Advisory Council on Social Security: Reports on Permanent and Total Disability Insurance and on Public Assistance

In its first report to the Senate Finance Committee, reprinted in part in the May Bulletin, the Advisory Council considered old-age and survivors insurance. It has since submitted to the Committee its recommendations for a program of permanent and total disability insurance and a third report on public assistance. The introductory sections of these two studies, including summaries of the recommendations, are reproduced below.

The Advisory Council on Social Security—a group of 17 men and women representing different parts of the country and drawn from various fields—was appointed by the Senate Committee on Finance under the authority of Senate Resolution 141 of July 23, 1947, "to make a full and complete investigation" of the present social security program. Edward R. Stettinius, Jr., rector of the University of Virginia, was made chairman, and Sumner H. Slichter, of Harvard University, associate chairman. In its first report the Council dealt only with recommendations for improving the present system of old-age and survivors insurance. Expansion of that program to cover the risk of income loss from permanent and total disability was proposed in the Council's second report; two of the members held, however, that disability protection should be included within the framework of the present public assistance provisions. The third report deals with public assistance and is intended, the Council declares, to supplement the two earlier reports; the recommendations contained in the Council's earlier reports on old-age and survivors insurance and permanent and total disability insurance will be enacted into law.

Introduction

Income loss from permanent and total disability is a major economic hazard to which, like old age and death, all gainful workers are exposed. The Advisory Council believes that the time has come to extend the Nation's social insurance system to afford protection against this loss.

There can be no question concerning the need for such protection. On an average day the number of persons kept from gainful work by disabilities which have continued for more than 6 months is about 2 million. The economic hardship resulting from permanent and total disability is frequently even greater than that created by old age or death. The family must not only face the loss of the breadwinner's earnings but must meet the costs of medical care. As a rule, savings and other personal resources are soon exhausted. The problem of the disabled younger worker is particularly difficult since he is likely to have young children and not to have had an opportunity to acquire any significant savings.

Permanent and Total Disability Insurance

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Present methods of protection against income loss from permanent and total disability are not adequate. More than 60 life insurance companies offer such protection, but few individuals purchase it. The cost is high, the terms on which it is sold are restrictive, and most life insurance companies no longer follow aggressive sales policies with respect to permanent and total disability insurance. Workmen's compensation affords protection against work-connected disabil-
American conditions. Experience which will be valuable in the development of the American program is provided by workmen’s compensation, commercial insurance, and the several special programs for veterans, railroad workers, and public employees, as well as by the foreign social insurance systems.

The Council is strongly impressed with the seriousness of the problems created by permanent and total disability and with the social disadvantages of compelling the victims of this misfortune to depend upon public assistance. We believe that there is enough administrative ability in our Government organization to provide effective machinery for meeting this pressing social need. In view of the admitted administrative difficulties in undertaking the payment of such benefits, however, the Council recommends a highly circumscribed program. More progress will be made in the long run if the persons responsible for operating the program have an opportunity to develop experience under relatively favorable conditions.

We believe further that it would be desirable to establish a public advisory board to counsel with the Federal administration particularly during the early years of the operation of this new program. Such an advisory group could assure that a variety of viewpoints are considered in the formulation of policy. The advisory group might appropriately later review and make recommendations on the conduct of operations and the extent to which the program achieves its purpose. The estimated level-premium cost of the program recommended by the Council would be only about one-tenth to one-fourth of 1 percent of payroll. The program would be met to a considerable extent by public and private assistance and institutional care. For instance, in January 1948 about 80,000 persons were receiving aid to the blind, and payment for aid to dependent children went to the families of about 100,000 disabled men. A substantial percentage of the approximately 375,000 family heads and single individuals receiving general assistance are disabled.

Summary of Major Recommendations

Eligibility requirements.—To qualify for benefits, a disabled person would have to be incapable of self-support for an indefinite period—permanently and totally disabled. He would have to be unable, by reason of a disability medically demonstrable by objective tests, to perform any substantially gainful activity. This requirement would eliminate the problems involved in the adjudication of claims based solely on subjective symptoms.

We recommend that a waiting period of 6 months be required and that benefits be payable only in those cases in which, at the end of the waiting period, the disability appears likely to be of long-continued and indefinite duration. This requirement is much more exacting than the disability provisions of commercial insurance policies now being issued, which specify that a total disability that has persisted for 6 months will be presumed to be permanent. The definition as a whole constitutes a strict test of permanent and total disability, which would operate as a safeguard against unjustified claims.

To assure that disability benefits will be available only to workers who have suffered income loss by reason of disability, we recommend that strict eligibility requirements be adopted to test both the recency and long duration of an individual’s attachment to the labor market. To be eligible, a worker would need a minimum of 40 quarters of coverage; would have to have 1 quarter of coverage for every 2 in his working lifetime after 1948 in covered employment, and would have to show employment during at least one-half the time within the period immediately preceding the onset of his disability.

Amount of benefits.—The same benefit formula recommended for old-age and survivors insurance is proposed for the disability insurance program. The Council does not recommend, however, that benefits be provided for dependents of the disabled worker. If these were provided, there is the possibility that disability benefits in some cases might prove attractive enough to discourage return to gainful work after recovery or rehabilitation. Thus the benefits under the disability program when the worker has dependents would be substantially less than those we propose for old-age and survivors benefits. They would be as much as one-half the average monthly wage only in the case of workers who averaged $75 a month or less, while the average benefit for all workers would be only about 30 percent of the average wage.

Provisions for rehabilitation of disabled workers.—The Council recommends that contributions be made from the Federal old-age and survivors insurance trust fund toward the expense of rehabilitating beneficiaries on the disability rolls. A substantial number of beneficiaries can be rehabilitated and become self-supporting. The national economy will benefit from the restoration of their earning capacity, and the cost of the insurance system will be reduced because the disability benefits of persons who have been rehabilitated will be terminated.

Termination or suspension of benefits.—Benefits should be denied when the beneficiary refuses to undergo a medical examination or reexamination and should be suspended when he refuses to cooperate in his rehabilitation. Payments should also be suspended for any period for which workmen’s compensation is payable under a State or Federal program.

Integration with old-age and survivors insurance.—Permanent and total disability insurance and old-age and survivors insurance should be administered as a single system. Aside from the similarity of risks, considerations of administrative efficiency and economy make the integration logical. Integration would also facilitate the maintenance of the benefit rights of disabled workers for purposes of future old-age and survivors insurance payments.

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The Method of Social Insurance

The Council is strongly of the belief that the foundation of the social security system should be the method of contributory social insurance with benefits related to prior earnings and awarded without a needs test. The Council believes that the permanently and totally disabled worker—as well as the aged worker or the dependent survivors of a deceased worker—should not be required to reduce himself to virtual destitution before he can become eligible for benefits. Certainly there is as great a need to protect the resources, the self-reliance, dignity, and self-respect of disabled workers as of any other group. The protection of the material and spiritual resources of the disabled worker is an important part of preserving his will to work and plays a positive role in his rehabilitation.

Public Assistance

Introduction

In each of its two previous reports, the Advisory Council has stated that it believes the foundation of the social security system should be the method of contributory social insurance with benefits related to prior earnings and awarded without a needs test. In its first report the Council recommended extension of the protection of the old-age and survivors insurance system to virtually all persons who work, a substantial increase in benefits, and considerable liberalization of eligibility requirements for older workers. In its second report the Council recommended expansion of the Federal system of old-age and survivors insurance to include protection against loss of income arising from permanent and total disability.

The adoption of the recommenda-
tions in the Council's two earlier reports would, in the long run, greatly reduce the need for public assistance. Employed and self-employed persons would earn protection for themselves and their families while working, and—in the event of old age, permanent and total disability, or death—they or their families would receive insurance benefits. Assistance payments, however, still would be necessary for those who had unusual needs, or for those who were in need for reasons not covered by the insurance program, or for the few who for one reason or another were unable to earn insurance rights through work. Even in the long run there would be from 5 to 15 percent of the men over 65 years of age who would not be able to meet the eligibility requirements for retirement benefits. About half the women over 65 would not have retirement protection based on their own earnings, but most of them would have protection based on their husband's wage records. Assistance would continue to be necessary for children in need because of desertion by their father, for persons who become disabled before they have an opportunity to earn insurance rights, and for persons who had exhausted their rights under unemployment insurance or who were unprotected by that program. Finally, since the amount of insurance benefits must be geared to the more or less average case, some persons in unusual circumstances would need assistance to supplement their insurance benefits.

During the next decade or two there will be a much greater need for assistance than this continued long-run need for supplementing and filling in the gaps of the insurance program. In the immediate future large numbers of aged persons, children, and disabled persons will be forced to rely on assistance because old-age and survivors insurance has failed to cover all occupations from the beginning of the program and because it is unable to cover those who are already retired or disabled, or the survivors of those who have already died when the expanded system first becomes effective. By 1955 there will still be an estimated 33 to 44 percent of the male population 65 years of age and over who will not be eligible for retirement benefits even though coverage is broadly extended, and only 10 to 13 percent of the women 65 years of age and over will have retirement rights based on their own employment. Even by 1960 there will be 19 to 31 percent of the men and 83 to 87 percent of the women in this age group without fully insured status. Furthermore, under the Council's recommendations only persons with at least 10 years of coverage and a continuing attachment to the labor market would be eligible for permanent and total disability benefits. A relatively small proportion of workers therefore would have such protection in the immediate future.

In its recommendations on public assistance, the Council has had in mind both the function of that program as a large-scale transitional system during the relatively short period which will elapse before the comprehensive social insurance system becomes fully effective and the function of public assistance in a mature social security system as a means of supplementing the basic insurance benefits and filling in the gaps in insurance protection. Assistance is the program which takes final responsibility for meeting need when all methods of preventing dependency have failed.

In the Council's opinion, public assistance should continue to be administered on the basis of a strict needs test with all income being taken into account in determining both eligibility and the amount of the payment. A relaxation of the needs test in assistance would result either in more funds being expended for assistance than would otherwise be necessary. If additional funds were not made available, the increasing number of eligible persons would necessarily force down the level of payments for those who need help most.

The development of the proper relationship between social insurance and public assistance is a matter of major concern to the Council. We believe that it is of great importance that the social insurance system be strengthened at the earliest opportunity through extension of coverage, increases in benefit amount, and liberalization in eligibility requirements so that insurance becomes the recognized basic method for dealing with income loss. As stated in our report
on old-age and survivors insurance:

Differential benefits based on a work record are a reward for productive effort and are consistent with general economic incentives, while the knowledge that benefits will be paid—irrespective of whether the individual is in need—supports and stimulates his drive to add his personal savings to the basic security he has acquired through the insurance system. Under such a social insurance system, the individual earns a right to a benefit that is related to his contribution to production. This earned right is his best guaranty that he will receive the benefits promised and that they will not be conditioned on his accepting either scrutiny of his personal affairs or restrictions from which others are free.

Public assistance payments from general tax funds to persons who are found to be in need have serious limitations as a way of maintaining family income. Our goal is, so far as possible, to prevent dependency through social insurance and thus greatly reduce the need for assistance.

If social insurance payments are allowed to be lower on the average than assistance payments, public support of the insurance principle will be undermined. People expect benefits under a contributory program to be at least as high as grants made from general taxation as a consequence of need. At the beginning of 1941 this was the case. The national average for retirement benefits under the insurance program was slightly higher than the national average for assistance—$22.60 as compared with $20.49. Since that time, however, the level of assistance payments has increased considerably as prices have increased and the Federal Government has twice increased its amount of participation in the assistance program. At the beginning of 1941, even before the Federal Government had increased its rate of participation in the assistance program, once in 1941 and again in 1948, no comparable increase had been made in the level of payments under the old-age and survivors insurance program. At the beginning of 1945, before the Federal Government had increased its rate of participation in assistance, the national average for old-age assistance had risen to $28.52, while the average for retirement benefits was $23.73. According to the latest available figures (June 1948), the assistance average had risen to $38.18 as compared with $25.13 for insurance. In October of 1948 under Public Law 642 (80th Cong., 2d sess.), the amount in old-age assistance can be increased to about $43 for the number of recipients now on the old-age assistance rolls without additional cost to the States and local units of government. The following table shows the progressive disparity in amounts paid under the two programs:

<table>
<thead>
<tr>
<th>Month and year</th>
<th>Old-age assistance</th>
<th>Retired worker under old-age and survivors insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1941</td>
<td>$20.49</td>
<td>$22.60</td>
</tr>
<tr>
<td>January 1945</td>
<td>$22.52</td>
<td>$25.13</td>
</tr>
<tr>
<td>June 1948</td>
<td>$26.13</td>
<td>$25.13</td>
</tr>
</tbody>
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In October of 1948 the old-age assistance average will again increase substantially because of changes in the Federal law, while the old-age and survivors average will be only a few cents more.

The fact that these changes in the public assistance program have preceded changes in social insurance coverage and benefits is in our opinion a matter of serious concern. Unless the insurance system is expanded and improved so that it in fact offers a basic security to retired persons and to survivors, there will be continual and nearly irresistible pressure for putting more and more Federal funds into the less constructive assistance programs.

### Table A—Comparison of average payments under old-age assistance and for retired workers under old-age and survivors insurance

<table>
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*If it were possible to compare the national averages for aged couples under the two programs, the disparity would undoubtedly be greater than that shown above. Aged couples under insurance are entitled to only half again as much as the single retired worker with the same wage record, while the aged couple under assistance may receive up to twice as much as the single person and on the average does receive much more than half again as much. The averages shown above for assistance include those cases in which both a husband and wife are receiving payments, while the averages for old-age and survivors insurance include only the retired worker. If the wife's benefits under old-age and survivors insurance were averaged in, the figure for June 1948 would be $21.98 per individual as compared with $26.13 for retired workers.*

### The Nature of the Program

Responsibility for public assistance in the United States is now shared by the local, State, and Federal Governments. Until 1936 this responsibility was entirely local and State, except for the emergency programs during the early thirties. Earlier still, the responsibility for relief was entirely local. Even now all expenditures for general assistance come from local funds in 18 States; half or more than half of the funds for general assistance come from the States in only 18 States; and in only 4 States are all expenditures for general assistance financed by the State.

With the passage of the Social Security Act, the Federal Government assumed substantial responsibility on a continuing basis for public assistance to the aged, to the blind, and to dependent children. Within these areas the Federal Government has supplied large sums, at first on a 50–50 matching basis within maximums of $30 for old-age assistance and aid to the blind, while the basis was $1 for each $2 for aid to dependent children within maximums of $18 for the first child and $12 for each additional child aided in the family. In 1939 the Federal maximums for old-age assistance and aid to the blind were increased to $40, and Federal matching for aid to dependent children was established on a 50–50 basis. Since October 1, 1946, Federal funds have been paid under a matching formula which established the Federal share of assistance payments at two-thirds of the first $15 of the average monthly payment per recipient, plus one-half of the remainder within maximums of $45 for old-age assistance and aid to the blind; in aid to dependent children the Federal share has been two-thirds of the first $9 of the average payment per child plus one-half of the remainder within maximums of $24 for the first child and $15 for each additional child aided.

In October 1948 the Federal participation in the three State-Federal programs will increase again under Public Law 642. The Federal Government will provide three-fourths of the first $20 of the average monthly payment plus one-half of the remainder...
within maximums of $50 for old-age assistance and aid to the blind; the Federal share for aid to dependent children will be three-fourths of the first $12 of the average payment per child plus one-half the remainder within the maximums of $27 for the first child and $18 for each additional child. Except for the emergency programs in the early thirties, no Federal funds have been made available for general assistance.

The Federal Government has not assumed responsibility for the operation of the three public assistance programs for which Federal aid is provided. Aside from sharing in the costs of assistance and administration, the role of the Federal Government has been limited to that of setting minimum standards and providing technical advice and consultation on problems of administration.

Because public assistance is essentially a State responsibility, considerable variation in operating policies and in eligibility requirements, including definitions of need, appears among the States. The wide range in the proportion of persons receiving assistance in the several States and the range in the amount of the average payment not only indicate State differences in the need to be met and ability to meet that need, but also reflect wide State diversity in standards and policies. The proportion of the population aged 65 or over who were in receipt of old-age assistance in December 1947 ranged from a high of 58 per thousand in Oklahoma, and more than 100 per thousand in Colorado, Georgia, and Texas, to a low of less than 100 per thousand in Delaware, the District of Columbia, Maryland, New Jersey, New York, and Virginia. The average payment per recipient for old-age assistance ranged from $84.72 a month in Colorado and $57.10 in California to $18.90 in Georgia and $15.87 in Mississippi. Similar variation occurs in the other programs. The Council does not regard an investigation of the policy decisions by the several States in connection with public assistance as part of its mandate. Nevertheless, the very wide variation among the States suggests that Congress might want to inform itself further concerning the effect of Federal grants-in-aid upon the policy decisions of the several States. A special investigation of this matter is worthy of consideration.

Wide differences are also apparent in the extent to which expenditures and case loads of the various public assistance programs have been affected by general economic conditions. The rise in employment brought about by the war and postwar boom was sharply reflected in rapidly declining expenditures for general assistance. Expenditures by the States and localities for the general assistance program dropped from $493.9 million in 1940 to $104.8 million in 1945 and rose to $168.2 million in 1947. Although expenditures for aid to dependent children increased from $128.3 million in 1940 to $151.4 million in 1945 and $275.6 million in 1947, a relationship between this program and business conditions is reflected in the changes in the number of families on the rolls. At the end of the 1940 fiscal year, 333,000 families were receiving aid as compared with 255,600 at the end of the 1945 fiscal year. The 1947 case load, however, exceeded this figure partly, no doubt, because the rise in the number of broken homes, in the birth rate, and in the cost of living made it necessary for families to seek aid to supplement income from other sources. Changes in the number of recipients of old-age assistance and aid to the blind have not reflected general economic conditions to the same extent as general assistance or aid to dependent children. Although the number of recipients of old-age assistance did decline somewhat in 1943, 1944, and 1945, the 1945 figure was 2.1 million as compared with 2 million in 1940. By June of 1947 there were 2.3 million persons on the old-age assistance rolls, the same number as were on the rolls in March 1946, the last date for which figures are available. Expenditures for old-age assistance and aid to the blind rose continually throughout this period since the level of assistance payments increased enough to offset the declining number of recipients in those years when the number did decline.

The varying effect of general economic conditions on the different programs reflects the fact that general assistance and, to a less extent, aid to dependent children are available to persons who are employable in times of good business conditions. On the other hand, old-age assistance and aid to the blind are limited for the most part to persons unable to work regardless of economic conditions. A study conducted in 1944 in 21 States indicated that only about 20 percent of the old-age assistance recipients were under age 70 and about 45 percent were age 75 or over. To some extent, the differences in expenditures and case loads of the various programs may also reflect the absence of Federal participation in general assistance and the lower rate of Federal participation in aid to dependent children. States and localities have not been encouraged to put money into these programs to the same extent as in old-age assistance and aid to the blind.

Several other factors should be taken into account in seeking an explanation of the differences in expenditures from one year to the next and among the various programs. These factors include (1) the increase in the number of aged persons in the population from about 9 million in 1940 to about 10.8 million in 1947, (2) the long waiting lists of eligible applicants during the early years of the State-Federal programs, a fact which indicates that the number of recipients was lower in the early years because funds were not available to meet existing need (witness the 260,000 applications for old-age assistance pending in January 1940 as compared with 42,000 in January 1949), and (3) the increase in expenditures for assistance resulting from rising prices.

**Major Defects in the System of Federal Grants-in-aid for Public Assistance**

The Council believes that the basic features of the present arrangements are sound. In particular, it believes that the diversity of conditions and traditions among the States makes it desirable that the States retain wide discretion in determining needs, eligibility, and administrative policies. The Council feels, however, that the present system of Federal grants-in-aid for public assistance has many gaps and inequities. Federal participation in aid to dependent children is far less adequate than in old-age
assistance and aid to the blind. Needy persons who require medical attention cannot receive adequate medical services within the limits of the ceilings on Federal matching. Moreover, many persons who do not fall within the categories of the aged, the blind, or dependent children may be in dire need of public assistance. As now constituted, the Social Security Act ignores the needs of this group. In point of fact, the act has led some States to apply virtually all the State and local funds available for public assistance to the specific programs for which Federal reimbursement is available, leaving little or no money for so-called general assistance. State funds are thus concentrated on programs which have Federal grants-in-aid.

There is an immediate and imperative need to redress this imbalance by eliminating the existing gaps and correcting the inequities in the public assistance titles of the Social Security Act. More extensive Federal participation in such programs has been recommended because of the conviction that readjustments are urgently needed and cannot otherwise be achieved as expeditiously. The Council believes, however, that the total amount of Federal expenditure for assistance should decline as the insurance program becomes more fully operative.

In making recommendations to improve the present Federal policy in assistance, the Council has been guided by the following major considerations:

1. The public assistance program should not interfere with the growth and improvement of the insurance program.
2. The Federal Government's participation in public assistance should be designed to encourage the best possible administration by the States and localities and promote adequate support of the needy by the States and the localities.
3. The Federal Government should continue its present practice of setting only minimum standards relating to conditions of eligibility and administration but, beyond the minimum, it should leave to the States wide discretion both in determining policies and in setting standards of need.

Summary of Recommendations

1. The Federal Government's responsibility for aid to dependent children should be made comparable to the responsibility it has assumed for old-age assistance and aid to the blind. In determining the extent of Federal financial participation, the needs of adult members of the family as well as of the children should be taken into consideration. Federal funds should equal three-fourths of the first $20 of the average monthly payment per recipient (including children and adults) plus one-half the remainder, except that such participation should not apply to that part of payments to recipients in excess of $50 for each of two eligible persons in a family and $15 for each additional person beyond the second.

2. Federal grants-in-aid should be made available to the States for general assistance payments to needy persons not now eligible for assistance under the existing State-Federal public assistance programs. Federal financial participation should equal one-third of the expenditures for general assistance payments, except that such participation should not apply to that part of monthly payments to recipients in excess of $30 for each of two eligible persons in a family and $15 for each additional person beyond the second. In addition, the Federal Government should match administrative expenses incurred by the States for general assistance on a 50-50 basis, in the same manner that it now shares in administrative expenses for the existing State-Federal public assistance programs. The proposed grants-in-aid for general assistance, however, should not be considered as a substitute for a program designed to deal with large-scale unemployment.

3. To help meet the medical needs of recipients of old-age assistance, aid to the blind, and aid to dependent children, the Federal Government should participate in payments made directly to agencies and individuals providing medical care, as well as in money payments to recipients as at present. The Federal Government should pay one-half the medical care costs incurred by the States above the regular maximums of $50 a month for a recipient ($15 for the third and succeeding persons in a family receiving aid to dependent children) but should not participate in the medical costs above the regular maximums which exceed a monthly average of $5 per person receiving old-age assistance or aid to the blind and a monthly average of $5 per person receiving aid to dependent children.

State public assistance agencies should be required to submit plans to the Social Security Administration for its approval, setting forth the conditions under which medical needs will be met, the scope and standards of care, the methods of payment, and the amount of compensation for such care.

4. The Federal Government should participate in payments made to or for the care of old-age assistance recipients living in public medical institutions other than mental hospitals. Payments in excess of the regular $50 maximum made to recipients living in public or private institutions or made by the public assistance agency directly to those institutions for the care of aged recipients should be included as a part of medical care expenditures under recommendation.

5. Federal funds should not be available for any public assistance program in which the State imposes residence requirements as a condition of eligibility for assistance, except that States should be allowed to impose a 1-year residence requirement for old-age assistance.

6. A commission should be appointed to study current child health and welfare needs and to review the programs operating under title V of the Social Security Act relating to maternal and child health services, services for crippled children, and child welfare services. The commis-
sion should make recommendations as to the proper scope of these services and the responsibilities that should be assumed by the Federal and State Governments, respectively.

**The Cost of the Council's Recommendations**

Assuming the continuation of current conditions, it is estimated that the annual cost to the Federal Government of all the public assistance recommendations of the Council will range between about $270 million and $340 million. If the Council's recommendations for social insurance become effective, the cost of assistance to the Federal Government is a matching program, that cost is determined by the extent to which the States take advantage of the offer of Federal funds as well as by the extent of the actual need to be met. The availability of State revenues to finance a share of public assistance, the competing demands of other governmental functions, State and local policies in determining need and granting aid are all important factors in determining costs.

These estimates are based on recent case loads which may prove unreliable guides for the future. Changes in social and economic conditions would have a substantial effect on the need for assistance and thus on future case loads. The error which can arise from this factor is limited, however, by the fact that the recommendations in this report are not intended to meet the problem of mass unemployment in the event of a severe or even moderately severe depression. In its report to be submitted on unemployment insurance, the Council plans to consider the problem of the responsibility of the Federal Government for the income maintenance of workers in time of business depression. Yet, even though the recommendations in this report pertain to the needs that arise in times when employment is good, these needs are nevertheless greatly influenced by changes in price levels and by even relatively minor changes in levels of employment and unemployment.

Changes in other social provisions to meet or prevent need, such as social insurance, dependents' allowances for servicemen, veterans' benefits, and health programs, may also have a significant effect on the extent to which the assistance programs will be called on to aid needy persons.

The extent of need for general assistance and for medical care (including care of the aged in public medical institutions) will not be completely clear until Federal funds become available for these types of aid. Present case loads in general assistance and present expenditures for medical care reflect more nearly what States and localities are able and willing to spend than the actual need for these services. As long as the means to meet need are lacking, much need remains hidden. Few people apply for help that they know they cannot get.

Because of the uncertainty of the effect of many of these factors, the estimates have been stated as a range. Separate estimates have been given for each recommendation.

**Financing the Public Assistance Programs**

The Council believes that, as provided in Public Law 642, the Federal Government should, for the near future, meet three-fourths of the first $20 of the average monthly payment per recipient and half the remainder within given maximums for old-age assistance and aid to the blind, and that Federal participation in aid to dependent children should be made comparable. The Council believes that the maximums up to which the Federal Government makes grants should be uniform for these three programs. As the burden on the States is reduced through the expansion and liberalization of the Federal insurance program, the rate as well as the total amount of Federal participation in these assistance programs should be reduced. For general assistance, the Council recommends a much lower rate of participation by the Federal Government than for the other parts of the assistance program.

The Council believes that, in general, the present method of participation by the Federal Government in the existing State-Federal programs is well adapted to a public assistance program which leaves the States wide discretion in determining eligibility for assistance and in making administrative policies. Under such a program, the Council believes that it is wise to have the Federal Government and the States share equally in the costs above some low figure such as $20 a month per recipient. In some of the proposals which the Council has examined, such as those for relating the rate of Federal participation to the per capita income in the State, the amount of State financial interest would not seem sufficient in the lowest-income States to guarantee prudent consideration of the level of payments. Under one per capita income plan studied, several States would be able to get three Federal dollars for each State and local dollar even if they made average assistance payments well above the national average. Low-income States could, for example, make average payments of nearly the Federal maximum of $50 for old-age assistance and the Federal Government would still pay three-fourths of the total cost.

The present method, as well as those which would vary the rate of Federal participation in accordance with per capita income, provides Federal funds which represent a larger proportion of the costs of assistance in most low-income States than in the high. Because the average assistance payment in low-income States is usually low, Federal participation at the rate of three-fourths of the first $20 of average payments will mean that the Federal Government will bear nearly three-fourths of the total expenditures for assistance payments in most of the lowest-income States. For example, in the calendar year 1947, when the rate of Federal participation was two-

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thirds of the first $15 in old-age assistance and aid to the blind and two-thirds of the first $9 in aid to dependent children, the Federal Government paid only 52.7 percent of all costs of old-age assistance in the United States, 50.6 percent of the total costs of approved plans for aid to the blind, and 39.4 percent of the total costs for aid to dependent children. In the five States with the lowest per capita income, however, Federal participation in old-age assistance ranged from 62.5 to 64.7 percent of total costs; in aid to the blind the Federal share ranged from 60.5 to 63.6 percent; and in aid to dependent children from 60.5 to 65.8 percent.

Federal, State, and Local Responsibility

Although it is beyond the scope of the present study to analyze the policy which should govern the over-all financing of public services in the United States and the relationship of the Federal Government to the States and localities, the Council wishes to express its belief that the only sound long-run method of preserving a workable State-Federal system lies in the readjustment of State-Federal tax and fiscal relationships. The principles of citizen participation in Government and maximum State and local responsibility will be promoted if States and localities are better able and more willing than at present to raise the funds necessary to finance their own activities. Two world wars and a major depression have introduced a degree of central fiscal authority and an aggregate tax burden undreamed of 50 years ago. Indeed, within the last few years the demands upon the Federal Government have increased much faster than anyone would have anticipated. Several years ago forecasts of the postwar Federal budget usually ran in the neighborhood of $15 billion to $25 billion a year. For example, the Committee for Economic Development in a study of the tax problem assumed that the budget of the Federal Government would be about $18 billion in dollars of 1943 purchasing power or about $23 billion in dollars of 1947 purchasing power. The budget is now more than $40 billion and is likely to remain at that level. Because of these developments and because of the ever increasing public demand for services from all units of government, means must be found to make sure that State and local governments have revenues adequate to finance the functions which they can best perform. These broad problems of intergovernmental relationships need the most careful study so that financial self-sufficiency and harmonious fiscal policy among the various governmental units may be promoted to the greatest extent possible.

Under the best possible division of fiscal responsibility, however, there will remain wide differences in the available tax and revenue resources of the States and localities. In order to encourage the States to provide the assistance required for health and decency, Federal participation in financing old-age assistance, aid to dependent children, and aid to the blind should be continued on a basis whereby the Federal Government will pay a higher proportion of the total cost of assistance in the low-income States than in those with high per capita income.

The Council believes, furthermore, that differences between the needs and resources of the various counties within States require a flexible use of State and Federal funds on an equalization basis so that State plans may be uniformly and equitably in effect in all parts of a State. The Council believes that this end may be attained by State action and by Federal participation in the development of State plans, and that further Federal legislation is not now required to effect the desired end.

Trends in Recipient Rates for Old-Age Assistance

By Walter M. Perkins*

More people were receiving old-age assistance in June 1948 than ever before in the history of the program. At the same time, relatively fewer aged persons were dependent on assistance in that month than at the time of Pearl Harbor. The proportion of all aged persons in the population who were recipients of old-age assistance was actually smaller by a tenth in June 1948 than in December 1941, when the recipient rate reached an all-time peak. Yet the number of aged persons in the total population had increased so rapidly in the 6½ years that the number of recipients was larger in the later month (chart 1). By relating the number of recipients to the age group from which they are drawn, a better perspective on changes in the assistance programs from year to year is obtained and the relative size of various State programs at any given time can be measured. Herefore the necessary population estimates, comparable from year to year, have not been available to permit analysis of trends.

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