

Social Security and Post-War Planning

GEORGE E. BIGGE *

IN SPITE OF our preoccupation with the war in these days and partly because of the profound effect which the war is bound to have on our mode of life both now and in the post-war years, we find ourselves doing more social and economic planning than ever before. All groups in the community, workers and employers, rich and poor, urban and rural, are equally interested. Each of us is wondering just what the new world which we are planning has to offer him.

That is not only inevitable, but it is as it should be. We can do a better job of fighting the war if we have some notion, not only of what sort of world we are fighting for—as outlined in the Atlantic Charter, for example—but also what sort of Nation, and what sort of community. And more particularly, what stake the individual will have in that community. The world is a big place, and it is difficult for us as individuals to see our own stake in it clearly enough to be willing to sacrifice much for it day by day. We must see what that new world means to each of us here at home, where we live. If we can see that clearly, it will be much easier for us to make the sacrifices which will certainly be necessary in order to achieve the end for which we are fighting.

The last time we went to war, it was "a war to end war," a war "to make the world safe for democracy." It didn't end war because it didn't make the world safe for democracy. Only 20 years after the complete defeat of the autocratic powers, the dictators were challenging, in a more direct and formidable way than ever before, the whole democratic philosophy. One of the reasons why this thing could happen is that we in the democracies were not sufficiently clear in our own minds as to what democracy really means—what it has to offer to the individual citizen. We haven't solved the problem of assuring all of our own people a reasonable stake in the welfare which we expect such democracy to provide.

Of course, economic welfare is not the only thing we live for. Today thousands of men, and women as well, are flinging personal security to the winds to serve the Nation. But they will do it

the more readily if they feel that, when the war is over, their Nation will see to it that freedom from want and freedom from fear are achieved here at home. Our social security program can be an important means of achieving this freedom.

In considering this problem, it is necessary to make certain assumptions. If we were to assume that the Government, to assure a minimum of food and clothing, and housing, would find it necessary to operate these industries directly, as it operates the school system to provide education, then we might come out with one answer. But if we assume that these industries are to be operated by private enterprise, the answer will be quite different. And I am assuming that we do plan to continue a system of private enterprise. Democracy, it seems to me, requires that. It emphasizes the supreme importance of the individual human being with his initiative and his enterprise, his peculiar individual qualities and contributions. So I assume that we shall face our post-war problems under a system of individual initiative, private enterprise—whatever you choose to call it. What we are looking for is not a substitute for this system, but a device to make it work more equitably.

It is sometimes suggested that, if we are to have private enterprise, the employer should be required to provide security for his employees. But a little thought will convince us that this is impossible. An individual employer cannot guarantee all his workers a continuous and adequate income. He has no more assurance than the worker that the community will keep him continuously employed, that is, keep him in business. They are both dependent on the market. Some employers are lucky enough to have fairly regular markets so they can keep their workers employed, but, in the main, modern industry changes so rapidly in response to changes in demand and changes in methods of production that both worker and employer must be constantly free to make adjustments if we hope to have anything like full employment.

If a maker of shoes, for example, develops a way to produce the shoes the community will buy from him with half his former labor force, there is no

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reason why he should be expected to keep the other half employed. These workers are now free to produce something else—hats or coats or books or music—but this is somebody else's job. If an employer pays good wages fairly regularly to those workers whom he needs, to produce the goods which we will buy from him, and passes on to the consumer the benefits of improvements, he has probably done his part. But if we, as a community, want the benefit of private enterprise with its initiative, its flexibility, its new inventions and new industries, then it is our duty to make some provision for those workers who are deprived of their income by industrial changes which benefit the rest of us. That is not the individual employer's responsibility. We, as a community, must devise some system through which all employers and all workers can cooperate to guarantee to the individual worker the needed protection against loss of income and still leave both worker and employer free to make any adjustment necessitated by industrial changes. Social insurance is the best method yet devised for doing this.

So it seems to me that social insurance is an essential addition to modern industrial organization under a system of private enterprise. How far should our social insurance program be expanded? Will it, if so expanded, meet the demands which are likely to be made upon it? Is this an opportune time to undertake such an expanded program?

Benefits to Aged Workers and Their Survivors

How far the program should be expanded depends largely upon how much remains to be done. The Social Security Act as amended in 1939, in addition to providing aid for crippled children, maternal and child welfare services, and certain other benefits administered by other agencies, sets up under the Social Security Board three types of programs—old-age and survivors insurance, public assistance, and unemployment compensation. Old-age and survivors insurance covers all employees except those in special fields, chiefly agricultural, domestic service, nonprofit organizations, and Government employment. This is the program supported by the pay-roll taxes paid equally by employers and employees. Some 60 million workers now have wage records under the old-age and survivors insurance program. More

than 500,000 are drawing benefits, and many more would be eligible if they chose to retire, but jobs are easy to get and they prefer to work. Benefits are also being paid under the program to aged wives and children of retired wage earners and to widows, children, and dependent parents of deceased wage earners. The survivors' benefits are more important to the worker at present than retirement benefits, because millions of workers who have wives and children or dependent parents know that, if anything should happen to them, their dependents would be assured some regular income.

The benefits being paid are not large, but they do provide for millions of workers a kind of protection which they never had before. The average monthly benefit for a single worker when he retires is about \$23; for a man and wife, about \$35; and for a surviving wife with two children, about \$46.50. And this is theirs in addition to any other insurance or savings or property which the family may have. No means test is applied.

We believe this program should be extended to the groups now excluded, and expanded to protect the worker against additional risks which are not now covered. The chief reason that agricultural workers and domestic workers in private homes were not covered was the difficulty of administration. But after several years' experience, we are satisfied that the program can be applied to both groups without imposing any undue burden on either the worker or the employer. Employees of nonprofit institutions present no administrative problems. They were excluded primarily because educational and religious institutions did not wish to come in. Since that time, many who originally opposed coverage have asked that the program be extended to them, and it seems likely that some formula can be worked out that would secure the desired protection and yet avoid most of the problems which disturbed some of the leaders in this field.

Government employees, at least some important groups, were likewise opposed to coverage, partly because they already enjoyed more liberal retirement rights than those provided by the social security program. But thousands of the workers recently entering Government employment are now losing the protection which they had in private employment without acquiring comparable protection under any governmental system. It is

very important that some arrangement be made to continue the social insurance rights of those who shift from private employment to Government employment and probably back again, whether their work for the Government is in the regular departments, in arsenals or Navy yards or munitions plants, or in the armed services. The simplest arrangement would be to cover all Government employees in the same way as private employees are covered, adjusting any special retirement plans to this basic program just as many private employers have adjusted their retirement plans to the social security program.

Another group who have been asking and should receive protection are the small employers. Many small business men have complained that they are required to contribute for the security of their employees but are not permitted to acquire similar protection themselves. Several millions of people on the farm are partly employers and partly employees and should be covered in both capacities so that they may receive maximum protection. The Board feels that the old-age and survivors insurance program could and should be extended to cover these groups.

There is a special advantage in such broad extension of the system which is not at first apparent. As it is now, millions of workers—and their employers—contribute to the program, but the workers will never get any benefits because they never earn quite enough to be eligible. In order to qualify for old-age benefits, for example, one must earn a specified amount (\$50) in at least half of the calendar quarters since the program started. For survivor protection the wage earner must have received wages in covered employment for at least 6 out of the last 12 quarters. But many workers shift from one kind of work to another and do not spend half their time in covered employment. So they get no protection. If practically all occupations were covered, this could not happen. Millions more would then be eligible for benefits, and all their earnings would be counted in determining the size of the benefit they get. Broad extension, therefore, is of advantage not only to those now excluded but also to those who are already covered for a part of their earnings.

Sickness and Disability Risks

Not only should more people be covered, they

should be protected against other risks. Disability is one of the greatest risks of the wage earner. At any given time there are in this country about 2.5 million persons suffering from disabilities which have continued for a year or more. At least one-third of these individuals would have been in the labor force except for their disability. Yet very few of them have any protection against such loss of income. We believe there should be added to the old-age and survivors insurance program provision for benefits in case of disability. The same reports and records would be used, and the benefits could be the same as in case of old age or death.

The Board also believes it would be desirable to provide a cash allowance for a limited period in case of hospitalized illness. Nearly half the money spent in connection with sickness is spent in cases which involve hospitalization, and hospital costs are nearly half the total expenditures in these cases. While the total amount spent for hospitalization of wage earners is not large, the burden in any one case may be extremely heavy, and every wage earner is in danger of facing such a burden. If by a system of insurance the total cost is distributed over the whole group, the cost per worker is relatively small and all will be protected in case the misfortune strikes them.

The Assistance Programs

In order to care for the many needy groups until the old-age and survivors insurance program can get fully into operation, and even thereafter to care for those who for various reasons are not eligible under that program, a system of public assistance was set up to provide aid, on the basis of need, to the aged, to the blind, and to dependent children. The Federal Government pays approximately half the cost of these programs. Certain standards are prescribed in the Federal law, but in the main the State decides who shall be helped, how much they shall have, and the like.

In the last fiscal year the States and the Federal Government together spent \$742 million on these programs and aided approximately 3¼ million persons. These payments do a lot of good, but as a whole the programs have serious faults. In the first place, too large a portion of Federal money goes to a few States which are willing and able to pay high benefits, and relatively little help

is given to the poorer States. This situation exists because the Federal Government, under the provisions of the Social Security Act, can now spend in any State only as much as the State is able to spend from its own funds. The result is that the Federal Government is paying some of the more wealthy States an average of \$17 or \$18 per person on the old-age assistance rolls, and in some of the poorer States it is paying only \$4 to \$5 per person. Such a procedure doesn't serve the purpose very well. Presumably, the Federal Government is providing funds because the States are unable adequately to care for those in need. Yet we give most of the Federal money to States which need it least. Last year one wealthy State with 6 percent of the country's aged population received as much Federal money for old-age assistance as did 20 poorer States which had 21 percent of the aged population. If this system is to work, some provision must be made to send a larger proportion of Federal money into those States which need help most.

The same situation exists in the case of dependent children. Unfortunately, the States which have the largest proportion of children in their population are among those with the lowest per capita income. South Carolina, for example, has 41 children per hundred population. California has only 24. At the same time, the per capita income in South Carolina is only about one-third that in California. It is safe to say that South Carolina has a larger proportion of needy children. And yet, a year ago, California spent four times as much per capita on dependent children as did South Carolina.

Then, too, it appears that a disproportionate amount is spent on the aged as compared with children. In this country there are more than 33 million children under 15 years of age and only 9.4 million persons over 65. I think we may assume that at least as large a proportion of the children as of the aged are in need. As pointed out earlier, children are concentrated rather heavily in the poorer communities and, it may be added, in the poorer families. The family composition study, based on a survey made in 1935 and 1936, shows that one-third of all nonrelief families with three or more children had yearly incomes of \$1,000 or less. In other words, one-third of the families with three or more children had less than \$20 a week to live on. And these

were only the families who had not resorted to relief at any time in the year. In addition, there were 6 million families who had been on relief at some time during the year and, we may assume, were even more in need. It is, therefore, safe to say that as a group children are at least as needy as aged people. And yet, with only one-third as many aged persons as children, we are spending almost four times as much to help the aged as we are to help children. Why? If we are to build a better world for the future, we must make sure that the citizens of tomorrow are today given the essentials of a decent existence.

Moreover, while the public assistance program helps many of the aged and blind and dependent children, there are many others, equally needy, to whom the Federal Government gives no help at all. An "aged" person must be 65—that is reasonable—but there are persons aged 64 or 60 or 59 who are just as much in need. Children whose father is incapacitated or unemployed may be just as much in need as those whose father is dead or has left home. Yet the Federal Government does not match payments made to such persons, and many States which have only limited funds use their funds where they can get Federal matching and leave other groups of needy people largely uncared for. One State which spent \$5.74 per inhabitant last year for aid to persons over 65 years of age, spent only 15 cents per inhabitant for general assistance to those under 65. To assure reasonably equitable treatment of all needy persons, it seems to me, the Federal Government should help the States equally for all needy groups.

The Problem of Unemployment

The third program under the Board's general supervision is unemployment compensation. It can probably be said without fear of contradiction that the biggest single problem in the post-war world will be unemployment. And in this field we are the least prepared. It is true there are many plans being made for "full employment" in the post-war period, but I am inclined to think we shouldn't expect too much of them. It is one thing to say that, if industry fails to provide work for those who want it, the Government will do so, and quite a different matter to decide what the Government will have such people do, and where, at what wages, and so forth. And it is a still more

difficult problem to arrange matters so that presently the people so employed will be drawn back again into some kind of private employment. Some time we shall have to face the problem of shifting millions of workers and billions of dollars worth of productive equipment from production for Government to production for the market; of creating, in the process of production, the dollar income necessary to buy and to pay for the goods produced, instead of having them paid for in large part by bank credit created for that purpose on Government account. We have not yet demonstrated that we can solve that problem without experiencing mass unemployment. To talk glibly of "full employment" only tends to lull us to sleep so that when the time comes we shall be as unprepared as we were in 1930-39.

Whatever else we do, it seems clear that we should have a strong national unemployment insurance program to absorb the first shock, to give us time to put other plans into operation, and give the worker some income while he makes the necessary adjustments. I regret to say that our existing unemployment compensation program does not seem likely to meet these needs. Even in normal times several defects in the State systems were becoming apparent. Benefits were by no means adequate to meet the extent of unemployment. The weekly payments were often unduly small, and they were paid for too short a period. Even in 1941, a year of relatively high employment, more than two-fifths of the individuals who drew benefits were still unemployed when their benefit rights were exhausted. Certainly such a system cannot give us much help in the kind of situation we shall face when the war is over.

The most important shortcoming of our present unemployment compensation program, however, lies in the fact that while unemployment is clearly a Nation-wide problem, we are trying to deal with it through separate State laws. Unemployment may be centered to a considerable extent in a few States, but it is scarcely reasonable to expect these States to deal with the problem single-handed. One State may have relatively little unemployment and so can pay fairly liberal benefits with a small contribution, while another State may have so much unemployment that a similar level of benefits would cost 8 or 10 percent of pay roll, or more. In the post-war years particularly, when

unemployment will in general be traceable to war causes, individual States which are hard hit can scarcely be expected to bear the cost of a reasonably adequate unemployment compensation system. Some plan must be devised to deal with this national problem on a national basis.

Two possibilities suggest themselves. One is to continue the State system but amend the Federal law to provide minimum standards which must be met before a State may be eligible for Federal assistance. Then the Federal Government would need to collect a larger proportion of the total contributions and use these funds to meet the extra cost of paying the minimum benefits in those States which have a large volume of unemployment. The Federal Government would thus act as a re-insuring agency for the State funds in any case where the State was willing to meet the specified minimum standards.

The second alternative would be to establish a Federal system of unemployment compensation similar to the old-age and survivors insurance program, as the President suggested to Congress some time ago. This procedure would be simpler and more economical and would avoid much of the administrative difficulty inherent in any combined Federal-State system. Such a single program operating uniformly throughout the United States would be much more flexible and more readily adapted to meet changing conditions than one in which changes would require legislation not only by the Federal Government but also by the several States. Then, too, it would be much easier to formulate other policies for dealing with unemployment if there were a uniform system of unemployment compensation on which to build.

But the essential element in a system of unemployment compensation is a pooling of funds, whether this be worked out through a series of State laws or a single Federal system. To attempt to deal with unemployment on a separate State basis without national pooling is folly. It is like the householders of a city each attempting to protect his home against fire by putting a little water tank on his roof. It would be much simpler and more effective to pool the supply and make it available to any house which might be in danger. Just so, a national pooling of unemployment compensation funds would provide much more protection to each State than could be achieved through the use of its own resources

alone. Without such pooling, our unemployment compensation program will prove a weak instrument with which to face the post-war problems.

Should We Broaden the Program Now?

Would such a program as I have outlined give us complete security? No, it wouldn't. It would furnish a minimum basic protection upon which the individual can build as much more as his means permit and his judgment dictates. It would provide a minimum security for children who are not yet at work, for the aged who have retired from work, for the disabled who cannot work, and temporarily for the able-bodied who can find no work. The major job of finding or creating new work for the millions who will be released from war employment must be approached separately. But it will be easier to solve that problem of reemployment if these other groups are cared for. It will be easier to handle a bona fide work program, for example, if it does not have to be adapted to provide income for large numbers of needy people who are not really employable but who cannot get help in any other way. With only able-bodied employable persons to deal with, a work program can be established on an altogether different basis.

The final question to consider is, should we adopt such a program now when we have a war on our hands? I think we should. The best time to initiate such a program is during a period of active business and full employment. Contributions are much easier to pay then, and the funds accumulated will help carry through the bad years later. The necessary contributions should be shared by both workers and employers, with the Government helping out if need arises. If this is done, the cost will not be excessive for anyone. The Eliot bill, which was introduced in the present Congress and provides benefits somewhat similar to those I have suggested, carries a contribution rate of 5 percent each for workers and employers. This does not seem excessive. Employers are already paying 4 percent except where rates are reduced by experience rating. I understand the bill was introduced at the request of the American Federation of Labor. The Federation is to be commended for its statesmanlike approach in proposing a method of financing in which the workers share costs equally with employers. The Congress of Industrial Organizations has also expressed itself in favor of increased contributions

by workers. These proposals represent an important advance in our thinking on social security.

We frequently hear it said that this is no time to impose additional social security contributions when business and individuals will both be burdened with large additional taxes and compulsory savings and other burdens. This in itself is a good argument for instituting now such a broad program as I have suggested. There will necessarily be further large increases in taxes and other methods of getting funds and at the same time reducing the threat of inflation. Questions are already being raised regarding the net productivity of any additional taxes on high personal incomes. The conclusion seems unavoidable that a large portion of the additional funds must come from current business operations and from middle and low incomes. The victory tax may well be only the beginning.

What forms such a program may take I shall not attempt to guess. If any substantial burden is imposed on wage earners, however, it will be difficult if not impossible for them to make the usual provision for their future security through savings and insurance and the like. It is safe to assume that much of these contributions would therefore be in the form of savings rather than taxes to compensate partially for this situation. But individual savings would be much less adequate to meet the needs that may arise than the same amount contributed to a social insurance program. For example, if a worker earns \$100 per month and saves 5 percent, he will lay by \$60 per year. If after 2 years he dies, his savings will amount to \$120—not much for his survivors to live on. If on the other hand he has made his contributions under the social insurance program, and he leaves a wife and one child, they would get about \$32 per month until the child is 18. And this is only one of the risks covered. The broad program to be financed by the social security contribution would likewise cover his old age, and disability and unemployment. A contribution under the insurance program would therefore provide many times as much protection to the individual worker who meets misfortune as would the same amount of personal savings.

There are one or two special questions which have been raised with reference to the adoption of such a program at this time. It has been suggested that if the social security program is

extended now, the contributions paid in will be used for defense and when benefits are to be paid in the future the money will not be there. Of course the money now collected will not be there any more than the money you pay as insurance premiums remains with the insurance company until you or your survivors collect later. The money is put to work, and the earnings together with other contributions provide the income from which future payments are made.

But here arises a second point. It is contended that when benefits are paid in the future, since the funds have been spent for war, we must be taxed again to pay the benefits. This argument overlooks an important element in the situation. Contributions collected now are deposited in the trust fund and invested in Government bonds. If the Government did not in this way borrow the funds from the insured workers it would have to borrow that much more from banks to meet current expenses. Later, in 1950 let us say, when benefits are to be paid, the Government may have to take funds from general revenue to pay the benefits. But in doing so it pays off the bonds and therefore reduces its indebtedness at the same time that it takes care of the needy persons. If the money had been borrowed from banks instead, the needs of the aged and the disabled and the unemployed would be just as great and would have to be met from the same general revenues in 1950, and the banks would still hold their bonds. So, instead of involving double taxation, such a contributory insurance program really makes one contribution serve two purposes. It meets the Government's need now and the individual's need in the future.

It has even been suggested that there is something unethical about the Government's using, for defense, contributions collected for social security purposes. But this is no more unethical than for the Government to sell you or me, as individuals, bonds which we expect to use to support us when we are old or unemployed, and for the Government to use these funds for war.

But, it may be urged, that doesn't make it any easier for a businessman to pay his contributions.

No, it doesn't. Nor for the worker either. But the point is that we will have to make payments at least as large as this and probably much larger in *some* form in order to help meet the costs of the war. There is no way in which we can postpone the cost of war. The ships and the planes, the tanks and the guns, the food and the clothing and all those things which the war consumes must be produced now. The burden can be placed more largely on one group than on another, it can be shifted by wage and price policy, by taxation and by borrowing, or by some other method, but somehow we are going to pay the costs now. We have not quite realized that yet, but until we do we shall have difficulty gearing ourselves to really all-out war production.

The question then remains—in what form and by whom the necessary contributions should be made. They could be made in the form of ordinary taxes with no promise of specific benefits to any individual or group. They could be made in the form of individual savings with a promise of ultimate repayment of the amount loaned to the Government. This would be of considerable help in the future to the fortunate individual but would not help the unfortunate very much. Or the contributions could be made in part at least as contributions to a system of social insurance. This method would make the money available temporarily to meet war needs, but ultimately it would be used to provide every covered individual substantial protection for himself and his family in case of unemployment, old age, disability, or death.

While such a program of social security as I have outlined should be established quite independently of any relationship to the war, I am convinced that a comprehensive program of this sort can also be an important part of our war program. It not only meets the tests of equity, efficiency, and economy, but it will at the same time lay a firm foundation for a post-war society which provides for the mass of our own people that freedom from want and from fear of want which we are fighting to establish throughout the world.