

“Issues In Social Security”

THE SOCIAL SECURITY TECHNICAL STAFF of the House Committee on Ways and Means presented its report, *Issues in Social Security*,¹ to the Committee on January 17. Congress authorized the study on which the report is based on March 26, 1945, appropriating \$50,000 to be spent “in obtaining information with respect to the need for the amendment and expansion of the Social Security Act, with particular reference to old-age and survivors insurance and the problems of coverage, benefits, and taxes related thereto.” The Committee created a social security technical staff, which was directed to investigate and report on old-age and survivors insurance, unemployment compensation, and public assistance. Leonard J. Calhoun, Commander, United States Naval Reserve, was in charge of the study. Other members of the technical staff, whose services were made available through the courtesy of their respective organizations, were Rainard B. Robbins, vice president of the Teachers Insurance and Annuity Association; John J. Corson, director of research of the Washington Post; Fedele F. Fauri, director of the Michigan Department of Social Welfare; George W. K. Grange, of the actuarial division of the Metropolitan Life Insurance Company; and William R. Curtis, chief of the Administrative Standards Division, Bureau of Employment Security, Social Security Board.

The report, “printed for the purposes of information and discussion,” describes “each of the programs within its scope, reviews the various proposed changes in each, and attempts an evaluation of the purpose, effect, and cost of the proposed changes . . . Social security in its broader sense, of course,” the report points out, “includes provision for programs outside the scope of this report, such as public health, vocational rehabilitation, and maternal and child welfare services. It also includes proposed provisions for programs of general medical (including dental and surgical) care, hospitali-

zation, cash sickness benefits, and cash maternity benefits. Thus the report deals with only a part, though a very important part, of the public programs for relieving or avoiding destitution and ill health . . .

“In evaluating the insurance and assistance programs established under the Social Security Act, some viewpoint must be taken as to the importance of the objectives of each program. While public opinion appears to hold that unfortunate individuals should not be left to starve, and that there should be public provision made to afford some protection against major economic hazards such as those arising from old age, unemployment, and death, viewpoints differ basically as to just what should be done.

“By way of illustration, take the extreme viewpoints as to what should be done in the case of the aged. One extreme is that public responsibility should be limited to a bare subsistence program for those with no income, resources, or responsible relatives. Another extreme is that all aged should be regarded as senior citizens to whom society owes substantial incomes, unaffected by their private resources. From either of these viewpoints the present social security program might be considered basically unsound. Even those who do not question the soundness of the present programs differ widely in evaluating their various aspects and the relative importance of the benefits and burdens incident to proposed changes.”

Evidence of these diverging viewpoints and of the general problems facing the Ways and Means Committee is offered by the opening sentence of the report's preface: “Some 80 bills pending before the Committee . . . propose various changes in the programs of old-age and survivors insurance, unemployment compensation, old-age assistance, aid to dependent children, and aid to the blind. These include important changes in financial arrangements, requirements for receipt of benefits, computation of benefit amounts, and changes in old-age and survivors insurance contribution rates. They also include establishment of disability

payments as an extension of the insurance programs and establishment of general assistance as an extension of the Federal-State public assistance programs.”

Social Insurance Principles

Under the heading “Ultimate Development of Social Security” the report summarizes in the following words the basic issues involved in extending social security protection.

As a country becomes industrialized and urbanized, the proportion of the population completely dependent on jobs for incomes increases. When jobs disappear, or when individuals are no longer able to work at their jobs because of age, disability, or death, income ceases. Various countries have experimented with various approaches to meeting these situations. As a result, social insurance has emerged as the most acceptable method . . . In this country, social insurance in the form of unemployment compensation, old-age insurance, and survivors insurance has just completed its first decade.

In 1935, when the Social Security Act was enacted, social insurance protection was limited to retirement and unemployment, and these protections were in turn limited to wage earners most clearly identified with industry. In 1939 social insurance protection was extended to the hazard of wage loss resulting from death, but the number of wage earners protected was not significantly increased as agricultural, domestic, public, and certain other employments and self-employment still were omitted from coverage. Thus the present system remains limited both as to persons covered and as to the hazards covered. Further developments of social insurance protection in both directions would appear inevitable.

Present exclusions of employments from coverage result in loss or lack of protection for millions of individuals, including the vast numbers shifting between covered and uncovered jobs. This has made necessary qualifying requirements which result in excluding from benefits even persons who have had considerable covered employment. Thus, extension of coverage is clearly a vital step in making

¹ *Issues in Social Security: A Report to the House Committee on Ways and Means by the Committee's Social Security Technical Staff, 1946 (79th Cong., 1st sess.)*.

social insurance a more widespread and dependable protection.

The hazards of both limited and extended disability are also so important that protection against them seems clearly indicated. In addition to providing benefits, such an extension would also afford a basis of avoiding the present loss of retirement and survivor protection resulting from absence due to sickness and disability. It would then be feasible to determine and waive such absences.

A difficult problem which social insurance must eventually face is how to continue its protection despite long-continued unemployment resulting from economic conditions. In very depressed economic areas, for example, extended unemployment may prevail among large groups of individuals who are normally in gainful employment. Present concepts and philosophy of old-age and survivors insurance would permit some reduction in present impairment of benefits resulting from unemployment. However, present unemployment compensation concepts and philosophy are such as to preclude the payment of benefits over an indefinitely extended period. In England, for example, when benefits were extended over long periods, unemployment compensation lost its original significance as social insurance. It came to be regarded, for a time at least, as a "dole." Solution of the problem of providing social insurance protection to individuals subject to long-term unemployment is a challenge of the future.

A basically difficult problem results from the failure of some to engage even normally in substantial gainful employment—the marginal workers and those whose employment may be important but is not "gainful," such as those who work as part of the family. The present systems, based on the concept of insuring against wage loss, offer these individuals protection if, and only if, they are dependents or survivors of gainful workers. Thus far no other generally acceptable theory of the basis of entitlement to, or the measure of, social insurance benefits has been evolved for this group. This problem likewise challenges future solution.

Social insurance offers a protection generally regarded as more compatible with human dignity than relief

based on need. Any person can readily appreciate the difference between receiving old-age and survivors insurance benefits, or unemployment compensation benefits, based on prior earnings with respect to which contributions have been paid, and assistance based on an investigation of his needs. The eventual limits to the number of persons who will be protected under social insurance depend on (1) the extent to which administrative and other considerations permit extension to additional contributors and (2) the extent to which a philosophically justifiable approach can be evolved for including persons and dependents of persons who retire or die with little or no employment or contributions under the system.

Old-Age and Survivors Insurance

Part I of the report deals with Federal old-age and survivors insurance. After a discussion of the development and present provisions of the program, the report takes up in turn the specific questions of extending coverage, coverage of military service and adjustment of duplicate benefits, liberalization of benefits and addition of extended disability protection, financing, and miscellaneous provisions, such as elective coverage, voluntary annuities, and the "retirement" requirement for benefits.

The chapter on coverage discusses the basic significance of the exclusions in relation to the effectiveness of the system, the importance of extending coverage to the areas of gainful employment now excluded—self-employment, agricultural labor, domestic service, employment for nonprofit organizations, public service, and railroad employment—and the considerations involved in extending protection to each of the excluded groups. The report (pages 57–58) summarizes this chapter as follows:

1. About two out of five jobs, including self-employment, are not covered by OASI.

2. There is a high degree of shifting of workers between covered and noncovered jobs.

3. Availability of OASI benefits has been accepted as a national objective.

4. No evidence indicates either

that OASI coverage should be restricted to workers in particular occupations or that it is more needed by workers in some occupations and their families than by others.

5. All evidence points to a recognition, from the beginning, of the importance of making OASI benefits available to all as soon as a variety of difficulties could be overcome.

6. The need on the part of workers and their families of some substitute for earned income that has disappeared is independent of the source of the earned income; hence the same potential benefits should be available to all regardless of occupation or changes in occupation of the breadwinner. Otherwise, we fail in our national effort to make these benefits available to all.

7. Not only individuals and their families, but society as a whole suffers through failure of a scheme of partial coverage to furnish the protection for which it was designed.

8. All studies agree that no substitutes for OASI can produce satisfactory results in particular excepted employments because of the high degree of shifting of employees in and out of any particular employment.

9. This shifting will thwart any effort to operate parallel plans, even if the benefits of the parallel plans are identical, except at a thoroughly unjustified expenditure of time and effort in making adjustments.

10. With the prospect of the addition of other kinds of social security benefits, it seems inevitable that availability of OASI benefits must be all-inclusive if the Nation's social benefit objectives are to be attained.

11. No method has been found to apply OASI benefits comprehensively other than extension of coverage to all employments and to self-employment.

12. Staff pension plans are essential supplements to OASI benefits; they have been arranged as such on a large scale in industry. They can be arranged to advantage in all public employments and in railroad employment.

13. While a general extension of present coverage to all gainful workers will naturally involve a considerable increase in dollar costs, when costs are expressed in terms of pay roll there should be little or no initial dif-

ference and ultimately there should be a substantial decrease.

Liberalizing Protection

Two distinct but interrelated aspects of liberalizing the protection afforded by the program are discussed: liberalizing the schedule of benefit amounts, and extending the program to the hazard of disability. The discussion of benefit amounts is largely in terms of their practical effects on various classes of beneficiaries, the relative importance of liberalizing various benefit levels, and the interrelation of the benefit pattern, wages, and contributions as components of a contributory system.

Increasing benefits.—The report outlines general considerations in the problem of benefit increase (pages 91–92) as follows:

1. Benefits are based on average wages over a period of years, and consequently lag considerably behind an annual increase in wages—or an annual decline in wages. While immediate wages and living costs are important, long-range commitments are involved in any liberalization.

2. The present average benefits in part reflect the depressing effect of limited coverage—if coverage is extended this in itself should increase benefits paid in many cases.

3. Although they will probably never return to anything like prewar levels, future wage and living-cost levels are uncertain, and consequently liberalization of the present formula should be very cautiously approached.

4. OASI benefits are at present limited to retirement and survivor benefits, but doubtless will be extended to cover the hazard of disability, and perhaps also general medical care. Any increase in present benefits should be made with the entire prospective program in mind.

5. Insofar as liberalizing benefits may affect costs of old-age assistance or aid to dependent children, liberalizing benefits based on low wages is much the most important.

6. Any liberalization which would pay substantially as large benefits to wage earners only intermittently covered as are paid those continuously covered will increase the burden on other contributors or the general taxpayer. Consequently, a strong social

justification seems required for any such liberalization, particularly where any of the resulting benefits would be at a high monthly rate. The problem would appear one to be approached primarily by extension of coverage. Other reasons for intermittent coverage, such as disability, could be taken care of appropriately as special types of cases.

7. OASI benefits were designed to afford basic social protection, and perhaps the most important consideration of all is whether present benefit amounts accomplish this purpose. If present benefits are found inadequate from this viewpoint, they will doubtless be increased. The same considerations that prompted the establishment of the system despite its burdens will doubtless govern in determinations found vital for its success.

Extended disability benefits.—The discussion of disability benefits deals only with the question of extending the program to include long-term disability benefits. There is no attempt to link up the discussion “with provisions for medical care, with temporary disability benefits, or even with State systems of unemployment compensation, or workmen’s compensation for occupational disability. Disability is considered only in reference to a scheme of cash benefits, payable in the event of absence from work because of long-continued incapacity, and so closely integrated with the cash benefits under an old-age and survivors insurance scheme as to be a genuine part of that scheme.” The report stresses that the adoption of this more limited approach to the subject of disability “does not mean that the question of what is actually the best approach has been prejudged. It merely signifies a limitation imposed in order to bring long-term disability within the restricted purview of the present study.”

After a discussion of the nature, feasibility, advantages, disadvantages, and costs of such an extension, the report goes on to consider a suggested initial step—that of making extended disability benefits available only to persons above some specified age, like 55 or 60. “Though admittedly a large part of disability would not be covered, this approach would avoid some of the major administrative problems

largely associated with disability at the younger ages, and, by curtailing the possible period of benefit, would minimize the cost of doubtful awards.” Such a limitation, on the other hand, “would fail to touch an area where the consequences of disability for the individual can be most serious; namely, the age groups in which dependent children are most numerous and where the need for protection lasts longest . . . Objection may also be raised to a scheme that would discriminate between the old and the young in regard to eligibility for disability benefits and in regard to the effect of periods of disability on insured status for, and the benefit level of, later death or retirement benefits. Then, too, the limited scheme would entail the establishment of many intricate procedures and techniques incident to administering a disability program, while excluding at least temporarily a very large percentage of disabled cases solely on the basis of age.

“The suggestion under consideration,” the report concludes, “would therefore appear to be quite controversial. There is no royal road to a scheme of disability benefits that is not beset with substantial obstacles. However, if it is desired to adopt a policy of easing in to a disability program, the approach of limiting it to persons of advanced years would seem to offer a promising method of doing so with a minimum of initial difficulty, while acquiring valuable experience on which to base further extensions as and when they may appear feasible . . .

“That there is a definite lack of disability protection in this country for which an appropriate remedy might well be sought in some form of social insurance is generally acknowledged. The subject is a large one and merits investigation on its own right not only in relation to OASI benefits but to a scheme of health benefits as well.”

Financing

The chapter on financing the program discusses the principal considerations involved in fixing a schedule of taxes payable under the Federal Insurance Contributions Act. “While the financing of OASI involves certain considerations common to all public financing, there are others of impor-

tance that arise from the special purpose, nature, and history of this particular program. The actuarial task consists largely of estimating prospective benefit outlays and the returns to be expected from the pay-roll tax at various rates . . . Another aspect of the problem involves tax policy. Congress must determine the extent to which pay-roll taxes as contrasted with general taxation shall finance benefits and the particular schedule that should be adopted for this purpose. These decisions will doubtless reflect convictions regarding the building of reserves in early years through pay-roll taxes in excess of current benefits and attention to the purpose and history of the OASI system."

The concluding section of the chapter (page 122) offers the following "summary and conclusions":

1. Early pages of this report review efforts to weigh the cost of future benefits and point out that available statistics do not justify confidence in any particular estimates that reach many years in the future.

2. All calculations verify expectations that the cost of benefits will, in the course of years, increase to many times its present size.

3. The increase in benefit costs of the present plan will be fairly gradual but there will doubtless be irregularities, now unpredictable, in size and timing.

4. To be satisfactory socially and economically, pay-roll taxes to support old-age and survivors benefits:

(a) Should pay a substantial part of the cost;

(b) Should contemplate only scheduled changes in tax rate and these should be at regular intervals and smoothly graded;

(c) Should build up only a modest contingency reserve.

5. A schedule of taxes such as outlined in the preceding paragraph should contemplate support from general revenues when benefits for a particular year exceed the taxes and interest on reserve for that year; the excess might be shared by the contingency reserve and general revenue, but there is nothing vital about such a division.

6. Perhaps the possible harmful effects of (a) further growth of the trust fund and (b) failure to increase

the tax rate according to a previously adopted schedule have both been over-emphasized. In any case, congressional acceptance of a policy that it might hope to follow for a good many years would be of value.

7. Any possible harm from a growing trust fund is probably more acceptable than an unscheduled increase in tax rate during a period of depression.

8. A "frozen" tax rate has probably been more acceptable to the American people than would have been a still more rapidly growing reserve fund during a period of totally unexpectedly low benefit payments while the plan was just getting under way.

9. There is no reason to expect dire consequences from either a moderate increase in tax rate or from continuation for a while of the present rate.

10. The concluding suggestion is an increase in tax rate of employer and employee alike of one-half of 1 percent every 10 years, beginning with 1947, until a 3-percent rate is reached in 1977. This suggestion is for OASI benefits as at present, but with the expectation that coverage will be widely extended to presently uncovered employments.

Public Assistance

The discussion of public assistance, in part II of the report, relates to the principal problems which have arisen in the Federal-State programs and the various proposals which have been made for changing the extent and conditions of Federal financial participation. It reviews the "limitations under existing Federal law (a) in meeting needs which exceed maximums that will be matched, with special reference to medical care; and (b) in correcting the disparity among States in the levels of public assistance payments when caused by the varying financial ability of the States; together with proposals for modifying these limitations." Extension of Federal financial participation to additional groups of needy persons is also considered.

More Nearly Adequate Aid

The Social Security Act imposes a dual limitation on the amount of Fed-

eral funds that can be advanced the States for the care of dependent children and the needy aged and blind. Individual payments may not exceed specified maximums, and the Federal contribution cannot be more than half the individual payment within these maximums. The effects of these limitations, and proposals for their liberalization, are summarized (pages 294-295) as follows:

Under the present provisions of the Social Security Act there are areas of inadequate assistance which differ among States and, under present State arrangements, among counties within States according to the ability or willingness of the States and localities to provide assistance. Part of this inadequacy and variation in assistance results from limitations of the Social Security Act.

Inadequacies of assistance tend to be greatest in States and counties with the least fiscal ability. The comparative inadequacy of grants and services in such places cannot be shown to be closely related to differences in cost of living, though, to some degree, they may be related to different standards of living as affected by lower per capita income. These variations cannot be explained by less fiscal effort in these States and counties, since they tend to raise more revenue in relation to their taxable wealth and to spend a greater proportion of their revenue for assistance and other public services than the States with higher-than-average per capita income.

Three kinds of changes in the Social Security Act would greatly reduce the present extreme variation in meeting needs of public assistance recipients. The first is the amendment of the provisions for Federal grants so that full matching would be available for payments for medical care. This would encourage a flexible program for medical care adapted to the individual need of recipients and administered by such methods as seemed most feasible in the particular State or locality.

Such a program of medical care can be operated at present only by States or localities with adequate funds because medical care for which there is Federal matching is limited to that which can be purchased by the recipient within the limits of the monthly

payment of \$40 for an aged or blind person or lower amounts in the case of children. Because medical costs are unpredictable and high, medical care limited by these maximums is inadequate. Complete removal of costs of medical care from established maximums or elimination of maximums from Federal grants, or change of the limitations from an individual to average payment basis, would encourage more adequate State programs.

Maximums on individual payments in general result in comparatively adequate assistance to persons with small needs but inadequate assistance to persons with large needs. Some recipients, particularly those under the program of aid to dependent children, have needs above the maximums.

Elimination of maximums would result in Federal matching on the entire amount paid by the States. Maximums based on average grants of \$40 or more per person would have about the same effect in most States, since small grants would balance out the large ones and all payments would be fully matched. Such a maximum based on average rather than individual grants-in-aid to dependent children would, of course, be more liberal and, in fact, more realistic, if the needy parents or persons acting as parents are included as recipients.

If the individual State or locality is unable to meet its share of the assistance needed by recipients, liberalizing the amounts which the Federal Government will match will not increase payments. The level of State or local ability will still determine the level of assistance. Provision of adequate assistance in States with low fiscal ability can be achieved only by variable grants by the Federal Government to States and in turn by States to the localities. One method of varying Federal grants would adjust Federal participation to per capita income so as to increase the Federal portion of the cost of assistance in States with below-average per capita income.

Extension of Aid

In addition to the inadequacies considered above, other inequities result from the restriction of the assistance programs under the Social Security Act to particular groups—the aged,

the blind, and children whose need arises from certain specified conditions—and various restrictions on eligibility under State laws. Inadequacy of the program in these areas is outlined on pages 312 and 313.

The present limitations of coverage not only leave many needy persons unprotected, but in excluding them require otherwise unnecessary administrative expense. Considerable administrative effort and unproductive expense are incurred in determining length of residence or place of settlement. The establishment of absence or incapacity of the parent in aid to dependent children requires considerable administrative investigation to determine eligibility. Any failure to cover all needy children endangers the health of the oncoming generation.

Establishment of a new title under the Social Security Act to provide assistance to unaided groups, if established without limitation as to residence or settlement, would cover all need. Any such title should include the provisions previously discussed in relation to adequacy of grants, if it is to be fully effective.

If no provision is made for Federal matching under general assistance, it is even more necessary than it would otherwise be that adjustments be made in relation to residence requirements and coverage under aid to dependent children. Even though provision is made for Federal matching in general assistance, the other suggested changes in the Social Security Act would be desirable because they would encourage States to choose the most effective provisions and would also permit elimination of special administrative determinations in respect to eligibility.

Aid to dependent children now fails to assist many needy children. Moreover, it provides for the child without due consideration of the parent or other persons necessary to the welfare of the child's family. Aid to dependent children should be expanded if it is to be an effective complement to old-age and survivors insurance. Such expansion should provide for meeting need due to any absence of a parent and any incapacity, whether permanent or temporary. Complete coverage would require provision for children in any family home and elim-

ination of school attendance as a requirement for children aged 16 and 17 years.

Residence as a condition of eligibility leaves certain needy persons in "no man's land." Several methods have been proposed to eliminate this inadequacy, but the only complete answer, administratively as well as from the standpoint of coverage, is the elimination of all requirements related to length of residence. Although adequate coverage would be provided by Federal matching in a general assistance program from which residence requirements are eliminated, the failure to eliminate this requirement from the special assistance programs would leave the problem of administrative determination of residence.

Certain other proposals would exempt set amounts of earned income from consideration in determination of need. Such exemptions are contrary to the concept of assistance related to need and in logical conclusion would lead to a pension rather than an assistance program.

All need could be covered by expansion of the Social Security Act to include a general assistance program based upon a need requirement only. Expansion of aid to dependent children to include all dependent children and elimination of residence requirements from all programs would provide a flexible medium for assistance under which the States could select the most suitable assistance provisions.

Unemployment Compensation

After an opening chapter which includes an examination of the purposes which the unemployment insurance program is intended to serve, part III of the report goes on to consider, in turn, (1) the benefit structures provided under the State laws, analyzing various suggestions for Federal action to modify State benefit structures within the framework of the existing Federal-State system; (2) coverage under the present laws, with a review of the principal factors in extending protection to workers not now covered, the bases and practical effects of such exclusions, and the considerations involved in modifying or eliminating them; (3) the present arrangements for financing the pro-

gram—both as to administrative costs and benefit costs—with an examination of the possible alternatives and an evaluation of the consequences that would follow modifications of the existing arrangements; and (4) issues in unemployment compensation, which includes (pages 450–452) the following material on the relationship of the national interest as now conceived to exist in unemployment compensation to the broad issue of increasing or decreasing Federal participation in this program.

The National Interest in Unemployment Compensation

Prior to the advent of the depression of the thirties, assistance for the unemployed was considered generally to be a responsibility of local government. State governments, to say nothing of the Federal Government, were not deemed to have an interest in the problem. Even as late as 1931 only four States provided any aid to the unemployed.

As, however, unemployment climbed from an estimated 1.5 millions in 1929 to 4.2 millions in 1930, to 7.9 millions in 1931, to 11.9 millions in 1932, and to 12.6 millions in 1933, prevailing concepts of governmental responsibility underwent change. The States generally were forced to accept some responsibility for the unemployed. Then, as the problem grew beyond their capacity to handle it, the States and localities turned to the Federal Government.

The Federal Government appeared reluctant to recognize a national interest in aid to the unemployed, but finally such recognition was given. The first step was taken when the Congress, in July 1932, appropriated \$300 million for loans to States and localities for use in meeting the relief problem. The loans were to be repaid through deductions from grants for highway purposes, but they were canceled by the Congress in 1933.

Since 1932 the national interest in the problem of unemployment has manifested itself in widely different programs. Beginning in May 1933, with an appropriation of \$500 million to be used in making direct grants to the States for emergency relief, the Federal Government subsequently spent millions of dollars in Federal funds through the Federal Emergency

Relief Administration for this purpose. In November 1933 the President established the Civil Works Administration, which spent huge sums on a works program for the unemployed in the winter of 1933–34. This program was terminated in July 1934, and primary responsibility for providing Federal aid for the unemployed was again assumed by the Federal Emergency Relief Administration. In May 1935 the Works Progress Administration was established for the purpose of operating work programs for the unemployed, and grants to States for unemployment relief were discontinued. Other programs were established for special groups. The Civilian Conservation Corps, established in 1933, and the National Youth Administration, established by Executive order on June 26, 1935, were designed to assist unemployed youths. Programs for needy farm families were begun by the Federal Emergency Relief Administration and carried on subsequently by other agencies.

By the middle of 1943 the emergency programs established during the thirties had been discontinued. In the meantime, however, the national long-range interest in providing for the unemployed had been expressed in the unemployment compensation provisions of the Social Security Act, passed in 1935. Later, in 1938, a special Federal system of unemployment insurance was established for railroad workers. In 1944 the Congress expressed the national interest in the unemployment of another special group—the veterans of World War II. This last expression of national interest took the form of a provision for readjustment allowances, at Federal expense, for veterans who are unemployed or who fail to earn as much as \$100 per month in self-employment.

The foregoing indicates the extent to which the Congress has recognized unemployment to be of national concern. It has supported that recognition with billions of dollars for various programs providing emergency relief or work for the unemployed. It has made an important long-range attack on the problem of providing income for the involuntarily unemployed through the unemployment compensation provisions of the Social Security Act. The effectiveness of this attack will substantially affect the

extent to which the Congress may be called upon for work relief and other emergency programs in the future. Thus it is of national concern that the Federal-State unemployment compensation programs for providing income to the unemployed shall be effective systems.

The initial establishment of unemployment compensation programs is principally attributable to Federal action taken at a time when large relief expenditures were being made. Up to 1935, the year in which the Social Security Act became law, the efforts of the States to establish unemployment compensation programs had been almost completely ineffective. Only one State, Wisconsin, had enacted an unemployment compensation law. Judging from experience with other types of social legislation, it seems fair to conclude that, without the Social Security Act, many States would not now have unemployment compensation laws. Although the Social Security Act did not, in specific terms, require States to enact unemployment compensation laws, it was intended to encourage them to do so, and its tax-offset provisions might be described as compelling.

National interest in unemployment compensation thus inspired Federal action which has resulted in an unemployment compensation program in every State. The Federal action was, of course, designed to achieve a result—not the mere enactment of State laws, but the creation of a mechanism to aid in solving the problem of unemployment.

The Federal tax coverage in effect insured that certain broad groups would be protected. The connotations of the term “unemployment compensation” prescribed the general approach in providing this protection, as did the requirement of making payments through public employment offices. Beyond this, and some guaranty against misuse of the systems, the development of the programs was left to the States. Thus the amount and duration of benefits, their relationship to past wages, and other matters which determine the effectiveness of the program's attack on the problem of unemployment have been left to State decision.

The question now arises as to whether the national interest in un-

employment compensation requires Federal action beyond the limits established in existing law. The Congress is basically responsible for the imposition of the taxes collected under State unemployment compensation laws. Are the conditions imposed for the receipt of benefits and the amounts payable from the proceeds

of these taxes such as to be consistent with the national interest in effective unemployment compensation systems? The benefit structures in the various State programs differ greatly—as to weekly amounts, duration, conditions required to qualify for benefits, and as to reasons for and severity of disqualifications from benefits. The

question is whether the resulting protection is nevertheless such that the national interest in unemployment compensation is reasonably satisfied, or whether there are some limitations on benefits so pronounced as to require Federal action in this area, which has heretofore been left largely to State action.

Postwar Economic Perspectives

III. Prewar Experience: Production and Consumption

By W. S. Woytinsky*

This article continues the analysis begun in the January Bulletin of economic conditions that may reasonably be anticipated after the war in the light of actual prewar experience. Like Mr. Woytinsky's preceding articles, it results from a comprehensive study of the setting for planning measures for social security. Expressions of opinion, as in all Bulletin articles, reflect the views of the author and do not necessarily represent official conclusions of the Social Security Board.

PROJECTION of prewar experience in the preceding article led to the conclusion that full employment in 1950 would require 55.5 million year-round civilian jobs, including employment by Federal, State, and local governments, as compared with 46.5 million in 1940. In terms of man-years of work, the required increase from the number in 1940 is almost 20 percent. The increase in man-hours worked would be somewhat less, probably not more than 16 percent, if account is taken of the trend toward a shorter workweek and more extensive provision of paid vacations. What changes in production and consumption in the United States would accord with such a rise in the level of employment?

Postwar National Product as Compared With 1940

Changes in Volume of Production

To estimate the hypothetical volume of production in 1950 as compared with 1940, definite assumptions

*Principal Consulting Economist, Bureau of Employment Security. The preceding articles in the series appeared in the issues for December 1945 (pp. 18-29) and January 1946 (pp. 8-16).

must be made on change in the productivity of labor.

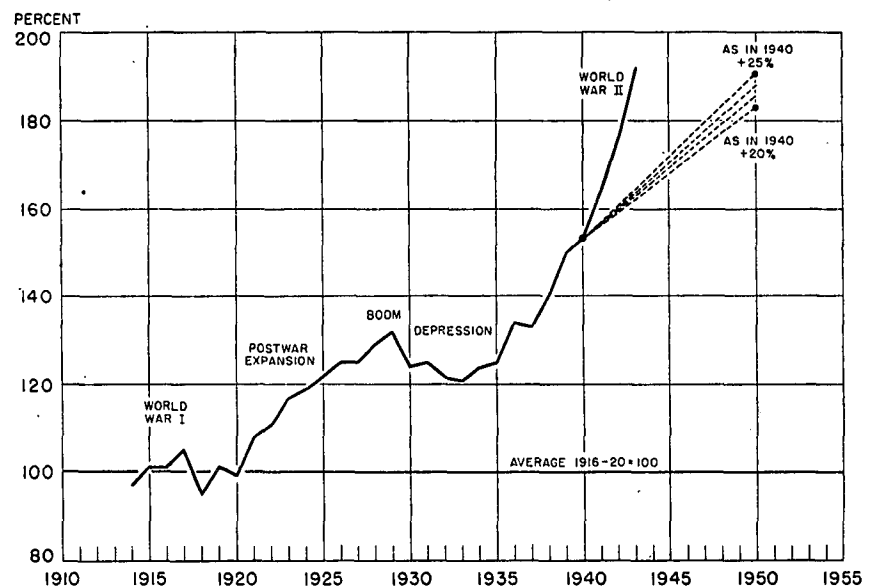
Chart I shows variations in real per capita output of goods and services in the 30 years 1914-43, computed as follows: the gross national product for each year, expressed in dollars at 1940

prices, has been divided by the number of persons in employment in that year, and the average for 1916-20 is used as the base (=100) to develop an index.

Since postwar economic conditions in the United States will differ greatly from those during the war and will be more like those in the last prewar years, the probable productivity of labor in 1950 may be estimated in relation to the prewar pattern in, say, 1940 rather than in the war years. It seems reasonable to expect that the rate of increase in per capita output from 1940 to 1950 will be similar to that from 1915 to 1925 or through any other decade that includes the last war. The average increase over the decades ending with each of the years 1924 to 1930 was 26.7 percent. It is likely that the increase from 1940 to 1950 will be somewhat less spectacular.

Although the war economy has

Chart 1.—Variations in real per capita output of goods and services,¹ 1914-43



¹ Gross national product in a year (expressed in dollars at 1940 prices) divided by number of employed persons in that year.