

FEDERAL EXPENDITURES FOR DEVELOPMENT OF HUMAN RESOURCES, INCLUDING HEALTH, EDUCA- TION, AND SOCIAL SECURITY

RELATIONSHIP OF HEALTH, EDUCATION, AND SOCIAL SECURITY PROGRAMS ADMINISTERED BY THE DE- PARTMENT OF HEALTH, EDUCATION, AND WELFARE TO ECONOMIC GROWTH AND STABILITY

Statement submitted by Marion B. Folsom, Secretary of Health,
Education, and Welfare

We welcome the interest which is shown in the economic significance of health, education, and social security by your letter of August 2, 1957. Because the goals of the Department of Health, Education, and Welfare, and of associated non-Federal organizations are expressed primarily in terms of human well-being and social progress, there is inadequate understanding of the fact that their economic values are of major import. A detailed staff analysis has been prepared of the relationships of health, education, and welfare problems and programs to the subjects of economic growth, stability, and standards stated in your request. The statement discusses the interdependence of economic and social development at national, State, and local levels.

This Department is participating in the examination by the joint Federal-State Action Committee of the distribution between the States and the Federal Government of tax resources and of program responsibilities (including health, education, and welfare). We are reviewing the final report of the President's Committee on Education Beyond the High School and have initiated a long-range study by outside consultants of our medical research programs. In addition, this is the season when the President's new budget and legislative program is still being formulated. Consequently, the attached staff analysis has been confined, with a few identified exceptions, to the significance of current programs under existing intergovernmental relationships.

INTRODUCTION

The objectives of the Department of Health, Education, and Welfare and associated non-Federal organizations are primarily humanitarian: the furtherance of education, improvement of health, strengthening of the economic security of individuals and families, prevention and alleviation of distress, rehabilitation of the disabled, and promotion of consumer safety. The agencies which make up this Department: the Public Health Service, Social Security Administration, Office of Education, Food and Drug Administration, Office of Vocational Rehabilitation, and St. Elizabeths Hospital were created to serve social goals. The most fundamental tests of the value and the effectiveness of the programs of this Department are, therefore, in terms of human welfare.

The economic values of health, education, and welfare programs are also of major significance and, in fact, complement their social objectives. This Department, therefore, welcomes the opportunity afforded by the request of the Subcommittee on Fiscal Policy of the Joint Economic Committee to describe the economic significance of major programs administered by the Department of Health, Education, and Welfare (DHEW) (and inferentially by associated State and local public and nongovernmental organizations).

This statement intends to demonstrate the complementary relationships between economic progress and health, education, and social security by discussing:

(a) Public expenditures for health, education, and welfare as constructive investments in the protection and development of human resources rather than as gross burdens on the national economy and on taxpayers;

(b) Savings in manpower and money which can be realized by prevention and prompt treatment, in contrast to the naive assumption that cuts in such services are "savings" to the community, and the savings through rehabilitation as contrasted to relief—the "handup" rather than the "handout";

(c) Floors under the incomes of individuals as stabilizing elements in national purchasing power;

(d) Contributions to productivity, consumption, and economic growth of advances in health;

(e) Education as one of the major sources of the creativity and growth of modern American capitalism and as a means of enabling each individual to develop his potentialities as a citizen, producer, and consumer.

The above themes of social and economic development are presented within a framework of political principles which are not a part of the economic analysis as such but which are stated explicitly here for purposes of perspective.

(a) Two broad principles should guide health, education, and welfare activities at all levels of government. First, government should serve as a mechanism through which the people can achieve goals which cannot be reached through individual effort or voluntary, informal cooperation. Second, public programs should be designed to encourage individual self-reliance, initia-

tive, and creative enterprise—reserving direct maintenance for those who are necessarily dependent.

(b) The relationships between this Department and the non-Federal public agencies should be guided by three basic principles:

(1) Generally, the primary public responsibilities for health, education, and welfare should be carried out by State and local governments with the Federal Government in a role of stimulation and technical assistance.

(2) Federal financial assistance for continuing support of State and local government programs should be invoked only when it is demonstrated that such aid is necessary to foster and maintain adequate programs in areas of national interest or that Federal support is essential to relieve an unreasonable and unequal burden on State and local fiscal capacity, particularly in the lower income States.

(3) Temporary Federal aid may be required to overcome a large backlog of current needs in situations which are associated with national emergencies.

(c) Directly operated Federal programs should be undertaken

(1) in areas which are recognized from a constitutional and historical standpoint as ones of direct Federal responsibility such as the safeguarding of foods and drugs in interstate commerce, and

(2) in areas in which there are compelling reasons for public action but which could not be effectively and economically dealt with on a State or local basis—as in the case of insurance against loss of income in old age.

This statement will now take up the economic themes under the major headings contained in the letter of August 2, 1957, from the subcommittee chairman to the Secretary of Health, Education, and Welfare.

SIGNIFICANCE OF HEALTH, EDUCATION, AND SOCIAL SECURITY PROGRAMS TO ECONOMIC GROWTH

The analysis in this part of the statement is in response to the subcommittee's question concerning the relationship of the Federal Government's health, education, and social-security expenditures and programs to the processes of economic growth in the private sectors of the economy. The discussion also covers State and local governments and nongovernmental organizations. Manpower and womanpower, personal income, and capital outlay are the broad economic categories under which programs are described.

Relationship to manpower and womanpower

Contributions of education to creativity and diversity of dynamic economy.—An outstanding characteristic of American society is that it places a premium on innovation and adaptability and on a restless search for ways of doing still better what is merely "good enough." Economic aspects of this characteristic include a fast rate of obsolescence, high mobility of labor among occupations and industries, rapid growth of new industries, and a widespread readiness to experiment with new methods and organization in distribution and services as well as with new equipment and processes in manufacturing.

A foundation education available to all is essential to continuously replenishing the supply of the enterprising, the creative thinkers, and the experimenters. This task of strengthening education at all levels is the more important because of one serious lack which has been exhibited by American science and industry. Generally speaking, America has not given the same prestige and support to basic research and to the theoreticians in science as to applied science, engineering, and business. This lack of balance has been obscured by the fact that through American history brilliant scholars have come to this country as immigrants and refugees. Their contributions to the development of atomic energy, to mention but one example, are immeasurable.

The schools also have the mission of helping children develop into mature men and women who are self-reliant with regard to their own responsibilities, oriented toward enlightened self-interest in making a living; knowledgeable in methods of voluntary action in nongovernmental community agencies, and equipped to make sound decisions as citizens on questions of governmental actions in economic matters.

Intangible though these values are, they are essential to the continued vitality of free enterprise and to responsible capitalism. School systems which are even partially successful in these respects will make a major, though indirect, contribution toward reducing poverty, disease, and economic failures, and will facilitate the recovery of individuals and communities from such economic distress as is not prevented.

Numerous studies, including several on low-income families which have been published by the Joint Economic Committee, have demonstrated that there is a high positive correlation between levels of educational achievement and levels of income. This association has been illustrated both by comparison between individuals and by contrasts between the average per capita income of communities in which there are differences in the average number of years of school completed by residents. Education—An Investment in People, which was published by the United States Chamber of Commerce, contains the following three illustrations:

Census Bureau figures show that men in this country with a college or high-school education have 82 percent of all the incomes of \$10,000 a year or more. Those with an eighth-grade education or less have 77 percent of all the incomes below \$500 a year.

High school or college trained farmers operate 57 percent of the farms in the Nation which produce \$10,000 a year or more, whereas in contrast, farm operators with an eighth-grade education or less operate 84 percent of the farms producing less than \$1,200 annually.

Recent surveys show that within large metropolitan areas the highest per capita retail sales (20 percent above the average) are made to groups with the highest average adult education levels (11 to 12 years of schooling).

It has also been shown that the short schooling-low income pattern in many poor families tends to pass from generation to generation unless the cycle is broken by vigorous community action.

It is impossible to foresee many of the new industries and occupations that will arise during the working lives of today's schoolchildren. Millions of today's adults have had to make drastic adjustments in

their jobs and ways of living as a result of such changes as the farm-to-city migration, wars, and shifts in relative importance of different industries. The foundation in education which the schools should provide should not, therefore, be overspecialized, but should enable men and women to adapt themselves to new occupational and social requirements.

Long-range investments in tomorrow's manpower and womanpower.—It is with respect to the education of tomorrow's producers and consumers that one of the major investments is needed. Even though the school buildings of the United States represent roughly \$30 billion of public and private outlay, while \$16 billion a year are spent on operations, the educational system is not adequate, either in plant or personnel. No intelligent corporate management would expect business to thrive without investing in research, in expanding and modernizing plants, and in personnel development. Yet one of the biggest and most important businesses in the United States—the education of children—is being shortchanged. Meanwhile, wholly inadequate amounts are being spent on research to help improve the efficiency of the system.

The discussions of education and training which follow will concentrate on responsibilities of the Department of Health, Education, and Welfare with respect to current manpower shortages that are expected to persist for the foreseeable future. However, specialized and professional education should be kept in perspective by bearing in mind the fundamental importance of general education.

Education, public and private, is challenged by the fact that the proportion of unskilled jobs is steadily diminishing while the demand for semiskilled and skilled workers grows steadily. In fact, the shortages of professional personnel are aggravated by the shortages of sub-professional assistants. One of the major objectives of vocational and technical education should be to respond to long-run shortages in critical occupations. The Federal interest in stimulating such a response is illustrated by the fact that the preparation of practical nurses has recently been added to the categories for which portions of the Federal grants have been earmarked by law under the current program of Federal technical and financial assistance to vocational education.

The increasing complexity of the economy requires an ever-higher proportion of the labor force to be in occupations that call for education beyond the high school. For example, a recent study indicates that one-half million more teachers will be needed in 1965. Enrollments in technical institutes, colleges, graduate schools, and professional schools are increasing, but valuable manpower is being lost in the form of youth who should complete higher education but who either do not enter college or who drop out before they are through. Studies have indicated that, of the top one-fourth of the high-school graduates, about one-third fail to go to college.

The above are among the several reasons which prompted the establishment of the President's Committee on Education Beyond the High School. The reports of that Commission are under study in the executive branch.

Children and youth need a fair start in life from the standpoint of health and of family security as well as of education. Significant investments in the Nation's future productivity are also represented,

therefore, by programs to advance general maternal and child health and by programs designed to meet the special needs and potentialities of crippled children, retarded or other mentally handicapped children, or other exceptional children.

In 1949 and 1955 studies made by subcommittees on low income of the Joint Economic Committee demonstrated that a large proportion of the low-income families are in broken homes and that the converse is true. It may be of interest to your committee, therefore, that the DHEW is assisting State and voluntary agencies in family protection and rehabilitation programs, particularly through the child-welfare and aid-to-dependent-children programs of the Social Security Administration. In addition, the survivors' benefits under the old-age and survivors insurance program are a major source of income to many families who have lost the wage earner through death.

Medical research is one of the areas of social investment in which there has been dramatic progress in recent years. For example, Federal appropriations for programs administered through the National Institutes of Health, Public Health Service, have increased from less than \$1 million in 1940 to \$183 million in fiscal year 1957. These amounts include research and training grants, direct research and related activities, but exclude money for construction of Federal and federally aided research facilities. There have been very substantial increases in non-Federal expenditures also, but in view of the problems which are still to be solved and the gains to be realized, additional efforts should be made by non-Federal organizations. This Department, with the help of leading consultants, is engaged in a long-range study of medical research which includes among its objectives the determination of how critical resources of scientists, money, and facilities can be utilized still more effectively and economically.

Increasing productivity and mobility (occupational and geographical) of current labor force.—Even among those adults who have received an adequate education and who remain in the same occupation throughout their working lives there will be many who will need to take additional courses in order to keep up with technological developments. At the secondary and higher levels, the schools of this country now provide various forms of continuation, refresher, and retraining courses. One of the major missions which is developing for the community colleges is the affording of opportunities to adult workers to improve their subject knowledge and skills within their present jobs and to equip themselves for upgrading. The necessity for returning to school from time to time throughout one's working life has long been observed, of course, by teachers and is just as essential for other professionals because of the increasing tempo of advances in science and related fields. This is another of the subjects being covered in the current review of the report of the President's Committee on Education Beyond the High School.

The large employers of manpower which is in short supply have a responsibility to support measures to replenish the supply of such skills and to improve their utilization. The DHEW aids professional level formal educational programs in the fields of public health, medical research, vocational rehabilitation, and social work. In addition, this Department is engaged in a wide variety of cooperative programs with State and local governmental agencies and voluntary

organizations to furnish short term courses and on-the-job training to their employees.

Technical assistance services of the DHEW include consultation to States and localities, on request, with regard to the most efficient and economical methods of organizing and administering schools, hospitals, and welfare agencies and with regard to the proper utilization of scarce personnel, such as nurses. Since most grants-in-aid include provision for part of the administrative expenses of State agencies, such promotion of efficiency is in the immediate interest of the Federal Government.

Even if there were a balance between the total demand and the total supply for the whole labor force and for each occupation, there would still be localities with labor surpluses and others with shortages. The Joint Economic Committee has given a great deal of attention to the chronically distressed areas and to the problems of workers, especially older workers in declining industries who have been thrown out of work because of the closing of individual plants. There are hundreds of thousands who each year have to make difficult readjustments or who lose out altogether. Continual development of retraining and other adult education programs is needed at State and local levels and is one of the subjects of DHEW interest in its consultative role. With regard to localities which need to attract additional firms, representatives of labor, management, and government, and experts from universities and private foundations have asserted that one of the major factors which is considered by firms in making decisions as to where to locate new plants is the adequacy of schools, water supplies, and other community resources. The technical assistance programs of the DHEW include both facilities and services in these areas.

Some types of private pension plans tend to cause workers who could advance themselves elsewhere or whose skill and education could be better utilized in another firm to remain in their existing employment because they do not want to lose their pension credits. The old-age, survivors', and disability insurance program offers a ground floor to which industry and labor can and should add more protection and supplementary benefits under nongovernmental plans. There appears to be a tendency on the part of progressive firms to develop pension plans which vest rights in individuals which they will have even after leaving. This Department has urged such developments so that the rapid growth of privately financed health and welfare plans will not cause undesirable rigidities in the labor force.

Significance of public-health programs to protection and expansion of labor force.—The American labor force is larger today, more healthy, and more productive than ever before due in part to the victories won over infectious diseases and other killers and cripplers. One measure of this improvement is the fact that life expectancy at birth is now nearly 70 years compared with 47 years in 1900.

Improved health status reflected in lowered mortality has enabled the manpower potential of our population to keep pace with the growth of the economy. A part of the reduction in mortality is due to environmental health programs including the control of diseases associated with impure water and milk supplies and with inadequate disposal of wastes. In part the reduced mortality is attributable to the wonder drugs developed by medical research. Infant and maternal deaths have been cut dramatically. The burden of premature death

of wage earners and others due to pneumonia and influenza, tuberculosis, and acute rheumatic fever has been lessened greatly; in the past 10 years, the death rate has dropped 30 percent for pneumonia and influenza, 71 percent for tuberculosis, and 76 percent for acute rheumatic fever. As a consequence of these gains, the average male worker participates an average of 10 years more in the work force today than he did in 1900, despite later entrance into the labor force and earlier retirement.

Despite the great strides in health, illness is still taking a major toll through the premature death of workers, particularly from heart disease and cancer, while millions of other workers lose in efficiency while on the job and are kept at home through illnesses which might be prevented. Accidents now constitute the leading cause of death from ages 1 to 35 in the United States, and are a major cause of disability. Some estimates place the nationwide loss from accidents at over \$10 billion. Injuries of workers off the job cause even more time to be lost to industry than do injuries on the job. It is for these reasons that the Department of Health, Education, and Welfare is giving increasing emphasis to accident prevention and occupational health programs. The efforts of public and private labor, health, and educational agencies and management cut industrial accident rates about in half between 1937 and 1954. It is believed that additional major reductions in lost time can be achieved through cooperative programs directed toward prevention of nonindustrial accidents.

The communicable diseases are another major cause of absence and of low efficiency while on the job. For example, the Asian flu poses a threat to industry and to essential community services which makes it essential from an economic standpoint that public agencies act vigorously to accomplish vaccinations on a priority basis. In the field of research, discovery of a vaccine against the common cold would be one of the largest single contributions which could be made to productivity and to reduction of lost time.

Contributions of rehabilitation to productivity and to reduction of dependency on public assistance.—Adequate treatment and prompt recovery of disabled workers is a double contribution to economic health because it restores to duty members of the labor force and it cuts down financial burdens on families. Those burdens are frequently passed on to private charity, to taxpayers through public assistance, or to social insurance funds in the form of increased disbursements for benefits. Even when families are able to absorb costs of medical treatment the loss of earnings reduces purchasing power. The value of advances in medical research and practice to prompt recovery is so generally recognized that this statement concentrates on the less generally known programs of vocational and social rehabilitation.

Each year an estimated 250,000 persons disabled by disease, accidents, or congenital conditions, come to need vocational rehabilitation in order to work. The total number of people in the United States today who need such services is about 2 million. Because of prolonged disability of the family breadwinner, around 1 million people (including 400,000 children) are receiving annually a half billion dollars of local, State, and Federal funds. Every taxpayer shares this cost, which is only one segment of the total expense which chronic disability imposes upon us.

One of the social programs which can be most readily demonstrated as an economic investment is that of vocational rehabilitation. In 1957 about 71,000 people were rehabilitated under this program, a new record. Most of them were unemployed at the time rehabilitation began. The earnings of the others total only \$18,900,000 annually. After rehabilitation their earnings were increased to an estimated rate of \$137,600,000 a year. Of the taxes which they will now be able to pay, the income taxes alone are expected to return to the Federal Treasury within a few years the total cost of the rehabilitation program in 1957. Furthermore, about 14,000 of these people were receiving public assistance before they were rehabilitated. The cost of maintaining them on public assistance for 1 year alone would approximate the cost of their rehabilitation. The Social Security Administration, the Office of Vocational Rehabilitation, and State welfare and State vocational rehabilitation agencies are placing increasing emphasis on the rehabilitation of disabled recipients of public assistance. Also, the Office of Vocational Rehabilitation and the Social Security Administration have adopted policies looking to a thorough rehabilitation assessment by State vocational rehabilitation agencies of every applicant for disability benefits or for freezing of wage credits through periods of disability under the old-age and survivors and disability insurance system. Further improvements in vocational rehabilitation are being made as the result of a cooperative research program which includes special research, demonstration, and improvement projects.

A large proportion of the recipients of public assistance, particularly families aided under the aid-to-dependent-children program, do not, however, need vocational rehabilitation as such, but rather the counseling services of trained social workers. Public and private expenditures for maintenance of needy persons and for related services now amount to about \$5 billion a year. How much of this is unavoidable is not known, but a rather modest investment of Federal, State, and local funds in the additional training of social workers and in the extension of welfare services to rehabilitate needy workers can yield dramatic returns. In Allegheny County, Pa., for example, a demonstration program concentrated on families which had received public assistance for as long as 10 years. One supervisor and four trained caseworkers whose salaries amounted to \$16,000 comprised the staff of the project. The reduction in public-assistance expenditures within that year was \$28,000. The Department of Health, Education, and Welfare has requested funds for research to advance understanding of the causes of dependency and evaluation of methods of reducing it.

Relationship to personal income

Improving security of personal income, savings and purchasing power.—This section concentrates on income maintenance but it should be remembered that the programs which contribute to the manpower supply and to productivity are also significant to personal income, national income, and taxpaying ability.

When the original Social Security Act was passed widespread fears were expressed that social insurance would undermine individual thrift. In fact, however, cash savings, life insurance policies, home ownership and other forms of personal savings have grown in step with overall economic trends and concurrently with the old age and

survivors' insurance program. During calendar year 1956 disbursements under the OASI program totaled \$5,847 million and constituted 1.8 percent of personal income during that year. In fiscal year 1957 payments from the OASI trust fund were \$6,665 million and the assets of the fund on June 30, 1957, were \$23.0 billion. Although the fund may decline slightly in 1958 or 1959 the increase in contribution rates which will take place in 1960 plus the continuing income from interest will cause the fund to resume its growth. According to present intermediate cost estimates, the fund will reach \$31 billion by 1965, at which time it is estimated benefits payments will consist of \$10.5 billion to around 15 million beneficiaries.

A basic objective of the Social Security Act was to establish OASI as a self-sustaining contributory system of insurance against the economic risks of old age and death. The system was intended to replace relief as the primary income maintenance floor for the retired and dependent survivors of workers. A landmark in progress toward that goal was reached in 1951 when OASI disbursements passed the Federal aid to categorical public-assistance programs. Public assistance is assuming its subsidiary role as a complement to social insurance, reaching those who cannot be insured or in a minority of cases supplementing the benefits of those whose essential living expenses are too high to be met by social insurance benefits and by their own resources. However, the nearly \$3 billion spent annually by Federal, State and local governments on categorical and general assistance reflect the fact that much still remains to be done to reduce poverty, ill health, and ignorance in our economy. That cost is one of the reasons, as indicated, why the Department of Health, Education, and Welfare and associated agencies are placing increasing emphasis on preventing dependency and expediting rehabilitation.

To keep in perspective the \$1½ billion of Federal aid for categorical assistance (which was 2.2 percent of the fiscal year 1957 budget), it is well to recall that in 1939 the Federal Government spent \$2.6 billion on general and work relief activities from which it has now withdrawn entirely. It is significant also that as a result of the increase in such developmental programs as public health, the proportion of the DHEW budget which is for grants for public assistance has also dropped.

The Social Security Administration encourages thrift, intelligent use of credit, and protects savings through guidance and examination of more than 8,000 federally chartered credit unions with assets of over \$1½ billion. A substantial proportion of the loans are for medical expenses.

The costs of medical care continue to be one of the major economic and social challenges of this Nation. This is true even though patients receive increasingly effective and extensive care and the steady climb of indexes of prices of services, medicines, and facilities is offset in whole or in part by improvements in the results per dollar expended.

Despite the rapid progress that has been made, there are still large and important areas for improvement. Private expenditures for medical care approximate \$11 billion per year. Even though 116 million Americans are now included in some type of prepayment plan for hospital care, there are still over 50 million Americans without hospitalization insurance of any kind. About 65 million peo-

ple—about 40 percent of the population—have no surgical insurance protection. And 3 out of 5 people—about 100 million altogether—lack insurance against general medical expenses. There are special problems in providing health-insurance protection for certain large groups in the population. For example, about half of the people aged 65 or over, over half of the farm population, and about two-thirds of those in families with incomes under \$2,000 a year have no insurance against medical care costs.

While the problems that must be overcome in expanding and improving voluntary health insurance should not be minimized, it appears certain that the next several years will see many advances. There are many bright areas to warrant such confidence. About 25 percent of the private medical care bill of the American people is covered by health insurance. This is a remarkable climb from less than 9 percent in 1948.

This rise in coverage is all the more remarkable when we consider the fact that the costs of medical care have increased sharply during this period. Between 1948 and the middle of 1957 the BLS index of hospital rates rose by 85 percent. The rapid increase in hospitalization insurance has helped many people meet these costs through prepayment and through spreading the risk.

Perhaps the most venturesome and important new development in the voluntary health-insurance field is the rapid evolution of major medical expense coverage. Nonexistent a decade ago, this new form of coverage today provides about 11 million Americans with insurance protection against the costs of severe or long-term illness.

Temporary disability causes loss to income which has been estimated at \$6.5 billion during 1955. Protection is provided through legislation for temporary disability insurance by four States—California, New Jersey, New York, and Rhode Island. It is believed that this is primarily an area of State responsibility and it is hoped that additional States will take action. The present administration has proposed legislation to establish a program for the District of Columbia.

The role of the Federal Government should be to encourage in every sound way the further growth of voluntary insurance. This administration believes that health insurance can advance most effectively through voluntary action. While some legislation may be needed to stimulate growth in certain areas and for certain groups, it is hoped that substantial gains will be made by the creative effort of private enterprise. As a step toward broader and improved coverage, the administration has sought legislation to permit smaller insurance firms or nonprofit associations to pool their resources in order to improve and expand their services.

The administration has also recommended action to improve the health-insurance coverage of Federal employees and their families. Although a considerable portion of industry has already undertaken to protect its employees against the costs of unforeseen illness, the Federal Government has not yet done so for its employees.

Protection of consumers from economic cheats and from hazards to health.—The Food and Drug Administration is charged with protecting consumers against situations involving danger to health, filth, and insanitation, and economic cheats which might arise in the regu-

lated industries. A basic aim is to insure the integrity of composition and labeling of foods, drugs, and cosmetics. One fourth to one third of the family budget goes into these products for which \$65 billion is spent annually. The same programs protect the honest businessman from unfair competition from the unscrupulous minority among the 800,000 manufacturers, distributors, and retailers of foods, drugs, and cosmetics.

Relationship to capital outlay

Capital outlay for education.—Capital outlay for public elementary and secondary schools was approximately \$2.5 billion during 1955–56. While some 63,000 new classrooms were built, it should be noted that 35,000 of these were needed to meet new enrollment alone, and 20,000 for normal replacements, leaving only 8,000 to be applied to the deficit of 159,000 classrooms. In dollar terms there was an immediate need for an investment of \$6.4 billion just to catch up with basic requirements. In order to help the State and local authorities eliminate the backlog and provide accommodations for record increases in enrollment, the administration proposed an emergency Federal program to aid borrowing by State and local school agencies and to provide grants over a 4-year period.

The DHEW now administers a program of payments to federally affected school districts for the construction of schools. From 1951 through 1957, Federal appropriations of \$765 million have aided the building of about 35,000 classrooms.

This Department collaborates with the Housing and Home Finance Agency in its administration of a program of loans to colleges for housing and related facilities for students and faculty. In view of the increasing pressure on the physical facilities of colleges and universities, it is significant that the number of projects under construction under this program will be almost tripled between fiscal year 1956 and the end of the current fiscal year.

Capital outlay for medical care, research, and training.—Programs of grants-in-aid and technical assistance to State and local governments and nonprofit organizations were established by the Hospital Survey and Construction Act, as amended, and the Medical Facilities Survey and Construction Act.

In view of the obvious economics of prevention and of early diagnosis and treatment, it is significant that 610 health centers and 131 diagnostic facilities have been built or approved for construction under programs through June 30, 1957. The 62 medical rehabilitation facilities will contribute to the more timely return of family and paid workers to activity. Eighty nursing homes and 114 chronic disease hospitals will afford facilities for the care of long-term patients which are more appropriate for such patients and less expensive than are the general hospitals. Reductions have been made in the deficits of beds for general use as a result of the building and the approval for building of 2,321 general hospitals (including both new facilities and additions). Another measure of progress is the fact that when the hospital-aid program began there were about 10 million people who lived in areas without acceptable hospital facilities. Today that number has been cut to less than 3 million. To date these projects represent an investment of nearly \$2.9 billion of which more than two-thirds was supplied by State and local governments and nonprofit organizations.

The Health Research Facilities Act of 1956 established a 3-year program of grants for the construction of health-research facilities on a matching basis. An authorization of \$30 million was provided for each year beginning in 1957. Through September 30, 1957, a total of 122 research institutions in the Nation have received grants under this program; 48 of these institutions are medical schools. Federal funds for these grants total \$56.5 million; matching amounts are provided by the institutions.

The medical schools have been so hard pressed by rising operating costs that they have had to defer much-needed expansion and many improvement projects. It takes 6 to 8 years to plan, build, and staff a new medical facility and to graduate the first class of students. It is estimated that by 1965, the gross ratio of physician to population will be lower than in 1950. The annual number of medical-school graduates will have increased from 6,900 to 7,400. However, over 8,000 graduates a year would be required to keep up with population growth alone, making no allowance for future needs. In view of these facts, Congress has been requested to expand the health-research facilities program to include help in the construction of medical-teaching facilities and to increase the length of the program from 3 to 5 years. The expanded legislation would authorize \$225 million of Federal funds, which, together with an equal amount of matching funds from institutions, would constitute a temporary program of needed resources for medical research and teaching.

Donations of surplus property to health and educational institutions.—The surplus-property program makes available to health and educational institutions real and personal property which is no longer needed by the Federal Government but which can be utilized by such institutions. Not only does such a program constitute a considerable aid-in-kind to health and education at the local levels, but it also salvages much property which otherwise would be lost to public use. Property with an acquisition value of \$225 million (\$15 million for real property) was transferred during fiscal year 1957.

Protection and development of natural resources.—Clean water is essential to both economic growth and to protection of the public health and well-being. Water pollution damages use of water for public water supplies, propagation of fish and aquatic life and wildlife, recreational purposes, and agricultural, industrial, and other uses. The Public Health Service has long-standing programs of research, public information, and technical assistance to the States, other public bodies, private industry and organizations, and individuals. These activities have been supplemented by programs of grants to States and interstate agencies to assist in the establishment and maintenance of pollution-abatement programs and of grants to aid localities in the construction of facilities to treat urban sewage and other wastes which are a public responsibility. Industrial wastes account for a major segment of the pollution load and the costs for treatment of such wastes should be met by private enterprise.

The known adverse effects of air pollution are of serious national concern. These include its contribution to civic and economic blight, the corrosion of industrial facilities and domestic houses, reduction in visibility with consequent hazards to transportation, damage to agricultural products, and severe human discomfort. The Public Health

Service is therefore, assisting States, communities, and private organizations through research, surveys, and consultation.

Among the factors which are increasing the complexity of waste treatment and materials handling, as well as of environmental sanitation generally, is the emergence of atomic energy and the use of its many byproducts. The Public Health Service is working with other Federal agencies, States, private industry, and other non-Federal organizations in research programs and applications of safety measures.

FACTORS IN THE DETERMINATION OF THE KIND AND SIZE OF PROGRAMS

The discussion in this part is in response to the subcommittee's question as to the standards employed by the Department of Health, Education, and Welfare in determining the kind and size of programs of the Department.

Framework within which the Department of Health, Education, and Welfare programs are developed and evaluated

Evaluations of need according to specific health, education, and welfare criteria must be related by this Department, as part of the executive branch, to overall Federal policies, including legislative and budgetary programs. Defense requirements—to cite but one example—now claim most of the Federal budget and the size of other programs, however important, are strongly influenced by this inescapable requirement of national security.

The most basic factor in a democracy and one of the most intangible is the popular demand for initiation, expansion, or contraction of programs. Such a demand has been expressed from time to time in the enactment of legislation for the aid of specifically defined categories of people; e. g., the needy blind.

One consideration is that of whether or not a serious problem falls within an area which under the Constitution and historical precedent is an area of direct Federal responsibility. The safeguarding of foods, drugs, and cosmetics in interstate commerce is an example.

Another historical fact to which the Department of Health, Education, and Welfare gives considerable weight is the respect for and the utilization of the resources of voluntary organizations and of civic and professional leaders from outside the Government. In both its direct operations and in its cooperative programs, therefore, the Department of Health, Education, and Welfare makes extensive use of the advice, studies, and technical resources of nongovernmental groups. Of necessity, there are many intangible facets of health, education, and welfare which are not susceptible to precise measurements and which must be evaluated through informed judgments.

The basic role which American history and law has assigned to States and to communities in health, education, and welfare is one of the foremost considerations which shapes the Department of Health, Education, and Welfare's approach to social problems. It is a fundamental cause of the fact that usually a determination that Federal action is needed in these areas is linked with a determination that the action should be in cooperation with the States and communities.

Throughout this statement, leading quantitative criteria are identified in relationship to the appropriate programs but this must be

kept in perspective by bearing in mind considerations of economy, legislative processes and public policy.

Summary of characteristics of the Department of Health, Education, and Welfare grants-in-aid

Most of the programs of the Department of Health, Education, and Welfare are carried out through technical and financial assistance to States and localities and to nonprofit institutions. Although the Department is responsible for technical assistance to grantees, overall program review, and for insuring observance of certain safeguards of Federal funds and Federal interests, the primary responsibility for planning and executing programs is in the participating States, localities, and institutions. To a major extent the initial analysis of needs and of sizes of programs desirable to meet those needs begins at the local and State levels. There is considerable variation, therefore, from one jurisdiction to another and from one program to another in the standards which are employed and in the manner of their application.

On the other hand, a large number of methods and criteria have been developed cooperatively by the Department of Health, Education, and Welfare and associated agencies to analyze needs and costs and to evaluate the effectiveness of grant-in-aid programs. This statement is supplemented by the study *Grants-in-Aid Administered by the United States Department of Health, Education, and Welfare, May 1957*. That study includes for each program factors which are specified by law and administrative directives as significant, among other considerations, in determining the size of established programs and the allocation of available moneys among grantees. The study also refers to some of the major considerations which are a part of the social background and legislative history of the origin of these programs. In view of the wide diversity of conditions contained in the substantive laws and appropriations which govern grants-in-aid, generalizations must be used with caution. However, the grants-in-aid programs fall into three broad categories which are summarized here for the convenience of the subcommittee:

(a) The largest single category of grants administered by the Department of Health, Education, and Welfare is in the field of public assistance.

Federally aided public assistance payments are made by the States; to needy aged and blind persons, to needy persons with permanent and total disabilities, and in behalf of needy dependent children, to supplement other income or resources these needy people may have. In the public assistance field, each State is responsible for defining need and for determining the extent to which the State program will meet it. As a result, the average amount of payments and the part of the population aided under public-assistance programs vary considerably among States because of difference among States in definitions of need, in fiscal ability to meet need, and in amount and kinds of other income and resources available to low-income families and individuals.

The Federal Government has undertaken to share with each State a given proportion of expenditures for public assistance—within specified limits. Federal funds are available for money payments directly to needy individuals, for related services and ad-

ministrative expenses, and for expenditures for medical care in behalf of needy persons paid to physicians, druggists, hospitals, and other providers of medical care and related services.

The formula for Federal sharing in money payments to needy persons provides a larger Federal share of smaller payments than of larger payments. Since States with relatively low per capita income generally make relatively small monthly payments, the Federal share for these States generally represents a larger share of total expenditures than in the higher income States where individual payments tend to be larger. Thus, while the allotment procedures based on need and fiscal resources of States referred to under the discussion of formulas below, do not apply in the public assistance programs, existing arrangements result to some extent in giving relatively more Federal aid to States with limited resources and greatest need.

Another distinguishing characteristic of the public assistance grants is that the enabling substantive legislation places no limit on the total amount of Federal funds which may be appropriated for any given period. Each year, Congress appropriates a total amount estimated to be sufficient to cover the Federal share of public assistance expenditures. In years when the Federal estimate has been short of the amount required to share in actual State expenditures within the specified limits, Congress has provided additional funds beyond the original appropriation.

(b) Another important type of grants consists of those in which funds are allotted among the States in accordance with specified measures of need.

These measures are customarily incorporated in a formula that is contained in the governing legislation. Funds allotted by formula are especially important in such fields as control of specified categories of diseases, hospital construction, water pollution control, vocational education, library services, and vocational rehabilitation. In these programs it is normally provided that no State shall receive less than a specified minimum amount, with the remainder of the appropriated funds allotted according to the formula stated in the law.

There is in the Department of Health, Education, and Welfare a common approach to grant formulas: (1) in the design of grants so as to foster activity where the need for aid is greatest and (2) to reflect differences in the capacities of the several States. One usual measure of need is the population to be served—either the total population or a special segment of the population, such as children. A second element included in many formulas is State financial capacity—a frequently used measure of which is per capita income.

The total amount that the Federal Government can distribute under each formula is determined in advance by specific congressional appropriations. Congress annually appropriates a sum for each program that does not exceed an amount authorized in the governing legislation. Also related to the operation of the formulas is a frequent provision for the “matching” of Federal funds by State funds. In many cases the States are required to match Federal funds dollar for dollar or in some other ratio provided in the law.

(c) Of growing importance in recent years are grants to individuals and institutions in support of research, training, and other stated purposes.

In these programs the distribution of funds is determined in accordance with guidelines provided by law and by administrative regulation. The objectives of these programs are to support activities in needed research areas and to provide for the training of individuals in fields in which personnel shortages exist. Among the grants of this type are the research project, research fellowship, and training and traineeship programs administered by the National Institutes of Health of the Public Health Service. Also of this type are the grants for special vocational rehabilitation projects and for the advanced training of public health personnel and professional nurses.

Old-age, survivors, and disability insurance

The old-age, survivors, and disability insurance program is quite different from the grants-in-aid programs. It is a contributory social insurance program providing benefits to the insured and to their families when earned income is cut off by disability or death. Its financial operations do not form a part of the regular Federal budget and are not derived from general taxes. Instead, employees, employers, and self-employed who are covered pay contributions into two special trust funds, an old-age and survivors insurance trust fund and a disability insurance trust fund, and benefits are paid from those funds, not from the general funds of the Treasury. The amount of annual disbursements for benefits from these trust funds is not determined in effect by the usual process of budgetary recommendations and congressional appropriation nor by State or local standards and programs. Instead, the basic elements are the acquisition and claiming of rights by eligible workers or their survivors under the benefit provisions of the program. The major amendments to the original legislation have expanded coverage to 9 out of 10 workers, including self-employed, and the amendments have also increased benefit levels from time to time, partially in response to rising earnings and prices.

Consideration of available quantitative factors and continuing search for improvements

In the context of the preceding discussion, it should be pointed out that the Department of Health, Education, and Welfare makes the optimum use of quantitative data and criteria which are relevant. This is done in the formulation of recommendations by this Department for and against the initiation of programs, in the evaluation of the effectiveness and economy of existing programs (including the use being made of Federal aid by grantees), and in the development of estimates and budgetary review with respect to the amounts of Federal moneys which should be appropriated within the limits set by law and overall Federal policies. Furthermore, the Department of Health, Education, and Welfare, in collaboration with associated agencies and outside consultants, is continually engaged in the review of existing criteria and in the development of better methods of measuring need for programs, indicators for their optimum size, and guides to redistribution of responsibilities. The list which follows is only illustrative of major considerations:

(a) In the health and rehabilitation fields:

(1) Numbers and types of communities not reached at all by public health agencies or only by agencies not having a minimum staff and other resources;

(2) Numbers and types of communities without a minimum standard number of hospital beds or other health facilities of designated classes per 1,000 population;

(3) Categories of population requiring special medical facilities, e. g., chronically ill;

(4) Problems identified and measured through special studies and through continuous survey activities such as the national health survey;

(5) Proportions of population in defined groups, e. g., public assistance recipients, crippled children, disabled workers unable to afford appropriate medical and rehabilitation services;

(6) Deaths from preventable diseases;

(7) Numbers, and financial needs of institutions training in the health professions;

(8) Numbers of public health personnel needed by State and local agencies.

(b) In the area of education and specialized training:

(1) Plant requirements in relation to projected enrollments;

(2) Shortages in selected categories of manpower, e. g., scientists;

(3) Impact on enrollments in individual school districts of immigration of workers in Federal activities.

(c) In the area of income maintenance:

(1) Relative severity of selected economic risks involving income loss;

(2) Numbers and income status of persons subject to selected economic risks;

(3) Income maintenance levels in relation to minimum budget requirements, and to standards of living;

(4) Opportunities for employment of selected categories of individuals, e. g., aged, blind, disabled.

Intergovernment relationships

It is a basic responsibility of the Department of Health, Education, and Welfare to reexamine from time to time progress toward program goals and the willingness and ability of State and local governments, nongovernmental organizations, and individuals to assume more or all of the costs now being met by Federal aid. Such reexamination includes consideration of the conditions under which Federal participation may be withdrawn. Such determinations must be made through our democratic political processes and, as is the case of the initiation of programs, this Department, generally speaking, can terminate programs only pursuant to the conditions established in substantive and appropriation legislation.

At present this Department is actively assisting the Joint Federal-State Action Committee in an intensive review of program and fiscal relationships between the Federal Government and the States. That review includes the major financial factors which have been considered in the past in the evaluation of grant-in-aid programs including such problems as the variations in fiscal capacities among the several States.

CONTRIBUTIONS TO EQUILIBRIUM IN A CHANGING ECONOMY

The analysis in this part is in response to the subcommittee's question as to the usefulness or limitation of health, education, and social-security programs for stabilization.

General interrelationships of programs and economic stabilization

Because health, education, and welfare programs must be oriented toward basic human needs and geared primarily to long-range social trends, this statement has discussed the factors which govern programs in normal times before analyzing the potential adjustments to recessions and booms.

Certain needs are so urgent that they must be given priority over policies to compensate for fluctuations in private expenditures. School construction, for example, should be accelerated in spite of the fact that privately financed construction and employment in the building trades are at record levels for peacetime. The child who is ready to enter school should start now—he cannot be put on a shelf until a depression comes and supplies the impetus of an economic emergency to the building of more new schools. A similar principle holds for those who need medical care facilities.

Although there is somewhat more flexibility in the timing of construction of environmental health facilities (mainly waterworks and waste treatment plants), the pressure on supplies of clean water is becoming so severe and wastes have so far outrun treatment in many areas that many States, localities, and private industries need to build facilities as rapidly as possible.

Another reason why construction of truly essential public facilities should not be deferred is that no one can predict if or when there will be a serious recession in the private sectors of the economy. For the same reason, service and income maintenance programs cannot be governed primarily by the expectation of declines. Finally, it is more in accord with American tradition and temperament to set as goals the prevention rather than the alleviation of depressions.

However, secondary adjustments have been made and will continue to be made in the financing, scope, and timing of some programs either to avoid feeding inflation or to help offset declines in employment and income. An outstanding example of deferment in the interests of national defense and of economic stability is that of the restraints placed on building of community facilities during wars—which is one of the causes of current backlogs of public works. Some programs have built-in stabilizing effects. The compensating characteristics of the major ones are summarized below.

Effects of current income maintenance programs

Generally speaking, the beneficiaries of old-age and survivors' and disability insurance who are not working at all and the recipients of public assistance spend their social-security payments on necessities. In the absence of the social-security programs their income—and their purchases—would be lower and would fluctuate according to the changing resources and policies of private agencies and of local "poor relief" authorities. Both the old-age and survivors' and disability insurance and the public-assistance programs, therefore, are long-range sustaining factors in consumer purchasing power and in the markets for subsistence and essential services such as medical care.

At the same time, the contributions which workers pay to the old-age and survivors' and disability insurance fund form a type of savings against the day when they or their survivors will need support for a basic standard of living. Such savings are being made when the contributors can best afford them and have a margin of income above subsistence. This program, therefore, is a stabilizing element over a period of years for individuals and their families as well as a steady influence on national income.

In addition, old-age and survivors' and disability insurance benefit payments to some degree vary inversely with the level of business activity, as a result of the fact that benefits are payable to eligible beneficiaries under age 72 only so long as they are not earning more than specified amounts in employment. Thus, in good times when employment opportunities are plentiful, many persons otherwise eligible for benefits will choose to work and to forego their benefits. In times of declining activity when employment is tighter, however, older persons and perhaps many widows may be among the first to lose their jobs, and they will then decide to exercise their benefit rights. On the other hand, as old-age and survivors' disability insurance contributions are computed as a percentage of wages, their total volume automatically swells as payrolls and earnings of the self-employed rise in good times, and declines as the latter shrink in bad times.

As regards public-assistance payments which are related directly to current need, the number of needy persons naturally can be expected to vary more or less inversely with the general level of economic activity.

Anti-inflationary effects of other HEW programs

One of the most serious types of inflation is that in which the production of goods and services is far below the demand of consumers or of public requirements (as in war). The contributions of health and education to productivity and the size of the labor force which have been previously outlined are therefore indirect but important counterweights against the danger of too many dollars bidding up the prices of limited resources.

Another element of inflation is the piling up of debts by individuals beyond their future ability to pay. The education of future consumers and homemakers and such special programs as those of credit unions contribute to a higher quality of personal credit management. Poor health, disability, and premature aging are among the major causes of poor credit risks and bad debts. Such causes are attacked directly by improved medical care, public health, and rehabilitation programs.

Potential acceleration of capital outlay for health and education in event of a recession

According to information and estimates developed by State and local authorities, the backlogs of needs for public school construction, water pollution control, hospitals and medical facilities total approximately \$22 billion. It is clear, therefore, that if it were necessary for the Nation to undertake an emergency expansion of public works there would be no occasion for "make work" projects.

The backlog of equipment, needs for new buildings and the reequipping of existing buildings cannot be estimated with any degree of

precision but is believed to be very substantial. To a limited extent the DHEW does participate in meeting the costs of equipment as an integral part of a number of current grants programs, e. g., for research facilities. No recommendations are being made here for large, separate reequipment programs. However, this subject is commended to the attention of your committee for study because: (a) it should be possible to accelerate reequipment and related modernization much more rapidly than new construction; (b) localities which do not need additional structures might benefit from modernization programs; (c) direct employment effects would be felt in plants not directly reached by changes in construction; (d) private expenditures for equipment are subject to serious cyclical fluctuations; and (e) the potentialities in this field have not received as much attention as has been given compensatory public works proposals.

Problems of financing income maintenance, services, and capital outlay during recession

Additional studies should be made of the impact of recessions on the revenues of the Federal Government, States, and localities. From this Department's standpoint similar studies are needed of the effects on the finances of nonprofit organizations and on industries with waste disposal problems.

Under conditions of severe recession the relative inflexibility of State and local tax sources and the disparities between the fiscal capacities of the several States could become serious handicaps to effective nationwide action. Many communities and some States probably could not increase their revenues enough to enable grant-in-aid income maintenance, service, and capital outlay programs to be expanded in the areas of greatest need. Other jurisdictions might participate only by increasing regressive taxes to such an extent as to adversely affect purchasing power, e. g., through increased sales taxes, thereby negating much of the stimulus of the expenditure programs. Those problems were recognized as major ones by the recent Commission on Intergovernmental Relations. They deserve further study by public agencies and by private research organizations and by scholars.

Conclusions are difficult to reach on this infinitely complicated subject. It has been neglected in contrast to the attention which has been given to the theoretical possibilities of changing the sizes of programs, particularly public works.

Other areas of inadequate knowledge are:

(a) Direct and indirect effects of specific programs on reemployment;

(b) Immediate and indirect effects on purchasing power and markets;

(c) Immediate and indirect effects, industry by industry. It is interesting in this connection to note that under some circumstances a drastic expansion of public works could cause inflation in construction without immediately facilitating reemployment in depressed industries; and

(d) Effects on the localities in which the program expansion takes place and the indirect effects on other localities.

(e) Legal, administrative, and technical preparations which must be made at all levels by government and which could cause serious delays between the time decision was made to expand programs and

the time at which the effects began to show in distressed areas. Some studies have indicated that if antirecessionary action included a decision to expand Federal grants for public works, it would take more than a year before such action would be reflected in a substantial amount of new construction.

CONCLUSION

Need for wider understanding of relationships between economic development and social programs

Public officials are interested in the economic as well as the humanitarian benefits of programs in the fields of health, education, and welfare, and they have been able in many instances to demonstrate the relationship between these programs and the Nation's economic development. The illustrations which have been given here could be augmented by many public and private agencies. Expenditures in health, education, social security, and rehabilitation have been analyzed and described as investments by individual scholars and by far-sighted leaders of business, labor, and professional groups. Pioneering studies have been made by private research organizations, including the National Planning Association and the Committee for Economic Development. Reports on the subject include several which have been published by the Joint Economic Committee.

Generally speaking, however, the potentialities of social development have been seriously neglected in economic analysis. In striking contrast are the countless volumes which are written, the support which is given to special courses in universities, and the research projects which are financed to cover such already well-worked fields as transportation, public finance, banking and credit, commodities, agriculture, etc. Meanwhile, capital outlays for new factories and equipment are classified as "investments" but capital outlays for the education and training of the men and women who will staff those plants are still generally treated as being only "expenditures" and "tax burdens." Too often still the maintenance of machines is appraised more highly in conventional economic terms than is the maintenance of manpower and womanpower.

Your committee would be rendering a service to American economic thought and to education of the public by commending this lack of balance to the attention of universities and research organizations.

Restatement of basic economic philosophy of the Department of Health, Education, and Welfare

The burdens of disease, disability, ignorance, and insecurity cannot be escaped by underinvestment in health, education, and welfare. Such conditions will have a costly impact on private charities, the budgets of governments, the efficiency of industry, and the purchasing power of consumers. Therefore, National, State, and local public and private agencies should lay still more emphasis on prevention, control, and rehabilitation. The Nation's continued economic growth can be assured over the long run only by adequate and prudent investments in America's basic resources—the human resources.