

# Employment and Earnings as Tests of Eligibility for Unemployment Benefits in South Carolina

CHARLES V. KIDD and MELFORD A. WILSON \*

IN ORDER TO exclude from the receipt of benefits workers who are not attached to the labor market, practically every unemployment compensation law requires that beneficiaries must have worked for a certain period or earned a certain amount of money in a period preceding their claims for benefits. This provision is commonly called the eligibility or qualifying requirement. In Great Britain, for example, eligibility for benefits is dependent upon 30 contributions (the equivalent of work in 30 weeks) during a 2-year period. Under the recently enacted Canadian unemployment compensation law, eligible claimants must have worked 180 days in the 2 years preceding their claims for benefits. Prior to the amalgamation of the German unemployment insurance system with a general system of social welfare measures, work during 26 weeks out of the 2 years preceding the claim for benefits was a prerequisite to the receipt of benefits.

Some early drafts of unemployment compensation laws and a few early statutes<sup>1</sup> in this country based eligibility for benefits on covered employment in a number of weeks during a period prior to the claims for benefits. This test, however, is now used only in Ohio, which requires claimants to have some employment in each of 20 weeks preceding the application for benefits. In all other States,<sup>2</sup> eligible claimants must have in the base period, usually 1 year, earnings equal to a flat dollar amount, or a multiple of the weekly benefit amount, or a specified amount of earnings

in a given number of calendar quarters. This marked departure from foreign practice and early domestic proposals was primarily the result of efforts to simplify the administration of unemployment compensation.

The principle of requiring prior earnings or employment as a condition for benefit eligibility has been justified by reference to the limited function which unemployment compensation is designed to serve. One such limitation is that the system is set up to compensate workers whose income has been severely decreased or stopped only because of unemployment. Since the existence of unemployment can be most readily ascertained by finding whether the claimant had substantial prior earnings or employment, it is logical to require that claimants demonstrate that they had such a work history by fulfilling an eligibility requirement. Thus, most foreign and all domestic unemployment compensation laws are designed to exclude from the receipt of benefits those who are not attached to the labor market. The function of unemployment compensation is further limited in this country by provisions which, for administrative and other reasons, rule out wages earned in certain employments and from certain employers as the basis for the computation of unemployment benefit rights. Hence, qualifying experience does not indicate attachment to the labor market but rather attachment to the "covered" labor market.

A third feature of existing unemployment compensation laws is that benefits paid to eligible unemployed workers are related to their past wages and not to their needs. Under such a system, very low weekly amounts would be paid for few weeks to a large portion of the claimant group if all unemployed persons were allowed benefits. When, however, a substantial volume of prior earnings or employment is made a prerequisite to the receipt of benefits, large segments of the group which would be entitled to insignificant benefits are entirely denied the protection offered

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<sup>1</sup>In April 1937, 9 State unemployment compensation laws contained eligibility provisions based upon either days or weeks of employment.

<sup>2</sup>The probationary period in the Wisconsin law, which serves as the eligibility provision, requires that a claimant must have employment for at least 4 weeks with an employer before he can draw benefits from that employer's account.

**Table 1.—Distribution of average monthly number of workers in covered employment, 1938, and of a 20-percent sample of claimants, Oct. 1, 1938–Sept. 30, 1939, by industry, South Carolina**

Industry	Average monthly covered employment, 1938		Claimants in sample	
	Number	Percent	Number	Percent
Total.....	102,258	100.0	12,241	100.0
Construction.....	9,233	4.9	1,200	9.9
Manufacturing.....	127,437	66.3	9,259	75.6
Food and kindred products.....	5,080	2.6	250	2.0
Tobacco manufactures.....	2,224	1.1	406	3.3
Textile-mill products, and apparel and other fabric products.....	91,636	49.3	6,851	56.0
Basic and finished lumber products.....	15,450	8.1	975	7.9
Paper and allied products.....	2,531	1.3	201	1.6
Printing, publishing, and allied industries.....	1,230	.6	28	.2
Chemicals (fertilizer) and allied products.....	3,528	1.9	408	3.3
Stone, clay, and glass products.....	1,733	.9	90	.8
All other.....	1,010	.5	41	.3
Transportation, communication, and other public utilities.....	15,881	8.3	335	2.7
Wholesale and retail trade.....	29,276	15.2	1,044	8.5
Finance, insurance, and real estate.....	1,323	.7	18	.2
Service industries.....	7,215	3.7	278	2.3
All other <sup>1</sup> .....	1,710	.9	68	.6

<sup>1</sup> Includes agriculture, forestry, fishery, mining, and industries not elsewhere classified.

by the system. It is assumed that those rendered ineligible, a group on the fringe of the labor market, can be assisted more adequately by relief measures than by unemployment benefits.

Although there is general agreement that an eligibility requirement designed to test attachment to the covered labor market is in theory an essential element of unemployment compensation laws, there is little agreement as to the specific provision which will best segregate the attached from the unattached workers. This article deals with three major problems which have arisen in attempts to establish appropriate eligibility requirements:

(1) Whether employment (weeks of some earnings) or earnings (a flat dollar amount or a multiple of the weekly benefit amount) should be the type of experience on which eligibility is based. Both measures have been embodied in State laws.

(2) What volume of work experience, whether stated in terms of earnings or employment, should be required of claimants as a prerequisite to eligibility. The terms of State laws vary so widely in this respect that in some jurisdictions almost any worker who has had any earnings in covered employment can qualify, while in others a large percentage of covered workers who become unemployed are unable to meet the eligibility requirements.

(3) Over what length of time qualifying experience should be gathered. Under most foreign laws and in early domestic laws, 2 years was established as the interval prior to the claim for benefits during which qualifying experience could be accumulated. Most State laws now, however, set a base period 1 year in length.<sup>3</sup>

### Characteristics of Claimants Studied

This investigation is based on the wage records of 12,241 workers who claimed benefits in South Carolina between October 1, 1938, and September 30, 1939.<sup>4</sup> These workers were a 20-percent random sample of all workers who filed initial claims during each of the 4 quarters in this period.<sup>5</sup> The claimants were divided as follows:

Group	Number in group	Date claims filed	Base period
A.....	3,300	Oct. 1, 1938–Dec. 31, 1938.....	July 1, 1937–June 30, 1938.
B.....	2,780	Jan. 1, 1939–Mar. 31, 1939.....	Oct. 1, 1937–Sept. 30, 1938.
C.....	2,898	Apr. 1, 1939–June 30, 1939.....	Jan. 1, 1938–Dec. 31, 1938.
D.....	3,173	July 1, 1939–Sept. 30, 1939.....	Apr. 1, 1938–Mar. 31, 1939.

The base period of each group of claimants thus consisted of the first 4 out of the last 5 completed calendar quarters preceding the date of the claim. The earliest week of employment and earnings tabulated began on July 1, 1937, and the last week ended on March 31, 1939.

The earnings and employment experience of those whose claims were filed between October 1, 1938, and March 31, 1939, were weighted downward by the 1937–38 recession. Those who filed between April 1 and September 30, 1939, had base-period experience favorably influenced by the period of recovery after the 1937–38 recession.

<sup>3</sup> A subsidiary problem in relation to the length of the base period is whether this period should immediately precede the worker's claim for benefits, or whether a gap should exist between the base period and the time when the claimant begins to draw benefits. Primarily because of administrative expediency, there is a gap, varying in length among the States, between the base period and the time the worker claims benefits. The basic data on which the following discussion rests shed no light on the effects of separating the base period from the time when benefits are claimed.

<sup>4</sup> The data analyzed were accumulated under a law which provided that eligible claimants must have had employment in 13 weeks during the 52 weeks preceding the date of the claim. The terms of any eligibility provision may be expected to alter employment and earnings patterns somewhat, but neither the nature nor the extent of this influence is measurable. The possible effect of the then existing requirement and modifications in earnings and employment patterns which might occur under alternative eligibility provisions were therefore ignored in this study. Moreover, it is probable that some workers with low earnings and meager employment did not claim benefits because they knew that they would be ineligible. The effect of this factor, common to all studies of eligibility based on claimants' records, could not be evaluated.

<sup>5</sup> Workers with no covered earnings in the base period were excluded from the universe and from the sample.

For purposes of analysis, base period B (extending from October 1937 through September 1938, applicable to those who filed claims during the first quarter of 1939) may be taken as representative of a period when earnings and employment are declining, while base period D (extending from April 1938 through March 1939, applicable to those who filed claims during the third quarter of 1939) may be taken as representative of a period when earnings and employment are relatively high. When the claimant group is considered as a whole, however, earnings and employment histories were not biased by extremely favorable or unfavorable employment and earnings conditions.

The data selected from each claimant's experience were the amount of earnings per week, number of hours worked per week,<sup>6</sup> and number of weeks employed throughout the entire base period as well as in the calendar quarter in the base period when the claimant's earnings were highest. From these basic figures analyses were made of such data as average earnings per week and per hour in the high quarter, average hourly earnings rates in the high quarter, the relationship between base-period earnings and high-quarter earnings, and the relationship between weeks of employment and total earnings in the base period.

#### *Distribution of Covered Workers and Claimants Among Industries*

The data reflect the industrial pattern of South Carolina and the coverage provisions of the unemployment compensation act, as well as economic fluctuations over the period studied. It should be noted that about 50 percent of the gainfully employed workers in the State are engaged in agriculture, either as farm operators or hired help.<sup>7</sup> The fact that agricultural employment is not covered by the State unemployment compensation law both limits the number of gainful workers covered and reduces the volume of earnings and employment of workers who shift between covered and noncovered work. Moreover, wages paid by employers of fewer than eight workers are not taxable and hence do not appear in unemployment compensation records.

<sup>6</sup> Information on hours worked per week and earnings per week is no longer collected by the South Carolina agency. Administrative problems involved in the collection of such detailed records led to amendments of the law, effective July 1, 1939. Now the agency, as in the case in most States, collects information on only the total amount of wages paid to covered workers during calendar quarters.

<sup>7</sup> *Census of Business; 1937.*

About half of the covered workers in the State are engaged in the manufacture of textile-mill products, apparel, and other finished articles made from fabrics (table 1). About 15 percent are engaged in wholesale and retail trade, while 8 percent are employed in the basic and finished lumber industry and another 8 percent in the transportation, communication, and utilities groups. The remaining 19 percent are scattered among relatively unimportant industry groups.

The industrial distribution of claimants differed rather markedly from the industrial distribution of all covered workers.<sup>8</sup> Seventy-three percent of the claimants were in the construction, textile-mill products, apparel and other fabric products, tobacco, and chemicals (fertilizer) groups in contrast to only 57 percent of all covered workers. On the other hand, the transportation, communication, and utilities, wholesale and retail trade, and service groups accounted for 14 percent of the claimants as against 27 percent of the covered workers. Concentration of more than four-fifths of the claimants in five industry groups—construction, tobacco, textiles, lumber, and trade—is probably typical of the composition of the claim load in South Carolina.

Since 56 percent of the claimants came from the apparel and textile-products groups, patterns of earnings and employment in this industry strongly affect analyses of base-period work experience of the claimant group as a whole. Weekly wage levels of textile claimants are somewhat above the wage levels of claimants from other industry groups. Whereas 38 percent of all claimants studied had average weekly wages of less than \$10 in the quarter of highest earnings, only 27 percent of the textile claimants had weekly earnings below this level.<sup>9</sup> Employment of individuals in textiles tends to fluctuate less than earnings because of the fairly widespread adoption of short work weeks when production declines.<sup>10</sup> This fact explains why so many claimants studied had more than

<sup>8</sup> Claimants were assigned to the industry group in which they earned the greatest amount of base period wages.

<sup>9</sup> Weekly earnings computed by dividing total earnings in the highest calendar quarter by the number of weeks of any employment in that quarter. This wage represents the average amount which the worker earns per week when his employment and earnings history is most favorable.

<sup>10</sup> Employment and pay-roll fluctuations in the South Carolina textile industry follow national trends closely. While pay rolls in the textile industry over the country as a whole dropped from 97 in August 1937 to 58 in July 1938, employment declined only from 101 to 70 (1923-1925=100 for both series). This divergence can be explained only by widespread work sharing because hourly rates were stable over this period.

40 weeks of employment, during the base period (table 2). Moreover, for a short period during the summer of every year the South Carolina textile industry sharply reduces production for inventory and maintenance. Such curtailment of activity in July 1939 brought into the claimant group large numbers of textile workers with very favorable earnings and employment records, but many of these individuals never drew benefits because of the resumption of full textile operations before these claimants completed the 2-week waiting period. The sample data for claimants may, therefore, somewhat overstate the volume of earnings and employment experienced by a typical group of South Carolina beneficiaries.

### Measures of Employment and Earnings

The employment of claimants, measured by the number of weeks of some employment within the base period, ranged from extremely meager to full employment (table 2). Although about one-fourth of the claimants worked in fewer than 20 weeks, more than 30 percent worked in 50 or more weeks during the base period. The average number of weeks of employment during the base period for each of the four groups in the sample was as follows:

Group	Mean weeks of employment
All claimants.....	35.1
A.....	35.4
B.....	31.3
C.....	35.6
D.....	37.8

Even though it is possible to mark off, in general terms, those with few from those with many weeks of employment, it is impossible to find a dividing line which separates the "attached" from the "unattached" group.

Despite fairly full employment, total base-

Table 2.—Distribution of South Carolina claimants, by weeks of employment in base period

Weeks of employment in base period	Number	Percent	Cumulative percent
Total.....	12,241	100.0	.....
1-4.....	665	5.4	5.4
5-9.....	837	6.8	12.2
10-14.....	830	6.8	19.0
15-19.....	695	5.7	24.7
20-24.....	649	5.3	30.0
25-29.....	613	5.3	35.3
30-34.....	645	5.3	40.6
35-39.....	784	6.4	47.0
40-44.....	883	7.2	54.2
45-49.....	1,701	13.9	68.1
50-53.....	3,009	31.9	100.0

Table 3.—Distribution of South Carolina claimants, by earnings in base period

Earnings in base period	Number	Percent	Cumulative percent
Total.....	12,241	100.0	.....
Under \$40.00.....	935	7.6	7.6
40.00-79.99.....	753	6.2	13.8
80.00-119.99.....	707	5.8	19.6
120.00-159.99.....	601	4.9	24.5
160.00-199.99.....	665	4.6	29.1
200.00-239.99.....	563	4.0	33.7
240.00-279.99.....	502	4.1	37.8
280.00-319.99.....	618	4.2	42.0
320.00-359.99.....	527	4.3	46.3
360.00-399.99.....	600	4.9	51.2
400.00-439.99.....	611	5.0	56.2
440.00-479.99.....	656	5.4	61.6
480.00-519.99.....	722	5.9	67.5
520.00-559.99.....	603	4.9	72.4
560.00-599.99.....	626	4.3	76.7
600.00-639.99.....	496	4.1	80.8
640.00-679.99.....	407	3.3	84.1
680.00-719.99.....	280	2.3	86.4
720.00-759.99.....	246	2.0	88.4
760.00-799.99.....	200	1.6	90.0
800.00-899.99.....	684	5.6	95.6
1,000.00-1,199.99.....	257	2.0	97.6
2,000.00 and over.....	284	2.4	100.0

period earnings of claimants were relatively low (table 3). More than half the group earned less than \$400 in the base period; nine-tenths earned less than \$800. As was the case for experience measured by weeks of employment, claimants could not be clearly segregated into two groups—one with low and one with high annual earnings.

The weekly earnings, as well as the annual earnings, of claimants tended to concentrate in the lower brackets (table 4). One-fifth of all claimants averaged less than \$8 per week; nine-tenths averaged below \$20 per week. These weekly wages were not earned in short work weeks at relatively high hourly rates. During the quarter of highest earnings only 17 percent of the claimants averaged below 30 hours per week, and 61 percent of the claimants averaged between 30 and 45 hours per week during this period. On the other hand, more than one-third (37.4 percent) earned less than 27½ cents per hour and less than one-fifth (17.5 percent) averaged 42½ cents or more per hour during the high quarter.

### Weeks of Employment Versus Flat Dollar Earnings as Eligibility Requirements

When eligibility requirements are in terms of weeks of employment, a week of employment must be defined. Under every such provision ever written into law in this country, weeks during which claimants have any covered em-

ployment count towards fulfillment of the eligibility requirement. Thus, under a law which requires 20 weeks of employment, workers may qualify even though they have worked for only 1 hour in each of 20 weeks; workers who work for 40 hours per week in, for example, 19 weeks will be ineligible.

The South Carolina data show, however, that relatively few claimants would qualify on the basis of a few hours of employment in many weeks and that few claimants would be ineligible because they worked for many hours per week during relatively few weeks.

Weeks of employment in base period required for eligibility	Percent of Ineligibles who averaged more than--		Percent of eligibles who averaged less than--	
	50 hours per week	55 hours per week	25 hours per week	10 hours per week
10.....	7.0	3.8	8.5	0.4
15.....	7.6	3.6	7.7	.3
20.....	7.9	3.6	7.2	.3
25.....	8.1	3.6	6.7	.2

For example, if some employment in 15 weeks were established as the eligibility requirement for the claimants studied, only 7.6 percent of those ineligible would have averaged over 50 hours per week and only 7.7 percent of those eligible would have averaged under 25 hours per week.<sup>11</sup> Thus, a week of any employment was a week of substantial employment for most of the eligible claimants. Those who worked for few weeks in the year

<sup>11</sup> Average hours per week defined as total number of hours worked in base period divided by number of weeks of any employment in base period.

tended to work for few hours per week; those who worked for many weeks worked for a considerable number of hours in each week.

Moreover, those who worked in few base-period weeks tended to have low average hourly earnings rates and hence low weekly earnings. Of the claimants who worked in fewer than 15 weeks, 21 percent averaged less than 17½ cents per hour; of those with 15 or more weeks of base-period employment, only 11 percent earned under 17½ cents per hour. Of those with employment in fewer than 15 weeks, about 30 percent averaged less than \$0 per week, but of those with earnings in more than 15 weeks only 5 percent averaged less than \$0 per week (table 4). The often-repeated objection that groups who should be excluded from the system, such as Saturday afternoon clerks, can qualify for benefits under a weeks-of-employment requirement is therefore of merely theoretical importance in South Carolina. By denying benefits to those who fail to have employment in a substantial number of weeks, by far the greater portion of those who work for few hours per week and who earn small sums per week are automatically rendered ineligible.

The proportion of claimants who would fail to meet an eligibility requirement of 15 or 20 weeks varied widely among industry groups (table 5).<sup>12</sup>

<sup>12</sup> Only weeks of any employment in covered industry enter into these figures. Many of the ineligible construction workers may have had substantial additional base-period employment with employers of less than 8; many ineligible workers in the chemical (fertilizer) industry undoubtedly had additional base-period employment on farms.

Table 4.—Distribution of South Carolina claimants employed in specified weeks during the base period, by average weekly wages in highest quarter

Average weekly wages in highest quarter of base period	All claimants			Claimants employed in less than 15 weeks in base period			Claimants employed in 15 or more weeks in base period		
	Number	Percent	Cumulative percent	Number	Percent	Cumulative percent	Number	Percent	Cumulative percent
Total.....	12,241	100.0	.....	2,332	100.0	.....	9,909	100.0	.....
Under \$2.00.....	103	.8	0.8	81	3.5	3.5	22	.2	0.2
2.00-3.00.....	380	3.2	4.0	256	11.0	14.5	130	1.3	1.5
4.00-5.00.....	722	5.9	9.9	349	15.0	29.5	373	3.8	5.3
5.00-7.00.....	1,333	10.9	20.8	472	20.2	49.7	861	8.7	14.0
8.00-9.00.....	2,014	16.7	37.5	401	17.2	66.9	1,583	16.0	30.0
10.00-11.00.....	2,354	19.2	56.7	263	11.3	78.2	2,091	21.1	51.1
12.00-13.00.....	1,875	15.3	72.0	151	6.5	84.7	1,724	17.4	68.5
14.00-15.00.....	1,120	9.2	81.2	107	4.6	89.3	1,013	10.3	78.8
16.00-17.00.....	632	5.2	86.4	58	2.5	91.8	574	5.8	84.6
18.00-19.00.....	500	4.1	90.5	42	1.8	93.6	458	4.6	89.2
20.00-21.00.....	358	2.9	93.4	25	1.1	94.7	333	3.4	92.6
22.00-23.00.....	231	1.9	95.3	21	.9	95.6	210	2.1	94.7
24.00-25.00.....	144	1.2	96.5	9	.4	96.0	135	1.4	96.1
26.00-27.00.....	94	.8	97.3	5	.2	96.2	89	.9	97.0
28.00-29.00.....	75	.6	97.9	0	.0	96.2	66	.6	97.6
30.00 and over.....	201	1.7	100.0	20	.8	100.0	241	2.4	100.0

Under a 15-week requirement, more than 20 percent of the claimants from the construction, food manufacturing, chemical (fertilizer) manufacturing, trade, and service industries would be ineligible. Claimants from these industries, comprising about one-fourth of the total claimant group and half of the ineligible group, were more subject to seasonal and irregular unemployment than were the remaining claimants. The existence of high rates of ineligibility in these industries suggests that a fairly stringent eligibility requirement in South Carolina may, by denying all benefits to seasonal workers, adequately serve the function of a specific provision restricting the benefit rights of such workers.

Since earnings and employment do not fluctuate proportionately as economic conditions fluctuate, the weeks-of-employment and dollar-earnings requirements that are equivalent over the long run, or at a particular stage of the cycle, will not be equivalent at all stages of the cycle<sup>13</sup> (table 6). In South Carolina, where work sharing was more widely practiced than total unemployment in the textile industry during the 1937-38 recession, one would expect a dollar-earnings requirement to be relatively stringent when employment and earnings conditions in the qualifying period are poor and a weeks-of-employment requirement to be relatively stringent when conditions are good.

The data show this effect, which can be illustrated by reference to two specific requirements—employment in 20 weeks and earnings of \$160. Over the course of the period studied, about one-fourth of the claimants would have been rendered ineligible by either a 20-week or a \$160 eligibility requirement. During a relatively depressed period (base period B), however, the dollar-earnings requirement would be about 7 percent more stringent than the employment requirement; during a more prosperous period (base period D), the employment requirement would be about 3 percent more difficult to meet than the dollar-earnings requirement. The fact that a flat dollar-

<sup>13</sup> The dollar-earnings and weeks-of-employment requirements which will be equivalent in the future cannot be predicted. For any past period, however, weeks of employment eligibility requirements can be selected so as to render ineligible approximately the same total proportion of claimants as any selected flat dollar-earnings requirement, or any selected multiple of the weekly benefit amount requirement. Thus, 19.1 percent of the claimants would have been declared ineligible by a requirement of employment in 15 weeks during the qualifying period, 19.0 percent would have been ineligible if they were required to earn \$120 during the qualifying period, and 17.8 percent would have failed to meet a qualifying requirement stated as earnings equal to 25 times the weekly benefit amount.

Table 5.—Percent of South Carolina claimants ineligible under specified eligibility requirements, by industry

Industry	Percent of all claimants in given industry group	Percent of claimants ineligible under requirement of base-period employment in—	
		15 weeks	20 weeks
Total.....	100.0	19.1	21.7
Construction.....	9.0	46.7	63.9
Manufacturing.....	75.0	13.8	18.0
Food and kindred products.....	2.0	28.0	36.0
Tobacco manufactures.....	3.3	5.4	6.9
Textile-mill products.....	54.0	12.7	16.3
Apparel and other fabric products.....	1.4	20.0	21.0
Lumber and timber basic products.....	0.3	17.1	22.9
Furniture and finished lumber products.....	1.0	13.1	18.7
Paper and allied products.....	1.0	15.9	17.9
Chemicals (fertilizer) and allied products.....	3.3	22.3	32.4
All other.....	1.5	13.3	23.6
Transportation.....	2.1	18.3	24.6
Wholesale and retail trade.....	8.5	32.7	42.9
Wholesale.....	4.7	40.3	52.5
Retail.....	3.8	21.5	31.3
Service industries.....	2.3	21.5	30.2
All other.....	1.0	18.1	26.6

<sup>14</sup> Includes agriculture, forestry, fishery, mining, public utilities other than transportation, and industries not elsewhere classified.

earnings requirement becomes relatively more difficult to meet precisely at the time when the need for unemployment compensation is greatest suggests that a weeks-of-employment eligibility provision might be more satisfactory in a State where work sharing prevails in depression periods of fairly long duration.<sup>14</sup>

Under either earnings or employment requirements the proportion of claimants who were ineligible varied widely among the base periods. Under every requirement examined, the proportion of claimants rendered ineligible in base period D was less than 70 percent of the proportion rendered ineligible in base period B (table 6). This fact casts some doubt upon the desirability of testing claimants' attachment to the labor market by their experience in 1 year, whether earnings or employment is the measure of eligibility.<sup>15</sup> Such extreme increases in the proportion of claimants rendered ineligible cannot be reasonably ascribed to an increase in the proportion of currently unemployed workers who had only

<sup>14</sup> Not only did the flat dollar-earnings requirement become relatively more difficult to meet in a depression period but the proportion of claimants rendered ineligible under this provision fluctuated somewhat more widely. Whereas the proportion of claimants rendered ineligible under a 20-week requirement in the least favorable period (base period B) was only about 46 percent greater than the proportion rendered ineligible in the most favorable period (base period D), the difference was about 60 percent under a \$100 flat-earnings requirement.

<sup>15</sup> Primarily for administrative reasons, a period of 1 year or less has been adopted as the base period for eligibility purposes in all States except Florida, where a 2-year base period is in effect.

casual, intermittent, or part-time base-period employment.<sup>16</sup> A more reasonable explanation is that workers who usually depend on wages in covered employment may experience severe reductions in both earnings and the number of weeks worked during a single year of declining economic conditions. Wide fluctuations in the annual earnings and weeks of employment of claimants who ordinarily depend on earnings in covered employment for a living suggest that it may be difficult to devise any reasonable and equitable eligibility requirement based on experience during 1 year. Against the possible inequities introduced by a 1-year base period, when this year is one of depressed earnings and employment, must be weighed the administrative burden entailed in preserving individuals' wage records in State agencies over a 2-year period and the desirability of having the same base period for establishing eligibility, the weekly benefit amount, and duration of benefits.<sup>17</sup>

Because of the possibility, under a flat dollar-earnings requirement, of discrimination against those with steady employment at low weekly wages, it is essential to determine whether a significant proportion of claimants who had employment in a considerable number of weeks earned very small sums, and whether many claimants earned large sums in few weeks. The extent of variation in the composition of the ineligible group was measured by finding what proportion of the claimants ineligible under either a \$120 or a 15-week requirement would be eligible if the other requirement were applied. It was found that of the 19.6 percent of the claimants who failed to meet the \$120 requirement, and the 19.0 percent who failed to meet the 15-week requirement, about 86 percent were identical individuals. About 7 percent of the ineligible claimants thus had low earnings combined with steady employ-

<sup>16</sup> Wide variations in the proportion of claimants rendered ineligible under a given eligibility requirement in different years have been found in other States. California for example, discovered that an earnings eligibility requirement of \$300 would have made ineligible 26 percent of a sample claimant group if the calendar year 1936 were their base period. Of this same group, only 9 percent would have been ineligible under the same requirement if the calendar year 1937 had been their base period. An eligibility requirement of \$300 in earnings over a 1-year base period thus may produce anomalous results: about 3 times as many claimants out of an identical group may be declared ineligible in successive years. (Social Security Board, *State Statistical Analyses Relating to Unemployment Compensation Simplification*, January 1939, p. 20.)

<sup>17</sup> It has also been held that experience as remote as 2 years from the date of the worker's initial claim for benefits is not relevant to a determination of current attachment to the labor market.

Table 6.—Percent of South Carolina claimants rendered ineligible by selected eligibility requirements, by base period

Eligibility requirement	Percent of claimants rendered ineligible by given requirement in base period				
	All base periods combined	Base period A	Base period B	Base period C	Base period D
1. Employment in 10 weeks...	12.2	0.4	16.3	13.2	11.0
Earnings of \$70.....	12.2	10.4	17.0	12.7	9.6
20 times weekly benefit amount <sup>1</sup> .....	11.8	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )
2. Employment in 15 weeks...	10.0	16.0	20.3	20.0	18.0
Earnings of \$120.....	10.0	16.9	20.5	20.0	15.9
25 times weekly benefit amount <sup>1</sup> .....	17.8	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )
3. Employment in 17 weeks...	21.3	10.2	20.0	23.6	20.2
Earnings of \$140.....	22.0	10.1	20.4	22.3	18.3
30 times weekly benefit amount <sup>1</sup> .....	21.0	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )
4. Employment in 20 weeks...	24.7	21.0	31.4	20.0	21.7
Earnings of \$160.....	24.5	22.7	33.7	26.2	21.1
35 times weekly benefit amount <sup>1</sup> .....	25.7	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )
5. Employment in 25 weeks...	30.0	26.2	37.8	31.0	26.4
Earnings of \$220.....	31.4	29.4	40.3	31.8	25.5
40 times weekly benefit amount <sup>1</sup> .....	30.0	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )

<sup>1</sup> Weekly benefit amount computed as  $\frac{1}{4}$  of earnings in highest quarter of base period, rounded to next higher dollar, with a \$3 minimum and a \$10 maximum.

<sup>2</sup> Data not available for separate qualifying periods.

ment and another 7 percent earned large amounts in few weeks of employment. As might be expected, however, all the claimants who failed to earn \$120, but who worked for more than 15 weeks, had low weekly earnings.<sup>18</sup> Of those who failed to work in 15 weeks, but who nevertheless earned more than \$120, only about 12 percent had weekly benefit amounts of \$5 or less. Therefore, although the two groups of claimants who were ineligible under either the flat dollar-earnings or the weeks-of-employment requirement are as a matter of fact largely identical, the flat annual-earnings requirement bore somewhat more heavily on those with low weekly earnings.

More significant than the differences between the two requirements was the fact that both provisions bore with particular severity upon those with low weekly benefit amounts. Every claimant ineligible under the \$120 requirement had a weekly benefit amount of \$5 or less.<sup>19</sup> Moreover, 81 percent of those ineligible under the 15-week requirement had weekly benefit amounts of \$5 or less. Concentration of the ineligible claimants in the groups with lower benefit amounts

<sup>18</sup> All these claimants had weekly benefit amounts of \$5 or less (weekly benefit amount computed as  $\frac{1}{4}$  of highest quarterly earnings rounded to the next higher dollar).

<sup>19</sup> Since weekly benefit amounts were computed as  $\frac{1}{4}$  of highest quarterly earnings, rounded to the next higher dollar, any claimant with a weekly benefit amount of more than \$5 must have earned more than \$120 in his high quarter alone.

is not evidence of discrimination against such workers, but rather confirmation of the fact that, among the claimants studied, those with meager employment—whether measured on a weekly, quarterly, or annual basis—likewise have meager hourly, weekly, quarterly, and annual earnings.

### *Weeks of Employment Versus Multiples of the Weekly Benefit Amount as Eligibility Requirements*

When the weeks-of-employment criterion of eligibility was generally abandoned by the State unemployment compensation systems, it was felt desirable to substitute some requirement which, unlike a flat dollar-earnings requirement, would ensure that all eligible claimants work for approximately equal periods in covered employment. The most widely adopted means of ensuring equal prior periods of work was a requirement that an eligible claimant earn a given multiple of his weekly benefit amount in his base year. Since in most State laws weekly benefit amount provisions are designed to yield weekly benefits equal approximately to half of full-time weekly wages, it was assumed that all claimants could earn any multiple of this amount only by employment extending over half as many weeks. Under most State laws, however, weekly benefit amounts are not computed as half of the full-time weekly wage reported by employers, but as a fraction—ranging from  $\frac{1}{20}$  to  $\frac{1}{26}$ —of earnings in a preceding calendar quarter when earnings were highest.<sup>20</sup> If, for example, weekly benefit amounts are equal to  $\frac{1}{24}$  of earnings in the highest quarter of the base year, 30 times this amount could be earned only by employment in about 1.5 quarters (i.e.,  $\frac{\text{high-quarter earnings}}{24} \times 30 = 1.25$  times high-quarter earnings), or in about 15 to 17 weeks.

The principle of basing eligibility on a multiple of the weekly benefit amount is now embodied in the laws of 32 States.

<sup>20</sup> This method of computing weekly benefit amounts was adopted for administrative reasons. By using this device, employers need report only the lump-sum wages earned by each employee during a calendar quarter. In devising these formulas it was assumed that a calendar quarter contains 13 weeks and that half of a week's wages could be approximated by dividing quarterly wages by 26. Since some workers do not have 13 weeks of employment, even in the calendar quarter when their earnings are greatest, some States have assumed that the average claimant works for 10 weeks in that quarter, and attempt to approximate half of the weekly wage through dividing quarterly earnings by 20 rather than 26. Of the claimants studied who had 15 or more weeks of base-period employment, 99 percent had some employment in 12 or more weeks in the quarter of highest earnings.

Although it would appear that by correct selection of the multiple required in conjunction with any high-quarter formula a provision exactly equivalent to any desired weeks-of-employment eligibility provision could be found, certain factors increase the difficulty of designing precisely equivalent requirements. First, earnings in the high quarter divided by a uniform fraction are not always equal to half of each claimant's full-time weekly wages, because some workers may not work full time during the calendar quarter and others may work overtime.<sup>21</sup> Hence, a multiple of the weekly benefit amount is not precisely equivalent to employment in half as many weeks. Second, eligibility provisions stated as a multiple of the weekly benefit amount do not apply with equal stringency to those eligible to receive minimum and maximum weekly benefit amounts. With, for example, a \$7.50 minimum weekly benefit amount, those granted the minimum must earn at least \$225 to qualify under a requirement of 30 times the weekly benefit amount. If the claimant usually earned \$8 per week he would have to have employment in more than 28 weeks in order to qualify. At the other end of the scale, workers with the maximum weekly benefit amount of, for example, \$15 would have to earn \$450 in order to qualify. But a claimant who earned \$45 per week could qualify by full-time employment in 10 weeks, or much less than half as many weeks as the claimant entitled to the minimum. Between these maximum and minimum limits, however, most claimants would have to work in about 15–17 weeks in order to qualify if weekly benefit amounts were stated as  $\frac{1}{24}$  of highest quarterly earnings.

The extent to which the effects of a multiple of the weekly benefit amount and a weeks-of-employment provision may differ was tested by selecting two requirements which rendered ineligible approximately the same gross number of claimants.<sup>22</sup> It was found that a requirement of 15 weeks of employment would render 19.0 percent of the claimants ineligible, and that a requirement of 30 times the weekly benefit amount

<sup>21</sup> Moreover, the calendar quarter of highest earnings may be the period of 13 consecutive weeks when earnings are highest for some claimants, but for other claimants a period of 13 consecutive weeks which falls within 2 calendar quarters may be the period of highest earnings.

<sup>22</sup> Weekly benefit amounts computed as  $\frac{1}{24}$  of earnings in the high quarter, rounded to the next higher dollar with a \$1 minimum and a \$15 maximum. Although a \$1 minimum was assumed in this computation, rather than the \$3 minimum assumed in table 5, the results would not have been significantly different if a \$3 minimum had been used.



would make 20.1 percent of the claimants ineligible. The gross effect of the two provisions was therefore almost identical, and, as was true of the selected weeks-of-employment and flat dollar-earnings requirements examined above, it was found that the individuals declared ineligible were for the most part identical. Of the two ineligible groups, 88 percent were identical individuals. Moreover, the remaining two groups, each consisting of 6 percent of the claimant group who would be eligible under one provision but ineligible under the other, did not have markedly different characteristics. Those eligible under the 15-week but ineligible under the 30-times requirement had weekly benefit amounts ranging from \$1 to \$15, as did the group eligible under the 30-times but ineligible under the 15-week requirement.<sup>23</sup>

The theoretical possibility that an eligibility requirement expressed as a multiple of the weekly benefit amount is discriminatory because it may allow workers with the maximum weekly benefit amount to qualify on the basis of few weeks of employment, while those entitled to the minimum benefit amount are forced to work in many weeks in order to qualify, was found to be of little quantitative importance. One lone eligible claimant entitled to a \$15 weekly benefit amount (weekly benefit amount computed as  $\frac{1}{4}$  of high-quarter earnings) qualified by employment in fewer than 15 weeks. Among those claimants with the \$3 minimum weekly benefit amount, few actually worked for many weeks during the base period. Of all claimants at the \$3 benefit level, 73 percent had employment in fewer than 15 weeks; of those who earned 30 times the weekly benefit amount, two-thirds worked in fewer than 30 weeks; There were thus very few eligible claimants with the \$3 minimum weekly benefit amount who were forced to work in an excessive number of base-period weeks in order to qualify.

The level at which the minimum benefit amount was set did, however, exercise a marked effect on the proportion of claimants rendered ineligible. When the minimum weekly benefit amount was increased from \$3 to \$5 under the 30 times weekly benefit amount provision (weekly benefit amounts computed as  $\frac{1}{4}$  of high-quarter earnings) the pro-

portion of claimants ineligible rose from 21.9 to 25.6 percent, an increase of about 17 percent. The interaction of the multiple of the weekly benefit amount provision and the minimum weekly benefit amount provision thus resulted in a rather sharp and arbitrary increase in the severity of the eligibility provision as the minimum weekly benefit amount was increased.

Table 7.—Percent of South Carolina claimants ineligible under alternative eligibility requirements, by fraction of highest-quarter earnings

Multiple of weekly benefit amount required for eligibility	Percent of claimants ineligible under fraction of highest-quarter earnings which determines weekly benefit amount <sup>1</sup>	
	$\frac{1}{4}$	$\frac{1}{6}$
20.....	11.1	11.8
25.....	16.1	17.8
30.....	20.7	21.9
36.....	26.0	25.7
40.....	27.9	30.0

<sup>1</sup> With a \$3 minimum and a \$15 maximum.

When a given multiple of the weekly benefit amount is established as the eligibility requirement, the severity of the requirement depends directly on the manner in which the weekly benefit amount is computed as well as on the minimum weekly benefit amount. Thus, an eligibility requirement of, for example, 30 times the weekly benefit amount can be evaluated only in conjunction with the weekly benefit amount provision. For the claimants studied, a shift from the  $\frac{1}{4}$  to the  $\frac{1}{6}$  formula (\$3 minimum and \$15 maximum assumed under both formulas) would cause this requirement to become somewhat less stringent (table 7). Relatively low wage levels in South Carolina, however, make the minimum weekly benefit amount a more important factor in determining the effect of a multiple of the weekly benefit amount provision.

### Conclusions

The findings of this study are based on an examination of the detailed employment and earnings histories of 12,241 individuals who filed claims for unemployment benefits in South Carolina during the period October 1, 1938–September 30, 1939. The sample was so chosen that it is representative of the claimants who may be expected to file

<sup>23</sup> The study also indicated that 81 percent of the individuals ineligible under a requirement of \$120 in base-period earnings would also be ineligible under the 30 times weekly benefit amount provision described above.

benefits over the course of a short business cycle in South Carolina. The results of the study are generally applicable only where patterns of employment and earnings approximate those found in South Carolina.

(1) *Workers with few weeks of employment during a 1-year base period had low hourly wage rates, worked for few hours per week, and earned small amounts per week and per year. Those with substantial employment in the qualifying period likewise earned higher amounts per hour, week, quarter, and year.*

(2) *As, for most workers, there was a direct correlation between the amount of annual earnings and annual employment, virtually the same individuals were made ineligible by requirements stated as a multiple of the weekly benefit amount, as a flat dollar amount, or as weeks of employment. Between 85 and 90 percent of the ineligible group under any two of these provisions (assuming that the requirements were so adjusted that the same gross number of claimants would be ineligible) would be the same persons.*

(3) *Under substantial eligibility requirements of any type, most workers who averaged very few hours per week and who earned very small amounts per week were ineligible. Thus, under a weeks-of-employment requirement those who qualified worked for a substantial number of hours in each week; workers with few hours of work in many weeks did not qualify. The ineligibility of most workers with low weekly wages is directly relevant to the establishment of minimum weekly benefit amounts. The case for setting a very low minimum weekly benefit amount because of the existence of a large group of workers with low weekly wages becomes less sound when, as a matter of fact, most of these workers may receive no benefits whatever.*

(4) *Although eligibility requirements stated in terms of any measure of employment or earnings may be adjusted so as to render ineligible the same total volume of claimants during a given period, equivalent requirements will not remain equivalent during all phases of the business cycle. Earnings and employment rarely fluctuate proportionately as business fluctuates. Hence, it was found that of two earnings and employment eligibility requirements which were equivalent in prosperous periods, the earnings requirement became more difficult to meet in less prosperous periods because*

earnings tend in South Carolina to fluctuate more widely than employment.

(5) *The proportion of claimants ineligible under any requirement varied widely from quarter to quarter over the period studied. Since the number of claimants clearly not attached to the labor market did not vary by this amount, it is clear that the wide variation in the proportion of ineligible claimants was caused by the fact that some workers usually attached to the labor market experience years when they earn relatively little money and work for relatively few weeks. This fact casts doubt on the adequacy of a 1-year period as the interval over which attachment to the labor market is tested. Indeed, the period of time over which qualifying experience may be gathered appeared in South Carolina to be a more important aspect of the eligibility provision than was the type of experience (i. e., flat dollar earnings, weeks of employment, or multiple of the weekly benefit amount) used to test attachment to the labor market.*

(6) *Under no measure of earnings and employment was there a clear breaking point between those with low earnings (hourly, weekly, quarterly, or annual) and those with high earnings, nor could a clear distinction be drawn between those with relatively full and those with meager employment (measured as average hours worked per week, or weeks of employment in calendar quarters and years). It is therefore futile to expect that even the most detailed statistics will clearly reveal the existence of a group of workers attached to the covered labor market and the existence of another group unattached to the covered labor market. Thus, any specific eligibility requirement must be somewhat arbitrarily selected in the light of broad policy. The relative total cost of benefit payments under restrictive and lenient requirements, the minimum scale of benefit payments which should be established when benefits are based on past wages and paid as a matter of right, the net social consequences of excluding claimants from benefits when other programs for public aid to the unemployed are inadequate, and equity among individual claimants are all considerations which should weigh heavily in the design of eligibility requirements. Statistical data shed light on the probable effect of alternative requirements, but are of relatively little value as guides to the precise kind and volume of experience constituting the most desirable eligibility requirement*