

ABSTRACT: "A Distinctive System: Origins and Impact of U.S Unemployment Compensation"

Unemployment compensation in the United States was signed into law in August 1935 as part of the omnibus Social Security Act. Drafted in a period of uncertainty and economic distress, the portions that dealt with unemployment insurance were crafted to achieve a multiplicity of goals. Among these goals were to secure passage of the act by Congress and to guarantee its constitutionality, since much New Deal legislation had been declared unconstitutional by the U.S. Supreme Court.

To guarantee its constitutionality, the UI portion of the Social Security Act was crafted as a state program, but adherence to it was guaranteed by an involved federal mandate. UI was "experience rated," which meant that firms with greater unemployment were to be taxed more heavily, up to some maximum. States were to add other features, such as limitations on benefits, eligibility, and the details of experience rating.

In this paper, we contend that many of the features of the UI system were products of the times, reflecting expediency more than efficiency. Thus the UI system would have been different had it been passed in a less economically trying and uncertain decade. We present evidence showing that greater seasonality in manufacturing employment by state in 1909-1929 was related to higher UI benefits from 1947 to 1969. This relationship only holds for states having a manufacturing share of employment below the national mean, since a state with mainly highly seasonal industries and a generous UI system would impose a heavy tax. Thus the lobbying activities of seasonal industries were important in states with a modicum of manufacturing employment and this relationship appears to have been important in the evolution of the parameters of the system.

In sum, the UI system would probably have been adopted nationally at some point in U.S. history even had the Great Depression not occurred, but it would likely not have the precise details of today's system.