State and Local Financing of Public Assistance, 1935–55

by ELLEN J. PERKINS*

In the past few years a number of individuals and groups—both public and private—have studied public assistance to reappraise the Federal and State-local roles in financing the programs. Discussion of possible changes in Federal responsibility has ranged from eliminating to increasing the Federal share. This article reviews the financing of the programs since 1935, sets forth some questions on the implications that the trends and the underlying social and economic factors have for the Federal role, and summarizes the major points of view held by the various groups that have been interested in these issues.

FOR more than a hundred years, aid to the needy in the United States was primarily a local responsibility, patterned on the Elizabethan poor laws. Early in the twentieth century a few States began to assist the localities in meeting the costs of public aid. The Federal Government first assumed major financial responsibility during the great depression of the 1930's. The first Federal grants for general assistance were made in 1932, and expenditures for Federal work programs began in 1933.

As a result of the Federal Government's entry into financing public aid, programs in operation in 1935 for income maintenance were financed largely from Federal funds. Only the small programs then in operation for old-age assistance, aid to dependent children, and aid to the blind were financed entirely from State and local funds. In 1935 the Social Security Act was passed; the Federal Government withdrew from financial participation in general assistance but continued its work programs for the unemployed.

Under the act, the Federal Government provided grants-in-aid for categorical assistance programs for the aged, the blind, and children and set up insurance programs for the aged and the unemployed. As a result, since 1935, public programs for income maintenance in the United States have changed greatly. Today, basic protection is provided by old-age and survivors insurance and unemployment insurance, financed by employers and employees. The Federal work programs are no longer in operation—the last one was discontinued in 1943—and public assistance is a complementary program depended on to meet the needs of persons who are not covered by social insurance, those for whom insurance programs are not applicable, or those whose insurance benefits are not adequate to provide a basic living. Most recipients of public aid today are assisted under the special types of public assistance; only a relatively small proportion of the needy receive general assistance.

Trends in Expenditures from State and Local Funds

In 1955 the States[1] and localities combined spent more than $1.3 billion for public assistance from State and local funds—more than two and two-thirds times the amount they spent in 1935, the year preceding the first Federal grants for the special types of public assistance under the Social Security Act. Even as corrected for the changing value of the dollar, 1955 State and local expenditures were more than one-third larger than they were in 1935. Expenditures alternately increased and decreased in four major periods—1935-39, 1939-44, 1944-50, and 1950-54—and turned upward again in 1955. The period of largest increase was from 1944 to 1950. State and local costs reached their peak for the 20-year period in 1955 (chart 1).

A number of social, economic, and legislative factors operated with varying force during the 20 years to increase State and local costs. They include the withdrawal in 1936 of the Federal Government from financial responsibility for general assistance; passage of the Social Security Act in 1935 and the resulting development of new State and local categorical programs; the growing aged and child population; the increase in family dislocations during and after World War II; the rise in living costs during the war and postwar periods; the increasing cost of medical care; and some improvement in the level of assistance payments for maintenance. Among the offsetting factors tending to reduce State and local costs were the high level of economic activity beginning early in the 1940's, particularly during World War II and the Korean hostilities; the growth of the insurance programs, especially old-age and survivors insurance after 1950; and the enactment of several amendments to the public assistance titles of the Social Security Act beginning in 1946 that increased the Federal share of assistance costs. These factors acted with unequal force on different groups of States and on the individual programs. As a result, the general trends in total State and local expenditures were not characteristic of all States and all programs.

The overriding factors affecting State and local expenditures for public assistance during the 20 years were influences for increased costs except during the Second World War. These were strong enough until 1950 to offset the general decreases in the incidence of need that resulted from

* Division of Program Statistics and Analysis, Bureau of Public Assistance. The article is taken from a more detailed analytical report, available on request from the Bureau of Public Assistance.

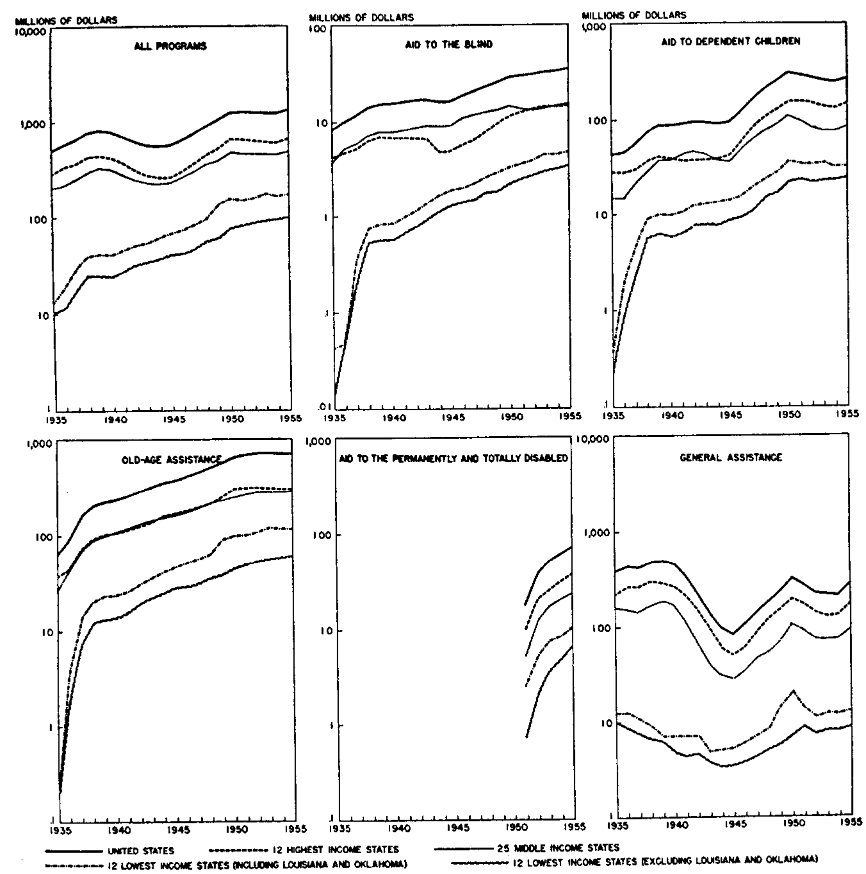
[1] Throughout the article, Alaska, Hawaii, Puerto Rico, and the Virgin Islands are excluded from the discussion of State and local financing.

the Nation's generally high economic level since the early forties. State and local expenditures for aid to the blind decreased slightly during World War II but only for a brief period. Old-age assistance costs did not halt in their upward trend until after 1950, when old-age and survivors insurance coverage was extended and benefits were increased; even these costs increased again in 1955. Expenditures from State and local funds for aid to dependent children and general assistance were more sensitive to the improved economic conditions, but costs for these programs rose, even so, with the increase in living costs after the war.

Thus it appears that, unless there is an extreme labor shortage, a generally high level of employment cannot be depended on to result in large declines in assistance costs—except in general assistance and, to a considerably lesser degree, aid to dependent children—as long as relatively high living costs keep average payments up and the nonearning age groups in the population continue to grow. At times of high employment, the assumption is valid that assistance recipients represent, in largest part, persons for whom usual or even high employment opportunity alone is not sufficient to enable them to be self-supporting. Included in the group are large numbers of the aged—predominantly women—and persons with physical disabilities, whose prospects for participation in the labor force are remote. Included also are many children whose fathers are ill, dead, or absent from the home and whose mothers often are not equipped to find employment remunerative enough to allow them to make proper provision for day care of the children.

Chart 1.—*Public assistance expenditures from State and local funds, 1935–55 in States grouped by income, 1951–53*

[Semilogarithmic scale]



The strongest influences for decreasing expenditures for the assistance programs, therefore, will come from old-age and survivors insurance as it decreases costs for old-age assistance—so far, the assistance program of largest expenditure—and from retraining and vocational and medical rehabilitation services. Even if such services could be made available to all assistance recipients who could benefit by them, it is likely that considerable numbers still would need maintenance assistance. Many persons who could, with the help of these services, lead more comfortable, meaningful, and useful lives still could not achieve self-support.

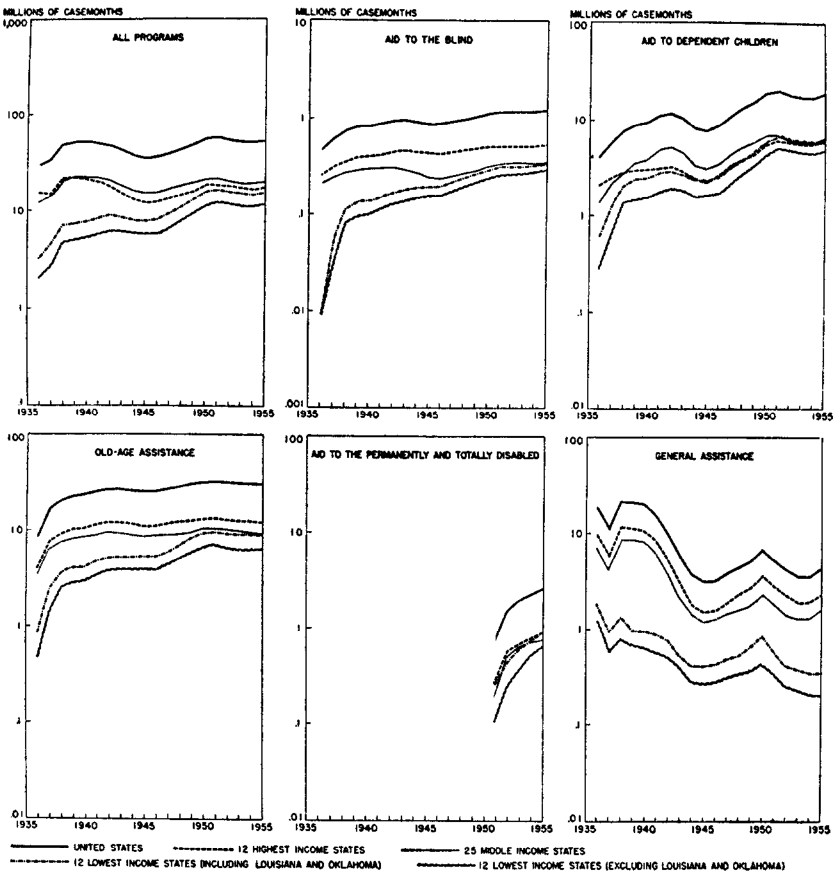
Expenditures in States with highest income showed greatest sensitivity to economic changes, and costs in those with lowest income reacted least. Two factors account for the difference between the two groups of States: the relative degree to which their economies are industrialized and the adequacy of their assistance programs.

The States with highest income are, in general, highly industrialized. Their caseloads therefore declined soonest and to the greatest extent among the three groups of States, as a result of the acute labor shortages created when industry was converted to production for defense and war in the early 1940's (chart 2). Because of their industries, also, they had the largest declines in State and local costs for old-age assistance after 1950 when the old-age and survivors insurance program was liberalized. In addition, the highest-income States include many with the most nearly adequate assistance programs; their assistance payments in the late thirties and the early forties generally met need in full as it was defined in State law and policy. Therefore, as State fiscal capacity began to increase and additional State and local funds became available, these States did not consider it necessary to raise individual payments substantially; they raised payments later as the cost of living rose.

The lowest-income States, in contrast, are primarily agricultural and so shared to a lesser degree and for a shorter time in the decrease in

Chart 2.—*Casemonths*[1] *of public assistance received, 1935–55*

[Semilogarithmic scale]



[1] Sum of monthly numbers of recipients for each year.

incidence of need that resulted from the generally high level of employment and old-age and survivors insurance coverage. Since these States recognized that their assistance standards in the late thirties were inadequate, they raised them in the early forties as the increased State fiscal capacity that came with improved economic conditions made possible the expenditure of additional State and local funds. With higher assistance standards, additional groups in the population became eligible for aid. As a result, the lowest-income States, which started with the lowest levels of payments or no programs at all in 1935, increased State and local expenditures in all but 3 years during the 20-year period.

Comparison of trends in State-local and Federal funds.—Expenditures from Federal funds increased from 1936 because (1) State and local expenditures for the special types of public assistance increased generally, and (2) amendments to the Social Security Act raised the rate of Federal participation several times. Until 1950, however, the Federal Government spent less each year for the special types of public assistance than it spent for general assistance in 1935, despite the social, economic, and population factors that pushed up the total costs of the special types of public assistance. When allowance is made for the changing value of the dollar, even the 1955 Federal expenditures for the categorical programs were about one-third less than the 1935 Federal costs for general assistance.

Trends in State and Local Fiscal Effort

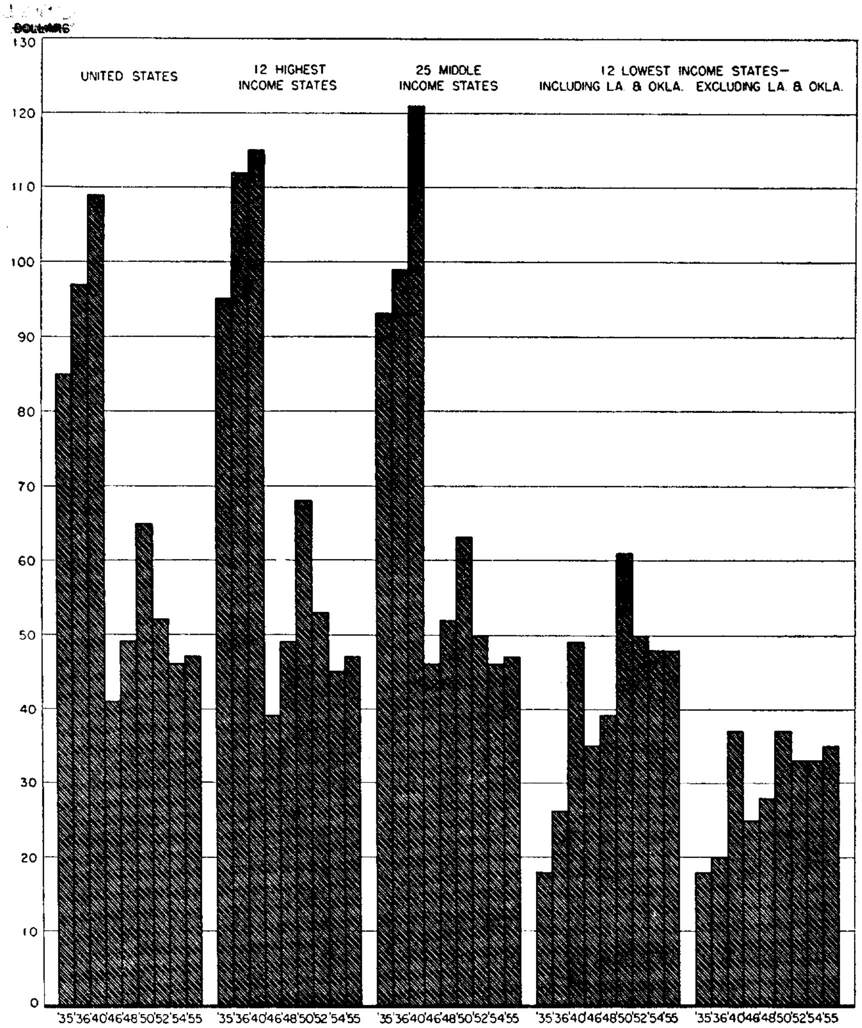
Even though the total costs of assistance mounted in a period of relatively great economic prosperity, the share of the national income devoted to the programs declined. In 1955 the percentage of income payments[2] in the United States used for public assistance from Federal, State, and local funds was a little more than a third of that in 1935. The decrease was smallest in the lowest-income States, where the 1955 percentage was four-fifths that in 1935.

In the years since 1935, per capita income in the United States has been generally rising. Individual States have had their ups and downs in income in individual years, but all States were in a substantially better position with respect to amount of income payments in 1954 (the latest year for which data are available) than in 1935. For the United States, total income payments in 1954 were almost five times what they were in 1935, in actual dollar amounts; 1954 income payments, corrected for the changed dollar value, were about two and two-fifths times the 1935 total. Income increased most proportionately in the lowest-income States (to more than five times the 1935 level) and least in the highest-income States (four and two-thirds times). The difference between the increases in the highest- and middle-income States, however, was not large. In dollars per capita, the lowest-income States had the smallest increase in income payments; their percentage increase was large because their income in 1935 was low.

Trends in expenditures for assistance payments from State and local funds are seen in better perspective if they are related to trends in income payments. The relationship between assistance expenditures and income payments is generally used as an index of fiscal effort expended by the States and localities to finance the public assistance programs.

[2] Data used on income payments are those on income payments to individuals published by the Department of Commerce before September 1955. Basic data for the analysis were compiled before data on the new series of personal income were published. The same States fall in each of the three income groups used in this analysis under both the old and new income series, even though income data for a few individual States changed substantially in the new series.

Chart 3.—*Public assistance expenditures from State and local funds per $100 of income payments, selected years 1935–55, in States grouped by income, 1951–53*



During the period 1935–55, income payments in the United States increased 374.8 percent, while combined expenditures from State and local funds for public assistance rose 170.4 percent. Accordingly, in 1955 the States and localities as a group were expending only a little more than half the fiscal effort to finance public assistance that they exerted in 1935 (chart 3). All this decrease in effort, however, occurred in the highest- and middle-income groups of States. Fiscal effort in the 12 lowest-income States in 1955 was more than two and two-thirds times what it was in 1935. Much of the increase in effort among the lowest-income States occurred in Louisiana and Oklahoma. If these two States are excluded, the increase was 94.4 percent for the lowest-income group.

Trends in effort followed generally the trends in total State and local expenditures during the 20 years; that is, effort increased from 1935 to 1940, from 1945 to 1950, and from 1954 to 1955 and decreased during 1940–45 and from 1950 to 1954 in all income groups of States. The greatest increase in State and local fiscal effort, as in State and local expenditures, occurred between the end of the war and 1950. Although State and local expenditures in the lowest-income States rose in all but 3 of the 20 years, during the war period the increase was less than the rise in income payments. Thus these States, too, made less effort during that period, although their decrease was only half that in other States.

From 1935 to 1955, fiscal effort among the States leveled off considerably, and in 1955 it varied little among the three groups of States. In the United States as a whole and in the highest- and middle-income States, the States and localities spent 47 cents for public assistance per $100 of income payments. The lowest-income group spent 48 cents, but their average effort was brought up considerably by Louisiana and Oklahoma. Without these two States, the lowest-income group spent 35 cents for public assistance per $100 of income—considerably less than the national average. The picture on State and local fiscal effort was different in 1935, when effort varied considerably among the groups of States. Despite the large Federal contribution for general assistance of $1.69 per $100 of income payments, the average State and local effort for the public assistance programs for the United States was 85 cents per $100 of income payments. The highest- and middle-income States spent about 95 cents and 93 cents, respectively; the lowest-income States, about 18 cents.

The trend toward less variation in State and local effort occurred during the war, when the highest- and middle-income States were able to reduce State and local expenditures and the lowest-income States took advantage of increased resources, combined with some drop in the incidence of need, to make their payments more nearly adequate. It was after the war that Louisiana's and Oklahoma's atypical expenditures began to affect appreciably the average for the lowest-income States. From 1945 through 1950, these two States brought up the average of effort for the lowest-income States considerably.

The trend in the lowest-income States differed from that in the other two groups because they made the smallest expenditures from non-Federal funds for public assistance in 1935; their increases in actual dollar amounts of income were smaller than those of the other States; and they still have large parts of their population living at low-income levels. As a group, however, even these

States lightened their fiscal burden for public aid from 1950 to 1954.

Trends in State and local fiscal effort for public assistance cannot be evaluated by themselves. Public assistance is only one of many public functions paid from State and local tax funds and must take its proper place in the whole State fiscal picture. Before judgment can be made as to whether the decrease in the percentage of income used for assistance in any State indicates that the State could bear a larger proportion of public assistance costs, trends in need for other State and locally supported functions must be considered. Since World War II, for example, the demands on the public education facilities have increased so much that serious shortages have resulted. Recognition of need for public health and other welfare services has also grown.

In the States with least resources, almost all State functions must be operated at levels that are admittedly less than adequate. Any step toward adequacy in expenditure for one function may mean a further movement away from adequacy for another. These States, therefore, must allocate funds among functions on the base of the greatest need or emergency and the least damage, socially and economically, to the State's citizens.

Effect of Amendments, 1946–52, on State-Local Financing

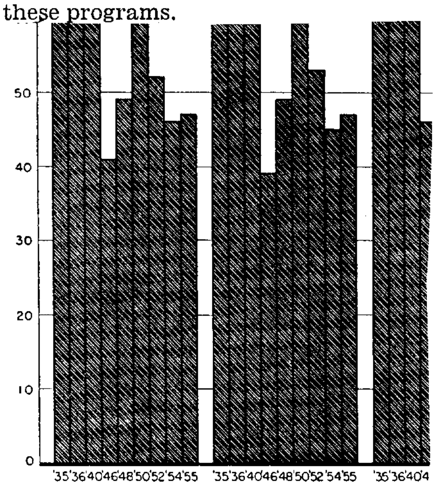
The major increases in Federal participation in the special types of public assistance occurred after the fiscal year 1945–46 with the successive amendments to the public assistance titles of the Social Security Act. At the time of the 1946 amendments, the Federal Government was contributing 50 percent of the public assistance costs matchable under the provisions of the Social Security Act. Maximums for Federal participation were set at $40 for the adult categories and, for aid to dependent children, at $18 for the first child and $12 for each additional child in a family. The 1946 amendments introduced the so-called fractional formulas for Federal participation in public assistance costs. Under these formulas, the Federal share is larger in the first fraction of payments to recipients than in the balance. Congress established the formulas for the purpose, primarily, of giving a more favorable Federal share to low-income States, which generally make the smaller assistance payments. In 1948 and 1952, Congress extended the fractional formulas.

These three groups of amendments were introduced by Senator McFarland of Arizona and are frequently identified by his name. Under the 1946 amendments, Federal funds for the adult categories equaled two-thirds of the first $15 of the average payment within a specified maximum on individual assistance payments, plus one-half the balance; for aid to dependent children, Federal funds were two-thirds of the first $9 of matchable payments, plus one-half the balance. The 1946 amendments also raised maximums on individual assistance payments to $45 for old-age assistance and aid to the blind, and for aid to dependent children to $24 for the first child and $15 for each additional child. The 1948 and 1952 amendments each increased the fraction of the payment with more favorable matching and the maximums for Federal participation by $5 per recipient for the adult categories and $3 for aid to dependent children. The proportion of Federal funds for the first fraction of the assistance payment was increased to three-fourths in 1948 and to four-fifths in 1952. The combined effect of the three groups of amendments was to make possible a total increase in Federal funds of $15 per recipient in the adult categories and more than $9 in aid to dependent children. This increase occurred when States continued to spend as much per recipient from State and local funds as they had before the first amendments; if States decreased their expenditures per recipient, then the Federal increase was less.

In 1950, extensive changes were made in the public assistance provisions. The new category of aid to the permanently and totally disabled was established; Federal participation in assistance to the needy parent or other adult relative in families receiving aid to dependent children was authorized; and the definition of assistance was extended to include, in addition to money payments to recipients, payments to suppliers of medical services to recipients. In all programs except aid to dependent children, Federal participation became possible in payments to recipients who are patients in public medical institutions.

The congressional intent in passing the 1946, 1948, and 1952 amendments was primarily to benefit recipients of the special types of public assistance rather than to decrease State and local spending for public assistance. Because of this intent and because of the effect the amendments had on Federal spending compared with State and local spending and fiscal effort, a closer look at public [redacted] assistance. If State funds are limited and caseloads are increasing, however, a State may use only part of the money (or perhaps none of it) to raise assistance payments and use the rest (or all) to meet the costs of the growing assistance rolls. Furthermore, if a State is already meeting need for the special types of public assistance in full, as defined in the State's assistance standards, it may see no need or justification for increasing assistance payments and may reduce State and local spending when the Federal share goes up. The State may prefer to transfer State and local funds to another program—for example, general assistance—where perhaps need is being met less nearly adequately than in the federally aided programs.

The public assistance programs are interrelated in State and local financing. Thus, aid to the permanently and totally disabled, when it was added to the federally aided programs in 1950, affected general assistance costs. For these reasons, an analysis of the effect of the McFarland amendments on non-Federal assistance expenditures and on State and local fiscal effort is more validly related to all public assistance expenditures, including general assistance, than to the special types of public assistance alone. To determine the effect of the amendments on average payments for the special types of public assistance, it is helpful to look at the changes in State and local expenditures per recipient for these programs.



Expenditures from State and local funds generally went up faster than income payments in the States. As a result, the percentage of income payments used for assistance from State and local funds was higher in 1955 than in 1946 in more than two-thirds of the States.

The time between the effective date of the amendments and the date at which States raised payments by the entire Federal addition tended to increase with successive groups of amendments. For example, by 1948, 2 years after the first of these amendments were passed, most of the States had raised payments from the 1946 levels by $5 or more for recipients of old-age assistance and aid to the blind and by more than $3 for aid to dependent children. In contrast, of the States making payments in 1955 that exceeded those in 1946 by $15 or more for the adult categories and by more than $9 for aid to dependent children, several reached that level only in 1955, 3 years after the most recent amendments were passed.

Comparison of State and Local Financing

Since 1935 the States have assumed the major responsibility for financing the non-Federal costs of the five public assistance programs combined. In 1955, State funds[3] paid more than three-fourths of the total non-Federal bill, but in 1935 the State share was a little less than half. The localities have not withdrawn, however, from financing the programs. In 1955 the localities spent $332 million for the five public assistance programs—about 30 percent more than they did in 1935. At the same time State expenditures increased to more than four times the 1935 total.

The sizable portion of non-Federal costs of public assistance borne by the State governments in 1955 was the result in large part of the requirement in the Social Security Act that some State funds be used to finance the federally aided programs. The tendency toward financing the special types of public assistance entirely without local funds came about in large part as the States initiated new programs after 1935. No tendency is evident, for the country as a whole, toward increased State responsibility for general assistance, the program financed without Federal participation.

If each of the five assistance programs is looked at separately, the amount of the average payment per recipient appears not to be significantly affected by the proportion of total costs paid from State funds. Differences between general assistance and the special types of public assistance, however, do appear to be influenced by differences in the amount of State funds expended for general assistance compared with the other programs. For general assistance, payments in individual States tend to be lower and variations among States greater than for the categorical programs. Of the States where differences in average payments between general assistance and the other programs are largest, nearly 3 in every 4 use no State funds, or pay a considerably smaller part from State funds, for general assistance than for the special types of public assistance. It appears, therefore, that Federal grants for the special types of public assistance and the stipulations regarding State financial and administrative responsibility have been important factors in the closer approach to adequacy of payments under the special programs and in the decrease in State variations in those programs.

Some Questions and Points of View

Reappraisal of the Federal financial role in public assistance must be based on a consideration of the purposes that the grants are intended to serve and the present and continuing validity of those purposes. Consideration should also be given to the place of public assistance in relation to the general grant-in-aid structure and to the need for Federal support in other areas of national interest. Groups and individuals who have studied the total grant-in-aid program of the Federal Government have raised questions and made recommendations on the respective financial and administrative roles of Federal, State, and local governments.[4] In the discussion that follows, Federal grants for public assistance are considered primarily by

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[3] Excludes the District of Columbia as well as the four other jurisdictions excluded in the rest of the analysis.

[4] See, for example, the Commission on Intergovernmental Relations, *A Report to the President for Transmittal to the Congress*, June 1955; *Federal, State, and Local Government Fiscal Relations* (S. Doc. 69, 78th Cong. 1st sess.), June 23, 1943; Council of State Governments, *Federal-State Relations, Report of the Commission on Organization of the Executive Branch of the Government . . .* (S. Doc. 81, 81st Cong., 1st sess.), 1949; V. O. Key, *The Administration of Federal Grants to States*, Chicago Public Administration Service, 1937.

themselves rather than in their larger context.

Any grant-in-aid program assumes a national interest in meeting the need served by the program. The Nation's interest in meeting economic need through Federal participation in public assistance financing is based on recognition that the American economy is a unity that crosses State lines. The economic welfare of any State depends on the welfare of all other States. Materials grown or mined in one State are fabricated in other States. The food we eat is grown all over the Nation. If unemployment or widespread poverty exists in any part of the Nation, the whole country suffers.

In addition, the American worker moves freely from one State to another. Low per capita income in many States is partly attributable to out-migration of workers in their most productive years. The earning population of these States is relatively small, while the child population is large. On the other hand, high per capita income in the large industrial States is partly produced by in-migrants, the cost of whose education was paid by low-income States.

Because the national economy is so dependent on the welfare of all its parts, the Federal interest in public assistance is related to an interest in the economic well-being of all Americans, in whatever State they live, and is based on the assumption that the economic need of any individual shall not be ignored because he lives in a State or locality that cannot afford to meet it. Federal grants for public assistance were intended to encourage a minimum level of program development and at the same time to leave the actual administration to the States and localities. No minimum level is specified in the Social Security Act. Under the act, however, programs must be statewide in operation; they must operate in all localities of the State; and all persons wishing to apply for assistance must have opportunity to do so and, if eligible, must receive an assistance payment promptly. These provisions furnish strong stimuli toward the reduction of differences, not related to variations in need, in the availability and level of assistance among localities within States and among needy individuals within localities.

Before the Social Security Act was passed, the localities bore a large share—in many States, the major share or all—of categorical public assistance costs. The wide variations in coverage and levels of assistance that existed under that financial arrangement—among States, among localities within States, and even among individuals within localities—indicated to the framers of the act that local funds did not provide an adequate financial base for nationwide, statewide, or even countywide operation of the programs. The Social Security Act therefore provides for both Federal and State financial participation in public assistance. The costs of nationwide programs can be distributed more nearly in accordance with ability to pay through the use of Federal revenues than if they were financed exclusively from State and local revenues, because Federal revenues rely heavily on progressive income taxes and the Federal Government can tax income wherever it originates. State revenues, in turn, provide a broader base for financing than local revenues alone, because States generally have more sources of revenue than localities. In addition to providing more nearly adequate and equitable sources of revenue, Federal and State financial participation facilitates compliance with Federal and State standards for administration of the programs.

What implications do the trends in State and local and Federal financing have for the present and continued validity of the purposes of Federal grants for public assistance?

Probably little difference of opinion exists on the present and continuing validity of the national interest in the basic security of all Americans. Opinions do differ, however, on whether Federal aid is necessary, at least to the extent now given, to protect that interest.

At the time the Social Security Act was passed, the country was just beginning to come out of a major economic depression. Since then, the economic condition of States and localities has improved considerably. At the same time, the Federal Government has taken on an unprecedented financial burden of military expense. While the Federal share of public assistance costs has increased, the States and localities, especially since 1950, have generally cut down the proportion of income devoted to public assistance. As a result, some persons ask whether the change in the Federal, State, and local fiscal positions does not indicate that the States and localities can now bear a larger share of nonmilitary governmental costs—a major part of which is for public assistance. Some groups and individuals have suggested that arrangements be made to return full responsibility for public assistance—or at least for old-age assistance—to the States and localities. They point out that basic minimum security for the aged is provided under old-age and survivors insurance, financed by employers and employees but administered by the Federal Government under Federal law. They ask if the States and localities should not bear the residual costs, at least of aiding the older people. Some also believe that the decrease in State and local costs for old-age assistance made possible by the growth in old-age and survivors insurance should enable the States and localities to carry the costs of other public assistance programs without Federal aid.

Few dispute the fact that old-age and survivors insurance is and should be the basic program for providing economic security for the aged. Opinions differ, however, as to how soon the insurance program will meet enough of the economic need among the aged so that residual costs will be within the abilities of the States and localities to finance. The aged are an ever-growing segment of the Nation's population. The cost of providing security for them has increased constantly. Although the percentage of aged persons given public assistance has declined, the number aided increased at a considerable rate through 1950, except during the war years, and still remains large. The best estimates of future trends in old-age assistance, even with the expanded old-age and survivors insurance program, indicate no substantial decline in the number of old-age assistance recipients for some years to come; a sizable number of aged persons will still need to rely on assistance as late as 1980.

Furthermore, a large group of the aged now receiving old-age and survivors insurance benefits get the minimum amount. Some of them, as well as others who receive insurance benefits but have unusual needs, must have their benefits supplemented with assistance funds if they are to have a healthful and decent standard of living.

Persons and groups who believe Federal grants for old-age assistance should be continued point to these considerations and ask: Even if there is reason to assume that the national interest in economic security for the aged will be served more and more by old-age and survivors insurance and that the State and local burden for old-age assistance has declined, should not consideration of drastic reduction in, or complete withdrawal of, Federal aid be postponed until the insurance program results in more considerable reductions in old-age assistance costs? Some persons who take this point of view would accept a gradual reduction in Federal aid for old-age assistance related to the gradual growth in old-age and survivors insurance. Others, however, point out the need for rehabilitative and medical services for the aged that is not now met by old-age and survivors insurance or, in many States and localities, by the public assistance programs. They ask, in light of the increasing number of aged persons in the population, isn't there a national interest in such services to the aged; should Federal grants for old-age assistance be reduced, except as its costs go down because of the inevitable relationship of old-age and survivors insurance coverage and old-age assistance needs, while there is a need to encourage and assist the States to develop more nearly adequate programs for provision of such services?

Few believe that Federal funds for public assistance programs other than old-age assistance should be withdrawn or even substantially reduced. No other federally administered or federally aided programs meet any substantial part of the needs for minimum security for children now aided through aid to dependent children, for the blind, or for the disabled. Children receive dependent and survivor benefits under old-age and survivors insurance; orphans of war veterans also receive survivor benefits under the veterans' programs. Children in need because of a parent's death, however, are only a small segment of the total number of children who lose parental support. Most children receiving aid to dependent children are needy because one parent is disabled or has deserted his family or because the parents are divorced or were never married. Though everyone finds deplorable the actions of fathers and mothers that have brought these children to dependency, few fail to recognize the dangers to the Nation's future in making the children pay the penalty by a refusal to meet their needs.

Moreover, trends in financing the public assistance programs indicate that the children have fared less well in terms of adequacy of payments than the adult recipients in the other programs. Some persons, therefore, believe that as needs for old-age assistance decline the Federal, State, and local governments might well divert some of the resources previously needed for security of the aged to meeting the needs of children. They would like to see expenditures for aid to dependent children increased, both to provide more nearly adequate assistance to a larger group of children—perhaps any needy child—and to provide other services directed toward solving the personal and family problems underlying the children's dependency.

Trends in State programs for aid to the blind and aid to the permanently and totally disabled have been generally upward. No decrease in the need for these programs has been indicated in national figures. Under Federal and State law, the number of disabled persons aided by the federally supported program is restricted to individuals with permanent impairments who are substantially precluded from engaging in a useful occupation. Some persons recommend increasing expenditures to aid a larger group of the disabled.

Those persons who believe the needs of children, the blind, and the disabled are not adequately met now do not accept the possibility or wisdom of large reductions in Federal grants for public assistance. Indeed, some believe that Federal grants should be extended to cover general assistance. This proposal is based on several facts: In good times, persons on the general assistance rolls are largely marginal workers whose inability to support themselves is as real and as significant to the national economy as the inability of those receiving aid under the categories. Furthermore, general assistance is the most truly countercyclical of the public assistance programs; it responds quickly to changes in the Nation's economy or to changes in economic well-being in specific States and localities. If one purpose of Federal grants-in-aid is to help maintain balance in the economy, Federal grants for general assistance would be an important tool. In addition, although States and localities have had the entire responsibility of financing general assistance since 1935, many have not been able to fulfill that responsibility on any statewide or even countywide basis. As a result, coverage and levels of assistance vary far more widely among States and localities for general assistance than for other assistance programs. Some persons believe, therefore, that the national interest in economic security for those needing general assistance has not been served as well as it should be during the period of entirely State and local financing of the program.

Those opposed to Federal grants for general assistance are concerned primarily with how high the Federal bill might go with grants-in-aid for general assistance and sometimes with how wise it is to grant assistance to individuals who may be employable. Some persons holding this view question if anyone who is employable needs to be unemployed in a period of high economic prosperity and if the number of "true" unemployables is not so small that States and localities should be able to care for them. Some of the opponents of Federal grants for general assistance at this time would be willing to reconsider the necessity for Federal grants if the Nation should ever again suffer a major and widespread economic depression. Others question any extension of Federal participation, no matter how restricted administratively, into fields of service now being handled by State and local governments.

What implications do trends in State and local financing of public assistance have for the future of the special types of public assistance if all or most Federal financial support were withdrawn?

The States and localities are as interested as the Federal Government in the welfare of their residents; if they were not, programs for the special types of public assistance would not have been developed, since operation of the programs depends on the States' initiative. Some persons would assert, however, that in financing essential State services, a will to do so does not necessarily mean that there is a way. The fear is expressed that Federal withdrawal from the programs would result in a decrease in coverage and in assistance standards in almost all, if not all, States simply because State and local money would not be available to maintain the present programs. What happened to general assistance is cited as a case in point. After 1935, all financial responsibility for general assistance was returned to the States and localities. In 1955, assistance payments in most States were less nearly adequate for general assistance than for the special types of public assistance, and coverage in many States was limited in terms of the characteristics of cases given assistance and the localities in which aid was available.

The fear for the public assistance programs, if Federal funds were withdrawn, is enhanced by the growth in the need for other essential services in the past few years. Public recognition of need for public expenditures for health has increased. The child population has vastly outgrown education facilities. These essential services are financed in largest part from State and local funds. Need for some of them may be even more evident in some areas than need for public assistance. Opponents of Federal withdrawal from public assistance ask if there isn't a real possibility that, in competition with these services for the limited State and local funds available for public expenditure, public assistance would suffer badly—especially in the lowest-income States.

Other groups and individuals believe that the 20 years' experience with the public assistance programs would sustain public interest and support. General assistance was operated with Federal aid for a much shorter time than the special types of public assistance. Furthermore, assistance under the categorical programs is given to groups with problems of special interest and appeal to the public; these groups are less likely to suffer from withdrawal of Federal funds than the groups receiving general assistance.

Probably most persons would agree that withdrawal of all or most Federal funds would be likely to result in a substantial lowering of assistance standards for the special types of public assistance in most States and that the result of the withdrawal would vary among States. The lowest-income States would be the most adversely affected, since they have fewest resources from which to finance public assistance and the most widespread need for it. In 1955 many of them, even with Federal aid, were unable to maintain assistance at levels defined in State standards.

If it is assumed that Federal grants for public assistance will be continued, what are the implications of the trends in State and local financing of the assistance programs for the formula for the Federal share?

It is sometimes suggested, both by those concerned with decreasing Federal financial responsibility for public assistance and by those concerned with controlling Federal expenditures more closely, that Federal appropriations for public assistance be closed-end—that is, Federal aid should be given in specified annual amounts instead of, as at present, to match State and local expenditures, whatever they may be, within the limits on Federal participation stipulated in the Social Security Act. Proposals for closed-end appropriations usually include an explicit or implicit Federal standard as to the amount of need for which Federal participation would be given. The proponents point not only to the growing total Federal bill for public assistance but also to the relatively large sums of Federal aid received by some States with more liberal programs than others. They believe that Federal control through closed-end appropriations is necessary to an equitable distribution of costs between the Federal and State-local governments and of Federal funds among States.

Others—advocates of continuing open-end appropriations—believe that the States and localities are in a better position than the Federal Government to determine the amount of need for public assistance and that Federal funds should be provided to assist in meeting need at standards determined by the States. They sometimes add that States with relatively more liberal programs should be encouraged to control their own expenditures and that only if such encouragement fails should the Federal Government institute standards on the amount of need that can be met in part from Federal funds. The supporters of open-end appropriations refer to the multiplicity of interacting and counteracting social and economic factors that have affected trends in the programs since 1935. They ask: How can the net effect of such factors be estimated 2 years in advance of actual operation as Federal budgeting procedures require? Are there, in fact, adequate measures of the varying effects of each of these factors, from year to year and from State to State, that could be built into a distribution formula? Isn't a closed-end appropriation almost certain to be used as a tool for reducing Federal expenditures? If it is not, and if Federal grants are adjusted, before or after the fact, to changing needs, what purpose does a closed-end appropriation serve that is not more easily served, administratively speaking, by an open-end grant?

Both among those who believe Federal grants should be reduced and among those who believe that total Federal grants should be continued at the present levels or even increased, there are persons who believe that Federal funds should be distributed among the States on a more nearly equitable basis—that is, in relation to State and local fiscal ability. Trends in State and local expenditures indicate that decreases since 1950 have occurred primarily in the highest-income States, where the growth of old-age and survivors insurance has been largest and where public assistance programs are most appreciably affected by the high level of economic activity in the country. State and local expenditures for the special types of public assistance have continued to increase generally since 1935 in the lowest-income States, and yet most of them still are able to make only relatively low assistance payments—often less than 100 percent of the amounts determined as needed even under rather restricted eligibility and assistance standards. In addition, most of these States have minimal general assistance programs.

Some persons, considering the differences in program development among the States, believe that a redistribution of Federal funds that would give more to the lower-income States would better serve the national interest in public assistance than the present formula. Under that formula, the lowest-income States receive a larger Federal share than States with higher income only because they generally make the lowest assistance payments. When the low-income States raise payments to approach more nearly the amounts in other States—as a few of them have done—the Federal share is no larger than it is in States with more income; the State and local effort required to maintain the programs in the lowest-income States making the more nearly adequate payments is among the highest in the Nation. The present formula, therefore, is deficient in encouraging some national minimum level of program development with any equity in the amount of State and local fiscal effort required.

Recommendations of the Commission on Intergovernmental Relations.—Of the many groups that have studied and made recommendations on the Federal role in public assistance, the Commission on Intergovernmental Relations has issued the most recent report. The Commission was established by Congress in 1953, with members appointed by the President and Congress, to conduct an intensive study of Federal-State-local relationships—the first official undertaking of its kind since the Constitutional Convention of 1787.

The Commission makes four specific recommendations relating to public assistance:[5] (1) that "general assistance continue to be financed and administered by the States and their subdivisions"; (2) that "as total National-State expenditures for old-age assistance decrease, the contribution of the National government to this program be decreased by approximately the same amount"; (3) that "a revised formula be adopted to govern Federal financial participation in the old-age assistance program, so that greater equalization of the burden will be achieved"; and (4) that "Federal grants be continued, with certain modifications, for aid to dependent children, aid to the blind, and aid to the permanently and totally disabled, and child welfare services, and that Federal funds be made available for support of needy children receiving foster care." In addition, in a footnote to the report the Commission states its belief that as long as the present formula continues to be used, the Federal share of the first $25 of those old-age assistance payments that supplement old-age and survivors insurance benefits should be reduced.

The Commission bases its recommendation against Federal grants for general assistance on the belief that the program should be administered at a government level as close as possible to the recipient and that, if social insurance programs were broadened as the Commission recommends, the general assistance burden would be small. The report notes also that the States and localities have borne responsibility for general assistance, without Federal aid, for many years. It states that if a sustained depression or other disaster were to occur and States and localities could not cope with the general assistance burden, the Federal Government would be obliged to participate in the program.

The Commission, in recommending decreases in Federal aid for old-age assistance as employment stabilization and social insurance reduce need, notes that the decrease in old-age assistance expenditures is not likely to be so rapid or so large as might at first be assumed and that complete withdrawal of Federal aid could not be recommended for any specific time but would depend upon the extent of reductions in costs and on the resources available to the States.

The proposal for a revised formula for old-age assistance is based on the assumption that Federal expenditures for the program could be reduced if grants to individual States were more directly related to the States' resources and financial needs. The Commission recommends continuation of the open-end grant, with variable matching based on State per capita income and with maximums for Federal participation related to average rather than individual assistance payments. Under the recommendations the average rate of Federal participation for the Nation would be reduced over the years as old-age assistance costs decline. Transition to use of the new formula would be gradual so that there would be no large and immediate reductions in Federal funds for any State.

In recommending continuance of Federal grants for aid to dependent children, aid to the blind, and aid to the permanently and totally disabled, the Commission notes that these programs will be little affected by extension of social insurance coverage. For these programs, as for old-age assistance, the Commission recommends an open-end appropriation, variable grants, average payment maximums,

[5] *The Commission on Intergovernmental Relations, A Report . . .* pages 266–276.

and provisions for smooth transition to the revised formula.

The Commission members were not unanimous in their recommendations. Senator Humphrey and Senator Morse did not concur in the recommendation that general assistance continue as a State and local responsibility but would like the entire subject of general assistance restudied. The two Senators also are opposed to any reduction—immediate or gradual—in Federal sharing of old-age assistance costs, on the grounds that the future holds too many variables and that the result in some States may be reduction in "already inadequate payments" to the aged.

Conclusion

In its first annual report the Social Security Board made the following statements about the Social Security Act and the Nation's interest in security for its citizens.

An attempt to find security for a people is among the oldest of political obligations and the greatest of the tasks of a State. The Declaration of Independence sets down as self-evident the right of a people "to provide new guards for a future security." The avowed object of the Constitution of the United States is "to secure the blessings of liberty to ourselves and our posterity."

But what is security? It is no blessing to be had for the asking. It is no gift of the government through a single legislative act. It is no abstraction too nebulous for definition. Security begins with bread and butter. But a mere subsistence is no security for the American citizen. The Nation is rich in natural resources; it posseses a developing technology; it has a varied abundance of human capacities to turn to account. Security is more than a condition of material well-being. An opportunity to earn a living, to be a member of the community, to have a part in the government is basic. In positive terms, the security of a people is the sum of the arrangements set up by business, by the government, and by society through which the things we cherish are safeguarded against the hazards we, as individuals, cannot control.

Above all, security is not static. The march of the decades brings changed conditions. Old problems have to be freshly stated, established safeguards to be supplanted by new. But there is still the necessity of serving a people in their lives and properties, their liberties and opportunities. As we have met the exigencies which changing times have brought, the domain of security has been enriched and enlarged. As the way opens ahead we must secure its wider opportunities.

The relief of distress has been an acknowledged function of government for centuries. In this country, many States had developed special programs of aid to the blind, or for children, or for the aged before passage of the Social Security Act. The public assistance program outlined by the act represents, however, more than a mere extension of existing State services. It is based on a more definite recognition of the claims of the needy individual to assistance from his government than that in which the older poor-relief programs were grounded. It implies a new conception of the value to the community, as well as to the individual, of a broadly conceived public-welfare program, national in scope but varying from State to State according to local needs and desires.

The efficacy of the financial arrangements for public assistance is essential to the program's contribution to national economic security. Changes in these arrangements should be related to the intended purpose of the programs and to the changing social and economic factors that influence how that purpose can best be served.

*Recent Publications**

Social Security Administration

BUREAU OF OLD-AGE AND SURVIVORS INSURANCE. *Private Employee Benefit Plans: Selected Annotated References, 1951-1955,* compiled by Julia E. Carlson. Baltimore: The Bureau, Mar. 1956. 35 pp. Processed. Limited free distribution; apply to the Bureau of Old-Age and Survivors Insurance, Social Security Administration, Baltimore 2, Md.

CHILDREN'S BUREAU. *Juvenile Court Statistics, 1954.* (Statistical Series No. 31.) Washington: The Bureau, 1956. 20 pp. Processed. Limited free distribution; apply to the Children's Bureau, Social Security Administration, Washington 25, D. C.

WEINER, JACK. *Survey Methods for Determining the Need for Services to Children of Working Mothers.* Washington: Children's Bureau, 1956. 48 pp. 25 cents.

Describes methods used in several surveys and their advantages and disadvantages.

General

BURNS, EVELINE M. *Social Security and Public Policy.* New York: McGraw-Hill Book Co., Inc., 1956. 291 pp. $5.50.

An analysis of the factors influencing policy decisions in the field of social security. Considers four major groups of issues—types of payment and amount and eligibility conditions, risks covered, financing, and administration.

CREAMER, DANIEL. *Personal Income During Business Cycles.* Princeton: rinceton University Press, 1956. 166 pp. $4.

A study by the National Bureau of Economic Research.

HORTON, PAUL B., and LESLIE, GERALD R. *The Sociology of Social Problems.* New York: Appleton-Century-Crofts, Inc., 1955. 584 pp. $5.50.

A textbook devoted primarily to major American social problems.

MAXWELL, JAMES A. "The Report of the Commission on Intergovernmental Relations." *National Tax Journal,* Sacramento, Vol. 9, Mar. 1956, pp. 55–68. $1.50.

A review and evaluation.

NATIONAL BUREAU OF ECONOMIC RESEARCH. *Policies to Combat Depression. A Conference of the Universities-National Bureau Committee for Economic Research.* Princeton: Princeton University Press, 1956. 417 pp. $8.50.

Includes Social Security Programs and Economic Stability, by Ida C.

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