PUBLIC SOCIAL SECURITY PROGRAMS IN THE UNITED STATES

1949–50

- **Analysis of Laws**
- **Federal-State Cooperation**
- **Operating Experience**
- **Further Needs**

Bulletin No. 982

UNITED STATES DEPARTMENT OF LABOR
Maurice J. Tobin, *Secretary*

BUREAU OF LABOR STATISTICS
Ewan Clague, *Commissioner*

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[From the Monthly Labor Review, January, February, and March 1950 Issues]

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Letter of Transmittal

UNITED STATES DEPARTMENT OF LABOR,
BUREAU OF LABOR STATISTICS,
Washington, D. C., May 4, 1950.

The SECRETARY OF LABOR:

I have the honor to transmit herewith a report on the operations of the public social security programs in the United States in 1949 and early 1950.

Labor-management negotiations for pensions and related benefits coupled with the consideration by the Congress of amendments to social-insurance legislation led to Bureau plans for the publication of summary background information on the public provisions in this field. Four experts operating in different phases of the program gave their services in this project, under the editorial direction of Margaret H. Schoenfeld of the Office of Publications. Each contributed an analytical section to this bulletin.

The Bureau is indebted to Anne E. Geddes and Jacob Perlman of the Federal Security Agency and Ruth Reticker and William H. Wandel of the Bureau of Employment Security, United States Department of Labor, for this report.

EWAN CLAGUE, *Commissioner.*

Hon. MAURICE J. TOBIN,
Secretary of Labor.

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Public Social Security Programs in the United States, 1949–50

Old-Age and Survivors Insurance

The fourteenth anniversary of the passage of the Social Security Act, which now provides benefits to retired workers and their dependents and to the survivors of deceased workers insured under the program, was marked in August 1949. Benefits under the old-age and survivors insurance program had been paid for only 9½ years on June 30, 1949, but monthly payments had reached over 51.5 million dollars for almost 2.6 million persons. For the fiscal year 1949, the Treasury Department certified 595 million dollars for monthly benefits and an additional 32 million dollars for lump-sum payments.

Historical Developments

The United States lagged far behind other countries in providing "social security" for its older workers chiefly because the problem of the older worker was not conspicuous until after World War I. A declining birth rate and the reduction in immigration produced a sharp increase in the ratio of the aged to the total population during the 1920's. Furthermore, during these years accelerated development of mechanization and mass-production shifted the emphasis in the demand for labor from the skilled to the semiskilled worker. Industry began to discriminate against the older worker in hiring, and technological unemployment became an important factor. These developments led to agitation in favor of pensions for older workers.

Both industry and government moved slowly. Company pension plans established during the 1920's were relatively limited in scope and largely restricted to executives and other salaried people. Some old-age pension laws were introduced for State and local government employees, and the Federal Civil Service Retirement System was started in 1920. But the majority of workers had no guarantee of security in their old age. In fact, social insurance on a government basis was widely opposed, on the grounds that it would destroy individual enterprise and initiative, that it constituted regimentation, that it was unconstitutional, and that it would bankrupt the Nation. Even organized labor opposed it as late as 1932 arguing that, if wages were adequate, the worker could take care of himself in his old age.

With the onset of mass unemployment in the severe depression starting in 1929, the problem of protection against loss of earnings in old age came to the fore. The older worker, in particular, had almost no chance of finding a job. Need became urgent for an immediate as well as a long-range plan for providing economic security for the aged and other persons without means to take care of themselves.

Accordingly, early in 1934 President Roosevelt recommended to Congress consideration of economic security legislation and, on August 14, 1935, a law embodying the recommendations of a specially created Committee on Economic Security was adopted. Although this law did not go as far as the Committee had recommended, it established a broad system of federally administered old-age pensions.

In general, the law provided old-age benefits to workers in industrial and commercial establishments, which constitute the major segment of the Nation's economy. Excluded were the self-employed, agricultural labor, domestic workers in private homes, government employees, those working for certain nonprofit institutions (religious, charitable, and educational), casual labor, and those engaged in certain maritime services. Administrative reasons justified some of these exclusions. Others were authorized because the employment was already covered by a retirement system, and still others because those concerned were opposed to coverage. Railroad employment

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was not listed in the exclusions, but the Railroad Retirement Act of 1935 specifically exempted railroad workers from coverage under the Social Security Act.

In order to become insured under the program, a worker was required to have total wages of at least $2,000 from covered employment earned in five separate calendar years. Wages earned after age 65 did not count towards eligibility, thereby excluding from protection the older workers who were most in need of it. Monthly benefits were to be paid to insured workers after attainment of age 65, beginning in 1942, with no provision for survivors except a lump-sum payment. Provision was made for lump-sum payment to contributors who had not met the requirements for monthly benefits. Benefits were to be financed by contributions by employer and employee of 1 percent of wages up to $3,000 a year from any employer, beginning in 1937, and rising to 3 percent each in 1949 and thereafter. Provision was made for an old-age reserve account in the Federal Treasury, to which sufficient funds were to be appropriated annually by Congress to provide for the payments under the program, determined on a reserve basis.

As a next step, what has been called the world's largest bookkeeping system was established in order to record the wages of workers covered under the old-age benefit system. It was necessary to assign numbers to approximately 26 million workers and more than 2 million employers in a mass registration. An individual ledger sheet was set up for each employee, and machines were either invented or adapted to handle the posting of reported wages.

Provisions Under the Present Program

"Social Security" soon became generally accepted and the insurance provisions of the act were upheld by the Supreme Court of the United States in 1937. However, serious shortcomings in the old-age benefits program became obvious and controversy developed over the financing provisions. In 1937, therefore, the Social Security Board and the Senate Finance Committee appointed an Advisory Council to study these problems. Following the recommendations of the Council, Congress substantially amended the Social Security Act in 1939. Although several legislative changes have been made subsequently, the act as amended in 1939 remains the basis of the current program.

The 1939 amendments started a trend toward the concept of presumed need, which is the essence of social insurance, and away from the principles of individual savings and equity as known in private insurance. Coverage was expanded to provide benefits for survivors and dependents of those insured. Benefits were made payable in 1940 instead of 1942. Furthermore, changed eligibility provisions considerably increased the number of the aged who could qualify in 1940 or shortly thereafter for retirement benefits. The benefit formula was changed to increase many retirement benefits payable in the early years of the program on the basis of limited contributions.

Under these amendments, a wage earner who reaches age 65 or over and retires is eligible for all types of benefits if he is "fully insured."[1] If he is "currently insured," only certain survivorship benefits may be paid.[2]

Benefit amounts were related to average monthly rather than accumulated wages, under a formula favoring those with low earnings.[3] By this change, the amounts payable to persons retiring soon after benefits became payable were increased and benefits were also related more closely to the wage loss due to retirement than formerly. The basic monthly benefit is equal to 40 percent of the first $50 of the average wage, plus 10 percent of the next $200. To this basic amount is added a 1-percent increment for each year in which the worker received wages of $200 or more. If the benefit computed according to the formula is less than $10, it is raised to $10. Examples of monthly

[1] In general, he is fully insured when he has half as many "quarters of coverage" as there were calendar quarters after 1936 (or after his twenty-first birthday, if that is later) and before the quarter in which he reaches age 65 or dies, whichever occurs first. A quarter of coverage is a calendar quarter in which the individual is paid wages of at least $50 in covered employment. There must be at least 6 quarters of coverage in any case. This minimum applies in the case of persons who reached age 65 before July 1, 1940. The amended act allows credit for employment after age 65, retroactive to January 1, 1939. When a worker has 40 quarters of coverage he is permanently fully insured, regardless of age. Quarters of coverage may be acquired at any time after 1936 and need not be consecutive.

[2] A person is currently insured if he has earned 6 quarters of coverage during the period consisting of the quarter in which he died and the 12 calendar quarters immediately preceding such quarter.

[3] An individual's average monthly wage is computed by dividing all of his wages received in covered employment by the number of months which have elapsed after 1936, or after he attains age 22, whichever is later, and before the time when he dies or becomes entitled to benefits.

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benefits (i. e. "primary benefits") payable to retired workers follow:

Average monthly wage of—	Years of coverage 5	10	20	40
$50	$21.00	$22.00	$24.00	$28.00
$100	26.25	27.50	30.00	35.00
$150	31.50	33.00	36.00	42.00
$200	36.75	38.50	42.00	49.00
$250	42.00	44.00	48.00	56.00

If a worker is "fully insured," benefits may be payable to his wife or widow at age 65; his unmarried children under 18; and his widow, regardless of age, if she has such children in her care; or to aged dependent parents. If he is "currently insured," monthly benefits may be payable to his children and his widow if she is caring for the children. A wife, child, or dependent parent receives half of the primary benefit; a widow receives three-fourths. However, the total benefits based upon one worker's wages may not exceed the smallest of the following: Twice the amount of the primary benefit, or 80 percent of the worker's average monthly wage, or $85. The maximum provision does not apply if family benefits total less than $20.

Provisions with respect to lump-sum payments were also changed in 1939. Such payment to a worker at age 65 was discontinued, and, in view of the new survivors' benefits, the death payment was limited to a sum equal to 6 months of the primary benefit. It was further limited to those who could be presumed to have suffered an economic loss because of the worker's death or who had paid the funeral expenses, and could be made only if there was no one immediately entitled to monthly benefits.

All benefits are suspended for any month in which the retired wage earner returns to work in covered employment and receives $15 or more per month. Likewise, if his dependents or survivors (who draw benefits) work for more than $14.99 a month, their individual benefits are withheld. This provision was adopted in order to assure payments only to those individuals who have substantially retired from work in jobs covered by the law and who, therefore, might be presumed to need benefits.

A broad extension of coverage was not provided. Certain previously excepted services were included under the 1939 amendments, notably those performed by persons aged 65 and over, beginning in 1939. As of January 1, 1940, coverage was also extended to approximately 1.6 million workers.[4] Concurrently, however, the 1939 amendments restricted coverage in other areas, notably in connection with agriculture.[5] Among other groups excluded at this time were student nurses and interns, newsboys under 18, employees of foreign governments, and domestic servants in fraternities, etc. The coverage of family employment was also limited.

Some further extensions have been made in coverage. In 1943, it was extended for the duration of the war to seamen employed by or through the War Shipping Administration. Employees of the Bonneville Power Administration who were not covered under the Federal Civil Service Retirement Act were covered by a 1945 law, for employment performed after December 31, 1945.

Further restrictions were imposed in 1948. Under one law, services performed by certain newspaper and magazine vendors were excluded. Another redefined the term "employee" to restrict it to the "usual common-law rules" applicable in determining employer-employee relationship. The result was more restricted coverage than that under the test of "economic reality" to determine what constitutes employment, as handed down by the Supreme Court in an opinion in June 1947.

As mentioned before, considerable interest and controversy on the financing of old-age benefits developed after passage of the Social Security Act. The amendments of 1939 revised the financial provisions, with the establishment of a Federal Old-Age and Survivors Insurance Trust Fund to take over the assets of the old-age reserve account. The size of the reserve account, as estimated in connection with the 1935 act (47 billion dollars by 1980), had been severely criticized as unnecessary in a Government program, and strong sentiment developed for placing the system on a "pay-as-you-go" basis. In response to this sentiment, the 1939 amendments provided that the Fund trustees were to report to Congress whenever, in

[4] The extension of coverage applied to maritime service on American vessels, except certain fishermen, and to employment by governmental bodies or instrumentalities not wholly owned by the Federal Government, such as national banks, building and loan associations, and State banks which are members of the Federal Reserve System.

[5] The term agricultural labor was so defined as to exclude certain borderline activities which were closely related to farming, and which previously been considered as covered.

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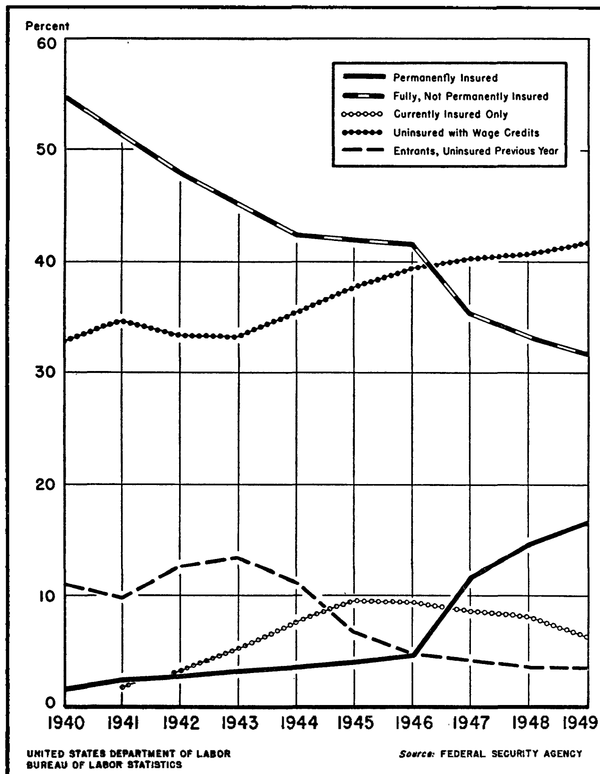
their opinion, the fund would exceed three times the highest annual expenditure within the following five fiscal years, implying that Congress would keep the reserve from exceeding three times the annual benefits. The contribution rates at 1 percent each for employees and employers were maintained through 1949. In 1947, a new schedule was adopted which increased the tax rate to 1½ percent each in 1950 and 1951 and to 2 percent each for 1952 and thereafter.

Percent Distribution of Living Persons With Wage Credits, by Insurance Status, January 1, Each Year



Experience Under the Present Program

Old-age and survivors insurance has become an essential of our national life. By the end of 1948, a total of 92.3 million social security accounts had been established—2.7 million of them in that year. The number of living persons with wage credits under the program had grown from 40.8 million on January 1, 1940, to 78.9 million on January 1, 1949. (See table 1.) During 1948, some 49.6 million workers were employed in jobs covered by old-age and survivors insurance, and total taxable wages of 84.5 billion dollars were reported by about 3.3 million employers. Average taxable wages per year were $1,704 as compared with only $900 per worker in the first year of the program's operation.

Of all persons with wage credits on January 1, 1949 (see table 2), an estimated 38.3 million were "fully insured," of whom about 2 million were over age 65.

Of those persons who were fully insured on January 1, 1949, 13.2 million had permanent insured status—that is, they or their dependents or survivors could qualify for benefits even though the wage earner had no further employment. An additional 5.1 million workers were currently but not fully insured, so that benefits could be paid to the survivors in the event of their death. (See chart.)

Of the fully insured workers over age 65, more than half (1,048,000) were currently receiving monthly benefits. Most of the 933,000 who were not in payment status were still employed.

By contrast, 35.5 million persons were uninsured under the program—having worked in covered employment in too few calendar quarters to gain insurance protection. Compared with the insured workers, the cumulative amount of their wages was small—on January 1, 1948, their average was $1,300 compared with $12,200 for fully insured workers. Some of the uninsured were seasonal or part-time workers; others had just entered covered employment; some had worked only a short time and had withdrawn from covered employment; and still others were shifting between covered and noncovered employment. Among those who had withdrawn from covered employment were many women, whose participation in the labor force is often interrupted by marriage and family responsibilities. However, many of them will receive benefits as wives, or widows, on account of their husband's wage records. Over a period of future years, too, many workers who spend relatively little time in covered employment may acquire permanently insured status, thus entitling them to benefits under the program.

Benefit rolls under old-age and survivors insurance have also grown. During the fiscal year 1949, monthly benefits were awarded to 622,000

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TABLE 1.—*Extent of coverage of the old-age and survivors insurance program in terms of workers, wages and salaries, and firms, 1937–48*

Year	Persons (in millions)				Wages and salaries in year					Firms (in thousands)	
	Population 14 and over, end of year [1]	With covered wages			Total United States [2]	Covered industries				During year	First quarter of year
		Cumulative to end of year		During year		Total (in billions)	Taxable				
		Number	Percent of population				Amount (in billions)	Percent of total U. S.	Average		
1937	98.8	32.7	33.1	32.9	$45.6	$32.8	$29.6	64.9	$900	2,421	(3)
1938	100.0	36.5	36.5	31.8	42.4	29.0	26.5	62.5	833	2,239	1,876
1939	101.1	40.8	40.4	33.8	45.3	32.2	29.7	65.6	881	2,366	1,967
1940	102.4	44.9	43.8	35.4	49.0	35.7	33.0	67.3	932	2,500	2,069
1941	103.5	51.0	49.3	41.0	59.8	45.5	41.8	69.9	1,021	2,646	2,188
1942	104.7	58.5	55.9	46.4	75.6	58.2	52.9	70.0	1,142	2,655	2,204
1943	105.7	65.3	61.8	47.7	91.2	69.7	62.4	68.4	1,310	2,394	1,971
1944	106.6	69.5	65.2	46.3	96.3	73.3	64.4	66.9	1,392	2,469	2,010
1945	107.5	72.3	67.3	46.4	95.1	71.6	62.9	66.1	1,357	2,614	2,076
1946	108.6	74.8	68.9	49.1	103.5	79.3	69.1	66.8	1,407	3,017	2,287
1947	109.7	76.8	70.0	49.2	118.3	92.5	78.4	66.3	1,593	3,250	2,509
1948	110.8	78.9	71.2	49.6	131.4	102.7	84.5	64.3	1,704	3,300	2,590

[1] Includes Alaska and Hawaii, persons in institutions, and armed forces overseas.

[2] Includes continental United States and pay of Federal civilian employees in all other areas.

[3] Not available.

Source: Covered data—Bureau of Old-Age and Survivors Insurance; population—Bureau of the Census; and total wages—Office of Business Economics, U. S. Department of Commerce.

persons, almost 295,000 of whom were retired workers. As stated before, 2.6 million persons were receiving monthly benefits on June 30, 1949, with monthly benefit amounts totaling 51.5 million dollars. The extent to which the rolls have expanded since monthly benefits first became payable is indicated by the 1940 and 1945 experience reported in table 3.

On June 30, 1949, 46.1 percent of the beneficiaries were retired workers; 14.1 percent were wives of these workers; 24.1 percent were children of retired or deceased workers; 9.3 percent were aged widows; 5.9 percent were widows caring for child beneficiaries; and 0.5 percent were aged dependent parents of deceased workers. Persons aged 65 or over thus comprised 70.1 percent of the total number receiving benefits. Furthermore, of the 1.8 million families represented in the 2.6 million persons receiving monthly benefits, retired worker families made up almost 67 percent of the total.

TABLE 2.—*Extent of protection afforded by old-age and survivors insurance program, in terms of number insured and average primary benefit* [1] *to insured persons, 1939–48*

End of year	All ages				Age 65 and over			
	Persons with wage credits cumulative to end of year (in millions)	Insured (in millions)	Percent insured	Average accrued primary benefit amount [2]	Persons with wage credits cumulative to end of year (in millions)	Fully insured (in millions)	Percent fully insured	Average accrued primary benefit amount [3]
1939	40.8	22.9	56.1	(4)	0.7	0.2	28.6	(4)
1940	44.9	24.9	55.5	(4)	.9	.5	55.6	(4)
1941	51.0	27.5	53.9	(4)	1.1	.7	63.6	(4)
1942	58.5	31.2	53.3	(4)	1.4	.8	57.1	(4)
1943	65.3	34.9	53.4	$25.00	1.8	1.0	55.6	$25.25
1944	69.5	38.6	55.5	25.00	2.1	1.2	57.1	25.25
1945	72.3	40.3	55.7	25.25	2.4	1.5	62.5	25.50
1946	74.8	41.5	55.5	25.75	2.7	1.6	59.3	25.25
1947	76.8	43.1	56.1	26.50	3.0	1.8	60.0	27.00
1948	78.9	43.4	55.0	(4)	3.4	2.0	58.8	(4)

[1] Primary benefit amount accrued to insured worker at end of year represents amount on which monthly survivor benefits or lump-sum death payments would be based if the worker were to die at end of year; also primary benefit to which worker would become entitled if he were fully insured, aged 65 or over, and had filed an application for such benefit at end of year, and the basis on which supplementary benefits would be computed. Not adjusted to reflect changes in insured status and primary benefit amounts for (1) workers with combined earnings under coordinated survivor provisions of the old-age and survivors insurance and railroad retirement programs, and (2) veterans deemed to be fully insured only as a result of sec. 210 of title II of the Social Security Act as amended in 1946. Averages estimated to nearest multiple of 25 cents.

[2] Excludes accrued primary benefit amounts for insured persons under 25 years of age. Includes primary benefit amounts for persons receiving benefits.

[3] Includes primary benefit amounts for persons receiving benefits.

[4] Not available.

Source: Bureau of Old-Age and Survivors Insurance.

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TABLE 3.—*Beneficiaries and monthly benefits in current-payment status, by type of benefit, fiscal years 1940–49*

End of fiscal year	Total in current-payment status		Number of beneficiaries, by type of benefit					
	Number	Monthly amount (in thousands)	Primary	Wife's	Child's	Widow's	Widow's current	Parent's
1940 [1]	95,500	$1,759	53,800	11,200	21,500	900	7,900	200
1941	336,240	6,096	160,401	44,320	88,091	9,567	32,444	1,417
1942	529,876	9,555	237,459	68,760	147,674	21,694	51,789	2,500
1943	676,302	12,199	284,063	84,398	201,954	37,680	64,711	3,496
1944	846,303	15,351	339,954	103,164	261,806	57,126	79,866	4,387
1945	1,106,002	20,163	430,723	132,155	348,413	81,500	107,597	5,614
1946	1,502,085	28,211	632,038	193,241	431,202	110,168	128,688	6,748
1947	1,832,285	35,071	797,927	245,364	499,246	146,124	134,673	8,951
1948	2,162,693	42,391	968,682	296,711	556,834	188,612	140,807	11,047
1949	2,554,248	51,520	1,180,909	359,840	614,714	236,394	149,724	12,667

[1] Estimated.

Source: Bureau of Old-Age and Survivors Insurance.

The average primary benefit has increased only moderately since 1940, as shown in the accompanying tabulation.

End of fiscal year—	*Average monthly primary benefit*	End of fiscal year—	*Average monthly primary benefit*
1940 [1]	$21.96	1945	$23.94
1941	22.67	1946	24.43
1942	22.87	1947	24.72
1943	23.23	1948	25.13
1944	23.61	1949	25.72

[1] Estimated.

Source: Bureau of Old-Age and Survivors Insurance.

By type, the monthly average benefit in 1949 was $13.61 for a wife of a retired worker, $20.72 for an aged widow, $20.96 for a widow with child beneficiaries, $13.09 for a child beneficiary, and $13.70 for an aged dependent parent.

Naturally, the beneficiaries are concentrated in the highly industrialized States. By contrast, the agricultural States not only have relatively fewer beneficiaries but their average benefits are also lower. This is due to the fact that in the latter States many workers divide their working time between covered and noncovered employment.

Assets of the Old-Age and Survivors Insurance Trust Fund on June 30, 1949, totaled 11,310 million dollars, with contributions during the fiscal year amounting to 1,690 million dollars. Except for 79 million dollars held in cash for current withdrawals, the money was invested in Government securities. At the end of fiscal year 1939, assets had been only 1,745 million dollars.

Relation to Other Programs

In providing for the establishment of Federal-State programs of public assistance under the Social Security Act of 1935, Congress took into account a number of factors. Some people, such as those already old when the old-age insurance program began and those handicapped since birth or childhood, would never be able to meet the requirements of the insurance system, and the need of others would be greater than this system was able to meet. However, the assumption that the insurance program would provide the necessary basic protection was not fulfilled, namely, that assistance cases would decline as more people became insured under the contributory system. Instead, the number receiving old-age assistance has almost doubled, while the number receiving old-age insurance has lagged relatively by comparison, notwithstanding that the average worker prefers a benefit for which he has paid rather than relief.

Private industrial pension systems have successfully supplemented the protection of old-age and survivors insurance. Old-age and survivors insurance extends broadly over the whole field of private industry, providing continuous protection for persons who move from job to job within that field; private retirement plans, each limited to a single firm or industry, are used to supplement this protection and to reward faithful service.

In other fields, however, this basic relationship has not been clearly worked out. Railroad employees, for example, have their own system, which

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provides retirement benefits entirely separate from those under old-age and survivors insurance. The survivor benefits of the two programs were coordinated in 1946, and employment under both systems is now counted toward benefits, which are payable under a single system. By this device, loss of benefits on the one hand, and excessive duplication of benefits on the other, are prevented if an individual has moved back and forth between the two programs. Nevertheless, an individual who attains retirement age and whose working lifetime has been divided between the two programs may receive somewhat less in retirement benefits than is appropriate in view of his combined periods of service.

No coordination has been worked out between the Federal civil service retirement and the old-age and survivors insurance program. The Federal program providing compensation and pension for veterans and their survivors also is separate and apart from the old-age and survivors insurance program, with one minor exception. Three years of guaranteed survivorship protection under old-age and survivors insurance was provided in 1946 for veterans following their discharge from World War II military service. It does not apply where compensation or pension is payable under veterans' law.

Adequacy of Present Program

Surveys of families to which benefits are being paid, made by the Bureau of Old-Age and Survivors Insurance, show that some have no resources except their benefits, and that even for many with some resources benefits are entirely inadequate. Nearly half of the aged beneficiary groups included in the surveys had insufficient income from all sources to provide a maintenance living, although individuals shared a household with relatives.

Even in 1940, the amounts payable failed to provide basic security. Subsequent rises in living costs have resulted in large numbers of elderly workers continuing at work after age 65. Others have retired only because they were ill and unable to work. Even maximum benefits do not meet the requirements of most beneficiaries.

A worker who would like to supplement his benefits by part-time employment incurs hardship because, under the act, his benefits must be withheld for any month in which he earns $15 or more in a covered job. In 1935, when the act became law, unemployment was widespread and Congress assumed that this requirement would help to provide jobs for younger persons who had relatively greater need. However, the result has been that many beneficiaries must get along on either inadequate jobs or inadequate benefits.

The limitation of coverage of this insurance program is perhaps its most serious shortcoming. In June 1949, over 25 million persons out of an employed civilian labor force exceeding 60 million were in jobs in which their earnings did not count toward benefits under this program. Some of these 25 million will never acquire any wage credits; others, who move from covered to non-covered jobs, may lose their benefit rights or suffer a reduction in the amount payable to them or to their dependents.

Lack of protection against wage loss caused by extended disability is also serious. Except for veterans and relatively small groups of workers who have total disability protection under special retirement systems, there is no security for workers who have extended disability which is not work connected.

Legislative Developments

Both Houses of Congress have recognized the shortcomings of the old-age and survivors insurance system and steps have been taken toward legislative action to extend and liberalize it.

In 1947, the Senate Committee on Finance appointed an Advisory Council on Social Security composed of prominent citizens to further study the programs established under the Social Security Act. The Council reported on old-age and survivors insurance to the Senate Finance Committee on April 8, 1948, referring to the three major deficiencies of the program as follows: (1) Inadequate coverage; (2) unduly restrictive eligibility requirements for older workers; and (3) inadequate benefits. It went on record as favoring contributory social insurance with benefits related to prior earnings and awarded without a needs test.

During February 1949, H. R. 2893, a bill "to extend and improve the old-age and survivors insurance system, to add protection against disability and for other purposes," was introduced in

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the House of Representatives at the President's request. This bill, in general, incorporated the improvements which the Social Security Administration has urged for many years. The Ways and Means Committee of the House made extensive study of the proposed changes and held public hearings on them for 2 months. On August 15, 1949, Chairman Doughton presented the committee's bill to Congress (H. R. 6000), recommending the enactment of major amendments. In connection with the old-age and survivors insurance program, the bill if enacted into law would provide for substantial increases in benefit amounts, extension of coverage to approximately 11 million persons not now covered, liberalization of the eligibility and other requirements, and the establishment of a system of monthly benefit payments in cases of permanent and total disability.

H. R. 6000 was passed by the House of Representatives on October 5, 1949, and sent to the Senate. Senator George, Chairman of the Senate Finance Committee, stated that his committee would commence hearings early in January on the social security bill.

Insurance Against Unemployment

Dependency on earnings is characteristic of modern industrial society. In the United States, only a fifth of those at work in October 1949 were self-employed. The remaining four-fifths, who derived their earnings from employment by others, ran the risk of having their incomes cut off by permanent or temporary interruption in employment over which the employer and the employee commonly have no direct control. Unemployment is a hazard to the individual directly affected, to nations, and to international relations. Insurance is part of organized society's answer to the problem of wage loss due to lack of work for those who have been separated from their jobs and desire work.

After experimentation with private unemployment insurance and the adoption of public plans in several foreign countries and in the State of Wisconsin in 1932, a Nation-wide system for the United States was adopted by Congress in 1935.[6] This plan was established under the terms of two titles in the Social Security Act, which provided for a Federal-State system.

By means of a tax-offset device, the individual States were encouraged to enact and administer their own unemployment insurance laws which would meet certain general Federal standards. Provision was made for grants to the States of funds sufficient for the proper and efficient administration of those laws.

The Federal Government has levied a tax on the pay rolls (up to $3,000 per employee per year) of employers within the covered industries who had eight or more employees for 20 weeks in the taxable year. Exempted from coverage are chiefly persons engaged in services for nonprofit organizations, agricultural labor, domestic service, and government service. Rates were fixed at 1 percent for 1936, 2 percent for 1937, and 3 percent thereafter. But an employer who is subject to a State law meeting the general requirements of the Federal law is permitted to credit, against the Federal tax, amounts he is required to pay as taxes (commonly called contributions) under the State law. Such tax credits cannot exceed 90 percent of the Federal tax. In practice, this provision constitutes an incentive to States to retain, for the benefit of their own work force, 90 percent of the Federal tax; and all States, the District of Columbia, Alaska, and Hawaii enacted unemployment insurance laws within 2 years after the Social Security Act was passed. Twenty-three States started to pay benefits in 1938, and all were paying benefits in July 1939.

From annual Congressional appropriations for this purpose, the responsible agency (since August 20, 1949, the U. S. Department of Labor) grants funds to each State for the administration of its unemployment insurance program, provided its law and its administration conform to certain general standards. These grants are generally made quarterly.

The applicable Federal standards for approval of State laws, both for tax-offset and administra-

[6] This section is confined to a discussion of the Federal-State unemployment insurance system. The Federal programs covering veterans and railroad employees are excluded.

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tive grants, are very general. For tax-offset purposes, the State law must provide that (1) all monies collected under its terms will be deposited to the State's account in a Federal trust fund and withdrawn solely for the payment of benefits; (2) benefits will be paid only through public employment offices; (3) benefits will not be denied to any otherwise eligible individual who refuses available new work because of a labor dispute, which is at wages, hours, or other conditions of work substantially less favorable than those prevailing in the locality, or when as a condition of being employed, the individual would be required to join a company union or to refrain from joining, or to relinquish membership in, a bona fide union. In order to meet the requirements for administrative grants, a State law must provide for such methods of administration as are reasonably calculated to insure full payment of benefits when due, opportunity for a fair hearing to anyone whose claim is denied, and the making of reports as required by the Federal agency. Grants can be withheld if, in a substantial number of cases, the State fails to pay benefits due under its law.

Different rates of contributions by employers because of their experience with some measure of unemployment risk are levied under an "experience rating" system. If the State law has approvable experience-rating provisions, an employer who is required to pay to the State less than 90 percent of the Federal tax can still obtain the full 90-percent credit against the Federal tax. Any reduced rate must be based on the employer's experience with unemployment, or other factors directly relating to unemployment risk, during not less than the preceding 3 years.

State Law Provisions [7]

The basic provisions of State unemployment insurance are modeled on the Federal legislation only with regard to coverage and general financial structure. State laws generally cover only those employments which are subject to the Federal unemployment tax. Exceptions are one State which covers nonprofit organizations, a few States that include certain forms of agricultural services, and nine which cover some State and local government services. Most States also provide coverage for work with firms that are smaller than those subject to the Federal tax: 29 States cover firms with fewer than eight employees and 17 States cover firms having one or more employees.

In accordance with the changing level of the Federal tax, noted above, States generally collected 0.9 percent in 1936 and 1.8 percent in 1937; the standard rate subsequently has been 2.7 percent. Under the terms of the Federal act, any reduced rates under the State laws are allowable only on the basis of an individual employer's experience, never on a uniform flat-rate basis. By July 1948, all States had adopted experience-rating provisions, Mississippi having been the last to do so. Several, quite diverse, formulas are used by the States for the determination of employers' rates of contribution. However, most of them use benefits paid to former employees as a primary determinant of the rate. This factor is used differently under various laws. Sometimes the actual duration of benefits paid to the firm's previous employees is disregarded; commonly, benefits are not "charged" when paid under certain circumstances. An employer having exactly the same experience in more than one State may be assigned quite different rates in those States. At some time, nine States have required contributions from employees as well as from employers. However, such contributions have been eliminated or diverted to the support of temporary disability programs in all but two States, Alabama and New Jersey; in New Jersey, the employee contribution for unemployment insurance is only 0.25 percent.

The benefit structures of most State laws have much in common. All States attempt to pay only part of the wage loss suffered by the wage earner, commonly about 50 percent. All States require a claimant to have evidence or prior attachment to the labor force (usually, earnings of a certain amount over a minimum period within the year prior to the period for which benefits are claimed). All States but one use the concept of a benefit year to limit the amount of benefits which an individual may claim, and of a base period, also a year, which precedes the benefit year and is the period within which the claimant must have had his qualifying earnings or employment and the wages upon which the amount of his weekly benefit

[7] For a tabular summary of the provisions of State Unemployment Insurance Laws, September 1949, see p. 46 January 1950 Monthly Labor Review.

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is based. All States but two require a waiting period of 1 or 2 weeks before benefits are paid in any benefit year. Eleven States now pay (in addition to the basic weekly benefit amount) supplemental amounts in accordance with the number of dependents the claimant has. Fifteen States pay benefits for the same maximum duration to all qualified claimants, but most States vary the maximum duration in relation to the amount of earnings or employment in the base period. All States impose periods of disqualification if the claimant's unemployment is due to a voluntary quit, discharge for misconduct, or refusal of suitable work, and benefits are not payable for weeks in which the individual is not able and available for work or in which his unemployment is caused by a stoppage of work due to a labor dispute.

Nevertheless, there are significant differences between the State laws. Most States base the weekly benefit amount on a fraction of earnings in the highest calendar quarter of the base period, but the fraction used ranges from 1/26 to 1/20. Some States base the weekly benefit amount on total earnings in the base period or an average of earnings in selected recent weeks. Minimum weekly benefits vary from $0.50 (accumulated to $3) to $15. Maximum weekly benefits (excluding dependents' allowances) vary from $15 to $27; dependents' allowances do not increase the maximum in one State but nine States paying such allowances increase the maximum by $7 up to $14 and, in Massachusetts, up to the amount of the individual's average weekly wage. Amounts granted because of the existence of dependents and the definitions of a dependent vary considerably.

Maximum potential duration of benefits varies between 12 weeks and 26½ weeks, although in States with more than 90 percent of covered workers, the maximum potential duration is 20 weeks or more; almost half of the workers are in States with a 26 weeks' maximum. However, in nine States the maximum duration is available only to those eligible for the maximum weekly benefit. Maximum basic benefits payable in a benefit year vary from $240 to $689 and maximum augmented benefits (including dependents' allowances) from $312 to $936.

Only six States limit disqualifications to voluntary leaving, discharge for misconduct, refusal of suitable work, and labor disputes. Many States have added other disqualifications, such as leaving because of marital or domestic responsibilities. The disqualifications vary greatly between the States in their severity, from a few weeks' postponement of benefits to the cancellation of all rights to benefits. Twenty-two States have supplemented their availability requirement by a provision requiring the claimant to make an independent search for work.

The State administrative agencies, in most cases, are independent of other State departments—either administered by commissions or boards (in 21 States) or single administrators (in 12 States). In 18 States, however, they are in the State department of labor and, in two States, in the same agency which administers the State workmen's compensation law. These agencies operate through approximately 1,700 local employment offices, affiliated with the United States Employment Service, at which claims are taken. A strong trend exists toward having as many decisions as possible on eligibility and qualification made finally in the local office; a few States actually make the benefit payment in the local offices rather than through the mail.

Operating Experience

A simplified outline of the manner in which the program operates is shown below for 1948:

Number having sufficient wage credits	37, 000, 000
Number claiming benefits	6, 584, 600
Number found to have sufficient wage credits	[1] 5, 153, 800
Number disqualified or found unavailable	[1] 1, 022, 200
Number drawing at least 1 week's benefits	4, 008, 400
Average potential duration (weeks)	21. 1
Average actual duration (weeks)	10. 7
Number exhausting benefits	1, 027, 500
Average weekly benefit amount	$19. 03

[1] These totals do not add to the total number of claimants. For example, the number who were found to have insufficient wage credits are excluded.

Women formed about 40 percent of the claimants during 1948. They were unemployed a bit longer than the men and filed 45 percent of the claims for continued weeks of unemployment. More than 60 percent of the beneficiaries during 1948 were in seven States: California, Illinois, Massachusetts, Michigan, New Jersey, New York, and Pennsylvania. These States included about half the country's covered employment. Unem-

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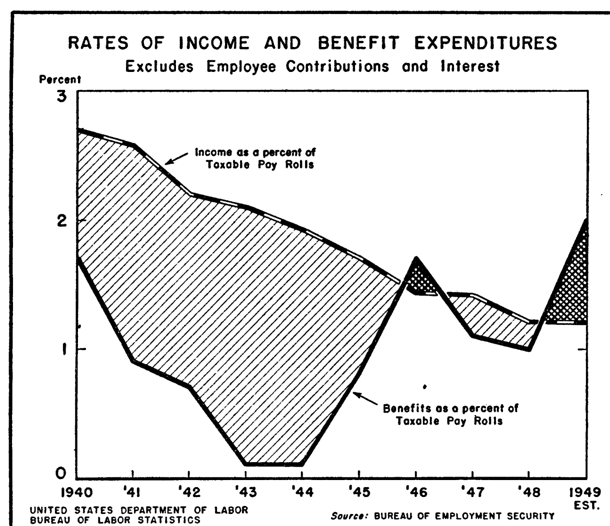
ployment has been above the national average in most of these large States as well as in New England generally and on the Pacific Coast.

The proportions of beneficiaries who exhaust benefits depend on many factors. Basically, the exhaustion rate has depended on the number and characteristics of the unemployed in relation to the duration of benefits provided by the State law. The rate has been generally high in years of slack economic activity and low during full-employment years. Other things being equal, the rate has been the lowest in the States which provide a relatively long duration of benefits, and highest where the duration was less adequate. Exhaustion rates

Unemployment Insurance



tend to be higher for the older worker and among women than for other groups in the population.

Major developments within the program's history have reflected changing levels of employment, unemployment, and wages.

The average number in employment covered by the State programs rose from less than 20 million in 1938 to almost 33 million in 1948. Many more were employed some time during these years. This increase has been due in part to changes in State laws broadening coverage, but chiefly to increases in the employed labor force.

The history of claims, benefit payments, and the growth of reserves can perhaps be understood best if it is divided into three periods: pre-defense, war, and postwar. When benefits were first paid in 23 States in 1938, the country was in the latter phases of a short business recession. Some of the States, e. g., New Hampshire, Rhode Island, Oregon, and West Virginia, paid more in benefits that year than they collected at a rate of 2.7 percent. In 1940, when all States for the first time were paying throughout a full year, benefits totaling 518.7 million dollars were the heaviest until 1946. This was true even though the average weekly benefit was less than $11 and average duration of benefits less than 10 weeks. Almost 5¼ million individuals became beneficiaries in that year. Beginning in 1941, the amount of benefits paid dropped sharply as preparation for war, and the war itself, increased employment, and unemployment dropped to levels previously believed impossible. Although the average weekly benefit had risen to almost $16 by 1944, benefits in that year were only 62.4 million dollars, paid to about 533,000 persons for an average duration of 7.7 weeks.

At the end of the war, unemployment increased severely in some industries, reconversion was undertaken in others, and a period of adjustment took place in the labor force. The aggregate amount of benefits paid rose from 62.4 million dollars in 1944 to 445.9 million in 1945 and 1.1 billion in 1946; the number of beneficiaries jumped from 533,000 to 2.8 million in 1945 and to almost 4.5 million in 1946. There was some dropping off in these figures for the subsequent postwar years until 1949. Both 1947 and 1948 were years of high-level employment and, in relation to the total labor force, low unemployment. However, beginning in the fall of 1948 and extending into the middle of 1949, unemployment furnished noticeable evidence of a second postwar transition period. Consequently, it was estimated that benefit payments for 1949 would total approximately 1.7 billion dollars. Owing to increases in wages and improvements in State laws, these were to be paid at an average weekly rate of almost $21 as compared with less than $11 before 1941 and $16 in 1944.

Expressed differently, the benefit experience has ranged from the point in 1940 when benefits were 1.7 percent of taxable pay roll, down to 0.1 percent in 1943 and 1944, moved up to 1.7 percent in 1946, and down again to 1.0 percent in 1948. It was estimated that the benefits would be over 2.0 percent in 1949.

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The history of unemployment insurance reserve funds, nationally, has been determined by the relation between the level of benefit disbursements and contributions. Although there has been a steady decline in the rate of income, dropping to 2 percent of taxable wage by 1943 and to 1.2 percent by 1948, in every year except 1946 and 1949 the income has exceeded benefit disbursements. The margin was greatest in 1943 and 1944 when benefits were approximately 5 percent of contribution income. (In 1943 benefits were only 2 million dollars more than that year's interest on the State reserves.) The total reserves, which were 1.8 billion dollars at the end of 1940, grew to almost 7 billion dollars by the end of 1945 and resumed their growth in 1947 so that at the end of 1948 they amounted to 7.6 billion dollars, or 9.5 percent of taxable pay rolls.

Of course, all of these national figures conceal wide differences between the States. For instance, benefit costs in 1948 were as low as 0.2 percent of taxable pay roll in one State, 2.5 percent in another. In the same year, contribution rates were 0.3 percent in one State, 2.0 percent in another. At the end of the year, reserves were 5.3 percent of taxable pay roll in one State, 14 percent in another.

Value of Program

The unemployment insurance program has definitely established its worth over the years. A great virtue is that it brings unemployed workers into contact with a Nation-wide employment office system. More important, the benefit payments are timely, increasing in volume in quick response to an increase in unemployment. By their timeliness, their use by beneficiaries for consumer goods, and the release they give unemployed men from desperation and despair, benefits have made a major contribution to this Nation's attack on unemployment and its determination to achieve full employment.

The program has also demonstrated that workers in this country do not prefer idleness and benefits to work and wages. Actual duration of unemployment experienced by covered workers has operated independently of the allowable duration of benefits; and, historically, the duration of benefits has gone down, even when allowable duration was being increased.

A significant byproduct of the program is the supply of information on absolute numbers in, and changing levels of, employment in major industries, monthly and by State, and on unemployment characteristics by State and locality.

In Rhode Island, California, and New Jersey, the program has also supplied a base upon which to provide benefits for temporary disability as well as unemployment due to lack of work. In each of these States, the same collection procedures, wage records, and administering agency are used for both unemployment insurance and temporary disability benefits. Washington State has also enacted a law providing for such coordinated administration but it will not be effective until after a referendum at the end of 1950.

Current Problems

In spite of the advances under the program and the great contribution it has made to national well-being, serious problems remain. The first of these questions is the adequacy of the program. Thirty percent of employed persons are excluded from coverage. Chiefly because the maximum weekly benefit amounts under State laws are low enough to prevent benefits from bearing a fairly uniform relation to wage loss, benefits are only approximately 35 percent of average weekly wages. The percentage of beneficiaries who exhaust their rights to benefits in any benefit year has been as high as 50 percent and currently is about 30 percent. The variety and severity of disqualifications tend to undermine the basic security offered by the program. The goal is to avoid that point at which workers will no longer have the assurance of being compensated when unwillingly unemployed because of forces completely beyond their control, or at which they might be forced to sacrifice their experience and skills even during short periods of unemployment.

Diversity between State provisions creates a second problem. Examples of the spread in these provisions are given above. For instance, a worker earning a weekly average of $475 in his high quarter and $1,300 in his base period would be entitled to a maximum in benefits of $572 in one State but only $240 in an immediately adjoining State. In addition to the problems of inequity from such diversity, administration and

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interpretation differ. These differences raise problems, especially in interstate claims and appeals.

Experience rating has long been considered a problem. Several questions are involved as to its effects on stabilization of employment, its adaptability to sound financial policy, and the conflicting incentives it provides to maintain employers' interest in proper payment of benefits and to minimize benefit payments in disregard of the program's purposes.

In spite of the accumulation of large reserves in many States—and, indeed, partly because of such accumulation—one basic problem is that of the marked differences between the States in their benefit experience. These differences have disturbing implications for interstate competition. They make clear the need for securing a more rational relationship in all States between benefits, income, and reserves.

Obviously these problems are not simple; they have been considered by Congressional committees, advisory councils, State administrators, and various private organizations. The vital part that unemployment insurance plays in stabilization of the national economy and in measures to attain full employment assures a continued and alert public interest in the program.

Financing Unemployment Insurance

The financing provisions for unemployment insurance under Federal legislation guaranteed the enactment in 1935–37 of unemployment insurance legislation in each of the 48 States, the District of Columbia, Alaska, and Hawaii.[8] Title IX of the Social Security Act of 1935, now the Federal Unemployment Tax Act, was so framed that employers in States having unemployment insurance laws were not financially handicapped compared with those in other States. A Federal tax of 3 percent of pay rolls (but only 1 percent in 1936 and 2 percent in 1937) was levied on employers of eight or more persons in commerce and industry. If they were taxed under an approved State law, they could be excused from as much as 90 percent of the Federal tax, and their workers could draw unemployment benefits under the State law.

In addition, if they were to be excused later from paying State contributions under a system of employer experience rating—generally based upon employers' relative experience with unemployment risk—they could receive credit against the Federal tax for the State contributions that were excused. Title III of the Social Security Act provided that all the expenses of "proper and efficient administration" under all the State laws would be federally financed, thus assuring a comparable and reasonably adequate standard of administrative financing for the State programs regardless of the States' ability to pay. The framework of the Federal act has continued to influence the coverage and financing provisions of State laws; in turn, the State financing provisions have interacted on benefits and disqualifications.

Though there is no Federal tax on employees, nine States[9] have collected employee contributions to the amount of 660 million dollars; only Alabama and New Jersey currently require such contributions. The employee tax rate has always been less than the employers'. In Alabama, workers pay 0.1 to 1.0 percent (in 0.1 percent intervals) on their wages while their employers pay 0.5 to 2.7 of pay rolls; in New Jersey all workers pay one-fourth of 1 percent of their wages for unemployment insurance and employers pay 0.3 to 3.6 percent. In California and Rhode Island, workers currently pay 1 percent of their wages and in New Jersey three-fourths of 1 percent for a related system of temporary disability insurance. In 1946, the Congress amended the Social Security Act so that contributions which had formerly been collected from workers for unemployment insurance could be withdrawn by the States, if they so desired, to help finance the payment of disability benefits under a special State disability benefits law.

All funds collected by the States are deposited to their individual accounts in the unemployment trust fund in the United States Treasury, and interest is credited to the State accounts. The

[8] Under the Social Security Act, these 51 jurisdictions are defined as 51 States and this same terminology is used throughout this section.

[9] These States are Alabama, California, Indiana, Kentucky, Louisiana, Massachusetts, New Hampshire, New Jersey, and Rhode Island.

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States' money in the unemployment trust fund may be withdrawn only to pay benefits or to refund contributions erroneously paid.

The employers' State contribution, like the Federal tax, is based on the first $3,000 paid to (or earned by) a worker within a calendar year. Most States follow the Federal pattern in excluding from taxable wages voluntary dismissal payments, payments by the employer of the employees' tax for Federal old-age and survivors insurance, and payment into certain special benefit funds for employees. Wages include the cash value of remuneration paid in any medium other than cash and, in many States, gratuities received in the course of employment from other than the regular employer.

Employers' Experience Rating

Before the Social Security Act established the Federal-State system of unemployment insurance in 1935, Wisconsin had enacted a law which set up a special reserve fund for each employer from which benefits were payable to his workers until his fund was exhausted. The more stable employment an employer provided for his workers, the lower the payments from his reserve fund and the less the employer would have to pay. It was assumed that the lower rates would be an incentive to employers to stabilize their operations so that they could provide steady employment.

In 1935, the House of Representatives passed a social security bill which would have required all employers (including those in Wisconsin) to have paid the same total tax rate (State and Federal) regardless of their experience with unemployment. Then the Senate passed, and the conferees accepted, a provision under which employers may receive credit not only for the contributions which they have paid under an approved State law but also for those which they have been excused from paying (so-called additional credit) because of their good experience with unemployment. To assure ample funds at the beginning of the program, however, no system of experience rating could be effective for at least 3 years.

The Federal act includes the conditions for additional credit, based on employer experience rating. If individual employer reserves are established, the conditions are necessarily more strict than if risks are pooled on a State-wide basis. Under the Federal Unemployment Tax Act as amended in 1939, a taxpayer in an employer reserve State can receive additional credit against his Federal tax only if (1) contributions have been payable for 3 years, (2) benefits have been payable from his account for the preceding year, and (3) the balance of his reserve for future benefit payments equals at least five times the largest amount of benefit payments in any one of the last 3 years and at the same time equals 2.5 percent of his aggregate taxable pay roll for the last 3 years. With a pooled fund, however, additional credit is allowed to taxpayers for a lower rate of contributions based on "not less than 3 years of experience with respect to unemployment or other factors bearing a direct relation to unemployment risk."

Eight States originally enacted employer-reserve laws similar to Wisconsin's financing pattern. Currently only Kentucky and North Carolina have such laws and both of them provide for a partial pool for the payment of benefits when a given employer's reserve account is exhausted. Most of the States enacted "pooled-fund" laws on the theory that the risk of unemployment should be spread among all employers in the State and that unemployed workers should receive benefits regardless of the balance of the contributions paid by their employer over the benefits paid the employer's workers. Most States with pooled funds set up bookkeeping accounts for keeping records of individual employers' contributions and of the benefit payments charged to these contributions, either for use in future experience rating plans included in their laws or for study of the effect of experience rating. The first experience-rating provisions became effective in Wisconsin in January 1938, the last in Mississippi 10 years later.

If experience-rating provisions were uniform, differences in employer tax rates would arise from differences in the benefit levels and in economic conditions within the State. Moreover, as between a State which has little unemployment and another which has major economic dislocations, tax rates would differ even if all statutory provisions concerning taxes and benefits were the same. When two States have similar conditions of employment and unemployment and similar unemployment insurance laws but different wage levels, the income and outgo of their funds also differ.

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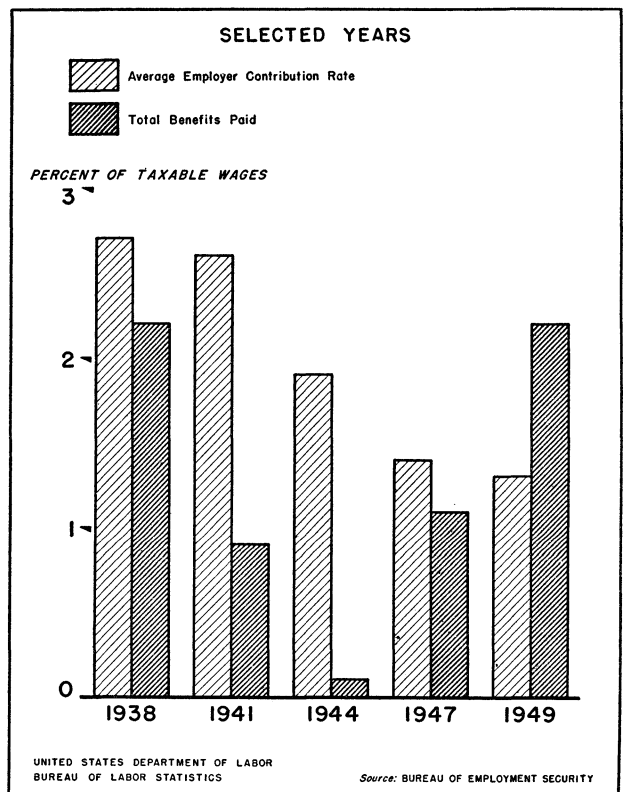
When States have similar employment conditions and similar wage levels but different benefit formulas, rates determined under similar experience-rating provisions will differ.

Actually, the experience-rating provisions of the State laws vary greatly and the number of variations increases each legislative year. Five distinct systems are in effect—usually called the reserve-ratio, benefit-ratio, benefit-wage ratio, compensable separations, and pay-roll decline formulas. A few States have combinations of these systems.

The reserve ratio was the earliest of the experience-rating formulas and continues to be the most popular. Early in 1950, it was used in 28 pooled-fund States and the two reserve-account States.[10] Regardless of the type of fund, the formulas are the same. The system is essentially one of cost accounting, whereby the amount of his pay roll, his contributions, and the benefits paid to his workers are entered on each employer's record. The benefits are subtracted from the contributions, and the resulting balance is divided by the pay roll to determine the size of the balance in terms of the potential liability for benefits inherent in wage payments. The employer must accumulate and maintain a specified reserve before his rate is reduced; then rates are assigned according to a schedule of rates for specified ranges of reserve ratios; the higher the ratio, the lower the rate. The formula is designed to make sure that no employer will be granted a rate reduction unless over the years he contributes more to the fund than his workers draw in benefits. As the funds available for benefits have increased, the rates for given reserves have been decreased, but in 16 of the 28 States, provision has been made for higher rates, should the aggregate State funds decrease.

Under these reserve-ratio plans and under benefit-ratio, benefit wage-ratio, and compensable separations formulas used in a few States, benefits (or benefit wages) must be charged to some employer's account. In workmen's compensation where the idea of experience rating originated, there is usually no question which employer should be held responsible for benefits paid because of a worker's illness or injury. In unemployment insurance, however, it is not so easy to identify the employer whose account should be charged with the benefits paid a given worker. Except in very temporary or partial unemployment, compensated unemployment occurs after a worker-employer relationship has been broken. Furthermore, if Employer A laid off Claimant X after 2 years of employment and Employer B employed him on a temporary job for a month, who is really responsible for his unemployment after B dismisses him? The laws have had to indicate in some detail which one or more of a claimant's former employers should be charged with his benefits. No solution is wholly satisfactory, i. e., whether the charges are against the last employer or all base-period employers in the inverse order of employment or all base-period employers in proportion to the wages earned by the beneficiary with each employer.

Unemployment Insurance (Contributions and Benefits)



[10] These States are Arizona, Arkansas, California, Colorado, the District of Columbia, Georgia, Hawaii, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Missouri, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, West Virginia, and Wisconsin.

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Seven States[11] have a formula which is independent of benefit payments to individual workers. An employer's experience with unemployment is measured by the decline in his pay rolls from year to year or from quarter to quarter. Under this system it is assumed that declines in pay rolls reflect the curtailment of business activity and that the greatest drains on the fund come from business declines. The pay-roll declines are expressed as a percentage of pay rolls so that the experience of employers with large and small pay rolls can be compared. The employers whose pay rolls show no decrease or the smallest percentage decrease are eligible for the largest proportional reductions in their payments.

War-Risk Insurance

During the Second World War, it was clear that the steadiness of jobs depended more on general business conditions than on individual employers' efforts at stabilization. Hence, the emphasis in experience rating shifted from variable tax rates as an incentive to employers to stabilize employment to such rates as a method of assessing the cost of unemployment among employers. It was recognized that rapidly expanding pay rolls of employers engaged in war work would be followed by lay-offs after the war. One result of this awareness was the adoption in 12 States[12] of what were called "war-risk insurance provisions" which imposed additional taxes on employers whose pay rolls showed rapid expansion. The revenue thus raised aggregated almost 200 million dollars in 1943–46.

Trends in Rates and Rate Schedules

In 47 States, rates are assigned to individual employers in accordance with rate schedules in their laws. The other four States[13]—States with pay-roll decline systems—distribute "surplus funds" by credit certificates which employers apply against the contributions figured at the standard rate. If an employer's credit equals or exceeds his computed contribution for the next year, he has in effect a zero rate.

During recent years, the schedules have been amended to reduce average rates paid in most States. But the number of rate schedules and the number of variable rates in the State laws have been increasing. The number of schedules has been increased because of the States' concern to adjust income to program needs. As rate reduction was made easier, schedules of higher rates were retained or established to be applied when the fund has fallen to a certain level, expressed in dollar amounts or in relation to pay rolls or to benefit payments. Increases in the number of rates mean that slight variations in employers' experience with unemployment will not produce widely different rates; such increases usually also reduce the amount of change from year to year in the rates paid by individual employers.

In 1945, only 11 States had more than one schedule of varied rates. By the end of the 1949 legislative sessions, 25 States had two to eight schedules and 2 had an indefinite number.[14]

In 1945, 17 of the 44 States with rate schedules had fewer than six rates, including the standard rate of 2.7 percent and any rates in excess of the standard. In 1949, only seven States had so few rates in the most favorable schedule. In the same period, the number of States with 10 or more rates had increased from 4 to 18.

All but 11 States decreased their minimum contribution rate during 1945–49, and 6 of these 11 had a minimum of zero in 1945. The number of States where employers with the best records could be excused from contribution to the State fund increased from 6 to 12, and the number with minimum rates of 0.1 percent increased from 1 to 7 by 1949. The States with minimum rates of 1.0 percent or more decreased from 13 to 4.

When experience rating was inaugurated, most of the States provided for rates in excess of 2.7 for employers who had the worst experience with unemployment. As the solvency of the State funds was assured, these penalty rates were eliminated. By 1945, only 16 of the 45 States with

[11] These States are Alaska, Mississippi, Montana, New York. Rhode Island, Utah, and Washington. In New York and Montana, these formulas are used in combination with others of the more conventional sort.

[12] These States are Alabama, Florida, Georgia, Illinois, Iowa, Kansas, Indiana, Minnesota, Missouri, Ohio, Oklahoma, and Wisconsin.

[13] These States are Alaska, New York, Utah, and Washington.

[14] These States are Arizona, Arkansas, California, Colorado, Connecticut, Delaware, the District of Columbia, Florida, Iowa, Kansas, Maine, Massachusetts, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, North Dakota, Ohio, Pennsylvania, Rhode Island, Tennessee, Texas, Vermont, Virginia, West Virginia, and Wyoming.

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experience rating had rates exceeding 2.7 percent, and by 1949, only 10 of the 51 States. Only 6 of these 10 States have penalty rates effective in the most favorable schedule.

In addition to the changes in the schedules of rates—lower minimum rates and lower maximum rates—most States have reduced the standard an employer must meet to obtain a given rate. All of these amendments tend to reduce the average tax rate that employers pay.

Criticisms of Experience Rating

Experience rating in the State unemployment insurance laws is obviously complicated to administer. In addition, it has made for interstate competition among employers to obtain favorable tax rates, and all the systems except that of pay-roll variation have given employers an incentive to challenge benefit payments.

Diverse experience-rating provisions have resulted in different rates in the different States for employers with the same experience. For example, an employer whose reserve is 7 percent of his annual or average annual pay roll must pay the standard rate in three States but is entitled to a rate of less than 1 percent in seven others. If his reserve increased to 10 percent of his pay roll, he would be entitled to contribution rates varying from zero in four States to 1.9 percent in one.

Most of the experience-rating systems give employers a financial interest in the benefit payments made to their former workers. This has led to contests over individual benefit awards and to pressures by employer groups upon State legislatures to increase the period of disqualification or to cancel or reduce benefit rights when workers (1) leave jobs voluntarily without good cause, or (2) are discharged for misconduct connected with the work, or (3) refuse suitable work without good cause.

Some States have provided by law that the cost of benefits of certain types should not be charged to individual employers. More than half of the States make no charge to an individual employer for benefits paid following a period of disqualification for one or more of the causes mentioned above or for benefits following a potentially disqualifying separation for which no disqualification was imposed (for example, because the claimant had good personal cause for leaving a job). The intent is to relieve the employer of charges for unemployment due to circumstances beyond his control, without disqualifying workers for the duration of their unemployment or canceling their benefit rights. By such means, the pressure for legislation has been relieved to some extent. In some States, however, the noncharging provisions seem to have increased the incentive for employers to contest benefit payments in the hope that claimants will be disqualified and that there will be no charge to the employer's account even if benefits are paid in cases where the claimant is unemployed after the disqualification period has expired.

Experience rating tends to lower tax rates when employment is high and raise them when unemployment rises and the employers can least afford the higher rates. Because most of the years since the unemployment insurance laws became operative have been years of relatively high employment, the accumulated reserves have met the benefit demands of the reconversion period and during the 1949 curtailment of production. However, the recent drain on the funds in a few States have called attention to the problem raised by the cyclical trend in tax rates.

Solvency of State Funds

The standard contribution rate of 2.7 percent established for the States in the Federal Unemployment Tax Act has proved much more liberal than needed. The original Federal and State laws were influenced by the depression psychology. Up to 1943, concern over the solvency of the unemployment fund—or at least some of the individual State funds—was widespread. However, low benefit expenditures and high taxable wages in the period of high employment during wartime made it clear that in general the program was overfinanced. By the end of 1943, the unemployment fund had risen to 4.7 billion dollars; by the end of 1944, to 6 billion dollars. Beginning in May 1947, it has been approximately 7 billion dollars or higher; the peak of 7.6 billion dollars was reached at the end of 1948. Even with the expenditure of 1.7 billion dollars for benefits during 1949, the fund stood at 7 billion dollars, or about 9 percent of taxable wages, at the end of the year.

Under the Federal Unemployment Tax Act, employers would not have received credit for the contributions they were excused from making to a

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State fund if any State had adopted a flat reduced rate for all employers because of the excess reserves on hand. This situation, among others, led to the complex development of experience rating already described.

The States accumulated in taxes and interest more than 14 billion dollars up to December 31, 1949; it is estimated that without experience rating employers would have paid an additional 4.7 billion dollars during the 10 years 1939–48. The financing provisions produced more revenue than was needed since only 7 billion dollars were spent in benefits through December 1949. Up to that time, only 59 cents had been spent in benefits for each dollar collected. During the calendar year 1949, however, $1.76 was spent for each dollar collected.

The average employer contribution rate and the total benefits paid are shown in the accompanying chart as percentages of taxable wages for selected years. The contribution rate includes war-risk contributions in 1944. The 1938 figure for benefits paid is based on returns from the 23 States that paid benefits at the beginning of that year; the later figures in this series cover all 51 States. (See p. 15.)

The national averages naturally conceal many State differences. In individual States, the average employer tax rate in 1949 ranged from 0.5 percent in Minnesota (where 70 percent of employers had zero rates) to almost 2.7 percent in Washington. Fourteen States had an average rate of less than 1 percent and 15, an average of more than 1.5 percent. Expenditures for benefits varied from 0.4 to slightly over 6 percent of taxable wages. At the end of 1949, reserves varied among the States from almost 14 percent to 3.3 percent of taxable wages. The high benefit costs which reduced the fund so sharply in the two States (Mass. and R. I.) with the lowest reserves are expected to continue because of adverse economic conditions within the States and a further drop in reserves may occur during 1950 in spite of increased contribution rates.

The sharp rise in benefit payments in many States which began late in 1948 can be expected to increase the average employer's tax rate. Little such increase was reflected in 1949 rates, partly because rates effective in 1949 were based on earlier favorable experience, and partly because in 1949 many States enacted new lower rates or lowered requirements for old rates, or both.

Several major industrial States have already had to put into effect higher schedules in 1950. California employers, for instance are paying 1 to 2.7 percent instead of 0 to 2.7 percent as in 1948 and 1949 because on January 1, 1950, its fund [15] was not equal to 7.5 percent of taxable wages paid by all employers during the year ended June 30, 1949. Ohio employers will pay more on the average because the State fund has fallen from 11.0 to 10.2 percent of the last 3 years' average pay rolls. For the same individual reserve ratios, employers must pay 0.2 percent more than formerly.

At the beginning of its new rate year, October 1, 1949, New York had no surplus to distribute. Its fund exceeded 900 million dollars as required by law but the surplus of 9 million dollars was 20 million dollars below the required 10 percent of taxes payable for the previous year. The State of Washington which operates a pay-roll decline system could not issue any experience-rating credits for the rate year beginning on July 1, 1949. Other States which have announced higher rates include the District of Columbia where rates will go up from an average of 0.4 percent to an average of 0.6 percent.

Some States have announced a continuation of the same rates in 1950 as in 1949. For example, Illinois with a benefit-wage-ratio formula has the same State experience factor as in 1949, but only because of 1949 amendments. Kansas with a reserve-ratio system is continuing the four reduced rates 0.35 to 1.1 percent because its trust fund continues to exceed 50 million dollars.

In 1944, Congress provided for Federal loans to States threatened with inability to meet their benefit payments. No State had needed such an advance and this provision (title XII of the Social Security Act, entitled "Advances to State unemployment funds") expired December 31, 1949. Experience during the past year has led to proposals for reinstitution of the Federal loans or for a system of Federal reinsurance. The first State unemployment insurance legislation passed in 1950 was a Rhode Island resolution (approved January 3, 1950) petitioning Congress to enact

[15] Excluding employee contributions which may be withdrawn for purposes of disability benefits.

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Federal "legislation which would incorporate the principle of reinsurance as a means of enabling the Federal Government to assume its responsibility in financing in part the unemployment compensation program and thereby equalizing the tax burden among the States."

Public Assistance Programs

About 1 person in 30 in the United States is dependent upon public assistance for full or partial support. The annual cost of assistance is more than 2 billion dollars—about 1 percent of the national income payments to individuals in 1948. Approximately half the cost is borne by the Federal Government, the remainder by the States and localities. The Federal appropriation for public assistance for the current year is the largest single budget appropriation for current expenditures for any program not connected, directly or indirectly, with national defense. In most States, the amount appropriated for public assistance is one of the largest items in the State budget.

Public assistance supplements the income and resources of needy persons in order that they may be able to obtain the essentials of living. Assistance programs are residual and have a function to perform only to the extent that other measures, such as minimum wage laws, programs for full employment, and the social insurances, fail to avert need.

Public assistance is of four major types—old-age assistance, aid to the blind, and aid to dependent children, which come under the Social Security Act, and general assistance, which is currently a responsibility only of the State and local governments. The number of recipients of aid in relation to the population groups at risk and the average monthly payment in June 1949, and amounts spent in relation to population for assistance in the fiscal year 1949 are shown, by program for each State in table 4.

General assistance had its origin in the Elizabethan poor laws and in this country dates back to Colonial times. The special types of public assistance, on the other hand, are a development of the twentieth century.

The depression of the 1930's had far-reaching effects on public assistance legislation and programs. During 1933–35, for the first time, the Federal Government made grants to States for general assistance (or general relief) and in whole or in part, financed other programs designed to provide work for unemployed persons determined or presumed to be needy. In 1935, both emergency and permanent legislation was enacted, establishing a network of income-maintenance programs. A part of the 1935 legislation was the Social Security Act, which provided on a continuing basis for (1) grants to States to help them to finance cash assistance to needy aged and blind persons and dependent children, and (2) a Federal-State system of unemployment compensation and a Federal system of old-age and survivors insurance.

The assistance provisions of the Social Security Act—amended in 1939, 1946, and again in 1948—supply the basic framework within which State programs of old-age assistance, aid to the blind, and aid to dependent children are established and operate. All States are receiving Federal grants for old-age assistance, all but one for aid to dependent children,[16] and all but four for aid to the blind.[17] Since 1935, general assistance has not come within the scope of Federal legislation.

Certain conditions which a State must meet in order to get Federal funds for special types of public assistance are established under the Social Security Act. But substantial latitude is allowed to the States under the law in determining how their programs shall be organized and administered, who shall be eligible for assistance, and how much assistance eligible persons shall receive. The characteristics of the individual plans for the operation of the programs vary from State to State in many respects, reflecting differences in philosophical attitudes, economic resources, and established patterns of State and local governments.

Although the determination of need is common to all assistance programs, the policies, standards, and procedures for such determinations vary not only from State to State, but often within a State

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[16] The exception is Nevada.

[17] The exceptions are Alaska, Missouri, Nevada, and Pennsylvania. Alaska has no program for needy blind persons; the remaining jurisdictions have blind aid programs operated outside the Social Security Act.

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from program to program. Each State decides what goods and services needy people require to live on, how much it will allow for such goods and services, and how to evaluate each individual's resources in relation to the cost of these essentials. The difference between the cost of what individuals require and the value of their resources represents the amount of assistance needed. However, limits established by law or policy on the amount of assistance an individual may receive monthly often reduce payments below the amount that budgetary procedures determine to be needed. Shortages of funds also may necessitate reduction in individual payments below the amount the State finds to be needed or below the maximum fixed.

TABLE 4.—*Recipient rates and average assistance payments, June 1949, and average assistance [expenditures payment] per inhabitant, fiscal year 1949, by program and State*

State	Old-age assistance			Aid to dependent children				Aid to the blind [1]		General assistance		
	Recipient rate, June 1949 [2]	Average assistance payment, June 1949	Assistance expenditure per inhabitant, fiscal year 1949	Recipient rate, June 1949 [3]	Average assistance payment, June 1949: Per family	Average assistance payment, June 1949: Per child	Assistance expenditure per inhabitant, fiscal year 1949	Average assistance payment, June 1949	Assistance expenditure per inhabitant, fiscal year 1949	Recipient rate, June 1949 [4]	Average assistance payment, June 1949 (per case)	Assistance expenditure per inhabitant, fiscal year 1949
United States	231	$43.60	$8.63	29	$72.71	$28.58	$2.84	$45.02	$0.31	----------	$47.92	$1.59
Alabama	456	22.61	6.25	30	36.28	13.32	1.77	25.02	.12	(5)	16.88	.43
Alaska	(6)	55.97	(6)	(6)	69.64	29.07	(6)	(7)	(6)	(6)	28.11	(6)
Arizona	290	54.86	9.67	34	92.70	32.78	3.87	63.07	.77	2.9	36.74	1.09
Arkansas	403	20.95	6.50	39	37.17	14.43	2.33	24.64	.25	1.9	12.28	.20
California	262	70.55	15.99	18	113.70	50.97	2.63	82.54	.76	8.8	50.06	2.01
Colorado	433	67.08	34.56	35	76.61	28.15	4.01	55.79	.21	6.6	38.09	1.98
Connecticut	100	54.01	5.14	15	100.38	41.36	1.85	47.77	.05	(5)	50.45	1.25
Delaware	63	28.06	1.56	17	72.69	24.57	1.30	37.16	.19	(5)	35.10	1.43
District of Columbia	45	41.67	1.54	24	79.75	26.32	1.84	43.86	.14	1.8	46.47	.85
Florida	349	40.19	12.22	69	41.95	17.13	4.07	42.21	.61	(5)	(8)	.35
Georgia	502	20.54	6.88	25	40.85	15.85	1.55	25.75	.22	1.8	15.56	.20
Hawaii	121	35.33	1.81	32	92.20	31.03	3.62	38.75	.08	8.1	54.29	1.73
Idaho	244	46.57	9.70	26	94.97	37.59	3.78	51.56	.21	1.3	31.98	.50
Illinois	186	44.87	7.71	27	101.27	39.87	3.22	46.87	.29	9.5	55.59	2.32
Indiana	141	35.22	5.24	19	55.93	22.62	1.42	37.60	.21	8.1	26.80	.57
Iowa	186	48.08	10.21	16	62.78	24.50	1.28	52.88	.28	3.9	26.56	.52
Kansas	198	50.10	9.96	24	82.80	32.08	2.51	52.14	.23	5.3	44.96	1.47
Kentucky	294	20.83	4.61	45	38.43	15.27	2.61	22.13	.18	2.7	21.13	.20
Louisiana	810	47.05	23.86	65	59.08	22.77	5.10	42.31	.31	10.5	39.06	3.16
Maine	158	41.34	6.41	32	81.21	29.43	3.15	42.11	.32	10.1	39.03	1.71
Maryland	78	36.88	2.37	24	82.95	27.39	2.39	40.83	.10	2.4	42.61	1.05
Massachusetts	214	61.13	14.04	22	112.84	46.27	3.12	60.65	.19	9.8	49.09	2.32
Michigan	216	42.88	7.45	29	86.05	37.18	3.66	45.83	.14	14.2	49.16	2.83
Minnesota	218	47.15	9.97	21	69.17	27.29	2.03	55.26	.23	7.4	45.26	1.42
Mississippi	480	18.80	5.18	25	26.49	9.79	1.08	25.79	.34	.4	10.90	.03
Missouri	335	42.57	15.21	52	53.50	20.99	3.55	[9] 35.00	[9] .31	9.4	31.14	1.38
Montana	259	44.93	11.24	31	72.42	28.19	3.27	46.23	.49	4.3	30.76	1.04
Nebraska	198	42.00	9.24	20	84.01	35.19	2.50	49.85	.24	2.6	30.47	.46
Nevada	220	54.05	8.79	[9] 2	(10)	(10)	[9] .11	(10)	[9] .09	4.3	23.94	.56
New Hampshire	132	43.48	6.76	24	87.47	34.61	2.55	46.77	.32	8.7	39.48	1.34
New Jersey	66	47.80	2.62	11	84.20	32.48	1.02	53.04	.08	5.7	55.71	1.02
New Mexico	336	34.22	6.54	52	52.53	20.48	5.16	38.19	.34	4.3	22.88	.92
New York	103	52.74	5.04	33	107.20	46.24	4.42	59.46	.18	12.1	73.16	3.91
North Carolina	281	21.55	3.18	23	41.48	14.72	1.34	30.09	.32	2.2	14.75	.18
North Dakota	191	46.56	7.97	20	97.97	36.46	3.23	45.99	.11	2.3	35.84	.62
Ohio	185	46.72	8.57	15	61.92	22.82	1.24	44.79	.23	11.1	45.70	1.90
Oklahoma	601	52.10	26.00	78	52.20	20.62	6.25	53.18	.70	(5)	(8)	.42
Oregon	153	48.21	7.74	18	107.48	42.73	2.27	55.66	.15	7.7	54.20	2.53
Pennsylvania	109	40.01	3.91	39	91.34	35.32	4.34	[9] 39.97	[9] .69	7.1	53.37	1.84
Rhode Island	158	45.04	6.57	38	85.77	34.66	3.93	51.05	.12	14.5	52.03	3.01
South Carolina	392	24.70	5.02	26	35.51	12.46	1.41	28.73	.22	3.2	16.17	.44
South Dakota	235	38.02	8.56	24	55.36	22.48	1.91	34.57	.14	2.9	23.83	.37
Tennessee	286	27.15	5.57	43	48.14	17.88	3.12	36.13	.28	1.2	13.72	.09
Texas	461	34.23	11.51	18	47.18	17.00	1.19	38.58	.36	(5)	(8)	.12
Utah	251	50.27	8.84	32	106.68	42.01	6.07	54.53	.18	4.7	54.61	2.04
Vermont	182	32.13	7.44	22	48.36	17.80	1.38	35.67	.24	(5)	(8)	1.01
Virginia	96	20.28	1.34	17	44.15	15.55	1.03	27.47	.14	(5)	22.99	.37
Washington	316	67.11	20.28	36	135.44	57.37	5.44	77.59	.25	9.9	67.58	4.03
West Virginia	199	21.35	2.97	47	43.53	16.10	3.10	25.02	.13	3.1	15.15	.34
Wisconsin	171	41.60	7.05	20	95.17	37.93	2.57	45.38	.20	5.7	43.71	1.01
Wyoming	227	55.63	9.45	14	97.11	35.83	1.80	55.46	.23	3.0	46.83	.98

[1] Recipient rate not available; number of blind persons not known.
[2] Persons aided per 1,000 population 65 years of age and over.
[3] Children aided per 1,000 population under 18 years of age.
[4] Persons aided per 1,000 civilian population.
[5] Number of persons aided is not available.
[6] Population data are not available.
[7] No program.
[8] Not computed because number of cases was estimated.
[9] Program administered under State laws without Federal participation.
[10] Not computed; base too small.

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Extent of Assistance

In June 1949, more than 5 million persons in the United States were receiving all or a part of their income from public assistance. Of these, 2.6 million persons, or about a fourth of all persons 65 years of age or over, were receiving old-age assistance. About 1.4 million children under 18 years of age, or fewer than 3 per 100 children in the population, were receiving aid to dependent children. In addition, in most families that received aid to dependent children the funds helped to support one or more adults. The number of persons on the general assistance rolls was 1 million or 7.6 per 1,000 in the civilian population. About 90,000 blind persons, or slightly more than a third of the estimated blind population, were receiving aid to the blind.

National rates conceal striking interstate differences. They are explained by variations in the income-status of the population; by differences in the amount of protection afforded against the risks of unemployment, premature death of the wage earner, and old age retirement by the social insurance systems; and by State attitudes toward meeting need.

The proportions of aged and blind population and of children on the assistance rolls tend to be disproportionally high in the lower-income States, which are predominantly agricultural, and where many workers are in employments that are not covered by unemployment and old-age and survivors insurance. In relation to population, general assistance loads are relatively low in these same States. This seemingly anomalous situation is explained by the fact that Federal funds—and often State funds—are not available for financing general assistance, whereas they are available for the special types of aid.

For old-age assistance, the average monthly payment per recipient in mid-1949 was $44, with a range from $19 in Mississippi to $71 in California. Aid-to-the-blind payments averaged $45, with an even greater spread, from $22 in Kentucky to $83 in California. For aid to dependent children, the average payment per family was $73; Mississippi's average was $26, in contrast to $135 in the State of Washington. The average payment per general-assistance case was $48; New York topped the States with a $73 average payment whereas Mississippi's average was only $11 a month.

In measuring the adequacy of assistance, the amount of the recipient's other income in cash and in kind is important. No up-to-date and comprehensive information is available on this subject but earlier studies shed some light on the extent to which assistance and other income supplement each other.

For example, a study of the Requirements and Incomes of Recipients of Old-Age Assistance in 21 States in 1944 showed that about one case in four had cash income from sources other than the assistance payment. This income was derived from earnings, contributions from relatives, Old-Age and Survivors Insurance (OASI) benefits, and other sources. The amounts of such cash income were small. In all cases consisting only of the recipient, the average amount was $2.46 a month; for all cases consisting of the recipient and spouse, the average amount was $7.49. The cash income from sources other than assistance of cases with some such income was as follows: $11.42 for cases consisting only of the recipient and $14.43 for cases consisting of the recipient and spouse. Nearly two cases in five had some income in kind, such as rent-free shelter and produce raised and consumed. Of the latter cases more than one in three had income in kind valued at less than $5 per month.

A 1942 Study of Family Income of Families Receiving ADC in 16 States indicated that about two families in three had some cash income in addition to the assistance payment. This additional income was obtained primarily from earnings and contributions of relatives. Somewhat over half of the families had some nonmonetary income. About one family in four had housing that was rent-free or supplied in return for services.

Old-age and survivors insurance has become a more important source of cash income than at the time of the two foregoing studies. In June 1948, of all recipients of old-age assistance, 6 percent were also receiving benefits under old-age and survivors insurance. Of the ADC families, about 5 percent were OASI beneficiaries.

Trends in Assistance

The assistance rolls are characteristically responsive to changing economic conditions and to

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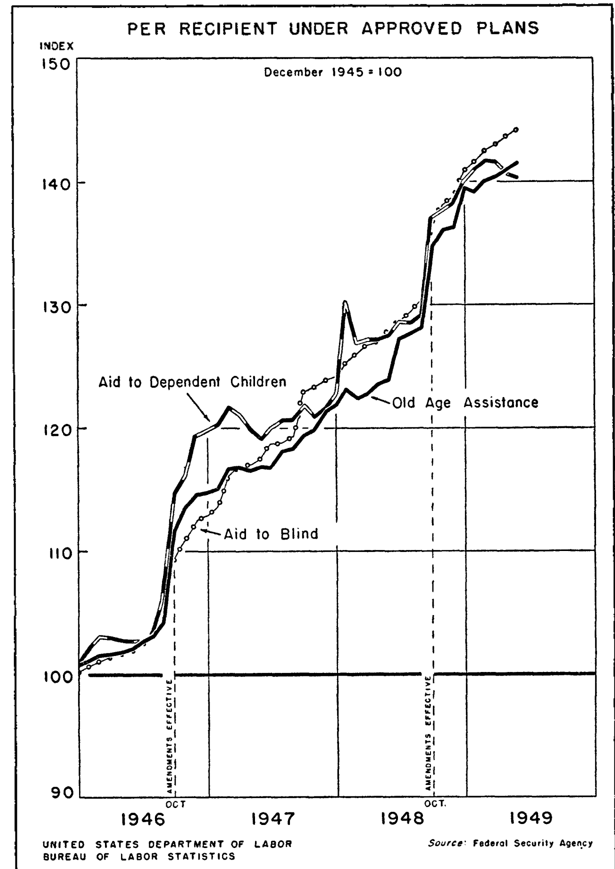
changes in other programs for income-maintenance. During World War II years, substantial numbers of old people and families with dependent children went off the rolls because family members found jobs as the result of acute manpower shortages and because they received allowances authorized for dependents of servicemen. The number of general assistance cases was more than halved. Since VJ-day, the number of persons dependent on public aid has been steadily mounting. Factors in the upswing have been population growth and postwar adjustments. With the cessation of production for war and the return to civilian pursuits of millions of men in the armed forces, many inexperienced young workers and adults with limited skills were pushed out of employment, and, in some cases, left the labor force. The termination of dependents' allowances with the separation of servicemen from the armed forces also contributed significantly to the rise in assistance loads.

The effect on assistance rolls of temporary changes in economic conditions is exemplified by recent rising case loads in coal-mining and steel-production centers. In these areas, strikes in the coal and steel industries and the stoppage of benefit payments under the United Mine Workers' fund all contributed to the case load.

In many States, old-age and survivors insurance is gradually gaining over public assistance as a means of providing income-maintenance to certain groups. Although in the country as a whole the number of recipients of old-age assistance in June 1949 was 147 per 100 aged beneficiaries of old-age and survivors insurance, in 15 States the number of aged OASI beneficiaries exceeded the number of OAA recipients. Moreover, in 42 States the number of child beneficiaries of old-age and survivors insurance (i. e., unmarried children under 18 years of age) exceeded the number of fatherless children receiving aid to dependent children. In the Nation, 191 children were receiving old-age and survivors insurance per 100 fatherless children on the ADC rolls. In two States, the number of child beneficiaries of old-age and survivors insurance exceeded the total number of children aided under the program for dependent children (including those with an incapacitated parent or a parent absent from home, as well as those with a parent dead).

It is difficult to determine the degree of success of unemployment insurance in the prevention of need among unemployed workers and their families. The reason is that, many places, general assistance agencies fail to provide aid to employ-

Chart 1. Average Assistance Payments



ables, however dire their distress, and consequently the need is not expressed. In some of the more industrial areas where needy unemployed persons can get general assistance, relatively few of the cases accepted for aid are in need because they have exhausted their unemployment benefits. In 18 States (both agricultural and industrial), less than 3 percent of the cases added to the rolls in the first half of 1949 were accepted on discontinuance of unemployment benefits. Much of the need among families with employable members resulted from one of two causes: loss of

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employment because of the disablement of the wage earner, a risk insured under the unemployment insurance programs of only a few States; or lay-off from employment that is excluded from coverage under the unemployment insurance laws.

Flexibility is inherent in public assistance. Payments are determined on the basis of standards that are usually established administratively rather than by law. From time to time, State agencies adjust the cost figures for the items included in their budgets to reflect price changes. When new cost figures go into effect individual payments are revised accordingly. In a period of rising prices the ability of a State to make necessary changes in cost figures, and thus in payments, depends upon the availability of sufficient funds. Liberalizations in 1946 and again in 1948 in Federal limits on the amount of individual monthly payments subject to Federal participation and in the formulas for determining the Federal share of payments within the maxima have stimulated and helped States to revise their cost figures and to finance larger payments, despite mounting case loads. (See chart 1.) In contrast, under old-age and survivors insurance, individual benefits, determined on the basis of a fixed formula that has not been revised since 1939, have remained stationary.

Financing of Programs

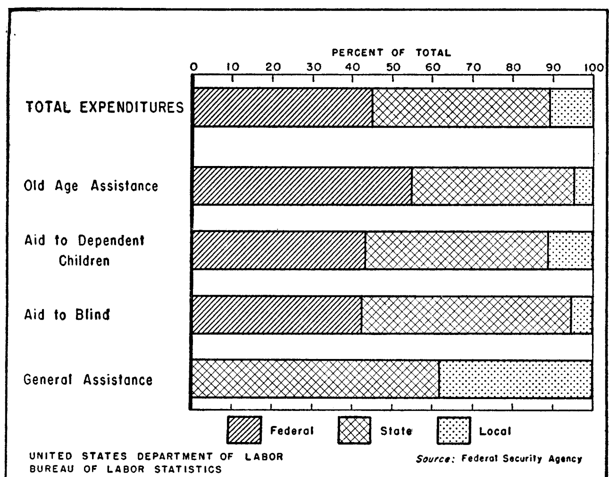
In the year ending June 1949, national expenditures from Federal, State, and local funds for the four types of assistance and their administration were about 2.1 billion dollars. Both the number aided and the amounts spent for each type of aid both under and outside the Social Security Act in June 1949 follow.

Type of program	*Number of recipients* (*In thousands*)	*Expenditures for payments* (*In thousands*)
Old-age assistance	2, 626	$114, 463
Aid to dependent children:		
Families	537	39, 027
Children	1, 366	
Aid to the blind:		
Under Social Security Act	71	3, 311
Outside Social Security Act	18	710
General assistance	461	22, 085

Expenditures by each level of government for the different types of aid are shown in chart 2.

In relation to population the largest State expenditures for the fiscal year for the 4 types of assistance were 14 times the smallest. Colorado's expenditures amounted to $40.76 per inhabitant and Virginia's to $2.88. For the country as a whole, expenditures per inhabitant totaled $13.37.

Chart 2. National Expenditures for Public Assistence, Year Ending June 1949



Federal funds for public assistance are appropriated from general revenues, unlike those for old-age and survivors insurance and unemployment insurance which are derived from pay roll taxes. Under the provisions of the Social Security Act, the Federal appropriations for old-age assistance, aid to dependent children, and aid to the blind are open-ended and the Federal Government meets its share of whatever amounts the States spend, so long as the expenditures are made in compliance with the conditions laid down in the Federal Act and under plans of operation approved by the Social Security Administration. State funds for public assistance are derived from both general revenues, and earmarked taxes. In the individual localities, the real estate tax is the chief revenue source.

Patterns of financing public assistance vary greatly among the States and often, within a State, among programs. Only Federal and State funds are used for old-age assistance in 31 States, for aid to dependent children in 23 States, and for aid to the blind in 34 States. In the remaining

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States, local funds bear a share of the cost and often are an important factor in determining the amount of Federal and State funds that may be spent within the particular locality. General assistance in 6 States is financed from State funds only, in 31 States from State and local funds, and in 14 States solely from local funds.

Program Changes Under Discussion

The Congress has given extensive consideration to Social Security legislation and to the relative roles of public assistance and the social insurances in the broad social security system of the Nation, in the past few years. In 1946, the Committee on Ways and Means of the House of Representatives held extensive hearings on social security bills. In 1947–48, an Advisory Council on Social Security to the Senate Committee on Finance studied the limitations of the Social Security Act and made recommendations for amendment of the assistance and social insurance provisions of the act. In 1949 the Committee on Ways and Means of the House of Representatives held hearings on H. R. 2892, an administration-sponsored bill to amend the assistance provisions of the Social Security Act. The principles contained in H. R. 2892 were endorsed by the American Public Welfare Association. The Committee on Ways and Means reported out H. R. 6000 which would amend the act along lines that the committee deemed most desirable. Early in 1950, hearings were scheduled to be held by the Senate Committee on Finance on H. R. 6000 and related bills. Some of the major gaps and deficiencies of existing legislation and measures recommended by the Advisory Council or contained in H. R. 6000 for extending and strengthening the assistance programs are discussed below.

Coverage. For many years, the Social Security Administration has recommended to Congress extension of the assistance provisions of the Social Security Act to include any needy person and not merely the needy aged, blind, and certain dependent children. When the act was originally passed it was generally assumed that the States, without Federal help, would provide for needy persons who could not qualify for aid under the federally aided categorical programs. Although every State furnishes some general assistance, conditions of eligibility are extremely restrictive in many of them. In those States which have programs financed wholly or almost entirely by the localities, each locality establishes its own conditions of eligibility. Some localities are entirely without general assistance. Furthermore, in many States and localities the amount of aid a needy individual or family can get is exceedingly meager. For the most part, the needy people who must look to general assistance for their maintenance receive less than those for whom the Federal Government has assumed a share of the responsibility.

Among the needy persons who do not come within the scope of the Social Security Act are persons of advanced years not yet 65 years of age; persons 65 years of age and over and blind persons who are living in public institutions; persons who have handicaps other than blindness or are ill; children living with parents or other relatives who lack support or care for reasons other than death, incapacity, or continued absence from home of a parent; unemployed persons not eligible for unemployment insurance; and marginal workers whose earnings are insufficient for self-support. Most of the persons receiving general assistance in the Nation are ill or handicapped for employment and do not differ fundamentally in their characteristics from the more favored groups who can get assistance with Federal help.

The assistance provisions of the act do not apply to Puerto Rico and the Virgin Islands where need is widespread and resources for meeting need are limited.

The Advisory Council on Social Security to the Senate Committee on Finance has recommended extension of grants-in-aid to States for general assistance, though with less liberal financial participation than in old-age assistance, aid to dependent children, and aid to the blind. The Council also recommends covering recipients of old-age assistance who are living in public medical institutions—a group currently excluded. The elimination of all residence requirements, except for a 1-year requirement in old-age assistance, is also advocated.

Under H. R. 6000, the Committee on Ways and Means of the House of Representatives would provide somewhat less extension of coverage.

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The bill would create a new category of assistance for needy persons who are permanently and totally disabled. H. R. 6000 would also authorize Federal participation in assistance to recipients of old-age assistance, aid to the blind, and aid to the permanently and totally disabled living in public medical institutions; would reduce to 1 year the maximum residence that could be required in aid to the blind and establish a 1-year maximum in aid to the permanently and totally disabled; and would extend the assistance provisions of the act, with some modifications, to Puerto Rico and the Virgin Islands.

Assistance Payments. The Social Security Administration is greatly concerned over the wide disparity that exists in Federal maxima in aid to dependent children on the one hand, and in old-age assistance and aid to the blind on the other. The Social Security Act limits the amount of a monthly ADC payment in which it can participate to $27 for one child in a family and $18 for each child beyond the first. No specific recognition is given to the needs of the parent or other relative with whom the child is living. The maximum amount subject to Federal participation in old-age assistance and aid to the blind is $50 for each recipient. State agencies have made great effort to provide assistance to dependent children on the basis of standards reasonably related to what it costs to live. A little more than half of all ADC payments in the country are greater than the amounts in which the Federal Government shares. In 26 States, three-fourths or more of all payments exceed these amounts.

Both the Advisory Council and the Committee on Ways and Means have indicated that the Federal maxima in aid to dependent children should be liberalized. The Advisory Council recommends limits of $50 for each of two eligible persons in a family and $15 for each additional person beyond the second. The needs of adult members of the family as well as of the children would be taken into account. H. R. 6000 would authorize taking into account the needs of one adult in the family and would establish maxima of $27 for each of two persons in the family and $18 for each additional person.

In programs of the magnitude of public assistance, the method of determining the Federal share of assistance costs within the maxima also has important fiscal implications for both Federal and State governments. Under the original Social Security Act and under the act as amended in 1939, 1946, and 1948, very wide State variations in the levels of payments have existed in each assistance program. In July 1949, the ratio of the highest State average payment to the lowest was roughly four to one in old-age assistance and aid to the blind and five to one in aid to dependent children. In general assistance, which is outside the provisions of the Social Security Act, the ratio is nearly seven to one. In general, average payments are low in low-income States and high in high-income States. The disparities in levels of payments are greater than can be explained by differences in living costs or the extent of resources among recipients. To enable the States with low economic capacity to raise their assistance payments, the Social Security Administration has recommended variable grants to States under a formula that would relate the Federal share to the economic resources of the State.

Under existing formulas, matching is provided on a basis that results, proportionately, in a larger Federal contribution in States with low levels of payments than in those with high levels. In old-age assistance and aid to the blind, for example, the Federal share is three-fourths of the first $20 of the average payment and half of the balance up to $50. Thus, if payments in a State average $20 and no payments of over $50 are made, the Federal share is three-fourths. If the average of matchable payments is $45, the Federal share is 61 percent. A State with meager economic resources can get a high proportion of Federal funds only by keeping its payments low. An appropriate variable grant formula would enable the low-income States to make more nearly adequate payments than they can under current requirements, since the Federal share would not diminish as payments rise, provided they remain within the set limits. The Administration bill H. R. 2892 contained a variable-grant formula in which the Federal percentages were related to State per capita income.

The Advisory Council did not recommend any change in the basis of determining the Federal share of payments in old-age assistance and aid to the blind. It did recommend a higher Federal share in aid to dependent children.

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The formulas in H. R. 6000 are of the same general type as those already effective, but would provide for more liberal Federal participation than that existing. In old-age assistance, aid to the blind, and aid to the permanently and totally disabled, for example, the Federal share would be four-fifths of the first $25, half of the next $10, and a third of the next $15 of the average monthly payment. Adoption of this formula would result in a substantial rise in Federal participation in States with low payment levels.

Both the Federal and State governments are concerned about the mounting bill for public assistance. The Committee on Ways and Means in its report on H. R. 6000 has requested the Social Security Administration to study the problem of relative responsibility and to report on the findings. States vary greatly in their policies governing the responsibility of relatives to support their needy kin. As of early 1950, two States prohibited the staff of the public assistance agency from asking legally responsible relatives whether they are able or willing to contribute to the support of an aged person. At the other extreme, some States assume that income is contributed, whether or not it is.

Medical Assistance. The Social Security Act currently makes it extremely difficult for States to provide effectively for the medical needs of recipients. The Federal Government can now share only in the cost of money payments to recipients (within the maximums). States often find it desirable to make payments directly to the hospital, clinic, or doctor for medical care supplied to a recipient, particularly when bills are sizable. Moreover, within the maxima, only a small amount can be included in the money payment to provide for medical care, if a recipient has no resources to meet his maintenance needs. Thus the recipient may find it necessary to pay his bill in small installments over a long period of months—an arrangement that is highly unsatisfactory to recipients, suppliers of services, and assistance agencies alike. The Administration bill H. R. 2892 would provide for Federal sharing of the cost of medical assistance to a monthly maximum of $6 per adult and of $3 per child.

The Advisory Council recommends provision for matching of expenditures for medical assistance for recipients of the three special types of public assistance, but not for general assistance, under maxima similar to those in H. R. 2892. H. R. 6000 would authorize Federal sharing in payments made by assistance agencies to individuals and agencies supplying authorized medical services to recipients. The maximum monthly amount paid to or in behalf of an individual for cash and medical assistance in which the Federal Government would share would be limited to $50 under the programs for old-age assistance, aid to the blind, and aid to the permanently and totally disabled.

Future Role of Assistance

In the future, the role of public assistance in providing income-maintenance will depend upon the decisions that are made by the Congress with respect to social insurance. Unemployment insurance and old-age and survivors insurance have already been effective in keeping large groups of persons from want. Because of the limitations of coverage of the insurance programs and the inadequacy of benefits (especially in old-age and survivors insurance), the need for assistance is greater than those concerned with the system had anticipated would exist almost 15 years after the enactment of the initial social security legislation. Extension of coverage of the programs of old-age and survivors insurance and unemployment insurance to provide for persons currently in excluded employments, liberalization of the benefit formulas, provision of benefits for temporary and extended disability, and the establishment of a system of health insurance would greatly reduce the burden of public assistance. Even with an adequate and comprehensive system of social insurance, some assistance would always be needed. Some persons would still not be covered by the system, some would exhaust their benefits before becoming self-sustaining, and some getting benefits would require supplementary assistance to meet exceptional needs.

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