

# The First Decade in Social Security

By A. J. Altmeyer\*

TEN YEARS IS a short time in which to measure social advance. A relatively modest proposal for social legislation has often taken a decade or more to develop the public understanding and support that finally made it law in a State, and perhaps a generation before it became a reality for any substantial part of our people. Yet in the 10 years since August 14, 1935, when the Social Security Act became law, the United States has built a comprehensive system of old-age and survivors insurance and Federal-State systems of unemployment insurance and public assistance in all the States and Territories.

For perspective we may look back at the early years in workmen's compensation, the only form of social insurance in which the United States had comprehensive experience before 1935. What was probably our first official study and report in this field of social legislation was issued in 1893. Ten years later, only one limited State law, later declared unconstitutional, was on the statute books of the Nation. At the end of another 10 years, less than half the States had workmen's compensation laws that had survived the scrutiny of the courts, and the first Federal law, enacted in 1908, covered only civil employees of the Government. Even now, after more than half a century, not much more than half the workers of this country are protected, and one State still has no law to compensate workers injured on the job.

Probably never before in a corresponding period of time has legislation done as much to establish a ground work of economic security for families in the United States as in the years following President Roosevelt's message of June 8, 1934, in which he said to Congress: "Among

our objectives I place the security of men, women, and children of the Nation first."

## *At the End of a Decade*

Today some 40 million people are insured under the Federal system of old-age and survivors insurance. That is, they have credits toward old-age benefits, and, if they should die today, monthly benefits or a lump sum would be payable the survivors named in the act. Their survivor insurance alone represents \$50 billion in family insurance protection. The amounts of retirement benefits depend, of course, on a worker's whole wage record when, at or after age 65, he leaves covered employment.

Additional millions of workers have some credits toward benefits. In all, more than 74 million persons, about two-thirds of the total population aged 14 and over, had credits under the system by the middle of 1945. By that time, benefits totaling more than \$23 million a month were in force for some 1.3 million persons. These include about 760,000 old people—workers, their aged wives or widows, and aged parents of deceased workers who left no widow or child; 380,000 children of deceased or retired workers; and 145,000 widows who have the child or children of a deceased worker in their care.

Under the Federal-State system of unemployment insurance, about 36 million workers have wage credits that will qualify them for benefits if they are thrown out of work involuntarily and are unemployed, and additional millions have credit toward benefits. Over the whole period from January 1938, when nearly half the States began payment of unemployment benefits, through June 1945, some \$2.2 billion has been paid under the State systems to replace part of the wages lost by insured workers

who were unemployed through no fault or wish of their own. In recent years the annual disbursement has been relatively small, because few workers lost jobs and most of those who did found other work before they had completed the waiting period or had received more than a few of the weekly benefits for which they would have been eligible.

The importance of unemployment insurance was clear not only in the 1930's but also in the dislocations of the war years when plants have had to shut down to re-tool or await materials. Now we enter the uncertainties of industrial reconversion with a backlog of more than \$6½ billion in State reserves for unemployment insurance and a Nation-wide administrative organization experienced in the operation of unemployment insurance. Never before in our history have the workers of the United States had such a resource for weathering postwar changes or other widespread economic readjustment.

Because social insurance is so new in the United States and still is incomplete in both coverage and scope, it has been imperative that the social security program include a comprehensive method of giving immediate aid to needy people who have not had an opportunity to build up social insurance rights or who meet with some misfortune not covered by social insurance. The three assistance programs for which the Federal Government makes matching grants-in-aid to States meet immediate need among three groups who are unable or little able to earn their own living—needy old people, blind people, and children who lack parental support or care because of the death, absence, or incapacity of a parent.

Wartime conditions have made it possible for many people to leave the assistance rolls or to get along without

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asking for public aid which they might have needed in ordinary times. In the tight labor market, some old or handicapped people and some mothers and children have found jobs they could do, while others have benefited from increases in the earnings of members of their families or from allowances as servicemen's dependents. Even so, more than 2 million old people, about 1 aged person in 5, are receiving old-age assistance on the basis of need. Aid is being given under the Social Security Act to more than 50,000 blind persons and to about 650,000 children in more than a quarter million families.

### *The Roles of Insurance and Assistance*

For children, the role of social insurance in helping to prevent need is already becoming clear. More fatherless children are receiving benefits under old-age and survivors insurance than are receiving aid to dependent children because of the death of the father. For the aged, the insurance system takes a longer time to get under way. The old people now on the assistance rolls average about 75 years in age and are frequently in failing health. Many of them had passed the age for active work by 1937, when wage credits began to accrue under the insurance system.

Moreover, many of the people now old have had most or all their past work in jobs that still are not covered by the insurance system, such as farming, their own small businesses, or domestic work. Even if they have been able to work at some time after 1936, they have had little experience to offer in employment covered by the insurance system. Until war tightened the labor market, elderly people in general found it hard to get jobs, and many used up whatever savings they had during the hard times of the 1930's.

As time goes on, of course, an increasing proportion of the people reaching retirement age will have had, at some time during their working lives, enough covered employment to qualify them for at least minimum insurance benefits. As coverage is extended, insurance benefits will more often replace part of the loss of earnings among the aged and the unemployed and among families with fatherless children. If the scope of the

program is extended to include cash benefits to sick and disabled workers and their dependents and insurance against costs of medical and hospital care, it will go far toward cutting down another great cause of poverty and insecurity.

But however comprehensive the insurance provisions, they must necessarily be fixed in relation to the common needs of large groups of people and the levels of protection that the system can afford to provide for large numbers. Some people, such as those handicapped from birth or childhood, will be unable to meet the eligibility requirements of an insurance system. We shall always need a complementary program of assistance to meet the needs of people who are not eligible for insurance benefits or who suffer a misfortune that causes their need to be greater than the system is designed to insure.

### *Fears That Proved Groundless*

Thus now, at the end of 10 years, millions of people have some basic security of income because of the operation of the Social Security Act, and many times that number have assurance of some protection for themselves and their families if they lose their jobs or die or when they are old. Impressive as the figures are, however, they are probably not the most significant achievement of the program during its first decade. That, I believe, is the place which social security has made for itself as a part of our democracy and our American way of life.

It is hard now to recall some of the remarks made about social security in 1935 and 1936. It was unconstitutional, some people insisted. Unworkable, said others, who pointed to our lack of experience in administering social insurance, made dark predictions of political chicanery, and hinted that no worker would ever draw a benefit. Some insisted that the program would bankrupt the Nation. Still others were concerned with moral hazards. Social security, they declared, was a Prussian invention to regiment people or, on the other hand, a first step toward communism. It would destroy individual enterprise and initiative and individual and family responsibility, perhaps even destroy our competitive economic system.

Actual experience quickly belied all such charges. In the spring of 1937, the Supreme Court stilled any doubt as to the constitutionality of the insurance provisions of the act. The program has worked—probably even better in some respects than its sponsors dared hope. In a few weeks at the end of 1936 and in early 1937, in collaboration with the post offices, we accomplished the unprecedented job of registering more than 23 million workers to be covered by old-age and survivors insurance and of setting up individual accounts to record their taxable earnings. In spite of employers' and workers' unfamiliarity with wage reporting, the records of earnings posted to these accounts and to nearly 60 million subsequently established accounts have been kept with only an insignificant percentage of error. The mechanical techniques adapted or invented for these purposes make it possible to maintain a worker's account for about 17 cents a year.

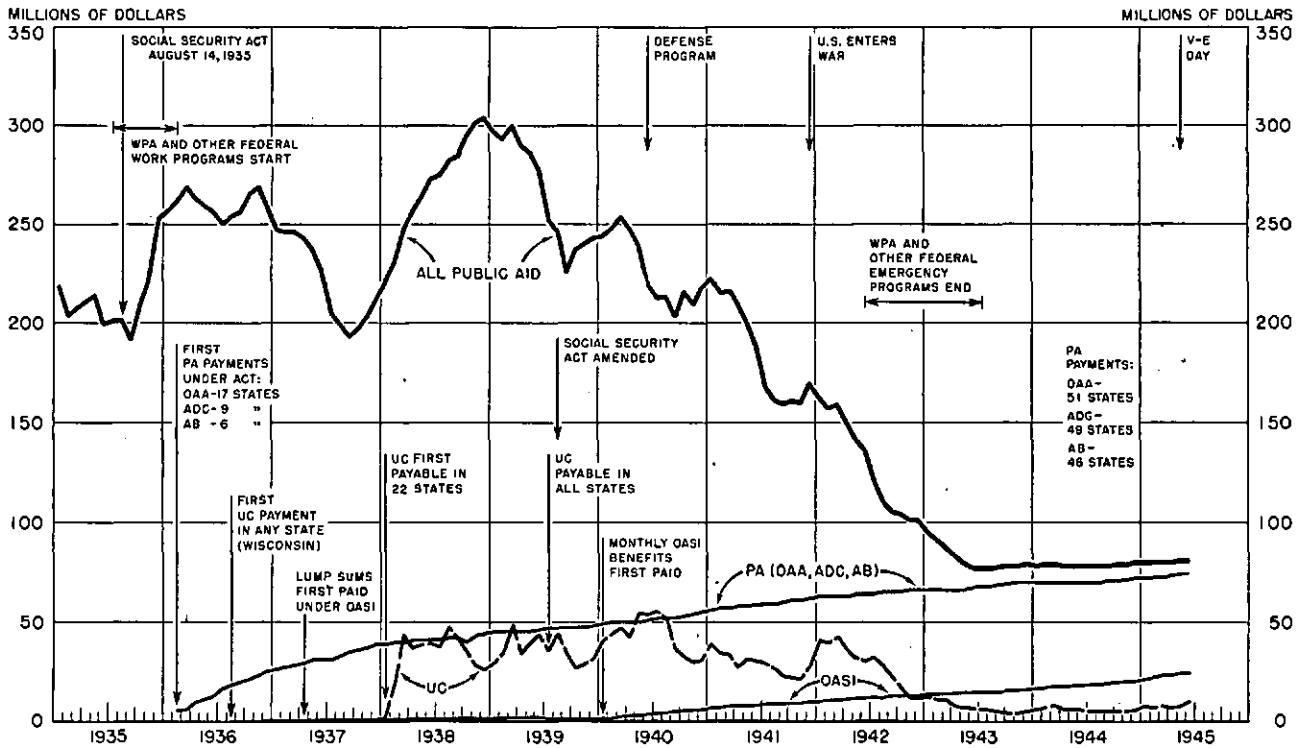
Four years after the Social Security Act was passed, the 1939 amendments extended old-age insurance to include survivor benefits and advanced the date for paying monthly benefits by 2 years, but claims were adjudicated promptly and benefits paid on time. By July 1939 all State unemployment insurance systems were paying benefits. The availability of Federal grants-in-aid enabled the States to extend and improve their public assistance programs greatly, and in many places to establish a program for the first time for needy old or blind people or needy children.

Throughout State and Federal social security agencies, careful selection and training of staff and hard work overcame the initial handicap of lack of experience. Operating universally under merit systems for personnel, these agencies have achieved a record of impartial and efficient administration. They have worked out successfully many new techniques in intergovernmental collaboration.

Disbursements under the program have been less than was estimated in advance, especially in relation to earnings. With the country's recovery from depression, expenditures have been a far smaller relative charge on our economy than was contemplated in 1935.

The less tangible fears could have

Chart 1.—Payments for all public aid, including Federal work programs, and for social insurance and public assistance under the Social Security Act, January 1935—June 1945



been discounted in advance by anyone who had looked back at other chapters in the social development in this country. A century earlier, some people were saying that public education ran counter to the American principles of government and would destroy freedom, the home, and individual initiative and responsibility. Similar remarks were made later when legislation was proposed to control conditions and hours of work, establish minimum wages, compensate industrial accidents, or establish methods of protecting the community's health. Nearly all of us would agree, I think, that the United States is a far stronger, freer, and richer Nation than it could have been if the alarmists who opposed such legislation had had their way. Freedom to be illiterate or sick or hungry is not a freedom to be prized by a people or by individuals.

*Social Security and Self-Responsibility*

If proof were needed that social security does not endanger the moral fiber of the Nation, the war years would give it. As jobs opened up in wartime, the assistance rolls went down. In old-age insurance the rise

in the beneficiary roll has been much less rapid than would have been expected at this stage in the development of the system. For every aged worker who has claimed benefits, there are about two who, though eligible, are not taking their payments because they have continued to hold or got jobs in covered employment. Most of those who have retired were not physically able to continue to work. In unemployment insurance, likewise, the very small beneficiary rolls have been heavily weighted with old people, handicapped people, and women with little work experience—the last hired and the first fired. Even claimants who have drawn benefits have generally been quick to find other jobs and so leave the rolls.

The social security program thus has been operating, as its founders intended, as a means of replacing part of the wage loss of workers who find themselves unable to earn and of helping people who lack the means of subsistence in even a period like the present. The operations of both insurance and assistance programs show that Americans continue to prize their capacity for self-support and family support and will and do work when they can.

The advance fears came from our primitive distrust of anything different, anything new and hence strange. Such fears are not confined to social legislation. Locomotives, bathtubs, and even automobiles were held by some people to menace morality and civilization when they were first introduced. Because social legislation is designed to conserve and enhance human values, it bears on the relationships that people cherish most deeply—their relationship to their work, to members of their family, to the community. So anything that seems like a new element in such relationships is especially likely to be feared in advance.

As I see it, however, the world-wide concern for social security in recent decades and especially in these last 10 years is not an effort to inject something new in those basic relationships. Its purpose is to conserve what men and women have long cherished in the face of changes they themselves cannot control individually. President Roosevelt had that objective in mind in the initial message on social security he sent to Congress in June 1934: "Security," he said, "was attained in the earlier days

through the interdependence of members of families upon each other and of the families within a small community upon each other. The complexities of great communities and of organized industry make less real these simple means of security. Therefore, we are compelled to employ the active interest of the Nation as a whole through government in order to encourage a greater security for each individual who composes it . . . This seeking for a greater measure of welfare and happiness does not indicate a change in values. It is rather a return to values lost in the course of our economic development and expansion."

At the end of this first decade, that general idea has permeated much of our thinking. We in the Board see it in letters from old people telling of their joy in receiving the small benefits which, with their other savings, will enable them to live out the rest of their lives in independence and modest comfort. We see it in letters from widows who write to say that the benefits based on the dead father's earnings will enable them to give their children a fair start in life. We see it also in appeals from those who write to ask why the program is not extended to their kind of work so they, too, can earn this assurance for themselves and their families.

I have not heard anyone question recently the value and importance and permanence of the social security program in general. Likewise there seems to be a general belief that social security will be strengthened and extended. When it comes to specific proposals for improving the program, however, the fears of some people begin to bristle, and again we hear many of the same objections that were made 10 years ago to the initial proposals. I can only believe that, as in the past, they will prove groundless.

#### *Rights to Insurance and Assistance*

The months and years just ahead will test public understanding of the program and of the adequacy of its provisions and administration. We may expect an upturn in claims for old-age and survivors insurance from people who are now eligible but are not taking their benefits. As war plants cut back and servicemen return, many older workers and inexperienced workers will find they must

or wish to give up paid work and will claim their benefits under this Federal system. In unemployment insurance, too, many workers will have occasion to draw on their insurance rights, for which contributions have been paid by their employers—in a few States, by the workers as well.

All unemployment insurance laws include certain tests to show that a person is genuinely unemployed. In addition to having the necessary wage credits that show he has worked in covered employment, he must be able to work and available for work, must report regularly at the employment office, and be willing to take any suitable work offered him. Benefits cannot be denied, however, if he refuses unsuitable work or work which is below the community's standards for that kind of a job in rate of pay, hours, or other working conditions; these provisions protect not only workers but conscientious employers and the community generally. Up to the number of weeks of benefits to which his wage credits entitle him, the worker who cannot find another job has a fraction of his former earnings to live on while he looks for work that he is equipped to do.

During the wartime labor shortage, some people have contended that a person who lost his job should be obliged to take any work that was open or forfeit benefits otherwise due him. They haven't stopped to think that an elderly bookkeeper, for example, ordinarily is not physically able to take a job in a foundry or acceptable to the employer, no matter how badly foundry workers are needed. A musician who lost his job when the curfew was imposed usually could not be expected to become an efficient truck driver or tend a mangle in a laundry. At any one time some people who fall out of work do not match the jobs that are open, even when the openings are many and urgent. At best, benefits represent about half, and now more commonly one-third, what a man has been earning in the months before he lost a job. Benefits are not paid for the first week or two of unemployment and continue for only a limited number of weeks of unemployment. Thus there is no lack of economic pressure on most beneficiaries to take jobs when they can get them.

In the war years, people have been

urged, as a patriotic duty, to take new work and develop new skills. Some of them would have done so anyway; the war has only given them a better chance than they would have had otherwise. For others, the war has meant perhaps the chance of a lifetime to escape from disagreeable, low-paid jobs to which they hope never to return. Particularly because of the hard times for years before the war, many workers have known for the first time what it is to have regular earnings that give them and their families a decent livelihood and perhaps some chance to save. As the reconversion progresses and many people have to look for new and different jobs, often in different towns or cities, decisions on "suitable work" that are just and reasonable for all concerned will become increasingly difficult.

Changes in the labor market that will force out older people and inexperienced workers are also likely to force an increasing number of people to have recourse to what is now recognized as the right to assistance. Rights to social insurance are conditioned on wage loss; rights to public assistance, on need. But they are both rights recognized by law. The Social Security Act sets up several safeguards to this right to assistance. Aid must be given in money, which the recipient is free to spend as he thinks best, just as people spend other money. If he disagrees with the decision made in his case, the assistance agency must give him a fair hearing. Any personal information he gives the agency must be held confidential.

Now these requirements were not established merely as a kindness to the recipient. They are intended to help him and his family to remain or become the kind of persons the community wants—self-respecting, self-responsible, capable of managing their own affairs. If the recipient has the capacity to become fully self-supporting, these provisions will help him to do so. Children who are being aided because their father is dead or disabled or absent should not be branded as different from other children in the community; that is one way in which poverty and dependency may be continued from generation to generation.

Being needy is not a condition which people seek. Few in this coun-

try would consider the subsistence levels at which assistance recipients live an enviable lot. The more we learn about the conditions that cause need or are associated with need, the more impossible it becomes to draw the old distinctions between the worthy and unworthy poor. Probably assistance will always seem somewhat of a stigma to most people who receive it, because in a money economy there is a sense of personal failure and limitation in not having enough to live on. But as communities fully recognize the right to assistance on the part of persons who lack what is necessary for a minimum level of decent human existence, they will help to wipe out the conditions that make for hopelessness and lack of thrift and tend to perpetuate dependency.

Both the insurance and assistance programs under the Social Security Act are built on the assumption that it is hope, not fear, that leads people to exercise initiative and assume the responsibilities of citizens in a democracy. This seems to me not only a reasonable assumption from our prevailing experience with human nature, but also a necessary assumption if we are to hold to the principles of a democracy.

### *Next Steps in Improving Social Security*

In these first 10 years of its development, social security measures have been focused on the needs of particular groups. In 1935, when the act was formulated, the unemployed were in the forefront of everyone's mind. Both legislators and the general public were also becoming increasingly aware of the problem of old-age dependency. That was inescapable, not only because the depression had wiped out the lifetime savings of many aging people, but also because the proportion of the aged in the population was increasing and city life often brought changed circumstances. There are relatively fewer sons and daughters to care for the old people, and city flats cannot be stretched to care for additional members of a family. Most city people have to buy, rather than raise, the family's food; support of aged relatives therefore more often has to be measured in money, rather than in work that old people themselves can share. In city life, children also are no longer an

economic asset to a family as they were, and to some extent still are, in country life.

Now we are beginning to think less in terms of groups or categories of people and more in terms of the risks to economic security that strike nearly all families at some time in the course of their existence. From this standpoint, our program is still far from complete.

American workers and their families still lack any comprehensive insurance provision against two prime causes of poverty and dependency—wage loss in sickness and disability and costs of medical care. Our basic insurance program—old-age and survivors insurance—still covers only about three-fifths of all the jobs in the Nation. In unemployment insurance, coverage is even more limited, and the amount a jobless worker gets and the number of weeks for which he can draw benefits if he remains unemployed differ greatly from State to State for workers with similar records of past earnings. Contribution rates differ likewise for employers in the same business and with like records of employment experience.

Standards of public assistance also vary greatly among the States, chiefly because of basic State differences in economic capacity, the limitations of our present system of matching Federal grants-in-aid for the three special types of assistance, and the lack of any Federal participation in financing general assistance. States with only small resources of their own can now claim only small amounts of matching Federal funds, though presumably their assistance needs are greater than those of States which have large resources and so can get large amounts in matching Federal funds.

At the end of these 10 years we have the information and experience to enable us to round out the social security program in terms of the risks it should cover and the groups of the population for which it should afford protection. Contributory social insurance is a method which can be used to compensate any of the major risks of wage loss—sickness and extended disability, unemployment, retirement, and death, as well as the costs of medical care. A comprehensive social insurance system could afford protection to all to whom these

risks apply. It could have the simplicity and economy attainable through use of a single set of wage records, a single contribution, a single set of local offices to administer all types of cash benefits.

In public assistance, studies of the Board have indicated the desirability of providing special Federal aid, on an objective basis, to States with only small resources of their own, in addition to the 50-50 Federal grant, so that they too would be able to provide their needy people with a decent minimum level of subsistence. Federal participation, the Board also believes, should extend to general assistance and should include sharing the costs of providing medical care to needy persons.

### *The Course of Development*

Our present concern with problems of rounding out protection against economic risks and of harmonizing the network of various types of provisions that have developed more or less haphazardly under various laws follows a course that has been evident in every country that has adopted social security measures of one type or another. It is perhaps notable that in this country we are approaching this phase after only 10 years, while England, in which a comprehensive reconsideration and revision of social security measures is now under way, is undertaking it more than 30 years after adoption of its first extensive program of social insurance.

In this process of development, two fundamental principles are at work—the principle of providing adequacy of benefits and that of providing universality of protection. A program starts out by establishing protection for a particular group that has aroused public concern—injured workmen or old people or children or veterans and so on. Then a law is passed to deal with a particular problem. In time several laws may come to deal in different ways with various parts of a problem. The people who are left out or have only an inadequate share feel that they, too, should have protection. Then comes the phase which we have already entered—trying to distinguish and harmonize existing ways of meeting a problem and making sure there is no avoidable gap and no undesirable overlapping.

Under adequacy of benefits I place not only the amounts but also the simplicity and objectivity and certainty of the provision. Here much has already been accomplished but much remains to be done. Hardly is a law on the statute books before some one proposes some way to improve it. People who distrust social security anyway are likely to complain about the entering wedge or to say, give an inch and they take a mile. But social security is so close to the essentials of our thinking and living that it too cannot help but be evolutionary.

Few people are content to accept for themselves the income and houses and other possessions that their parents or grandparents considered rather satisfactory. If we believe that the United States will continue to develop, we must believe that social security will also evolve and must realize that no particular set of provisions or dollar amounts will ever represent a constant or general standard of adequacy.

#### *Our Objectives in Social Security*

Our social security program reflects the kind of economic and political order we want. That, I take it, is a

democracy which provides opportunity for all yet rewards individuals in accordance with their capacities and efforts. Thus our social insurance benefits, unlike those in some other countries, differ in amount according to the beneficiary's past earnings.

But enlightened self-interest, as well as common humanity, requires that we set a floor beneath which human beings in our civilization shall not sink. Only in that way can an industrialized society preserve political democracy and a competitive economy in accordance with our traditions. By setting and maintaining such a minimum, we help to ensure an effective labor force and the steady stream of widely diffused purchasing power needed to keep workers steadily and fully employed.

In terms of social security, this objective is expressed in various ways. It is expressed in the relatively larger benefits of lower-paid workers, whose need is presumably greater, and in benefits to compensate for part of the loss in purchasing power which occurs when a man's capacity to earn is cut short temporarily or permanently for any reason that he himself cannot control. It is inherent in special

provision for the worker's dependents and in the recognition of the right to assistance on the part of needy persons. In financing, it requires the recognition that the people as a whole, as taxpayers, have not only an obligation but an interest in supporting any part of the costs of needed social insurance provisions that cannot be borne justly by the contributors themselves.

When President Roosevelt signed the Social Security Act in 1935, he called it the "cornerstone in a structure which is being built but is by no means complete . . ." The amendments of 1939 greatly strengthened certain parts of the program but left other needed protection still unrealized. The Social Security Board, in accordance with its responsibility for studying and reporting on ways of improving economic security, has outlined on other occasions its view of changes that are necessary and now feasible. Our success in achieving "domestic tranquillity" and lasting peace will depend in no small measure on the ability of this and other countries to achieve greater security for their peoples. In these first 10 years we have laid the foundation for that effort.