

WHAT IF UNEMPLOYMENT INSURANCE COVERAGE WERE EXTENDED TO AGRICULTURAL WORKERS

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In recent years several bills to extend unemployment insurance to agriculture have been considered by Congress. Because Congress lacked knowledge concerning the impact of the program, it requested that a broad-based research effort be undertaken to determine the costs and benefits of such legislation. Twelve land grant universities were involved in the resulting study. Results from the Texas portion are included in this report.

At this time a specific proposal is being considered by Congress to amend the Federal Unemployment Tax Act. It would remove the present agricultural labor exclusion for employers hiring relatively large numbers of workers. The proposed legislation would cover workers employed by agricultural employers hiring four or more workers in each of 20 weeks of a calendar year or having a quarterly payroll of at least \$5,000.

The Federal government established minimum requirements for participation in the unemployment insurance provisions of the Social Security Act of 1935, later the Federal Unemployment Tax Act (FUTA). Over 65 million jobs in the United States are covered by unemployment insurance. However, agricultural workers have been excluded since the beginning.

Unemployment insurance is a means of providing a worker with income if he is temporarily out of work through no fault of his own. It differs from and is operated separately from Workmen's Compensation, Social Security or Welfare Programs. Benefits are paid according to the amount of work and earnings of individuals before becoming involuntarily unemployed.

When a worker receives benefits, all employers for whom he worked during the base period are

charged in proportion to the wages paid him by these employers. Out-of-state employers are charged in the same way as in-state employers. Benefits are apportioned among the several employers, if more than one, according to the formula existing under legislation of the respective state or states.¹

To qualify for benefits, the unemployed worker of a subject employer must establish that he is out of work because of some reason that is not his fault. He then registers with the Texas Employment Commission (TEC) in accordance with regulations prescribed by them to show that he is willing to work, able to work and looking for work. He must accept jobs within his skill and occupational range when they become available. In Texas, he can also receive benefits if he is in a job training program approved by TEC.

Implications for Texas Agricultural Employers

Five alternative proposals will be presented in the tables to show the differences of the provisions. The alternatives relate to number of employees an employer has for certain periods of time. Many possible alternatives could be considered but those shown in the tables and reasons for selecting them included:

1. One worker any time to show the effect if all employers are covered.
2. One worker in 20 weeks or \$1,500 high quarter which is the current coverage for most industries.

¹To be eligible for benefits, a worker must have earned at least \$500 in a base period consisting of the first four of the last five quarters before filing the initial claim. These wages must be earned in at least two quarters and must equal one and one-half times the high quarter earnings. Weekly benefits are 1/25 of the high quarter earnings with a maximum of \$63 per week. Normally, benefit payments do not extend longer than 26 weeks and must not be more than 27 percent of the total wages earned in the base period. Claims are charged against employers according to the proportion of earnings a claimant received from the employer during the base period.

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3. Four workers in 20 weeks or \$5,000 high quarter which is the proposed legislation now being considered for agriculture.
4. Four workers in 20 weeks which was proposed by the administration in 1970.
5. Eight workers in 26 weeks which was proposed by the Senate Finance Committee in 1970.

Based on research conducted by the Texas Agricultural Experiment Station and the Texas Agricultural Extension Service in cooperation with the United States Department of Labor, the following tables show what would have been the case using 1969 as the coverage year. Comments will be limited to the current proposed legislation or alternative 3.

Thirteen percent of the employers and 59 percent of all agricultural jobs would be included under this provision,² Table 1. This pattern of a relatively small percentage of employers but a relatively large percentage of jobs generally is similar throughout the United States. Roughly 40 percent of the employers with gross sales of \$40,000 or more would be included while only about 3 percent of the employers with gross sales of less than \$20,000 would be covered.

The impact varies by type of farm. Relatively few cash grain, livestock, cotton, other field crops or general farm enterprises would have been covered under alternative 3, Table 2. Few farms of these types in Texas have enough workers a sufficient length of time to be included in the proposed legislation. Even though few employers are included in these types of operations, an analysis of the gross payroll distribution by type of farm shows that these enterprises account for almost $\frac{2}{3}$ of all farm labor expenditures, Table 3. Employer coverage is dependent on the number of workers, weeks of employment and quarterly payroll rather than farm type.

How Cost of Unemployment Insurance Is Paid

The unemployment insurance system is a federal-state program administered in Texas by the TEC. It is financed by covered employer contributions to a state unemployment insurance trust fund on behalf of workers. The Texas Unemployment Insurance Act requires participation by all employers subject to state legislation. Currently, employers in covered industries having one or more workers for at least a portion of each of

20 weeks or who pay wages of at least \$1,500 in a high quarter in a calendar year are called subject employers. The tax rate is based on the unemployment benefits received by his employees during the previous year. Employers with high claims charged against their account pay a higher rate than those with few or no claims.

In Texas the 1972 tax rate ranged from 0.6 to 4.5 percent on the first \$4,200 annual taxable wages per worker. The maximum could increase if the overall level of the state fund is low. Of this rate, 0.5 percent is collected for program administration costs. Under current Texas law, the total added cost would be a minimum of \$6 per \$1,000 payroll and the maximum would be \$45 per \$1,000 payroll up to \$4,200 per employee.

Employer Reaction to This Increased Cost

An employer may react several possible ways. He may:

1. Absorb this as an added cost for production. This, along with other expenses, would cause production costs to increase. A few marginal operators may cut down on their size or quit altogether rather than adding another cost to their operation.

2. Attempt to increase productivity of workers. One way to pay more money for the same worker is to obtain more work from him. Less employee turnover, greater worker satisfaction, better employee-employer relations and more efficient use of time added to improved productivity.

3. Reduce the amount of hired farm labor used. Changing to less labor intensive enterprises, using more family labor, increased mechanization and laying off workers during slack time are possibilities. Many farmers "make work" for several weeks to keep a good worker for the 12-month work period. Rather than continuing this practice, employers could lay off their workers during slack periods. There is a danger in this because the worker may find a new job that is as attractive as his old job.

4. Reduce the amount of seasonal labor used. Some seasonal workers are more likely to draw unemployment insurance benefits than regular workers. This is especially true of migrant labor. By reducing this type of labor usage, the draw-down on the unemployment insurance account would be less.

5. Increase the employment of workers not likely to qualify for benefits. Certain types of workers do not qualify for benefits for some reason which may include: (a) workers not working long enough to build up the \$500 base during the four-quarter base period; (b) students working only during the summer or after school; (c) housewives working temporarily.

²To put this in a different perspective, there were about 137,000 farms in Texas in 1969. Of these, roughly 27,000 had annual payrolls of \$150 or more. Thus, 13 percent of the employers comes to about 3,500 total employers that would be covered under alternative 3. This means that less than three percent of all Texas farms would be included but about 60 percent of all farm workers would be covered.

6. Increase the use of custom work. Operations such as grove care, combining, cotton harvesting, spraying or dusting can be hired without the farm operator having any labor involvement. This shifts the responsibility to the owner of the custom service.

Implications for Hired Farm Workers

One justification for having agricultural workers included for coverage by unemployment insurance is the concern for the economic and social situation of hired farm workers. The operational impact of unemployment insurance is to provide a deferred income to qualified workers who become unemployed involuntarily. The amount and duration of benefits received depends upon their work force participation in covered industries.

Based on 1969 wage information, actual earnings of agricultural employees who worked at least 50 weeks per year averaged \$3,806. Workers employed in Texas agriculture for 40 or more weeks with no out-of-state agricultural employment earned an average of \$3,355. Interstate agricultural workers with 40 or more weeks of employment earned an average of \$2,941. If unemployment insurance had been in force and all work was for covered employers, workers with 40 or more weeks in Texas agriculture would have received an estimated \$42.64 per week for an average of 5.88 weeks or a total of \$251 in benefits. This would bring total income to \$3,606 or almost 95 percent of the average income received by full-time employees. The average

benefits received by agricultural workers who do some work in Texas as well as other states but who work at least 40 weeks per year would have been \$38.87 per week for 4.69 weeks. This total of \$182 each would result in a total annual income of \$3,123 or roughly 82 percent of the full-time worker.

Unemployment insurance benefits are tied directly to the worker's unemployment history during the previous year. Continuation of the right to receive benefits, unlike welfare payments or food stamp programs, are tied directly to employment and earnings history. This provides a positive built-in work incentive.

Coverage of the agricultural sector under provisions of the Federal Unemployment Tax Act would bring in one of the two major private sectors still excluded from coverage. It would provide workers with an income maintenance protection that is unavailable at present. From a strictly economic viewpoint, a compelling case is made to extend coverage to workers on large farms where there is a more formalized employer-employee relationship similar to non-agricultural firms. This same situation is less clear for workers on smaller operations where usually there is a more informal association with their employers. On the whole, extension of coverage to agricultural workers would raise employer costs by a minimum of 1 cent per hour to a maximum of 8 cents per hour assuming an original wage of \$1.75 per hour.

Table 1. Distribution of subject Texas farm employers and gross payroll within each economic class under five selected coverage provisions, 1969.

Gross sales	Totals	Coverage provisions				
		1 One worker anytime	2 One worker in 20 weeks or \$1,500 high quarter	3 Four workers in 20 weeks or \$5,000 high quarter	4 Four workers in 20 weeks	5 Eight workers in 26 weeks
Percent of workers						
\$40,000 or more (Economic Class 1)						
Employers	7,481	100	99	38	32	12
Gross payroll	\$132,979,696	100	99	79	73	51
\$20,000-\$39,999 (Economic Class 2)						
Employers	6,465	100	93	8	5	- ^a
Gross payroll	\$ 34,594,864	100	98	28	16	2
\$10,000-\$19,999 (Economic Class 3)						
Employers	5,665 ^b	100	91	1	1	- ^a
Gross payroll	\$ 18,319,568	100	99	9	8	2
Under \$10,000 (Economic Class 4)						
Employers	7,482 ^b	100	84	2	2	- ^a
Gross payroll	\$ 17,467,920	100	96	19	15	2
All Classes						
Employers	27,093 ^b	100	92	13	11	3
Gross payroll	\$203,362,048	100	99	59	53	34

^aLess than 0.5 percent.

^bThis number is an underestimate since the population is based on employers filing Social Security Wage Statements. Excluded are employers with payrolls less than \$150 per year and nonreporters. Most of these employers have annual sales less than \$20,000. However, this exclusion has very little effect on total payroll.

Table 2: Distribution of subject Texas employers by type of farm under five selected coverage provisions, 1969.

Type of farm	Coverage provisions				
	1	2	3	4	5
	One worker anytime	One worker in 20 weeks or \$1,500 high quarter	Four workers in 20 weeks or \$5,000 high quarter	Four workers in 20 weeks	Eight workers in 26 weeks
Percent of workers					
Cash grain	100	93	13	11	2
Livestock farm & ranch	100	92	9	7	2
Cotton	100	89	10	7	3
Subtotal—three major products	100	92	11	8	2
Other field crops	100	69	9	9	2
Vegetables	100	100	54	40	28
Fruit and nuts	100	100	43	43	11
Poultry	100	100	40	40	22
Dairy	100	100	42	41	13
General	100	99	1	1	1
Miscellaneous	100	100	28	18	12
Subtotal—other products	100	91	29	26	11

Table 3: Distribution of gross payroll of subject Texas employers by type of farm under five selected coverage provisions, 1969.

Type of farm	Coverage provisions				
	1	2	3	4	5
	One worker anytime	One worker in 20 weeks or \$1,500 high quarter	Four workers in 20 weeks or \$5,000 high quarter	Four workers in 20 weeks	Eight workers in 26 weeks
Percent of workers					
Cash grain	23	23	16	15	9
Livestock farm & ranch	30	36	29	29	31
Cotton	19	19	16	14	13
Subtotal—three major products	72	72	61	58	53
Other field crops	4	4	4	4	3
Vegetables	5	5	8	9	12
Fruit and nuts	3	3	5	6	5
Poultry	3	3	4	4	5
Dairy	7	7	11	12	13
General	1	1	- ^a	- ^a	- ^a
Miscellaneous	5	5	7	7	9
Subtotal—other products	28	28	39	42	47
Total—all products	100	100	100	100	100

^aLess than 0.5 percent

Extension of Unemployment Insurance to Texas Agriculture: A technical report, Karen J. Nergart and Conrad F. Fritsch. Prepared at Texas A&M University in conjunction with: Regional Research Project NE-58 of the Northeast Agricultural Experiment Stations. Submitted to the U.S. Department of Labor, January 10, 1973.

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