

August-September 1940

[Unemployment Compensation Message]

FDR Speech File

FEDERAL SECURITY AGENCY
OFFICE OF THE ADMINISTRATOR
INTEROFFICE COMMUNICATION

August 26, 1940

To: Mr. Harry Hopkins
Secretary of Commerce

FROM: Wayne Coy
Assistant Administrator

SUBJECT:

Attached herewith is a revised copy of a proposed message to Congress on the subject of Unemployment Compensation, which I mentioned to you Monday morning.

Several days ago, a draft was submitted to the President. The draft which I am attaching shows the revisions from the earlier draft submitted to the President. The Federal Security Administrator is forwarding a revised draft to the President.

I am also inclosing herewith a copy of the Federal Security Administrator's memorandum to the President on the subject of assistance to the aged.

If the President desires to cover either of these subjects in his Labor Day speech, I think there is adequate material in the proposed message and the memorandum.

Inclosures 2

Wayne Coy



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From the Papers of
Harry L. Hopkins

To the Congress of the United States:

Those of us who have been vitally interested in the protection of the American people against the social and economic hazards of modern life have realized from the beginning that the social security program, initiated in the Social Security Act of 1935 and extended and strengthened through the amendments adopted last summer, must be considered as a development toward a goal rather than a finished product. In my message of January 16, 1939 to the Congress, in which certain changes in this program were recommended, I said that although the act had proved its essential soundness, "we would be derelict in our responsibility if we did not take advantage of the experience we have accumulated to strengthen and extend its provisions." Following this principle we have made great progress up to now, and we may expect even greater progress in the future.

Today we are engaged in a mighty national defense effort to make our country and its chosen way of life secure against all present and potential threats. This effort, however, cannot be evaluated solely in terms of armament production or mere mathematical increase in the number of our armed forces. Behind the guardians of our defense must stand a united people whose spiritual and moral values have not diminished through hunger, want or fear or insecurity. Thus, an ever-widening and ever more effective social security program is an essential ingredient in our preparations for national defense.



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In this connection I should like to repeat again the words that I spoke to the country on last May 26, when I said that "we must make sure in all that we do that there be no breakdown or cancellation of any of the great social gains which we have made in these past years. We have carried on an offensive on a broad front against social and economic inequalities and abuses which had made our society weak. That offensive should not now be broken down by the pincers movement of those who would use the present needs of physical military defense to destroy it." And I added that, "There is nothing in our present emergency to justify a retreat from any of our social objectives--conservation of resources, assistance to agriculture, housing and help to the underprivileged."

In the vast field of unemployment compensation, the Congress in 1935, acting upon the recommendations of the Committee on Economic Security, enacted into law a program which allowed wide discretion to the States and sought to guarantee solvency of operation under the most trying conditions. Experience has now demonstrated the wisdom of that action and at the same time pointed the way toward desirable change. Prior to January, 1936, only one State had had benefit-paying experience. Since July, 1939, all fifty-one jurisdictions having unemployment compensation laws have been making regular benefit payments. Thus, within the past two years the characteristics of the present unemployment compensation program



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have become so marked as to warrant certain recommendations that, I believe, will strengthen its operation and will ensure to a much greater extent the fundamental purposes for which it was established.

The estimated yield of the present 3% Federal tax on payrolls for the calendar fiscal year 1940-1941 is \$984,000,000, of which \$890,000,000 will be payable under State unemployment compensation laws and \$94,000,000 will be payable directly to the Federal Government, with the latter amount to be used in part to defray the cost of State unemployment compensation administration. Since the current cost of benefit payments is only 65% of the current collections, the Unemployment Compensation Trust Fund, which consists of balances to the credit of the fifty-one jurisdictions having unemployment compensation laws and which now amounts to some \$1,750,000,000, will approximate \$2,000,000,000 by December 31, 1940. From the Federal share of the tax alone, about \$130,000,000 have been collected in excess of the cost of Federal and State unemployment compensation administration, or an average excess of approximately \$30,000,000 a year.

The great latitude which the States have under present provisions of the act in establishing their unemployment compensation programs has led to significant differences in benefit standards and, under varying economic conditions, in the ratio of benefit costs to contributions. In some States, because of the short duration of benefit payments, a large proportion of claimants exhaust their rights to



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benefits before they find other jobs. In many States, the average weekly benefit is so small as to defeat the very ends of the program itself. These facts, in addition to others that might be mentioned respecting the waiting period, conditions of eligibility, partial unemployment benefits, and disqualification provisions, present a situation that calls now for a proper remedy.

The large accumulation in the Unemployment Compensation Trust Fund and the current low ratio of benefit costs to contributions offer an opportunity not only to make the benefits more adequate but also to reduce the Federal tax rate at the same time. Through the use of excess Federal collections previously referred to, there is also the opportunity to introduce some equalization of benefit costs in the various States by making grants to those States which comply with certain conditions and in which the ratio of benefit costs to contributions is high. Furthermore, the requirement of certain minimum benefit standards within a reasonable period of time will go a long way toward assuring in every State an adequate unemployment compensation program.

With this situation in mind, I strongly recommend to the Congress that immediate action be taken, first, to reduce the Federal Unemployment Insurance tax from 3% to 2%, effective January 1, 1941, such reduction to continue in effect so long as reserves remain at a safe level; second, to require each State by July 1, 1941 to meet certain minimum benefit standards to assure more adequate protection



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to the unemployed individual, especially with respect to conditions of eligibility and the duration and amount of benefits; and third, to establish a Federal equalization fund, equal in amount to the accumulated excess Federal collections from the Federal share of the unemployment insurance tax, from which grants may be made under certain conditions to those States with high benefit costs.

~~From the information which I have, and taking into consideration the upturn in employment due to the defense program and to other factors, I believe that a State tax of 1.5%, based on a Federal tax of 2%, will be sufficient in a majority of States during the next year or two to carry out a more adequate unemployment compensation program without drawing upon the accumulated reserves. I also think it probable that the equalization fund proposed will be sufficient to pay during the next three years whatever costs are necessary to secure full payment of benefits.~~

These proposed changes, based upon past experience, will be of material benefit to thousands of employers and millions of workers. They are in keeping with the spirit and the practice of the social security program. I therefore urge their early enactment into law.

THE WHITE HOUSE,

August , 1940



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