Effect of Increased Federal Participation in Payments for Old-Age Assistance, 1940–41, and Aid to Dependent Children, 1940–42

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MORE THAN three years ago, the maximum old-age assistance payment in which the Federal Government can participate was increased from $30 to $40 and the percent of Federal matching for aid to dependent children, from one-third to one-half. An analysis of the effect of these increases in Federal participation is particularly pertinent now when further liberalization of Federal grants-in-aid is under discussion. Have States generally expanded their programs under the stimulus of increased Federal matching? Why have States varied in the extent to which they expand their programs under Federal liberalizing amendments? Have States tended to withdraw and "save" State and local funds by substituting the increases in Federal funds?

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Table 1.—*Recipients of old-age assistance in States making monthly assistance payments of $31 through $40, by State, November 1940 and November 1941*

State	Total number of recipients		Recipients receiving payments of $31–40			
			Number		Percent of total	
	Nov. 1940	Nov. 1941	Nov. 1940	Nov. 1941	Nov. 1940	Nov. 1941
Total, 30 States	783,677	1,213,142	214,004	325,299	27.3	26.8
Alabama	20,004	19,785	23	15	.1	.1
Alaska	1,645	1,576	507	488	32.8	31.0
Arizona		9,109		6,228		67.9
California	149,738	158,400	134,086	134,550	89.5	84.9
Colorado [1]	41,679	42,893	22,312	35,807	53.5	83.5
Connecticut	17,363	17,833	2,929	9,517	16.9	53.4
Florida		38,474		50		.1
Hawaii		1,828		9		.5
Idaho	9,061	9,607	583	1,070	6.4	11.0
Illinois	141,216	149,146	7,302	28,035	5.2	18.8
Kansas	27,915	30,355	1,908	4,224	7.2	13.9
Louisiana	33,827	35,908	309	482	.9	1.3
Maryland		17,475		74		.4
Massachusetts	86,905	87,012	17,297	18,131	19.9	20.8
Montana	12,186	12,443	127	616	1.0	5.0
Nevada		2,282		1,037		45.4
New Hampshire	6,375	7,178	405	751	6.4	10.5
New Jersey	31,359	30,940	846	1,375	2.7	4.4
New Mexico	4,866	4,920	295	241	5.9	4.0
New York	120,609	124,030	21,857	25,210	18.1	20.3
North Dakota	8,908	9,448	32	445	.4	4.7
Ohio		139,002		6,024		4.3
Oklahoma		77,701		2,274		2.9
Oregon		21,814		1,105		5.1
Rhode Island		7,358		447		6.1
Utah	13,582	14,700	378	379	2.8	2.6
Washington		62,080		40,753		65.6
West Virginia		21,730		1,274		5.9
Wisconsin	53,019	54,397	2,588	4,297	4.9	7.9
Wyoming	3,440	3,557	140	391	4.1	11.0

[1] Includes recipients 60–65 years of age.

Old-Age Assistance

Only 9 States made payments above $30 for old-age assistance in 1939. After the amendment permitting Federal matching in larger payments became effective, however, the number of States making such payments increased rapidly to 19 in 1940 and 30 in 1941. In most of these States, legislative action was necessary before payments above $30 could be authorized and, since many State legislatures did not meet in 1940, action had to be postponed until 1941. All but one of the States in which legislative action was necessary amended their old-age assistance laws in the first session of the State legislature after enactment of the Federal amendment. Connecticut and Wyoming, in fact, amended their laws in 1939, shortly before the Social Security Act was amended.

At the end of 1941, the States making payments above $30 included all but two New England States, two of the three Middle Atlantic States, all the Far Western States, and a few States in the South and Middle West. Most of the States which did not raise payments above the former maximum were those in the South with limited financial resources and low assistance standards. An increase in the Federal maximum could mean little to States unable to make assistance payments at the previous maximum.

Effect on payments.—In 1941, more than one-

Table 2.—*Average payment per recipient of old-age assistance, November 1940 and November 1941*

Number of States	Average payment, November 1940	Average payment, November 1941	Increase
30 States providing payments above $30 in 1941	$23.04	$25.50	$1.56
21 States providing no payments above $30 in 1941	15.37	16.14	.77

Table 3.—*Old-age assistance: Expenditures for assistance from Federal funds, by 6-month period, July 1939–December 1941*

Period	Total	States making payments above $30			States not making payments above $30
		In 1939, 1940, and 1941	In 1940 and 1941	In 1941 only	
	Amount (in thousands)				
Number of States	51	9	10	11	21
July–December 1939	$100,007	$32,403	$16,451	$19,002	$37,311
January–June 1940	114,348	38,859	17,337	20,114	38,008
July–December 1940	120,813	40,511	18,376	21,091	40,836
January–June 1941	130,457	42,311	19,471	23,820	44,855
July–December 1941	136,512	43,124	20,074	26,431	48,283
	Percentage change from previous 6-month period				
July–December 1939	+3.8	+4.3	+8.0	+4.0	+1.1
January–June 1940	+7.8	+20.0	+5.4	+1.1	+1.0
July–December 1940	+5.7	+4.2	+6.0	+4.0	+7.4
January–June 1941	+8.0	+4.4	+6.0	+12.9	+9.8
July–December 1941	+6.2	+1.0	+6.2	+11.0	+7.6

fourth of the recipients received payments above $30 in the States making such payments, although there was considerable variation among the States in the proportion of recipients receiving such payments (table 1). As many as two-thirds or more of the aged persons on assistance rolls in Arizona, California, Colorado, and Washington received payments above $30; the State laws specify that the assistance payment, when added to the recipient's income, must equal $40 in California and Washington and $45 in Colorado. There were 11 States, however, in which only 1 out of 20 recipients or fewer received grants above $30.

States making payments above $30 in 1940 tended to make such payments to an increasing proportion of their recipients in 1941. It seems reasonable to assume, therefore, that such payments continued to increase in 1942, especially in States making their first payments above $30 in 1941.

As was to be expected, payments above $30 affected appreciably the size of the average payment. In November 1941, the average payment in States making payments above $30 was more than $1.50 higher than in the previous year and exceeded the 1941 average in other States by almost $10 (table 2).

Effect on expenditures.—The payments above $30 contributed significantly to the increase in Federal, State, and local expenditures for public assistance after 1939. Expenditures from all sources increased in nearly all States, but the greatest proportionate increase in each semiannual period tended to occur in States inaugurating higher payments in the period (tables 3, 4).

The States which were making payments above $30 in 1939 did not take advantage of the increase in Federal matching to reduce State and local expenditures. Instead, these States increased their expenditures. A net saving of State and local funds could have occurred only if cases and payments had remained at the 1939 level. There was no State in which this was true.

Aid to Dependent Children

The situation with respect to expanding aid to dependent children after the 1939 amendments went into effect was slightly different from that for old-age assistance. No State legislative and administrative action was necessary to implement the increased Federal matching. To continue expending State and local funds at the 1939 level, however, while Federal funds were increased, a State would have had to increase its case load and its average payment by one-third or increase both by a lesser proportion to expend one-third more funds in 1940 than in the previous year. Such an increase would have meant revising assistance standards and individual budgets, clearing pending application loads, and processing new applications to an extent not administratively feasible for most States. Some saving of State and local funds in 1940, therefore, could hardly have been avoided.

The amount saved, however, was considerably less than could have been saved if the States had economized on State expenditures to the full extent of the increase in Federal funds. If the States had withdrawn State and local money in the amount of the increase in Federal funds, State and local expenditures would have dropped 25 percent.[1] The States and localities actually decreased their expenditures by less than 11 percent in the first half of 1940. The decrease in State-local expenditures was less than 25 percent in all but one State, South Carolina. In that State, expenditures were 29.1 percent less in the first half of 1940 than in the last half of 1939, because of a

[1] The increase in the Federal share from one-third to one-half meant a decline in the State share from two-thirds to one-half, a decrease of 25 percent.

Table 4.—*Old-age assistance: Expenditures for assistance from State and local funds, by 6-month period, July 1939–December 1941*

Period	Total	States making payments above $30			States not making payments above $30
		In 1939, 1940, and 1941	In 1940 and 1941	In 1941 only	
	Amount (in thousands)				
Number of States	51	9	10	11	21
July–December 1939	$114,071	$39,670	$16,791	$20,303	$37,407
January–June 1940	115,483	40,324	17,348	20,135	37,676
July–December 1940	122,147	41,874	18,377	21,174	40,722
January–June 1941	131,645	43,852	19,476	23,813	44,505
July–December 1941	139,832	44,672	20,680	26,552	47,928
	Percentage change from previous 6-month period				
July–December 1939	+2.6	+5.4	+7.3	+0.2	−0.8
January–June 1940	+1.2	+1.9	+3.3	−.8	+.7
July–December 1940	+5.8	+3.8	+5.9	+5.2	+8.1
January–June 1941	+7.8	+4.7	+6.0	+12.5	+9.3
July–December 1941	+6.2	+1.9	+6.2	+11.5	+7.7

Table 5.—*Average payment per family receiving aid to dependent children in 42 States with approved plans in 1939, by specified month, December 1939–June 1942*

State	December 1939	December 1940	December 1941	June 1942
Total, 42 States	$32.13	$32.75	$33.99	$34.57
Alabama	12.88	13.63	13.70	15.57
Arizona	32.20	32.38	33.34	33.76
Arkansas	8.11	13.76	13.06	14.32
California	43.44	49.85	48.86	51.24
Colorado	29.80	30.28	30.68	30.86
Delaware	31.53	33.27	33.37	33.92
District of Columbia	37.83	37.67	36.96	36.56
Florida	20.76	21.74	23.53	24.32
Georgia	20.38	21.50	22.01	22.01
Hawaii	33.17	37.47	37.23	39.86
Idaho	27.55	29.53	31.13	32.54
Indiana	27.72	28.49	29.99	30.77
Kansas	28.34	29.97	33.98	34.03
Louisiana	25.88	25.51	26.62	26.71
Maine	37.97	39.09	40.46	41.44
Maryland	31.87	31.78	32.84	32.42
Massachusetts	61.63	59.80	58.55	60.12
Michigan	37.36	40.50	42.74	43.57
Minnesota	35.13	34.68	34.60	34.84
Missouri	19.32	24.14	23.10	23.47
Montana	27.89	28.65	30.11	30.93
Nebraska	26.15	31.39	31.49	28.38
New Hampshire	43.85	45.51	46.08	47.79
New Jersey	30.02	31.22	31.72	31.82
New Mexico	25.23	26.19	26.53	27.89
New York	48.74	46.90	49.02	49.23
North Carolina	15.28	16.77	16.91	17.17
North Dakota	31.58	31.01	31.52	31.91
Ohio	38.53	39.87	40.26	38.54
Oklahoma	12.23	14.60	19.37	22.05
Oregon	39.90	40.06	43.38	46.31
Pennsylvania	35.48	36.27	37.67	40.59
Rhode Island	46.37	45.94	46.32	52.45
South Carolina	15.83	16.31	16.42	16.72
Tennessee	18.44	18.51	18.70	19.02
Utah	32.48	38.16	43.71	46.10
Vermont	30.79	32.88	32.48	32.83
Virginia	20.80	20.34	20.10	20.08
Washington	29.78	31.89	40.76	43.78
West Virginia	19.89	23.39	30.30	31.10
Wisconsin	38.21	37.73	38.90	39.59
Wyoming	31.55	32.29	33.22	33.52

severe cut in the amount previously appropriated by the State legislature. In most States, both case loads and average payments for aid to dependent children increased in 1940. All but 4 States aided more families in June 1940 than in December 1939, while two-thirds of the States increased their average payments.

Effect on expenditures.—Because the States continued to expand their aid to dependent children programs after June 1940, the decline in State-local expenditures which occurred immediately after 1939 was short-lived. By 1941, after only one year's experience under increased Federal participation, State and local expenditures for aid to dependent children were greater than in 1939. Furthermore, the number of States spending more from State and local funds than in 1939 increased steadily in each 6-month period as follows:

6 months ended—	*Number of States*
June 30, 1940	6
December 31, 1940	12
June 30, 1941	20
December 31, 1941	22
June 30, 1942	25

Effect on coverage and average payments.—Immediately after amendment of the Federal act in 1939, the States generally placed relatively more emphasis on expanding coverage under the aid to dependent children program than on increasing assistance standards. More recently, however, the relative emphasis has been reversed, largely as a result of factors arising out of the war economy. Increased opportunities for employment of mothers, of other responsible relatives, and of older children in families receiving aid have permitted decreases in case loads in many States. At the same time, increases in the cost of living have necessitated upward revision of budgets and individual assistance payments.

With fewer persons to assist, some States also decreased expenditures. The effect of the war upon coverage and expenditures is clearly shown by a comparison at 6-month intervals since 1939.

Month	*Number of States aiding fewer families than at end of previous 6 months*	*Number of States in which monthly expenditures for assistance payments were less than at end of previous 6 months*
June 1940	4	5
December 1940	9	6
June 1941	14	14
December 1941	22	18
June 1942	27	20

The average payment per family continued to increase steadily. In June 1942, the average was more than $2.00 greater than in December 1939. Furthermore, the increase was general; 38 States were making larger payments on the average in June 1942 than in December 1939 (table 5).

Implications for further liberalization of Federal matching provisions.—The experience under increased Federal participation in aid to dependent children points to several conclusions pertinent to current discussions about further increases in Federal participation. In a period of program growth, the States make use of increased Federal participation to expand their programs as rapidly as it is administratively feasible. Immediately after the increase in Federal matching, State and local expenditures for some programs probably will decline, principally because of administrative difficulties in increasing coverage or assistance standards quickly enough to absorb the full amount of additional funds made available. Experience demonstrates, however, that the decline will be of short duration.

Any legislative requirement making additional Federal participation contingent upon maintaining State-local expenditures at some predetermined level appears both unnecessary and inadvisable. When there is need to expand programs and funds are available, the States appear to respond to it without Federal compulsion. Moreover, the pace of expansion is determined not only by the amount of available money but by the extent of recognized need and the administrative effort necessary for expansion. On the other hand, in a time of decreasing need such as the present, arbitrary insistence upon expenditures at a previous level might result in a waste of public funds.