

Casting up Accounts in Social Security

By Arthur J. Altmeyer*

Constant appraisal of the social security programs—both of the individual programs and of their relationship one with the other—is necessary for the full development of an integrated program of social security. In this address the Commissioner for Social Security appraises what social legislation has thus far accomplished and what remains to be done.

IN SOCIAL LEGISLATION it is impossible to cast up accounts in the exact sense that we do when the matter is entirely one of dollars and cents, without human values to be taken into consideration. Nevertheless, it seems to me that in the field of social legislation it is well for us to pause occasionally to see how far we have come and what we might do to move a little further along the road that we want to follow. I do not use the expression "achieve our goal or goals" because, in the field of social legislation, I doubt very much whether we ever achieve any specific goal—first, because the goal is a constantly receding one if we are blessed, as we are, by living in a dynamic, progressive country such as the United States, and, secondly, because our ideals change, as they should, as we move along. What at one time seemed crystal clear becomes less clear as we see the complexities and all the considerations that must be borne in mind when we choose one alternative out of a myriad number of possibilities.

Social Legislation in a Democracy

In a democracy, we cannot expect nor do we want to achieve social legislation which possesses the specious completeness and the symmetry of some master plan that a dictator imposes from above. If the dictator happens to be an evil person, we know from sad experience what terrible things can happen. If the dictator happens to be well-intentioned, but a believer in the all-powerful state, we also know what can happen. Even if the dictator happens to be what

the history books call a "beneficent despot," we want none of it for two fundamental reasons. No one human being or group of human beings is wise enough to keep in mind all the considerations which need to be taken into account; and no decisions by the few are satisfactory substitutes for the full agreement and discussion by the many.

As we know, the essence of democracy is the rule of law and not of man. Furthermore, if the rule of law is to be effective and in the interests of all the people, it must grow out of full discussion and participation by all the people. As we survey the development of social legislation in a democracy, we see that it usually comes into existence to meet a particular problem in a particular place at a particular time. Various alternatives are adopted to meet particular problems. However, as experience develops and is exchanged, greater uniformity and extension of the social legislation occur. If the problem is a common one and a serious one, the rate of development may be expected to be more rapid than if the problem is a local one and less serious. If the problem becomes acute, as in the case of a great depression, we may expect sudden and sweeping change.

Our responsibility as administrators of an important phase of social legislation is to engage in constant self-appraisal, with a view not only to improving administration but to improving the substantive legislation which we administer. Moreover, we must be alert to interrelationships with other social legislation—not only to make our own legislation most effective but also to make the related legislation most effective. We must realize that each segment of social legislation is a part of the whole, designed to promote the public welfare.

Fifteen Years of Progress

Our gains in the field of social legislation, particularly in the field which we know now as social security, have been spectacular during the last third of a century and particularly during the past 15 years. Before the passage of the Social Security Act in 1935, for example, the only important type of social insurance which we had in this country was workmen's compensation, and it had taken many years for this legislation to become widespread.

There had been a few public employment offices, supplemented by a great many temporary Federal employment offices, operated in connection with the Federal public works program in the early thirties. In Wisconsin, for example, there were only a few employment offices. There were a few in Ohio and a few in New York, and I think perhaps one or two in California. All told, there were in this country no more than a half dozen real public employment offices before World War I, and they were in the very large metropolitan centers.

Then when the first World War came along we had a mushroom growth; but with the end of the war everything was "washed up." So we went along with a few directly operated Federal employment offices and a handful of State-operated employment offices until the early thirties, when we again started to develop the public employment office system in this country.

In the field of public assistance, as distinguished from social insurance, we had in effect, for the most part, local poor relief, with some State old-age pension and mothers' pension laws; local units of government were usually permitted to elect whether or not they would put such laws into effect. The result was that probably not more than one-third of the counties in the States which had such laws actually put them into effect.

Today we have Federal old-age and survivors insurance, and a railroad social insurance system that covers the risk of wage loss from old age, premature death, temporary and permanent disability, maternity, and unemployment. We have unemployment insurance laws in all the States and Territories. We have 1,800 per-

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manent full-time public employment offices. We also have temporary disability laws in three States, covering loss of wages due to nonindustrial accident and sickness. Besides these forms of social insurance, we have in effect federally aided State-wide old-age assistance programs in all the States, aid to dependent children in all States but one, and aid to the blind in all but four States.

I think that we have a right to be proud of the gains we have made in such a short period of time. However, I think we would be deceiving ourselves if we did not realize that the development of social security in this country has been somewhat lopsided and is still incomplete, so far as providing adequate protection for the people of this country against the various economic hazards with which they are confronted.

Inadequacies of Present Provisions

The benefits paid under the various forms of social insurance are for the most part inadequate. The increases in the benefits that have occurred have not kept pace with the increased cost of living. Moreover, as I have already indicated, only three States provide protection against loss of wages resulting from nonindustrial accidents and diseases. There is no protection under Federal old-age and survivors insurance against permanent total disability. There is no protection under either Federal or State law against the costs of medical care.

As far as the various forms of public assistance are concerned, the Federal Government has provided increased participation in the costs. This increased participation has enabled the States to provide more financial assistance to needy persons than they otherwise would have been able to do. Therefore, the increase in Federal participation is desirable in itself. At the same time, however, that more Federal participation has been provided in meeting the cost of public assistance, there has been a lopsided development of our total social security system.

When the Social Security Act was passed in 1935, the basic idea was that contributory social insurance would be a first line of defense against destitution. It was expected that, as

time went on, Federal and State governments would have less and less of a burden under the public assistance laws. Today, however, the number of needy persons receiving public assistance is greater than it has been at any time since the passage of the Social Security Act. Moreover, the number of aged persons receiving public assistance is nearly twice as great as the number of persons receiving benefits under the Federal old-age and survivors insurance system.

It is also true that the largest proportion of persons receiving what we call general assistance, as distinguished from old-age assistance, aid to the blind, and aid to dependent children, consists of persons who are suffering from physical disability. If our social insurance system covered disability, we would be able to reduce considerably the burden on States and localities for providing this general assistance.

Another indication of the lopsided development of social security is the growth—the rapid and great growth—of what are now called union health and welfare funds. The one that has received most attention is, of course, the mine workers' health and welfare fund, but there are similar plans in the electrical industry, in the ladies' garment industry, and the men's garment industry. One of the chief reasons—if not the chief—for this great growth is the fact that our basic social security system has not developed as rapidly as it should have developed, and so these union health and welfare funds come in to fill the gap.

Improving Unemployment Insurance

May I comment briefly on unemployment insurance and suggest the considerations that I think should be kept in mind in improving this particular form of social legislation. Of course, as administrators, our first obligation is to keep improving our administration, making it economical and efficient. Secondly, we must give our best advice to our respective legislative bodies on ways in which we believe our various laws could be improved.

As far as administration is concerned, I believe we can say that there has been a progressive—and by pro-

gressive I mean not just gradual but rather marked—improvement each year in the quality of administration of the State unemployment insurance laws. From what I know of State administration, my judgment is that the quality of the administration of the State unemployment insurance laws is as high as if not higher—and I would say, if I had to express a definite judgment, much higher—than the quality of administration of many other State laws. Partly I think it is because of the more adequate financing that has been provided. You may question that statement in its immediate application; nevertheless, taking a look at it in the large and over the years, I do believe that the administration of unemployment insurance has been more adequately financed than, let us say, the administration of workmen's compensation laws or the administration of labor laws.

Another reason for this improved administration is that there has been a joint appraisal going on. Whether the effect has been that of a burr under your saddle or whether our cooperative effort has been of a more constructive nature, nevertheless, when all is said and done, there has been the occasion for a continuous joint appraisal of the quality of your day-to-day administration; and I do believe that that has contributed greatly to the constant improvement that has occurred.

Before turning to the substantive side of the picture, may I say that efficient administration also involves, I believe, constant discussion and contact with the parties immediately affected—that is, with employers and workers. I believe to the extent that there has been developed an effective modus operandi for that contact, the administration as well as the substantive features of the State unemployment insurance laws has been improved.

Turning to the substantive provisions, of course, as we all know, there has been improvement. As far as the amount of benefits is concerned, I think that the fundamental characteristic of our system—the relation of the benefit to the amount of the wage or wage loss—is a sounder approach than that of the flat benefit payment,

which is incorporated in the unemployment insurance laws of some countries. I hope we will continue to maintain that principle with the addition of supplementary allowances for dependents.

I do believe, however, and I think it can be established statistically, that the improvement in our benefits has been largely negated by our failure to raise the maximum weekly benefit amount to take into account at least the increased wage levels and the increased cost of living. The figures that I have indicate that in 1940 the average weekly benefit amount, measured as a percentage of the average weekly wage, amounted to 37 percent; and in 1947 (the last figure I have is for October and November 1947) it amounted to 32 percent. The percentage undoubtedly has gone down since then, and I believe that most of the States are confronted with the necessity of scrutinizing their maximum weekly benefit amount to determine whether it actually has kept pace with the increase in wage rate earnings and cost of living. So far as duration of benefits is concerned the duration provisions have resulted, even in a high employment period such as this, in 30 percent of the recipients exhausting their benefit rights before they have found other employment; and in some States the exhaustion rates run as high as 50 percent.

Disqualification provisions, as we all know, have become stricter; I believe that they are unduly restrictive. I believe that a person who has valid personal reasons for being obliged to quit his job is entitled to unemployment benefits and that these benefits should not be restricted to "good cause attributable to the employer or the employment," because, after all, these persons who are being affected are not machines. Many times they do have very compelling personal reasons that do not leave them free agents by any means. Therefore they are as genuinely unemployed as those who are laid off as a result of the employer's action, and they may be, on the average, more necessitous.

I also think we have a responsibility for thinking through and interpreting to the interested parties our concept of suitable work, which seems

to me to be at the heart of a great deal of the difficulty we have at the present time in explaining our program to the general public. It seems to me that this concept of suitable work is such a fundamental thing and one that is so important in maintaining the sort of free society that we wish to maintain in this country that we must not give it up; on the contrary, we must strengthen it.

That is to say, a general understanding of this concept is not only in the interests of the individual workers, it is in the interests of the greatest production. It is in the interest of maintaining a fluid society, a free society, that a person should not be penalized because he refuses to accept work that is not suitable. It is a loss of economic and moral and political values, in my judgment, if we do not recognize that the suitable work concept lies at the basis of an effective and socially desirable system of unemployment insurance.

Federal-State Relations in Unemployment Insurance

There is one other field in which we, of course, seek constant improvement, and that is in the field of Federal-State relations. That, I recognize, is a two-way proposition. We have done something, such as the Utah experiment, in the use of the old-age and survivors insurance records for benefit determination; and the Interstate Conference's report on fraud indicated that summaries might be made of the old-age and survivors insurance records for at least postchecking on benefit cases.

The employer account cards for old-age and survivors insurance can also be of advantage to unemployment insurance agencies in accounting operations in making the lists complete. Certainly we want to do everything in our power to make available to you anything by way of service or facilities or records that the Bureau of Old-Age and Survivors Insurance has. As you know, our inability to charge for that service places us in a dilemma, because old-age and survivors insurance is a contributory social insurance system, which means that the funds appropriated for old-age and survivors insurance cannot be diverted for some

other purpose even though we consider it a very necessary collateral purpose.

As far as the Bureau of Employment Security itself is concerned, our constant endeavor should be to make that Bureau more and more of a service bureau and less and less of a policing bureau. I think a great deal has been accomplished in bringing about that transformation, but there should be no let-up in our attempt to continue that development.

Financing Administration

As you know, the 100-percent Federal financing of State administration has advantages in making available more adequate funds, but it has its disadvantages, too. So I have proposed from time to time that if we continue our Federal-State system we could strengthen that system, making it a much more rational and effective system, through some form of grants-in-aid. For instance, if we had a 95-percent offset¹ and a 50-50 matching of administrative expenditures, it would be recognized that the Federal Government was matching only part of the legitimate administrative expenses and that the State legislatures should make funds available to the State agencies in addition to those which are now provided by the Federal Government.

Failing that, what should be done so long as we have what we have? I am sorry that this year, for example, it did not develop that we could at least have had the proceeds of the 0.3-percent Federal share of the tax earmarked for unemployment insurance purposes, and a contingency fund set up.

As regards a 100-percent offset² approach, I would like to throw out for

¹At present, employer contributions under a State unemployment insurance law may be offset against the Federal unemployment tax (3 percent) up to a maximum of 90 percent of the Federal tax (or 2.7 percent). The remaining 0.3 percent is collected by the Federal Government and used to finance State expenses in administering the program; the contributions collected by States can be used only for benefit payments. [Ed.]

²An offset of 100 percent would mean that States would collect the entire 3 percent and use the proceeds to finance both benefit and administrative costs. [Ed.]

your consideration these aspects. To my mind it eliminates the occasion for the day-to-day joint appraisal that I mentioned to you a few minutes ago. It is a once-a-year proposition, at the end of the year. And because it eliminates the occasion for this day-to-day joint appraisal, I raise the question whether it may not bring about impassés, very serious impassés, between the Federal Government and the State governments that would be more harmful by far to good, creative, constructive Federal-State relations than these niggling irritations that we all know about at the present time.

We have a choice then of whether we are going to use a powerdriver to crush a mosquito (the public may feel that it is a mosquito, but if there are enough mosquitoes they can kill

a man) or whether we are just going to certify the law regardless. So we are thrown between the Scylla of taking very drastic action and the Charybdis of taking no action, and both situations are harmful, to my way of thinking, to good Federal-State relations. Either they create bad feeling and work hardship upon the employers and employees who are involved, or they nullify any effective Federal-State relations. Therefore I believe it would be better to repeal the 3-percent Federal tax outright than to develop what would be a rather fictional Federal-State relationship which had no substance to it. Then at least the responsibility would be clear to everybody concerned.

In any event, I do know that the Interstate Conference has a number

of committees at work on this and on other problems, appraising both the administration of unemployment insurance and the substantive provisions of this legislation.

I believe that in itself is conclusive proof of the desire of the employment security officials to make certain that the legislation entrusted to their care does achieve its beneficent purpose. May I say that so long as we continue this salutary process of self-appraisal, and improvement based upon such appraisal, we may be sure that our country need fear no foreign ideologies. As Governor Winant once told me, there was an old cobbler whom he used to visit who had this motto: "Always unsatisfied—but never dissatisfied." And that seems to me a very good motto for all of us to follow.

Public Aid Expenditures per Inhabitant, 1934-48

By Dorothy R. Bucklin*

Rising expenditures for public assistance in a time of full employment are often considered an anomaly. The factors underlying the increase since VJ-day in expenditures for public aid, including among others the decline in the value of the dollar, are discussed in the following analysis.

THE ANNUAL AMOUNTS expended per inhabitant for public aid during the 15-year period 1934-48 reflect the dynamic changes in the economy of the Nation that occurred during these years.¹ In the mid-thirties, when millions were unemployed, many short-run programs were established to meet on an emergency basis the immediate and unprecedented need for public aid that existed throughout the Nation.² Almost simultaneously, however, the foundations were laid in the Social Security Act for long-run measures to deal with the problems of

economic insecurity that are the inevitable accompaniment of a maturing industrial economy and an aging population.

Expenditures for public aid before 1940 were made up primarily of wage payments under the short-run work programs that were designed to meet the immediate problems of mass unemployment (table 1). Beginning in 1940, however, as the Nation mobilized to meet the demands of the defense and war periods, expenditures under these short-run programs began to decline, though earnings under Federal work programs still comprised the largest segment—63 percent—of the public aid bill in that year. By 1944 the Federal work programs had been liquidated, and old-age assistance represented the major component—almost three-fourths—of expenditures for public aid.

Factors Underlying Changes

Expenditures per inhabitant for public aid amounted to \$11 in the fiscal year 1948, about half the amount spent in 1940, the year in which the national defense program was launched. In the interval between these 2 years, two major factors operated to depress expenditures for public aid. The most important factor was, of course, the tremendous increase in employment opportunities, which brought a decline of some 7 million in the number of unemployed—from some 8 million in 1940 to about 1 million in 1943, when the last of the Federal work programs were liquidated.

This phenomenal growth in employment opportunities kept in the labor force many older workers who would otherwise have retired, and it attracted into the labor market some who had withdrawn earlier and others who had never worked before. Among these groups were large numbers of so-called marginal workers—the aged, the handicapped, women who were heads of households—some of whom left the relief rolls or found it unnecessary to seek aid because jobs were readily available. Even after the war's end the Bureau of Labor Statistics reported "continued high rates of labor force participation among

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¹The years referred to in this article are the fiscal years ended on June 30.

²For a description of operations under these programs see "A Decade of Public Aid," *Social Security Bulletin*, February 1943.