

Extending the Social Security Program*

THE SOCIAL SECURITY PROGRAM established by the Congress in 1935 was envisaged as a foundation upon which more comprehensive provisions could be based as and when need for them was shown and feasibility demonstrated. In its regular and special reports to the Congress, the Social Security Board has outlined, in accordance with its legislative mandate, the directions in which it believed further action should lie. A major step was taken in the Social Security Act Amendments of 1939 when, with the provision of survivors insurance and of benefits to certain dependents of retired workers, the emphasis of old-age and survivors insurance was placed on family needs rather than primarily on those of the individual aged worker.

Other major questions raised by the Board on the development of social insurance have related to the extension of coverage of the Federal old-age and survivors insurance program to employment excluded at the beginning for practical considerations, notably agricultural labor, domestic service in private homes, services for nonprofit organizations, public employment, and self-employment; a similar extension of unemployment insurance protection to appropriate groups of employees now excluded; and the application of social insurance to the serious social risks arising from temporary and chronic disability among workers and their families. In the field of assistance, the Board has been impressed with the differences which have developed from the varying economic capacity of the States to provide funds for Federal matching and the resulting large differences among the States in the levels of aid given to persons in substantially similar circumstances. Experience also has shown the limitations, in relation to the needs of families with dependent children, imposed by present restrictions on Federal matching for this program to payments which do not exceed \$18 a month for the first child and \$12 a month for each other child aided in the same home. It has also been clear that inadequacy of State and local resources for general assistance, in which there is no Federal participation, has resulted in some areas in severe hardships among persons who were outside the special groups aided under the Social

Security Act and were not employed on Federal work programs.

The current significance of social security extension was outlined briefly by the President shortly after the attack at Pearl Harbor in his budget message of January 5. Declaring that he opposed use of pay-roll taxes as a method of war finance "unless the worker is given his full money's worth in social security," the President said that to carry out the long-contemplated extension of the coverage and scope of the program would "advance the organic development of our social security system and at the same time contribute to the anti-inflationary program." The additional contributions, he pointed out, would help absorb present purchasing power while building up reserves for post-war contingencies. The President also indicated his sympathy with amendment of the Social Security Act to modify the Federal matching grants for assistance to accord with the needs of the various States.

Experience in subsequent months has underscored the urgency of the problems to which the President called attention. All official estimates have shown a widening "inflationary gap," that is, discrepancy between the disposable income of American families and the shrinking supply of goods and services available for civilian purchase. Increased social insurance contribution rates would help to narrow this gap and at the same time would finance development of the program. While aggregate contributions collected under Federal and State social insurance laws have reached unprecedented levels, the present increases, it must be emphasized, reflect in large part increases in deferred obligations of the existing insurance programs. As the result of the expansion in the labor force, greater continuity of employment, and the rise in levels of earnings, millions of workers who might not have had a chance to participate in these systems are accruing credits toward future benefits, and additional millions are obtaining credits which will qualify them for larger benefits than they could have earned in ordinary times. These considerations emphasize the importance of social insurance as one mechanism, among others, for helping to maintain economic equilibrium in a period of

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inflationary pressures and, by development of adequate reserves, for helping to forestall a general economic collapse which could follow the termination of the war.

The expansion of the labor force and the increasing mobility of labor make it even more evident that in social security, as in war, strength lies in union. War has drawn into the coverage of the Federal old-age and survivors insurance program hundreds of thousands of persons who once worked in excluded jobs and doubtless will return to their former occupations. Unless coverage is extended to the major employments and services now excepted, so that when the war is over these workers can continue to add wage credits to those they are now earning in wartime jobs, many will lessen or lose their chance for insurance protection despite the contributions they now are making or will qualify for only meager benefits.

Employment Security

The Board believes also that action is needed during the war to strengthen the unemployment compensation system so that it can effectively carry the post-war burden of unemployment. The crux of the problem lies in the financial basis of the program, especially in a period when employment and unemployment are clearly beyond the control of an employer or a State, since they are determined by national needs and international situations. At present the funds of each State are held separately for benefit payments to workers covered under the law of that State. Since the risk of unemployment varies widely among the States, some have funds far in excess of immediate and future needs, while others may be hard pressed to meet their liabilities. For this reason, pooling of funds is necessary to ensure payment of adequate benefits to all eligible unemployed workers, regardless of the States in which they are now covered, during any post-war readjustment period.

A Federal system would obviate the marked disparities in the proportion of workers protected under State laws and the degree of protection afforded. Existing differences in adequacy of benefit and coverage provisions, which arise from the differences in the ability and the willingness of the individual States to broaden the protection afforded by their laws, would be wiped out.

These discrepancies may be illustrated by the fact that a worker whose high-quarter earnings and annual earnings are \$400 and \$1,000, respectively, would get a weekly payment varying from \$11 to \$17 and total benefits varying from \$100 to \$400, depending upon the State in which he earned his wage credits.

Although the States have made progress in broadening the protection afforded unemployed eligible workers since the inception of the program, the division of revenue among 51 separate funds limits the protection that can be provided under the existing Federal-State program. In 1940, more than half of the beneficiaries were still without a job when they exhausted their benefit rights. In many States, coverage restrictions exclude workers in small firms. Only the District of Columbia law provides for variations in the benefit amounts for workers having dependents. A Federal system would be appropriate for coverage of maritime workers who are now without protection because of the difficulties inherent in their coverage under State laws. It would reduce the number of tax returns required of employers, since a single return would serve the purposes of both the unemployment compensation and the old-age and survivors insurance programs.

A Federal program, moreover, would equalize the cost of unemployment compensation among employers. The diversity of experience-rating provisions under State laws has resulted in the fact that competing employers in various States contribute at different rates even when their unemployment experience is identical. In actuality, the allowance of additional credits against the Federal unemployment tax in line with experience-rating provisions has worked out so as to handicap competing employers in different States, a situation which that tax was intended to avoid. The result of these discrepancies is to instill in the States fear of placing their employers at a competitive disadvantage, in comparison with employers elsewhere. This fear gives an incentive to distort employer experience-rating plans and to refrain from measures to improve benefit standards. This situation works out to the financial disadvantage of employers in States which are endeavoring to deal adequately with workers' risks of unemployment and undermines the basic purpose of the unemployment compensation program. It threatens to impede improvement in the security

furnished by the system and defeat the purpose for which it was created.

All these considerations, which developed in the experience of the pre-war years, have become of increasing importance in the light of the war economy and the stresses to be anticipated when the war ends. Although the total reserve accumulated by the States in the Federal unemployment trust fund represents an amount which is more than sufficient in relation to the present low volume of unemployment and existing standards of benefits, and although the fund as a whole is increasing rapidly, the reserves of some States would be threatened with insolvency under strains which must be anticipated in post-war years.

The national character of the labor market has become indisputably clear in terms of the job of mobilizing the labor force and allocating available manpower in the ways which best will serve the needs of the Nation. The task of relocating returned soldiers in civilian jobs and of demobilizing workers in war industries will bring problems at least equally comprehensive. In many instances, technological progress during the war may have drastically changed the industrial scene for workers whose experience was gained in pre-war years. Young people who have undertaken their first jobs during the war or have gone from school into the Army and Navy will require direction, and often training, to enable them to find their place in civilian pursuits. Extensive migration of workers and their families will be necessary in the readjustment of the country to peacetime activities. The Social Security Board is convinced that nothing less than a national uniformly operated employment service, sustained by an adequate and soundly financed Federal unemployment insurance system, will meet the needs of the period immediately following the war and the longer-range objectives of social security. In unemployment insurance, as in the present Federal system of old-age and survivors insurance, benefits for dependents could afford a means of providing compensation more nearly adequate for family needs. The Board believes that such a system is needed to underwrite the Nation's future security.

Old-Age and Survivors Insurance

Operation of Federal old-age and survivors insurance, in contrast to that of unemployment compensation, has shown that the basis of the

program is sound. The Board believes that extension of coverage under this system to agricultural labor, domestic service, public employment, service for nonprofit institutions, and self-employment is now of paramount importance to the objectives of social security in war and in peace.

Apart from the limitation of coverage, there remains a serious lack in that there is no provision for retirement benefits to workers who become chronically disabled. In that lack the present program is almost alone among the retirement provisions of all major countries and substantially all important public retirement systems in the United States. The war emergency has shown that many aged workers are able and anxious to continue in jobs when an opportunity offers; in many instances, advanced age of itself is a less devastating risk to individual independence and family support than physical incapacity at younger ages. Unless he has reached age 65 and can claim old-age retirement benefits, a worker ordinarily has no social insurance protection against disability except for the limited provisions under workmen's compensation laws. Moreover, if a worker is permanently disabled at younger ages, when the requirements of his family are usually greater than in his old age, he may lessen or lose the protection he has built up for himself and his dependents under the Federal old-age and survivors insurance system.

From the long-range standpoint, moreover, orderly provision for retirement of disabled workers and their replacement by others whose efficiency is unimpaired is important for industry as well as the individuals involved. This principle is likely to prove of special importance in the years following the war. The pressure of the emergency and the inclusion in the labor force of all who now can serve in any capacity will leave a considerable group of persons who, after the strain of the war years, may be unable to continue in regular employment. At that time jobs will be needed by the young and vigorous men demobilized from the armed forces. The Board believes that cash benefits, payable as a matter of right without a means test, should be provided to compensate workers for part of the wage loss sustained by chronic and total disability. Both in coverage and in benefit provisions, including survivor benefits, such a measure should follow the general patterns of Federal old-age and survivors insurance.

Two and one-half years of experience in paying old-age and survivors insurance benefits have demonstrated the desirability of liberalizing certain provisions, removing anomalies, and simplifying administrative requirements. At present, only about 42 percent of the wives of primary beneficiaries are 65 years of age or over and so entitled to benefits; the requirement should be lowered to age 60 for wives of annuitants so as to make more of them eligible for benefits, and the age requirement for widows and female primary beneficiaries lowered to the same extent. If the wife of a beneficiary has children in her care, she should receive benefits irrespective of her age. The dependency requirement for parent's benefits should be reduced to a showing that the parent was chiefly supported by the deceased wage earner, and parent's benefits should be increased to 75 percent of the primary benefit. Many minor changes to remove inequities and to simplify administration should be made. Finally, measures should be taken to protect the insurance rights of workers covered by the program who have entered the armed forces.

Temporary Disability

In its effect on family income, temporary disability is much like temporary unemployment. Nevertheless, an insured worker who can claim benefits for unemployment when he is able to work and available for work has no right to benefits when he is unemployed because of illness, even though he ordinarily must incur sickness costs in addition to his loss of wages. On an average day of the year, probably some 3 to 4 million persons are incapacitated for their ordinary pursuits by reason of disabilities of less than 6 months' duration from which they will recover sooner or later. Provision of cash benefits for temporary disability would strike at a serious cause of poverty and dependency and, in the opinion of the Board, is a needed adjunct to the social security program.

Hospital Benefits

The serious aspect of medical costs lies not in the average among the population as a whole but in the unpredictable and heavy burdens of families in which there is major illness or prolonged illness during a year. Provision of benefits to offset the burden of hospital bills on insured workers and

their families would be of substantial help in lightening the problem of high-cost illness. The Board is of the opinion that the risk of hospital costs is one to which the approach of social insurance is particularly appropriate.

Public Assistance

Any social insurance system must necessarily be governed by fixed requirements and benefit scales designed, in accordance with the specific program, to cope with the more common situations and losses among the insured population; there would otherwise be no means of assuring the proper equilibrium between contributions and benefits. Under any qualifying requirements and benefit scales adopted for such a system, some individuals will fail to qualify and others will meet with a combination of circumstances which transcend the provision feasible under the general rules of the system. It is, therefore, an accepted principle that social insurance must be supplemented by a sound program of assistance, provided on the basis of individual need, to meet situations in which insurance protection is inadequate.

The assistance payments in which the Federal Government now collaborates through matching grants to States under the Social Security Act are limited to three special groups: the needy aged, needy blind, and children who are dependent by reason of the death, incapacity, or absence of a parent. Obviously, many needy individuals and families are outside these special categories of the population. Moreover, even among these special groups there are many who cannot qualify for aid under the approved State plans for which Federal funds are provided because they fail to meet a requirement of State law, such as that for residence, or—among the families with children—are in need by reason of the parent's unemployment or insufficient earnings, rather than one of the causes specified in the Social Security Act. In addition, some States have been unable to provide sufficient funds for Federal matching to aid all persons who could qualify under the Federal-State programs or to give adequate assistance for those who are on the rolls.

This last situation, to which the President alluded in his budget message, can be met through authority to provide special aid, rather than merely the uniform matching Federal grant, to States which have relatively small economic re-

sources of their own, as measured by some such objective scale as per capita State income. The Board is convinced that such a measure is necessary to assure comparable standards of aid to persons in similar circumstances, irrespective of the State in which they happen to live. At present the great disparity in standards of assistance under the Federal-State programs, for which the Federal share is governed by the amount that the State can provide, makes it necessary for the Federal Government to countenance and participate in operations which do not sustain the purpose of these assistance programs.

More nearly adequate support of the present Federal-State programs would still leave two other major problems unsolved: the situation of needy persons who are outside these categories of the population, and the special problems arising from the extent of need among families with children. Studies of the Board and other official agencies have shown time and again that the majority of the children of the United States are growing up in homes where resources are too small to supply the shelter, food, clothing, and other essentials needed for a child's healthful growth and development. The present expansion of earnings has improved the situation of families with children, as of others, but as a group they remain at the bottom of the economic scale and in large part below any line which can be accepted as an American standard of living. Under the stress of war conditions and of circumstances to be anticipated in the post-war years, the economic handicaps of children and their parents are a threat to the future well-being of the United States.

The Board believes that a minimum approach to this situation would be to increase the maximum amount of payments for aid to dependent children for which Federal matching is available or to remove maximums for Federal matching, leaving a State free to use Federal funds under an approved plan to meet the Federal share of as much assistance as the State agency deems necessary for families with dependent children. The relative restriction of the Federal contribution is reflected in the fact that the Federal Government now provides a considerably smaller share of the total cost of aid to dependent children than of old-age assistance or aid to the blind. Consideration should be given also to extending the scope of the program by including children whose need

is due to causes other than those now specified, i. e., the parent's death, incapacity, or absence from home. It has been suggested, for example, that Federal matching grants should be available for approved State plans which furnish aid to any child whose family resources are insufficient to ensure healthful growth and development, whatever the reason. It is of interest that Great Britain, as a means of assuring the Nation's future, is giving serious consideration to establishing flat-sum allowances for all children in the population without a means test, for all children in families below a given income level, or for all children excluding the first or the first two.

Apart from the particular need of families with children, the Board is of the opinion that Federal aid should be available for general assistance under arrangements similar to those for the special types. At present, only State and local funds are used for such aid, and typically such resources are least where and when need is greatest. The precipitate drop in the past fiscal year in total expenditures for general relief reflects general increases in employment and earnings but also masks the fact that in many areas where little or nothing was previously given needs are still acute. Since the localities have been providing about half of all funds for general relief, questions of legal settlement of applicants for relief have been an especially troublesome problem. The migration occasioned by the war, and even more the drastic readjustments of industries, communities, and families which will be necessary at the war's end, make this a responsibility which transcends county and State lines.

It is the opinion of the Board that several legislative changes are needed to improve the public assistance programs under the Social Security Act. The Board believes that the Federal Government should aid the States in financing medical care for recipients of assistance by including an appropriate share of the costs of such services in the grants to States for public assistance. The residence requirements of State plans for old-age assistance and aid to the blind should be liberalized to accord with provisions under approved plans for aid to dependent children; to this end, Federal grants under the Social Security Act should be payable only to States which do not deny assistance on the score of residence to aged and blind applicants who have resided in the State for the

year immediately preceding application. To remove a requirement which is difficult to administer and of dubious value, Federal grants for aid to dependent children should be payable with respect to otherwise eligible children aged 16 and 17 years, regardless of school attendance. The present provision for Federal participation in administrative costs of the old-age assistance program should be revised to permit the Federal Government to bear half of such costs, as it now does for aid to the blind and aid to dependent children. Under existing provisions, States receive a 5-percent addendum to the Federal grant for old-age assistance to be used for assistance payments, for administration, or for both purposes.

The Objective of Social Security

The Social Security Act of 1935 represented, in effect, prudent application of existing experience and initial limitation of new ventures. The special types of assistance stem from measures previously in long use in many States. The unemployment compensation program was intentionally designed to permit wide latitude for experimentation in diverse measures among the States. The Federal old-age insurance program assumed, in comparison with other countries, only a limited scope of protection. Risks of disability and sickness, which typically have been the first to be incorporated in social insurance measures, were recognized only in the grants of Federal funds for aid to the needy blind and, in relatively small amounts, for certain health services and vocational rehabilitation.

The past 7 years have seen the actual establishment and operation of all measures for which authority was given in the 1935 law and also of the broadened Federal insurance system established under the Social Security Act Amendments of 1939. All these measures have proved compatible with American customs and ideals, and all have served with greater or lesser effectiveness under conditions of relative economic depression, in the rising prosperity of 1940 and 1941, and during the onrush of industrial activity of the first half of 1942. Social security has been ac-

cepted as an objective in the American way of life; in operation, the program has proved adaptable to both continuing and emergency needs.

The Board believes that experience now is ample to warrant reconsideration of aspects of the program which have proved less effective than had been hoped, notably the Federal-State division of responsibility for unemployment insurance; to justify extension of the social insurance systems to a far wider segment of the population; to correct other inequalities and inadequacies, such as those evident in the field of public assistance; and to extend the devices of social security to additional risks.

These proposals envisage the ultimate attainment of a unified social security program which will sustain individual initiative on the part of American workers and their families while providing a bulwark against all major risks to those whose livelihood depends on work. Such a program must necessarily give full recognition to needs at all ages from infancy to the ages when earnings dwindle or cease. It must recognize adequately the risks of unemployment, sickness and disability, advanced age, and death of the breadwinner, in terms of compensation for loss of earnings and also in terms of means for preventing such catastrophes, insofar as possible, and restoring well-being in the households which experience them. The attack on these risks requires use of social insurance devices, of public assistance, and of organized services developed in conjunction with insurance and assistance programs or as separate community services utilizing the resources of governmental and voluntary agencies, national, State, and local. In the field of social security, as elsewhere in our economy, the war has made clear the need for unity in the approaches to nationwide problems and the need for speed in every measure to strengthen the American people for all-out effort. At the same time, there is urgent need to begin preparations for the sweeping readjustments which will be inevitable at the end of the war and for the continuing advance toward economic security which is among the war objectives of the United States and her Allies.