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THE WHITE HOUSE

WASHINGTON

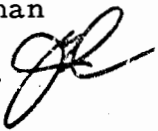
July 11, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

L. William Seidman

FROM:

James E. Connor 

SUBJECT:

Benefit Adequacy Requirements

The President has reviewed your memorandum of July 10th on the above subject and approved the following option:

Propose legislation requiring each state to provide unemployment insurance recipients with a weekly benefit amount equal to at least 50 percent of his average weekly pre-tax wage up to a state maximum which is at least 2/3 of the statewide average weekly wage for that state's covered workers.

Please follow-up with appropriate action.

cc: Don Rumsfeld



THE WHITE HOUSE

WASHINGTON

July 10, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN



SUBJECT: Benefit Adequacy Requirements

This memorandum requests your decision on the issue of whether the Administration should support establishment of a Federal benefit standard which would insure that a larger proportion of unemployment insurance claimants receive benefits equal to one-half of their prior pre-tax wages.

Background

This issue was initially considered at the July 1 Economic and Energy meeting. At that time you requested that Secretary Dunlop provide data detailing the current state benefit standards and the impact of establishing the proposed Federal standard. A copy of this memorandum, submitted to you on July 3, is attached at Tab A.

Secretary Dunlop has requested a decision on the benefit adequacy issue as soon as possible in order that his testimony and the draft legislation can be completed for his appearance before the House Ways and Means Committee on July 15.

Proposal

The Secretary of Labor recommends that the Administration propose legislation requiring each state to provide unemployment insurance recipients with a weekly benefit amount equal to at least 50 percent of his average weekly pre-tax wage up to a state maximum which is at least 2/3 of the statewide average weekly wage for that state's covered workers.

Presently, unemployment insurance claimants receive benefits equal to one-half their prior wages up to a maximum weekly benefit which is determined by each state and varies considerably from state to state. As a result of the state maximums, approximately 40 percent of the claimants receive benefit payments which are less than half their pre-tax wages.

Pros:

- o Each President since Eisenhower has recommended the establishment of a Federal benefit standard and, as President, you endorsed the recommended benefit levels in your Legislative Message of September 12, 1974.
- o Failing to propose what is considered by organized labor as a minimally acceptable bill could jeopardize the positive relationship you have developed with them.
- o Establishment of a Federal standard could effectively remove the issue of benefit ceilings as a political issue within states. Most state legislatures have been unable to resist the pressures for competitively advantageous rates and benefit maximums.
- o The proportion of workers receiving a benefit which replaced at least half their pretax wages would increase from 60 percent to 80 percent.
- o Increases in unemployment compensation benefits would reduce Federal expenditures for certain income maintenance programs such as food stamps.
- o The proposal is considerably less sweeping than other proposals which will be advanced in the Congress by organized labor and Congressman Corman and is also substantially more modest than proposals made by previous Administrations.

Cons:

- o The business community views the establishment of a Federal benefit standard as both an expensive change and a step toward possible federalization of the UI program.
- o Higher paid workers would receive the larger benefits resulting from this proposal. Lower paid workers would be unaffected by the change.
- o It removes state determination of benefit ceilings despite the differences between states in the incidence and nature of unemployment.
- o Higher maximum benefits may result in a greater incentive for workers and their employers to use temporary layoffs during periods of weak demand.
- o It could encourage a longer period of benefit collection by some workers.

Comments

On July 3 Secretary Dunlop submitted a memorandum (Tab B) outlining his views in support of proposing a Federal benefit standard. His memorandum was staffed to Treasury, Commerce, CEA, OMB, and the Domestic Council for their comments.

The comments of these agencies are set forth below. I recommend that you read the full views of John Dunlop, Rogers Morton, and Alan Greenspan which are attached at Tabs B, C, and D. The Domestic Council has no comment.

Option: Propose legislation requiring each state to provide unemployment insurance recipients with a weekly benefit amount equal to at least 50 percent of his average weekly pre-tax wage up to a state maximum which is at least 2/3 of the statewide average weekly wage for that state's covered workers.

Approve

Dunlop I strongly recommend you support this option and that you continue your endorsement of the Federal benefit standard. See Tab B.

Lynn Having carefully weighed the arguments, on balance, I recommend that the Administration continue to support a minimum benefit standard in our unemployment insurance legislative proposals.

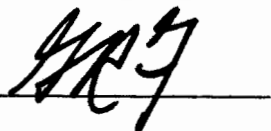
Disapprove

Morton Recommends you reiterate the need for states to provide adequate benefits, but not propose legislation at this time. The issue should be referred to the National Commission in UI as part of the planned review of major UI issues. See Tab C.

Greenspan I urge that a decision be postponed until after the Unemployment Compensation Commission issues its report. See Tab D.

Simon A Federal benefit standard might well be desirable and necessary but I do not believe that the specific level can be determined prior to a comprehensive analysis by the proposed National Commission on Unemployment Insurance.

Approve



Disapprove

Tab A



THE WHITE HOUSE

WASHINGTON

July 3, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: PERMANENT UNEMPLOYMENT INSURANCE CHANGES

This memorandum supplements my memorandum to you of June 30, 1975 and provides the information you requested at the July 1 Economic and Energy meeting relevant to the issue of whether a benefit ceiling should be established which would insure that a larger proportion of claimants receive benefits equal to one half of their prior pretax wages.

Secretary Dunlop has prepared three tables and one chart containing information and data pertinent to this issue: (Tab A) A copy of the portion of the June 30 memorandum discussing this issue is attached at Tab B. Secretary Dunlop has suggested that the following factors be considered in reviewing and comparing the data presented in the attached tables:

1. The cost data in percent terms are for 1973, the latest year available. Because a number of States have increased their maximum weekly benefit amounts somewhat since 1973, the increased costs due to setting the maximum weekly benefit amount at two thirds of the Statewide average weekly wage are overstated. For example, Louisiana and eight other States now meet the benefit adequacy standard. Therefore, the percentage cost increase in 1975 for those States would be zero rather than the percentages shown on Table 1. Information is not available to make a determination nationwide or in most States on how much less the percent increase indicated in Table 1 would be due to the benefit adequacy standard if that option is chosen.
2. In certain states, such as Ohio and Michigan, automobile workers are provided an additional weekly benefit known as Supplemental Unemployment Benefits (SUB), above that provided under the State unemployment insurance (UI) program. These employer-financed additional benefits result from collective bargaining agreements and provide

that the State UI weekly benefit plus the SUB weekly benefit equal about 95 percent of the unemployed workers' weekly take-home pay. Because of SUB, such States have not been under great pressure to raise their maximum weekly benefit amounts which have remained low.

3. Eleven States have enacted allowances for dependents. A major factor in the enactment of these allowances for dependents was the difficulty experienced in enacting higher basic maximum weekly benefit amounts. Two of these States currently meet the proposed benefit adequacy requirements. In a number of the other dependents allowance States basic maximum weekly benefits amounts are low. In the event that a Federal benefit adequacy requirement is proposed and enacted, these States would have the option of excluding allowances for dependents.

For these reasons and the fact that there are 52 State unemployment insurance programs with differences ranging from minor to major variations among them, comparisons of increased costs among the States must be interpreted with caution.

Attachments

Cost Increase for Calendar Year 1973 for Regular State Unemployment
Insurance Program Due to Benefit Standards

	Cost Increase in CY 1973 (\$000)	Percent Increase in Cost (1973 Study)		
TOTAL (U.S.)	\$479,384	12.1		
Alabama.....	4,386	13.1		
* Alaska.....	3,708	20.0		
Arizona.....	5,873	29.1		
Arkansas.....	---	0.0		
California.....	56,341	9.5		
Colorado.....	498	3.0		
* Connecticut.....	5,528	4.7		
Delaware.....	784	7.9		
* Dist. of Columbia.....	---	0.0		
Florida.....	5,198	13.1		
Georgia.....	4,850	15.3		
Guam.....	---	0.0		
Hawaii.....	744	6.0		
Idaho.....	26,077	14.8		
* Illinois.....	10,265	23.3		
* Indiana.....	---	0.0		
Iowa.....	2,191	11.0		
Kansas.....	6,664	15.5		
Kentucky.....	8,776	14.1		
Louisiana.....	1,700	7.7		
Maine.....	5,124	8.9		
* Maryland.....	18,785	7.8		
* Massachusetts.....	46,315	25.3		
* Michigan.....	3,566	5.3		
Minnesota.....	2,122	19.2		
Mississippi.....	14,428	21.2		
Missouri.....	2,004	17.1		
Montana.....	961	6.2		
Nebraska.....	3,225	13.9		
Nevada.....	164	2.1		
New Hampshire.....	55,653	17.4		
New Jersey.....	1,388	9.9		
New Mexico.....	93,354	16.5		
New York.....	948	3.3		
North Carolina.....	---	0.0		
North Dakota.....	19,523	18.0		
* Ohio.....	2,602	9.9		
Oklahoma.....	4,729	10.2		
Oregon.....	12,632	3.7		
* Pennsylvania.....	6,719	11.1		
Puerto Rico.....	1,595	4.3		
* Rhode Island.....	---	0.0		
South Carolina.....	537	14.8		
South Dakota.....	3,457	9.0		
Tennessee.....	13,488	20.7		
Texas.....	199	1.1		
Utah.....	783	6.1		
Vermont.....	1,056	6.2		
Virginia.....	16,118	13.0		
Virgin Islands.....	371	1.5		
Washington.....	3,389	4.3		
West Virginia.....	566	20.7		
Wisconsin.....				
Wyoming.....				

* Cost increases assume no dependents allowances.

TABLE 2

A number of States with currently low basic maximum weekly benefit amounts pay less than 50% of the individual's average weekly wage to the great majority of beneficiaries. Some of these States have enacted dependents' allowance provisions to provide more adequate benefits to more beneficiaries.

Maximum Weekly Benefit Amount, Dependents' Allowances, Percent of Newly Insured Claimants Eligible for the Basic Maximum Week Benefit Amount (MWBA) and Increase in Cost Due to Benefit Standard, 1973 *

	Maximum WBA 12/31/73	Weekly Allowance for Dependents 12/31/73	Percent Eligible for MWBA	Increase in Cost Due to Benefit Standard	
				<u>Dollars</u> ('000)	<u>Percent</u>
Alaska	\$ 90 - 120	\$ 10 - 30	47	3,708	20.0
Conn.	98 - 147	5 - 49	29	5,528	4.7
Illinois	60 - 105	1 - 45	62	26,077	14.8
Indiana	50 - 75	1 - 25	70	10,265	23.3
Maryland	78	3 - 12	40	5,124	8.9
Mass.	90 - 135	6 - 45	33	18,785	7.8
Michigan	56 - 92	1 - 36	73	46,315	25.3
Ohio	60 - 91	1 - 31	64	19,523	18.0
Rh. Island	82 - 102	5 - 20	29	1,595	4.3

* Does not include the District of Columbia and Pennsylvania which already meet benefit adequacy requirement.

TABLE 3

In most States large numbers of claimants cannot receive 50% of their average weekly wage due to low maximum weekly benefit amounts.

Maximum Weekly Benefit Amount (MWBA) Effective as of December 31, 1974, as a Percent of Average Weekly Wage (AWW) in Covered Employment for FY 1974, and Percent of Newly Insured Claimants Eligible for the Maximum Weekly Benefit Amount, 1974*

(Excludes States that meet benefit adequacy requirement.)

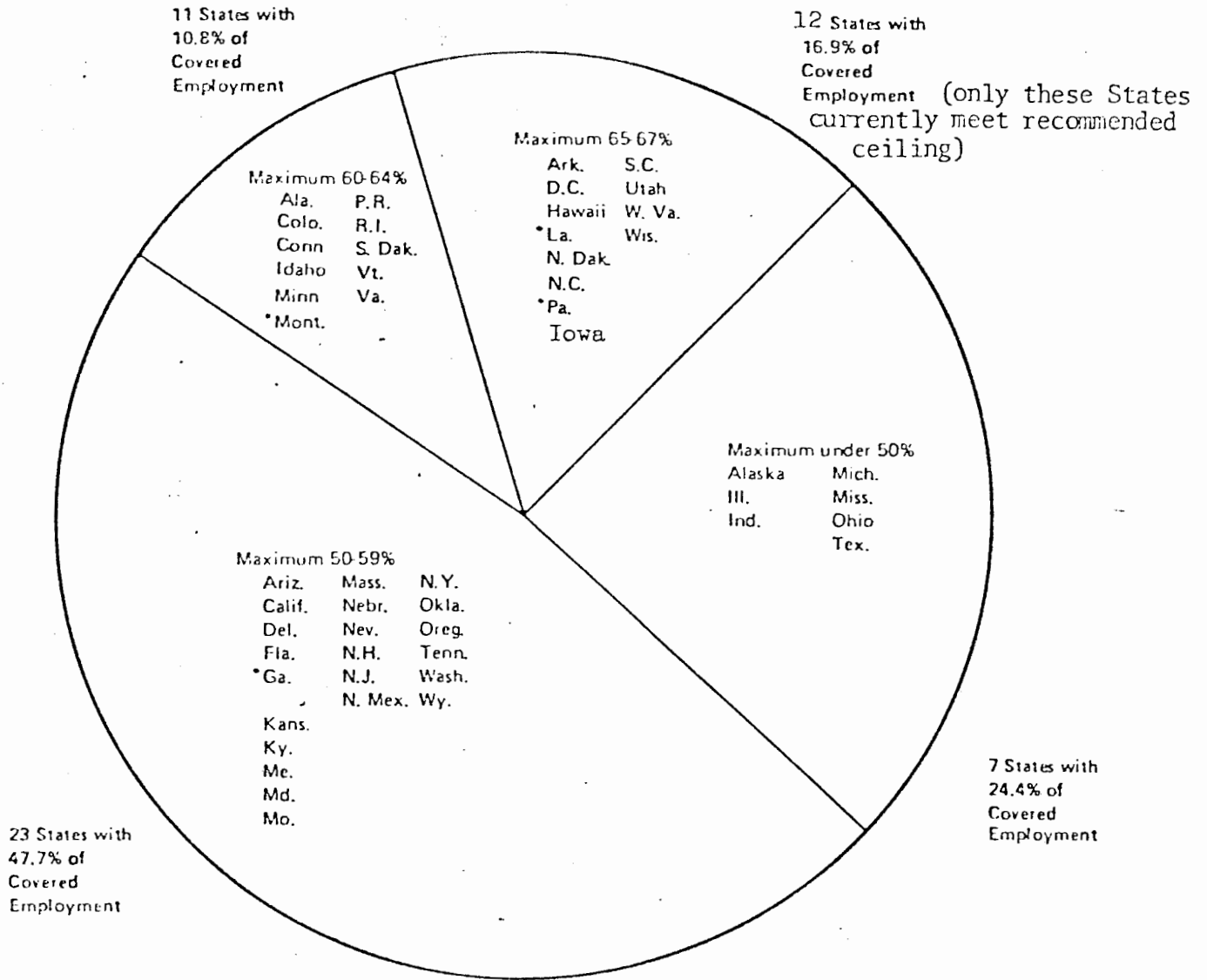
TOTAL	Maximum WBA	AWW in covered employment	MWBA as % of AWW in covered employment	% of claimants eligible for MWBA
Alabama	75	145.45	52	31
Alaska	90	234.94	38	38
Arizona	78	165.08	47	60
Arkansas				
California	90	181.51	50	28
Colorado	98	162.38	60	56
Connecticut	104	180.74	60	34
Delaware	85	179.29	47	53
Dist. of Columbia				
Florida	74	155.62	48	42
Georgia	70	151.85	46	44
Guam				
Hawaii				
Idaho	83	142.49	60	41
Illinois	60	183.86	33	65
Indiana	60	170.40	35	70
Iowa				
Kansas	79	147.86	55	48
Kentucky	74	152.63	50	55
Louisiana				
Maine	68	135.91	52	45
Maryland	89	164.82	54	45
Massachusetts	95	166.47	58	29
Michigan	67	207.44	32	73
Minnesota	85	163.51	52	39
Mississippi	60	128.63	47	48
Missouri	67	162.67	41	56
Montana	68	141.09	50	51
Nebraska	74	143.05	52	52
Nevada	85	172.25	50	47
New Hampshire	80	142.93	56	29
New Jersey	85	184.57	50	54
New Mexico	67	140.28	50	39
New York	95	194.25	49	41
North Carolina				
North Dakota				
Ohio	77	179.97	43	56
Oklahoma	78	146.46	55	19
Oregon	88	165.98	55	46
Pennsylvania				
Puerto Rico	50	104.04	60	27
Rhode Island	87	149.85	60	33
South Carolina				
South Dakota	67	125.36	56	55
Tennessee	70	142.66	49	33
Texas	63	153.81	41	48
Utah	93	148.10	65	30
Vermont	86	144.73	60	29
Virginia	87	149.23	58	26
Virgin Islands				
Washington	86	177.48	50	49
West Virginia				
Wisconsin				
Wyoming	73	155.77	50	63

* Claimants who established a benefit year.

1/ In States where MWBA changed during the year, percentages include claimants of both prior and current amounts.

CHART 1

Distribution of Covered Employment by Relationship of States' Maximum Weekly Benefit Amounts to States' Average Weekly Wages — Enacted as of JULY 1, 1975



Tab B



U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

3 JUL 1975

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Permanent Unemployment Insurance Changes

Issue 5: Should a benefit ceiling be established which would insure that a larger proportion of claimants receive benefits equal to one-half of their prior pretax wages

This memorandum argues that this issue should be decided in favor of a Federal benefit standard, requiring State maximum weekly benefit amounts equal to two-thirds of each individual State's average weekly wage -- the same benefit standard recommended by each President beginning with President Eisenhower.

President Nixon's July 1969 Message to Congress described this as a goal of the unemployment insurance (UI) program, pointed to the inadequacy of State maximums, and specified that the States would have two years to take appropriate action in order to avert a Federal standard. As President, you endorsed the recommended benefit levels in your Legislative Message of September 12, 1974. It appears certain that labor leaders, certain Senators and Congressmen and certain "public interest" groups are prepared to attack any failure to seek a Federal standard. Because of high unemployment in the last two years, unusually large numbers of relatively high-paid workers, including technicians, engineers, and middle management personnel have experienced being cut off by inadequate State benefit maximums. The issue has become, therefore, even more sensitive than before.

It is clear that only enactment of a Federal standard for State benefit maximums would assure that the great majority of workers in UI-covered employment would receive half-pay benefits when unemployed. Moreover, only a Federal standard, stated in terms of a uniform percentage relationship and base, would assure that benefits in all States would keep pace with wages and that the benefit ceiling would be removed from political consideration. Only 12 States now provide maximum

benefit amounts at the level first recommended in 1954 by President Eisenhower and by every President since. Most State legislatures have been unable to resist the pressures for competitively advantageous rates and benefit maximums. A Federal standard appears to be the only really effective answer to this.

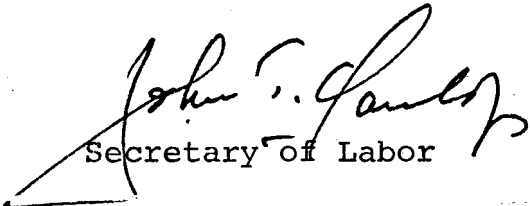
For the first time in the history of the Interstate Conference of Employment Security Agencies, a clear majority (30 States of 44 reporting) indicated agreement with the specific standard described above. Only 11 of the 44 indicated disagreement. The June 6, 1975 Report of the Task Force on Unemployment Compensation of the Governors' Conference lists as one of three prime concerns benefit standards and proposes, in the event of Federal action, comprehensive standards rather than a single standard. Similarly, the Federal Advisory Council on Unemployment Insurance has come out in favor of some benefit adequacy standard, without indicating specifics.

Proposals advanced by labor (AFL-CIO on February 17, 1975) go beyond the standard described above by calling for a required wage replacement of two-thirds of each worker's average wage (instead of one-half) below the maximum, and a State maximum equal to at least three-fourths (instead of two-thirds) of each State's average weekly wage. In addition, labor is proposing Federal standards governing the duration of regular benefits, minimum amounts needed to qualify for benefits, and limitations on disqualification provisions. Labor appears to be aiming principally at two issues: inadequate financing of unemployment insurance, calling for a taxable wage base moving upward each year, ultimately to the same base as Social Security; and benefit amounts. Your decision yesterday to propose an increase in the tax base from \$4,200 to \$6,000 and to defer consideration of appropriate further increases in the base to a national study commission, together with failure to seek a Federal benefit standard now is likely to preclude any labor support for the Administration bill. Incidentally, the Michigan legislature, in concurrent resolution No. 156 adopted this session, memorializes Congress to federalize the unemployment insurance program and establish standards (similar to Labor's) to remove benefit variations among the States for workers with the same wages.

In addition, a bill to be sponsored by Congressman Corman, Chairman of the Ways and Means Committee's Subcommittee on Unemployment Compensation, contains essentially the same proposals being advanced by labor. The recommended benefit standard, therefore, is not only considerably less sweeping than other proposals that will be before Congress, but is also substantially more modest than proposals for unemployment insurance made by prior Administrations.

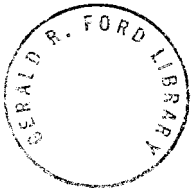
Aside from the considerations expressed above, the most compelling reason for the recommended standard from a program standpoint is that a large proportion of covered workers (over 40 percent) are cut off by low maximums from receiving a 50 percent wage replacement. Largely because of the low ceilings, the average weekly benefit amount is now about \$66 (39 percent of the current nationwide average wage of about \$169). All benefit adequacy studies conducted to date indicate that a 50 percent wage replacement is the minimum level needed to meet the basic objectives of unemployment insurance. While lower-wage workers, who do not qualify for the maximum generally receive a benefit equal to half their weekly wage, this is not true with respect to workers earning wages equal to or in excess of most States' average wage.

For the reasons expressed above, I strongly recommend that the issue stated at the beginning of this memorandum be answered "yes" and that you continue your endorsement of the Federal benefit standard described above.



Secretary of Labor

Tab C





THE SECRETARY OF COMMERCE
Washington, D.C. 20230

July 9, 1975

MEMORANDUM FOR L. William Seidman
Executive Director, Economic Policy Board

From: Secretary of Commerce *RUBIN*

Subject: Benefit Adequacy Requirements

In response to your request for comments on Secretary Dunlop's memo on benefit adequacy requirements, I have the following observations:

o The general business reaction to a Federal benefit standard is that in the long run it is one of the most expensive changes that could be made to unemployment insurance. Although the data may be somewhat overstated, Secretary Dunlop's table shows cost increases of more than 20 percent in seven states.

o Business would view a Federal benefit standard as a step toward Federalization of the UI program, which is very likely to lead to higher costs in the future.

o Lower paid workers do receive the proposed benefit minimums now. It is higher paid workers who would get larger benefits as a result of this proposal.

o This feature of the UI program should be a state determination, and allow for differences between states where the risk of being unemployed may vary substantially.

In view of the above, I recommend the President reiterate the need for states to provide adequate benefits, but not propose legislation at this time. Rather, the issue should be referred to the National Commission on UI as part of the planned review of major UI issues.

Tab D



THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

July 10, 1975

MEMORANDUM FOR L. WILLIAM SEIDMAN

From: Alan Greenspan

This is in response to your request of July 7 for my views on mandating that all states have a maximum unemployment compensation benefit equal to two-thirds of the average weekly wage in the state. I recognize that a number of considerations have an important bearing on the resolution of this matter but because I believe there is no particular urgency and I have major reservations concerning the proposed federally mandated benefit standard, I urge that a decision be postponed until after the Unemployment Compensation Commission issues its report. Indeed, there is little point in even having a Commission if all of the major issues are decided this summer.

It is unclear why there is such great urgency on the part of the Department of Labor. Data they have provided my staff indicate that the average weekly state unemployment benefit as a percent of average weekly earnings in covered employment has increased from 33 percent in the early 1950's to 36 percent in the 1970's. Since unemployment benefits are not subject to payroll or income taxation, and since these taxes have increased over time, the ratio of benefits to after-tax earnings has increased at an even faster rate. Since taxes rise with level of income, a benefit that is 50 percent of pre-tax wages represents a greater replacement of lost earnings for persons with greater income. There does not, therefore, appear to be any pressing need for immediate action.

A decision to delay is also prudent in view of some existing evidence that the mandated increase in benefits may actually have harmful effects.

Higher maximum benefits are likely to result in a greater incentive for workers and their employers to use temporary layoffs during periods of weak demand so as to substitute UC benefits for work during times when work has a lower value to the employer. This substitution will decrease economic efficiency. It will also encourage a longer period of benefit collection reflecting longer job search and bogus unemployment on the part of those who would otherwise drop out of the labor force because of home



responsibilities or retirement. These factors would increase the unemployment rate and make it more difficult to obtain the Administration's two main economic objectives, lowering the rate of inflation and of unemployment.

Greater weekly benefit ceilings will necessitate higher unemployment compensation taxes because of the greater cost to the UC trust funds of an average week of unemployment and the induced greater magnitude of unemployment. This will be in addition to the proposed FUTA tax increases that are necessitated by the current recession's drain on the UC trust funds. (Last week the President approved the option of raising the tax base from \$4,200 to \$6,000 and temporarily increasing the FUTA tax rate from 3.2 to 3.35 percent.) These tax increases could adversely effect the growth of employment and retard long-term economic recovery.

One of the desirable features of our current UC system is that it allows states to vary the many parameters of the program to suit their individual circumstances. These parameters include benefit structure, tax rates, waiting periods, work test, etc. Although it may at first seem inequitable that the maximum benefit varies among the states, this inequity evaporates when one realizes that the incidence and nature of unemployment vary among the states and that employer UC taxes are presumably lower (and hence the demand for labor is greater) where benefits are lower.