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THREE YEARS' PROGRESS TOWARD SOCIAL SECURITY

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Government action to assure a basic minimum of security for the American citizen and his family—a movement which entered upon a new and national phase with the passage of the Social Security Act on August 14, 1935—is a continuing and constantly evolving process. From this long-range point of view, we have in these first 3 years laid merely the foundation of a structure which will develop and change as time goes on, and probably in directions which none of us can now foresee.

From another angle, however, looking back to 1935 with our present perspectives, we are presented with a truly astonishing picture of growth and development. In 3 years—a negligible fraction of time in social and economic history—we have established and are operating Nation-wide old-age insurance, Nation-wide unemployment insurance, and Nation-wide public-assistance, public-health, and welfare programs. The record of what has already been accomplished covers every State and Territory in the Nation and probably affects directly or indirectly almost all the families of the American people.

In the less than 2 years since the old-age insurance provisions of the act were put into operation, we have established a smoothly working machine for the payment of benefits to nearly every man and woman in the country employed in commerce and industry. At the present time some 40 million workers—a number approximating 80 percent of all the gainful workers in the country—have applied for old-age insurance accounts, and new accounts are being set up at the rate of about 450,000 a month. The earnings of workers, as reported by their employers, are being entered on these accounts and lump-sum payments have already been made to thousands of covered workers who have reached age 65 and to relatives or the estates of those who have died.

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The job of establishing these millions of wage accounts for the Nation's wage earners and of organizing the details of a system for the payment of benefits when they become due presented an unprecedented administrative undertaking. The maintenance of wage accounts alone has repeatedly been called the biggest bookkeeping job in history. We were faced, furthermore, with the necessity of getting under way as rapidly as possible. Immediate establishment of administrative machinery was made imperative by the provision that claims for single cash payments could be filed even one day after the start of the program, although payment of regular monthly benefits—the major provision of this program—is not scheduled to begin until 1942. Experts in administrative organization and large-scale accounting procedures had begun planning for this enormous task as early as 1935, but the first actual steps were not taken until November of 1936, when the Social Security Board, with the help of the Post Office and the Treasury Departments, began the assignment of social security account numbers. Thanks to the efficiency of the preliminary work and the co-operation of these other Federal agencies, this initial task was well in hand by January 1, 1937, when the old-age insurance program went into effect.

Not even the war-time draft required so high a degree of active cooperation on the part of individual citizens as this Nation-wide initial assignment of account numbers. The rapidity with which it was accomplished is particularly gratifying to the Social Security Board. If evidence were needed, this was evidence in full measure that the American people regard old-age insurance as a great step forward in their march toward social security.

For sheer size and extent, the problem involved in establishing and administering old-age insurance has few parallels, if any. In unemployment in-

insurance, however, the record of State legislative and administrative activity and the development of cooperative working relationships between the Federal Government and the several State authorities, particularly in a field so completely new to this country, is equally remarkable. Prior to consideration of the Social Security Act by Congress, only one State—Wisconsin—had passed an unemployment compensation law. While the act was being debated in Congress, several States enacted such laws; by August 14, 1937, 2 years after the passage of the Federal law, all 51 jurisdictions of the country had enacted unemployment insurance laws and these had been approved by the Social Security Board.

Unemployment Benefits

By the end of May 1938, over twenty-seven and a half million workers had earned credits toward benefits under these State unemployment insurance laws. In the 6 months ending June 30, 1938, some two and a half million of these workers already had exercised their right to compensation for varying periods of total or partial unemployment under the laws of the 25 States in which benefits were paid during some or all of this period. Almost \$180 million in benefits was thus added to the purchasing power of jobless workers during these first 6 months. Moreover, by the end of June a million individuals were receiving benefits averaging \$10 a week.

In July, benefits became payable in three additional States bringing the total of benefit-paying States to 28 by the third anniversary of the Social Security Act. Before the act reaches its fourth anniversary, in August 1939, every one of the States and Territories will have reached benefit-paying status.

Another development, paralleling that of State machinery for the payment of benefits, has been the strengthening and extension of State employment services; together, these offer the worker a unified job-finding and benefit-paying service. Since unemployment insurance is based on the theory that payment of benefits is only part of the task—is, in fact, a last resort—and that benefits will be paid to an individual only if no suitable work can be found, the role of the employment services in connection with unemployment insurance is of utmost significance. By June 1935, 40 States had taken steps to affiliate their State employment services, under the terms of the

Wagner-Peyser Act, with the United States Employment Service of the Department of Labor. All 51 jurisdictions now have such services. As benefit payments have become effective, services have been expanded to several times their former size and have taken on important additional functions. All insured unemployed workers, including skilled workers who never before used the public employment offices, register here; and more and more employers are beginning to make use of the service. What is emerging is an efficient Nation-wide labor exchange, offering the employer a well-organized labor market and the worker a skilled placement service. It is still too early to evaluate the full effect on employment conditions of this expanding public employment service operating as an integral part of an unemployment insurance system. Yet, even during the first 3 months of 1938—when the employment services had just assumed their new responsibilities and the State agencies were naturally giving their major attention to the benefit-payment function—placements in private industry held up considerably better under the stress of the recession in the benefit-paying States than in those not yet paying benefits.

Employment service obviously cannot make jobs where there are none; but it can bring the available jobs and the available men together with the least possible loss of time and effort for both industry and labor. In conjunction with unemployment insurance, it will increasingly provide the worker with job security in a very real sense—the assurance of suitable work if it is to be found and, failing that, the assurance of about half his regular pay, usually for a long enough period to tide him over until a job is available.

The development of these old-age and unemployment insurance programs is the most significant accomplishment of the last 3 years—significant because they are new in this country, because they are designed to meet two of the most serious risks to which wage earners are exposed, and because they offer the majority of American workers protection that comes to them as a right based on their individual work and wages.

Public Assistance

But the act also recognizes that there are other needs which cannot be met on an insurance basis. It, therefore, provides for Federal cooperation with the States in three programs which offer

aid—on the basis of individual need—to the aged, the blind, and dependent children. These provisions also differ from unemployment compensation and old-age insurance in other ways; and their history, since the passage of the act, has been correspondingly different: They are the outgrowth of more than 25 years of State experience; they are designed to care for certain groups of people who are now in need, as well as for those who may become needy in the future; and they were geared to go into immediate action as soon as State plans were approved and Federal appropriations made.

As a result of all these factors, the three public-assistance programs were the first parts of the act to get under way. By August 1936—5 months after Federal funds became available—38 States and the District of Columbia were taking some part in these programs; by August 1937, the total number of participating States and Territories had increased to 50. With the additional plans approved during the past year, all but six States are now taking part in at least two of these programs, three-fourths of them in all three; and the one State which has not adopted any program is taking steps toward full participation.

The increase in the numbers aided is even more striking. In August 1935, the month in which the Social Security Act was passed, there were 314,000 recipients of old-age assistance, 33,000 blind persons, and 110,000 families with 275,000 dependent children who received these special types of public assistance under State laws at a total State and local expenditure for the month of nearly \$10 million. By June 1938 there were 1,665,400 recipients of old-age assistance, 62,900 recipients of aid to the blind, and 261,000 families receiving aid for 645,100 dependent children.

Combined Federal, State, and local expenditures for payments to recipients of public assistance approximated \$42 million for the month of June 1938. Compared with August 1935, present public-assistance payments both in States cooperating under the Social Security Act and in other States have more than quadrupled. The part which Federal cooperation is playing in this development is indicated by the fact that today all recipients of old-age assistance in the United States, about 93 percent of all families receiving aid for dependent children, and about 62 percent of all persons receiving aid to the blind are aided under plans to which the Federal Government contributes.

Federal Cooperation

The rapid extension of public assistance during the past 3 years does not imply a parallel increase in the number of dependents in these groups. What it does mean is that the States, with Federal help, have been able to provide for more persons who, dependent in any case, would have suffered from neglect unless supported either by private provision or State or local tax funds. Through the Social Security Act the Federal Government now assumes a substantial portion of this already existing burden. During the period from February 1936 through June 1938, the Federal share of assistance to needy persons in States administering public assistance under the Social Security Act amounted to \$358 million.

Though the period of most rapid expansion has no doubt passed, the full scope of these cooperative programs has probably not yet been defined. In some States the allowances provided are not yet adequate. Participation in aid to dependent children and aid to the blind still lacks 10 States each of being Nation-wide, and in many States the number now receiving assistance probably does not yet represent the total who are eligible for aid under their laws. Old-age assistance, which has shown the greatest growth, is now providing for one out of every five persons 65 or over in the entire country. Yet a recent estimate indicates that two out of every three persons now in this age group are unable to support themselves from either current earnings or savings of one sort or another. Such a figure indicates the magnitude of the problem facing the aged themselves, their families, and their government. Old-age assistance is bearing a large share of the current need arising from old-age dependency, and old-age insurance will serve to lessen dependency in the future.

The financial help of the Federal Government is essential if the States are to meet these existing needs for public assistance. But Federal cooperation in public assistance has also helped the States in other ways. By encouraging national standards, the Social Security Act has promoted more efficient administration and more adequate assistance and service on the part of the States. Within this national pattern, both State agencies and the Social Security Board have been working to develop continuously more effective programs.

Much the same thing is true of the health and welfare services in which, under the act, the Federal Government is now cooperating with the States. These services, like public assistance, help not only to meet urgent present needs, but also to protect individuals and communities against conditions which may lead to increasing demands upon public funds. Public-health services have been extended and strengthened with Federal aid in every State in the Union. Vocational rehabilitation and maternal and child-health and welfare services have been developed on substantially the same Nation-wide base. These provisions of the act, directed, respectively, by the United States Public Health Service, the Federal Office of Education, and the Federal Children's Bureau, have enabled the States and their communities to set up for their own citizens safeguards which have long been recognized as essential—and which, in the past, have too often been wanting.

While an anniversary is, by custom, an occasion for taking justifiable pride in past achievements, it may serve a still better purpose if taken as an opportunity for critical self-analysis and appraisal of future trends. This continuous process of reexamination is particularly essential in a field so new to us as the social insurances. Nowhere else do we face such a complexity of human needs and economic limitations. European experience has been helpful to us in pointing the way; but for social insurance in America it could do little more. For one thing, solutions which were practicable for our relatively small, compact, and homogeneous European neighbors simply do not fit a country with the vast geographical expanse and varied economic and social outlook of ours. For another, American ideas of adequacy—of what constitutes a minimum of security—are higher than those prevailing in most other countries.

In general, the benefits provided by social insurance systems abroad are low according to American standards, even when we take into consideration differences in wage levels and costs of living. For example, the younger American worker who is covered by the old-age insurance program throughout his working life will receive benefits which may range from about 30 percent of total wages for the higher-paid worker to 60 percent or even more for the low-paid worker.

Similarly in unemployment insurance, benefits in this country are based on the individual's prior earnings—earnings which, because of higher

American wage levels, yield benefits higher than those provided on the whole by European unemployment insurance systems.

Dependents' Allowances

In foreign unemployment insurance systems the size of the family is usually taken into consideration in determining the total amount of benefit. For example, the wage earner may receive one amount if he is single and a larger amount if he is married; this may be increased still further if he has dependent children or other dependent relatives. Sometimes these systems are combined with an assistance program, and the element of need enters into the computation of the unemployment benefit after a certain period. While most foreign old-age insurance benefits are related to past earnings or contributions, it is not uncommon to increase the benefit on behalf of dependent children, and often the widow or even the wife is eligible to insurance benefits when she has reached old age.

In contrast, our American traditions have led us to establish a social insurance system in which benefits are geared solely to earnings and the higher a man's earnings the higher his benefit upon retirement. Recent discussion of social security in this country, however, has recognized both the pros and cons of this problem. In considering it, we must bear in mind not only the *social* necessity of providing adequate protection regardless of past earnings but also the *individual* necessity of stimulating initiative and thrift by maintaining a close relationship between benefits and past earnings.

In this connection, recent developments in England are of particular interest. There has been a proposal to put a "wage-stop" on general unemployment insurance benefits—that is, a ceiling set by previous wages. In other words, it is proposed that previous earnings be used as a measure of maximum benefits. A report recently published by the British Unemployment Insurance Statutory Committee discloses that numbers of unemployed workers are receiving as much in unemployment insurance benefits as they had previously received in private employment—or more. The report points out that because wages, broadly speaking, make no allowance for dependency and the unemployment insurance system makes a large allowance, benefits in many individual cases are very near or even above wage

rates. These British difficulties are the result of those features of flat benefits plus allowances for dependents. Our brief experience would indicate that the more desirable solution probably lies in finding a middle ground. In unemployment compensation, it is true that our very exact relationship between earnings and benefits is more difficult and costly to administer. Our present procedures can be modified in various ways while retaining a substantial relationship between earnings and benefits, thereby eliminating many administrative complexities.

Simplifying Administration

Within the scope of the present program, there are also urgent problems of simplification and administrative coordination. Certain provisions of the State unemployment compensation laws are too complex and cumbersome and likely to prove too expensive. Many State administrators have already moved toward correction of these defects and at the moment, the Interstate Conference of Unemployment Compensation Agencies is actively cooperating with the Social Security Board in a concerted attack on the problem of simplifying existing administrative procedures. The purpose of this cooperative effort is to formulate, by the coming of the next legislative sessions in the States, recommendations for changes in the present system which, though retaining its main features, will be simpler and more economical for the worker, the employer, and the State agencies.

A further problem in unemployment insurance is the necessity for unified administration on the Federal level of the closely related benefit payment and employment service functions. At present the State agencies are responsible to two different Federal agencies. Although, in nearly all States, employment service and unemployment insurance have been made coordinate divisions of a single overhead administrative agency, the employment service is affiliated with the United States Employment Service of the Department of Labor, from which it receives part of its funds, at the same time that the overhead agency is receiving grants from the Social Security Board covering the entire cost of administering unemployment compensation functions, including the greatly expanded State employment service as well. Unified direction of the two services at the Federal as well as the State level is essential in the interests of economy and efficiency. It

cannot be emphasized too strongly that although there are two functions—an insurance function and a placement function—the program is an integrated one and should be administered as such.

Questions as to the relation of the unemployment insurance and work-relief programs also have come up for discussion. There has been criticism of the fact that an individual may be able to obtain more as a WPA wage than he would receive as a weekly unemployment benefit. While many problems in the interrelations of these two programs remain to be worked out, much of the present discussion arises from a misconception of the different functions of these programs, and from circumstances under which unemployment insurance began functioning.

Benefits and Security Wages

It is not the intention of the unemployment insurance program—or, broadly speaking, of social insurance in general—to provide a worker with the full amount he would have earned if he had not suffered from the risk for which he is compensated. Men ordinarily do not take out even private insurance in amounts sufficient to make good the whole loss to their families if they become sick or die. By definition, unemployment insurance applies to members of the active labor force—to men and women who must have been working in the recent past in order to have obtained their rights to benefit. Under ordinary circumstances, many or most of them will be back in a job before they have used up these rights. Their benefits help them to tide over relatively brief periods of unemployment. During such periods, benefits are theirs *as a right*, not as a wage given in return for services, and they are free to use their time to look for a new job. If a job has not been found by the time these and other resources are exhausted, the Works Program provides a second line of defense.

Since unemployment insurance is intended to deal with those who have recently lost jobs, the Works Program ordinarily provides for workers who already have suffered considerable periods of adversity. To obtain this employment, individuals *must be certified as in need of relief*. Payments under the Works Program are wages, paid for a given number of hours of work a week, rather than benefits to help tide over intervals between jobs.

Our Works Program came into being first under

the stress of emergency, and had been in operation for a considerable period before unemployment insurance became operative. As a result, many insured workers who had lost their jobs some months prior to the start of benefit payments found themselves, when benefits became payable, going from the Works Program to benefits rather than the reverse.

Another difficulty has arisen from the fact that since unemployment compensation is an insurance program in which benefits are related to past wages there has been an adverse effect on the duration of benefits because of the period in which payments were started. Workers draw benefits limited, in general, by their employment experience in preceding months. Employment started a severe downward course nearly a year ago which has served to restrict the total amount of benefits for which many workers could qualify at this time.

I am not implying that we should be satisfied with the present provisions for unemployment benefits; it is to be hoped that in time benefits may be made more liberal in duration or amount or both. I do wish, however, to point out the nature and purpose of these benefits, and to emphasize the definite and limited purpose of this, as of any other, insurance program.

Liberalizing Old-Age Insurance

In the field of old-age insurance, the future holds prospects of progressive extension of the coverage of the system and liberalization of the benefits which may be paid. Proposals to extend the coverage of old-age insurance to agricultural workers, domestic servants, and certain other groups not included under existing provisions, are those most likely to receive early consideration. In principle, there is no reason why old-age insurance should not apply to every wage earner and even to those who are not technically wage earners but who are the operators of small enterprises, that is, the "self-employed." Because of the practical administrative difficulties involved, this is an ideal which probably cannot be attained immediately. There is every reason to believe, however, that it will not be long before a number of wage-earning groups, now excluded, will be brought into the system.

In addition, the President of the United States in a letter to me as Chairman of the Social Security Board expressed his interest in liberalizing the old-age insurance system so as to start payment of

monthly benefits at an earlier date, pay such benefits in more liberal amounts during the early years, and add survivors' benefits. It is worth noting that an increase in present benefits in order to provide for aged wives and for widows of beneficiaries and for the young children of insured workers who die before reaching retirement age would introduce into our insurance system many additional beneficiaries. There is considerable sentiment behind such a move and should it materialize the costs involved will cause the present often violent and confused discussion of the probable future size of the old-age insurance reserve to take on an even more academic character.

Whatever changes may come, however, and even though we may thus extend old-age insurance benefits, it is reasonably safe to assume that we shall continue to relate basic annuity payments to past wages. In this country we make a very clear distinction between benefits paid on an insurance basis and assistance granted only on a showing of need. Whereas insurance and assistance provisions are combined under some European systems, our programs for insurance and assistance are entirely separate. Old-age assistance is thus a second line of defense in a twofold program. Moreover, our higher concept of adequacy finds expression in the public-assistance programs as well as in the insurances so that the assistance allowances granted in this country, small as they are in certain instances, are in general at higher levels than those provided elsewhere.

In the face of demands in some quarters for larger insurance benefits and for larger assistance allowances, it might be well for us to keep in mind that if our program is to endure and to progress, we must strike a balance between human need and financial resources to the end that the community as a whole will be benefited by the arrangements made for the security of the individual.

One respect in which our social insurance system is not yet as complete as those of many European countries is in its failure to provide compensation for loss of income because of illness or disability. The Social Security Act attempts to prevent or alleviate some of the distress caused by illness through Federal grants to the States which enable them to strengthen their public-health services, to extend care for crippled children, and to provide for maternal and child health and for vocational rehabilitation of the physically disabled. Compensation for the enormous wage loss due to illness

and disability would seem to be our most important next step toward security of income. The recent National Health Conference was invaluable as a means of clarifying many of the complex problems involved in establishing an adequate nationwide program of health protection and in suggesting alternative lines along which solutions may be sought.

Sickness Risks

It would seem that compensation for periods of temporary illness might well be coordinated administratively, when it comes, with our existing insurance provisions. If, as seems likely, it develops as a Federal-State program, the taxes necessary to finance the system might well be collected at the same time as unemployment insurance contributions and by the same agency. Payment of disability benefits, however, presents a distinct problem. For while unemployment compensation benefits are paid to workers who are unemployed but able-bodied and available for work, disability benefits are paid to workers who are unemployed under exactly opposite circumstances, that is, because of inability to work. With workmen's compensation already in operation for a number of years in practically all States, it may be desirable to take advantage of the experience

of these agencies in administering the new but closely related disability insurance payments. These problems must be explored at length and with regard for the corresponding need to expand social insurance or other methods of providing security against the costs of sickness care.

With increasing coverage of old-age insurance; with integration of unemployment insurance and public employment services; with more adequate public-assistance and welfare measures for those incapable of self-help; and with provisions against the risks of sickness in the offing, we approach a time when the American citizen will have a basic minimum of protection against the major hazards which beset him from infancy to old age. Absolute "security" is, of course, neither possible nor desirable. Social security measures are intended not to abolish the need for individual initiative and personal effort toward a secure existence but rather to give each individual at least a chance to build that security for himself. We cannot achieve "the abundant life" or anything like it through social security legislation. What we can do and are doing is to develop, through the Social Security Act and other measures, a system of interrelated safeguards against want and misfortune so that no individual in our society may fall below this basic American level of security.

ECONOMIC STATUS OF THE AGED: AUTHOR'S NOTE

Several inquiries have been received by the Bulletin and the author concerning the methodology used in estimating the number of self-dependent persons aged 65 or over presented in the March Bulletin in an article "Economic Status of the Aged." This explanatory note amplifies that earlier discussion.

The number of persons 65 and over receiving all or part of their support from purchased annuities, public or private social agencies, or public or private pensions is known with reasonable accuracy. Statistics are less adequate for determining the number essentially self-supporting because of savings or of income from wages, salaries, or entrepreneurial ventures. Estimates for the second group were based on an analysis of 1930 census data, surveys of unemployment, reports on employment opportunities for older workers, studies of agricultural problems, and data on income, wealth, and savings.

Manifestly aged persons with "gainful occupations" according to the census cannot be found in any one category in a distribution by economic status. Those "self-dependent by reason of current earnings" are not the total labor supply of aged persons but the much smaller number believed to be earning enough for self-support.

Persons classified statistically as enterprisers or professional workers may actually be idle or may be losing their life's savings operating a farm or small shop. Those unemployed or self-employed with little or no income from their enterprises were classified not according to occupations that once were, or might be, gainful, but according to actual means of support as old-age assistance, earnings under the Works Program, subsistence payments to farmers, aid from children, and so forth. A man receiving old-age assistance may earn part of his rent by rendering janitor service; he has a gainful occupation but is not self-supporting. Most of the aged probably rely on several small sources of income.

Not over 15 percent of the aged are believed to have sufficient savings on which to live independently. Bank deposits, surrender values of insurance, real estate, and securities must have survived the repetitive shocks of life's vicissitudes—cyclical depressions, unemployment, sickness, accidents, and death—if they are to furnish significant means of support to the aged. However, abundant evidence shows that four-fifths of all gainful workers never have enough income to set aside an appreciable reserve for old age.—MARJORIE SHEARON.