

# The Need for Social Security in the Postwar World

By A. J. Altmeyer\*

*In this address the Commissioner for Social Security declares his belief that the concepts of liberty, democracy, and equal opportunity, given new meaning by the war we have just fought, will lead to a postwar world in which—whatever changes emerge—there is bound to be greater social security and less individual insecurity.*

IT WOULD BE a very presumptuous person who would pretend to be able to predict the exact future development of what we in this country have come to call social security. Its development depends first of all upon what kind of a postwar world we shall have.

Of one thing we can be certain. It will be a world of intensive, extensive, and rapid change—not only technological change but political, economic, and social change as well. We are not yet able to grasp even dimly the tremendous implications of the atomic bomb. While its technological implications stagger the imagination, its political, economic, and social implications are even more tremendous.

But I do not propose to discuss the atomic bomb. Even if the atomic bomb had never been discovered, this war that we have just fought has released psychological forces which, when coupled with widespread human misery and want, have set off "chain reactions" literally world-wide in their extent. I refer to what you probably will say are very old concepts of liberty, democracy, and equal opportunity. It is true that these concepts are not new in the western world, but they have never before been given global currency and application. The peoples in the far corners of the world have now become keenly aware of them and apparently are proposing to act accordingly.

It took hundreds of years for the rise and fall of ancient empires. A few decades can span the rise and fall of modern empires. As a matter of fact, the mode of existence of the common man was very much the same for thousands of years until a little over 150 years ago, when technologi-

cal forces which we call the industrial revolution and political forces which we call democracy began to sweep through the western world. The result has been more change during the last eight generations than during all of previous recorded history. What is important for us is that, so far as any one can see now, the rate of change, rapid as it has been, seems to be accelerating rather than declining.

## Group Action for Security

I emphasize the fact that the postwar world will be a world of change because change means uncertainty and insecurity for the millions of human beings who will inhabit this postwar world. This, in spite of the fact that a basic human trait, perhaps we should call it instinct, is the yearning for security. This yearning for security manifests itself in many ways. Likewise, as society becomes more and more interdependent, the necessity of relying on group action rather than individual action grows greater and greater.

Group action may be either governmental or nongovernmental in character. Thus, the businessman may seek a tariff or a railroad or ship subsidy to protect himself against undue risks, or he may turn to business and trade associations to protect his interests. He may even join trusts or cartels to keep down what he considers undesirable competition. The farmer may seek a tax on oleomargarine or an embargo on Argentine meat or a parity price or government loans or government subsidies of one kind or another; or he may join farm organizations and farm cooperatives to assure himself a reasonable and stable income. The worker may seek government legislation prohibiting court injunctions or a Wagner Act preventing employer interference with labor organizations or legisla-

tion placing a floor below wages and a ceiling over hours; or he may resort to his economic power through labor unions to control wages, hours, and working conditions. The consumer usually must rely rather largely upon governmental action to protect his interests. Thus, we have a law providing for meat inspection, a Pure Food and Drugs Act, laws regulating weights and measures, a Federal Trade Commission to enforce truth in advertising, and an Office of Price Administration which undertakes to control prices.

Sometimes the yearnings for security on the part of businessmen, farmers, workers, and consumers clash. In fact, sometimes the yearning for security of the very same individual as a businessman or a farmer or a worker clashes with his yearning for security as a consumer. Naturally, businessmen and farmers and workers want to get high prices for what they sell as producers and pay low prices for what they have to buy as consumers. Under such conditions, it is of course necessary for the government to undertake to reconcile all these yearnings for individual security to achieve the maximum amount of general security.

The particular form of security with which we are concerned is what has come to be called social security. Not much more than a decade ago the very term social security had not come into existence. Now it is in the process of acquiring such an inclusive meaning that its usefulness as a term to describe a specific program of action is in danger of becoming impaired. Thus, we find world statesmen asserting that social security is the main motive of national life. We find it listed as a chief objective in the Atlantic Charter.

In the large sense in which it is used by statesmen, it covers all the essentials of decent human existence—housing, education, health, and full employment—as well as elimination of destitution. However, when it is used in the narrower sense to describe a specific program of action, it is usually confined to governmental measures designed to eliminate want by preventing the loss of current income.

Many well-meaning and socially minded people believe that if we can

\*Commissioner for Social Security. From an address delivered at the Fifteenth Annual Meeting of the Controllors Institute of America, New York, September 16, 1946.

maintain full employment and full production there is no need to set up a specific social security program to prevent loss of current income. Those people fail to realize that, even though we achieve the goal of full employment and full production, the working people of this country will still be confronted with the great economic hazards of sickness, physical disability, old age, and death. In our modern society these hazards cause far greater interruption of earnings and far greater destitution than unemployment, even the unemployment that occurs during a period of deep depression. Experience has shown that large numbers of persons are unable to protect themselves against these economic hazards through non-governmental means.

### *Social Security v. Socialism*

There are other well-meaning and socially minded people who sometimes confuse social security and socialism. It does not require much analysis, however, to demonstrate that socialism and social security proceed from diametrically opposite goals. Marxian socialism is based on the theory of the class struggle. Social security is based on the theory of social solidarity. Socialism aims at the destruction of private enterprise, whereas social security is designed not only to preserve but to promote private enterprise. Social security enables a system of free enterprise to encourage invention, improvement, elimination of waste, variety, and continual adaptation to changing ideas and circumstances without at the same time creating serious social problems. It does this by providing individuals with a minimum degree of protection against the loss of income which such changes often cause. Socialism aims at a redistribution of wealth. Social security recognizes that all that a government program should do is to establish a minimum basic protection against loss of income, on which the individual will be encouraged to build for himself a more attractive degree of well-being through the well-known devices of individual savings, private insurance, and home ownership.

### *Security a Function of Government*

When we undertake to establish a

social security system designed to provide a minimum basic protection and thus eliminate want, we are not striving for strange and new ideals; nor is it even necessary for us to depend on strange and new methods. While social security in this country is a relatively recent development, it has been a familiar and recognized function of government in other countries. Indeed, it is one function of government which has grown and is growing, despite changes in government and two world wars. We have a world history and world experience on which to base our planning and our action. Indeed, in our own Social Security Act we already have the fundamental elements of a program of social security designed to eliminate want. It is only necessary for us to extend, expand, and improve upon our present Social Security Act in the light of the experience and thinking that has developed since that act was passed in 1935.

Since the security of the large majority of people is dependent on their earnings, the focal point of our efforts should be to provide reasonable protection against interruption of income due to sickness, accidents, old age, death, and unemployment. In other words, we should strive to devise a system which will spread income over periods of nonearning as well as periods of earning. This can be accomplished to a large extent by a comprehensive system of social insurance under which benefits are paid to compensate for a reasonable proportion of the wage loss sustained. The cost of such benefits should be financed out of contributions made by the workers of this country and by their employers, supplemented ultimately by some contribution from the government, representing the entire community.

Yet even a comprehensive contributory social insurance system cannot provide complete protection under all conceivable circumstances. Certainly an insurance system cannot insure against hazards that occurred before the system was established. Therefore, a basic and comprehensive system of public assistance is also necessary to meet the needs of individuals and their families that cannot be met out of their own resources.

Under a contributory social insurance system, benefits are usually payable to compensate for a portion of the wage loss sustained, but without applying a means or needs test in the individual case. However, the benefit formula is usually constructed in such a way as to pay a greater proportion of benefits to low-wage earners with large families than to high-wage earners with no dependents. Contributory social insurance, as its name implies, is mainly supported by contributions made by the potential beneficiaries and by the employers of the potential beneficiaries. In contrast, public assistance is payable only on the basis of a showing of need in the individual case, and is usually financed out of general tax revenues.

### *A Comprehensive Contributory Social Insurance System*

It is perfectly feasible, I believe, to construct a single comprehensive contributory social insurance system that would cover all the major economic hazards to which the workers of this country are exposed. The simplest way to accomplish this purpose would be to use the present Federal old-age and survivors insurance system as a foundation. Under that system, individual wage records have already been established for 74 million individuals. There is no reason why these individual records cannot be used for determining benefit rights for unemployment insurance as well as for temporary and permanent disability and medical care. Through the use of teletype equipment the individual records could be made instantly available to any local office throughout the country so that claims could be processed without delay.

Employers would have to make only the 4 quarterly wage reports they already make under the Federal old-age and survivors insurance system. This would be in sharp contrast to the 209 reports an employer must now make under the old-age and survivors insurance system and the 51 different unemployment insurance laws if he happens to be operating in all these jurisdictions.

A single string of offices could be used for all phases of such a system of contributory social insurance. There should also be established representative advisory committees

and, in the case of unemployment insurance, local tripartite appeals boards to make certain that all the individual and local circumstances are taken into account in making the decisions.

The fact that it is possible to decentralize claims determination is evidenced by the experience developed under Federal old-age and survivors insurance. Under that system, 97 percent of all claims are determined in the local office. Contrast this decentralized claims determination with the centralized claims determination that exists under most State unemployment insurance laws. I believe that more realistic decisions would be made in unemployment insurance if the decisions were made locally, subject to appeal to a local representative tripartite board familiar with local labor-market conditions.

If a comprehensive contributory social insurance system is adopted covering all the hazards that I have mentioned—unemployment, temporary disability, permanent disability, old age, and death—it of course becomes increasingly desirable and necessary that the coverage of such a system be extended as widely as possible, since all the population of this country is subject in varying degrees to these hazards. From an administrative standpoint, there is no longer any reason why any groups should be excluded and from the standpoint of providing protection there is every reason why they should be included. In the case of workers for small employers it is administratively feasible to extend coverage through the use of a stamp-book system. Under such a system the employee would be furnished with a stamp book in which the employer would place stamps evidencing his and the employee's contributions. In rural areas the employer could purchase these stamps from the mail carrier, and in urban areas they could be purchased at post offices.

It would of course not be feasible to insure self-employed persons against unemployment or temporary disability, because there would be no employer-employee relationship or specific wage loss to serve as a test of entitlement to benefits. It would be perfectly feasible, however, to insure

self-employed persons against the other economic hazards mentioned.

During the first few years it is probable that the current costs of all the benefits suggested, both the present benefits and the ones added, would be more than covered by a total combined rate of contribution on pay rolls of 8 percent, depending on the exact benefits provided. This rate would include both employers' and employees' contributions. The total combined normal rate at the present time is 5 percent. Even under the present Social Security Act, this combined rate automatically becomes 9 percent by January 1, 1949.

I believe that a unified comprehensive system of social insurance offers the greatest assurance that there will be no gaps or overlaps or anomalies in the protection that is afforded against the various risks covered. At present it is of course possible for a person to have worked an insufficient length of time to qualify for retirement benefits under Federal old-age and survivors insurance or under any other private or public retirement system. On the other hand, dependents of a worker who is killed can draw benefits under four different kinds of Federal and State laws—old-age and survivors insurance, the United States civil-service retirement system, State workmen's compensation, and veterans' legislation. Until recently, a surviving spouse could also have drawn benefits under the Railroad Retirement Act as well. Recent amendments, however, provide that survivor benefits shall be calculated on the combined wage record developed under the Railroad Retirement Act and the Social Security Act.

Some question might be raised whether a national contributory social insurance system would not be too inflexible because of the necessity for uniform provisions applicable throughout the entire country. However, if benefits are related to an individual's past earnings, as I believe they should be, they would of course automatically reflect differences in wage rates in the various parts of the country. In fact, there would be much more consistency than now exists under the 51 different State unemployment insurance laws. At present, workers with exactly the same earnings record can draw unemploy-

ment benefits in a year ranging all the way from \$210 to \$546, under different State laws, at a weekly rate varying all the way from \$15 to \$25. Likewise, employers with exactly the same experience with unemployment have to pay contribution rates ranging from one-tenth of 1 percent to the full normal rate of 2.7 percent.

Then, of course, it should also be borne in mind that a national system would take into account a worker's total earnings history, however many States he may have worked in. Thus, there would be no possibility of a worker's failing to draw benefits because his wage record has been split between two or more States or of his drawing duplicate benefits because he qualifies under the laws of more than one State. Neither would there be the long delay that now exists in the payment of benefits to workers who move from one State to another.

But, regardless of whether we have a straight national contributory social insurance system or a combination of a national social insurance system covering what might be termed the long-term risks, such as permanent disability, old age, and death, and State systems protecting against the so-called short-term risks of temporary disability and unemployment, there is great need for coordination between the various systems. Several of the State unemployment insurance agencies have experimented with using the Federal old-age and survivors insurance records, with considerable success. Greater uniformity in the coverage provisions of the Federal and State laws is necessary, however, before any extended use could be made of the Federal old-age and survivors insurance records by the various State unemployment insurance agencies. Greater uniformity in the coverage provisions is, of course, desirable in any event, since it might enable employers to use carbon copies of one wage report for both Federal and State purposes.

### *A Comprehensive Public Assistance System*

Our attack on the prevention of destitution must be a two-pronged attack, as I said earlier, including both social insurance and public assistance. I have laid more emphasis on the development of a comprehensive con-

tributory social insurance system, because I believe that such a contributory system is more in keeping with our system of free enterprise than is a system of public assistance. We must recognize also, that even with a comprehensive contributory social insurance system it would be too much to expect that all human destitution would be eliminated. No system of social insurance can insure against hazards that have already occurred or can provide adequate protection in all conceivable circumstances. Therefore it is important that we also greatly strengthen our present system of public assistance, which should continue to be operated by the States rather than the Federal Government. However, time will not permit me to discuss how our present system of public assistance can be and should be strengthened.

The reason I believe that a contributory social insurance system fits in better with a system of free enterprise is simply this: Under social insurance there is always some recognition given to the previous wage history and length of time a beneficiary has been insured and therefore to differentials in past income which an individual has been able to develop. In contrast, under any system of public assistance it remains true that, since the assistance is based on the individual need, the more a person saves the less he gets by way of assistance. Moreover, in order to get assistance, the applicant must submit to a needs or a means test, which, however intelligently and sympathetically administered, creates an invidious distinction destructive of individual morale. The great virtue of a contributory social insurance system is that it prevents human destitution before it occurs instead of undertaking simply to relieve it after it has occurred. Therefore it must always be a first line of defense and public assistance a secondary line of defense against human want.

### *Health Insurance*

Before closing I should say something about health insurance, since it has received considerable attention lately. Of course a sharp distinction must first be made between insurance to cover a portion of the wage loss sustained and insurance to cover the

cost of medical care. The American Medical Association, which, as you know, is opposed to a system of contributory social insurance to cover the cost of medical care, is not opposed to cash indemnity to pay a portion of the wage loss due to sickness.

When we turn to the question of protection against the cost of medical care, again it is essential for clear thinking to distinguish between socialized medicine and health insurance. Socialized medicine implies medical services provided by physicians employed by the Government; health insurance, on the other hand, implies a system whereby medical service is provided by private, competitive practitioners who are reimbursed from a special insurance fund for the services they render. In other words, socialized medicine is not only a system for spreading the cost of medical care but also a system of medical practice; in contrast, health insurance spreads the cost of medical care and does not replace the competitive private practice of medicine. Only the Union of Soviet Socialist Republics has a national system of state medicine; more than 30 countries have national systems of compulsory health insurance.

In this country, every State but one is already operating a system of compulsory health insurance applicable to accidents and diseases arising out of occupation—that is, workmen's compensation. I am sure that no one would think of abandoning workmen's compensation insurance. It seems generally agreed that, in spite of recognized deficiencies, workmen's compensation has resulted in providing more nearly adequate medical care for the victims of work accidents and diseases and more nearly adequate compensation for the physicians and hospitals called upon to treat them. In the broader sense, health insurance is merely more inclusive than workmen's compensation; it covers nonoccupational accidents and diseases.

The administration of health insurance should of course be decentralized so that all necessary arrangements with doctors and hospitals and public health authorities could be subject to adjustment on a local basis. The local hospitals and doctors should

be permitted to choose the method of remuneration which they desire.

Besides free choice of method of remuneration, the system should provide free choice of physicians and free choice of patients. The professional organizations themselves should be relied upon to assist in the maintenance and promotion of desirable professional standards.

Voluntary organizations that provide health services would have an important role under a system of health insurance. So would voluntary cooperative organizations that are concerned with paying doctors, hospitals, or others for health services but do not provide these services directly.

Though hazards are involved in any governmental attempt to meet the problem of spreading the costs of medical care, I believe we must recognize that there is a large and growing demand by the people of this country that the Government act. Every unbiased poll that has been taken in the last 10 years shows that this is so.

The British Medical Association, as a result of more than 30 years' experience with health insurance, is wholeheartedly in favor of the principle of compulsory health insurance. Indeed, it has assumed leadership in demanding that the present health insurance system be made more comprehensive in terms of persons covered and services provided. Likewise, the Canadian Medical Association has gone on record as favoring the principle of compulsory health insurance.

### *A Minimum Basic Security*

The twin programs I have suggested—a comprehensive contributory social insurance system supplemented by a comprehensive public assistance system—would provide only a minimum basic security for the people of this country. It would provide a safety net protecting the people of this country against major economic hazards, not a feather bed releasing them from the necessity of helping themselves. It would be an effective system because the benefits would be related to proved wage loss or proved need. It would be a system which would provide a maximum amount of security at a minimum cost.

In fact, in a very real sense the costs of insecurity are now being

borne by the individual citizens of this country. A sound social security program makes these costs more bearable by distributing them more systematically and equitably.

Because only a minimum basic security would be provided, there would be every inducement to the individual to provide still better security for himself and his family through individual savings and private insurance. This development has already occurred in connection with Federal old-age and survivors insurance. The amount of group annuity business written since the Social Security Act was passed is many times the amount written in all the previous years. As you may have noticed from advertisements and the radio, several large life insurance companies are basing their sales promotions largely on the feasibility and desirability of additional insurance to supplement the basic insurance protection provided by the Government system. I am confident that insurance companies generally believe that this Government system educates and induces the public to obtain additional protection through private insurance.

Let us also not forget that under a contributory social insurance system the financial base is automatically provided. The workers of this country and their employers pay for the benefits that are received. It is not a plan for giving everybody something for nothing but a plan for organized thrift. As former Prime Minister Churchill said, the essence of social insurance is "bringing the magic of averages to the rescue of the millions."

The program I have outlined will not usher in Utopia. Even so, there are some who believe that providing a minimum basic security is unnecessary and unwise. They believe that destitution, by and large, is due to personal inadequacy and derelictions rather than to impersonal social forces. They are therefore convinced that any government action aggravates rather than relieves the problem.

I think we must agree that social security does substitute hopes for fears. It really comes down to a question of just how much faith we have in the common man and in democratic government. Putting it bluntly, we must decide whether the common

man must be driven to exert himself by the fear of starvation or whether it is hope of reward that leads to high endeavor.

If the common man needs to be driven by fear of starvation there can be very little hope for the success of democratic government. In a democracy the will of the common man is the law of the land, and the common man will not vote for starvation. In-

deed, to my mind, reliance on fear of starvation as a motive force is worthy of a slave nation, not a free nation. The greatest war in history has just been fought to make certain that free people shall inherit this earth. We can be absolutely certain that, as the forces of democracy advance, the postwar world is bound to be one of greater social security and less individual insecurity.

## Two Programs for Employment Security

By Arthur W. Motley\*

*Legislation enacted in July 1946 directed the Secretary of Labor to transfer to State operation on November 15 the public employment offices which were transferred by the States to the Federal Government in January 1942 to centralize and unify the mobilization of the labor force for war production. This article discusses the coordination and development of the employment services and the unemployment insurance systems as part of a single program of employment security serving business, labor, and the community.*

THE OBJECTIVES of unemployment insurance and of employment service are identical. Both are directed toward the employment security of the worker. The functions of each are so closely interlocked that, from the standpoint of the public, the employer, and the worker, both programs serve the same ends—to help a worker find a job when he is unemployed and to help him bridge the gap in income between jobs. Because both programs are parts of a single plan, the separate functions of one complement and strengthen the functions of the other. The job-finding operation of the employment service is a necessary adjunct to the determination of eligibility for unemployment insurance. Unemployment insurance, on the other hand, helps to channel workers through the employment service, thereby providing a central place where employers can look for workers.

### Complementary Programs

This mutual support that the programs give each other, especially the support that unemployment insurance brings, is often overlooked or mini-

mized. More persons hold jobs in the United States today than ever before in the peacetime history of our country. More persons are covered today under our State unemployment insurance laws than ever before in any peacetime period. Broad, Nationwide machinery has thus been established whereby a large percentage of workers who change industrial employment automatically pass through the employment service facilities in order to participate in unemployment insurance.

Before the passage of unemployment insurance laws, employment service offices were on the fringe of the labor market insofar as the labor supply was concerned. With the establishment of unemployment insurance, the employment service gained stature. It became an important and integral part of the movement of workers in the labor market. Today the flow of workers through the process of claiming unemployment benefits not only gives the employment service an opportunity to help workers find jobs; it also places the employment office in a much better position to serve employers.

Since the workers, to be eligible for unemployment insurance, must register for a job, every unemployed claimant must go through the employ-

\*Assistant Director, Bureau of Employment Security. Based on a speech delivered August 15, 1946, before the Interstate Conference, Regions XI and XII, Mt. Rainier, Washington.