HEALTH, EDUCATION, AND WELFARE POLICIES AND EXPENDITURES FOR ECONOMIC GROWTH AND THE GENERAL WELFARE

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Health, Education, and Welfare, Expenditures in Relation to Gross National Product

Total expenditures, public and private, for health, education, and welfare in the United States will probably exceed $55 billion for the fiscal year 1957.

This is an impressive and significant measure of the importance which the United States places upon human values. Too frequently, the goals and objectives of our economic, political, and social institutions have been evaluated or advertised solely in terms of materialistic accomplishments. The goals of maximum employment, production, and purchasing power are but means to a larger and more important end—the promotion of the general welfare.

Although expenditures for health, education, and welfare services may seem, at first blush, large in amount, they do not represent a large portion of the total volume of the Nation's goods and services. They do not represent one-half, one-third, one-quarter, or even one-fifth of the Nation's total production. In the fiscal year 1957, health education, and welfare expenditures represented about 13 percent of the gross national product, or about 16 percent of the national income—roughly about one-sixth of the national income.[1]

As our national productivity and income increase, the minimum subsistence needs of families are more widely met. Hence, a greater share of our national resources can and might well be allocated to health, education, and welfare. This, however, does not seem to be the case in the last 7 years. Total health, education, and welfare expenditures for 1957 appear to be relatively about the same or even a little less than those of 1950. This observation seems borne out by a review of the public portion of the Nation's health, education, and

[1] For definitions and classifications of these expenditures, see J. Frederic Dewhurst & Associates, America's Needs and Resources: A New Survey, the Twentieth Century Fund, 1955, chs. 10, 12, and 14; and Ida C. Merriam, Social Welfare in the United States 1934–54. Social Security Bulletin, October 1955, Social Welfare Expenditures in the United States, 1954–55, ibid., October 1956, and the forthcoming article on 1955–56 expenditures, ibid., October 1957. The Dewhurst estimates for the calendar year 1950 were $12.3 billion for health, $10.5 billion for education, and $16.9 billion for welfare—a total of $39.7 billion. My 1957 estimates differ somewhat from Dewhurst's classification for 1950, the most important being that I have included payments for private life insurance and annuities. The 1957 estimates are preliminary and subject to revision. Mrs. Merriam's estimates deal only with the public civilian programs and differ somewhat from the Dewhurst definitions. For the fiscal year 1950, she estimates the public share at $23.8 billion, which was equal to 9 percent of the gross national product. By the fiscal year 1956, the amount had increased to $34.5 billion, but this was equal to only 8.6 percent of the gross national product.

welfare expenditures. Public expenditures for these programs in the fiscal year 1955 were a smaller proportion of the gross national product than in 1950, or during any of the 6 peacetime years, 1935–40.[2] Preliminary figures for 1956 show an increase in public expenditures of over $2 billion from 1955 but, nevertheless, total expenditures as a proportion of gross national product remained the same.[3]

However, it should be noted that the gross receipts for health, education, and welfare purposes were several billion dollars greater than expenditures, primarily because contributions for both private and social insurance, plus the interest on reserves, exceeded expenditures for these programs.[4] These contributions are likely to increase substantially in the future. The excess of receipts over expenditures undoubtedly will also increase as private insurance plans and policies grow and because contributions for social insurance already levied for the future under the social-security program are scheduled to increase. Hence, expenditures for health and welfare will grow in the future and, undoubtedly, increase as a proportion of gross national product.

The postwar emphasis on material production (including housing, automobiles, and other durable goods), the taxes necessary to finance the defense program, and the controversial social-policy issues involved in expanding health, education, and welfare services—all of these have played a part in inhibiting the faster growth in recent years of services in these fields. Yet these factors are only part of the entire story. In some areas, progress has been faster than others. What are the reasons for the expansion, the uneven growth of the health, education, and welfare services, and the implications of substantial increases for the future?

Factors Influencing Expenditure Growth for Health, Education, and Welfare Services

Several factors may be noted at the outset as evidencing the major reasons why expenditures for social-welfare purposes have been increasing:

1. The increase in total population—roughly 3 million a year at the present time—necessitating more services because of more people.

2. The increase in the number of children. In 1900, there were over 30 million children under age 18; in 1920, 40 million; by 1950, there were nearly 50 million. Today, there are about 60 million—one-third of the entire population of the country. And, by 1965, it is estimated there will be 67 million.

3. The increase in the number and proportion of the aged. Every day there is a net increase of 1,000 persons 65 years of age and over—

[2] Merriam, op. cit., table 2 in both articles.

[3] Merriam, Social Welfare Expenditures, 1955–56, Research and Statistics Note No. 29–1957, Division of Program Research, Social Security Administration, Department of Health, Education, and Welfare.

[4] For instance, in 1954, employer and employee contributions under private welfare funds were $3.3 billion, but benefits paid were only about $500 million. See welfare and pension plans investigation, final report submitted by Senator Douglas to the Committee on Labor and Public Welfare, 1956, p. 84, and Employer and Employee Contributions to Private Retirement Plans, 1954 and 1955. Research and Statistics Note No. 36–1955, Social Security Administration, Department of Health, Education, and Welfare. In addition, about 32 percent of all of the income of United States life-insurance companies in 1956 was used as additions to reserves. Total income of these companies was $17.9 billion in 1956. Life-insurance-company assets increased $5.6 billion in 1956. Life Insurance Fact Book, 1957, Institute of Life Insurance, pp. 52 and 60.

a million every 3 years. Whereas the proportion of the population 65 years and over was 4 percent in 1900, it is 8.5 percent today, and this percentage will continue to grow for probably at least three decades.

4. The increase in the number of births and the decline in mortality rates. Over 4 million babies have been born in each of the last 3 years and, despite an increase in population of 30 million persons in the last 10 years, the number of deaths last year was less than that of a decade ago.

5. The tremendous mobility of our population. In 1954, 10 million persons moved across State or county lines—3½ million of them children. Many persons are moving from East to West and from South to North, creating new community needs.

6. The further growth of urban and suburban areas, placing a heavy burden on real-estate taxes for community facilities (schools and teachers, sewage-disposal plants, police and fire departments, hospitals, and other governmental services).

7. The growing recognition of community responsibility for dealing with such social problems as divorce, alcoholism, juvenile delinquency, mental health, unmarried mothers, disorganized families, illiteracy, and chronic disability.

8. The special difficulties faced by individuals with low incomes, marginal skills, low education, and fixed incomes as a result of inflation.

9. The longtime decrease in the hours of work, the increase in the number of married women at work, the decline in the number of young children and older persons at work, and the demand for professional and skilled manpower.

10. New and costly drugs, vaccines, medical, hospital, and rehabilitation services.

11. The demand on both private and public agencies for more services, the spread and acceptance of the insurance principle, as applied to a wide range of risks, the increased emphasis on health and education as incomes and educational levels rise, the desire to provide income during periods of adversity, and the wider acceptance of the idea that a good life for all is within reach of everyone.

Fifty years ago—even 35 years ago—poverty was still accepted as a necessary element in our economy. To some it was not a necessary evil—it was a spur to progress. As a result of the depression, the two World Wars, the political revolutions of recent years in many countries, the increased productivity of the economy, the emphasis on full employment and maximum production, a change in attitude has occurred toward poverty. It is best expressed in the words of the present able Secretary of Health, Education, and Welfare, Marion B. Folsom:

> With these further increases in productivity will come an even broader base for economic security. In the years ahead, therefore, the prevention of poverty among our people will become less and less a question of economic capacity. It will be more and more a matter of planning and organizing to do the job.

> As our ability to meet human need greatly increases, we will be increasingly ashamed of poverty in our society because it will become more and more unnecessary.[5]

Public Share of Expenditures

The public share of all health, education, and welfare expenditures in 1957 was approximately two-thirds of the total, the remaining one-third was private (including consumer expenditures and expenditures by private agencies). The public share was highest for education and welfare (about 75 to 80 percent); and lowest for health (about 30 to 33⅓ percent).[6]

Public expenditures for health services have tended to increase over the past 25 years. Whereas the public share of all health expenditures represented 20 to 25 percent in the early thirties, it is now about 30 to 33⅓ percent.

Public expenditures for education have tended to remain relatively at the same level for a number of years—slightly less than 3 percent of the gross national product.

Public expenditures for social insurance and public assistance combined have more or less equaled public expenditures for education in 1950 and the succeeding 3 years. Since 1954, they have exceeded public educational expenditures.

Public expenditures for social insurance and related income maintenance programs are likely to increase as a percentage of national income in the future.[7]

In summary, it may be observed from these trends that the major reason for the relative stability of health, education, and welfare expenditures (measured as a percentage of gross national product or national income is the fact that educational expenditures have tended to grow more slowly than those for health and welfare. We shall touch on some of the reasons for this in the discussion of education.

Future Needs

Various attempts have been made to estimate the needed level of our health, education, and welfare services for the present and the future.[8] In order to fill existing needs and to meet the explosive population growth ahead, a substantial increase in health, education, and welfare expenditures will be required. Some of the needed funds will come from private consumer sources and others from public sources. My own studies indicate that needed annual expenditures (public and private) by 1965 (at present prices) may be in the neighborhood of $75 billion to $85 billion. This would require an increase of $20 billion to $30 billion annually above the level of existing expenditures. With a $575 billion gross national product in 1965, such ex-

[5] An address, Advances in Social Security, June 6, 1957, pp. 10–11.

[6] Since these estimates are very tentative, they may require revision. It would be desirable for the Division of Program Research, Social Security Administration, to have sufficient funds to prepare annual estimates of private Health, Education, and Welfare expenditures as part of its annual series on public expenditures.

[7] Veterans' Benefits in the United States, Findings and Recommendations of the President's Commission on Veterans' Pensions (the Bradley Commission), April 1956, pp. 117–126. The Bradley report contains projections of public income maintenance expenditures to 1985. Under one set of assumptions, expenditures for 1985, measured as a percent of national income, are nearly twice those of 1955.

[8] See, for instance, Dewhurst, op. cit., pp. 343–345, 412–413, 624, and 467–468.

penditures would amount to 13 to 15 percent of gross national product—a realistic and practical level—perhaps even on the low side.

Assuming that this is an attainable objective from an economic point of view, the major policy question is how can we proceed to develop the necessary fiscal policies and modifications of existing arrangements which might make it possible to reach this objective in an evolutionary manner consistent with other national goals and values.

Competitive expenditures

In discussing the growth and gaps in expenditures for health, education, and welfare, and ways and means of increasing expenditures for these purposes, the inevitable question always arises as to why there is a problem raising funds for these programs when expenditures for alcoholic beverages, tobacco, cosmetic and beauty services, jewelry, gadgets, and recreation are growing so fast and taking such a big portion of the consumer's dollar.

The American family spends more of its income for recreation than for medical care, and still more for alcoholic beverages and tobacco. Private automobile purchase and maintenance costs much more than the total cost of education in the United States.

Fiscal policy, governmental policy, social policy—all have a part to play in encouraging, discouraging, or stabilizing ways in which the Nation spends its resources.

A broad view is needed to chart the goals for the future so as to achieve socially desirable objectives with a minimum of controls on how the individual can spend its income.

Recreational expenditures and programs are not included in the analysis in this paper. But, from the point of view of competing pressures on public, private, and consumer funds, recreation might appropriately have been included. Consumer expenditures, as defined by the Department of Commerce in its national income studies, were $13 billion in 1955. Public expenditures were $715 million.[9] A annual figure of $40 billion can be supported if a broad definition is used.[10]

Increasingly, attention will have to be given to the relationship between policies and expenditures for recreation and those for health, education, and welfare. The need for recreation facilities in educational settings, the question of recreational programs in relation to juvenile delinquency, and the role of public and voluntary agency responsibilities in recreation, all indicate the many social policy questions involved.[11]

Policies for the future

The prospect of reduced hours and more leisure for the American worker and his family raises many questions in which recreational expenditures are an important component. The more basic question, however, is how fast can we go toward our goal of meeting all our basic

[9] Thomas Karter, The Development of Organized Recreation in the United States, Social Security Bulletin, May 1957, p. 14.

[10] Dewhurst, op. cit., p. 348.

[11] To indicate the importance of recreation in the fabric of community services, Bradley Buell has classified community planning for human services into four types of human problems toward which community services are directed; dependency, ill health, maladjustment, and recreational needs. Community Planning for Human Services, 1952, pp. 10–11.

health, education, and welfare needs and reduce hours of work at the same time.

In the past, we have shared our increased productivity between an increased material standard of living and more leisure (or more accurately, shorter hours of work). Some compromise will no doubt be worked out in the pragmatic manner in which we have solved most of our big economic questions in industrial relations. We shall have shorter hours and more leisure—probably not as fast as some labor organizations want. We shall have a higher national income, and more health, education and welfare services, but perhaps not as much as we might have if we did not reduce our hours of work.[12]

Can we meet the $85 billion objective (which I mentioned earlier, or some other objective) without reducing expenditures for other purposes? Must we curtail the possible reduction in hours of work? Must we decrease national defense expenditures to obtain an increase in social expenditures? Must we, by taxation, interest rates or credit policy, divert potential increases in some kinds of consumer expenditures to other more social necessary kinds?

Prof. Alvin H. Hansen has stated his views on this question:

> We are living in a period in which it should be clear as crystal that the marginal tax dollar has greater social utility than the marginal pay-envelope dollar. We need to divert resources not only to an adequate volume of "high powered" investment; we need, also, to divert resources to schools, hospitals, low-cost public housing, etc. Extravagant consumer credit and unrestrained use of the modern mechanical mediums of mass education for advertising purposes are driving us farther and farther down the road of unwise use of resources.[13]

Another possible line of action is that we can allocate a substantial proportion of our growing national productivity to needed social purposes. With the possible relative stability or decline of defense expenditures, we can plan ahead for an accelerated increase in social expenditures.

Perhaps we will find some blending of all these various methods. In any case, it is important that we make every reasonable effort to stimulate private and public expenditures for socially desirable objectives as part of our effort to assure continued economic growth.

General trends and problems

In evaluating possible future lines of action, we should first take note of several broad forces, trends, or problems which become apparent from studies of past and present expenditures for HEW services.

The major factors, as I see them, are as follows:

1. There is a recognized underconsumption and underproduction of services in each of these three broad areas.

2. There is a recognized shortage of skilled manpower and womanpower in each of these three areas.

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[12] Interview with William Haber, Shorter Hours, More Pay, Doubled Output Foreseen in the Michigan Journalist, June 12, 1957, pp. 1–4.

[13] A High and Rising Rate of Interest, The Review of Economics and Statistics, August 1957, p. 345.

3. There is a growing demand-push for these services which has resulted in an increase in such expenditures, and this demand-push most likely will be a major factor in further increasing expenditures in the future.

4. A large share of the needed additional expenditures will have to go for salaries, thus also contributing to wage-push influences on certain sectors of economy where there is competition for such services.

5. Rapid and uneven population increases among the States, and the mobility of population across State lines, make it necessary for the Federal Government to take an important financial role in equalizing opportunities in health, education, and welfare services throughout the United States.

6. The States would have a very difficult time meeting their health, education, and welfare responsibilities without financial aid from the Federal Government and without the coordinating, planning, stimulative research and leadership functions of the Federal Government.

7. There is ample room for expansion of private programs and expenditures in health, education, and welfare.

8. To achieve the needed level of health, education, and welfare services consistent with the national interest, the supply and demand in competitive market places must be supplemented with the impetus coming from national goals, priorities, and incentives. Tax and budget policies must be consciously oriented to meet national social needs.

Broad policy questions

In attempting to meet the fiscal problems presented by needed expenditure growth in health, education, and welfare, certain institutional problems must be considered.

In primary and secondary education, the basic problem is that the major financial source is real-estate taxation. This inhibits the growth of needed expenditures and raises the basic question of more progressive and expansible tax sources. How can this be achieved?

In higher education, the question arises whether we can depend upon the increased funds necessary to come largely from the families and from business. If feasible, is it desirable in the national interest?

In health, expenditures have increased sharply in recent years. Both the share from public funds and from insurance have increased. Health expenditures appear to be rising more rapidly than education. The use of the insurance principle seems to make increased expenditures for the future more likely. The Federal Government's expenditures for health have also increased and are likely to continue to increase. The major question is, shall the increased expenditures needed for the future come largely from consumer sources (i. e., out-of-pocket), through insurance, or from general revenue sources? Can the high-cost, low-income risks be covered by private insurance, or is some public stimulus necessary? Can we depend upon the individual practice of medicine to provide medical care at a cost the American people are willing to pay or will it be necessary and desirable to stimulate the growth of the group practice of medicine?

In welfare, the major issues revolve around the degree to which payroll taxes can be increased for needed improvements in social insurance programs, the extent to which additional expenditures should be financed by the Federal and State governments for assistance and related welfare services, and the extent to which private sources can

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take a larger share of the increased expenditures needed through increased employment of the aged and handicapped, increased sale of private insurance and annuities, and the more widespread distribution of other forms of savings.

A general question which pertains to all three programs is how can the great variation in services, incomes, and fiscal resources among the States be reduced so that the national interest can be advanced consistent with our pluralistic society, interdependent economy, and Federal-State governmental structure.

Health Expenditures

Total medical-care expenditures have quadrupled during the past 25 years, the per capita expenditures have trebled, the proportion of the total spent from public funds has more than doubled, and a larger percentage—5 percent, instead of 4 percent—of our national income goes for medical purposes.

Total medical expenditures average about $100 per year for every man, woman, and child in the Nation. The total medical bill is thus over $17 billion for the country as a whole.[14] The consumer's share in these costs—while increasing in absolute amounts—has been decreasing relatively as the share from public sources increases. Philanthropy and business provide a small but slowly increasing share of the total.

With a growing and aging population, and the demand for more and better medical services, these expenditures will continue to increase. Assuming an annual average increase in national income in the future slightly in excess of $10 billion annually, and medical expenditures of about 4 percent of national income, the estimated average increase is approximately one-half billion dollars annually. It will not be many years, at the present rate, until medical expenditures exceed $25 billion annually.

Insuring the costs of medical care has tended to increase expenditures for two reasons: (1) By eliminating the financial barrier to medical care and (2) by adding the overhead costs of providing the voluntary insurance protection. As voluntary insurance coverage continues to increase, these two factors will continue to operate unless there are economic or social changes in the provision of medical care which are not now visible.

Twenty-five years ago, the use of the insurance method was a controversial issue in medical care. This is no longer true. Today, the medical profession and the public wholeheartedly accept the insurance principle. Every effort is being made to extend it on a voluntary basis and to expand it to cover a larger proportion of people and a larger proportion of medical costs. Nevertheless, a substantial proportion of low-income persons and high-cost services are still excluded from insurance coverage. It is doubtful whether voluntary arrangements can or should cover these areas completely.

Congress has recognized that the cost of providing medical care to the 6 million needy public-assistance recipients is a public responsi-

[14] Herbert E. Klarman (associate director, Hospital Council of Greater New York), Changing Costs of Medical Care and Voluntary Health Insurance, extended version of paper delivered before American Economic Association and American Association of University Teachers of Insurance, December 28, 1956, p. 6.

bility. The Social Security Amendments of 1956 increased Federal financial aid for this group. Federal expenditures under this program will increase as the States make medical services more generally available to the needy. Further changes are needed in the present Federal provision. These will be discussed later in connection with other changes in the public-assistance provisions of the Social Security Act.

The 1956 medical assistance amendment was adopted with bipartisan support in Congress. The original Hill-Burton Act, and the 1954 amendments to it, received bipartisan support. Federal appropriations for medical research have been increased under the leadership of Secretary Folsom, Senator Hill, and Representative Fogarty. These are important milestones which recognize the growing Federal interest in more adequate health care and the possibilities of nonpartisan cooperation in health legislation. Further consideration should be given to broadening the provisions of the Hill-Burton Act, expanding the provisions of the Health Research Facilities Act of 1956 to provide Federal grants for the construction of medical school facilities, the establishment of loans for hospital construction, and the organization of group practice clinics, increases in existing grants to the States for maternal and child health and crippled children's services, expanding existing public health grants to strengthen local health units, and helping to finance more adequate school-health services in cooperation with educational authorities.

An important piece of legislation which I trust Congress will enact in 1958 is the proposal for the Federal Government to contribute toward a comprehensive health insurance program for Federal employees and their families. By this means, the Federal Government, as an employer, can assure that Federal employees and their families will receive more adequate medical service. The Federal Government should set a standard for the guidance of voluntary plans, employers, and the States. The Federal contribution should equal one-half of total costs and be predicated on the assumption of comprehensive medical service for the entire family and free choice of type of plan. The Federal Government should contribute part of the cost of continuing coverage when the person has retired. State and local governments should be encouraged to follow the same general policy for their employees and families.

Methods to reduce the growing cost of medical care are widely discussed by the medical profession, hospital administrators, and public-health experts. Yet the costs keep mounting. The one device which might help keep costs in reasonable balance and, at the same time, provide more and better medical care—group practice—is neglected in official circles in both medicine and Government. Congress might well explore how to aid in eliminating some of the barriers to group practice. This may involve a consideration of the State laws which impede it; tax policies which might encourage it; the views and experience of the medical profession, government, and consumers; and methods by which existing and proposed Federal legislation could deal with the matter more effectively. I urge serious consideration to this important, long-run question.

One other important aspect of health legislation—hospitalization and nursing-home coverage for social-security beneficiaries will be discussed later in connection with changes in social security.

Education

The significant contrast between education and health expenditures is how expenditures for health are increasing so much faster for health than for education, and how rapidly Federal funds for health have expanded in the past 10 years.

The fear of Federal control in medical care has been as live an issue as the fear of Federal control in education. The interesting fact is that in education this fear has not been germinated by the profession whereas in medical care this fear is a very meaningful issue to the medical profession. Yet it is significant that the Federal Government is now providing substantial funds for both education and health without any charge of Federal control or interference in either.

Federal aid for education is not a new policy. The Federal Government now subsidizes education in many ways. And, although there may be heated controversy over current proposals, it seems necessary and very likely that both State and Federal expenditures for education should increase if we are to meet the growing demands for educational services.

The major problem we are faced with is the reliance upon real estate and sales taxes for such a large share of the cost of education.[15] If the health and welfare programs of this country depended upon real-estate taxes, they too would be held down. But, since health expenditures come so largely directly from the consumer, and since welfare expenditures come so largely from payroll contributions, they more closely and immediately respond to the demand for services and price increases.

As important as Federal aid for education is as an immediate legislative objective, the longer run question is how to minimize the importance of the real-estate tax in education and other essential public services. How can we achieve a broader tax base and one that is more responsive to the needs of the growing demand for all kinds of community services? States should be encourage to provide State sources of revenue to assist in financing local education. Equalization measures should be encouraged in State legislation so as to aid the school districts with less adequate fiscal resources.

We already have a Federal-State program in education which should be strengthened. Rather than repealing Federal grants for paying teachers' salaries for vocational education (as has been proposed for consideration by the joint group of governors and Federal Cabinet officers) this program should be broadened and made more flexible. Existing legislation should be modified so that the States could use Federal funds for the payment of teachers salaries for any and all types of vocational education, especially in areas where there are scarce skills.

Moreover, Congress should give consideration to adding to this legislation Federal funds for teaching handicapped children. Here is an area of heavy cost and a need for special skills which requires additional support. The Federal Government is already providing

[15] A study by the Office of Education, Department of Health, Education, and Welfare, shows that 58 percent of the income (excluding receipts from loans and bond issues) for public elementary and secondary education is obtained from local property taxes. State taxes on incomes, sales, and other business activities provide 38 percent. The Federal Government contributes 4 percent. Press release, Department of Health, Education, and Welfare, August 17, 1957.

some funds for the mentally retarded child. If it is proper to aid in educating the mentally retarded child, then it is equally proper in principle to do so for all handicapped children.

Another area of Federal concern is in the development of a program which will eliminate illiteracy in the United States. This is a feasible objective and one which has both economic and social utility. A small additional investment of Federal funds for a 10-year period could eradicate this blight from our Nation.

The Federal Congress provides very substantial funds for medical research but is neither as generous or as farsighted as far as funds for educational research is concerned. The Office of Education should have additional funds for research into more effective educational methods, as well as for the collection and analysis of economic and financial aspects of education, by States, and for making projections as to future teacher and school needs and financing arrangements. Secretary Folsom has given increased emphasis to this matter, and it is hoped Congress will provide additional funds so that intelligent policy decisions in the education field can be made with full, accurate, and more current information.

Welfare

The field of welfare includes not only social security, public assistance, veterans' benefits, and public-pension programs, but also private life insurance, private annuities, private welfare and pension plans, and private philanthropy.[16]

This is a field which has been growing rapidly in recent years and which will continue to grow.

Although the longer run aspects of the program should be the decisive element in policy formulation in this area, it should be recognized that there is a good deal of room here for an increase in consumption expenditures.

Most of the 10 million retired aged, all of the 3½ million nonaged on the assistance rolls, many of the children in large families, and many of the families in surplus labor market areas, all are consuming below desirable American standards. Sumner Slichter believes that "the No. 1 economic problem of the country is not inflation—it is the problem of restoring expansion to the economy by persuading individuals to increase their spending, thereby creating markets for a larger volume of production." [17] To the extent that it is wise social and economic policy to increase consumption expenditures now and in the years ahead, social security offers a sound vehicle for carrying this policy into practical effect.

Old-age benefits

Both old-age insurance and old-age assistance payments are inadequate in many respects and will need to be increased both immediately and in the long run.

The average money income from all sources (public and private) of the nonworking aged person was probably around $1,300 in 1954.

[16] It should be noted that various other types of saving, homeownership, and investments are designed to provide income for old age, unemployment, sickness, disability, or death. Social policy in this field requires consideration of the interrelationship between all types of such programs and expenditures.

[17] New York Times, August 8, 1957.

I suggest, as an objective, a 25-percent increase in their average total income (public and private) by 1960 and a 50-percent increase by 1965.[18] This would involve increased income from savings, private pension plans, and social security. As an immediate step, an increase in 1958 of approximately 10 percent in old-age, survivors, and disability benefits and a roughly comparable increase in the Federal matching maximum in old-age assistance from $60 to $66 is suggested.

Before considering these proposals in detail, some general considerations about the aged are necessary before defining policy with respect to particular issues or programs.

Are the aged a homogenous group?

In considering the implications and alternatives involved in raising the income level of the aged, six major groups among the aged may be identified although there is some overlap and some omissions in any such simplified classification:

(1) The group working full-time or drawing substantial income from self-employment, investments, or executive or professional services. Their income is, on the whole, reasonably adequate and they enjoy a double income-tax exemption, and some retirement income exemption from income tax; they may have savings, insurance, and own their own homes, or have substantial equities in their own homes. This group comprises perhaps half of the total of 5 million aged persons who work during the course of a year (this number includes their wives). The average income of this group is high and most likely will rise with increased incomes of the general population.

(2) The group of aged persons who could work somewhat more and earn somewhat more if the opportunities were available.[19] This is not as large a group as is commonly believed, because of the health status of the present aged.

(3) The group of retired persons with social security and a private pension and frequently with some minor employment and other investment income.

(4) The sick or disabled aged with modest incomes inadequate to meet their heavy medical costs in addition to their regular maintenance costs.

(5) The elderly widow who has very little income—some receiving insurance, others assistance, and still others living with their children, many of whom have no regular retirement or pension income.

(6) The 2 million persons on old-age assistance who are not drawing old-age, survivors, and disability insurance. (About 500,000 additional draw both benefits.)

Although several other groups among the aged could be identified for various purposes such as the institutionalized aged, or single men, or the aged living with relatives or on farms, the above classi-

[18] Average benefits and average increases are used here only as a simple and convenient method of dealing with a complex problem involving income distribution. It should also be noted that there will be some increase in average income due to the broader coverage and increased benefits provided by the 1954 and 1956 amendments to the old age and survivors insurance program.

[19] During 1955, 1,835,000 persons aged 65 and over worked part-time or intermittently during the year, out of the 4,301,000 who worked during the course of the year. The proportion working part-time or intermittently was 36.8 percent of all men, and 57.9 percent of all women, 65 and over with work experience in 1955. Work Experience of the Population in 1955, Current Population Reports, Labor Force, Series P-50, No. 68, June 1956, Bureau of the Census, Department of Commerce.

fication aims to give some insight into the priorities which should be considered with respect to improving the income of the aged. Thus, as will be pointed out later, proposals to repeal or greatly liberalize the retirement test would only aid those who were employed, primarily the minority of the aged consisting of those in groups 1, 2, and 3. The increased cost would not result in any increased income for any of the other groups.

On the other hand, increasing the cash-benefit payments a modest amount will not meet the heavy medical costs of those in groups 4 or 6.

Our major policy question is, Can we tailor-make our policies so that we will give priority to those groups among the aged who require attention most urgently?

A program for 1958

Improving the old-age, survivors, and disability insurance program should have the highest priority in any legislative program for social security in 1958. It would be possible to improve the benefit structure and finance the costs through the contributory insurance system.

The following elements are suggested for such a program:

1. Increasing the benefit level about 10 percent by increasing the benefit formula. Benefits would be increased for the 10 million beneficiaries as well as for persons coming on the rolls in the future.
2. Increasing the maximum taxable wage base from $4,200 annually to at least $6,600.
3. Providing for hospitalization and nursing home insurance coverage for old-age, survivors, and disability insurance beneficiaries.
4. Providing for the payment of rehabilitation costs from the insurance system.
5. Financing the additional costs by increased payroll contributions of one-half of 1 percent on the employees, an equal amount on the employers, and three-quarters of 1 percent on the self-employed.

Such a program would be financially and actuarially sound and would aid, in the long run, in minimizing the need for additional Federal, State, and local expenditures.

Increased social security benefits

The general level of the insurance benefits has not been increased since 1954. The cost of living has increased since then and is likely to continue to rise. But the important fact is that benefit levels for most persons were not adequate, even with the 1954 amendments.

An increase in benefits averaging about 10 percent can be put into effect next year. Along with an increase in the maximum taxable wage base, this would increase the overall costs of the system about one-half of 1 percent of taxable payrolls on a level-premium basis.

The increased primary benefits proposed are shown by table 1. Table 2 shows the proposed changes in benefits for an aged couple and a widow with one child.

TABLE 1.—*Illustrative monthly old-age, survivors, and disability insurance benefit amounts under the present law and as proposed*

Average monthly earnings	Primary insurance amount		Proposed insurance amount as percent of average monthly earnings
	Present	Proposed	
EARNINGS LEVELS AFFECTED BY NEW MINIMUM			
$50	$30.00	$35.00	70.0
EARNINGS LEVELS AFFECTED BY NEW BENEFIT FORMULA			
$100	$55.00	$60.00	60.0
$200	78.50	85.80	42.9
$300	98.50	107.80	35.9
$350	108.50	118.80	33.9
EARNINGS LEVELS ABOVE PRESENT CEILING			
$400	$108.50	$129.80	32.5
$450	108.50	140.80	31.3
$500	108.50	151.80	30.4
$550	108.50	162.80	29.6

TABLE 2.—*Illustrative monthly old-age, survivors, and disability insurance benefit amounts for aged couples, 65 years and over, or for widow and 1 child, present law and proposed*

Average monthly earnings	Present insurance benefit	Proposed insurance benefit	Average monthly earnings	Present insurance benefit	Proposed insurance benefit
$50	$45.00	$52.50	$400	$162.80	$194.70
$100	82.60	90.00	$450	162.80	211.20
$200	117.80	128.70	$500	162.80	227.70
$300	147.80	161.70	$550	162.80	244.20
$350	162.80	178.20			

Hospitalization for old-age, survivors, and disability insurance beneficiaries

Increasing old-age-insurance and old-age-assistance payments by themselves will not meet one of the most pressing needs of old people—medical care. Many old people need more hospital care and nursing-home care than they now receive. Many are not eligible for insurance. Others have incomes too low to purchase insurance or continue their insurance. The flat-rate premiums under voluntary insurance are not related to the older person's income and are regressive.

The most recent statistics indicate that about 6 out of every 10 aged persons do not have any hospitalization insurance—and for all practical purposes none of the aged has any insurance for nursing home costs. These are insurable risks.

Since a large proportion of the aged with hospitalization insurance are employed, most of the retired aged do not have such insurance.

It would be possible to finance the cost of limited hospitalization insurance benefits and nursing-home costs to all aged, survivor, and disabled beneficiaries (and all such persons with insured status who could receive such benefits if they applied) for about one-half of 1 percent of taxable payrolls. This amount is the level-premium cost over a

long period of time. In the early years, the costs, measured in current expenditures, would be somewhat less, and a small reserve would be built up to meet somewhat higher costs in the future.

Arrangements could be made for utilizing the experience of the Blue Cross plans, the American Hospital Association, and other voluntary nonprofit group practice prepayment plans in the program.

Raising the maximum wage base above $4,200

In old-age, survivors, and disability insurance, a major controversial issue is the maximum wage on which contributions and benefits are based. In 1939, the original $3,000 maximum set on annual earnings covered the total earnings of 97 percent of all workers covered by the program and of 95 percent of the workers with earnings in all 4 quarters of the year. This percentage has shrunk steadily over the years, even though the maximum earnings base has been increased twice since 1939. At present, the $4,200 maximum earnings base in the law covers the total earnings of only about 72 percent of covered workers.

When Congress increased the earnings base to $3,600 in 1951, the increased base did not restore the situation that had existed in 1939; the new base covered the total earnings of only 64 percent of men regularly employed in 1951. The 1954 amendment, increasing the base to $4,200, covered the total earnings of only 58 percent of men who worked in all 4 quarters of 1954. By 1959, the earliest date any increase in the wage base could be effective, only about 40 percent of men who work in all 4 quarters will have all their earnings covered by the $4,200 maximum. Even if the earnings base were raised to $4,800 for 1959, this would not restore the situation existing in 1954, since the $4,800 base probably would cover total earnings of less than 55 percent of men working in all 4 quarters in 1959.

To restore the 1939 situation, under which benefits could be related to total earnings for nearly all covered workers, would require a maximum earnings base of $8,400.

Increasing the wage base in the old-age, survivors, and disability insurance program would have two important results:

1. It increases benefits for the middle and higher income earners and thus maintains their financial and psychological interest in a contributory, wage-related system.

2. It reduces the cost of the system measured as a percentage of payroll and thus would permit the improvement in other types of benefits, particularly those which broaden the social objectives of the program.

Increased benefits for widows

The number of aged widows is already substantial. Since the life expectancy at the upper ages is longer for women than for men, the proportion of widows among the aged is expected to increase.

Available studies by Epstein, Steiner, and Dorfman and the Census show that widows have the lowest average incomes among the aged. In old-age, survivors, and disability insurance widows receive three-fourths of a primary benefit. It is desirable, as a longer run objective, to consider paying widows the full benefit. Because the cost of this change would approximate four-tenths to one-half of 1 percent of taxable payrolls, this change might have to be approached in steps by increasing the amount from 75 percent to 85 percent and then, at

another time, to 100 percent, along with such other changes as would keep the system financially in balance.

Making payments to children until age 21 or 22

Consideration should be given to paying a child's benefit until age 21 or 22, instead of until 18 as at present. The cost would not be large and the social policy would be in the national interest.

The Federal income tax defines a child for the purpose of deductions as a child who has not attained age 19 or is a student. The same definition and regulations might be considered for old-age, survivors, and disability insurance purposes.

A flexible retirement program

In enacting the 1956 amendments to the social-security program, Congress injected a degree of flexibility into the system which was very essential. This policy should be further extended to the extent financially possible.

A delayed retirement credit should be included in the law which would give each individual who postponed retirement past 65 a small increase in his benefit.[20] This approach is to be preferred over the repeal or substantial liberalization of the $1,200 retirement test at this time. To repeal the retirement test would cost an additional $1.6 billion annually.[21] Rather than repeal the entire retirement test, consideration should be given to increasing the exempt amount of $80 a month to $100, and lowering the age when the test is no longer applied from 72 to 70.

Another method of making the program more flexible would be to delete the age 50 requirement for total disability benefits. This proposal should have high priority.

Study might also be given to paying benefits at age 62 for men on an actuarially reduced basis. This would enable persons who are not well but who are not totally disabled (according to the present definition) to obtain some income without distorting the disability provisions or paying costly full benefits for persons prior to age 65. There are some problems and objections to paying actuarially reduced benefits at an earlier age and these should be carefully explored before arriving at a decision. If it is thought that it is undesirable to reduce the age on an actuarially reduced basis, consideration might be given to providing total disability benefits at age 60 to disabled persons unable to engage in their "regular" occupation. The present law requires that the individual be unable to engage in any substantially gainful occupation.

Greater equity in the old-age, survivors, and disability insurance

Many important and essential improvements in the social-security program have been made since 1939 in the social aspects of the program. Some of the equity aspects have been diminished. As long as the contribution rates were low, and contributions were collected for only a relatively short period of time, this was not a problem. But, if a contributory wage-related program is to be maintained at rela-

[20] For insured men who became entitled to old-age, survivors, and insurance benefits in 1955, 60 percent drew their benefits after age 65; 25 percent were age 70 or over. Source: Bureau of Old-Age and Survivors Insurance, Social Security Administration, Department of Health, Education, and Welfare.

[21] For various proposed changes in the retirement test and their costs see Wilbur J. Cohen, Retirement Policies Under Social Security, 1957, ch. VI.

tively higher contribution levels in the future, then more attention should be given to including some additional equity elements in the system.

This means there should be a wider variation in benefit payments.

It means increasing the maximum taxable wage base above the present $4,200.

It means introducing a delayed retirement credit.

It may mean introducing an additional element of variation among persons with the same wage level who have contributed for varying lengths of time similar to the "increment" which was repealed in 1950.

It may mean providing women with their benefit earned in their own right, plus part of their wives' benefit which is one-half of their husband's benefit.

Old-age assistance

Under the original 1935 law, Congress offered to pay each State one-half of the cost of providing old-age assistance to needy persons provided that the Federal cost did not exceed $15 per needy aged. Congress increased the $15 to $20 in 1939. In 1946, 1948, 1952, and 1956 Congress increased the Federal share and the Federal maximum payment. The present Federal law provides for paying four-fifths of the first $30 plus one-half of the next $30. The maximum Federal payment for any individual is, therefore, $39. Congress enacted this provision for the 2-year period which expires June 30, 1959.

In order to receive the full $39 at present, a State must contribute $21, making a total of $60 going to the needy aged person. If a State pays $75 to the aged, it must contribute $36 to the Federal Government's $39. If a State pays $35 to its aged, then the Federal Government contributes $26.50 and the State $8.50.

In addition to increasing the maximum in old-age assistance (as well as in aid to the disabled and the blind) some additional Federal aid is needed to assist the low-income States such as Mississippi and Arkansas to more effectively raise their assistance standards.

Two suggestions should be explored. The present two-step Federal matching formula of 80 percent on the first $30 and 50 percent on the next $30 could be modified so that the second step would vary in accordance with the per capita income of the State. This principle of relating the Federal share to the per capita income of the State was first adopted by Congress in the School Lunch Act and then incorporated in the Hill-Burton Hospital Construction Act, the medical facilities amendments to that act in 1954, and in the vocational rehabilitation program in 1954.

Another suggestion is the use of a three-step formula such as 80 percent of the first $30, 60 percent (or some other percent) of the next $30, and 40 percent (or some other percentage) of the remainder. This type of formula, known as the Mills formula, was sponsored by Representative Mills in 1949 and included in the social-security amendments of that year as passed by the House of Representatives. Due to the Korean war, the amendment was not included in the 1950 amendments.

Medical care for public assistance recipients

The 1956 social-security amendments provided for Federal matching of one-half of medical care costs for assistance recipients up to

$6 per adult and $3 per child per month on the entire caseload. The $6-$3 averages were established by research studies of 1946 and were recommended in 1948 by the Senate Advisory Council on Social Security. Ten years later they are still in use and overall medical costs have risen 40 percent and hospital costs 80 percent. The averages for adults need to be increased to reflect more recent medical cost experience.

A simplified and more adequate method of dealing with the problem would be to increase the maximum Federal matching amount from an individual $60 basis to an average $66 basis and permit vendor payments to be included in the total. This would simplify bookkeeping and give the States the greatest flexibility in meeting both the maintenance and medical care needs of assistance recipients.

Other public welfare proposals

A number of other changes are necessary and desirable in order to strengthen our Federal-State system of public welfare.

Among those which should receive early consideration by the Congress are the following:

1. The category of aid to the permanently and totally disabled should be broadened through eliminating the restriction requiring a disability to be permanent and total and through eliminating the age requirement.
2. The aid to dependent children program should be strengthened by providing Federal aid to the States for any needy child living with any relative.
3. Federal assistance should be made available to the States in programs for the prevention and treatment of juvenile delinquency.
4. Federal aid for public welfare should be on the same basis for Puerto Rico and the Virgin Islands as for other jurisdictions.
5. The amount authorized for child welfare services should be increased from $12 million to at least $25 million a year.
6. Federal grants should be authorized to assist in the development and operation of demonstration projects to aid older persons, to provide research and training in the field of aging.

In this connection, it is important to point out that two recent attempts by the Congress to modify the basic Social Security Act through appropriation bills by reducing Federal grants for the administration of State public-assistance programs have resulted in a great deal of misunderstanding among State and Federal administrators and legislators. Public welfare staffs are now generally underpaid and overworked. Curtailment of staff and services is unsound. No further action should be taken on this proposal until the legislative committees of the Congress have a full opportunity to review experience and alternative proposals. Premature action could adveresly affect the welfare of millions of persons on the welfare rolls.

Unemployment insurance

Unemployment insurance benefits are inadequate, on the whole, in the United States. Both President Truman and President Eisenhower have so stated, as have their Chairmen of the Council of Economic Advisers and their Secretaries of Labor. The major difference of opinion and the major controversy does not resolve about the recognized inadequacy of benefits but the means to accomplish this goal.

The nationwide unemployment insurance program was established, is maintained and preserved by virtue of a Federal tax on employers and a Federal grant-in-aid to the States of 100 percent of the cost of State administration. It is a unique program from a tax, grant-in-aid, or social insurance point of view. Federal money makes the system what it is but the Federal Government has very little real authority, and no responsibility, for specific benefit levels.

More than 20 years ago, when Federal legislation for unemployment insurance was being considered, Senator Paul Douglas made the suggestion that our unemployment insurance system should be operated on a grant-in-aid type basis instead of the credit-offset system now used.[22]

A majority of the 1934 Advisory Council on Economic Security also recommended a grant-in-aid type plan.[23] Marion B. Folsom, now Secretary of the Department of Health, Education, and Welfare, also endorsed the grant-in-aid approach for unemployment insurance.[24] There is still merit in this suggestion, and the joint committee might well look into it in more detail.

Our present unemployment insurance program is a collection of anomalies in both our Federal-State cooperative system and in our social insurance structure. While the program has operated reasonably well—having paid out over $16 billion in benefits since it began—and, at the same time, contribution rates on employers have remained low—this is largely due to the favorable economic conditions in the last 17 years.[25] The $8.5 billion unemployment insurance trust fund is very largely a sterile reserve. A very large portion of this amount will never be used even if a relatively serious recession occurs.[26] Contributions, moreover, will tend to increase if employment conditions decline for any period of time.

The system discriminates against women workers who are needed, if we wish to consider the broader aspects of labor market expansion for economic growth. Large numbers of marginal workers, like farm workers and employees in small firms, are still excluded. A host of other failures have been cataloged by various councils, agencies, and experts.[27] But since economic conditions have been relatively good for a long period of time, changes and progress in the program have been slow, and some backward changes have occurred in disqualification and financing arrangements.

But, it must be recognized that important improvements have been made in both the benefit and financing provisions of our unemployment-insurance system under the pleadings from the Federal Government and the pressures, first for federalization of the program and then for Federal benefit standards. But a Federal grant-in-aid program—with or without benefit standards—in my opinion would serve to accelerate the progress of State legislation. A reinsurance fund, instead

[22] Hearings before the Senate Committee on Finance on S. 1130, 74th Cong., 1st sess., 1935, pp. 892–896.

[23] Ibid., pp. 335–336.

[24] Ibid., p. 582.

[25] The average State employer contribution rate in 1956 was 1.3 percent. This varied from 0.5 percent in Colorado to 2.7 percent in Rhode Island and Alaska. The Labor Market and Employment Security, U. S. Department of Labor, July 1957, pp. 28–29.

[26] At the end of 1956, funds available in the following States exceeded 10 percent of taxable wages: Connecticut, New Jersey, Kentucky, Wisconsin, Iowa, Montana, New Mexico, Arizona, Idaho, and Washington. Ibid.

[27] See, for instance, the recommendations of the 1948 Advisory Council on Social Security, S. Doc. 208, 80th Cong., 2d sess., 1949. The deficiencies in the present program are summarized on pp. 138–139 and the recommendations on pp. 139–142.

of the present loan fund, also would help to accelerate State progress. Should these measures be unacceptable, then minimum Federal benefit standards may be necessary.

The Federal interest in unemployment insurance can be simply stated: If any substantial unemployment does occur in the future and the present system does not adequately carry out the maximum role it can play in preserving hte level of purchasing power and family morale, the Federal Government will have to play a more important role than it now does. The present unemployment insurance program would restore less than 20 to 25 percent of the wage loss occurring in a serious recession. Unemployment insurance cannot carry the whole load of any serious dip but it can and should do a better job than it is now likely to do.

Another concern of the Federal Government is that the present State by State contribution rates are conducive to interstate competition. The same industry, with the same employment and unemployment experience, may pay a 3- or even possibly a 4-percent rate in 1 State and zero in another. There is no adequate solution of this vexing problem except for an outright national contribution rate. But the variation could be minimized by a grant-in-aid approach or reinsurance program, or both. These are matters worth exploring.

Congress should also give consideration to modifying the existing Federal law to permit States to reduce employer contributions on a flat-rate basis in addition to reducing them on an individual experience rating basis. This is a controversial question which should be explored.[28]

Although it would take much additional space to consider the pros and cons of specific changes in State and Federal [29] laws, one proposal is worthy of this subcommittee's attention. This is the proposal adopted in a few States, endorsed by the Department of Labor, and advocated by several Republican legislators in New York for the repeal of a fixed dollar maximum benefit and the establishment of the maximum benefit each year as a proportion of a specified average wage. The legislature would set the proportion and define the average wage to be used. The administrative agency would make an annual determination which would apply for the period specified in the law. This provision has a great deal to commend it, since it permits the program to adjust reasonably rapidly to the changing wage structure and economic conditions.

Workmen's compensation

State workmen's compensation programs are the oldest and most antiquated social insurance programs we have in the United States. Modeled along 1910 lines, they are inadequate and inefficient. The concepts and administrative devices used encourage litigation, delay in payment, heavy administrative costs, and prevention of rehabilitation and reemployment. Compared with the Federal Employees Compensation Act for Federal civilian employees, the various State acts are grossly inequitable, inadequate, and cumbersome.

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[28] The pros and cons on this question will be found in the Commission on Intergovernmental Relations, A Report to the President for Transmittal to the Congress, June 1955, pp. 208–209, and A Study Committee Report (to the Commission) on Unemployment Compensation and Employment Service, June 1955.

[29] See the comments and suggestions of my colleague, Prof. William Haber, The Present Status of Unemployment Insurance in the United States, Annual Proceedings, Industrial Relations Research Association, 1955.

I hope it will be possible for the Congress to provide the Department of Labor with increased staff to assist in improving the State laws. Consideration should be given to establishing Federal standards for State programs. In many cases today, effective State administration of such programs is thwarted by inadequate staff, facilities, and funds.

From an administrative point of view, State workmen's compensation programs are the most expensive form of social insurance in the United States. Moreover, the costs and benefits tend to vary more widely than in unemployment insurance, and administrative arrangements are more complex and diverse. In general, workmen's compensation is not administered as efficiently as old-age, survivors, and disability insurance or unemployment insurance. The program does not cover the proportion of wage loss intended by the sponsors of the original program. A thoroughgoing investigation and overhaul of the existing arrangements is long overdue.[30]

Interrelationships Between Fiscal Policy and Social Policy

There are a number of important issues involving longer run fiscal and social policies. They cannot all be dealt with in this paper. Even those selected for attention cannot be adequately analyzed in the limited space available. Those which are mentioned are included primarily with the idea that the joint committee may wish to explore them more intensively.

Strengthening the Federal-State cooperative program

In this paper, a number of suggestions have been made for broadening and expanding the existing Federal-State programs of health, education, and welfare. Since proposals have also been made by other persons and groups for returning some of these programs and some Federal excise taxes to the States, it is necessary at the present time to raise the question in which direction it is desirable to go. Should we curtail the Federal-State cooperative system in these fields and limit the Federal Government's concern to only certain areas? Should we parcel out specific taxes to the States? Will this strengthen State responsibility and weaken the national interest?

There is no question in my mind, from my experience, that Federal grants-in-aid to the States have strengthened the States and preserved the Federal-State system in this country. I do not believe we can meet the rapidly changing and expanding social needs of our Nation without building upon the Federal-State system. Various criticisms and defects of the Federal-State system can be made. But it is important to recognize that, in the national interest, we must seek and we must find ways to accomplish national objectives with decentralized administrative responsibility.

Meyer Kestnbaum, the President's adviser on Federal-State relations, has compressed the complex issues involved in this question into an understandable statement. In testifying before the Subcommittee on Governmental Operations in the House, he stated:

> People find they can do better coming to Washington than they can going to their State governments for help. They

[30] See the excellent evaluation of the program, and recommendations for changes, in Herman M. Somers and Anne R. Somers, Workmen's Compensation: Prevention, Insurance, and Rehabilitation of Occupational Disability, 1954.

> find they get a better hearing from their Congressman, a more sympathetic understanding, a better attitude and a broader outlook.[31]

The many issues involved in Federal grants-in-aid to the States are complex. These issues have been studied by the first Hoover Commission on Federal-State relations and by the Kestnbaum Commission on Intergovernmental Relations. The reports of both Commissions recognized the contribution of Federal grants-in-aid in accomplishing national objectives. At the present time, a House committee is giving further study to the operation of Federal-State programs. At an appropriate time, the joint committee might wish to review the economic and fiscal implications of existing grant-in-aid programs. It would be desirable to strengthen the equalizing effect of Federal aid by giving greater emphasis to the expansion of programs and services in the low-income States. A report of the New Jersey Taxpayers' Association concludes that the proportion of Federal aid which equalized financial resources represented 23 percent of the $3.3 billion of Federal aid distributed in 1956.[32]

The total amount of Federal aid equalized was $800 million. Thirty-four States received more in aid than the taxpayers of these States paid in taxes. Mississippi and Arkansas received three times as much as their taxpayers contributed. Missouri received about half as much as its taxpayers contributed.

An objective appraisal of the validity of these estimates, and a reappraisal of the equalizing objectives and accomplishments of Federal aid, would be desirable.

However, it should be recognized that equalization of the general fiscal capacities of the States is not the sole objective of Federal grant policy. The Kestnbaum Commission concluded that such equalization is not "by itself a proper objective of national policy." [33] The Commission's arguments on this point are not very persuasive from an economic point of view. The very fact that the Commission recommended the incorporation of equalizing features in specific grants as "desirable whenever reasonably necessary for the achievement of specific program objectives" [34] is evidence of the inescapable importance of equalization in Federal grants. In any case, it must be noted that overriding national interests may necessitate the use of Federal grants-in-aid to effectuate a coordinated and nationwide program independent of fiscal considerations.

Fiscal policy and social security

The social-security program involves large and important fiscal and economic questions. Public social-security payments were being disbursed in July 1957 at a rate in excess of $18 billion a year. Old-age, survivors, and disability insurance is already the largest constellation in the social-security firmament, involving $7 billion of disbursements annually. Moreover, total benefit disbursements under the existing old-age, survivors, and disability insurance program will more than triple by the end of the century.

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[31] New York Times, July 30, 1957.
[32] Federal Aid—Quick Money or Quicksand, February 1957.
[33] The Commission on Intergovernmental Relations, a report to the President for transmittal to the Congress, June 1955, pp. 110–113, 135–136.
[34] Ibid.

Before exploring some of the fiscal questions raised by the old-age, survivors, and disability insurance program, it may be well to summarize very briefly the major characteristics of the program as it stands today.

Major characteristics of the old-age, survivors, and disability insurance program

Two basic features of the old-age insurance program have remained unchanged since the system was established in 1935. They are that the benefits are wage-related as contrasted to being uniform in character; and the system is contributory with payroll contributions from employers, employees, as contrasted to general revenue financing.

These two basic features, along with a number of other important elements, affect decisions as to the level of benefits, the methods of financing, and other provisions of the program. The main characteristics of the system today are as follows:

1. The system is contributory with contributions from employers and employees and, since 1951, from the self-employed.
2. The program is financed on a self-supporting basis without a general subsidy from the Federal Government.
3. Contributions from employers and employees are equal.
4. Contributions from the self-employed are three-quarters of the combined contributions payable with respect to employees.
5. The contribution rates paid by individuals at the present time are less than what individuals would have to pay for the same protection from a private insurance company.
6. Contributions are compulsory except for a few groups where, because of compelling public policy, voluntary contributions are permitted under very limited circumstances.
7. Benefits are paid as a matter of statutory right to or on behalf of insured persons without a needs test.
8. All persons in occupations covered by the program are included in the system irrespective of the amount of their earnings, although for higher income persons part of their earnings are not counted for either contribution or benefit purposes (at the present time, the cutoff is $4,200 a year).
9. Benefits are related to the wages of the insured contributor within specified dollar minimums and maximums and are a higher proportion of the wages for lower income persons than for persons with higher income.
10. Benefits are related to presumptive family needs—that is, the basic benefits of an insured contributor are increased where the contributor has a wife 62 and over or dependent children under the age of 18, and in certain other cases.
11. Benefits are paid to certain insured survivors of the contributor, such as the widow, dependent children under the age of 18, dependent parents, and dependent widowers.
12. Benefits to insured working women and wives are actuarially reduced if they begin to draw them between ages 62 and 65.
13. Benefits to insured persons between the ages of 62 for women and 65 for men and 72 are payable to individuals upon "retirement" as defined by law.
14. Benefits are paid to insured aged persons 72 or over, irrespective of retirement.

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15. Benefits are paid to certain insured totally disabled persons age 50 and over.

16. Benefit rights are preserved for certain insured totally disabled persons, irrespective of age.

17. Disabled individuals are referred to State vocational rehabilitation agencies for rehabilitation.

18. A small lump-sum death benefit is payable upon the death of an insured individual.

19. There is no refund of contributions to the estate of any contributor when benefits paid in respect to his earnings do not equal the contributions he paid to the system during his lifetime.

20. Contributions are deposited with the United States Treasury; the Treasury utilizes any excess of contributions over amounts needed for benefits and the cost of administration by issuing or by buying United States Government bonds to the trust fund; the bonds and the interest on such bonds are held in the trust fund for the benefit of the beneficiaries of the system.

21. The Board of Trustees, composed of the Secretaries of the Treasury, Labor, and Health, Education, and Welfare, have the responsibility of making an annual report to the Congress giving the facts as to the financial and actuarial status of the program, and making any recommendations if the fund is too high or too low.

22. For each scheduled stepup in the contribution rate, an advisory council is to be appointed to study and report on the financing of the program.

Criteria for benefit adequacy

Major increases have been made in the benefit structure of the old-age and survivors insurance program in recent years and, undoubtedly, additional improvements will be made next year and in future years. Yet, there is no precise definition of the benefit objectives of the system.

The underlying concept of the program has been described by the House Committee on Ways and Means most recently (1954) as the "goal of providing an adequate floor of protection." The Senate Committee on Finance spoke of a basic program of contributory insurance being important to the economic security of American families (1954).

The Secretary of Health, Education, and Welfare, Marion B. Folsom, has stated that a "fundamental principle is that social-security payments are intended to provide a base of protection upon which workers and employers may build additional security through private effort and individual thrift" (1957).

Sometimes the objective of the program has been expressed as the payment of benefits which will provide "minimum protection." This ambiguous phrase has meant different things to different people. To some people it has meant a flat payment of $50 or $60 a month to everyone; to others, a relatively high-minimum payment of $50 to $75 with a narrow range between the minimum and a relatively low maximum. In other words, it has meant the floor in the basement of the social-security edifice to some, the first floor to others, and an escalator running from the basement to the fifth floor to still others.

It would be desirable to clarify this concept. With the growth of private pension plans, it becomes more urgent.

Under the 1954 amendments, benefits vary from 60 percent for an average monthly wage of $50 to 31 percent for an average monthly wage of $350. An individual with an average monthly wage of $120 receives a benefit of approximately 50 percent.

In the civil service retirement system the benefit for an individual with an average wage of $350 represents 57 percent of the wage. In the railroad retirement program the proportion is 59 percent. What should be the proportion of wages compensated by the OASDI program at various levels?

By attempting to state the desirable benefit levels of the old-age, survivors, and disability insurance program in more specific mathematical terms, it would be possible to consider more objectively long-run costs, priorities, and interrelationships between the insurance program, assistance, and private pension plans. Thus, the amount of the minimum benefit might be expressed as a specific percent of average earnings; the maximum taxable earnings base as an amount which would cover all the earnings of a given proportion of covered persons; the maximum family benefit as a specific multiple of the primary benefit amount. Finally, the benefit formula could be expressed as one which would produce a benefit of a specific percent of earnings for the person receiving the average earnings in a year and with a specified higher percentage for the individual earning one-half that amount, and a specified lower percentage for the individual earning the maximum taxable amount. Average earnings in a year would have to be defined as, for instance, the median earnings (rounded to the closest multiple of $100) for male earners working all 4 quarters in insured employments.

The formulation of objective criteria along these lines is suggested for inclusion in a declaration of congressional intent in the law.

Countercyclical effects

From time to time, consideration has been given to various methods of modifying the provisions of the social-security system so that the program will have an even more important anticyclical effect than it might have under the present provisions of the law. For instance, suggestions have been made for reducing the contribution rates during periods of low-business activity and increasing them during periods of full employment and, as contributions increase, this may become an issue worthy of exploration. Likewise, it would be possible to write a provision into the law which would modify the retirement test in terms of the level of economic activity. For instance, to illustrate the general principle, the law could be written so that when business activity or employment dropped a given percentage, the retirement test would drop from $1,200 to say, $900. Conversely, when business activity or employment increased a given percentage over a norm, the retirement test would be increased to say, $1,500, or $2,000. The mathematical factors involved in the amount and timing of any such provision, of course, could be varied to fit varying approaches.

Several practical problems arise in the consideration of the desirability and workability of these automatic proposals. Based on past experience, the Congress has not been very favorable to the insertion of automatic escalator clauses into the statutes. The effect of any such provision is to delegate the lawmaking power to some administrative agency to determine the occurrence of specific events

which affect the rights of individuals and the condition of the economy. While the discretion of the administrative agency might be almost none whatsoever, nevertheless, the effect of any such proposal might be considered a serious abrogation of the legislative authority.

While it could be argued that there would be no real abrogation of Congress' legislative authority under any such proposal since Congress could change the law at any time, it is probable that the precedent-making effect of any such proposal would result in Congress hesitating before enacting any such proposal. Although various escalator clauses have been considered from time to time in terms of increases in veterans' benefit and other fixed statutory payments to individuals, Congress has always indicated its unwillingness to adopt any such proposals since it is pointed out that they are in session every year and can make the necessary adjustments in any legislation in the light of what Congress determines are all of the relevant facts at the time.

Adjustments to prices and wages

Tying the level of social-insurance benefits automatically to changes in the Consumer Price Index, in my opinion, is at the present time undesirable and unrealistic for the OASDI program. It is not likely to be acceptable as a solution to the adequacy of benefit problem. In the first place, such a proposal assumes that the benefits are adequate and only need adjustment to the price level. Moreover, it provides for dealing with the benefit side of the program without simultaneously adjusting the cost side. It should be recognized, moreover, that proposals for automatic adjustment of benefits to prices or wages would be opposed on the grounds that either might act as an incentive to inflation or at least affirmatively would not encourage price or wage stability. However, the same objection could be made to the escalator clause in the collective-bargaining contracts which now cover several million persons.

An adjustment formula relating wages solely to maximum benefits in unemployment insurance should be distinguished, however, from adjusting all benefits in relation to prices. These proposals differ in costs, effects, and principles. In any case, it seems to me, all these proposals to adjust our social-insurance program more promptly to a dynamic economy might well be explored. The recent German legislation and the British Labor Party proposals in this regard should be carefully studied.

Short-run and long-run costs

Before discussing certain current aspects involved in financing the insurance program, it is essential to describe the relationship between short-run and long-run costs. There were at one time and probably still are some people who say that the trust fund (now over $23 billion) or the illusory situation produced by the apparent excess of receipts over expenditures made Congress willing to liberalize the insurance benefits in the past, or has made Members of Congress propose liberalizations of benefits which are or may be unwise. I do not propose to go into the merits of the specific proposals of the past or the proposals adopted by the Congress. But I do say that the evidence from the congressional deliberations is overwhelming that the Congress has never come to their conclusions as to the changes in

the benefits on the size of the reserve fund or on the basis of the short-run costs. They have consistently kept in mind the long-run costs. They have conscientiously tried to take into account prospective income and outgo over a long period of time. It is gratifying that our Representatives in Congress have taken this position, and I see no reason to doubt their ability to continue to do so.

What I have just said in explanation of the financing of the insurance program should not be taken to mean that the present method of financing the program is the only sound method of financing the program. Various financial changes have been proposed which have been and should continue to be given careful consideration. But I do not believe there is evidence to support the contention for any basic changes in the present law on the ground that Congress has unwisely liberalized benefits because of a failure to recognize the increasing character of the benefit disbursements.

The financing of the program

My next comment is intended to clarify the issues surrounding some of the misunderstandings which cloud the controversy between reserve and pay-as-you-go financing. The present program has sometimes been referred to as being financed on a full-reserve basis, or on a pay-as-you-go basis, depending upon the emphasis given to certain factors. Neither of these characterizations is correct. Congress is financing the program over a long time, on what I would call a partial-reserve basis, as distinguished from either a full-reserve basis, a contingency-reserve basis, or a pay-as-you-go basis.

There are three of the general principles previously discussed which the Congress adopted in relation to the financing of the present program which are pertinent here:

1. *The self-supporting principle.*—The system should be self-supporting without any subsidy from the Government.

2. *The equity principle.*—The contribution rate paid by employees, as far as possible, should not be more than what they would have to pay for the same protection from a private insurance company.

3. *The equal-sharing principle.*—Contributions should be shared equally between employers and employees.

From these three general principles, it then follows that the Congress had to establish a system of collecting contributions in excess of benefits in the early years in order to build up a reserve fund which would earn enough interest which, when added to the contributions, would yield enough income to pay the benefits in all future years (1) without asking the Government for a subsidy, (2) without increasing contributions on employees above what was equitable, or (3) without increasing contributions on employers more than on employees and thereby disturbing the equal sharing of costs. Thus, under the present program, it is contemplated that in a year, if and when benefit disbursements reached 10 percent of payrolls, 8½ percent would be coming from contributions on employers and employees and an amount equivalent to 1½ percent of payrolls from interest on the reserve fund.

This is not the only way in which this cost could be financed. Congress could have chosen to go on a pay-as-you-go basis. It could have planned to finance the 10 percent future cost by collecting 5 percent from employers and 5 percent from employees and 7½ percent from the self-employed. But this might violate the equity principle and

would result in giving persons in the early years very substantial benefits at very much less contributions. It could have financed the cost by 4 percent from employees and 6 percent from the employers, but this would have violated the equal sharing principle. It could have planned to meet the 1½ percent differential from a Government subsidy, but this would have violated the self-supporting principle.

It could have tried to make various adaptations, such as 3 percent from employees, 5 percent from employers (the extra 2 percent being rationalized as a payment toward the accrued liability), 1 percent from the Government, which might be justified as the net savings from a reduction in costs of public assistance or as a payment of part of the costs of some of the benefits for older or low-income persons, and 1 percent from interest earnings on a contingency reserve.

I could give other possible combinations of sharing the cost. But Congress did not embody any of these variations in the present law.

The late Senator Vandenberg, an eminent and outstanding student of social security, became convinced some years ago that the system should be placed on a pay-as-you-go financing basis. He also came to the conclusion that the loss to the system of the interest from a reserve fund should be met from an outright Government subsidy. He agreed to an amendment to the law, adopted in 1943, which recognized this principle. But Congress, on its own motion, eliminated this provision in 1950.

Is the old-age, survivors, and disability insurance trust fund sound?

Recently, various economic, business, and insurance journals and writers have made current issue out of an old controversy which is again confusing social security contributors and the general public and is, unfortunately, acting as a weapon to cast doubt on the financial integrity of a governmentally run insurance program. Three arguments are made:

1. The social-security fund is currently in the red, in that outgo is exceeding contribution income;
2. Social security is, therefore, inflationary;
3. The trust fund has an accumulated liability of $323 billion and assets of $23 billion and, hence, has a "shortage of $300 billion and it is increasing year after year."

Before making a reply to these three points, it is important to point out that, to the extent that these statements are believed by their proponents, the answer to them is the advocacy of an increase in the contribution rates. Yet, the groups making these arguments usually have been the leading opponents of increases in the contribution rates, both during the early period of the contribution freezes of the war years and in 1956. In general, those who earnestly advocate these arguments are in favor of curtailment of government responsibility for social security, the limitation on any further benefit increases, or for outright repeal or basic modification of the program to eliminate the equity and wage-related aspects of the contributory program. In this latter point of view they have been joined by many pension consultants throughout the United States who have advised their clients and principals of the "actuarially unsound" financial status of the social-security program.

I should like to say, before I proceed to deal with the three points being raised in current discussions, that, in my opinion, from the 22

years of close association I have had with the congressional committees handling social-security legislation, the financial integrity of the program has always received the most careful consideration of the House Committee on Ways and Means and the Senate Committee on Finance, irrespective of the party in power. Whether the chairman of the Committee on Finance was Pat Harrison, Walter George, Eugene Millikin, or Harry Byrd; or whether the chairman of the Committee on Ways and Means was Bob Doughton, Dan Reed, or Jere Cooper—or whatever the composition of the committees or the conference committees—and I am sure Mr. Mills will bear me out on this point—each administration proposal and committee change in benefits in 1935, 1939, 1950, 1952, 1954, and 1956 was accompanied by the most careful presentation of the best actuarial estimates available, and an impartial attempt to keep the system in actuarial balance within the knowledge then available.

This is not to say that there is complete agreement on the way to finance a governmental program of this character. There are a number of alternatives for changing the sources and proportions of the revenues borne by the various parties. But each time Congress has approached these complex questions it has returned to the principle of financing the program directly from the contributors without any subsidies from general revenues and by a graduated step-up rather than a level-premium basis. The graduated step-up permits a gradual adjustment by employees, employers, and the self-employed to the increased levy without a too sharp impact on costs, prices, or take-home pay.

Recognizing the complex financial issues and the imponderables involved in any policy—the present one or any of a number of alternatives—the Congress, in 1956, wrote into the law a provision for the establishment of an Advisory Council on Social Security Financing to be established each time the contribution rate is to be increased. Under the present law, the contribution rate is automatically increased in 1960, 1965, 1970, and 1975. The councils are to report before each rate increase, and are specifically directed by Congress to review the status of the trust funds in relation to the long-term commitments of the old-age, survivors, and disability insurance program.

With respect to the three questions raised earlier, it is essential first to say that Congress clearly recognized that sometime before 1960 the old-age survivors insurance benefit outgo would exceed contribution income. Hence, there is nothing unforeseen about the current situation in which old-age survivors insurance benefit disbursements approximate contributions. While this situation might occur earlier than thought in 1954 or 1956, the current interest earnings and the $23 billion trust fund are available to handle any temporary imbalance which occurs before the 1960 stepup.

Morover, the separate disability trust account will be developing a relatively large balance. This fact must be taken into account in appraising both the current deficit and the inflationary criticisms. Should the critics or Congress believe that the program should be more deflationary, then I suggest consideration be given to increasing the rate one-quarter of 1 percent on employers and employees each (and three-quarters of 1 percent on the self-employed) effective

January 1, 1958. Of one point I am convinced: the majority of the employee contributors to the program will accept a reasonable and justified increase in contributions if it is explained to them. As I have already pointed out, I think the employee contributors are willing to pay an increased contribution of one-half of 1 percent at the present time for increased benefits. Since the full effect of the benefit increases I have proposed for the immediate future would be less than the contribution yield, the proposal would be deflationary on the whole. When coupled with the contribution increases already scheduled for 1960, the deflationary effects would continue into the early sixties.

I do not propose the changes I have suggested on the grounds that it is desirable that they be deflationary. I would prefer that any changes, at the present time, have a null or inconsequential effect on the balance as to income and outgo. But this is not feasible from the standpoint of public opinion, in my judgment, or from the point of view of fixing contribution rates in convenient percentage multiples. In any case, considering all the aspects, I believe it desirable to provide immediately for the contributions to cover the level-premium cost of any new benefits provided. This was the policy adopted in principle by Congress in 1950, 1954 and 1956, and I believe it would be best to continue this principle for the present unless special circumstances warrant its partial or temporary modification.

The third criticism, that there is an actuarial deficit in the present program, is one which, while frequently made, is not intended to produce a constructive answer for rate increases. Representatives of insurance companies and actuaries, and two advisory councils, have testified that in a system handled by the Government and assumed to operate in perpetuity, it is not necessary or desirable to operate on a full-funded reserve basis as a legal reserve insurance company does. Private insurance neither has the advantage of the taxing power nor the advantage of assuming perpetual operation. Hence, a governmental program need not follow private insurance reserve financing or precepts of actuarial soundness used in private plans.

The trustees of the Federal old-age and survivors insurance trust fund, in their report to Congress dated March 1, 1957 state that the old age and survivors insurance system is in actuarial balance. That is, based upon present information, for the long-range future the system will have sufficient income from contributions, based on the tax schedule now, in the law, and from interest earned on investments to meet all future payments for benefits and administrative expenses. Disbursements will grow, but so, too, will contribution and interest income.

To recapitulate, the present social-security system is financed on a sound long-run basis; it has an orderly and responsible method for assuring a periodic reexamination of the financial soundness of the program, the actuarial estimates, and the scheduled contribution increases; it need not and should not be judged as to its actuarial soundness by private insurance standards; and, while the program should be modified by making benefit and contribution changes at an early date, these changes should not alter the basic financial principles underlying the program at the present time.

Contractual insurance versus social insurance

Before concluding a review of some of the fiscal issues in social security, it is essential to recognize the values and limitations of private and public programs. Private life insurance, annuities, and disability payments are important, essential, and need to be increased. There are a number of areas in which improvements are warranted and should be encouraged by private and congressional action. But, in numerous publications of the critics of social security in recent years there is an unwillingness to recognize openly and directly the concrete value of social security in protecting a free-enterprise economy, in making it possible for individuals to purchase supplementary private insurance, and for companies to establish supplementary private plans.

I do not expect to find paeans of praise for social security from these sources such as once were made in advertisements selling life insurance. These occurred in the days when the public was just becoming aware of the life-insurance element in survivors benefits and the relatively small old-age benefits payable to higher income earners.

But, today, there is a clear advantage which social insurance has over most contractual private insurance, namely, that social-insurance benefits can be increased as wages and prices increase. This is not a theory looking for an event to prove its historical accuracy. In 1950, 1952, and 1954, Congress increased the old-age and survivors insurance benefits as a result of rising wages, prices, or standards of living. And Congress, in my opinion, should, and undoubtedly will, do this again. Except for the few and limited variable annuity plans, contractual private old age benefit plans or policies do not offer the built-in dynamism which contributory social insurance offers as income increases.

Inflation is—and remains— a terrible calamity for persons on fixed incomes, such as retirement annuitants, widows and orphans, and the disabled. But, if and when, inflation occurs, a social-insurance system is presently better equipped to deal with the problem than the conventional contractual fixed-benefit payments of private insurance, at the present time.

Similarly, as productivity and levels of living rise—assuming there is no inflation—social insurance can reflect these improvements, not only for future beneficiaries, but for beneficiaries already on the rolls. This conventional contractual private insurance does not do. In several foreign countries such an "improvement factor" is already incorporated in the social insurance legislation, or is proposed. It would be desirable for the Joint Committee or the Advisory Council on Social Security Financing to explore these features in the plans and proposals of other countries. They indicate the superiority of publicly managed social-insurance plans to private plans in an expanding, growing, dynamic economy. It would be desirable for the Joint Committee to explore the respective values and limitations of each type of insurance and the desirable relationship to be worked out among various types of insurance for each type of benefit. While competition between both types of programs is desirable for the economy as a whole, it is my opinion that social insurance still labors under the handicap of organized adverse criticism from certain groups. This is not fair to our governmental processes, nor is it socially responsible. Perhaps a

complete examination of both programs is a proper function of the Joint Committee. Such an examination would consider tax exemptions, amount and character of reserves, administrative costs, State and Federal regulation, and the recognition of variable annuity plans by Federal statute.

The Jenkins-Keogh bill

The Congress, on several occasions, has considered the principles embodied in the so-called Jenkins-Keogh bill to exclude from taxable income some amounts contributed by self-employed persons to certain types of funds for personal insurance protection. The tax loss involved has been a major factor in persuading the Congress and the administration to defer action on this proposal. Moreso, as long as doctors are not covered by old-age, survivors, and disability insurance, it has been pointed out that they should not have the advantages of any special new legislation when they are unwilling to accept or share in the privileges and responsibilities that all other professional groups now enjoy. However, the dubious "special privilege" enjoyed by doctors (which includes the privilege of leaving some of their widows and orphans without adequate income for the future) will probably soon be eliminated by the Congress—or, in any case, should be eliminated. Every indication is that a growing proportion of doctors want to be covered by old-age, survivors, and disability insurance, and when the doctors are given all the facts by any impartial source—free from ideological overtones related to "socialized medicine," a majority vote in any correctly and fairly worded referendum in favor of old-age, survivors, and disability insurance coverage.

When the doctors finally come in to old-age, survivors, and disability insurance coverage, consideration might then be given to allowing self-employed persons a limited amount to be excludable from taxable income as, for example, an amount equal to twice their social-security contribution in a year. This would create an automatic relationship between the two approaches which would serve to maintain the identity and integrity of each.

Deduction of all employee contributions from taxable income

There is no doubt, however, that allowing any such exclusion for the self-employed raises several larger issues which have very wide ramifications. Among these are: whether other forms of "savings" should be excludable and how to draw any reasonable line defining this concept, and whether to permit employees to exclude part or all of their employee contributions toward plans in which employers now may make deductions from their gross income for all of their employer contributions.

It must be recognized that our present policy of taxing as "income" amounts deducted from employees and not actually received but deferred as old age, survivors, or disability payments does not quite accord with the much extolled policy of encouraging thrift. By taxing when incomes are high, and allowing exemptions when incomes are low, we discourage saving, or at least it can be said we do not encourage it as affirmatively as we might.

A more appropriate policy would be to allow a deduction for employee contributions to all types of recognized plans and then tax the benefits when they were received. The plan would have to operate

within certain stated limitations and definitions. There are obvious difficulties in changing over to any such system. But it warrants continued careful study along with the proposals already outlines.

Double tax exemption by the aged

One further tax matter requires future consideration, namely, the double exemption for the aged. While it may be pointed out that there is very little justification from a standpoint of equity or social policy to this feature in our tax law, the major point to be made is that the tax loss from this provision will continue to increase and the same amount of tax funds placed elsewhere would do a lot more good. As incomes of the aged increase, and as the possibility of increasing the exemption reappears, it might be desirable to consider reducing this loss from the higher income aged and utilizing all or a part of such funds for the very low-income aged. This may not be something which can be repealed but, at least as tax changes occur in the future, the tax loss should not be increased from this provision.

Area redevelopment program

In a growing and expanding economy there, unfortunately, will be pockets of unemployment and declining opportunities which require the concerted mobilization of available private and public resources and skills. An effective program is necessary to alleviate conditions of substantial and persistent unemployment and underemployment in economically depressed areas. Congress should enact appropriate legislation for this purpose. Of special interest are the establishment of apprenticeship, journeyman, and other vocational training facilities and services in a redevelopment area, and weekly subsistence retraining payments to unemployed individuals in such areas who are not entitled to unemployment insurance and who are undergoing training for new jobs.

In this regard, I wish to urge continued support and appropriations for the rural redevelopment program now under way through the Department of Agriculture. As experience emerges, it may prove desirable for the Congress to expand the programs. Redevelopment programs are underway in only some 50 counties and 8 areas in 24 States. This program should be expanded as soon as it is feasible.

In considering improvements in the social-security program, it should be kept in mind that most farmers and many farmhands are now covered under the system. Increased social-security benefits and broadened types of protection will enhance the security of persons in rural areas and increase the income available to them.

On many different fronts we must continue to move toward expanding the program which will bring depressed rural and urban areas into the mainstream of economic progress. As President Eisenhower has said, "We must open wider the doors of opportunity—for the good of our country and all our people."

Disclosure of private welfare funds

Federal legislation providing for registration and disclosure of the essential financial and administrative operations of private welfare funds is desirable. The potential growth of the reserve funds, income, and expenditures makes it necessary for the Federal Government to disseminate accurate and full information on these quasi-public operations. From the standpoint of public policy, the method

of financing or administration is irrelevant to the question of disclosure. In order that the disclosure legislation will be administered as a service-oriented program, rather than a regulatory or management-labor program, it would be appropriate to consider having the program at the Federal level administered by the Secretary of Health, Education, and Welfare.

Since contributions to these plans involve Federal tax deductions, and will be more closely interrelated as time goes on with major fiscal and economic policies, there is sound ground for exercise of congressional responsibility in this field.

I believe that reports to all participants and beneficiaries should be mandatory and there should be a detailed listing of all investments.

Social Policy and Research

The broad questions of policy discussed in this paper are ultimately decided by consumers and legislatures in specific settings. General principles must be adapted to different programs and objectives. Where incentive and disincentive elements for adults can play a very significant role, as in unemployment insurance, the form of taxation and benefits may differ from the methods of providing education to children. The relatively nondiscretionary role of the Federal Government in the administration of a wage-related, contributory insurance program may differ from the role it plays or might play in providing or financing educational or health services. These illustrations could be multiplied, but are sufficient to indicate that fiscal policy cannot be considered apart from economic and social policy.

A major weakness in most recent fiscal policy discussions is that fiscal policy is frequently viewed as being independent of social policy. This is not true and, moreover, is undesirable. Any mechanistic solution to fiscal problems, whether it involves income distribution, taxes, the budget, interest rates, or monetary policy which does not adequately take into account the impact on individual, family and national welfare, is not a sound national policy.

Social policy should not be viewed as something which only comes into play when fiscal and economic policies do not work out as planned. Nor should social policy be introduced only as a secondary factor to make long-run fiscal and economic policies workable in the short run. Social objectives must be woven into economic and fiscal policy in a democratic society at the initial stage of their formation and administration. To accomplish this, much more emphasis must be given to factfinding, statistical analysis, research, and demonstration projects in socioeconomic policies and programs.

The increasing complexity of economic, fiscal, and social policy issues, the great increases in population and its geographical and social mobility, and the controversial character of many issues facing lawmakers (Federal, State, and local) and the citizenry, all argues for our obtaining some perspective on our current and future problems and resources. The Congress affects policy and programs quite apart from the passage of laws, the making of treaties, acting on nominations, and making appropriations. By its staff studies and reports, committee investigations, and cross-examinations of Government and public witnesses, it influences policy. Sometimes the declarations of public policy and statements of congressional intent in legislation

come to have an effect more pervasive and influential than the substance of the legislation. The declaration may be understood by millions; the substantive provisions only by a few experts.

Statements of agreements and disagreements are often of value. Recognition of facts are frequently of some importance. Exchange of ideas can modify conduct and policy.

Commission on current and future social policies and trends

It is suggested, therefore, that the Congress enact legislation authorizing the appropriation of funds to conduct a nationwide survey of broad current and future social trends. The funds should be appropriated to a special nonpartisan Commission which would use the facilities of Government, universities, and other private resources. At least 3 years should be allowed for the completion of the report which should be comprehensive.

Such a report would enable the Congress and the American people to have some benchmark to evaluate the programs and policies necessary for the 1960's. Economic and fiscal policies can then be reviewed, criticized, and modified in the light of social needs and the social problems of an expanding economy.

Social research

Increased research funds are needed in the social, economic, and administrative aspects of health, education, and welfare. Congress has, in recent years, increased appropriations along this line for education, vocational rehabilitation, and public health. In 1956, legislation was enacted authorizing appropriations for research and demonstration projects in social security but, as a result of the economy drive this year, appropriations, unfortunately, were not made in 1957 to carry out this new legislation. Both the House and Senate appropriation subcommittees recommended an initial appropriation to carry out the program. It is recommended that Congress provide the necessary funds to implement this 1956 legislation.[35]

Federal funds for research in many aspects of health have increased significantly in recent years. The Congress has been generous and farsighted in this area. In the economic and financial areas Congress has provided for research and statistics in the Bureau of Labor Statistics, the Department of Commerce, and the Treasury, which has resulted in the supply of information generally unavailable 30 years ago. But, in educational and social matters, the Congress has been hesitant and doubtful, perhaps because of the social issues involved in these areas. Nevertheless, in the past 3 years the Congress has recognized that it is possible, desirable, and productive to encourage research in these areas.

Expenditures in the field of research in social security and welfare in the United States are microscopic when it is recalled that in 1954 over $5 billion was spent in the Nation for all research and development performed by private industry, educational institutions, foundations, Government and all other organizations. Of this amount, the Federal Government financed 40 percent of the cost. Over one-third of

[35] For a summary of the legislative background and research potentialities of this legislation, see Wilbur J. Cohen, New Opportunities in Social Security Research, Social Work, April 1957.

the research and development work conducted by private industry was paid for by the Federal Government.[36]

This same formula can and should be used to accelerate social and economic research in health, education, and welfare. Increased Federal financing for these purposes, with the actual research decentralized to private organizations, universities, research institutes, foundations would be a sound investment. The vast social problems we are encountering in our dynamic society require a larger investment in social research. The joint committee might well make an intensive study of the needs and resources in this area with the assistance of the Department of Health, Education, and Welfare, the National Science Foundation, and the private philanthropic foundations making grants in these fields.

Further study of low incomes needed

There should be continued the study of the extent of low incomes in our economy and the changing causes and the effectiveness of programs dealing with them.

The studies, hearings, and reports of the Subcommittee on Low Income Families (1950 and 1955–56) under the chairmanship of Senator Sparkman, have aided in focusing nationwide attention on low incomes in our economy. New information and programs have been developed since the subcommittee made its last study (1955) and report (1956). It would be desirable to continue the work of this subcommittee, particularly in planning for the preparation and analysis of relevant data in the 1960 census.

No one government agency is specifically authorized or directed to bring together all of the data bearing on low incomes in our society. We need much more intensive information on the interrelationship between educational status, poor health, and dependency, in interpreting the causes of low incomes and the methods necessary to minimize and prevent dependency, and raise the productivity of low-income earners. The responsibility for coordinating, synthesizing, and eliminating the gaps in our knowledge should be given to one agency. The Bureau of the Census, the Departments of Labor and Health, Education, and Welfare all have a significant role to play in this matter. It is suggested that Congress enact a statute directing the executive branch to prepare material in this field, and creating an interdepartmental committee by law to institute the necessary arrangements to see that the material is developed by the regular agencies. The material should be available so that in 1960 and again in 1965 the Subcommittee on Low Incomes could reinvestigate the situation with more adequate information than what was available in 1949 or 1955 or what is available today.

It is also suggested that the joint committee take the necessary steps, if it has not alreday done so, to request the report on low incomes recommended by the Subcommittee on Low Income Families to be submitted by the executive branch to the joint committee during the 85th Congress.[37]

[36] Expenditures for Research Relating to Welfare, Research and Statistics Note No. 28, 1956, Division of Program Research, Social Security Administration, Department of Health, Education, and Welfare.

[37] A Program for the Low-Income Population at Substandard Levels of Living, S. Rept. No. 1311, January 5, 1956, p. 14.

As national productivity and incomes rises, some of our methods and programs dealing with low-income problems may require substantial modification. To prepare for this challenge, we must lay the plans now for the information and analysis needed in the decade ahead.