

Financing Public Welfare Programs

by WILBUR J. COHEN*

The past 25 years have seen major changes in the public welfare programs and in the proportion of the national product devoted to them. These changes, and those that may occur in the years to come, were summarized by the author in an address given at the silver anniversary meeting of the American Public Welfare Association. The following article has been adapted from that paper.

MR. Justice Holmes has said that "it is often more important to emphasize the obvious than to elucidate the obscure." Taking my cue from the learned Justice I am going to emphasize the obvious today because, like so many things in life that are obvious to one group but not to another, facts about public welfare that are obvious to us as workers in public welfare may be less clear to some others.

The role of public welfare programs—one group in the constellation of social welfare programs—has undergone a tremendous change in the 25 years since the American Public Welfare Association was founded. This is the most obvious fact about public welfare financing. While expenditures under public aid programs (relief and assistance) in 1935 were equivalent to nearly 6 percent of our gross national product, today under the public assistance programs they are less than 1 percent.

From 1935 to 1954, our gross national product increased 425 percent, while public aid expenditures declined by 32 percent. The decline in the costs of the public aid programs is attributable to the vastly improved economic conditions and employment opportunities and the increased importance of social and voluntary insurance protection.

The rapid change taking place in our public and private programs often makes it difficult to view public

assistance in perspective. If we define social welfare in a rather broad sense, as encompassing social insurance and related public programs, public assistance and other welfare services, public health and medical services, and veterans' programs, then expenditures under these programs totaled \$18.1 billion last year. What is sometimes obscured from view is the fact that public welfare expenditures were equal to about \$3.5 billion or about 20 percent of this total. Public assistance makes up the largest portion of public welfare expenditures and represented about \$2.8 billion or 15 percent of the total of \$18.1 billion.¹

Fortunately, public assistance is a declining proportion of the total welfare expenditures of our country. If one takes account of the significant developments taking place in old-age and survivors insurance and in private insurance and health, welfare, and pension plans, it may be expected that public assistance will represent a considerably smaller proportion of all welfare expenditures by 1965 than it does today.

A Forecast for 1960?

It seems appropriate to discuss some possible lines of future development at a twenty-fifth anniversary meeting. It is also our responsibility because, as Charles F. Kettering has said, "We should all be concerned about the future because we will have to spend the rest of our lives there."

A recent study of the Twentieth

¹ See the *Bulletin*, September 1955, page 29, table 4. For items included here under the term "public welfare," see footnotes explaining "public aid" (public assistance) and "other welfare services" (excluding veterans' programs).

Century Fund dealing with the Nation's needs and resources² attempts to analyze the probable amounts to be expended for various programs, including public assistance, in 1960, and the amount needed in that year in terms of likely population and program changes. The study assumes a substantial decline in old-age assistance expenditures but increases in expenditures for all other assistance categories. Nevertheless, it assumes also that there would be a net decline in assistance expenditures of about 10 percent if the price level were the same in 1960 as in 1950 (table). Prices are now, however, about 15 percent above the 1950 level. Adjusting the Twentieth Century Fund's estimates for this increase shows a need for about \$115 million more in assistance expenditures in 1960 than in 1950 (on the assumption of a decrease of more than \$560 million in old-age assistance expenditures and the passage of permanent disability insurance benefits in old-age and survivors insurance).

I don't hold any brief for these assumptions or these specific figures, but it does look as if public assistance expenditures on the whole are more likely to rise somewhat in terms of total dollars than to decline. But they should continue to decline in relation to population and national income.

There are likely to be, however, important shifts within the assistance program. Total assistance expenditures for old-age assistance may decline somewhat, although with the increased need and cost of medical care for the aged a decline is not certain. Expenditures for aid to dependent children are likely to represent a larger proportion of the total public assistance expenditure. It is not improbable that in a few short years the caseload in aid to dependent children may equal and then exceed the old-age assistance caseload.

² J. Frederic Dewhurst and Associates, *America's Needs and Resources: A New Survey*, 1955, pages 633-636.

Estimated needed expenditures for public welfare, 1950 and 1960, and actual 1950 and probable 1960 expenditures

[In millions at 1950 prices]

Program	Expenditures			
	1950		1960	
	Actual	Needed	Probable	Needed
Public welfare, total.....	\$2,694	\$2,164	\$2,844	\$2,756
Public assistance ¹	2,339	1,786	2,257	2,136
Old-age assistance ²	1,438	741	1,114	869
Aid to dependent children and aid to the blind.....	572	660	772	847
General assistance.....	329	385	371	420
Institutional care.....	134	134	215	215
Other welfare.....	221	244	372	405

¹ Excludes aid to the permanently and totally disabled, which was initiated in October 1950.

² Probable expenditures for old-age assistance in 1960 estimated on basis of expanded coverage of old-age and survivors insurance and establishment of permanent disability insurance; needed expenditures in 1950 and 1960, on basis of full coverage but in-

complete maturity of the insurance systems.

Source: J. Frederic Dewhurst and Associates, *America's Needs and Resources: A New Survey* (New York, Twentieth Century Fund, 1955), page 635. For assumptions used in making these estimates, see footnotes to table 265 and discussion (pages 635-636).

going to be a topic at the fiftieth anniversary meeting of the American Public Welfare Association in 1980. Perhaps the subject will be in somewhat broader perspective than, just as today's discussions of the subject are broader than those in 1935 and 1940.

Program content and financing are inextricably bound together in public welfare programs as they are in social insurance or private plans. Coverage, benefits, and financing in social security are interrelated. You just can't separate one from the other. Any one type of program affects another, so that financing public welfare cannot be neatly isolated from the larger issues of social and economic security and the changing character of our economy.

Many areas still remain to be explored in the search for methods of strengthening existing social security programs, public and private. During the years immediately ahead we may expect important changes in our economy. Our population will continue to increase; we may expect the Nation to have more families, more children, more aged persons, and more working women. We may reasonably expect continued technological advances and hence advances in national productivity and our standard of living; we may expect the hours of work per week to continue to decline. We may expect medical costs to continue to increase. How shall we prepare our social security programs to take account of these changes and the many new problems that are bound to arise?

Among the public policy issues on which decisions will be made that will affect the financing of public welfare are the following:

1. In what ways should old-age and survivors insurance and unemployment insurance be broadened in coverage? How soon can such coverage be effective?

2. Should social insurance be broadened to cover the risks of temporary and permanent total disability? What effect would such protection have on insurance and assistance costs in the long run?

3. Should the eligibility age in old-age and survivors insurance be retained at 65 or reduced below 65?

Medical care expenditures are likely to represent a larger share of total public assistance costs than they do now. Within the past 5 years, payments to vendors for medical care have increased, and this year such payments exceeded \$200 million. They increased 20 percent in 1954.

In analyzing our problems in public welfare we sometimes forget how well we have been doing in the light of the great population increases that have occurred. Public assistance payments per inhabitant are only slightly higher today than they were in 1950. In terms of 1940 dollars, the cost per inhabitant since 1950 has shown some decline (chart).

During the 20 years since the Social Security Act was passed our population has increased by more than 36 million. It is increasing at the present time by about 2.5 million each year. If assistance recipients continue to represent the same proportion of the population as they do now, the number would increase about 85,000 a year. Even if the proportion dropped from about 3.4 percent to 3.0 percent of the population, the growth in the population would still mean an increase in the rolls of 75,000 a year.

By 1960, the population is estimated to increase to 177 million. If it is assumed that there would be no change in the proportion of assistance recipients, there would be about 400,000 additional assistance recipients by 1960; there would be about 200,000 if the proportion were halved.

I hope, and I believe, that this kind

of an increase will not occur. I do not believe it need occur. There are on the horizon several reasons for this belief:

1. If the economy continues at the present high level of employment, we can have a favorable economic climate that will enable a larger proportion of the population to be self-supporting.

2. Continued progress can be made in raising low incomes through increased wages, minimum wage legislation, provision of educational opportunities, and similar programs.

3. There is ample opportunity for continuing the increase in the amount and the scope of voluntary protection in the field of employee benefit plans covering health insurance and protection against income loss due to old age, death, sickness, disability, and unemployment.

4. Home ownership, private insurance, and private savings are being encouraged and more widely diversified.

5. The effect of old-age and survivors insurance coverage (particularly for farm groups) will be fully felt during the next few years.

6. Further improvements in old-age and survivors insurance, unemployment insurance, and workmen's compensation are possible and likely.

7. Preventive and rehabilitative services are being encouraged.

Issues Affecting Financing

I venture to suggest that the financing of public welfare programs is

If the age is reduced, should it be reduced for women only? Or for both men and women? What are the implications of such changes for old-age insurance and assistance costs?

4. Should payments in the insurance and assistance programs be increased? To which groups and to what extent? What are the costs of alternative proposals? Which proposals have the highest social priority?

5. Should the coverage of the public assistance titles under the Social Security Act be broadened? If so, how? On what basis should the Federal Government share in such costs?

6. If old-age assistance expenditures were to decline sharply, should the Federal Government withdraw

from sharing in such costs? Or should the Federal Government share in all assistance costs? How would any change in formula affect high-income and low-income States?

7. How should the medical care needs of assistance recipients be met? Through the welfare departments or the health departments? How much will be needed for this purpose?

8. Should the Federal public assistance titles be amended to specifically authorize and encourage the provision of social services to assistance recipients? What would be the effect on assistance rolls and costs?

9. Should Federal appropriations for maternal and child health services, services for crippled children,

and child welfare services be increased? If so, how much? How can State, local, and private appropriations for these programs be encouraged?

10. Should specific Federal and State programs for the prevention and control of juvenile delinquency be established? If so, how much should be appropriated for them?

11. What should the role of the Federal Government be in improving foster care and in providing more adequate assistance for dependent children? How much would this action cost? What standards, if any, should be established in the Federal law?

12. What specific changes in the Federal and State legislation for financing the programs could aid in providing for the training of additional professional personnel? How much should be allocated for this purpose? What role should the Federal Government play in relation to the States and the schools of social work?

13. What can Federal, State, and local governments do to aid in meeting the medical care needs of persons who cannot be covered by voluntary insurance? How much will such proposals cost?

14. What should be done to improve workmen's compensation programs?

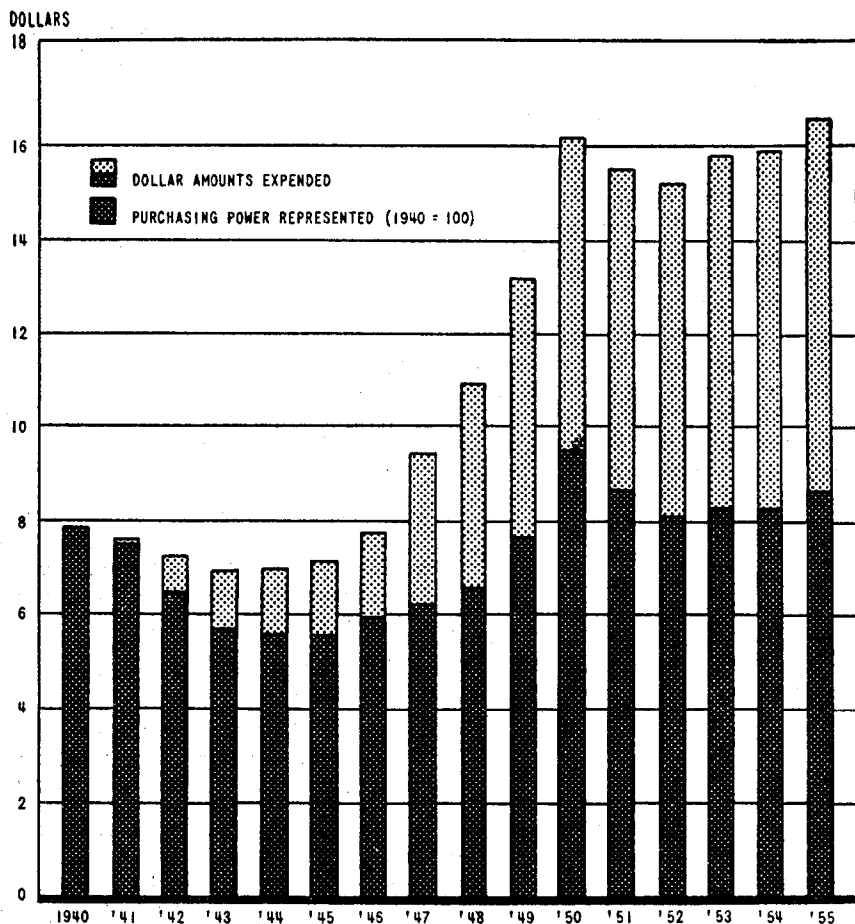
15. How effective will private pension, health, welfare, and supplemental unemployment benefit plans be in preventing dependence? How much will be expended for these purposes, and who will bear these costs?

It is easier to ask these questions than to answer them. The answers, however, will affect the financing and content of public welfare.

The role of public welfare in the years immediately ahead will depend on which of these items are given priority and the extent to which they are made effective by money, personnel, and emphasis. On the basis of past experience, it is unlikely that we will be able to solve all of them at once. As Abraham Epstein, one of the early pioneers in social security, said so many times to me, "Don't try to solve all your

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Assistance expenditures per inhabitant,¹ by dollar amounts expended and actual purchasing power represented,² fiscal years 1940-55



¹ Includes payments for old-age assistance, aid to dependent children, aid to the blind, aid to the permanently and totally disabled, and general assistance. Beginning

with 1950 includes vendor payments for medical care.

² Based on the BLS consumer price index adjusted to a base in which 1940 equals 100.

Table 2.—Contributions and taxes collected under selected social insurance and related programs, by specified period, 1953-55

[In thousands]

Period	Retirement, disability, and survivor insurance			Unemployment insurance		
	Federal insurance contributions ¹	Federal civil-service contributions ²	Taxes on carriers and their employees	State unemployment contributions ³	Federal unemployment taxes ⁴	Railroad unemployment insurance contributions ⁵
Fiscal year:						
1953-54.....	\$4,589,182	\$464,363	\$603,042	\$1,246,230	\$285,135	\$27,656
1954-55 ⁶	5,087,154	469,856	600,106	1,142,009	279,986	23,720
5 months ended:						
November 1953.....	1,574,444	178,575	284,061	679,914	37,516	7,181
November 1954.....	1,968,171	198,223	258,146	572,053	39,872	6,974
November 1955.....	(?)	470,270	263,029	638,043	36,785	8,315
1954						
November.....	571,621	35,945	94,343	165,102	15,660	1,084
December.....	332,185	45,889	64,242	11,560	90	4,936
1955						
January.....	114,438	23,697	16,509	63,526	30,902	-77
February.....	274,568	33,726	63,716	120,179	167,245	991
March.....	562,399	39,872	46,374	7,580	19,792	5,349
April.....	317,541	37,491	19,796	128,198	4,488	42
May.....	814,133	45,501	79,650	232,027	14,896	985
June.....	703,719	45,755	51,673	6,889	2,701	4,522
July.....	217,239	* 275,775	15,484	116,423	2,433	120
August.....	923,619	55,204	84,970	242,213	15,714	3,554
September.....	519,117	42,754	59,775	7,065	770	2,399
October.....	221,517	47,817	18,031	87,766	3,855	204
November.....	(?)	48,721	84,769	184,576	14,014	2,038

¹ Represents contributions of employees and employers in employments covered by old-age and survivors insurance (beginning December 1952, adjusted for employee-tax refunds); from May 1951, includes deposits made in the trust fund by States under voluntary coverage agreements; beginning January 1951, on an estimated basis.

² Represents employee and Government contributions to the civil-service retirement and disability fund; Government contributions are made in 1 month for the entire fiscal year.

³ Represents deposits in State clearing accounts of contributions plus penalties and interest collected from employers and, in 2 States, contributions from employees; excludes contributions collected for deposit in State sickness insurance funds. Data reported by State agencies.

⁴ Represents taxes paid by employers under the Federal Unemployment Tax Act.

⁵ Beginning 1947, also covers temporary disability insurance.

⁶ Except for State unemployment contributions, monthly data and fiscal-year totals as shown in the *Final Statement of Receipts and Expenditures of the U. S. Government for the Period from July 1, 1954 through June 30, 1955*.

⁷ Not available.

⁸ Includes contributions from the Federal Government.

Source: *Monthly Statement of the U. S. Treasury* and other Treasury reports, unless otherwise noted.

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social problems all at once. Leave some problems for your children to work on." We can move more quickly now that we have built the foundations of a sound program. Nevertheless, the problem of determining which proposals shall be given priority will involve statesmanship and judgment of the highest order.

Changing Role of Public Welfare

Just as the role of public welfare has changed during the past 2 decades, so it is reasonable to assume that the role of public welfare will change in the years ahead. A few of the probable lines of future developments may be summarized.

1. Public assistance more and more will assume its true role as a supplement to—and not a substitute for—basic income-maintenance programs, public and private.

2. The service component, includ-

ing but not limited to prevention and rehabilitation, will become more significant in terms of personnel, expenditures, and effectiveness.

3. Medical care will become a more important factor in the total program and will bring with it new administrative relationships and new problems of financial accounting as the costs of medical care continue to mount.

4. Aid to dependent children, with all its complex problems, will become the largest single category of public assistance in terms of number of recipients, while old-age assistance will begin to take a secondary role.

5. A larger and larger proportion of the total old-age assistance caseload will be receiving old-age and survivors insurance concurrently. The proportion may rise from 20 percent at the present time to 50 percent by 1965 and 66 percent by 1980.

6. If medical and nursing care continues to be a responsibility of the welfare program, average monthly

payments under old-age assistance are most likely to continue to rise.

7. Unless there are major changes in existing programs, the number of needy persons receiving public assistance because of disability is likely to continue to increase as our population grows and the number of persons in the middle and older age groups increases.

8. Expenditures for child welfare services are likely to continue to rise as the child population increases and standards of service are raised.

9. Public welfare departments will assume a more prominent role in providing services for the aged and for the prevention and control of juvenile delinquency.

10. The competition for trained staff in public welfare agencies will become increasingly more severe, requiring an increase in salaries and the expenditure of additional funds for educational leave, aid to schools, and off-the-job training.

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Table 8.—Public assistance: Expenditures for assistance to recipients, by source of funds and by State, fiscal year ended June 30, 1955¹

[Amounts in thousands]

State (ranked according to percent from Federal funds)	Total assistance including vendor payments for medical care	Vendor payments for medical care		Total including vendor payments for medical care					
		Amount	Percent of total	Federal funds		State funds		Local funds	
				Amount	Percent	Amount	Percent	Amount	Percent
Total.....	\$2,712,334	\$211,799	7.8	\$1,350,635	49.8	\$1,030,091	38.0	\$331,608	12.2
Mississippi.....	29,572	.....	.....	22,794	77.1	6,632	22.4	146	.5
Alabama.....	35,789	28	.1	27,674	75.2	9,082	24.7	34	.1
South Carolina.....	25,173	154	.6	18,222	72.4	6,720	26.7	232	.9
Arkansas.....	29,404	299	1.0	21,250	72.3	8,154	27.7	.....	.....
Tennessee.....	47,219	.....	.....	34,039	72.1	10,178	21.6	3,002	6.4
Kentucky.....	39,660	.....	.....	28,123	70.9	10,486	26.4	1,052	2.7
North Carolina.....	42,655	2,575	6.0	29,750	69.7	5,908	13.9	6,997	16.4
Texas.....	125,075	.....	.....	87,070	69.6	35,746	28.6	2,259	1.8
Georgia.....	62,912	.....	.....	43,646	69.4	16,112	25.6	3,154	5.0
West Virginia.....	31,183	1,131	3.6	21,350	68.5	8,710	27.9	1,123	3.6
Virginia.....	16,772	91	.5	11,454	68.3	3,237	19.3	2,081	12.4
New Mexico.....	13,378	847	6.3	8,999	67.3	4,248	31.8	131	1.0
Florida.....	54,378	.....	.....	36,359	66.9	16,944	31.2	1,075	2.0
Missouri.....	110,674	84	.1	71,195	64.3	39,330	35.5	149	.1
Louisiana.....	97,679	82	.1	61,707	63.2	35,972	36.8	.....	.....
Vermont.....	5,666	.....	.....	3,351	59.1	1,515	26.7	800	14.1
Arizona.....	15,080	.....	.....	9,127	58.2	6,552	41.8	.....	.....
South Dakota.....	10,484	886	8.4	6,031	57.5	3,052	29.1	1,401	13.4
Oklahoma.....	86,869	.....	.....	48,972	56.4	37,529	43.2	368	.4
Maryland.....	17,360	.....	.....	9,770	56.3	4,573	26.3	3,016	17.4
District of Columbia.....	7,029	7	.1	3,874	55.1	3,155	44.9	.....	.....
Virgin Islands.....	227	4	1.6	105	46.1	123	53.9	.....	.....
Idaho.....	9,326	.....	.....	4,955	53.1	4,322	46.4	48	.5
Alaska.....	2,665	179	6.7	1,415	53.1	1,250	46.9	.....	.....
Nebraska.....	16,649	1,710	10.3	8,661	52.0	5,478	32.9	2,510	15.1
Maine.....	15,230	1,636	10.7	7,832	51.4	5,157	33.9	2,240	14.7
Indiana.....	37,482	7,897	21.1	18,718	49.9	8,090	21.6	10,674	28.5
Iowa.....	42,583	2,146	5.0	20,820	48.9	15,527	36.5	6,236	14.6
Delaware.....	2,893	1	(²)	1,406	48.6	926	32.0	560	19.4
Hawaii.....	6,768	481	7.1	3,256	48.1	3,511	51.9	.....	.....
Utah.....	13,957	24	.2	6,633	47.5	7,324	52.5	.....	.....
Wyoming.....	4,537	428	9.4	2,145	47.3	1,159	25.5	1,233	27.2
Kansas.....	37,557	3,587	9.6	17,633	47.0	11,007	29.3	8,916	23.7
North Dakota.....	9,462	1,349	14.3	4,399	46.5	3,660	38.7	1,403	14.8
New Hampshire.....	7,321	1,447	19.8	3,304	45.1	1,962	26.8	2,054	28.1
Washington.....	69,585	.....	.....	30,926	44.4	38,659	55.6	(³)	(²)
Montana.....	12,991	1,946	15.0	5,729	44.1	3,854	29.7	3,408	26.2
California.....	336,191	872	.3	147,945	44.0	133,889	39.8	54,356	16.2
Pennsylvania.....	111,069	4,778	4.3	47,973	43.2	63,096	56.8	.....	.....
Ohio.....	127,245	14,673	11.5	53,776	42.3	70,320	55.3	3,149	2.5
Michigan.....	103,931	11,574	11.1	42,393	40.8	41,472	39.9	20,066	19.3
Minnesota.....	61,229	17,885	29.2	24,770	40.5	17,153	28.0	19,306	31.5
Colorado.....	64,834	2,152	3.3	25,729	39.7	33,485	51.6	5,620	8.7
Oregon.....	29,292	1,941	6.6	11,404	38.9	12,522	42.7	5,366	18.3
Nevada.....	2,815	831	29.5	1,091	38.8	470	16.7	1,254	44.6
Wisconsin.....	56,746	8,855	15.6	21,553	38.0	16,453	29.0	18,739	33.0
Illinois.....	148,791	37,943	25.5	56,259	37.8	79,485	53.4	13,048	8.8
Rhode Island.....	15,424	1,622	10.5	5,830	37.8	8,456	54.8	1,138	7.4
Massachusetts.....	126,306	29,361	23.2	47,430	37.6	48,389	38.3	30,486	24.1
New York.....	256,607	42,207	16.4	94,755	36.9	82,515	32.2	79,338	30.9
New Jersey.....	35,410	2,008	5.7	12,697	35.9	11,408	32.2	11,305	31.9
Connecticut.....	30,204	6,077	20.1	10,604	35.1	17,467	57.8	2,133	7.1
Puerto Rico.....	11,393	.....	.....	3,730	32.7	7,663	67.3	.....	.....

¹ For definition of terms, see the *Bulletin*, January 1953, p. 16. Data include program of aid to dependent children in Nevada, which was administered without Federal participation. Not comparable with annual data based on monthly

series or with amount of Federal grants to the States.

² Less than 0.05 percent.

³ Less than \$500.

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11. Greater consideration is likely to be given to separating "administrative" costs from "service" costs, especially if assistance rolls decline

and total administrative and service costs increase.

12. Research, demonstration projects, and community organization will take on a more important role in the financing and administration of

public welfare.

13. Public interpretation will become of increasing importance as public welfare programs are seen as part of a broad and diversified program of social services.