

PROPOSED CHANGES IN THE SOCIAL SECURITY ACT

A Report of the Social Security Board to the President and to the Congress of the United States

LETTER OF TRANSMITTAL

WASHINGTON, D. C., December 30, 1938.

The PRESIDENT,
The White House.

DEAR MR. PRESIDENT: The Social Security Board has regarded as one of its most important responsibilities under the Social Security Act that imposed by the section of the law which charges the Board with "the duty of studying and making recommendations as to the most effective methods of providing economic security through social insurance, and as to legislation and matters of administrative policy concerning old-age pensions, unemployment compensation, accident compensation, and related subjects."

In accordance with this congressional mandate and specific instructions received from you, the Board, since its creation in August 1935, has continuously appraised the operation of those provisions of the act for which it has administrative responsibility. In addition, the Board has carried on extensive studies as to effective methods of providing greater social security for the American people.

The Social Security Board's report, based on these studies and on practical experience in social security administration during the past 3 years, is submitted herewith for your consideration and that of the Congress.

The Board has not undertaken to include in this report the extensive data on which its recommendations are based. However, the Board is prepared to furnish such data and technical assistance as may be desired in connection with any of these recommendations which the Congress may wish to consider.

Respectfully submitted.

ARTHUR J. ALTMAYER, *Chairman.*

REPORT

Through the Social Security Act the people of the United States have established their first Nation-wide and organized system of protection

against prevailing economic hazards. To accomplish this purpose, both the Federal Government and the States have cooperated in these provisions for social security. It has been possible, therefore, to attack Nation-wide problems on a Nation-wide front, and, at the same time, to keep the program practical, flexible, and close to the people.

Possible ways and means of improving and extending the present provisions of the Social Security Act naturally become more apparent as administrative experience increases, as more data become available, and as a better understanding of actual needs develops. Though the Board recognizes that such growth is a continuing essential, it believes that the general approach to social security embodied in the existing act is fundamentally sound.

Through the Social Security Act the people of this country have attacked the problem of insecurity upon two fronts: The act undertakes to provide some measure of protection against present needs arising out of past neglect, and it establishes at the present time basic protection against economic hazards which would otherwise cause future insecurity. To accomplish these purposes the act sets up, in the main, a system of Federal-State cooperation whereby financial resources of the Federal Government are made available to the States to enable them to safeguard their citizens. The only part of the act wholly administered by the Federal Government is the old-age insurance system. Since such a system necessarily operates on a long-term basis, movement of population among the States precludes setting it up on a State-by-State basis.

The changes in the Social Security Act recommended by the Board are designed to promote the objectives of the present law, as regards all the programs under the Board's direction—old-age insurance, unemployment compensation, and public assistance. In addition, the Board makes certain recommendations with regard to general administration and suggests certain considerations relating to health protection. It is the judgment of the Board that these recommended changes

represent practicable next steps toward the goal of adequate security for the American people by liberalizing the benefits payable under the act, by extending its protection to a much larger proportion of our people, and by greatly facilitating administration.

Federal Old-Age Insurance

Although the Federal old-age insurance system is the largest ever put into operation, it has proved to be sound from both the administrative and financial standpoint. In considering the development of this plan, it should be borne in mind that it is separate and distinct from the Federal-State program of old-age assistance. Under Federal old-age insurance, benefits are payable as a matter of right irrespective of individual need, and in relation to past earnings. Under Federal-State old-age assistance, payments are made only on the basis of individual need as determined by the State.

Our present system of old-age security thus embodies two principles: the insurance program related to the individual's past earnings and the assistance program related to his present need. The Social Security Board is convinced that a system of old-age security which attempted to operate on any other principles would be bound to lead to disaster both for the beneficiaries and for the general taxpayer.

The basic problem of old-age insurance is to make the system more immediately and fully operative without destroying the reasonable relationship which must exist in such a program between benefits payable and past earnings. Such a relationship must exist under any system of retirement insurance, whether social insurance or an industrial pension plan, unless the term "insurance" is to lose all its meaning. For the protection of future beneficiaries and future taxpayers it is essential that this reasonable relationship be maintained; just as in the case of old-age assistance it is necessary to maintain a reasonable relationship between assistance granted and the needs of the individual.

The present old-age insurance system, while maintaining a reasonable relationship between past earnings and future benefits, provides proportionately greater protection for the low-wage earner and the short-time wage earner than for those more favorably situated. In other words, it recognizes *presumptive* need as an essential

consideration in any socially adequate old-age insurance system. But the presumptive need toward which social insurance is directed must be distinguished from the specific need, as established by investigation, which public assistance is designed to meet. To allow for presumptive need, the old-age insurance system gives much greater weight to the first \$3,000 of accumulated earnings than to subsequent earnings. It is thus possible for a person retiring in the early years of the system, or for a low-wage earner retiring at any time, to receive very liberal benefits in proportion to his past earnings.

But every worker, regardless of his level of earnings or of the length of time during which he has contributed, will receive more by way of protection than he could have purchased elsewhere at a cost equal to his own contributions. In other words, the system recognizes the principle of individual equity, as well as the principle of social adequacy. It has been possible to incorporate in the system both these aspects of security by utilizing a larger proportion of employers' contributions to pay benefits to those retiring in the early years, and to low-wage earners. A similar procedure is also followed in private pension plans. Such plans recognize that the employer must contribute more liberally in behalf of older workers if they are to have sufficient income to retire.

Benefits

Starting Monthly Benefits in 1940.—The Board believes that the payment of monthly benefits should commence in 1940 instead of on January 1, 1942, as scheduled in the present law. This will be practicable, in the opinion of the Board, since by 1940 a considerable body of administrative experience will have been accumulated, and wage records will have been built up for a period of 3 years.

Because of its nature as an *insurance* program, the Social Security Board does not believe that it is possible to bring under this system all persons who have already retired from gainful employment. Even though it were considered reasonable to pay benefits regardless of the fact that no past contributions had been made either by these individuals or by their employers, it would be impossible to obtain adequate wage records upon which to compute benefits.

Increasing Benefits Payable in Early Years.—The Board also believes that the monthly benefits payable to those retiring in the early years can be increased without increasing the eventual cost of the program.

The cost of any system of benefits will mount rapidly with the passage of time as a larger proportion of the population reaches retirement age. Consequently, a scale of benefits, the cost of which would be altogether reasonable now, might be unduly burdensome at the end of a generation. Therefore, in making increases in benefits, particularly in the early years of a system, it is essential to keep the ultimate financial cost in mind. It is impossible under any social insurance system to provide ideal security for every individual. The practical objective is to pay benefits that provide a minimum degree of social security—as a basis upon which the worker, through his own efforts, will have a better chance to provide adequately for his individual security.

In order to increase benefits for those retiring in the early years, the Board recommends two measures: first, supplementary benefits for aged wives, and second, the use of "average wages" instead of total accumulated wages for the computation of benefits.

Supplementary Benefits for Aged Wives.—The Board suggests that a supplementary benefit be paid for the aged dependent wife of the retired worker which would be related to his old-age benefit. Such a plan would take account of greater presumptive need of the married couple without requiring investigation of individual need. An aged wife would of course be entitled to benefits based upon her own past earnings in lieu of the supplement, if her own benefits were greater. Since in the course of time many women will have developed substantial benefit rights based upon their own past earnings, the cost of providing the supplement for dependent wives would gradually decline, and eventually the additional cost would be reduced to a relatively small amount. In order that greater social adequacy may not be achieved at the expense of individual equity, the Board recommends that the benefits payable to unmarried persons continue to be at least as much as they could purchase from a commercial insurance company with their own contributions.

Utilizing "Average Wages" as Benefit Base.—The Board recommends that benefits be calculated

upon the basis of average wages, rather than, as at present, upon total accumulated wages.

This change would make it possible to increase early benefits and to relate benefits more closely to the previous normal wage income of the individual. It would also eliminate, as the years go by, the large bonus which present provisions would afford those who have had only a brief period of participation prior to the date of retirement. Under the existing law the large credit for the first \$3,000 of accumulated earnings remains in effect regardless of whether a worker retires in the early years of the system or later. This large credit is justified in the early years, since workers and their employers have had an opportunity to make contributions for only a short period of coverage under the system. But it is advisable to safeguard the system against disproportionately large withdrawals in the future in behalf of those who have paid taxes only a short time.

While the Board believes that benefits should be related to the average wage, it recognizes that benefits should also be related to the number of years the individual has been in covered employment and has made contributions. The Board therefore recommends that an insured individual, upon retirement, receive a basic benefit related to his average wages; and that, for every year he has earned more than some small specified amount of wages in covered employment, his basic monthly benefit be increased by a specified percentage. Conversely it recommends that for every year a person does not earn this specified amount of wages, the basic monthly benefit be reduced by the same percentage.

The Board is of the opinion that a percentage decrease for each year not covered is a more equitable approach than that found in most foreign old-age insurance systems which usually require that a person be in covered employment during a specified number of years immediately preceding the date of retirement. As a result, an individual who had been in covered employment a considerable proportion of his working life but not during the last few years before retirement would be ineligible for monthly benefits. Such a provision would, in the Board's opinion, work undue hardship on those who had left covered employment during their later years and would offer undue advantages to those who entered covered employment only during their last

few working years. The system which the Board recommends represents a more flexible and equitable arrangement. It not only protects individuals who have been in covered employment during a considerable portion of their working life, but also safeguards the system as it matures against disproportionate payments to those in covered employment for only a short time.

Benefits for Widows and Orphans.—The Board is of the opinion that old-age insurance should be expanded to include survivors' insurance. The law now provides for single lump-sum cash death payments equal to 3½ percent of the worker's total recorded wages provided he has not during his lifetime drawn benefits equal to this amount. Under a social insurance system the primary purpose should be to pay benefits in accordance with the presumptive needs of the beneficiaries, rather than to make payments to the estate of a deceased employee regardless of whether or not he leaves dependents. The payment of monthly benefits to widows and orphans, who are the two chief classes of dependent survivors, would furnish much more significant protection than does the payment of lump-sum benefits. Such monthly benefits could be provided and still kept within the eventual costs of the present system. There is ample precedent for such provision, since 15 out of 22 foreign old-age insurance systems make provision for survivors' benefits.

The Board is of the opinion that aged widows and younger widows with dependent children should receive benefits, and that benefits should be paid on behalf of children at least until they reach 16 years of age, and until 18 while they are regularly attending school.

Some measure of the need for this protection as it affects children is indicated by experience under the present Federal-State program of aid to dependent children. In 43 percent of these cases the children have become dependent because of the father's death and in an additional 25 percent of the cases, because of the father's disability.

The Board has given much consideration to the feasibility and desirability of providing benefits for widows under 65 years of age who have no young children in their care. The Board believes that only a temporary monthly benefit, covering the period immediately following the husband's death, should be paid in such cases. However, the Board does recommend that all widows of

persons who would have been qualified for old-age benefits, if they had lived to age 65, be entitled to a deferred monthly benefit payable at age 65. Such benefits should bear some reasonable relationship to that which the deceased husband would have received.

Normally, young widows without children can be expected to enter gainful employment, but middle-aged widows frequently find it more difficult to become self-supporting. On the other hand, they are likely to have more savings than younger widows and many of them have children who are grown and able to help them until they reach 65 years of age, when they would be entitled to a widow's benefit under the plan proposed. Though their problems are fully recognized, provision for commencing benefits to widows under 65 with no children would present certain serious anomalies. Any age selected for benefits to begin would appear arbitrary, excluding some widows just below that age. Moreover, the question would arise as to discrimination against unmarried women, who would not receive benefits until they reached 65. Yet if the retirement age for women generally were lowered, the effect would be to discriminate against men and at the same time substantially to increase the cost.

Disability Insurance.—The Board has given much thought to the question of whether the present old-age insurance system should be expanded to include provision for benefits to workers who become permanently totally disabled, before reaching age 65, and to their dependents.

With the single exception of Spain, every other country which has a system of old-age insurance has made provision for permanent disability. One of these countries, Great Britain, includes this provision in its health-insurance system; others relate it directly to old-age insurance.

The Board recognizes that the administrative problems involved are difficult, although it does not believe them insuperable. It also recognizes that provision for permanent total disability would increase the cost of the system both now and in the future. For these reasons it is not making any positive recommendation on this matter at this time. It should, however, be pointed out that the extent to which costs would increase would depend upon the definition of disability which could be made effective. If a fairly strict definition were adopted and maintained,

the Board believes that the additional costs could be kept within reasonable limits. Later, as experience developed, the definition could be made more liberal if this appeared socially desirable. In connection with any permanent total disability program, adequate provision should be made for hospitalization and other institutional care, and for vocational rehabilitation.

Coverage

Extending the Coverage of the System.—The Social Security Board is of the opinion that it is sound social policy to extend old-age insurance to as many of the Nation's workers as possible. It believes that it is administratively feasible to provide this protection for large numbers of people who are not yet covered.

Even with its present limited coverage—estimated to include at any one time only 50 percent of the Nation's gainfully occupied population—at least some small measure of protection is already being furnished by the old-age insurance program to two-thirds of those gainfully occupied. This is due to the fact that a great many persons, usually in excluded occupations, work in covered employment from time to time. It is estimated that, even without any change in the present coverage, 75 or 80 percent of the gainfully occupied persons in this country would eventually have some protection. However, since the adequacy of this protection depends to a considerable extent upon the length of time the individual actually works in covered employment, it is highly desirable that coverage be extended as rapidly as administratively feasible. Extension of coverage would also be necessary in order to protect the financial soundness of the system if the present benefit provisions in the law granting such proportionately large benefits to persons who have been in covered employment only a short period prior to retirement are retained.

Agricultural Labor.—The Board believes that the "agricultural labor" limitation on coverage should be modified. It is, of course, apparent that the problem of covering the independent farmer cannot be finally solved, except as part of a general program to cover the self-employed. It is also recognized that the complete inclusion of employees engaged in agricultural labor is fraught with great administrative difficulties. However, the Board believes that the inclusion of large-

scale farming operations, often of a semi-industrial character, probably would reduce rather than increase administrative difficulties.

At present it is almost impossible to delimit the field of "agricultural labor" with anything like the certainty required for administration and for general understanding by employers and employees affected. The extent of the exception is shadowy indeed where the producer also engages in processing and marketing.

The Board recommends that the language of the present exception relating to "agricultural labor" be modified to make it certain that this exception applies only to the services of a farm-hand employed by a small farmer to do the ordinary work connected with his farm. The Board further recommends that, with a reasonable time allowed before the effective date, the "agricultural labor" exception be eliminated entirely.

Domestic Service.—The Board recommends that the exception of domestic service be eliminated, with a reasonable time allowed before the effective date. It is believed that the principal administrative difficulties with respect to domestic service will be overcome, just as they will be in the case of agricultural labor, when the individuals affected become generally informed as to the benefits and obligations incident to coverage.

Maritime Employment.—There is at present an exclusion of "service performed as an officer or member of the crew of a vessel documented under the laws of the United States or of any foreign country." The legislative history indicates that this exclusion was made because of the administrative difficulties of covering foreign crews on American vessels engaged in foreign trade. The Board recommends that the present exception be redrawn so that exclusion of employment on American vessels be limited to this type of situation.

Nonprofit Organizations.—The Board recommends the inclusion of service performed for religious, educational, charitable, and similar nonprofit organizations. The Board foresees no serious administrative difficulties in such inclusion.

Services Performed for the Federal Government or Its Instrumentalities.—The Board recommends the inclusion of service performed in the employ of the United States or its instrumentalities. The Board anticipates no administrative difficulties in such inclusion. However, in extending old-age

insurance to all employees of the Federal Government, it would be necessary to give consideration to the effect on other retirement systems for Federal employees, with a view either to excluding employees already covered by these systems or to adapting these systems so that they would take account of the basic protection afforded by the old-age insurance system. In any event, the Board recommends an amendment to bring under coverage employees of instrumentalities of the United States, except those which either are wholly owned by the United States or are exempt from the taxes levied under the Social Security Act by virtue of some other act of Congress. The principal "Federal instrumentalities" which would thus be brought into old-age insurance are national banks and State banks which are members of the Federal Reserve System, and building and loan associations which are members of the Federal Home Loan Bank System.

Services Performed for States and Their Instrumentalities.—A number of State and municipal officials have indicated a desire for coverage of State and municipal employees. However, no method has yet been devised which would overcome constitutional difficulties and also protect the old-age insurance system against adverse selection. It is hoped that further study will develop a method which will be constitutional and which will prove mutually advantageous to the States, their employees, and the old-age insurance system. The Board confines its recommendation at this time to the suggestion that the present exclusion of the act be modified so that it applies only to services performed in the employ of a State or a political subdivision or instrumentalities wholly owned by the State or whose functions are such as to raise constitutional barriers to Federal taxation.

Allowing Benefit Credits for Wages Earned After 65.—The Social Security Act as it now stands does not permit workers to gain benefit credit for wages earned after age 65. The taxes paid by employer and employee also stop when the wage earner reaches this age. Lump-sum cash benefits are provided for workers who reach 65 years of age without having worked enough to qualify for a monthly benefit. Such workers, even though they continue in employment, cannot under the present law qualify for annuities. The lump-sum payment is all that is available to

them. The Social Security Board recommends that such workers receive credit for any time that they work after age 65 so that they may qualify for monthly benefits upon retirement at a somewhat later date. This would automatically eliminate the occasion for lump-sum payments at age 65, and at the same time would provide a much greater degree of protection for older workers.

Employer-Employee Relationship.—Old-age insurance coverage is at present limited by the undefined terms "employer" and "employee." The Board recommends that this provision be expanded to the extent feasible to cover more of the persons who furnish primarily personal service. The intention of such an amendment would be to cover persons who are for all practical purposes employees, but whose present legal status may not be that of an employee. At present, for example, insurance, real estate, and traveling salesmen are sometimes covered and sometimes not; the Board believes that all such individuals should be covered.

Casual Labor.—The Board believes it is necessary to retain the existing exclusion of casual labor not in the course of the employer's trade or business, because of the administrative difficulties which otherwise would be involved, with no considerable compensating social advantages. It should be noted that this exclusion is numerically small since labor so excluded must be not only casual but also unrelated to the employer's business.

Self-Employment.—The Board has given considerable study to the possibility of including self-employed persons under the old-age insurance system. However, the Board is not prepared at this time to recommend what it considers a practicable method for extending coverage to such persons.

Contracting Coverage to Prevent Collusion.—Until a practicable means is found for including self-employed persons, the Board recommends that the family employment exclusion, appearing in title IX of the Social Security Act relating to unemployment compensation, be incorporated in the old-age insurance provisions. The Board further recommends that the act be amended so that old-age insurance benefits will not be paid where there has been a contract of employment for the purpose of securing benefits without the performance of bona fide service.

Financing

The Social Security Board is not making detailed recommendations relative to the financing of the old-age insurance system since the Treasury Department is charged with primary responsibility in this regard. However, the Board believes it is essential that any method of financing that is proposed should take into account all probable future disbursements so that the interests of both the prospective beneficiaries and the general taxpayers may be properly safeguarded.

When the system is fully matured, its eventual cost with the changes here recommended—which the Board believes will furnish far greater protection—would be somewhat less than the cost of the present system. The cost of paying benefits in the early years would, however, be greatly increased if the proposed changes were put into effect. If permanent total disability insurance should also be included, the eventual cost, when the system is fully matured, would be somewhat more than the present system.

The existing law contemplates a fully financed system for all time to come. That is to say, it requires that probable future liabilities be taken into account from the very beginning and that a sufficient reserve be set up so that the earnings on the reserve, plus current pay-roll tax receipts, will be sufficient always to cover annual benefit disbursements.

As already stated, if the recommendations of the Board relating to benefits are adopted, early payments under the system will increase substantially. The tax provisions embodied in the present law would probably cover the increased annual cost for the first 15 years. They would also probably provide a small reserve, which would be invested and earn some interest. But when future annual benefit disbursements exceeded annual tax collections plus interest earnings, some other provision would have to be made for the funds which, under the existing plan, would be secured from interest on accumulated reserves. It would then be necessary to do one of two things: increase the pay-roll tax, or provide for the deficiency out of other general taxes.

The Board is of the opinion that it would be sound public policy to pay part of the eventual cost of the benefits proposed out of taxes other than pay-roll taxes, preferably taxes such as income

and inheritance taxes levied according to ability to pay.

The portion of the total costs to be met by taxes other than pay-roll taxes should depend upon the proportion of the general population covered by the insurance system. The wider the coverage, the more extensive this contribution from other tax sources might properly be.

Although the Board believes that contributions to the old-age insurance program should eventually be made out of Federal taxes other than those on pay rolls, it does not believe that such taxes should be substituted for any part of the pay-roll taxes, provided in the present act, or that such other taxes should be used until annual benefit disbursements begin to exceed annual pay-roll tax collections, plus the interest earned on the small reserve which would be accumulated. The Federal Government is already making an annual contribution out of general taxes of almost a quarter of a billion dollars for old-age security, in the form of grants to the States to help finance their old-age assistance programs. Substitution of other taxes for any portion of the pay-roll taxes now provided would increase the disparity between taxes paid and benefits payable in the early years of the system. Those retiring in the early years in any event will receive much greater benefits in proportion to taxes paid on their behalf than those retiring in the later years. Furthermore, while the exact future costs of benefits under the insurance system cannot be determined with any degree of accuracy until more data are available (especially those which will come with the actual payment of benefits to large numbers of people), it is certain that the costs will be great and it is important that Government finances should not suffer through reduction in revenue from pay-roll taxes.

Administrative Changes

The Board recommends a number of changes to improve administration of the present law:

1. Inclusion of a provision requiring employers at the time of wage payment to furnish employees a statement, which they may retain, showing the amount of taxes deducted from their wages under the old-age insurance system.

2. Exclusion of any nominal wages paid to employees of all nonprofit organizations now

exempted from the Federal income tax. Many nonprofit organizations, particularly fraternal organizations, with employees and officers drawing a nominal wage, are now required to make reports and pay taxes for these employees, although the amount of the taxes and prospective benefits involved is negligible.

3. Exclusion from the definition of wages of all payments made by an employer to or on behalf of an employee under a plan or system providing for retirement benefits, dismissal wages, disability benefits, and medical and hospital expenses. The purpose of this proposal is to avoid discouraging plans of the nature described.

4. Simplification of the present provisions with respect to lump-sum payments on death (in case the substantive changes recommended by the Board are not made).

5. Provision that applications for death benefits must be filed within 2 years after date of death.

6. Simplification of the procedure for payment to infants or other legally incompetent persons.

7. Provision making more equitable the recovery by the Federal Government of incorrect payment to individuals.

8. Provision respecting the practice of attorneys and agents before the Board.

9. Provision that findings of fact and decisions of the Board in the allowance of claims shall be final and conclusive. Such a provision would follow the precedent of the World War Veterans Act and of other legislation with respect to agencies similar to the Board which handle a large number of small claims.

10. Clarification of the law regarding services of an employee performing both excluded and included employment.

Unemployment Compensation

The unemployment compensation and public-assistance provisions of the Social Security Act constitute the most comprehensive attempt yet made to utilize a system of Federal-State cooperation for the solution of national problems. To promote State action in unemployment compensation the Federal law establishes a uniform tax payable by employers regardless of whether the State in which they operate has an unemployment compensation law; it then permits employers to offset their contributions under a State unemploy-

ment compensation law up to 90 percent of the total Federal tax. The act also provides that the Federal Government shall make grants to the States to cover the entire necessary cost of proper administration of their unemployment compensation laws.

The recommendations of the Social Security Board relative to unemployment compensation deal with extension of coverage, improvement of Federal-State relationships, and certain technical changes, rather than any fundamental change in the present Federal-State pattern now set forth in the Federal law. Though the adjustment of Federal-State relations is at best a difficult and delicate task, particularly in the field of social legislation, experience so far indicates a large measure of success. The present provisions of the Federal law have proved completely effective in facilitating the enactment of State unemployment compensation laws. These laws and the character of their administration have on the whole been reasonably satisfactory. The inevitable administrative difficulties involved in the inauguration of any large-scale undertaking were accentuated by the fact that in 22 States benefits became payable in January 1938, at a time of unexpectedly heavy unemployment. In spite of these difficulties, the 31 jurisdictions that had begun paying benefits by the end of 1938 have paid out about \$400,000,000 in benefits to approximately 3½ million unemployed workers. The most pressing problem in unemployment compensation at the present time is improvement and simplification of the State laws themselves and of their administration, on the basis of increasing experience.

Employers' Tax and Reporting Procedures

The Board is aware of the suggestion made at the time the Social Security Act was under consideration, that the Federal Government should collect the entire Federal tax and make grants-in-aid to the States, instead of allowing an offset on the Federal tax. It was argued that such a method would relieve employers of the necessity of making tax reports to both the State and the Federal Government. It is true that this would be of some advantage, particularly to employers operating in more than one State. However, at present, the State unemployment compensation agencies need detailed information concerning the

past working history of persons claiming benefits in order to determine the amount due them. If employers did not report directly to the State agencies, it would either be necessary for the Federal Government to furnish the State agencies the required information, or it would be necessary for the States to develop benefit procedures which would eliminate detailed reporting. Neither the Federal Government nor the States have had sufficient experience to warrant an opinion as to the feasibility of such a drastic change.

The Board, however, does recommend that the Federal unemployment compensation tax provisions be combined with those for old-age insurance which relate to employers. Such a combination would have the advantage of relieving employers from making two separate Federal tax returns. This arrangement would, of course, not affect the present offset provision or the present use of the proceeds of the two separate taxes.

Extension of Coverage

Regardless of whether the two taxes are combined, the Board recommends that the coverage of unemployment compensation be made similar to the coverage already recommended for old-age insurance, with certain exceptions to be discussed later. Even though the tax provisions were not combined, there would be great advantages in making the provisions of the two programs identical with respect to employers affected by both. Such a change would make it possible to simplify employers' recordkeeping and reporting to the Federal Government, as well as to the States, since the latter would undoubtedly adjust their State laws accordingly.

The suggested combination of the unemployment compensation tax provisions with the old-age insurance tax provisions or any broadening of Federal unemployment compensation provisions (with the exception of maritime employment) should not become effective before January 1, 1941, since it would be necessary to give the States ample opportunity to amend their laws accordingly. This would also give the State unemployment compensation agencies sufficient time to perfect their administrative organization and procedures.

In unemployment compensation as in old-age insurance, the Board believes that it is adminis-

tratively feasible and in accordance with sound social policy to include the employments not covered by present Federal provisions, with the exceptions hereafter discussed.

Problems Relating to Agricultural Employment.—The situation of agricultural employees is frequently different from that in most other occupations. Farm employees often either own small farms of their own, or live in homes provided by the employer with the use of land and equipment to produce a part of their subsistence. While it seems feasible to cover such persons in old-age insurance, in unemployment compensation there are unusual problems. For example, in many cases it would be extremely difficult to determine whether the individual should be considered "unemployed," or whether he is normally working for himself. While some foreign systems have been extended to cover agricultural employees, it must be recognized that the agricultural wage-earning group in this country is much less clearly defined. It therefore appears inadvisable to recommend at this time the extension of unemployment insurance to cover all agricultural employees. However, just as in the case of old-age insurance, the Board recommends that the language of the present exception relating to "agricultural labor" in any event should be modified to make certain that this exception applies only to the services of a farm-hand employed by a small farmer to do the ordinary work connected with his farm. The Board will continue to study the problems involved and will make every effort to develop practical ways and means of bringing about extension to all agricultural employees.

Problems Relating to Domestic Service.—In the case of domestic service in a private home, the difficulties of extending unemployment compensation are far less serious than in agriculture. The fact of unemployment is much easier to determine. The chief problem here relates to the determination and collection of contributions. The Board believes domestic employees can and should be covered by the unemployment insurance provisions of the act, provided sufficient time is allowed for the States to perfect their administrative procedures.

Problems Relating to State and Federal Employment.—Employment by a State government or its instrumentalities must continue to be excluded from Federal unemployment compensation provisions for the reasons cited in connection with old-

age insurance. The Board does not believe there would be any great advantage in including Federal employees under the unemployment compensation provisions. Civil-service employees are, for the most part, already protected against the hazard of unemployment, and it would probably be more practical to provide for non-civil-service employees through some form of dismissal wage rather than through establishing a special Nation-wide unemployment compensation system.

However, the Board does believe that so-called instrumentalities of the Federal Government which are not wholly owned by it—such as national banks—should be brought into State unemployment compensation as well as under old-age insurance.

Nonprofit Organizations.—The Board recommends the inclusion of service performed in the employ of nonprofit organizations. The Board anticipates no serious administrative difficulties in such inclusion.

Family Employment.—In order to avoid serious administrative difficulties in the payment of unemployment compensation benefits, the Board believes that the exclusion of family employment should be retained.

Including Employers of One or More Employees.—The Board recommends that the present Federal restriction to employers who have had 8 or more employees in 20 or more weeks during the year be eliminated so that the unemployment compensation provisions would cover all those having one or more employees, just as in the case of old-age insurance. Twenty-four State unemployment compensation laws already cover smaller employers than those included in the Federal act as it now stands; of these, 10 cover employers of one or more.

Employer-Employee Relationship.—The Board recommends that the changes to broaden and clarify these terms, already described in connection with old-age insurance, be also incorporated in the Federal provisions for unemployment compensation.

General.—The Board recommends that the Federal pay-roll tax in connection with unemployment compensation be limited to the first \$3,000 of annual wages, if that maximum is retained in the old-age insurance tax provisions. Though the Board recognizes that such a limitation would reduce revenue somewhat, it believes that this

disadvantage would be counterbalanced by the advantages to be derived from making the Federal tax provisions identical for both programs.

If unemployment compensation coverage is extended to employers of one or more, the Board believes it will be necessary to exclude—for the same reason as in old-age insurance—casual labor not in the course of the employer's trade or business.

Unemployment Compensation for Seamen

Under the Constitution it is impossible to confer upon the States jurisdiction over maritime employment to the extent necessary to meet the needs of unemployment compensation. Therefore, in order to afford such protection to seamen, it would be necessary to pass a Federal act. The Board recommends that such an act be passed covering all maritime employment which it is not possible or practicable to bring under State laws, with the exceptions noted under old-age insurance.

State Personnel

Under the present Federal law, before a grant to a State for unemployment compensation administration may be certified, the Social Security Board must find that the State law includes provisions for "such methods of administration (other than those relating to selection, tenure of office, and compensation of personnel) as are found by the Board to be reasonably calculated to insure full payment of unemployment compensation when due." In another section, the Board is required, in making such grants, to determine the amount "necessary for proper administration" of the State law.

The Board believes that proper administration must necessarily include adequate provision for the selection, tenure of office, and compensation of personnel. Therefore it may be argued that a conflict exists in the present Federal provisions. The Board believes this should be resolved by repealing the parenthetical language quoted above.

In the opinion of the Board it is sound policy for the State unemployment compensation agencies to have entire authority and responsibility for the selection, tenure of office, and compensation of individual employees. But this authority and responsibility should be exercised in ac-

cordance with a systematic merit system for the establishment and maintenance of desirable personnel standards. The Board therefore recommends that for the parenthetical language already quoted, there be substituted language requiring that methods of State administration shall include procedures for the establishment and maintenance of personnel standards on a merit basis.

Such merit systems should include, as does the Federal civil-service law, prohibition against political solicitation and political activity, since the salaries of State unemployment compensation personnel are paid entirely out of Federal funds.

Thirty-nine State unemployment compensation agencies already operate under a general State civil-service law or in accordance with a merit system established for or by the agency itself. The effect of this suggested amendment would simply be to make personnel practices already put into operation by a large majority of States more general.

The Board believes that requiring the State agencies to establish a merit system would place Federal-State relations on a more stable and automatic basis. In actual experience the result of establishing an adequate State personnel system has been to eliminate the necessity for detailed Federal scrutiny of operation, and the possibility of misunderstanding and conflict in Federal-State relations. The suggested requirement thus constitutes not an encroachment of Federal authority in State operations, but rather a protection to the States against undue interference with their administrative functioning.

The establishment of a merit system also protects taxpayers and beneficiaries within the State, inasmuch as it materially reduces the hazard that administration will become so unsatisfactory that the State law can no longer be certified by the Board as meeting the administrative standards of the Federal act. Such inability to certify means that employers in a State would be required to pay to the Federal Government 100 percent instead of 10 percent of the Federal tax, in addition to paying their full tax under the State unemployment compensation law. Up to the present the Board has not found it necessary to withhold certification in the case of unemployment compensation, although it has been necessary to take such action regarding public-assistance grants. Effective safeguards should

be set up, in order to eliminate the possibility that the derelictions of their public servants may bring such a penalty upon innocent citizens of a State.

Unification of Unemployment Compensation and Employment Service

In order to promote effective administration, the Board recommends that the administration of unemployment compensation and of the United States Employment Service be unified in a single Federal bureau, in such a way that the specialized functions of each are not only protected but strengthened. In all other countries having unemployment compensation systems, a single governmental agency administers both the placement function and the insurance function. This has been found necessary because of the close relationship essential to the proper carrying out of these two functions. In this country each is under a separate Federal agency, although in all the States but one a single State agency administers the unemployment compensation law and operates the State employment service.

The Social Security Act provides that unemployment compensation may be paid through public employment offices or such other agencies as the Social Security Board may approve. The Board has fully recognized the desirability of paying claims through public employment offices, in order to aid the unemployed worker in finding new employment, and to reduce the amount of unemployment compensation claims to a minimum. It has, therefore, not approved of payment of unemployment compensation claims through any agencies other than employment offices.

Recognizing the necessity for an efficient employment service as a part of the proper administration of a State unemployment compensation law, the Board has made grants to the States for the administration of their employment services. The Board has realized that it would be uneconomical, undesirable, and impracticable to have two employment services—one for workers covered under the unemployment compensation laws and one for workers not so covered. Therefore, it has encouraged the States to affiliate with the United States Employment Service and to match the Federal funds available in connection with that service.

All the States have taken this action. The Federal funds available to them from this source have been substantially augmented by grants from the Social Security Board. Of the total funds now being expended for the operation of the expanded Federal-State employment service, approximately 80 percent is provided by grants from the Board, 10 percent by grants from the United States Employment Service, and 10 percent by the States themselves.

From the outset the Board has recognized the necessity for coordinating and integrating its unemployment compensation functions with those of the United States Employment Service, in order to avoid the dilemma in which the State agencies would be placed if obliged to deal with two Federal agencies having conflicting standards and policies. The Board, therefore, negotiated an agreement with the Secretary of Labor whereby the United States Employment Service and the Board's Bureau of Unemployment Compensation would act as if they were a single agency. This joint agreement has promoted a considerable degree of coordination and integration. But complete integration is necessary in the interests of economy, efficiency, and good will. The day-to-day activities of the local employment offices, through which unemployment compensation claims are paid, are closely interrelated and vary in such a way between unemployment compensation and placement work that it is necessary for a considerable portion of the employees to be available for transfer from one function to another as occasion requires. Only unified supervision and direction can properly protect and integrate the various functions that must be performed if unemployed workers and employers are to be served adequately.

Other Administrative Changes

The Board recommends a number of other changes designed to improve the administration of the present program:

1. Increasing the authorization for the annual appropriation of Federal funds to assist the States in the administration of their unemployment compensation laws. The present maximum of \$40,000,000 is clearly insufficient to cover the necessary cost of proper administration. The Board recommends that the maximum be raised to \$80,000,000. The history of this legislation

indicates that Congress intended that the 10-percent net proceeds of the Federal tax should cover the entire cost of administration. An authorization of this increased amount would still be covered by the probable proceeds of this tax.

2. Supplementary provisions authorizing the Social Security Board to enforce requirements that expenditure by State officials of Federal funds be in accordance with the purposes authorized by the act.

3. Changing the base of the pay-roll tax from "wages payable" to "wages paid," thus making it the same as that for old-age insurance taxes.

4. Permitting the employers to offset against their Federal tax, up to the 90-percent maximum, all contributions made under State unemployment compensation laws, regardless of whether or not the latter are made with respect to employment as defined under the Federal law.

5. Exclusion of nominal wages paid to employees of nonprofit organizations, as already recommended under old-age insurance.

6. Exclusion from the definition of wages of all payments made by an employer to or in behalf of an employee under any benefit plan or system, as described in the identical recommendation made with regard to old-age insurance.

7. Extending the time within which credit may be claimed under the Federal taxing provisions in cases where the employer has paid his State tax on time, but has paid it to the wrong State.

8. Authorizing the States to make their unemployment compensation laws applicable to persons employed upon land held by the Federal Government, such as employees of hotels in national parks. Congress has already enacted a statute giving the States authority to apply their workmen's compensation laws to such employees.

9. Clarification of the language excluding State instrumentalities to indicate that the exemption applies to any instrumentality wholly owned by the State or political subdivision, as well as to those which would be exempt under the Constitution.

10. Clarification of the law as regards services of an employee performing both excluded and included employment. The same recommendation is made in connection with old-age insurance.

11. Clarification of the provisions relating to so-called "merit rating" or "experience rating" under State unemployment compensation laws.

Public Assistance

The Social Security Act offers the States Federal aid in providing public assistance for three groups of the needy—the aged, the blind, and dependent children. The Nation-wide development of these programs since the passage of the act leaves no question as to the effectiveness of this Federal legislation in promoting more systematic, equitable, and humane assistance to these needy men, women, and children.

As a result of the Federal grants-in-aid which the act makes available, all the States and Territories and the District of Columbia have joined in the Federal-State old-age assistance program. Forty States, the District of Columbia, and Hawaii are taking part in the program for aid to dependent children, and the same number in aid to the needy blind. By the close of 1938 some 1,771,000 old people, 636,000 children, and 42,000 blind were thus being aided from combined Federal and State funds. The total amount of Federal and State aid given during the current fiscal year will approximate half a billion dollars.

The Board recommends no fundamental change in Federal-State relations as regards public assistance. It believes, however, that certain substantive and procedural changes can be made which will greatly strengthen and improve the protection now afforded.

Old-Age Assistance and Aid to the Blind

At the present time, in addition to reimbursing the States for 50 percent of their assistance payments to the needy aged and needy blind (subject to a maximum of \$30 a month for each person aided), the Federal Government makes an additional grant of 5 percent which the State may apply to administration. This flat 5 percent does not represent an adequate Federal contribution for proper administration; and the Board, therefore, recommends that the law be amended so that Federal grants may reimburse the States for 50 percent of the necessary cost of proper administration.

Aid to Dependent Children

The Board strongly recommends that grants-in-aid to the States for aid to dependent children be placed on the 50-percent matching basis already in effect for the other two programs. At the

present time the Federal Government contributes only one-third of the payments made by the States to dependent children. As a result, fewer States are participating in this program, and in many of the States that are participating, the level of assistance for dependent children is lower than that for the aged and the blind. The number of old people now being aided through Federal grants is three times as large as the number of dependent children. But the actual number of dependent children in need of assistance and eligible under Federal and State standards is probably fully as large as the number of needy aged now receiving assistance.

At present the maximum amounts which may be taken into consideration in making Federal grants are \$18 a month for the first child and \$12 for each additional child in the family. The Board recommends that these maximum limitations be raised to the same maximum as that provided in the case of needy aged and needy blind.

In addition to these changes in the basis of Federal matching, the Board recommends that the age limit for dependent children should be raised in the Federal law from 16 to 18 when the child is regularly attending school. This would recognize the present desirable tendency for children to finish high school before seeking permanent employment.

For aid to dependent children the Federal law already provides that the cost of administration shall be reimbursed by the Federal Government in the same proportion as the cost of assistance. This should be retained in placing Federal grants for this program on an equal matching basis.

Public Assistance for Indians

A number of States have a considerable Indian population, some of whom are still wards of the Federal Government. The Board believes that, with regard to certain Indians for whom the Federal Government is assuming responsibility in other respects, and who are in need of old-age assistance, aid to the blind, or aid to dependent children, the Federal Government should pay the entire cost. If this provision is made, the Board should be authorized to negotiate cooperative agreements with the proper State agencies so that aid to these Indians may be given in the same manner as to other persons in the State, the only

difference being in the amount of the Federal contribution. The Board believes that it should also be given authority to grant funds to the Office of Indian Affairs for this purpose, if that appears more desirable in certain circumstances.

Variable Grants

Federal grants-in-aid under the three public-assistance provisions of the Social Security Act will total approximately a quarter of a billion dollars during the current fiscal year. These grants are made to all States on the same percentage basis, regardless of the varying capacity among the States to bear their portion of this cost. The result has been wide difference between the States, both in number of persons aided and average payments to individuals. Thus, in the case of old-age assistance the number of persons being aided varies from 54 percent of the population over 65 years of age in the State with the highest proportion to 7 percent in that with the lowest proportion. Similarly State averages for payments to needy old people range from about \$32 per month to \$6. While these variations may be explained in part on other grounds, there is no question that they are due in very large measure to the varying economic capacities of the States.

The Board believes that it is essential to change the present system of uniform percentage grants to a system whereby the percentage of the total cost in each State met through a Federal grant would vary in accordance with the relative economic capacity of the State. There should, however, be a minimum and maximum limitation to the percentage of the total cost in a State which will be met through Federal grants. The present system of uniform percentage grants results at best in an unnecessarily large amount of money flowing in and out of the Federal Treasury, and at worst in increasing the inequalities which now exist in the relative economic capacities of the States.

The Board believes that, with such large sums involved, it would be desirable to establish an interdepartmental agency representing the various governmental departments which collect and analyze economic data having a bearing on the relative economic capacity of the various States. Such an agency could be given the responsibility of determining the relative economic capacity of

the various States, upon the basis of which the varying percentages of Federal grants would be computed.

State Personnel

With regard to requiring States to establish merit systems for the selection and maintenance of personnel, the Board makes the same recommendations for public assistance as for unemployment compensation. These—and the reasons therefor—have already been set forth. It should be noted that in 19 States public-assistance agencies already operate under a systematic merit system and that in varying degrees all the States have set up objective standards of some sort for the selection of public-assistance personnel. In public assistance, as in unemployment compensation, this provision would strengthen State administration, safeguard taxpayers and beneficiaries, and place Federal-State relations on a more stable and automatic basis.

Disclosure of Confidential Information

The Board recommends that State public-assistance plans be required, as one of the conditions for the receipt of Federal grants, to include reasonable regulations governing the custody and use of its records, designed to protect their confidential character. The Board believes that such a provision is necessary for efficient administration, and that it is also essential in order to protect beneficiaries against humiliation and exploitation such as resulted in some States where the public has had unrestricted access to official records. Efficient administration depends to a great extent upon enlisting the full cooperation of both applicants and other persons who are interviewed in relation to the establishment of eligibility; this cooperation can only be assured where there is complete confidence that the information obtained will not be used in any way to embarrass the individual or jeopardize his interests. Similar considerations are involved in safeguarding the names and addresses of recipients and the amount of assistance they receive. Experience has proved that publication of this information does not serve the avowed purpose of deterring ineligible persons from applying for assistance. The public interest is amply safeguarded if this information is available to official bodies.

Administrative Changes

The Board recommends a number of minor technical changes to clarify and simplify existing Federal public-assistance provisions: Of these the most important is provision for a different method of settlement with the States for amounts recovered from the estates of deceased recipients of old-age assistance. At present the States are not required to make collections against the estates of deceased recipients; nor does the Board propose that any such requirement be set up. However, a number of States do make such collections in accordance with their own plans. The present method of settlement between the States and the Federal Government in such cases creates needless administrative difficulties which can readily be eliminated by permitting the Federal Government to offset its pro rata share of the amounts recovered against the next payment made by it to the State.

Health

The Chairman of the Social Security Board is a member of the Interdepartmental Committee to Coordinate Health and Welfare Activities which has presented to the President a long-range National Health Program. The Board is of the opinion that the enactment of the National Health Program would not only result in meeting more adequately the needs of those now receiving aid under the Social Security Act, but would also have a material effect in reducing the future cost of public assistance under the act.

Recommendation V of the National Health Program calls for insurance against loss of wages during disability not arising out of employment. The Board believes that adoption of this recommendation would go far toward completing the protection now afforded workers against loss of wages. The present State workmen's compensation laws offer protection against loss of wages resulting from injury arising out of employment. The State unemployment compensation laws furnish some protection against wage loss due to unemployment. The Federal old-age insurance system will provide protection against permanent loss of wages due to old age. But, though some workers have some protection through voluntary insurance, no comprehensive protection yet exists

against unemployment due to disability not connected with employment.

As already indicated in the discussion of old-age insurance, the Board believes that if protection against wage loss due to permanent total disability is provided, it should be linked with that program since permanent disability is most likely to occur among older workers, and the permanently disabled worker leaves the labor market in much the same sense as does the aged person. Another reason for linking permanent total disability with old-age insurance is that the latter is on a Federal basis. The load would thus be more evenly distributed among the States than would be possible if permanent total disability were administered on a State-by-State basis, since some States have higher proportions of the older persons among whom disability more frequently occurs.

As regards temporary disability compensation, the Board believes that this can be placed on a State basis following the precedent of unemployment compensation. The Board recommends that if such a program is inaugurated, it incorporate taxing and grants-in-aid provisions like those in operation for unemployment compensation—that is, provision for a uniform, Federal pay-roll tax against which employers would be permitted to offset a substantial percentage of their contributions under State laws for this purpose. If Congress should not wish to levy an additional pay-roll tax at this time, this offset might be allowed against the present tax levied upon the employer under the old-age insurance system. But it should be realized that this would materially reduce the proceeds available for future old-age insurance benefits. The Board estimates that a system of temporary disability compensation would involve a cost of approximately 1 percent of wages. If a State levied a tax of 1 percent payable equally by employers and employees, allowance to employers of an offset up to 90 percent of a Federal tax of one-half of 1 percent would be sufficient to enable the States to provide temporary disability compensation, without the risk of unfair competition on the part of employers in other States that fail to pass such legislation. In order to afford the States ample opportunity to enact the necessary legislation, the Board recommends that any

Federal action in this field should not be made effective prior to January 1, 1941.

General

The Board recommends the following amendments of a general character. These are to a large extent self-explanatory:

1. An amendment to prohibit the disclosure of information obtained by the Board or its employees except under certain restricted conditions related to proper administration. The provisions

which the Board recommends are similar to those already applicable to the Veterans' Administration.

2. An amendment to confer upon the Social Security Board the power to issue subpoenas, administer oaths, and examine witnesses and the like in connection with its administration of the Social Security Act. This recommendation is in line with the authority conferred on numerous other administrative agencies, such as the Veterans' Administration, the Federal Trade Commission, and the Securities and Exchange Commission.