

paid through voluntary prepayment insurance plans. Such plans afford varying degrees of protection to those whom they cover. Their main shortcomings are that they reach only a part of the population, failing to reach those who have the greatest need of medical care insurance, and that their protection commonly is limited to costs of hospitalization or to hospital and surgical expenses.

A Foundation for the Future

Today, after 10 years of operation under the Social Security Act, when the Nation's economic and productive capacity is at a high level, two facts stand out clearly—the basic importance of employment as a source of economic security for individuals and families, and the magnitude of the continuing risks to such security.

Since only about three-fifths of the jobs in the Nation are covered by the basic Federal social insurance system, and a slightly smaller proportion by unemployment insurance, there are many workers who have no employment or only a part of their employment in covered industry and have therefore no protection or in-

adequate protection under these programs for themselves and their families.

For nearly the whole population, social insurance against wage loss in nonoccupational sickness or injury is lacking, and most in the population lack any comprehensive insurance protection—public or voluntary—against costs of medical care. The great general advance in State public assistance programs in the past decade, moreover, still leaves many areas without adequate provision for the needy aged, needy blind, and dependent children. All are without Federal participation in general assistance to assure that needy persons who do not qualify for the special types of assistance have some recourse to public aid when they lack the minimum essentials for subsistence.

In both insurance and assistance, however, the programs established under the Social Security Act have resulted in actual or potential protection to millions of families in the United States and have laid a foundation in public understanding and administrative experience on which to build for the future.

then Governor of New York State, urged establishment of contributory old-age insurance in that State, and in 1934, in a message to Congress, he urged it for the Nation.

Insurance to provide old-age income was nothing new. Many countries in Europe and South America had had long experience in administering government plans for either industry in general or special industries. After several countries had experimented with voluntary plans and had acquired some experience with special industry plans, notably for seamen and coal miners, Germany enacted a comprehensive old-age and invalidity insurance plan for most workers in the country in 1889. By 1939, at least 30 countries had compulsory old-age insurance systems for some or all workers.

Nor was systematic provision for workers entirely unknown in this country. In 1935, about 3 million workers were covered by private retirement plans, and an additional 1.3 million public employees, by Federal, State, and local government retirement systems. These retirement plans had demonstrated the value of systematic protection for workers. Moreover, a Federal law providing old-age and disability benefits for railroad workers on a contributory basis had been enacted in 1934 and, although it was declared unconstitutional, had been superseded by another measure in 1935.

Social insurance for survivors of workers was not included in the recommendations which the Committee on Economic Security laid before Congress at the time the Social Security Act was being formulated. About the only advocacy of such a measure on record is that of a committee of the White House Conference on Child Welfare in 1930. In other countries also, such legislation followed that for old-age insurance. Except for a few plans for special industries, no comprehensive legislation was passed until 1911, when Germany again pioneered in adding such protection to its social insurance code.

By 1935, 16 countries had established survivors' insurance. In the United States, "mother's pension" plans had become popular; 48 States had passed laws to provide assistance for needy mothers and children. The majority of the plans were optional

Old-Age and Survivors Insurance

IN TERMS OF THE time it will require for old-age and survivors insurance to reach full maturity, it is still in its childhood. The number of beneficiaries today is only a fraction of the number who will be receiving benefits 10 or 15 years hence. Acceptance by employers and workers of the idea of social insurance protection for old people and survivors, however, has been little short of phenomenal.

This general acceptance is the more remarkable because of widespread opposition to the idea of social insurance—even on the part of organized labor until 1932—before the passage of the Social Security Act. In preceding decades, moreover, there had been relatively little public demand for old-age and survivors insurance, though much general interest in unemployment insurance.

What was probably the first public study of old-age dependency in this country, that of the Massachusetts Commission on Old Age Pensions, Annuities, and Insurance, 1908-09,

recommended against government protection for old people through either insurance or public assistance. The prevailing reason given by the commission was that lightening the obligation of children to provide for their parents would tend to destroy the ties between parent and child and promote the disintegration of the family. By the time the Social Security Act was passed, six more States had authorized studies of pensions and insurance, but only in Pennsylvania had a commission recommended the adoption of contributory insurance as a long-range measure.

Before 1935, most of the pressure had been for State old-age "pensions" or assistance, on a needs basis, and for the Townsend Plan—flat payments to all old people. The former had resulted in enactment of old-age assistance laws by more than half the States; the latter, in an organized movement of old people which put great pressure on Congress. As early as 1931, however, President Roosevelt,

with the counties, however, and often were not actually in effect throughout a State. Compulsory survivors' insurance was nonexistent in this country. Some employers had offered group life insurance to their employees, usually in limited amounts. There was no organized movement, such as the Townsend Plan, to give impetus to legislation for survivors' insurance. Originally, the only provision for survivors in the Social Security Act was for lump-sum payments equivalent to 3½ percent of the taxable wages of deceased workers who had been covered by the program. In 1939, however, monthly benefits, largely replacing the lump-sum payments, were established for surviving widows, children, and in some circumstances aged parents. This step followed recommendations of the Advisory Council appointed by the Social Security Board and the Senate in 1937.

The almost immediate and universal acceptance of old-age and survivors insurance undoubtedly reflects the fact that it met a widely felt need. The proportionate number of aged persons in the population has been increasing rapidly. The plight of old people became particularly difficult in the years of depression and drought, when they and members of their families found it increasingly hard to get or keep jobs and savings were used up. Though enactment of survivors' insurance attracted less attention, it also had been accepted wholeheartedly by American workers, who had long been educated by private insurance companies in the desirability of life insurance but, for the most part, had struggled futilely to provide adequate protection for their families. At the tenth anniversary of the Social Security Act, therefore, old-age and survivors insurance is well established in the thinking of Americans as a bulwark against insecurity arising from old age and death of the family breadwinner.

Experience in Old-Age and Survivors Insurance

When the Social Security Board was organized in 1935, it faced a stupendous task in getting under way the "old-age benefit program," as it was then called. It was first necessary to set up a system for recording the wages of an estimated 26 million workers. Many skeptics declared that so

huge a task might bog down of its own weight. How could the thousands of John Smiths be kept distinct? How could earnings be recorded accurately for millions of workers scattered through the country? To identify the many John Smiths and others bearing the same name, plans were made to assign an account number to each worker covered by the program and to carry out a mass registration of workers to be covered. This was successfully accomplished in November and December 1936.

It was soon found, however, that there was an enormous movement of workers in and out of covered employment, so that 6 or 7 million new workers applied for account numbers each year. To date, more than 80 million account numbers have been assigned; with allowance for duplicate numbers and deaths, about 74 million persons in the United States now hold account numbers. Yet the file of these numbers is so organized that, given a worker's name and date of birth, it is possible to locate his number in a minute or less.

An individual ledger sheet has been set up for each worker. Through the use of electrical accounting machinery, the wages reported for each are posted quickly and accurately. Constant vigilance has been exercised to obtain complete and accurate reporting. As a result, out of \$274.1 billion reported in wages from 1937 through 1943, only \$1.5 billion or about one-half of 1 percent has not been posted to an identified account; as claims are filed, moreover, many of these unposted items are identified and credited to the proper worker. Success in this accounting is due in large part to the cooperation of the more than 2 million reporting employers.

A large factor in the successful operation of the program has been the Board's policy to decentralize administration so far as that is practicable. The possibility of decentralizing wage recordkeeping into 12 regional offices was thoroughly explored but was found impractical because of the large migration of workers from one part of the country to another and the large proportion of workers who were reported by the central office of Nation-wide concerns. A network of more than 400 field offices and several times that number of itinerant stations has been set up, however, to

give local service to workers and their employers. From these offices, account numbers are issued to workers, contacts are made with employers to inform them of their duties under the act and to clear up deficiencies in their reports, claims for benefits are taken and adjudicated, and information on the act is given to the public. After payment of monthly benefits commenced, five area offices were set up to keep records of beneficiaries, settle difficult claims questions, and expedite certification of benefit payments to Treasury offices.

Thus the economy of a Nation-wide operation with respect to record-keeping has been combined with localized service to workers, employers, and the public. The cost of keeping a worker's wage record averages about 17 cents a year, and the annual cost of all administrative operations both by the Treasury and the Social Security Board is only 2.0 percent of the taxes collected. The relative cost of all operations involved in taking claims and paying benefits is somewhat higher but in 1945 represented only 4.7 percent of the amount paid in benefits. This percentage will decline as the benefit rolls increase.

Another hurdle was the test of the constitutionality of the program in the courts. An 8-to-1 decision of the Supreme Court upholding the Social Security Act cleared that barrier. In giving the opinion of the court, Justice Cardozo declared:

"Needs that were narrow or parochial a century ago may be interwoven in our day with the well-being of the nation. What is critical or urgent changes with the times . . . Congress did not improvise a judgment when it found that the award of old age benefits would be conducive to the general welfare . . . The number of persons in the United States 65 years of age or over is increasing proportionately as well as absolutely. What is even more important the number of such persons unable to take care of themselves is growing at a threatening pace. . . The problem is plainly national in area and dimensions."

Public interest and controversy then turned to another aspect of the program. The 1935 provisions were based on the estimate that by 1980 the cost of old-age benefits would represent between 9 and 10 percent of pay roll. Following private insurance practice, reserves to help finance

this eventual cost were to be built up out of the current contributions of workers and employers. It was estimated that the scheduled tax rates, which were to rise from an initial 1 percent of wages each for worker and employer to 3 percent each in 1949, would build up a reserve of \$47 billion by 1980. Interest on such a reserve, equal to from 3 to 4 percent of taxable wages, added to the 6 percent in payroll taxes would make the system permanently self-supporting.

The idea of so large a reserve was criticized as unnecessary in a Government program, and strong sentiment developed, particularly among employers, for placing the system on a "pay-as-you-go" basis. This became a national issue, and in 1937 the Board and the Senate Finance Committee appointed an Advisory Council of leading employers, labor leaders, economists, actuaries, and other representatives of the public to study the problem. The Advisory Council also considered the benefit provisions. Its recommendations included extension of coverage, starting payment of benefits at an earlier date, increasing the benefits to low-paid workers and all benefits in the early years, providing supplementary benefits for aged wives and young children of retired workers, and establishing benefits for the surviving widows and children of deceased workers. In financing, the Council recommended that only a contingency reserve be created to tide over depressions and other unforeseen events that might drain the fund.

The Social Security Board made similar recommendations concerning benefits and coverage but did not take a positive position concerning financing.

Following these recommendations, Congress substantially amended the program in 1939. Monthly benefits were to commence in 1940 at a more liberal rate, and benefits were added for wives and children of retired workers, and for aged widows, for widows with children under 18 in their care and for such children, and also for aged dependent parents of workers who left no widow or child. The amendments with respect to financing provided that the trustees of the old-age and survivors insurance trust fund report to Congress if in their opinion the fund would exceed three times the highest annual expenditures

within the following 5 fiscal years, and froze the tax rate at the 1-percent level until 1943. This action was interpreted by the majority in Congress as meaning that Congress should keep the reserve from exceeding more than three times the annual benefits, and Congress accordingly froze the tax rate at 1 percent again in 1943 and 1944.

A concurrent resolution was passed by the Senate early in 1945 providing for a restudy of the financing of the program by the Joint Committee on Internal Revenue. The House, however, passed a resolution of the House Ways and Means Committee appropriating \$50,000 to the Committee to use not only for a study of the financing of old-age and survivors insurance but also in a restudy of the whole program, and appointed staff to conduct this study.

The number of beneficiaries on the rolls on the tenth anniversary of the act is much less than was originally anticipated. Because of the demand for labor during the war, a large number of aged workers, estimated at three-fourths of a million, who in normal times would have retired are still employed. In a majority of cases the wives of these workers also are eligible for benefits. On the other hand, the war has resulted in a larger number of deaths—and hence of survivor claims—among younger workers than would be anticipated in ordinary times. More than offsetting these additions, over a fourth of the entitled widows and a large number of surviving children are working instead of drawing benefits.

A major factor limiting the number of beneficiaries has been the restriction of the coverage of the act. Experience has shown that a very large number of persons divide their employment between jobs covered by the act and jobs in agriculture, domestic service, government service, and other noncovered pursuits. Millions of these workers are unable to get sufficient earnings in covered employment to qualify for benefits although they have made some contributions. Another factor which makes it impossible for some aged workers to qualify has been their disablement in their early sixties. Nor are disability benefits provided for such workers or for others who become disabled at earlier ages.

In revising the benefit schedule in 1939, a leading purpose was to pay higher benefits in the early years as well as benefits representing a higher proportion of the earnings of low-paid workers. Average payments in 1940 were about what was anticipated, with an average payment of \$22.60 a month for retired workers. However, though higher wages have caused some increase in benefit amounts during the war, so that the average benefit was \$23.81 for retired workers in March 1945,¹ the cost of living has advanced much more rapidly. Old-age assistance payments, which are much more flexible, have increased from an average of \$23 in 1940 to about \$29 in the spring of 1945, reflecting both the adjustment of payments to the higher cost of living and the increase in available State funds because of wartime prosperity.

Payments to insurance beneficiaries and assistance recipients, however, are not strictly comparable since insurance benefits are paid without regard to other resources of the beneficiaries. Field surveys have shown that the majority of old-age and survivors insurance beneficiaries have accumulated other savings, own their homes, or have other income. Only about 1 beneficiary in 10 has had to seek public assistance to supplement benefits. However, the increased cost of living is pinching most beneficiaries, particularly those with no other resources, who also have the lowest benefits in most cases. Some increase in benefit amounts therefore is necessary. Other liberalizations, such as lowering to 60 the age requirement for aged women beneficiaries, are desirable.

Actual administration of the law has also brought to light some anomalies and inequities in the provisions of the act which have caused irritation and disappointment among many beneficiaries. Although there must always be specific requirements that work out arbitrarily in some individual cases, the Social Security Board has proposed technical changes which would obviate most of these unsatisfactory situations. On the

¹Rise in wage rates does not, of course, affect the amounts paid to workers already receiving benefits. But even new benefit claims awarded in the first 3 months of 1945 averaged only \$24.76.

whole, however, the law has proved to have been soundly framed, and no basic changes in its structure appear to be necessary.

Old-Age and Survivors Insurance— A Going Concern

Despite its present limitations, old-age and survivors insurance is already doing a substantial job. At the end of June there were about 1.3 million monthly benefits in force. These included 520,000 wage earners aged 65 or over, 170,000 of their wives and children, and about 595,000 survivors—orphans, widows, and parents of insured wage earners.

Of those entitled to benefits, about 1.1 million were in actual receipt of monthly benefits. The benefits of 74,000 aged wage earners, 17,000 wives of such workers, 20,000 children, and more than 26,000 widows were suspended because these beneficiaries were working in covered jobs. In addition to the persons who had filed benefit claims, about 750,000 aged wage earners were fully insured and therefore eligible to receive retirement benefits but had not filed for them, presumably because they were still working. About one-half of these had wives who also had reached age 65 and were therefore eligible.

Because of the newness of the program, the number now eligible for retirement benefits is small in comparison with what it will be, say half a century from now. By that time, a large proportion of the wage earners now under age 65 will have had an opportunity to qualify for these benefits. By the middle of 1945, some 70 million living persons under age 65 had acquired some wage credits toward ultimate retirement benefits.

The life insurance protection afforded by the program is also very significant. Almost \$400 million has been paid out in lump-sum death payments or monthly survivor benefits. Some 40 million wage earners are now insured; that is, some form of survivor benefits would be payable on the death of any one of them. The total amount of potential insurance protection for these 40 million workers and their families represents more than the equivalent of \$50 billion of term life insurance. This protection is of great psychological as well as economic value to the workers of the country.

Even if we look forward only another 15 years, old-age and survivors insurance beneficiaries will have increased to 5 or 6 million. If coverage is extended to all gainful workers and benefits are also provided for extended disability, from 12 to 16 million persons would be receiving benefits by 1960.

On the basis of its experience in the successful operation of the program and study of needs the system is designed to meet, the Board has recommended to Congress that coverage be extended to all gainful workers and to the risk of protracted disability. It is both necessary and administratively

feasible, the Board has reported, to include agricultural and domestic employees, self-employed persons, and others originally excluded because of possible administrative difficulties in the initial years of operation. Successful experience in the administration of old-age and survivors insurance benefits also justifies confidence on the part of the Board that it can successfully administer extended disability benefits. Only by such extension and expansion can the program meet the needs of American families for protection against the long-term hazards of old age, disability, and death.

Unemployment Compensation

THE UNITED STATES faces the period of postwar readjustment far better prepared to handle the problems of unemployment than at the end of World War I, though it has mobilized three times as large an army, raised production to four times what it was at that time, and devoted a far greater proportion of its capacity to the war.

Then study of the problems of demobilization of servicemen was not begun until a month before the end of the war, and no systematic program was adopted to aid in the transition to peace. This time the Servicemen's Readjustment Act of 1944 was passed almost a year before V-E day. Laws are already on the statute books to provide machinery for facilitating contract termination, plant clearance, and the disposition of surplus property, and for financial aids to business and farmers. Moreover, unemployment compensation gives a means of assuring workers that, if they are laid off and no suitable jobs are available to them, they will have a measure of support during their search for work.

Last year, approximately 44 million workers earned wages in employment covered by State unemployment compensation laws, and about 36 million earned enough to qualify for benefits should they become unemployed. No such system was available to the industrial worker after the last war or during the 1920's and most of the 1930's. Then the only resort of the unemployed worker was to use up any savings he might have accumulated and find his way to local relief, or to accept privation.

Although Wisconsin enacted an unemployment insurance law in 1932, no other State passed such a law until Federal action in this field became certain. The Social Security Act performed its primary function of quickly stimulating enactment of State laws; within 2 years after its passage, all 51 jurisdictions had unemployment compensation laws. The Federal-State program of unemployment compensation has made notable advances although much still remains to be done to achieve maximum effectiveness. While the States carry major responsibility for administering the program and for determining the coverage and benefit provisions of their laws, from the beginning the Federal Government has exercised continued support and concern with the progress of the program. Today all groups in the community agree that primary reliance should be placed upon unemployment insurance when workers are temporarily unemployed.

A system of unemployment compensation, properly coordinated with the employment service, provides the best available means of giving a worker access to job opportunities and, if there is no suitable job for him, of compensating him for his enforced unemployment. Through regular collection of contributions on behalf of employed workers, it creates a fund to pay benefits as a matter of right to those who are out of work. It aids in sustaining and enhancing human resources, in the interest not only of the