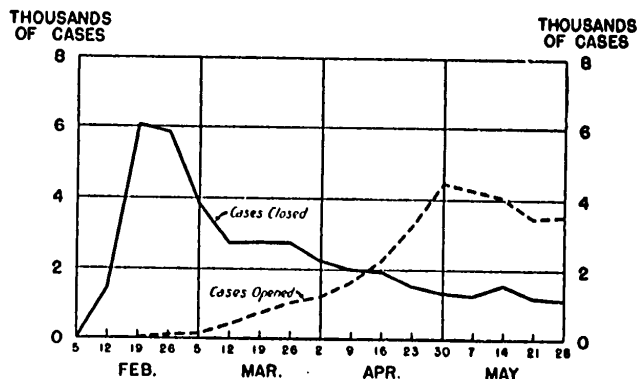
where statistics on this point have been collected regularly by the State Department of Public Assistance since payment of unemployment compensation started. Pennsylvania is one of the best States for this purpose, fortunately, since its relief policies and practices are such as to make the data especially significant. First, Pennsylvania has a unified State-wide general relief system supported almost wholly by State funds and supervised thoroughly from the State office; relief, therefore, is available on a fairly uniform basis throughout the State. Second, sufficient funds have, so far at least, been available so that applications have been freely accepted and relief standards have been fairly well maintained. Third, close coordination has been maintained between the unemployment compensation agency and the relief administration in the State, with records being freely exchanged when necessary. Therefore the data on the relationships of these programs in Pennsylvania at present should be indicative of normal circumstances, insofar as both the unemployment compensation and the relief agencies were operating at full speed. By contrast, it must be evident that no significant data could be obtained from communities where relief has almost ceased to exist, where little interchange of information between the agencies takes place, or where unemployment benefit payments were seriously delayed because of administrative inefficiency.

From the beginning of the year until May 28, 1938, a total of 39,763 relief cases had been closed in Pennsylvania¹ because of the receipt of unemployment compensation by the workers. The effect was most marked in February, when for this reason over 6,000 relief cases were closed in a single week, while in the succeeding week nearly 5,900 cases were closed. Since that time the number closed has declined in every week except one, until in the last week in May there were only 1,128 closings on this account. Using as a base the number of cases receiving general relief in January 1938 (the month before unemployment benefit payments actually were made), we find that in the month of February about 7 percent of all the relief cases in Pennsylvania were closed because of the receipt of unemployment benefits. In March there was a slight decline in the proportion, and for the first 4 weeks of May it had fallen to about 2.6 percent.

No data are available for entire States other

¹ Pennsylvania Department of Public Assistance. *Summary of Public Assistance Statistics*, April 1938, and weekly supplements following.

Chart I.—Cases closed and opened following receipt and cessation of unemployment compensation in Pennsylvania, February–May 1938



than Pennsylvania, but for certain cities or counties similar data are reported monthly to the Social Security Board. These data are summarized in the accompanying table. Note that the closings in Pittsburgh in March reached a peak of 8.0 percent of the total number of relief cases for the month but fell to 4.8 percent in April. In Philadelphia, on the other hand, the closings in the peak month (March) were only 4.6 percent and in April they were 1.7 percent. The figures for these two Pennsylvania cities represent operations under fairly uniform administrative conditions; yet in one city the ratios are about twice as high as in the other.

For the other cities in the table, the extreme variation is due to widely differing administrative policies and practices. To some extent the data reflect the promptness with which payment of unemployment benefits was effected in the various States or cities, but they may also be influenced by the policies of the relief organizations. In some places more pressure may have been brought upon the workers to apply for benefits. The District of Columbia shows almost no connection between unemployment compensation and relief, a situation due to the fact that the District welfare board does not accept employable persons for relief. Milwaukee is interesting because the data reflect relationships between the two programs after more than a year and a half of benefit-payment experience. Buffalo shows a marked effect of unemployment compensation on relief. For 2 months more than half the closings were due to receipt of unemployment compensation. Yet the neighboring city of Rochester shows little effect, and the same is true of New York City.

Statistics of the number of relief cases closed because of the receipt of unemployment benefits do not, of course, reveal the full extent to which the unemployment compensation program has lightened the burden of the relief agencies. We do not know how many cases would have been added to the relief rolls if it had not been for the resource of unemployment benefits. To shed light on this point, sample studies of benefit recipients are needed. By tracing the relief experience of the recipients in antebenefit and postbenefit periods we may draw more valid conclusions concerning the impact of unemployment compensation on relief.

Basic Relationships of Unemployment Compensation and Relief

In the preceding discussion we have considered the two major questions of present concern in the payment of unemployment benefits. It should be clear, however, that both the financial and the administrative questions as there presented relate to the immediate situation rather than to the relationships between unemployment compensation and relief which will prevail in the long run. It is to be expected that eventually all individuals eligible to receive unemployment compensation will be dropped from the relief rolls and will exercise their rights to unemployment benefits. Ordinarily, qualified unemployed workers will first receive unemployment compensation and then, having exhausted their rights to benefits, will apply, if in need, for relief. In other words, they will first exercise their right and then they will plead their need.

We come, then, to a second series of questions, those which will arise continually in the ordinary course of operations in the future. The basic question discussed above will survive in a sort of residual form: *How many workers and their families will require relief during the waiting period prior to the payment of unemployment compensation?*

The best data on this point are from the city of Milwaukee, where the figures probably reflect the long-run relationship. In Milwaukee the proportion of cases receiving general relief who were serving the waiting period for unemployment compensation was as follows: January 1938, 3.9 percent; February, 2.9 percent; March, 3.9 percent; April, 2.3 percent. Since the Wisconsin waiting period is the same as that for a number of other

Table 1.—Number of relief cases closed because of receipt of unemployment benefits, per 100 cases receiving relief during the month, and per 100 relief cases closed during the month, in eight cities, February, March, and April 1938

City or State	Number of cases closed because of receipt of unemployment compensation					
	Per 100 cases receiving relief during month			Per 100 cases closed during month		
	February	March	April	February	March	April
City:						
District of Columbia.....	(1)	0.1	0	(1)	1.2	0
Baltimore.....	2.2	2.2	1.8	21.6	21.4	7.1
Buffalo.....	4.8	5.5	2.7	52.9	54.0	33.5
Rochester.....	(1)	0.6	0.5	(1)	0.0	5.8
New York.....	0.6	1.3	0.4	(1)	13.0	4.5
Pittsburgh.....	7.4	8.0	4.8	42.4	41.3	19.3
Philadelphia.....	2.3	4.6	1.7	33.8	41.9	19.5
Milwaukee.....	(1)	(1)	1.0	(1)	(1)	3.8
State: Pennsylvania.....	5.6	5.5	4.2	27.2	35.1	14.9

¹ Not available.

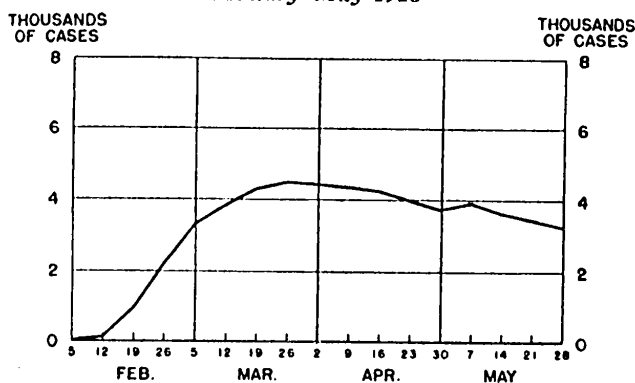
States, these proportions at least give a clue to what may be expected elsewhere when the administrative machinery is functioning normally.

The percentages just cited show the waiting-period cases as a proportion of the total relief load in the community. A much more significant comparison is the ratio of these waiting-period cases to the total unemployment compensation load. Unfortunately, such ratios are difficult to calculate because we have no satisfactory data concerning the number of different individuals receiving unemployment compensation in a given period, say, a month. We do have the number of benefit checks written each month, and on the basis of some meager information we have estimated, from the figures on benefit checks, the probable number of different individuals represented in the payments. Using this estimated number as a base, we have computed the ratios between the waiting-period cases on relief and the total unemployment compensation load as measured by the number of different individuals receiving unemployment compensation in a given month. The figures for Milwaukee on this basis are roughly as follows: January, 7.6 percent; February, 3.6 percent; March, 4.9 percent; and April, 4.0 percent.

The only other city on which we have a record of relief payments to cases during the waiting period is Baltimore. In March 1938, 4.3 percent and in April 2.5 percent of the cases were receiving general relief during the waiting period for unemployment compensation. In terms of the unem-

ployment compensation load, however, the ratios were very much less. These waiting-period relief cases in March amounted to only about 0.7 percent of the individuals receiving benefits, while in April the ratio was only 0.6 percent. The sharp contrast between the Milwaukee and Baltimore data probably results from marked differences in administrative policies and procedures of one or both agencies in the two cities.

Chart II.—Cases receiving general assistance to supplement unemployment compensation in Pennsylvania, February–May 1928



In this connection it must be emphasized that for relief purposes the term "waiting period" must be interpreted to include those administrative delays which necessarily accompany the operation of unemployment compensation. An unemployed worker, to be entitled to benefits, must in many States serve 3 full weeks of waiting. Then in the fourth week he earns his first right to benefits, but these are not due until the end of that week. Ordinarily the benefit payment will be made some time in the following week, which means during the fifth week after the worker lost his job. Should any complication concerning the payment arise, this period might even be longer. It is this over-all period of 5 or 6 or more weeks after unemployment begins that is covered by the figures mentioned above. Unquestionably, delays in making benefit payments during the initial months of benefit operation have been costly to the relief agencies. Many workers, forced to go on relief while awaiting their checks, have doubtless received them after becoming reemployed. Such delay has resulted in two payments where one might have sufficed.

The next major question for the future is: *How many workers receiving unemployment compensation benefits will require supplementary relief?* On this

point the Pennsylvania figures are of primary interest. During March and April 1938 there were, on the average, somewhat more than 4,000 unemployment compensation beneficiaries who were also receiving relief. These cases represented approximately 2.0 percent of the total relief load, and just about this same percentage of the unemployment compensation load in the State, using as a measure of the latter the admittedly crude estimates of the total number of different individuals receiving compensation.

Reports from four cities for the months of March and April indicate the following percentages of relief cases in which general relief and unemployment compensation were received simultaneously in the same household:

City:	March	April
Baltimore.....	5.7	4.0
Buffalo.....	3.6	4.0
Milwaukee.....	0.3	1.3
New York City.....	0.9	0.8

These data indicate that supplementation of unemployment compensation cases may run as high as 4.0 percent of the relief load and may remain as low as 1.0 percent. The preceding percentages do not express the extent to which the unemployment compensation beneficiaries require supplementary relief grants. In Baltimore and in New York City such supplementation affects only about 1.0 percent of the unemployment compensation cases, and in Milwaukee the average for the 2 months indicated was not far above 1.0 percent. Buffalo differs from all the other cities in that nearly 5.0 percent of those receiving benefits were also receiving supplementary relief currently. Variations in relief policy and in administrative practices might account for these differences. Certainly, also, where the standards for relief payments are high, there would be more supplementation of compensation beneficiaries. It is doubtful whether normal relationships with reference to supplementation have yet been established in any of these cities, and the present data may not be indicative of the future.

No information is yet available concerning the extent to which benefits for partial unemployment may relieve the welfare agencies of the necessity of supplementing low earnings. Average weekly benefit payments for partial unemployment in April 1938 in 18 States for which data on this point were available ranged from \$3.61 to \$8.10, averaging \$5.39. It is evident that such pay-

ments will obviate to an appreciable extent the need for relief to supplement inadequate earnings in periods of partial unemployment.

The third major question undoubtedly is that which will loom largest in the future: *How many unemployment compensation beneficiaries will require relief when their benefit rights are exhausted?* In Pennsylvania, even before the end of February, a few general assistance cases were being opened after the cessation of unemployment compensation. By the end of March the number had risen to more than 1,000 per week, and at the end of April it was nearly 4,500 per week. By the end of May the number had declined to about 3,500 per week. From the beginning of the year through May 28, 1938, a total of 30,734 cases had been opened for assistance following the cessation of unemployment compensation. Even more impressive is the fact that these post-unemployment-compensation cases accounted for nearly one-third of all the cases opened for general assistance during May 1938 in Pennsylvania. Furthermore, the proportion of these cases is rapidly increasing and as workers' benefit rights become exhausted may soon rise even above the present ratios. On the other hand, workers now becoming unemployed may have established more wage credits and thus be entitled to longer benefits than beneficiaries in the first quarter of the year; this would decrease the rapidity with which they would exhaust benefit rights.

In terms of the total unemployment compensation load, the number of cases opened for general assistance following cessation of unemployment benefits is comparatively small. During the last week in March that number represented only 0.5 percent of the total number of current recipients of unemployment benefits. For the last week in April, however, the weekly rate of opening had increased to 3.3 percent of the current number of recipients of benefits, and in the last week in May the rate was 2.6 percent. Since workers on the average will draw unemployment compensation for 6 to 8 weeks or possibly longer under present circumstances, these weekly rates, if maintained, may represent a fairly large proportion of all terminations in unemployment compensation. At the April rates, possibly as many as one-fourth of those whose benefits have been terminated for any reason—including finding a job—may require general relief in the postbenefit period.

There are no satisfactory data on this point from any other State or from the large cities. Pennsylvania is not typical of all sections of the country, inasmuch as that State still has fairly adequate relief funds and therefore is able to assume responsibility for such cases. It is probable that in some States or localities where meager or no relief funds are available the statistics would not be at all indicative of the extent of unmet need. From this point of view the Pennsylvania data appear to be the best now available. They are suggestive of the degree to which unemployment compensation claimants will require relief after the benefit period is over. Current data, of course, reflect depression conditions; in a period of recovery or prosperity the results would be somewhat different.

On this particular point, special consideration needs to be given to the relationship between unemployment compensation and the Works Program, especially the WPA. The question of concurrent aid to an individual during the waiting period for unemployment compensation or of aid *supplementary* to unemployment benefits does not concern the WPA, since that agency does not accept unemployment compensation cases under such circumstances. The WPA, however, is in a position to accept applications from workers who have exhausted their benefit rights. In fact, insofar as the WPA endeavors to provide work for all bona fide unemployed, the question of the eligibility of these particular workers for WPA employment becomes crucial. It seems probable that the unemployment compensation agency will be able to supply regularly administrative and statistical records of workers who have exhausted their benefit rights and who, therefore, are beyond the scope of benefits, at least for the time being. These workers will undoubtedly constitute a large portion of the potentially employable unemployed workers available for WPA jobs. It is certain that in any long-continued work program a close interrelationship must be maintained between the unemployment compensation agencies and the agencies responsible for the work program.

Another phase of this relationship concerns the attitude of the WPA toward the employment of persons currently eligible for benefits. For example, an unemployed worker currently receiving benefits may apply for WPA employment on a project utilizing his occupational skills. The question then is, "Should the WPA refuse to

accept applications of workers who are currently receiving or are entitled to receive unemployment benefits; or should the matter be left to individual determination, the worker being hired by WPA if the agency has a place for him?" It will be important to establish a policy concerning this relationship in the near future in order that no administrative complications may arise.

This problem is a difficult one for both the unemployment compensation agencies and the WPA. On the one hand, unemployment benefits will often be considerably lower than the security wage offered by the WPA, so that the worker will be tempted to accept such employment. This situation might give rise to a steady drift of workers eligible for unemployment benefits to the WPA rolls. On the other hand, if the WPA refuses to accept unemployment compensation cases but freely offers jobs to workers in the noncovered occupations who are not eligible for benefits and to workers whose benefit rights are exhausted, then the question may be raised as to whether the unemployment compensation program can function adequately as an integral part of a larger social security program. Clearly, if unemployment compensation is to be a first line of defense for the worker, it must be adequate, both in duration and in amount of benefit payments, to compete successfully with alternative programs which may impinge upon it.

This brings us to the final point: *How do unemployment benefits compare, on the average, with relief payments and with WPA wages?* Once more, the only satisfactory data we have on this point come from the State of Pennsylvania. A study has been made by Sava Schwartz,² Administrative Assistant of the Philadelphia County Board, of 2,500 relief cases in Philadelphia which were affected by the receipt of unemployment compensation. The data cover the month of February 1938. The Philadelphia statistics for a sample of the 2,000 cases which were closed as a result of unemployment benefits show that the average weekly unemployment benefit was \$11.28, while the relief grant previously received by these 2,000 cases had averaged \$8.68 per week. Thus, on the average the unemployment benefits were about 30 percent

² Schwartz, Sava. "The Effect of Unemployment Benefits on 2,500 Relief Cases in Philadelphia," *Social Security Bulletin*, Vol. 1, Nos. 1-3 (March 1938), pp. 41-42.

higher than the assistance grants. However, in about 28 percent of these sample cases the difference between the two was less than \$2.00. Furthermore, the sample included only closed cases, whereas about one-fifth of the 2,500 cases could not be closed because their relief needs were so much above their benefits that they were entitled to current supplementation.

There is every reason to believe that the ratio of assistance grants to unemployment benefits in Pennsylvania is as favorable to relief as would be found anywhere in the country, possibly excepting New York. It would seem, then, that on the whole, for the majority of cases, unemployment compensation will offer to the worker definite advantages over relief, at least so far as weekly benefits are concerned; but there will be a minority of cases in which workers with large families would find relief grants more adequate than unemployment benefits.

For the WPA the situation is quite different. Unpublished data of the WPA indicate that average earnings of WPA workers in Philadelphia were nearly \$62 for March 1938 and nearly \$59 for April. Clearly, in amount, the WPA security wage is likely to be preferable to unemployment benefits. There remains, however, the distinct advantage to the worker that benefits are payable as a matter of right, while the security wage is based on need and is available only to workers certified as in need. There is also the point that the worker receiving benefits can go out to seek work in his own trade or occupation and should therefore have a distinct advantage in obtaining new employment in private industry. It remains to be seen whether the average worker would prefer to work on WPA for the additional earnings which he would receive in exchange for the week of work. On the whole, the comparison with the WPA may not be especially unfavorable to unemployment compensation. There is, however, in the WPA the very definite advantage that the worker may have security for a longer period than the maximum number of compensable weeks in a benefit year. The implication for unemployment compensation is that as soon as it becomes financially practicable the duration of benefits should be extended for a longer period than is provided at present by the State laws.