Desirability of Expanding the Social Insurance Program Now

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THE SOCIAL SECURITY ACT of 1935 established two social insurance programs: one provides protection against permanent loss of income as a result of old age; the other, protection against temporary income loss resulting from unemployment. Amendments in 1939 added protection for survivors against cessation of income resulting from the death of the wage earner and provided allowances for dependents of recipients of old-age benefits. Most employees in industry and commerce are covered by these systems.

While greatly furthering individual and family security, the present system still fails to provide protection against several major economic hazards confronting every individual, notably income loss resulting from temporary and permanent disablement and heavy costs incurred for hospitalization and medical care. It also omits from the scope of even its present protections a substantial proportion of the Nation's workers. Moreover, benefits payable under existing programs are admittedly inadequate at various points.

Timeliness of Expanding Social Insurance

Because of the economic dislocations which may characterize the aftermath of the war, it is important to provide greater security against economic risks to workers and their families by remedying these deficiencies and strengthening our social insurance system before that time. Unless action is taken now, there is grave danger that the postwar period will arrive before a well-rounded system has been put in operation. It may then be impossible to install the necessary measures sufficiently rapidly to care for the urgencies of the moment, and we might have to face emergency problems with hastily improvised devices.

The obvious question which will occur to many—who may agree with the inherent desirability of having a comprehensive social insurance system available at the end of the war—is whether the present is a practical and appropriate time for such action. The enormous outlays and the vast administrative undertakings now necessary for the prosecution of the war may appear to suggest that action be deferred, regardless of other consequences.

The answer to this question—entirely apart from the social gains involved—is that expansion of the social insurances would be more appropriate now from the standpoint of the Nation's economic and fiscal circumstances than at any time since 1935 or for some time to come.

Two of the major economic problems of the war effort are to control inflation and to obtain revenues through taxation or borrowing or both. Because of the accumulation of reserves which characterizes the early stages of social insurance systems, new or expanded, and the operation of such systems in a period of high employment such as now prevails, immediate expansion of our social insurance system would contribute substantially toward meeting these economic problems. The enlarged excess of contributions over disbursements which would accompany the early phase of social insurance expansion would reduce current purchasing power and serve as a potent force in the fight against inflation. Investment of the excess in Government obligations would make corresponding sums available to the Treasury. These investments would aid in financing the war just as do the war savings bonds purchased by individuals.

Thus, a measure can be taken now which will provide the basis for a better society after the war and at the same time will serve the general economic and fiscal needs of the moment.

Content of an Expanded Program

Before examining the possible contribution of social insurance expansion to these problems, it is desirable to outline briefly the general nature of the changes which should be made in the present system. In the first place, new types of protection should be added: (1) benefits for permanently dis-

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abled workers and for their dependents, irrespective of the worker's age and generally similar in amount to old-age benefits; (2) benefits for workers temporarily disabled through illness or injury and for their dependents, payable for a limited number of months and more or less similar in amount to unemployment benefits; and (3) payments with respect to hospitalization costs incurred by insured workers or their dependents.

A second part of the expansion should be the extension of social insurance coverage to occupations now excluded from even the present programs. Among the major occupations not now covered at all or only partially covered under the existing system are agricultural labor, domestic service, employment in certain nonprofit organizations, governmental service, maritime employment, employment in small firms, and self-employment—that is, the work of an individual who is in business or trade for himself. It would be desirable, so far as it is administratively and otherwise feasible, to extend both the present and the proposed new protections to these groups.

Expansion should provide, in addition, for more nearly adequate benefits under existing programs. This end could be achieved by increasing the maximum duration of unemployment benefits, shortening the waiting period, introducing dependents' allowances, and increasing benefit amounts. An adjustment in the formula for computing old-age benefits and a lower retirement age for women under old-age and survivors insurance might also appropriately be included.

Post-War Considerations

Because of the manner in which benefit and eligibility rights are accumulated in advance of the receipt of benefits under social insurance, the contributory nature of its financing, and the automatic processes inherent in its operation, it is inevitably destined for an important role in the post-war period. The only basic question is whether a comprehensive system should be set up now, so that benefits will be immediately available at the end of the war to assist in alleviating the hardships of that period, or whether changes should be delayed until these hardships are actually occurring for millions of families.

Provided expansion is undertaken now, social insurance can play a dual role in the economic readjustment and reconstruction that will be necessary when the war ends. On the one hand, it can provide protection to individuals and families against the loss of income which they may suffer for one reason or another after the war, when a decline from the high levels of wartime production would increase greatly the incidence of risks leading to such losses. On the other hand, from the standpoint of the economic system as a whole, social insurance can aid in maintaining consumer purchasing power if national income exhibits a tendency to shrink and thus can assist in maintaining employment at higher levels.

Under an expanded program, more nearly adequate benefits would be available to support the unemployed and their dependents until they can get new employment in peacetime production. More nearly adequate annuities would be paid to aged workers who, though they normally might have retired, remained at work until the end of the war. Permanently disabled persons, too young to be eligible for old-age benefits, would for the first time be able to obtain similar benefits. Workers who are temporarily disabled would be eligible for weekly benefits until they are able to return to work. When sickness entails hospitalization, payments would be available to ease the heavy burden of the cost. Finally, the widows, orphans, and other survivors of workers who die would continue to receive benefits which would, in large measure, replace their loss of support.

The general sense of security which would result from the continuity of income provided by these various types of protection would provide a better life for the great mass of people. Knowledge that these programs are in operation would give a sense of security to all who are protected, a sense of security which is the most potent antidote to fears and worry over the uncertainty of the times. Viewed from the present, therefore, the post-war period would not be anticipated with fear and apprehension because of the readjustments that will be inevitable but as a period when the economic sacrifices made during the war will seem to have been worth while.

The economic effect of an expanded program upon the economy as a whole during the post-war period will depend largely upon the relation of disbursements to contributions. Social insurance benefits represent active purchasing power used immediately for consumption goods. Social insurance contributions in the main come out of income otherwise used for consumption. Thus, the extent to which the social insurance program as a whole will give a stimulus to the economy after the war will depend on the extent, if any, to which disbursements exceed receipts in that period. The net balance between receipts and disbursements will vary widely according to the levels of post-war production and employment. If employment declines sharply after the war, the need for a strong social insurance system will be critically urgent. Even if our economy stays geared for the long run to high levels of employment, many millions of workers and soldiers may be temporarily unemployed while we are changing over from a war to a peacetime economy. It is precisely in such circumstances that disbursements under an expanded program will be most likely to exceed receipts and will be most useful in sustaining general purchasing power.

Contribution Rates

The question now arises as to the over-all rate of contribution which, from the standpoint of sound principles of social insurance financing, should be imposed at the outset of an expanded program.

The permanent level of dollar disbursements under insurance against unemployment, temporary disability, and hospitalization would be approached within a relatively few years because these programs deal with "current" risks. In contrast, disbursements under old-age and permanent disability programs (except survivor benefits) would rise steadily but relatively slowly over a number of decades, since they cover "deferred" risks which generally materialize late in the lives of the contributors.

It would be unwise to fix the portion of the over-all contribution rate for the deferred-risk programs on the basis of a simple projection of recent benefit disbursements under the present old-age and survivors insurance program. Many eligible claimants are now postponing retirement because of wartime employment. It is estimated that by the middle of 1946 nearly 2 million workers and their wives will be receiving or will be eligible to receive benefits. The materialization of this tremendous potential benefit cost at the end of the war, coupled with the inevitable long-term rise in costs—as all the first generation of contributors gradually reach old age—suggests that a sound compromise must be sought between excessive financial conservatism and undue disregard of the large additional liability now accruing daily.

On the basis of these considerations, a total basic contribution rate of 10 percent of pay roll for employments covered under all protections is indicated for the first years of the program outlined above. For employments omitted from the coverage of some of the protections, an appropriate downward adjustment in the basic rate would be necessary. A 10-percent rate would be double the total basic rate levied in 1942 for old-age and survivors insurance and unemployment compensation combined.

Receipts and Expenditures

The suggested contribution rates would produce receipts substantially in excess of disbursements in the first years of the expanded program. This excess would result from the operation of various factors: temporary deferment of benefit payments under the new programs to permit accumulation of benefit rights and organization of administrative machinery; delay in filing claims and accumulating the normal load of benefits typically experienced under new social insurance programs; continuance of wartime pay rolls at levels above the average pay rolls to be expected through the cycle on which the percent-of-pay-roll computations underlying the 10-percent rate are based; and, finally, the small volume of unemployment and the postponement of retirement accompanying wartime employment.

An excess of receipts over outgo is both necessary and inherent in the introduction of a soundly financed new or expanded system of social insurance. If the excess comes at a time when employment and purchasing power are at a low level, such an excess may be injurious to the national welfare. At a time like the present, when one of the great dangers is that inflationary forces may get out of hand, an excess of receipts over outgo can be of considerable aid in combating such forces—even though, in the last analysis, this fiscal effect of the program is an incidental by-product of its primary objective—to enhance the economic security of individuals and families.

In accordance with past practice which has met with general approval, the increased assets of social security trust funds under an expanded program should be invested in obligations of the

United States Government. Thus, another by-product of an expanded social insurance program would be the provision of additional sources from which the Treasury can borrow without contributing to actual or potential inflationary forces. It is unnecessary to dwell on the contribution to the war effort which can be made at this time by expansion of Treasury facilities for borrowing.

While adhering firmly to accepted principles of social insurance financing, immediate expansion of the social insurance program along lines strongly dictated by social needs would thus lead to a substantial increase in reserves. Investment of these additional reserves in Federal obligations would make funds in corresponding amount available to the Treasury. These obligations would be credits available to the social insurance program, to be drawn upon later as required to meet benefit disbursements.

War-Revenue Requirements

A revised estimate of $85 billion for expenditures by the Federal Government in the fiscal year 1942–43 was issued on October 7 by the Bureau of the Budget. After taking into account net budget and trust-account receipts and borrowing from Government trust accounts under existing legislation, it is estimated that during the fiscal year 1942–43 the Treasury will have to obtain approximately $60 billion over and above expected income to finance expenditures.

The deficit amount will have to be obtained either through additional taxation or by borrowing from individuals and banks. It is generally recognized that financing the war through potentially inflationary measures, such as borrowing from commercial banks, should be kept to the lowest possible level. If excessive reliance on bank borrowing is to be avoided, additional funds beyond those now provided must be transferred from the hands of the public into the Treasury.

The first question in considering methods of attaining the Treasury's necessary goal is whether or not the imposition of further levies should be accompanied by some type of post-war return. To the extent that additional funds are obtained through outright taxation, no such return is provided. Expansion of the social insurance system or the introduction of a compulsory lending plan would, however, involve additional levies which would provide a return to the lender after the war. Because of the heavy tax burdens added by the Revenue Act of 1942, the further sacrifices which will result from longer hours and curtailment of consumption, and the stimulating effect of spending in the post-war period which would be made possible by credits built up during the war, there is much to be said for the argument that some type of post-war return should be included in further levies on the public. This is particularly the case since any additional levies which are made during the war may be expected to fall heavily on low-income groups.

The increased revenue accompanying an expansion of the social insurance program differs from other types of taxation in that a post-war credit is provided to contributors. It resembles compulsory lending plans to that extent, but it differs from such lending plans in that the post-war return is in the form of insurance protection rather than lump-sum amounts.

Use of the insurance principle means that payments are guaranteed to those who suffer the insured risks rather than to everyone including those whose normal income is not interrupted after the war. Moreover, under social insurance, the size of individual payments is geared to presumptive need, so that they can be much more nearly in accord with the needs of those who suffer misfortune than is possible under a system of compulsory lending, under which repayments are determined by the individual amount lent. In other words, the fact that risks do not eventuate for all persons makes it possible to pay out considerably more to those for whom they do occur than would be possible under a compulsory savings plan. In both cases, the group of participants as a whole may ultimately receive back the same aggregate amount, but the manner in which this total amount is distributed among the recipients differs.

To advance as an argument in support of an expansion of social insurance—a desirable and timely step on its own merits—that the increase in net receipts in the early years would aid the Treasury in financing the war should not be understood as advocating diversion of social security taxes to general revenue purposes. The increased collections, as in the past, would still flow into trust funds, rather than into the general fund of the Treasury; their investment in interest-bearing Government obligations would still be manifested by a corresponding rise in the public debt; and—most important of all—contributors would receive benefit rights, and such benefit rights would be a full "money's worth" per dollar contributed.

In view of these considerations, immediate expansion of the social insurance program would seem to be well adapted as a part of a well-rounded program for financing the war. It would not, of course, be a substitute for all other measures but would serve to complement them.

Anti-Inflationary Effects

Immediate expansion of the social insurance program would, as has been indicated, contribute to the solution of current problems of war finance not only through the raising of funds but also by the assistance rendered to the anti-inflation program.

The dangers of inflation resulting from the increase of national income to unprecedented heights and the concurrent decrease in goods available for civilian purchase as a result of diversion of raw materials, labor, plant capacity, and transportation facilities to war production are a matter of common knowledge. It is estimated that, in 1943, income payments may be in the neighborhood of $125 billion. After the probable amounts which will be saved or paid in direct personal taxes are taken into account, it seems likely that there will exist a substantial gap between the value of the goods and services available for civilian consumption and the funds available for the purchase of these goods. Administrative controls such as price ceilings cannot alone be relied upon to prevent inflation unless the huge excess of consumer purchasing power is reduced through other measures, and particularly fiscal measures.

The contribution which expansion of the social insurances at this time might make to the control of inflation results from the fact that new or expanded social insurance programs are usually deflationary in the first phase of their operations. During this phase, in which benefit rights and reserves are being accumulated, contributions exceed expenditures to a substantial degree. If, in addition, the period in which the new or expanded program is introduced is one of high employment, as is the case at present, its anti-inflationary influence is greatly increased.

If immediate action were taken to expand the social insurance program, the prospective inflationary gap would be appreciably narrowed by siphoning off a substantial portion of consumer income. Such action would assist in making effective a fiscal policy designed to secure a stronger framework for direct administrative price controls. Persons contributing to social insurance, by foregoing, for the present, use of increased incomes resulting from greater productivity and full-time employment, would not sacrifice these gains permanently through taxation or dissipate them in higher prices. Rather, a part of their current income would be diverted to the purchase of protection against present and future risks of economic insecurity for themselves and their families.

In summary, expansion of social insurance is urgently required now to provide security against the uncertainties arising out of the war. Changes in our economic life caused by the war increase the potential economic risks facing individuals and their families, and emphasize the need for an adequate system of insurance to allay fear of the future and provide the security essential for an all-out effort. Taking this socially desirable action now would not interfere with the war effort but would assist in alleviating the pressing economic problems of raising more funds for the war and of checking inflation.