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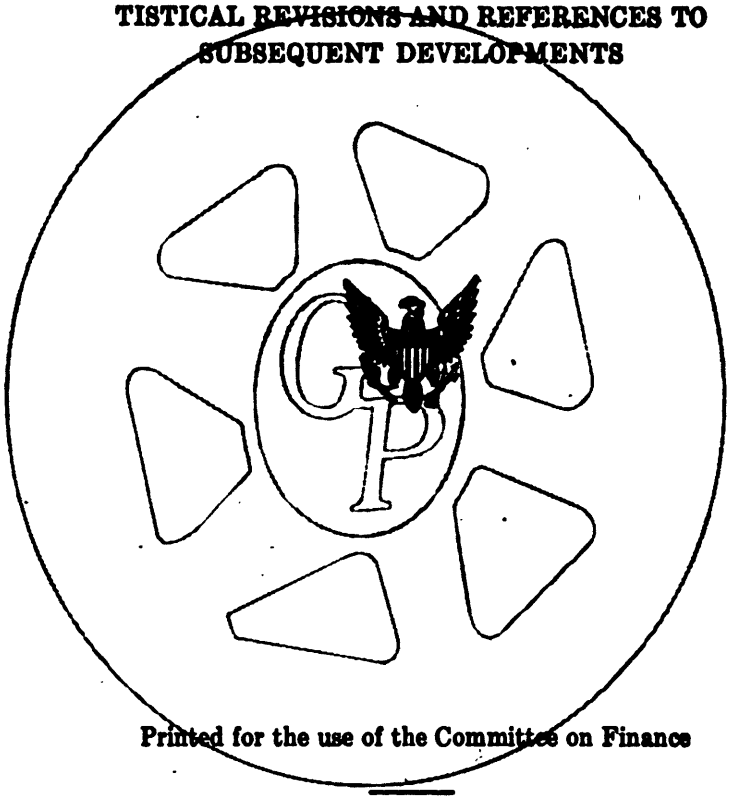
DIGEST OF ISSUES IN SOCIAL SECURITY

A DIGEST OF THE REPORT SUBMITTED IN JANUARY 1946 TO THE COMMITTEE ON WAYS AND MEANS, HOUSE OF REPRESENTATIVES, BY THE TECHNICAL STAFF, ESTABLISHED PURSUANT TO H. RES. 204, 79TH CONGRESS, FIRST SESSION, WITH STATISTICAL REVISIONS AND REFERENCES TO SUBSEQUENT DEVELOPMENTS



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[This digest of Issues in Social Security was prepared for purposes of information and discussion by the Advisory Council on Social Security in its study of the social-security program pursuant to S. Res. 141, 80th Cong., 1st sess. It has not been reviewed by the Committee on Finance or by any member prior to printing.]

DIGEST OF ISSUES IN SOCIAL SECURITY

FOREWORD

This digest of Issues in Social Security has been prepared for the use of the members of the Advisory Council on Social Security appointed by the Committee on Finance, United States Senate, in accordance with Senate Resolution 141, Eightieth Congress, first session.

Issues in Social Security is a report submitted to the Committee on Ways and Means of the House of Representatives in January 1946. The report organized and analyzed the available data on old-age and survivors insurance, public assistance, and unemployment insurance, and pointed out problems in the field of social security.

The report was prepared in 1945 by the Social Security Technical Staff established pursuant to House Resolution 204, Seventy-ninth Congress, first session. The members of the Social Security Technical Staff who prepared the report and their affiliations at the time were: Chief of staff, Leonard J. Calhoun, commander, United States Naval Reserve; John J. Corson, director of research of the Washington Post; William R. Curtis, chief, administrative standards division, Bureau of Employment Security, Social Security Board; F. F. Fauri, director, Michigan State Department of Social Welfare; George W. K. Grange, reference assistant, actuarial division, Metropolitan Life Insurance Co.; and Rainard B. Robbins, vice president, Teachers Insurance and Annuity Association.

The preparation of this digest of the report was under the general supervision of Mr. Fauri, now senior specialist, Legislative Reference Service, Library of Congress. The digest of part I, relating to old-age and survivors insurance, was prepared by Mr. Grange; and the digest of part III, relating to unemployment compensation, by Mr. Curtis. The digest of part II, relating to public assistance, was prepared by Donald S. Howard, director of social work administration, Russell Sage Foundation, and reviewed by Mr. Fauri. All three parts were reviewed by Mr. Calhoun.

The digest includes some current data bringing the material in Issues in Social Security up to date.

NOVEMBER 7, 1947.

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PART I. OLD-AGE AND SURVIVORS INSURANCE[1]

CHAPTER I. DEVELOPMENT AND PRESENT PROVISIONS

P. 13 to 24

This chapter reviews the background, development, and present provisions of OASI. It thus serves as an introduction to subsequent chapters which discuss a number of basic problems.

The original provisions of 1935 were substantially modified in 1939 so as to—

1. Increase early benefit payments and decrease later ones.
2. Add survivors' and dependents' benefits.

There were also limited changes in the employments covered.

The increase in the size of individual benefits granted and of annual total benefit outlays in early years and their decrease in later years was effected largely through (1) basing the benefits on average monthly wage received in covered employment (approximately during the period from January 1, 1937, or age 22 if later, to death or retirement), instead of on total wages received in covered employment from January 1, 1937, to age 65; (2) adopting insured-status requirements which would increase the numbers of eligible aged in the early years.

These changes, together with the new monthly benefits for survivors and dependents, meant that the trend of OASI development was clearly away from the concept of benefits in proportion to contributions with no provision for members of the family, and toward the concept of basic family protection through expanded social insurance.

Modifications of employments covered resulted in only a small net increase, in spite of recommendations for major extensions which were made in the 1938 report of an advisory council jointly appointed by the Senate Finance Committee and the Social Security Board.

Of significant changes indicated for OASI, extension of coverage is by far the most important. Without it, many serious limitations and inequities will remain however the system is otherwise improved.

CHAPTER II. EXTENSION OF OLD-AGE AND SURVIVORS INSURANCE COVERAGE

P. 25 to 58

This chapter discusses the present exclusions from OASI of areas of gainful employment—self-employment, agricultural labor, domestic service, employment for nonprofit or-

[1] Referred to subsequently as OASI.

ganizations, civilian public employment (Federal and other), and railroad employment. The basic significance of the exclusions in reducing the effectiveness of the system, the importance of extending coverage, and considerations in making the extension to each of the excluded classes are reviewed.

Major points developed are that—

1. About two out of five jobs, including self-employment, are not covered. P. 57

2. There is a high degree of shifting of workers between covered and noncovered jobs and unemployment (the so-called in-and-out movement), and each shift out interferes with the size or the availability of OASI benefits. P. 57 to 58

3. Availability of OASI benefits to all has been accepted from the start as a national objective, to be realized as soon as a variety of difficulties can be overcome.

4. The need, on the part of workers and their families, of some substitute for earned income that has disappeared is independent of the source of the earned income; hence the same potential benefits should be available to all regardless of occupation or changes in occupation of the breadwinner. Otherwise, the system fails in its purpose of providing a basic floor of protection against hazards all may face.

5. Not alone individuals and their families but society as a whole suffer through failure of a scheme to furnish the protection for which it was designed when it excludes substantial areas of employment.

6. The high degree of shifting of employees in and out of any particular employment will thwart any effort to operate parallel plans as a substitute for OASI. Even if the benefits were identical, such plans would involve unjustified expenditures of time and effort in making adjustments.

7. The prospect of the addition of other kinds of social-security benefits to OASI increases the importance of having OASI benefits available to all.

8. In industry, staff pension plans have been arranged on a large scale as supplements to OASI benefits. Similar arrangements can be made to advantage in all public employments and in railroad employment.

9. The only feasible method of eliminating the uncertainties of protection and the anomalous and inequitable situations that interfere with the attainment of the fullest social protection, is a general extension of OASI coverage to employments now excluded. Delay in this extension will result in greater rather than smaller problems.

10. Though a general extension of present coverage to all gainful workers will naturally involve a considerable increase in dollar costs, when costs are expressed in terms of pay roll, there should be little or no initial

difference, and ultimately there should be a substantial decrease.

The figures and chart on page 26 of the report, showing the number of civilian workers in covered and excepted employments in an average week of 1944, indicate the significance of the exceptions from OASI coverage.

The charts on pages 27 and 29 and the figures on page 28 give quantitative indications of the plan's effectiveness (or lack of it) as reflected in the very substantial shifting between covered and noncovered employment and unemployment.

Two further marked illustrations of the extent of shifting are—

1. Normal withdrawals from Federal service: Up to June 30, 1940, five times as many participants under the civil-service retirement plan had withdrawn from service as had retired (see also chart on p. 43; figures on p. 30).

2. Railroad retirement experience: About 45 percent of persons who worked for the railroads in the period 1937–43 had left at least temporarily by the end of 1942 and about 40 percent of those employed in 1943 were newcomers in that year. Three times as many people have both railroad and OASI wage credits as were employed on the railroads at the end of 1944. P. 30

After giving a number of hypothetical cases (pp. 31 and 32) to illustrate what could happen as a result of shifting, the report concludes:

Such are the anomalous situations that inevitably must arise under a social benefit plan of limited coverage. The line of demarcation between those who barely qualify for benefits and those who just fail to qualify is often tenuous. An ideal social benefit plan would rarely need to draw such lines. Perhaps there will always be room for improvement in a plan with only partial coverage, but limitations that are, unfortunately, essential under limited coverage will continue to interfere seriously with the fullest social good of such a plan. Such limitations can be dropped only when coverage is complete. Perhaps nothing short of complete coverage can be defended when we bear in mind that the presumed need that gives rise to a social benefit plan is independent of the classification of the employment of the breadwinner. At any rate, every exception from coverage is on the defensive as an obstacle to the social effectiveness of a national plan.

The chapter goes on to consider each excluded group in respect of (1) reasons for the original exclusion, (2) the group's need for the basic protection of OASI, and (3) methods of overcoming difficulties.

THE SELF-EMPLOYED

Reasons for exclusion.—Largely administrative. They have no employers to withhold contributions and make reports for them (though many make reports for their own employees). P. 34 to 37

Need for coverage.—This is by far the largest single excluded group. About 9,000,000 persons receive their basic support from operating farms (about half), small businesses, and other unincorporated enterprises. Many more supplement their primary income with self-employment.

The self-employed have about the same opportunities for providing security for themselves, and therefore about the same need for OASI protection, as wage earners. Farmers are more likely than wage earners to have property, but their incomes are lower on the average. Urban self-employed average higher incomes than industrial and commercial employees, though frequently lower than employees doing the same kind of work. Shifting between employment and self-employment is substantial, often in the same year (particularly farmers).

Survivorship protection is important in the early years of a small proprietor's business when he is raising a family; old-age protection later on when, as often happens, the business fails and savings and property are lost.

Difficulties and their solution.—Difficulties chiefly relate to administrative feasibility. They are not insurmountable and their solution has been worked out. It is doubtful whether further delay would add anything of value, and it will certainly increase hardship cases.

As a rough approach to defining the income on which OASI tax is to be paid if self-employed are to be brought under the OASI plan, the report suggests that net income after a few clearly distinguishable and widely understood deductions, such as dividends, interest, income from annuities, pensions, estates and trusts, would afford a reasonable and administratively feasible basis of coverage. At any rate, it could certainly be better justified than the present situation where a substantial number of persons who engage in self-employment also engage in covered employment, but not to the extent necessary to qualify them for any OASI benefits. Though such persons are required to make OASI contributions, they fail to obtain an insured status under the plan. The report also suggests that the first $500 of such net income be subject to the employee tax rate only, thereby affording some recognition to low-income groups and to failure to exclude return on capital business investments from taxable income. Above the $500 figure the joint employer-employee rate could apply.

It is further suggested, as a means of reducing administrative difficulties, that in years of low net income—below $500 a year, say—self-employed individuals be exempt from the tax. As a result they would not be given any wage credits for such years. This would reduce the problems of (1) locating many who have never been subject to income tax and (2) collecting from individuals with below-subsistence incomes.

Experience might then indicate the feasibility of further extension below the $500 level, depending on such imponderables as popular understanding of the significance of the coverage, and the purpose and effect of the social-security tax.

AGRICULTURAL LABOR

Roughly 4,000,000 persons work as hired farm laborers during a year, but the seasonal low point is about one-third that number. P. 37 to 38

Reasons for exclusion.—Largely administrative, together with original lack of enthusiasm on the part of both workers and farm operators.

Need for coverage.—Particularly important as—

1. Many also work in covered employment (seasonally, or as a result of normal migration from the farm) but with insufficient coverage for protection, or with reduced protection.
2. They have low and uncertain incomes.
3. Many have family responsibilities—greater on the average than city dwellers.
4. Their old age or death frequently means that the community must provide assistance.

Difficulties and their solution.—Certain administrative difficulties are perhaps greater for agriculture than for industry, e. g., initial procedures in reporting and collecting; uncertainty as to existence of an employer-employee relationship, or as to identity of the employer (farm owner, farm tenant, etc.). However, their coverage has been facilitated by (1) success in overcoming similar initial difficulties for other employees and (2) the fact that it would involve contact with only about one-third—and the most substantial third—of farm operators. Since they are wage earners, agricultural workers, and packing and processing workers (now excluded by the definition of agricultural labor in the act) may be included with the same tax base and tax rate as apply to presently covered workers.

DOMESTIC SERVICE

The numbers involved vary considerably with economic and employment conditions. From the standpoints of need for OASI coverage and of administrative problems they are in much the same position as farm labor. P. 38

NONPROFIT ORGANIZATIONS

Charitable, religious, educational, etc.—roughly about a million persons. P. 38 to 41

Reasons for exclusion.—Originally, fear of endangering freedom from taxation and separation of church and state.

Need for coverage.—The same, by and large, as presently covered employees.

Difficulties and their solution.—There are no special administrative difficulties. In evaluating the argument that the OASI tax would jeopardize tax-exempt status, it should be remembered:

1. That this tax differs basically from ordinary taxes in purpose and in the effect of exemption (viz, to exempt

the employee from the protection normally afforded working people and to excuse the employer from contributing).

2. Some nonprofit organizations, exempt from other Federal taxes, have to date been subject to the OASI tax without their other exemptions being affected (e. g., exemptions under sec. 101 of the Internal Revenue Code).

To remove the fear that separation of church and state will be endangered, the report suggests that consideration be given to:

1. Excusing churches from the ordinary processes of tax liability.

2. Exempting ministers and members of religious orders from coverage.

CIVILIAN FEDERAL EMPLOYMENT

Two million nine hundred thousand persons as of April 1, 1945, including 2,000,000 in war agencies. P. 41 to 52

Reasons for exclusion.—The civil-service retirement plan already covered the majority and a number of minor plans covered particular small groups.

Need for coverage.—Extensive shifting between Federal and industrial employment.

Difficulties and their solution.—The fear has been expressed that, with an OASI tax rate scheduled to reach 3 percent by 1949, any attempt to make the civil-service plan supplementary to OASI would mean annihilation of the former plan, since it would be feasible to levy only very small contributions for its support. To counter this fear, it is suggested that if OASI taxes become 1½ percent (for the period 1947–56, as recommended under financing)[2] contributions under the civil-service plan be 3½ percent of salary up to $3,000 a year and 5 percent of any excess over $3,000 a year.

The pros and cons of attempting a solution through broadening the civil-service plan and coordinating it with OASI are discussed at some length in the report (pp. 45–48) and dismissed as unduly complicated and pointless.

A sketch of what might be a practicable modified civil-service plan in supplementation of basic OASI protection is presented on pages 49–51 of the report.

PUBLIC EMPLOYMENT OTHER THAN FEDERAL

About 2.9 million persons. P. 52

Reasons for exclusion.—The Federal Government does not tax a State.

Need for coverage.—Shifting and general lack of retirement prospects.

Difficulties and their solution.—The indicated approach is coverage through Federal-State agreement, provided the State is ready and has the power to require its administrative departments and its political subdivisions to cooperate as employers in bringing employees under the act.

[2] See footnote 7, pt. I.

RAILROAD EMPLOYMENT

About 1.4 million employees. P. 53

Reasons for exclusion.—At the time social security was enacted in 1935 a special national system was being created by Congress for employees of railroads doing an interstate business. to 56

Need for coverage.—Same as for most other employments—extensive shifting with weakening or loss of protection, or redundancy of benefits for those who qualify for both railroad retirement and OASI.

Difficulties and their solution.—The railroad plan resembles civil service through being in the main a staff pension plan (though with the social benefit characteristic of favoring the lower-paid employee).[3] It differs from civil service in being Federal legislation to provide for employees of one particular private industry. As a staff plan it is unsatisfactory with respect to higher-paid workers. Both the social benefit needs of railroad workers and their families and the staff pension objectives can be met far more satisfactorily if separated. The complications of having them combined in one system and of coordinating that system with OASI are tremendous.

As in the case of Federal service, the report concludes that the most feasible remedy is basic coverage by OASI. Since this would be undesirable without modifying the railroad plan to make it a supplementary one like other industrial plans, a brief illustration is offered of what might be done in this respect (pp. 55–56).

COST OF EXTENDING COVERAGE

The table on page 56 affords a basis for the following rough conclusions as to the effect on costs of a general extension of coverage with no change in benefits: P. 56 to 57

1. While over-all costs may perhaps be more than doubled at the start, they may eventually be not much more than 50 percent in excess of present estimates.

2. When benefit outlays are expressed in terms of pay-roll, extension of coverage brings about little initial change, but a substantial eventual reduction in percentage of pay-roll costs and accordingly of tax rates (on a current cost basis). This results from the greater weight that will attach in the benefit formula [4] to the 10 percent of average wages in excess of $50 (as compared with the 40 percent of the first $50) when the in-and-out movement is greatly reduced through extension of coverage.

[3] The Crosser Act of 1946 includes benefits for survivors in the railroad plan somewhat along the lines of those provided in the Social Security Act.

[4] At present the primary benefit (i. e., the benefit to which the wage earner would be entitled and of which other benefits are fractions or multiples) is calculated by taking 40 percent of the average monthly wage up to $50, adding 10 percent of any average monthly wage in excess of $50 but not of $250, and increasing the result by 1 percent for each year in which the wage earner received at least $200 in wages. If less than $10, the primary benefit is to be taken as $10.

This chapter discusses a special area of coverage which could have formed part of the preceding chapter, military service being a form of Federal employment analogous in many ways to civil service. However, it was accorded special treatment as being at the time (1945)[6] much in the foreground of public attention.

It deals with—

1. The benefit rights of persons with military service under existing law and under proposed changes; the extent to which such rights are reduced or lost because of military service, and the effects of two classes of pending bills which would recognize military service by way of "freezing" or "crediting" it for purposes of insured status and average wages; the principal considerations as to retroactive and prospective coverage of military service.
2. Proposals for adjusting benefits simultaneously received under two or more public plans, in particular under OASI and veterans' legislation.
3. Financing OASI credits for military service.

The discussion is specialized and somewhat technical. The principal conclusion is that an over-all equitable solution must be tied in with universal OASI coverage.

This chapter considers liberalization in respect of two distinct though interrelated aspects:

A. Liberalizing the benefit schedule.
B. Including the hazard of extended disability.

Considerations brought out by discussion under this heading include the following:

1. Any benefit liberalization involves long-range commitments, since benefits are based on average wages over a period of years and so lag considerably behind changes in the wage level.
2. Liberalization of the present formula should be cautiously approached due to the uncertainty of future wage and living-cost levels.
3. Extension of coverage would in itself increase many benefits by removing the depressing effect of limited coverage on average wages.
4. Benefits should be liberalized only with the entire prospective program in mind; it is now quite uncertain whether or not disability benefits or general medical care will soon be included in the system.

[6] Since then the problem has been in a measure temporarily solved by inclusion in the 1946 amendments of special provisions for granting insured status to World War II veterans for 3 years after discharge. This temporary protection is for survivor benefits only.

5. Liberalizing benefits based on low wages is much the most important aspect of liberalization from the standpoint of lowering costs of old-age assistance and aid to dependent children.

6. Any change which would pay about as large benefits to intermittently covered as to continuously covered workers (as by liberalizing the definition of "average wage") would increase the burden on other contributors or the general taxpayer; it would therefore require strong social justification (extension of coverage would seem to be a more important approach to intermittent coverage).

7. Benefit increases should depend primarily on the extend to which they are found necessary to accomplish the primary purpose of affording basic social protection.

Adequacy of present benefits

The basic pattern of OASI benefits is determined by the individual wage earner's prior wages in covered employment and bears little relation to the cost of subsistence. P. 77 to 83

The mass of OASI recipients consists of persons with some private income or resources, but insufficient to maintain a reasonable standard of living when wages cease because of death or retirement. Persons without any resources and those with enough to live comfortably even though wages have ceased constitute relatively small groups. The first group is therefore the one most affected by the size of OASI benefit payments. Liberalizing the benefits of this group will not normally determine whether or not they will become public assistance charges, though it will have a considerable effect on their standard of living after retirement.

The relative sizes of these groups is conjectural and will vary greatly with economic conditions. Section D of the appendix to part I (pp. 267–271) gives such organized data as was available as to sources of support of persons aged 65 and over.

The effect of benefit liberalization on public assistance would be considerable. Even minimum benefits of $15 or $20 a month to an old couple or to a widow and orphans may relieve them of the necessity to seek assistance and so to undergo a means test. Even if there are no other resources, need (and therefore the cost of necessary public assistance) will be reduced where OASI benefits are payable.

The question of redefining average wage so that absence from covered employment would not reduce average wage and benefits is discussed on pages 85–88 in relation to the principal causes of absence, viz:

1. Inability to find work.
2. Inability to work because of disability.
3. In the case of women—marriage.
4. Work in employment excluded from OASI.

Principal considerations in regard to a redistribution of benefits over the years are—

1. Equity as between short-time and long-time contributors.

2. Whether the future, like the past, will be marked by long-range increases in wages and living costs.

Possible adjustment techniques are—

1. Reducing the rate of future increment[6] while increasing early benefits.
2. Placing a maximum on future increment.

The view is taken in the report that the question of modifying benefits, e. g., to effect future reductions so as to offset present increases, is a matter of judgment rather than of technique—that once objectives are settled a formula can be devised to attain them.

Figures are given on page 89 to illustrate:

1. The tendency of OASI benefits to change more slowly than current wage levels.
2. The difficulty of evaluating their adequacy in terms merely of percentages of current wage level or living costs.
3. Their inadequacy in comparison with 1940, if price and wage levels substantially in excess of 1940 can be assumed.

Liberalizing the benefit formula P. 83 to 91

Minimum or near-minimum benefits, the most important ones from the viewpoint of an alternative to public assistance, are generally payable because covered employment was only occasional. The philosophical question then arises as to whether the recipient is fortunate to receive anything at all, or whether his case illustrates a situation that calls for correction. This may take the form of (1) extension of coverage, (2) modifying the policy that led to the establishment of a minimum through requiring its substantial increase.

It is possible to change minimum benefits considerably without affecting the main part of the benefit formula. Three methods of accomplishing this are discussed on pages 83 (bottom) and 84.

Suggestions for over-all liberalization of the benefit formula include:

1. Changing the present $10 minimum to $20.
2. Changing the present $50 of average-wage breaking-point in the formula to $75.
3. Extending the present formula from $250 a month average wages to $300 a month.

Of these, the third is perhaps the only one that, in terms of pay roll, would tend to reduce rather than increase costs. Also by taking monthly wages up to $300 into account a wider range of benefits would be possible.

The first two tables on page 85 indicate differences in benefits as between the present formula and one incorporating the above changes.

The present general relationships between wages, contributions, length of time in the system and benefit amounts are illustrated by the table on page 83. (The figures for

[6] In the present formula the term "increment" denotes the 1-percent increase in the basic primary benefit for each year in which covered wages reach $200.

total wages, which are set down in units of $100, also represent dollars of contribution at a 1-percent rate.) Relationships of this type are pertinent to liberalization of benefits, whether by way of changing the minimum or the general formula.

It is to be noted that—

1. The proposed new formula is of the same general nature as the existing formula, and in the case of further wage increases its revision would no doubt be sought for the same reasons that the earlier revision was sought.
2. The selection of any particular pattern geared to average wages will of necessity, if its appropriateness is related to a particular economic situation, become inappropriate when the situation greatly changes.

INCLUSION OF EXTENDED DISABILITY BENEFITS P. 92 to 95

The section on extended disability benefits discusses inclusion of the hazard of extended disability, with the same benefit formula as OASI, and independently of any medical care or temporary disability program, from the viewpoints of:

1. Nature, feasibility, and cost of the provision to be adopted.
2. Relative effects of a program applicable to disabled adults without regard to age and, as a transitional measure, one limited to disability at advanced ages.

Emphasis is laid on the "wide uncertainty attaching to disability costs," involving a fivefold "reasonable (not limiting)" range of from 0.5 percent to 2.5 percent of pay roll. The factors that determine disability costs are discussed under the headings of:

1. Definition of disability.
2. Administrative methods and effectiveness.
3. Current economic conditions.

Three approaches to a definition—physical, occupational, and general—are considered, the weight to be given to each depending on "the nature and underlying philosophy of the particular plan," though "general" incapacity for any sort of work is indicated as "the concept most suited to a social plan of extended disability benefits."

It is pointed out that, in a plan using the OASI benefit formula, very complicated rules would be required for determining a minimum proportion of earning power that must be lost for a claimant to qualify for benefit; and that the alternative would be to leave to administrative discretion the determination of whether or not loss of earnings and of earning power are sufficient to warrant payment of benefits.

The importance of rehabilitative measures and encouragement of self-help, particularly for younger persons, is stressed.

It is pointed out that a disability scheme, like the existing retirement provisions, is necessarily to some extent an adjunct to the economic system, supplying it with, or relieving it of, marginal labor, according to the state of the labor market. To prevent abuse of this legitimate function whereby the

system might come to be used largely for unemployment benefits, it is proposed that the possibilities of creating a special protected labor market for disabled persons be explored. From it disabled persons would be encouraged to graduate to the open labor market as soon as desirable, while the requirement of entering it would be a test of the bona fides of the claimant and a screen for the system against malingerers.

A suggested initial step P. 101

A proposal is explored for making extended disability benefits available, at least initially, only to persons above some specified age like 55 or 60. This would be largely equivalent to a flexible retirement age, based on a physical—perhaps also an economic—test of the need to retire short of 65.

Some advantages claimed for this approach are—

1. Avoidance of some of the major administrative problems largely associated with disability at the younger ages.
2. Minimizing the cost of doubtful awards by curtailing the possible compensable period.
3. Eliminating classes of doubtful claims by persons already voluntarily withdrawn from the labor market with no present intention of returning.
4. Relieving pressure to reduce the retirement age, chiefly for women, and particularly when economic conditions are bad.
5. Making benefits available for the very considerable proportion of persons with sufficient disability to retire before age 65.
6. Operating to conserve, through the freezing of insured status, an old-age benefit for some who might otherwise lose their insured status.
7. Diminishing the need for rehabilitation in connection with the plan.

Some disadvantages claimed are—

1. Failure to cover a large part of disability—particularly in an area where the consequences of disability for the individual can be most serious, viz the age groups in which dependent children are most numerous, and where the need for protection lasts longest.
2. Tendency to regard as permanent any disability coming within this limited scheme.
3. Difficulty, in a scheme covering only older groups, of placing primary emphasis on recovery and return to work.
4. Reducing, even for these groups, the social value of the scheme through stringent eligibility tests, with emphasis on permanence of disability.
5. Discriminating between the old and the young in regard to eligibility for disability benefits and the effect of periods of disability on insured status for, and the benefit level of, later death or retirement benefit.

6. Establishment of many intricate procedures incident to administering a disability program, while excluding at least temporarily a large proportion of disabled cases solely on the basis of age.

The suggestion is thus quite controversial, but would seem to offer a promising method of "easing in" to a disability program, if such a program has been decided on, with a minimum of initial difficulty, while acquiring valuable experience on which future extensions can be based as and when they appear feasible.

CHAPTER V. FINANCING OLD-AGE AND SURVIVORS INSURANCE P. 103 to 121

This chapter discusses the principal considerations involved in fixing a schedule of taxes for OASI (under the Federal Insurance Contributions Act). These are of two types:

(*a*) Actuarial—largely estimating (1) prospective benefit outlays (2) the returns to be expected from the pay-roll tax at various rates. The validity and limitations of these estimates are discussed.

(*b*) Determining tax policy.

ACTUARIAL ASPECTS

The Social Security Board's efforts, both short and long range, to weigh the costs of future benefits are reviewed, and the following conclusions drawn:

1. That these calculations have been made conscientiously and with a great deal of care as to detail. They show that well-equipped workers have given thoughtful consideration to the statistical problems involved. The reports show every evidence of thorough, honest, and disinterested efforts to elucidate a highly technical problem. P. 109

2. That the very limited statistical basis available made estimates difficult and brought into question the reliability of this basis as guidance to the future.

3. That because substantially different sets of fundamental assumptions gave equal prospect of being verified it was deemed wise to show results of two or more sets and to note how changes in assumptions would affect cost figures.

4. That all calculations verify the somewhat obvious expectation that the total of benefits will come to be many times as large in later years as at present—both because the proportion of the people past age 65 will be much greater than today, and because a rapidly increasing proportion of them will be eligible for retirement benefits.

5. That while different sets of realistic assumptions may result in cost figures which vary in the course of years by as much as 100 percent the variation as percentage of pay rolls is apt to be much smaller.

6. That in the absence of any conviction that future years will follow the limited statistical guides now available, it would be fruitless to make additional independent estimates of cost because they would necessarily rest on sets of assumptions at least as arbitrary as those already used. There could be no more assurance that any such independent estimates would be verified by experience than that this or that estimate already examined will prove accurate.

TAX POLICY

The principal considerations involved in fixing a tax schedule are— P. 112

1. Lack of confidence in any conclusions based on estimates that reach many years in the future, other than the broad expectation that the cost of benefits will, in the course of years, increase fairly gradually to many times its present size (though with irregularities, now unpredictable, in size and timing).

2. Desirability that pay-roll taxes (i) pay a substantial part of the cost, (ii) contemplate only scheduled changes in tax rate—at regular intervals and smoothly graded, (iii) build up only a modest contingency reserve.

3. Desirability of support from revenue when for a particular year benefits exceed taxes and interest on reserve (the excess, perhaps, to be shared by the contingency reserve and general revenue).

4. Value in Congress accepting a policy that it might hope to follow for a good many years. There can be overemphasis on possible harmful effects of (i) further growth of the trust fund (ii) failure to increase the tax rate according to a previously adopted schedule.

5. Probable greater acceptability among the American people of a growing trust fund rather than an unscheduled increase in tax during a period of depression (though, during a period of totally unexpected low benefit while the plan was getting under way, a "frozen" tax rate has probably been more acceptable to them than would have been a still more rapidly growing reserve fund).

6. Unlikelihood of dire consequences from either a modest increase in tax rate or continuation for a while of the present rate.

With these considerations in mind the report suggested, in respect of OASI benefits as at present, but with the expectation that the coverage will be widely extended: P. 121

1. That tax rates on employer and employee alike be increased one-half of 1 percent every 10 years, beginning with 1947, until a 3-percent rate is reached in 1977.[7]

2. That a Federal subsidy be anticipated to meet any future year's excess of benefit and expense payments

[7] The 1947 amendments hold the rates at 1 percent each through 1949 with a ½-percent increase for 1950 and 1951 and a further ½-percent increase thereafter, i. e., rates of 2 percent each for 1952 and subsequent years.

over social security taxes and interest on the trust fund, until such time as this subsidy becomes a third of the year's total of benefit and expense payments. When this stage appears imminent revision of the tax schedule should be considered, as also when the trust fund reaches some set total like 20 billion or 30 billion dollars.

The table on page 121 illustrates the possible courses of the trust fund under typically "low" and "high" assumptions if this schedule of taxes is followed. It will be seen that the estimates vary widely with the assumptions.

CHOOSING A METHOD OF FINANCING

In choosing a method of financing two extreme positions may be taken: P. 110 to 114

1. Paying each year's bill as it comes along, with no thought of the future.

2. Trying to budget in such a way that the burden is about the same year by year. The latter, of course, means larger initial contributions than are needed for current outlays, and their accumulation in the hope of lightening the load in future years. Between these extremes are innumerable variations according to the degree in which current contributions exceed current outlays. It is from this array of methods that Congress must choose.

In making its choice Congress must determine (1) the relative roles of pay-roll taxes and of general taxation in financing benefits, (2) the particular tax schedule to be adopted. These decisions will doubtless reflect convictions regarding the building of reserves in early years through pay-roll taxes in excess of current benefits, and attention to the purpose and history of the system.

The report lays down three major tests for a desirable plan of financing:

1. High promise of being followed for a long time so that benefits will be paid as contemplated (feasibility test).

2. Generally acceptable as reasonable, equitable and not unduly burdensome (popularity test).

3. Confining its objectives as much as possible to financing social benefits and avoiding harmful interrelationships with other phases of the national economy (economic effects test).

These three tests are respectively applied to (1) the tax schedule as then (1945) embodied in the law and (2) the pay-as-you-go plan (contributions to follow benefits). See pages 114 to 118 of the report.

Some significant conclusions are:

1. Where substantial reserves are involved, continual educational efforts will be needed to keep people sufficiently informed to realize that no bad faith is necessarily involved when social-security taxes in excess of current requirements for benefits and administration are replaced

by interest-bearing promises to pay, and the money used to meet the expenses of government. For example, the Government securities issued to the social-security-trust fund may mean that the amount thereof is offset by a corresponding reduction in either new borrowings on the open market or in outstanding Government securities held by other parties.

2. The reserve issue boils down to the question of whether it is good policy to use a regressive tax (on the first $3,000 a year of wages) to reduce the public debt or even to increase our national supply of durable goods, if such increase actually takes place.

3. The pay-as-you-go method would meet the tests of feasibility and popularity if the Government comes into the picture to the extent necessary to hold wage taxes to a predetermined smooth course and to keep them from ultimately becoming very high.

4. Pay-as-you-go would no doubt be less disturbing to the general economy than if substantial reserves were being built up.

TENDENCY TO LIBERALIZE BENEFITS

P. 118 to 119

There is continuous pressure in this direction motivated by—

1. Agreement that benefits are quite modest and must often be substantially supplemented to meet even minimum subsistence needs.

2. Their increasing illiberality in terms of wage levels and living costs.

However, there is danger in liberalization due to:

1. The fact that costs will be very much heavier in future years even without any change in the benefit formula.

2. The tenuous nature of the line between those who receive benefits and others quite similarly situated who fail to qualify.

3. Even if OASI benefits applied to everyone, there are additional kinds of social services that are equally justifiable on a Nation-wide scale. Pending exploration of needs not now being filled, we should curb our enthusiasm to make OASI benefits larger for each individual, lest we go so far with our first choice of social benefits as to be unable to make headway in other lines of equal social promise.

With this common ground two opposing contentions are advanced with much vigor, conviction, and emotion by well-informed students, and each group can cite undoubtedly authentic historical incidents in their support:

(*a*) Those who favor higher taxes and the consequent substational reserve contend that, unless taxes are raised soon, it will be impossible to withstand the pressure for increased benefits; while

(*b*) Those who favor pay-as-you-go contend that, just as surely as the reserve fund gets much larger, the popular cry

will be that this accumulation of excess social security taxes is the best evidence that benefits can be safely liberalized, and that any increase in taxes will be the signal for petitions to increase benefits.

It seems, therefore—

1. That our protection against the danger of over-liberalization had better not rest on the theory of one or the other of these groups, but rather on the firmness of an informed Congress.
2. That decisions as to methods of financing had better rest on other grounds than making it easy for legislators to resist undue pressures.

Chapter VI. Miscellaneous P. 125 to 148

This chapter deals with six not necessarily interrelated subjects.

Benefit rights of new entrants into OASI P. 125 to 129

The eligibility requirements and benefit formula of the present limited coverage system were designed to screen out many cases with little or no coverage and to pay small benefits to border-line cases. This limit on the social protection of the system was considered a necessary financial safeguard. The present question is the extent to which the need for social protection of aged new entrants and others with limited coverage justifies scrapping the existing OASI safeguards if such need does not also warrant extending coverage and eliminating the importance of such safeguards. This issue can be eliminated only if coverage is widely extended.

Elective OASI coverage P. 129 to 131

Voluntary coverage cannot be expected to solve the social problems for which OASI was created or to serve as an effective substitute for compulsory coverage. Moreover, it has serious implications for OASI in that (1) it implies contractual rights which are foreign to OASI, but will be brought up as arguments against any changes in the system that may be adverse to particular interests (2) there would be continuous selection against the system which would operate to defeat its social objectives.

Voluntary annuities P. 131 to 140

Sale of annuities by the United States Government to the public on a voluntary basis is sometimes advocated, generally with the express or implied purpose of making available to those lacking OASI coverage, or whose benefits will be small, a means of providing for their old age. It is generally assumed that the annuities will be of small amount—not more than $1,200 a year—that their sale will not therefore encroach on private annuity business, and that the cost will be materially below that of private annuities. However,

investigation of experience both here and abroad makes it clear—

1. That this approach to the problem of dependency is likely to fall far short of its mark, and indeed is apt to miscarry through being taken advantage of mainly by persons other than those for whom it is primarily intended.
2. That the ability of Government to sell such annuities at premiums materially below those of the companies is likely to be realized only with the aid of substantial subsidies, direct or indirect.
3. That the alleged lack of interest of insurance companies in "small" annuities is contrary to fact.

THE "RETIREMENT" [8] REQUIREMENTS FOR OASI BENEFITS

P. 140 to 145

The requirement that an employee retire before he can draw benefits is discussed in relation to its practical effects on OASI recipients, on the labor market and on the OASI trust fund (pp. 141–143 of the report). Methods of modifying the present requirement are discussed on pages 143–144. The following suggestions are offered for consideration:

1. Raise the present $15 wage limitation to, say, $25 or $30.
2. If self-employment is included, and perhaps even if it is not included, limit annual permissible earnings to 12 times the earnings permissible in 1 month.
3. Limit the effect on benefits of exceeding the permissible monthly or annual earnings to a reduction of no more than the excess.
4. Eliminate the retirement requirement entirely for those well past 65, for example, 70 or older.

The last of these is a radical departure which should make OASI more attractive to—

1. The self-employed, who will tend to pay more OASI taxes while drawing less benefits.
2. Those gainfully employed who do not contemplate giving up work entirely.

If this suggestion is adopted along with disability, the OASI system could be described as providing benefits—

1. Before 65 when a person cannot work;
2. From 65 to 70 when he does not work; and
3. From 70 on under all circumstances.

REDUCING OASI AGE REQUIREMENT FOR WOMEN

P. 145 to 146

This section is mainly a summary of the reasons which have been advanced for the reduction in the retirement age for women from 65 to 60. Such a change also contemplates the reduction to age 60 of the age requirement for old age benefits in the case of qualified wives and widows.

[8] In OASI, retirement has the special meaning of not earning in any month $15 or more in employment covered by the act. The retired individual is entirely free to earn whatever he can in noncovered employment.

THE THREE-TIMES RULE IN FINANCING OASI

P. 146 to 148

The tenor of this discussion is the inappropriateness of continuing to use as a criterion of whether or not pay-roll taxes should be increased at any time a tentative and empirical rule the original purpose of which has been misunderstood, and which in any case was based on forecasts that events have rendered no longer valid.

The percent of pay-roll costs in table II on page 148 are of some interest, aside from operation of the three-times rule, as indicating costs that could eventually develop under the present program.

Review of Appendix to Part I

P. 148 to 274

Section A. Reproduces the Social Security Board's then most recent OASI Actuarial Cost Studies, viz, No. 19, Level Wage; No. 19 (a), Increasing Wage; and No. 19 (b), Disability.

Section B. A technical detailed analysis of the involved processes underlying the long-range cost estimates in Actuarial Study No. 19 of existing OASI provisions. Includes an array of 50 interrelated tables arranged, as nearly as possible, in logical sequence, with explanatory text proceeding more or less in reverse direction to the tables, i. e., from end results back to basic data and assumptions. Though not so stated in the report, it may be noted that perhaps the chief value of this analysis lies in the feeling it gives of the tremendous complications necessarily involved in any attempt to develop OASI cost estimates, due to the many social, demographic, economic, and other factors that must be considered; of the limitations and uncertainties attaching to the results obtained; of the reservations with which they must be accepted and the caution with which they must be used.

The material and techniques involved are undergoing a continuous evolution under the impact of experience and further research, and the Social Security Administration has since produced revised estimates.

Section C. Furnishes reference material on the coverage of military service and adjustment of duplicate benefits.

Section D. Presents in three tables results of some (unofficial) Social Security Board studies depicting the relative importance of the chief sources of support of the aged. No objective accuracy is claimed for these tables.

Section E. A brief review of then (1945) existing retirement-income provisions (chiefly employer-employee plans) that are not part of the social-security legislation but may be regarded as either actually or potentially supplementary to OASI—whether or not specifically designed to serve such purpose.

PART II. PUBLIC ASSISTANCE

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NOTE.—The text presented in this part is in the exact language used in Issues in Social Security except in the case of interpolated material indicated by brackets as follows: [ ]. The 1946 amendments to titles I, IV, and X which were enacted subsequent to the publication of Issues in Social Security render many sections of that report obsolete. No indication is given of the omission of words or paragraphs included in the original but not repeated here.

PART II. PUBLIC ASSISTANCE

INTRODUCTION

The principal problems which have arisen in the Federal-State programs of public assistance for needy individuals [include]— P. 275

(1) Limitations under Federal law [upon] meeting needs which exceed maximums that will be matched [from Federal funds], the disparity among States in the levels of public assistance payments; and

(2) [Limitation] of Federal financial participation to selected groups of needy persons.

Under titles I, IV, and X of the Social Security Act the Federal Government provides for matching money payments to needy persons under approved State plans for (1) old-age assistance, (2) aid to dependent children, and (3) aid to the blind.[1] [These three programs are known as special-assistance programs to distinguish them from the general assistance programs of State and local governments, which without benefit of Federal aid, are intended to meet needs not covered by the Federal-State measures.]

Provisions in the [Social Security Act] in no wise prevent the States or localities from establishing assistance programs on a broader base of coverage or with more liberal grants to individuals. There is a tendency, however, for States to organize their programs in such a way as to obtain the most funds in Federal matching for a given State expenditure. States which have established programs broader than the Federal provisions for matching often feel that the unmatched portion of their expenditures should receive like Federal consideration. In States which have limited their programs to the Federal provisions for matching, some needy persons inevitably receive no care or inadequate care. P. 275

EXPERIENCE SINCE 1935 IN THE SPECIAL TYPES OF PUBLIC ASSISTANCE P. 328

The establishment with Federal participation of State programs of old-age assistance, aid to dependent children, and aid to the blind has been a gradual process. Yearly since 1935 when the Social Security Act was enacted, new State-Federal programs have been inaugurated. Now, State-Federal programs of old-age assistance are being administered in all 48 States, the District of Columbia, Alaska, and Hawaii. Of these 51 jurisdictions, all but 1 (Nevada) has a

[1] Pertiment sections of the Social Security Act are summarized on pp. 325-327 of Issues in Social Security. These do not, of course, show changes effected by the 1946 amendments which were enacted after the Report was issued.

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State-Federal program of aid to dependent children, and all but 4 (Alaska, Missouri, Nevada, and Pennsylvania) have State-Federal programs of aid to the blind.[2] Thus, the public assistance provisions of the Social Security Act are in effect on substantially a Nation-wide scale.

Persons receiving aid

In the United States in [June 1947, approximately 2,271,000 persons were receiving old-age assistance; 396,000 families containing more than a million children were receiving aid to dependent children; and 79,000 persons were receiving aid to the blind. For the country as a whole, 214 out of every 1,000 persons 65 years of age and over received old-age assistance. Of every 1,000 children under 18 years of age, 23 receievd aid to dependent children. Of every 100 persons estimated to be blind, 27 were receiving aid to the blind.] P. 328

Trend in load.—From 1936 until 1942, when wartime demands for labor became acute, the number of recipients of each type of aid rose steadily. During the war the number of recipients of old-age assistance and aid to dependent children declined substantially. Declines occurred also in established programs of aid to the blind, though these declines are obscured by the inauguration in 1943 of a new State-Federal program of aid to the blind in Illinois. P. 332

The continuous decreases in the number of persons and families receiving assistance during the war years when the employment market offered job opportunities to persons not normally employed or employable is evidence of the essential flexibility of assistance programs. The sharp reductions in assistance rolls demonstrate also that needy persons prefer self-support to dependency. [Since the war assistance rolls have again begun to rise. Numbers aided under the various assistance programs for 1944 to 1947 are presented in table 1, page 46 of this digest.]

Payments to recipients

[In June 1947, payments of old-age assistance in the United States totaled approximately 82 million dollars. In States administering programs under the act, payments of aid to the blind were about 2.4 million dollars and of aid to dependent children, 24 million dollars. The average old-age assistance payment was $36.04, and of aid to the blind, $37.87. Payments of aid to dependent children averaged $61.68 per family.] P. 332

Trend in average payments.—Over the years, levels of assistance have risen substantially [table 2, page 46 of this digest]. The rise in average payments represents in part an increase in the amounts allowed to meet the rising cost of such requirements as food, shelter, and clothing, in part to the recognition of a wider range of requirements and in part to the withdrawal of certain supplementary assistance formerly available to recipients; namely, surplus commodities and surplus food stamps. In some cases, categorical P. 333

[2] Detailed description of the operation of these programs is presented on pp. 328-336 of Issues in Social Security.

payments now include amounts formerly provided from general assistance to supplement the categorical payment. Average payments for the Nation fail to reveal the variations among States in levels of payments [discussed under "Average State Payments, page 30 of this digest"].

Fiscal arrangements P. 333

Source of funds.—All States claiming Federal funds must provide for State financial participation in the costs of the special types of public assistance. Whether the State will bear the entire non-Federal share or will require some local financial participation is determined by the State. Patterns of State-local financial participation in the special types of public assistance, therefore, vary from State to State and often differ among programs within a State.

[According to the report (p. 334) 15 States[3] in 1944 required local financial participation in all three special assistance programs; 8 (Colorado, Indiana, Iowa, Massachusetts, Minnesota, North Dakota, Ohio, and Wyoming) required local funds for two of the three programs, and 5 States (Connecticut, Delaware, Maine, New Hampshire, and Vermont) for one program. The remaining 20 States with approved plans required no local funds.

[The proportion of assistance expenditures in 1944 met from Federal, State, and local funds respectively in the several States is presented in table 9 on pages 343–344 of the report.

[The degree of Federal, State, and local financial participation is not uniform as between one public assistance program and another. In 1944, for example, Federal funds amounted to approximately 48 percent of all expenditures for old-age assistance payments, 47 percent of all payments for aid to the blind, and 36 percent of payments for aid to dependent children. In all instances these proportions were higher than during the earlier years of the Federal-State programs.

[These changes in terms of both percentages and dollars and from 1936 to 1944 are presented in tables 5, 6, 7, and 8 on pages 340–342 of the report.

[Not since 1936 has the Federal Government contributed toward general assistance costs.

[The relationship between income payments and amounts spent in the various States for special assistance and for general assistance in 1944 is presented graphically in chart 4 on page 291 of the report.]

CURRENT PROVISIONS FOR NEEDY PERSONS NOT COVERED BY THE SOCIAL SECURITY ACT

In most parts of the country, persons who are not eligible for special types of public assistance have less assurance of receiving adequate aid—or any aid—than the groups of needy persons for whom Federal funds are available. For P. 297

[3] Alabama, California, Georgia, Kansas, Maryland, Montana, New Jersey, Nevada, New York, North Carolina, Oregon, Tennessee, Utah, Virginia, and Wisconsin.

the sake of convenience, all local forms of home relief to these uncovered persons has been termed "general assistance." The major reasons for the unevenness of general assistance lie in the administrative and financial pattern for aiding this residual group.

Organization, supervision, and financing

General assistance is administered in the United States by more than 10,000 local units—counties, villages, and towns. P. 297

In over two-thirds of the States with State agencies having some responsibility for general assistance the degree of State leadership ranges from practically no participation in the policies and practices of the local units to administration by State agencies through branch offices in the counties. It is only natural that eligibility and amount of assistance should vary with each independent administrative unit.[4]

In 1944, 14 States assumed no financial responsibility for general assistance and 3 other States contributed less than 3 percent of the cost. In the country as a whole in 1944 local funds [totaling $48,000,000] met only 7 percent of the cost of old-age assistance, about [13] percent [representing a total of 2.5 million dollars] of the costs of aid to the blind, and about [17] percent [$23,000,000] of the costs of aid to dependent children. For general assistance however, the local share [$46,000,000] was 52 percent [of the total]. P. 298 P. 298

Except in large metropolitan areas and in wealthy residential communities, the limited revenue sources available to counties, cities, or towns sharply restrict the funds that localities can muster for general assistance. In States with relatively low fiscal ability, the opportunity to receive matching Federal funds for the special types of public assistance has tended to limit—rather than to increase—State and local funds for general assistance. Since each State-local dollar spent for the special types of assistance—up to the matching ceilings—draws to it a Federal dollar, States have tended to use their available funds for the federally matched programs. As long as the general-assistance program remains outside the scope of Federal grants-in-aid, it will be at a financial disadvantage.

The imbalance between expenditures for the special types of public assistance and for general assistance is illustrated by comparing expenditures for the programs per capita of the State population. One-fourth of the States [in 1944] spent more than 20 times as much per inhabitant for the special types of public assistance as for general assistance; 2 States spent over 100 times as much. These differences far exceed what normally would be anticipated from known facts on differences in need in the various population groups.[5] P. 299

[4] Detailed description of the administration of general assistance is presented on pp. 289-301 and on pp. 348-349 of Issues in Social Security.

[5] For detailed State data see table 15, p. 348 of Issues in Social Security.

Extent and amount of general assistance

During the war years, relatively few people needed general assistance. In August 1945, 230,000 cases, representing approximately 420,000 persons, received [this type of aid]. The number of cases aided in June 1947 was 335,000. The general trend in the number granted general assistance between 1944 and 1947 is presented in table 1, page 46 of this digest.

[In proportion to population, the numbers of cases granted general assistance in the various States show very great disparities. In June 1947, for example, general assistance was granted to 923 cases per 100,000 population in Maryland, while in Mississippi the rate was only 35 cases per 100,000 population. By contrast, the incidence of special assistance—with the benefit of Federal and State financial participation—in the various States showed less disparities than did the incidence of general assistance. The incidence of general assistance in the State having the highest rate was 26 times that in the State with the lowest rate, although the highest rates for old-age assistance, aid to the blind, and aid to dependent children were only about 11 times the lowest State rates. Comparisons of all rates in the various States are present in table 3, page 47 of this digest.]

The average payment for general assistance in the United States in June 1945 was $29 per case for the month. Averages ranged from $45 per case in New York to $9 in Mississippi. [In June 1947 payments averaged $39.18, ranging from $65.55 in New York to only $10.12 in Mississippi. Averages for all States are presented in table 4, page 48 of this digest.]

In many States, standards of general assistance are substantially lower than those of the special types of public assistance. Sometimes the amounts allowed for certain requirements are smaller, the range of recognized requirements is narrower, evaluation of resources is more restrictive, and larger cuts in payments are made from the amount of established need when funds are insufficient.

[When general assistance payments for the country as a whole averaged $39.18 per case (in June 1947) old-age assistance payments per individual [6] averaged $36.04. However, in 30 of the 44 States for which comparable data are available, old-age assistance payments per individual [6] averaged more than did general assistance payments per case.[7]

[General assistance payments in 1946 totaled approximately $121,000,000. This was only slightly more than a quarter of the total general assistance payments in 1936 and only about 8 percent of the depression peak of 1935 when the Federal work program was not yet under way.]

[6] Old-age assistance payments, though usually made to individuals, occasionally include provision for the needs of more than 1 person.

[7] By "case" is meant a unit ranging from a single individual to a family with, perhaps, a number of children. In August 1945 (see p. 299 of Issues in Social Security) general assistance cases included an average of 1.8 persons per case. The proportion of single individuals among general assistance cases varies widely from State to State. In June 1945, when 1 person cases represented about 64 percent of all general assistance cases in the United States, the proportion ranged from less than 50 percent in Indiana and Missouri to more than 80 percent in Pennsylvania and South Carolina, the District of Columbia, Alaska, and Hawaii (see Issues in Social Security, p. 349).

A. More Adequate Aid

States tend to limit [special] assistance payments to amounts matchable from Federal funds, but those that do not so limit them feel that Federal matching should be extended to their more liberal grants. On the other hand, some States, usually because of limited funds, restrict assistance payments to amounts below need for assistance even though higher payments would be matchable. P. 276

[Since Issues in Social Security appeared the maximums matchable from Federal funds were raised by the 1946 amendments from $40 to $45 a month for a recipient of old-age assistance or aid to the blind. In the case of aid to dependent children, the maximums were raised from $18 to $24 a month for the first child in a family and from $12 to $15 for each additional child aided. Many States still exceed these limits, however, and, as before, believe the Federal Government should participate. The Federal share in old-age assistance and aid to the blind is two-thirds of the first $15 of the average payment and one-half the balance of matchable payments, and in aid to dependent children, two-thirds of the first $9 per child plus one-half of the balance of matchable payments.]

The size of a recipient's monthly payment and the Federal contribution to it varies almost as much because of differences in State standards [and available funds] as because of differences in the amount of need. This State-to-State variance is substantially greater than is justified by difference in cost of living.[8]

AVERAGE STATE PAYMENTS

[Although the 1946 amendments were intended in part to reduce the disparities in payments made by the various States, these have, nevertheless, remained considerable. Old-age-assistance payments, which in June 1947 averaged $36.04, ranged from $65.11 in Colorado to only $15.09 in West Virginia; aid-to-the-blind payments ranged from $62.84 in California to $18.05 in West Virginia; and family payments under aid to dependent children ranged from $105 in Washington to $24.43 in Mississippi. The average payments made under the assistance programs of the various States in June 1945 and June 1947 are presented in table 4, page 48 of this digest.

State differences in levels of payments may be explained by a complex of factors. Most important is the difference in the availability of State and local funds for assistance. Stringency of funds often results in (1) comparatively low standards for determining requirements, (2) relatively restrictive policies for considering income and other resources, and (3) the making of payments amounting to less than 100 percent of need as determined under the prevailing P. 332

[8] Although written before the 1946 amendments became effective, this statement is undoubtedly still true.

standards. Standards for determining requirements of needy persons reflect State differences not only in fiscal resources but also in modes of living and cost of living. Still other circumstances account in part for the variations in average payments. Though the majority of States impose maximums on payments equal to the amounts of the Federal ceilings for matching, some States have higher or lower maximums, and some have none. In some States, amounts for medical care are included in the money payment; in other States, medical care is provided from general assistance funds, through staff services, or in some other manner. In some States, the needs of the entire family [including a spouse, older children, or other relatives for whom Federal matching is not available] are supplied through [special assistance] whereas in other States such needs are supplied from general assistance funds or not at all. P. 333

INADEQUACIES OF PRESENT MAXIMUMS

When assistance is limited to the amounts that can be shared equally with the Federal Government, the most needy recipients bear the burden in terms of inadequate assistance.[9] P. 278

[Agency standards frequently allow needy persons more than the Federal maximums, and, some States make payments in excess of the Federal maximums in a considerable number of cases.

[The maximum payments in effect when Issues in Social Security was written were shown by the report to have been inadequate for many recipients. Even after the 1946 amendments, data for January 1947 indicate that no fewer than 20 percent of old-age assistance recipients, 21 percent of aid to the blind recipients, and 49 percent of the families granted aid to dependent children actually received payments in excess of the Federal maximum limits.]

RELATION OF STATE MAXIMUMS TO FEDERAL MAXIMUMS

By November 1, 1945 [when the Federal maximum for both old-age assistance and aid to the blind was $40 per recipient], 8 States had maximums above $40 for old-age assistance, another 6 States permitted higher payments for recipients with special needs, and 12 States had no maximums. For aid to the blind, 4 of the 47 States with State-Federal programs had maximums above $40, 4 permitted higher payments in special circumstances, and 13 had no maximums. For aid to dependent children, 7 States had maximums higher than the Federal ceilings; 1 of these permitted higher payments if the payment included medical costs, and 26 States had no maximums. P. 278 to 279

[The increases in the Federal maximums under the 1946 amendments were immediately reflected by similar action on the part of the States. Between September 1946 and Janu-

[9] See pp. 276 to 282 of Issues in Social Security.

ary 1947 1 State deleted its maximums, 24 States raised their maximums for old-age assistance, 20 States raised those for aid to the blind, and 14 raised those for aid to dependent children.

In aid to dependent children the amount of the Federal maximum is based solely on the needs of the children—the need of the mother is ignored insofar as Federal matching is concerned. Accordingly, in States that deal realistically with the problem, the cost in most cases greatly exceeds the amount the Federal Government will match. The portion of State expenditures under this program matched by Federal funds is much lower than under the other public assistance programs, though care of children is more important to the Nation's future than care of any other group. P. 304 P. 305

Payments limited to Federal ceilings

Among States which have retained maximums, the present Federal ceilings remain the most common State maximums. Legislatures in some States which limit payments to the Federal ceilings have set their maximums in terms of whatever amount is established by the Federal act. On the other hand, some States that have no legal maximums, because of inadequate appropriations, limit payments by administrative action to the amount subject to full Federal matching. P. 279

[Assistance] payments [as discussed here] do not include amounts paid by assistance agencies to hospitals and physicians for medical services to recipients, in which Federal funds do not share. In some of the States supplementary payments of general assistance have been made to the families or persons whose minimum needs exceed State [special assistance] maximums. Such expenditures increase still further the disparities between the Federal and the State-local shares. P. 279 to 280

CHANGING OR REMOVING FEDERAL MAXIMUMS

To encourage States to make payments, when needed, in excess of present maximums, either of two methods might be adopted—the maximums might be removed, or they might be raised or otherwise liberalized.[10] P. 280

Removal of Federal ceilings

Some States have found it feasible to share in payments based on the amount of need determined by local workers without placing arbitrary limits on payments. The same plan applied in the Federal-State partnership would simplify administration, since the Federal Government would then participate in whatever amount the State found necessary for all persons eligible under the Social Security Act. P. 280

Procedures [established by] assistance agencies for determining the amounts of payments [even in the absence of ceilings of any kind] serve as a continuing control on expend-

[10] Since Issues in Social Security was printed, the then prevailing maximums have, as has already been noted, been slightly increased. The basic problem remains unchanged, however, inasmuch as the small increases in maximums authorized in 1946 still leave many needs unmet.

itures. Payments are based on standards set by the agencies. State and sometimes local responsibility for sharing in the costs of assistance keep standards within the fiscal capacity of the governmental units.

Liberalizing Federal matching provisions

A maximum in terms of an average amount per person aided would provide greater flexibility than the present maximums on individual payments and would be easier to administer. Within the limits imposed by such a maximum, States could use Federal funds as they were needed in meeting the exceptional requirements of some recipients as well as normal needs. The amounts above the average required for some recipients would tend to be balanced by amounts below the average for recipients with lower requirements or other resources. In addition, if parents or persons acting in place of parents were included among the recipients of aid to dependent children in determining average payments to be matched States would be encouraged to make more nearly adequate payments to families receiving this type of assistance. P. 282

FEDERAL AID FOR MEDICAL CARE

Experience of State agencies suggests that maximums on payments to individuals are a special problem in meeting health requirements of needy individuals. Health care is a common requirement like food, shelter, and clothing. But unlike them, it often involves large expenditures, usually without previous warning.[11] P. 283

The need for medical care

According to the National Health Survey of 1934–36, a house-to-house canvass conducted by the United States Public Health Service, 172 out of each 1,000 persons during a 12-month period suffered disabling diseases either acute or chronic.[12] In contrast, families receiving public assistance experienced a disability rate of 234 out of each 1,000 persons. Average duration of disabling illness among the assistance group was 11.9 days as compared to 3.9 days per person in the group with incomes of $3,000 and over. P. 283

Adequate medical care may in some instances reduce the duration of assistance. The vision of some of the persons receiving aid to the blind may by proper medical care be conserved, in some instances, or even be restored.

Effect of Federal maximums upon provision for medical care P. 283

[In States that] limit medical care to those costs which can be met within the maximum payment, the needy persons' requirements may not be met; if, on the other hand, these

[11] Details on the medical care programs of various public assistance agencies are presented on pp. 355-356 of Issues in Social Security. On pp. 352 to 354 are presented recommendations of various groups as to improving medical care provided under public assistance.

[12] U. S. Public Health Service, Illness and Medical Care in Relation to Economic Status, The National Health Survey: 1934-36, Bulletin No. 2, Washington, 1938, as quoted in National Resources Planning Board, Security, Work, and Relief Policies, Washington 1942, pp. 118-120.

needs are met the burden will be passed on to the doctor, hospital, or other health agency. Most States make some provision for medical care either outside the money payment or in payments larger than those toward which the Federal Government can contribute. These States believe that the Federal Government should share in such assistance costs.

Federal payments are available at present only for those medical costs which can be budgeted to the recipient [of special assistance]. P. 282

Maximums on grants limit the provision of adequate medical care, both because the maximums are low and because most medical needs cannot be planned for in regular budgeting. Although such costs can be estimated and averaged over a period for a group, as an insurance risk, this average cannot be budgeted to an individual, as can be done with the average cost of food or clothing. On the other hand, if the State or local agency budgets medical expenses for an individual at the time they arise, the individual payment may exceed Federal maximums and place a burden for the excess upon the State or local community. P. 284 If a higher average were matchable with Federal funds, this would encourage States to remove or modify their own maximums and to expand or create medical-care programs. P. 282

Effect of Federal participation only in money payments to individuals

The requirement in the [Social Security Act] that all assistance be cash also limits the provision of adequate medical care. P. 285 Unlike the provision of food, lodging, and clothing, medical care is usually rendered before payment is made. Further, the cost of a recipient's last illness may not be known until after his death. This can be a sizable problem since in the period of a year 1 old-age-assistance recipient in 14 dies. If the recipient dies before the medical bills are presented they cannot be met through money payments to the recipient. As a result, the cost of this care, if the recipient had no insurance or other estate, must be paid wholly from State or local funds.

Meeting health requirements

If Federal matching maximums are eliminated or if payments for medical care directly to doctors, hospitals, and other health agencies are exempted from the maximums, States would be encouraged to establish or improve medical-care programs. If Federal maximums are changed to an average-per-case basis, the excess cost of medical care to particular individuals could be spread over the entire group of recipients. If the Social Security Act is amended to adjust the maximums and/or permit matching of payments for medical care made to doctors, hospitals, and other agencies, the States will be encouraged to adopt the most effective type of plans for medical care, within their financial ability.

B. Extension of Aid

P. 295

The assistance programs in which the Federal Government now participates financially are restricted to particular groups. Responsibility for other needy persons rests wholly on the States and localities. In many parts of the country exclusion of these others from the Federal grant-in-aid programs has resulted in relatively small [and in some States no] State appropriations and hence in very uneven local provision for needy people who are not eligible for the federally matched types of public assistance.[13] In some places such persons can get assistance only on a meager emergency basis, if at all.

P. 296

TYPES OF NEEDY PERSONS NOT CURRENTLY ASSISTED BY FEDERALLY AIDED PROGRAMS

For the most part these persons are in need for the following reasons:

(1) Physical or mental handicap or chronic illness.
(2) Unsuitability for employment because of age or home responsibility.
(3) Temporary illness of the breadwinner.
(4) Inability to obtain employment.

P. 297

As long as suitable work is available, the vast majority of employable persons provide for themselves and their families. At all times [however,] demands for labor are unevenly distributed.

Though unemployment insurance is intended to supply income during transitional periods of unemployment, some workers—among them domestic and agricultural workers, the self-employed, and, in many States, workers in small establishments—are not covered by State unemployment insurance laws. Moreover, in abnormal times many insured workers who lose their jobs exhaust their unemployment benefits and require assistance before they obtain a new job.

Need not covered by general assistance

P. 299

Although the varied State-local general assistance programs purport to be the catch-all for needy persons not covered by the special types of public assistance, several types of need remain uncovered by any program. The restrictive nature of general assistance is the result of (1) State laws such as those establishing requirements of residence or settlement, (2) interpretation due to the local autonomy of the majority of general assistance units, and (3) lack of adequate financing.

Restrictive action of laws or administrative regulation regarding residence or settlement vary from State to State and from locality to locality. In general, it may be said, the person who does not "belong" in a community cannot expect

P. 300

[13] The proportion of general assistance costs in the several States in 1944 met from State and local funds, respectively, is presented on p. 298 of Issues in Social Security. See also table 16 on p. 349.

continued assistance in the community, and may frequently expect to be uprooted from such community and returned to the community where he "belongs" if he needs assistance. It often occurs, because of conflicting State or local laws regarding settlement, that an individual does not legally "belong" anywhere.

Stringency of funds and local interpretations due to the great number of autonomous local units often cause general assistance agencies to impose additional conditions of eligibility. Thus, in some places, general assistance has been denied to various groups regardless of the extent of their need; for example, to childless couples, single persons, employable persons, self-employed persons, and persons with any other income, no matter how insufficient. Standards for determining need vary greatly from place to place. General assistance is extremely meager in some counties and in others is wholly lacking. P. 301

FEDERAL PARTICIPATION IN AID TO CHILDLESS WIDOWS, THE INFIRM, AND EMPLOYABLE PERSONS UNABLE TO OBTAIN WORK P. 301

Several suggestions have been advanced for the extension of Federal participation in assistance to needy persons not currently eligible under the public-assistance titles of the Social Security Act. Extension of coverage in varying degrees is possible by (1) liberalizing eligibility under existing titles of the Social Security Act; (*a*) by removing Federal restrictions, in aid to dependent children, (*b*) by elimination of allowable State restrictions such as residence requirements, and (*c*) by adding groups of similar need to existing titles of the act; and (2) by adding another title to the Social Security Act to provide for Federal-State cooperation in assistance to all needy persons not covered by other titles.

A new title to the Social Security Act

A new title to the Social Security Act, according to this proposal, would provide for Federal participation in assistance to all needy persons in States with approved [plans].[14] The general requirements of the act in regard to approval of State plans could be the same as under the other titles, except that if complete coverage is to be assured the title should provide (1) that medical care could be provided by direct payment to doctors, hospitals, and other health agencies for services; (2) that the State plan should not establish any condition of eligibility dependent upon (*a*) age, (*b*) employability, or (*c*) residence and citizenship, and (3) that the State plan should provide for a system of registering and clearing with appropriate public employment services all employable members of assistance cases. P. 301 to 302

Federal participation in general assistance would in no way conflict with public policy regarding expansion and strength- P. 302

[14] Present requirements to which State plans must conform are described on p. 306 of Issues in Social Security.

ening of the present social-insurance programs or the development of a health program.

Adjustment of eligibility requirements for aid to dependent children P. 303

Federal participation in general assistance to all needy persons not assisted under the special public-assistance programs would encourage similar State action. With such State action the needs of dependent children not met through aid to dependent children would be provided for under general assistance. Coverage could, of course, also be obtained by amending the present Federal-State programs for dependent children.

Certain dependent children do not receive assistance under title IV of the Social Security Act either because of a limitation in the act, or because of a limitation in the States' plans. Children in whose aid the Federal Government clearly cannot now share include those who (1) are living with persons other than the relatives specified; (2) are aged 16 and 17 and are not attending school; or (3) are in want because of the parent's unemployment or low earnings.

If these needy children are to receive assistance on as favorable a basis as those eligible for aid to dependent children, it will be through extension of State coverage. Experience to date indicates that usually such extension will not be effected without Federal participation in cost.

Aid for needy children not now covered by title IV of the Social Security Act could be provided through establishment of Federal grants to States for general assistance as well as by extension of Federal matching in aid to dependent children. P. 305

If coverage of aid to dependent children were broadened and Federal funds provided for general assistance, a State would have the option of aiding needy families with children under whichever program seemed more suitable. Under either program, the process of determining eligibility could be simple.

STATE RESIDENCE REQUIREMENTS P. 310

The issue of residence requirements may be described as the issue between State-local responsibility and individual needs. The recent arrival in a State may differ in no measure in his need or as a general public problem from a person who has lived in the State all his life. Under existing law the Federal Government stands equally ready to share in the costs of providing public assistance to each.

A condition upon approval of Federal participation in [aid to dependent children] has limited to 1 year the residence requirements which may be imposed. In the case of [aid to] the aged and the blind, [a longer period of residence may be required].[15] Obviously, exclusions on the basis of residence

[15] The Social Security Act forbids approval of any State plan for old-age assistance or aid to the blind which imposes as a condition of eligibility "any residence requirement which excludes any resident of the State who has resided therein 5 years during the 9 years immediately preceding * * * application * * * and has resided therein continuously for 1 year immediately preceding the application." (Title I, sec. 2 (b) (2) and title X, sec. 1002 (b) (1)).

would be greatly reduced if the maximum permissible residence requirements were made 1 year for these groups. Such a change would doubtless lessen the problem, but it would still leave the issue unsettled.

From the viewpoint of Federal participation in public assistance it is difficult to justify deprivation of aid of an American citizen solely on the grounds of his residence. The vast majority of administrators and students of public assistance believe that residence requirements are inappropriate, cruel, administratively cumbersome and expensive, and socially unjustifiable.[16]

P. 311

P. 309

Residence requirements necessitate considerable unproductive administrative effort. Proofs are often difficult to obtain, especially if the applicant has lived in various communities. Delays in providing assistance are embarrassing, particularly where the delay is long because of difficulties of obtaining proof to satisfy complicated interpretations of the meaning of residence. Moreover, the question still remains as to what the community is to do about needy individuals found ineligible because of residence requirements.

For those who fear that a State with fairly high payments may be flooded with needy cases from areas where payments are very low, the proposed variable Federal grants [see Varying Federal Participation to State Ability, page 42 of this digest] might considerably change the viewpoints, since such grants would minimize wide differences in assistance payments.

P. 308

The problem of nonresidence

Munitions and equipment for war have been manufactured not only in centers of peacetime industry but also in newly built centers in various parts of the country. The Bureau of the Census has estimated [17] that 7,800,000 people were living, in March 1945, in a different State from that in which they lived in December 1941. They represent about 6 percent of the Nation's population. The complex process of reconversion will require further shifts of population.

P. 307

Suggested solutions of the problem of residence

There appear to be three principal approaches to the solution of the problem of residence requirements in public assistance.

Uniform laws regarding residence.—One approach might be the establishment of a uniform 1-year residence requirement for all States, with eligibility retained in one State until gained in another. This provision would not eliminate extensive investigation of each applicant's residence, including extensive interstate correspondence to determine receipt of relief or to prove residence established in another State.

P. 309

[16] For recommendations of several groups see pp. 357 to 359 of Issues in Social Security. Further details on the effect of residence requirements are presented on pp. 306 to 308.

[17] Civilian Migration in the United States, December 1941 to March 1945 (U. S. Bureau of the Census, Population—Special Reports, series P-S No. 5, September 1945).

Federal care for nonresidents.—A second approach—assumption by the Federal Government of the entire cost of assistance to nonresidents—retains residence requirements but only for fiscal reasons. Questions would arise as to whether the recipients for whom the Federal Government was wholly responsible would be cared for under State or Federal standards. Experience in administering the Federal transient program under the Federal Emergency Relief Administration has shown the difficulty of classifying people on the basis of residence. States might be inclined to P. 310
classify as many applicants as possible as nonresidents and so shift the entire burden of their support to the Federal Government. Far from lessening investigations of residence, [this proposal] might actually increase this activity.

Abolishing residence requirements.—The only approach which would remove all the existing difficulties inherent in the residence requirements—investigations, delays in payment, etc.—would be to require that the State plan contain no residence requirement. Abolishing residence requirements does not mean, of course, that assistance will be paid to persons who live in one State but apply for assistance in a neighboring State. It does mean, however, that persons living in a State or finding themselves stranded in a State without other means of support would not be denied aid.

Such an approach differs from the other approaches in P. 310
degree, but not in major effects on taxpayers. Under either of the first two approaches individuals are assured public assistance for the period necessary to qualify them for assistance under the laws of a State. Thus, after the first year, the burden of assisting new residents would be the same under any of the foregoing.

REDEFINITION OF ECONOMIC REASONS FOR ELIGIBILITY P. 311

The expansion of Federal participation in assistance to the groups discussed above would provide for reasonably adequate aid under present concepts of need. Certain [suggestions put forward from time to time] propose altering the basic concept of need, either by exempting certain income and resources or by providing a fixed grant irrespective of need.

The Social Security Act, as currently interpreted, requires consideration of all income and resources of the applicant, or recipient, except those that are inconsequential. This provision is based on the thesis that equal need shall be met by equal aid.

During the war a special provision was made for allowing exemption of earnings from agriculture under certain conditions for old-age-assistance recipients. The justification for this exemption was that it would encourage such persons to work on farms where there was emergency need for labor.

The result of a fixed exemption would be to break down the relation of assistance to need.

If exemptions [of, for example, $20 to $25 per person per month were authorized] a person requiring $40 per month to meet his need could have a monthly total of $60 or $65 if he were fortunate enough to have earnings equivalent to the exemption. An individual with need for $20 and income of $20 would still be eligible to receive $20 in assistance.

[Exemptions of specified resources or income, in determining need for public assistance] would naturally increase the number of persons eligible for assistance by a considerable, unpredictable, amount. It would also increase considerably the amount of assistance to the present group of eligibles. The net effect would be a very marked increase in public expenditures in favor of groups whose need is least. P. 312

"Pensions"

Flat grants to old-age assistance or aid to the blind recipients without means tests, or with test to the extent only that means can be determined through income-tax reports [have been proposed in various quarters]. P. 317

Such proposals do not properly fall under the classification of "assistance," since the primary principle of assistance is to meet need according to the extent that it is present to insure adequate living for each individual, but not to put a premium on age and disability. There are arguments undoubtedly which could be advanced both for and against such "pensions," but they do not properly belong in a discussion of "assistance."

C. Variable Grants

To the extent that low levels of assistance are caused by limited ability of the State to make payments, no significant increase in payments is likely in the absence of Federal action. [Similarly, to the extent that low payments are caused by the inability of localities in some States to pay a share of assistance costs, payments cannot be materially increased without equalization of funds within the State.] P. 285

VARIABLE GRANTS TO STATES

The present basis of Federal participation does not recognize differences in the ability of States to finance public assistance, nor does it recognize differences growing out of greater incidence of poverty in the low-income States.[18] P. 285

Comparative fiscal ability among States

Ability of a State to make assistance payments is dependent upon its resources. A State's income is largely determined by its tax receipts. However, tax receipts vary with the effort which a State makes to tax itself. Since the ability of a State to collect taxes depends in large part upon the income of its citizens, the total of individual incomes in the State is a more certain indication of ability than the taxes collected. P. 286

[18] Although this was written before the 1946 amendments came into effect, it is still true.

Per capita income.—From 1929 to 1944 there have been great shifts in the general level of income payments, but the ranking of individual States within the range of per capita income payments has remained rather constant. Wide differences between States with high and low per capita income appear in every year.[19] P. 286

Except in the war years, per capita income in the State with the highest per capita income has generally been at least five times as great as in the State with the lowest. Even in 1944, when the lowest State per capita income was $528, the highest State per capita income was $1,519, or nearly three times as much.

[In 1946 when the national average per capita income was approximately $1,200 there were 4 States (California, District of Columbia, Nevada, and New York) in which the average exceeded the national average by at least 25 percent and 10 States [20] in which the average fell below the national average by the same margin. In relative terms the lowest State per capita income—that in Mississippi—was only about a third of the New York average and less than a third of that in Nevada.]

Relation between per capita income and assistance payments.—The size of [assistance grants in the various States reflects] differences in the fiscal ability of the States. Only 1 of the 18 States above average in per capita income [based on 1941–43 average] made an average monthly [old-age assistance] payment [in December 1944] greatly below the national average, while 9 were appreciably above that average. On the other hand, of the 31 States with incomes below the national average, only 6 had an average old-age assistance payment which was among the 10 lowest in the country, and only 1, New Mexico, exceeded the national average. These 10 States have 18 percent of the population of the United States yet in 1944 they received only 10 percent of all Federal funds granted for public assistance under the Social Security Act.[21] P. 288

While State and local tax effort, whether for operating expenditures or public assistance, does not show a close State-by-State correlation with State per capita income, there is a clear tendency for the below average per capita income States to make greater, not less, effort. Even if all States were to make the same effort, however, the results would vary widely in terms of per capita amounts.[22] P. 288

Incidence of poverty

Past experience indicates that the low-income States not only have relatively smaller resources but also must provide for a relatively larger number of needy persons. Recipient loads for aid to dependent children and old-age assistance P. 290

[19] Pertinent State data are presented on pp. 347 to 348 of Issues in Social Security.

[20] Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, and Tennessee.

[21] For further details see pages 286 to 288 of Issues in Social Security. The relationship between per capita income and old-age assistance payments in the various States is shown diagramatically on p. 287 of the Report.

[22] For further details see pp. 288 to 293 of Issues in Social Security.

show that the poorer States have a relatively greater number of needy persons and, as a rule, appear willing to recognize such need. Only 5 of the 18 States with above average per capita income [in June 1945] had old-age assistance recipient loads above average, while 9 of the 31 States with below average per capita income had old-age assistance loads below average. A similar situation exists in aid to dependent children.

[The relationship between recipient rates for aid to dependent children and old-age assistance, on the one hand, and per capita income payments, on the other, is shown graphically for the various States on page 293 of the report. Further details are presented on pages 290 to 292.

[The proportion of aged persons receiving old-age assistance (in June 1945) ranged from 517 per 1,000 in Oklahoma to 51 per 1,000 in the District of Columbia. The proportion of children under 18 receiving aid to dependent children ranged from 47 per 1,000 in Oklahoma to 7 per 1,000 in New Jersey. In aid to the blind, the rates ranged from 54 per 100 estimated blind population in Maine [23] to 5 per 100 in Connecticut. Recipient rates for the special assistance programs in the various States in June 1945 and June 1947 are presented in table 3, page 47 of this digest.

[In June 1947 (as may be noted in table 3, page 47 of this digest) the incidence of old-age assistance and aid to dependent children in the States having the highest rates were about 11 times those in States having the lowest rates.]

Reasons for variation.—Numerous circumstances account for the sharp State variations in the proportions of the particular population groups concerned receiving aid. States, of course, differ in the incidence of poverty. States differ not only in the extent of need, but also in the standards which they apply in determining need. Differences in State eligibility conditions also influence the number of recipients in relation to population. Citizenship is a condition of eligibility in some States but not in others. P. 328 P. 332

In aid to dependent children, the definition of "incapacity" of a parent varies from State to State as does also the definition of a "continued absence from home."

In States which are highly industrialized, relatively more people are receiving retirement or survivors' benefits than in States with large numbers of agricultural workers who are not covered by the insurance program.

Varying Federal participation to State ability

The above evidence appears to indicate that although low per capita income States tend to exert comparatively great financial effort, needy persons in those States receive comparatively less assistance from both Federal and State sources than persons in States with high per capita income. The difference can be reduced by providing the low per P. 290 to 292

[23] The rate in Pennsylvania was 85 per 100 estimated blind population but the Pennsylvania plan has not been approved by the Federal Government and therefore does not receive Federal funds for this program.

capita income State with a greater proportion of its total assistance expenditure from Federal funds.

Proposed equalization plan.—Several methods have been suggested by which Federal participation may be varied according to State financial ability. The method most frequently suggested for assistance programs provides for varying Federal participation from 50 to 75 percent of the total State assistance expenditure. The basis suggested for this variation is State per capita income, which is a quotient of income payments (which represents financial ability of the State) and population (which, roughly, represents differences in total assistance needs). According to this method, States with per capita income below the national average would receive "special aid" through raising Federal participation [to] 50 percent [plus] half the percent by which the State's per capita income falls below national average per capita income.

Under this method the 18 States with above average per capita income would receive $1 for each dollar expended from State-local funds. The 31 States with below average per capita income would receive from $1.08 to $3 for each dollar expended from State-local funds. If Federal participation were not limited to 75 percent, one State, according to 1941–43 per capita income, would by formula receive 78 percent Federal participation. In times of depression the relative range of per capita income among States is greater, and more States by formula, if not limited to 75 percent, would receive greater proportionate Federal participation. P. 292

While under the logic of this method States with above average per capita income should perhaps receive Federal matching proportionately below 50 percent, such action might tend to discourage program development in those States, with no advantage to the below average per capita income States. P. 292

Estimates of its cost to Federal Government.[24]—For the United States as a whole, the low estimate [of this equalization plan] for the four programs totals $518,000,000 per year from Federal funds—an increase of $132,000,000 or 34 percent over 1943–44; the high estimate is $669,000,000, which is higher than Federal expenditures in 1943–44 by $284,000,000 or 74 percent. About one-fourth of the increase in Federal funds would result from removing Federal matching maximums and the remaining 75 percent would be divided almost equally between special Federal aid to low-income States and Federal grants to States for general assistance. In relation to [1943–44] expenditures, the low-income States would benefit more from the changes than the high-income States. P. 319 to 320

[24] The basis on which these estimates were made and the anticipated effects of the equalization plan upon recipient rates and upon average payments are discussed in detail on pp. 318–324 and 350–351 of Issues in Social Security.

EQUITABLE DISTRIBUTION OF FUNDS WITHIN STATES

Increase in Federal grants to States will not result in equitable treatment of needy individuals unless satisfactory methods are worked out for apportioning Federal and State funds among subdivisions within States. Whether or not a needy person receives aid often depends on whether he lives in one county or a few miles away in another. This problem is particularly acute in the States that now require localities to share in financing one or more of the special types of public assistance. In these States, localities usually receive Federal and State funds only as they are able to raise local funds to be matched. P. 292

County differences in assistance payments

Differences among localities in assistance payments are like those among States. More prosperous areas have large tax resources and proportionally fewer people to assist. Usually they make higher payments than are made in poor areas, where relatively more people are in need.

County fiscal burdens

Most local governments must rely on the property tax as their major source of revenue. Communities with low property values, therefore, have great difficulty in carrying their share of an adequate—or even an inadequate—assistance program. Fiscal ability tends to be low where need is great, and the poorer localities often bear a disproportionately large financial burden in paying their required share of assistance.

If public assistance is to be adequate in the poorer localities without a further drain on their overtaxed resources, some way must be devised to equalize the fiscal burden among counties. In financing education, the principle of granting more State aid to poorer localities is well established.

D. Miscellaneous Provisions

LIMITATION OF LIENS

The Social Security Act does not require States to take liens on applicants' or recipients' property or to make recovery for assistance paid to recipients; in fact, the act tends to reduce the incentive for such practices because it provides that if a State makes recoveries the Federal Government shall receive a pro rata share. P. 313

Approximately one-third of the States impose some type of lien provision or other device for securing the State's interest in a recipient's property for recovery of assistance paid to him. In some States a lien is imposed on all property of an applicant, both real and personal. In other States, liens are imposed on real property alone, or on personal property alone, sometimes on that part which is in excess of a specified amount. The effect of these practices is to condition or restrict the recipient in the use of his resources.

Consideration might be given, therefore, to a requirement that States' authority to take liens or to impose other controls be limited to real property and personal property other than cash and that it be limited to securing the agency's interest in that property for recovery, so as not to interfere with the recipient's use of that property. Moreover, the provisions in many State laws permitting States to enforce their claims only after the death of the recipient and surviving spouse or other dependent might well be made applicable for all States retaining recovery provisions. P. 314

FEDERAL PARTICIPATION IN BURIAL PAYMENTS P. 316

The Social Security Act does not provide for Federal matching in respect to payments of burial expense for deceased old-age assistance recipients. One old-age assistance recipient in 14 dies each year. If relatives or friends are unable to pay for the expenses of burial, this cost is borne variously by State or local units. If Federal matching were provided for the expenses of burial it would be expedient to establish matching on a payment-to-vendor basis.

FEDERAL PARTICIPATION IN COST OF ADMINISTRATION OF OLD-AGE ASSISTANCE

[Included in the report was the recommendation (supported by a considerable body of statistical data) that the then prevailing legal provisions governing Federal participation in costs of administering old-age assistance be modified. The 1946 amendments, enacted after the report was issued, changed the provision for Federal participation in the cost of administering old-age assistance to a 50–50 basis, as in the other special assistance programs.]

If special Federal aid is made available to low income States, matching of administrative expense for [all programs] should be on the same basis. P. 316

TABLE 1.—*Recipients of public assistance, by program, 1936–47* [1]

Year and month	Special assistance in States with approved plans				General assistance (cases)
	Old-age assistance (individuals)	Aid to dependent children		Aid to the blind (individuals)	
		Families	Children		
January:					
1936 [2]	431,000	123,000	305,000	37,300	2,219,000
1937	1,148,000	118,000	300,000	29,400	1,662,000
1938	1,602,000	218,000	541,000	33,600	1,893,000
1939	1,790,000	274,000	670,000	43,400	1,772,000
1940	1,924,000	312,000	754,000	46,100	1,674,000
1941	2,078,000	364,000	883,000	49,100	1,257,000
1942	2,243,000	393,000	948,000	53,100	836,000
1943	2,217,000	338,000	823,000	54,500	446,000
1944	2,137,000	270,000	672,000	57,500	289,000
1945	2,059,148	254,622	641,892	56,241	259,000
1946	2,059,344	279,829	716,574	55,805	276,000
1947:					
January	2,212,945	354,342	905,785	60,186	336,000
February	2,227,868	363,603	929,601	60,451	344,000
March	2,243,392	374,339	957,026	60,863	344,000
April	2,255,525	384,004	979,516	61,210	339,000
May	2,259,677	391,261	996,843	61,658	338,000
June	2,271,007	396,098	1,009,360	62,085	335,000
Percentage change: January 1936 to January 1947	+413	+188	+197	+61	−84.9

[1] Source of data: Social Security Bulletin, various issues. Special assistance data through 1944 taken from Issues in Social Security, p. 338.
[2] Month prior to operations under the Social Security Act.

TABLE 2.—*Average public-assistance payments, by program, 1936–47* [1]

Year and month	Special assistance in States with approved plans				General assistance, per case
	Old-age assistance, per recipient	Aid to dependent children		Aid to the blind, per recipient	
		Per family	Per child		
January:					
1936 [2]	$16.34	$28.63	$11.58	$23.70	$21.70
1937	18.81	28.30	11.12	25.51	23.08
1938	19.49	32.18	12.96	24.06	22.56
1939	19.59	32.52	13.28	23.30	26.22
1940	19.87	32.31	13.37	23.44	25.78
1941	20.49	33.00	13.62	23.46	25.20
1942	21.40	33.78	13.99	24.08	24.13
1943	23.53	36.61	15.05	25.10	24.47
1944	26.82	41.75	16.76	27.69	27.30
1945	28.52	45.68	18.12	29.53	28.80
1946	31.06	52.63	20.55	32.32	33.72
1947:					
January	35.39	62.32	24.38	36.40	40.10
February	35.44	62.67	24.51	36.61	39.56
March	35.98	63.29	24.76	37.43	39.65
April	35.99	62.80	24.62	37.67	40.29
May	35.92	62.09	24.37	37.71	40.27
June	36.04	61.68	24.20	37.87	39.18
Percentage change: January 1936 to January 1947	+117	+118	+111	+53.6	+84.8

[1] Source of data: Social Security Bulletins, various issues and unpublished memorandum from Federal Security Agency, October 29, 1947. Special assistance data through 1944 taken from Issues in Social Security, p. 339.
[2] Month prior to operations under the Social Security Act.

TABLE 3.—*Recipient rates for public assistance in June 1945 and 1947, by program and by State (Alaska and Hawaii not included)*

State	June 1945 [1]				June 1947 [2]			
	Old-age assistance [3]	Aid to the blind [4]	Aid to dependent children [5]	General assistance [6]	Old-age assistance [3]	Aid to the blind [4]	Aid to dependent children [5]	General assistance [6]
United States average	207	31	16	.....	214	33	23	547
Alabama	209	10	13	.....	325	13	19	206
Arizona	349	45	18	.....	361	59	28	779
Arkansas	287	29	18	.....	316	31	25	195
California	243	51	8	.....	245	58	12	545
Colorado	405	27	25	.....	409	24	30	646
Connecticut	94	5	10	.....	99	6	14	N. A.
Delaware	57	[7] N. A.	10	.....	52	17	8	N. A.
District of Columbia	51	12	10	.....	47	12	20	192
Florida	280	47	21	.....	325	52	39	N. A.
Georgia	380	25	8	.....	415	26	14	173
Idaho	268	34	18	.....	277	34	25	153
Illinois	190	43	22	.....	187	41	25	581
Indiana	181	35	13	.....	159	33	17	598
Iowa	205	31	11	.....	188	30	15	443
Kansas	198	34	14	.....	190	36	22	468
Kentucky	237	34	13	.....	224	34	23	N. A.
Louisiana	303	21	27	.....	352	22	33	440
Maine	182	54	14	.....	183	51	19	686
Maryland	84	12	13	.....	83	13	21	923
Massachusetts	185	14	15	.....	203	17	18	653
Michigan	228	17	17	.....	238	19	26	836
Minnesota	233	24	15	.....	219	24	18	534
Mississippi	260	20	9	.....	300	26	17	35
Missouri	293	[7] 41	26	.....	314	[7] 41	47	701
Montana	262	40	21	.....	237	45	28	373
Nebraska	210	23	13	.....	207	23	19	258
Nevada	226	[7] 17	[7] N. A.	.....	219	[7] 16	[7] 3	454
New Hampshire	134	31	13	.....	130	34	19	525
New Jersey	71	9	7	.....	67	9	9	296
New Mexico	253	28	32	.....	290	31	42	520
New York	98	15	13	.....	97	17	26	921
North Carolina	212	29	11	.....	206	34	15	165
North Dakota	203	14	20	.....	192	15	20	227
Ohio	199	26	10	.....	195	28	12	615
Oklahoma	517	47	47	.....	574	56	86	N. A.
Oregon	187	22	9	.....	200	23	17	531
Pennsylvania	108	[7] 85	20	.....	113	[7] 93	32	566
Rhode Island	116	10	15	.....	131	12	28	839
South Carolina	256	17	14	.....	305	20	19	309
South Dakota	270	23	17	.....	243	22	23	348
Tennessee	239	27	27	.....	239	29	32	N. A.
Texas	440	40	11	.....	474	44	15	N. A.
Utah	379	21	21	.....	341	23	26	432
Vermont	143	23	14	.....	151	28	17	456
Virginia	97	15	10	.....	88	17	12	252
Washington	354	22	17	.....	373	24	31	508
West Virginia	196	32	28	.....	174	33	36	475
Wisconsin	171	31	14	.....	170	29	18	349
Wyoming	227	41	10	.....	232	42	12	295
Range:								
Highest	(Oklahoma) 517	(Pennsylvania) [7] 85	(Oklahoma) 47	.....	(Oklahoma) 574	(Pennsylvania) [7] 93	(Oklahoma) 86	(Maryland) 923
Lowest	[8] 57 (Delaware)	5 (Connecticut)	7 (New Jersey)	.....	[8] 52 (Delaware)	6 (Connecticut)	[9] 8 (Delaware)	35 (Mississippi)
Lowest as percentage of highest	11.0	5.9	14.9	.....	9.1	6.5	9.3	3.8

[1] Source of data: For old-age assistance and aid to dependent children, Issues in Social Security, table 15, p. 348; for aid to the blind, Social Security Bulletin, September 1945, p. 19, amended to include rates for programs not approved under the Social Security Act.

[2] Source of data: For old-age assistance, aid to dependent children, and general assistance, Social Security Bulletin, August 1947, table 7, p. 36; data for the blind apply not to June 1947, but to December 1946—Source: Social Security Bulletin, March 1947, table 6, p. 32, amended to include rates for programs not approved under the Social Security Act.

[3] Number of recipients per 1,000 population aged 65 and over.

[4] Number of recipients per 100 estimated blind population.

[5] Children receiving aid to dependent children per 1,000 population under 18 years.

[6] Recipients of general assistance per 100,000 estimated civilian population. Count of persons receiving general assistance for June 1945, not available.

[7] Program not approved under Social Security Act.

[8] Lowest exclusive of District of Columbia.

[9] Lowest exclusive of Nevada which has no plan approved under the Social Security Act.

N. A.—Not computed. Population data or recipient data not available or incomplete.

TABLE 4.—*Average monthly public assistance payments in June 1945 and 1947, by by program and by State* [1]

States	June 1945				June 1947			
	Old-age assistance per recipient	Aid to the blind per recipient	Aid to dependent children per family	General assistance per case	Old-age assistance per recipient	Aid to the blind per recipient	Aid to dependent children per family	General assistance per case
United States average	$29.46	$29.97	$47.46	$29.06	$36.04	$37.91	$61.68	$39.18
Alabama	15.51	15.93	25.04	13.92	17.54	20.00	31.48	15.87
Alaska	34.49	[2]	[3] [4] 53.71	27.13	39.79	[2]	31.31	29.62
Arizona	38.55	46.01	39.52	22.08	47.58	57.29	46.76	31.30
Arkansas	17.99	19.87	28.69	11.86	18.25	21.27	36.12	12.21
California	47.32	47.77	81.20	37.42	52.61	62.84	101.47	48.15
Colorado	41.35	36.67	53.22	31.00	65.11	45.48	68.59	38.30
Connecticut	36.73	35.72	77.39	32.34	43.87	40.34	93.06	39.66
Delaware	15.84	[2]	67.88	24.53	22.66	28.48	[4] 67.74	35.90
District of Columbia	31.89	35.30	59.95	36.49	40.07	42.21	74.26	48.04
Florida	28.58	29.95	33.50	N. A.	36.59	38.01	35.31	N. A.
Georgia	11.42	14.15	24.96	12.07	17.04	20.42	35.30	14.55
Hawaii	22.59	25.09	59.34	31.58	35.38	40.66	93.06	47.70
Idaho	30.22	31.44	36.44	20.95	41.71	46.68	78.45	28.91
Illinois	31.93	33.73	49.87	31.42	39.57	41.20	78.63	43.32
Indiana	25.61	29.66	36.47	21.79	30.33	32.31	42.49	22.96
Iowa	31.72	33.11	27.21	18.37	39.72	46.74	34.67	25.31
Kansas	28.82	31.20	49.13	28.98	34.74	39.91	70.70	42.37
Kentucky	11.46	12.96	21.72	N. A.	17.38	18.40	35.06	N. A.
Louisiana	23.65	27.25	44.71	17.93	24.28	29.84	45.58	21.16
Maine	29.59	30.62	63.71	30.85	34.21	34.31	89.87	38.32
Maryland	27.77	31.22	37.53	32.35	30.88	34.05	48.28	34.35
Massachusetts	42.76	44.39	80.32	32.10	50.60	51.46	95.58	38.49
Michigan	30.65	34.46	60.25	32.00	35.94	40.36	77.83	38.94
Minnesota	30.12	37.68	41.91	26.40	37.07	44.52	55.84	36.32
Mississippi	15.42	22.18	25.91	8.50	17.32	23.87	26.43	10.12
Missouri	23.36	[3] [4] 25.00	33.72	19.83	35.05	[3] 30.00	33.46	24.62
Montana	31.10	34.44	45.13	24.45	37.80	40.25	67.22	27.25
Nebraska	28.74	29.34	32.79	21.10	40.27	40.51	81.23	26.03
Nevada	38.42	[3] 40.79	[3] 28.71	20.62	47.47	[3] [4] 44.15	[3] 31.60	21.51
New Hampshire	30.03	30.73	68.37	26.96	36.70	39.70	78.45	31.03
New Jersey	31.74	33.46	58.52	34.66	40.76	42.60	78.49	47.44
New Mexico	31.81	29.00	38.56	22.69	35.85	39.14	48.54	20.94
New York	34.79	39.13	74.58	45.16	46.99	52.28	98.02	65.55
North Carolina	12.50	18.63	24.79	10.69	18.05	25.95	35.44	13.50
North Dakota	33.32	32.33	54.96	23.34	39.45	37.72	74.90	31.28
Ohio	29.85	27.00	54.27	27.94	39.56	36.02	66.05	39.81
Oklahoma	29.27	34.37	34.16	N. A.	42.33	42.91	44.98	N. A.
Oregon	35.37	46.25	79.46	39.79	41.87	49.61	89.74	46.90
Pennsylvania	30.00	[3] 29.79	63.71	26.29	33.96	[3] 39.76	72.12	33.56
Rhode Island	33.67	31.39	67.85	31.44	39.66	41.25	77.47	43.60
South Carolina	14.14	20.24	24.18	11.34	20.23	23.98	27.60	12.57
South Dakota	24.53	22.15	40.41	21.15	32.42	30.04	46.03	24.68
Tennessee	16.08	19.99	30.23	N. A.	18.38	22.93	35.09	N. A.
Texas	23.90	24.36	20.80	N. A.	28.92	31.52	41.73	N. A.
Utah	38.73	38.90	73.24	40.17	42.22	48.17	92.03	48.59
Vermont	22.30	28.49	34.51	23.40	30.81	36.88	46.34	26.05
Virginia	13.70	18.14	29.56	16.68	17.63	22.72	39.46	19.98
Washington	48.29	54.12	90.20	48.49	53.02	61.00	104.63	49.32
West Virginia	17.98	20.98	32.67	13.98	15.08	18.06	28.90	14.66
Wisconsin	29.14	29.36	54.92	23.59	36.00	36.55	79.83	37.00
Wyoming	36.30	38.89	59.47	31.40	48.72	52.28	86.37	44.13
Range:								
Highest	(Washington) 48.29	(Washington) 54.12	(Washington) 90.20	(Washington) 48.49	(Colorado) 65.11	(California) 62.84	(Washington) 104.63	(New York) 65.55
Lowest	(Georgia) 11.42	(Kentucky) 12.96	(Texas) 20.80	(Mississippi) 8.50	(West Virginia) 15.08	(West Virginia) 18.06	(Mississippi) 26.43	(Mississippi) 10.12
Lowest as percentage of highest	23.6	23.9	23.1	17.5	23.2	28.7	25.3	15.4

[1] Source of data: Social Security Bulletin, August 1945, tables 2, 4, 5, pp. 42, 43, 44; August 1947, tables 2, 4, 5, 6, pp. 33, 35, 36.
[2] No program.
[3] Program not approved under Social Security Act.
[4] Partially estimated.

NOTE.—N. A. Not computed. Population data or recipient data not available or incomplete.

PART III. UNEMPLOYMENT COMPENSATION

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NOTE.—In some cases the text presented in this part is the exact language used in Issues in Social Security. In other cases the language is new. Factual information has been brought up to date. Issues that have arisen and proposals for change that have been made since Issues in Social Security was published are included and the paragraphs which discuss them are indicated in brackets as follows: [ ].

PART III—UNEMPLOYMENT COMPENSATION

CHAPTER I. THE FEDERAL-STATE SYSTEM OF UNEMPLOYMENT COMPENSATION IN THE UNITED STATES

INTRODUCTION

Although unemployment compensation had been the subject of discussion in this country for many years prior to congressional consideration of the Social Security Act, the only tangible result was the passage by Wisconsin of an unemployment-compensation law in January 1932. The Social Security Act was passed by the Congress on August 9, 1935, and was approved by the President on August 14. Within less than 2 years after the approval of the Social Security Act, all States had passed unemployment-compensation laws. The unemployment-compensation provisions of the Social Security Act and the State laws were held constitutional by the Supreme Court of the United States in May 1937. P. 363 to 364

The Social Security Act did not establish an unemployment-compensation system; it contained provisions which encouraged States to do so. The act imposed a uniform national tax of 3.0 percent on the pay rolls of specified employers, with the provision that employers who paid a tax to a State with an approved law could offset the State tax against the national tax up to 90 percent of the Federal levy.[1] This offset device, of course, resulted in the passage of State laws. If the States had not acted, the proceeds of the pay-roll tax would have gone into the general fund of the United States Treasury. Because of the Federal provisions, the States generally have established their standard rate as 90 percent of the Federal tax, or 2.7 percent. As will be pointed out later, however, the Federal act also provided for additional credits against the Federal tax, which eventually nullified the uniform national levy. P. 364 to 365

In order to remove all possible obstacles to State action, the Social Security Act provided that the cost of administering the unemployment compensation functions established by State law should be financed completely by Federal funds. The Congress appropriates funds to the Social Security Administration (formerly the Social Security Board)[2] out of which it makes grants to States for the administration of their laws. The States thus bear directly no part of the cost

[1] In 1939 the unemployment-compensation pay-roll-tax provisions were transferred to subchapter C of the Internal Revenue Code and are now known as the Federal Unemployment Tax Act.

[2] Reorganization Plan No. 2 of 1946, effective July 16, 1946, abolished the Social Security Board. Its functions were largely taken over by the Social Security Administration, established by the Federal Security Administrator.

of administering unemployment compensation functions. The source of funds for congressional appropriations for grants to States, although not earmarked for this purpose, is generally considered to be the Federal unemployment tax collected by the Federal Government, which amounts generally to 0.3 percent of the taxable wages paid by employers subject to it.

Under the Social Security Act, the States have wide latitude as to the provisions of their unemployment compensation laws. The States determine the coverage and the benefits they will pay. They largely determine the conditions under which they will pay benefits, and the kind of administrative machinery they use. P. 365 to 368

Although the States have comparative freedom in establishing their unemployment compensation systems, the Social Security Act places certain responsibilities on the Federal Government. The Federal responsibilities, except for tax collections and trust-fund functions, are administered by the Social Security Administration. The Administration must review State laws with respect to conformity with certain specified provisions in the Federal act before they can be approved for the normal tax offset and for certification for administrative grants. The act also requires that State administration performance meet certain standards in order to be certified for administrative grants. In general, the requirements a State law must meet are intended to safeguard the solvency of its funds, prevent the depression of labor standards, and insure reasonably efficient administration.

THE PURPOSE OF UNEMPLOYMENT COMPENSATION

In spite of the fact that unemployment compensation had been the subject of discussion in this country for almost a generation and that laws have been in existence in all States for at least 11 years, there is still some disagreement as to its primary purpose and its basic principles. It is generally conceived of as a multiple-purpose program, although different groups emphasize different aspects of it. P. 368 to 371

Perhaps the most generally accepted view is that unemployment compensation is justified primarily as a method of providing income needed to maintain unemployed workers and their families. Instead of emphasizing benefits as a primary objective, however, some regard the program essentially as a device for stabilizing employment. This concept is manifested primarily in experience rating provisions in State laws, which give employers with relatively stable employment reduced tax rates.

Still others justify unemployment compensation, at least in part, as a device for maintaining consumer purchasing power. This justification emphasizes the effect of benefit payments on business in general, instead of on the individual benefit recipient. It is also conceived of by some as an appropriate device to provide for the best utilization of the

labor force. In any case, it is generally agreed that the program should contain safeguards to prevent its being used to depress labor standards or to limit the mobility of labor.

Even though unemployment compensation generally is viewed as primarily a method of providing benefits to unemployed workers, there are differences of opinion as to the extent of protection that the program can properly provide. To some it is thought of as a program that should be limited in scope, paying relatively small benefits for relatively short periods. Others hold a much broader view of the protection that it can appropriately provide. They would make the program a major device for meeting the risks of unemployment. It would extend, in principle at least, to all those who work for wages; it would pay relatively high benefits; and it would pay them for relatively long periods of time.

SUMMARY OF OPERATIONS UNDER THE FEDERAL-STATE SYSTEM

In 1946, the most recent year for which figures are available, the total number of different workers who worked in employment covered by State laws was about 45,800,000. Of those, 37,000,000 worked sufficiently long to qualify for benefits should they become unemployed. About four and a half million workers drew some benefits during the year, at an average weekly rate of $18.50. The average weekly payment has since declined to $17.68 in the quarter ending June 30, 1947. From the beginning of the program through June 30, 1947, the State agencies collected about $11,000,000,000 in contributions and in interest, and paid out some $4,000,000,000 in benefits, leaving an approximate balance of about $7,000,000,000 in reserves, the highest in history. During the period from January 1936 through June 1947, Federal unemployment tax collections amounted to $1,421,000,000, while grants to States for administration approximated $548,000,000 and expenditures by Federal agencies for the same purpose approximated $35,000,000, leaving an approximate balance of Federal unemployment tax collections of $838,000,000. This balance goes into a special fund for use, until December 31, 1949, in making advances to States whose funds become low. P. 371

UNEMPLOYMENT COMPENSATION DURING THE RECONVERSION

[While unemployment compensation has never operated through a serious depression, it has functioned during the reconversion period, which involved mass displacements of millions of people. It may be worth while to look briefly at experience during the period from August 1945, through December 1946.

[Millions of workers who were laid off after the end of the war had acquired rights to higher benefits than ever before because of high wartime wages. With the high level of employment prevailing at this time, however, many of the

workers who lost their wartime jobs found other jobs without filing claims. Their rights to substantial benefits did not prevent them from taking suitable employment where available. Even among the 11,000,000 workers who filed claims for benefits during the period, more than one-third were reemployed during the waiting period, and drew no benefits. During these 17 months, when millions of war jobs were terminated and when millions of servicemen were being integrated into civilian life, the number of beneficiaries in any week did not exceed 3 percent of the number of workers with rights to benefits, while the total number of beneficiaries was less than a fifth of the insured covered workers.

[While economic conditions were on the whole very good, the postwar period was marked by lay-offs due to retooling, material shortages, price uncertainties and labor disputes. Nearly 7,000,000 workers drew benefits at some time during this period. On the average, benefits were drawn for about 12 weeks and about 40 percent of the beneficiaries were still unemployed when they drew their last check. The average weekly benefit paid for total unemployment was $18.63, and a total of 1.5 billion dollars was paid out in benefits during the 17-month period.

[Because of this large outlay, and because the average rate of employer contributions declined to a new low of 1.4 percent, funds available for benefit payments failed to rise during 1946 for the first time in the program's history. Still, the nearly $7,000,000,000 of available reserves at the end of 1946 were approximately the same as they had been at the end of the war. Thus, unemployment compensation functioned through the reconversion practically without dipping into accumulated reserves.]

Chapter II. The Benefit Structure in Unemployment Compensation

State laws specify the conditions under which workers may receive benefits, and the amounts they may receive. The amounts depend upon each worker's record of employment and wages during a past period, ordinarily of four consecutive calendar quarters, called a base period. The benefit a worker receives for a week of unemployment approximates 50 percent of his past weekly wages, but will vary from $3 to $25, depending on the State law and on his prior earnings. Benefits are usually payable for not more than from 16 to 26 weeks in a 12-month period called a benefit year.

P. 372 to 374

Prior earnings are not the only condition of eligibility for benefits. The worker must also be unemployed, be able to work and available for work, file a claim for benefits, register for work at a public employment office, serve a waiting period, i. e., a period during which the claimant may not draw benefits, and not be disqualified from benefits under any provision of the State law.

WEEKLY BENEFIT AMOUNT

All but three State laws originally provided a maximum weekly benefit amount of $15.[3] At the present time, 12 States, with 26 percent of the covered workers, provide a weekly maximum of $24 or more, including allowances for dependents in four of them. Thirty-seven States with 84.8 percent of the covered workers, have a maximum of $20 or more. A maximum of $18 or more is provided in 46 States, with 95 percent of the covered workers. Five States, with 5 percent of the workers, provide a maximum weekly benefit amount of less than $18; and three of these still provide the original $15 maximum. P. 375 to 377

Only seven State laws originally provided a fixed minimum weekly benefit amount, which varied from $5 to $7.50. Fixed minimums are now provided in all laws except one, and they vary from $3 to $10. Seven States have minimums of less than $5; 16 of $5; and 28, of more than $5. Over half the covered workers are in States with minimums of $7 or more.

At the present time benefits are geared directly in some fashion to past wages. Dependents' allowances, which are provided in five States, depart from a strict relating of benefits to past wages by weighting payments in favor of claimants with family responsibilities. They assume that the claimant with dependents needs larger weekly payments to meet basic living costs than the claimant without dependents.

The proportion of wage loss to be compensated by the program is, largely, a matter of public policy. If the system is to be effective the proportion should not be so small as to require any substantial proportion of beneficiaries to resort to relief while in benefit status, or unduly to depress living standards. However, the proportion should not be so large as to make benefit status more attractive than work. Decisions on the basic weekly benefit amount will be affected by action on dependents' allowances. If dependents' allowances are provided, the proportion of wage loss compensated through the basic benefit would probably be smaller than without dependents' allowances. P. 388 to 390

Just what the maximum benefit amount should be is again largely a matter of public policy. It seems reasonable to make it high enough so as not to require undue reductions in the living standards of higher-wage beneficiaries. Moreover, as wage rates rise or fall, it would be reasonable to adjust the maximum accordingly. Finally it should not be so low as to produce a substantially flat weekly payment. In 1946 more than 90 percent of the payments in two States were at the maximum, and in nine more this proportion was 80 to 89.9 percent. If this result is produced over a period

[3] While the discussion of the benefit structure is in terms of total unemployment, i. e., a complete lack of work and absence of earnings during a specified period, normally a week, many individuals are subject to another type of unemployment, called partial unemployment, which exists when the plants in which they work operate less than full time and which, if prolonged, can produce much the same consequences as total unemployment. At the present time, all States except one compensate for partial unemployment.

of time, benefit payments would not be related to prior wages in the accepted sense, and it would seem more logical to provide flat benefits, thus eliminating the administrative costs involved in maintaining wage records and computing individual benefits.

DURATION OF BENEFITS

The number of weeks for which benefits may be paid in a benefit year, varies in most States in accordance with base-period wages, within specified maximum and minimum limits, although 15 States provide uniform weeks of benefits for all eligible claimants. P. 377 to 378

All except 3 of the State laws originally limited the maximum duration of benefits to 16 weeks or less, 20 providing less than 16 weeks. Today 40 States, with 87.1 percent of all covered workers, provide a maximum duration of 20 weeks or more. Only 9 States provide a maximum of less than 18 weeks.

Because of the nature of the original duration and weekly benefit amount provisions, it is not possible generally to summarize the original minimum duration provisions. Including 14 of the States which provide uniform duration, 16 States, with 31.3 percent of all covered workers, today provide minimum duration of 14 weeks, or more; 22 States, with 48.7 percent of covered workers, provide from 7 to 14 weeks; and the remaining 13 States provide less than 7 weeks for claimants who barely qualify for benefits.

A decision on length of duration involves basically a decision as to what unemployment compensation is supposed to accomplish, and its place in the totality of public programs designed to provide employment or assistance for the unemployed. In the absence of final decisions on these matters, it is still possible to make some general comments on duration. P. 390

Duration should obviously not be so short that a large proportion of beneficiaries would normally exhaust their benefit rights. If a large proportion of the beneficiaries were normally required to shift from unemployment compensation to another program for the unemployed, it would seem appropriate to question how the two programs serving substantially the same group could be justified. Assuming effective eligibility conditions, plus financial capacity, it would seem to be unnecessary to limit duration. The actual limit would depend on public policy as to how long benefits should be paid to an individual as a matter of right, without any demonstration of his need, or without his performing any work or training for another job for which work opportunities exist.

POTENTIAL BENEFITS IN A BENEFIT YEAR

The total amount of benefits potentially payable to an eligible claimant in a benefit year is obtained by multiplying the claimant's weekly benefit amount by the number of weeks for which he may be entitled to benefits, or by dividing P. 378 to 380

base-period wages by the duration fraction. While it is impossible to analyze potential benefits for every eligible claimant it is possible to analyze potential benefits at the maximums and the minimums provided in State laws. It should be recognized, of course, that the States vary widely in the amount of benefits they provide on the basis of the same wages. Thus, average weekly wages of $30 and base-period wages of $1,000 would produce potential benefits varying from $200 to $500.

At the present time, 33 States, with 80.7 percent of the covered workers, provide at least a maximum of $20 per week for a maximum of 20 weeks. Forty States, with 89.2 percent of the covered workers, provide at least a maximum of $18 per week for a maximum of 18 weeks and 11 States pay less than $18 per week or less than 18 weeks or both. One State pays at the maximum $15 for 14 weeks and one, $20 for 12 weeks.

Stated in dollars, 11 States, with 42.5 percent of the covered workers, provide maximum annual benefits of $546 or more; in two of these States, however, only claimants with a specified number of dependents can receive the maximum amount. Twenty-three States, with 38.5 percent of the workers, provide maximum annual benefits of from $396 to $520. Seventeen States, with 19 percent of the workers, provide maximum annual benefits of $360 or less.

At the present time, the benefits potentially payable to the claimant who qualifies only for the minimum under State laws vary from $5 to $260. Thirty-eight States, with 80.2 percent of the covered workers, provide minimum potential benefits of $50 or more. Thirteen States, with 19.8 percent of the covered workers, provide potential benefits of less than $50 at the minimum.

The base-period wages required to qualify for minimum potential annual benefits also vary markedly among the States. Six States do not provide any benefits to claimants who earn less than $300 in base-period wages. At the other extreme, four States provide benefits for claimants with less than $100 in base-period wages. Thirty-one States require from $100 to $200 in base-period wages to qualify.

WAITING PERIOD

A fairly long waiting period was justified initially on two main grounds. One was the belief that financial consideration made it necessary and desirable to limit benefit expenditures for short-term unemployment to conserve funds for prolonged unemployment, and the other was to allow time in which to process initial claims. P. 381

All State unemployment-compensation laws originally required a waiting period of at least 2 weeks; 17 required 3 weeks, and 3 required 4 weeks. The majority of States also required additional waiting-period weeks within the benefit year, under specified conditions. Experience over the years has indicated that relatively long waiting periods are un-

necessary either for administrative reasons or for fund protection, and States have accordingly reduced them so that no State requires more than two initial weeks; 41 States require only 1 initial week, 32 of them a week of total or partial unemployment; and 1 State, Maryland, eliminated its waiting period altogether in 1945.

ELIGIBILITY CONDITIONS

All laws contain eligibility conditions which an individual must meet before he is entitled to receive benefits. Benefits are limited to individuals who have worked in covered employment. Wages in such employment are normally used to reflect such work. If an individual has worked in covered employment for a sufficient time to have qualifying wages, he must, as a further condition for entitlement to benefits, be unemployed, either totally or partially. Since unemployment compensation compensates for wage loss from unemployment due to economic causes, individuals must be able to work and be available for work. Ability to work is generally understood to mean physical and mental capacity for work, and availability, to mean attachment to the active labor force. There are, of course, wide differences of opinion on the meaning of ability to work and availability for work in specific and concrete situations. P. 382

Individuals are required to register for work at a public employment office, because such an office provides the only general machinery for determining ability to work and availability for work. The individuals are also required to file an initial claim, which certifies to the beginning date of a period of unemployment. The requirement for periodic reporting (usually weekly) gives the State agency an opportunity to examine the claimant more closely as to his ability to work, availability for work, and other circumstances surrounding his claim for benefits.

DISQUALIFICATION FROM BENEFITS

An otherwise eligible individual may not actually receive benefits, at least for a specified period, because of the circumstances surrounding his unemployment. Thus, a worker may be disqualified from receiving them if (1) he has left work voluntarily without good cause; (2) he has been discharged for misconduct in connection with his work; (3) he has failed, without good cause, either to apply for suitable work or to accept suitable work when offered him; or (4) his unemployment is due to a labor dispute. P. 383 to 387 and P. 391

Disqualifications are intended to prevent payment of benefits to an individual whose unemployment is a result of his own voluntary behavior. Most disqualifications take the form of a postponement of benefits; others take the form of both a postponement of benefits and a reduction or cancellation of benefit rights. During the past few years the trend has been to expand disqualification provisions so as to restrict the rights to benefits of individuals subject to them.

This expansion has taken several forms, such as (1) increasing the length of disqualification, (2) canceling or reducing benefit rights, and (3) altering the definition of disqualifying acts. Since 1945 changes made in the three major disqualification provisions appear to have altered the restrictive trend evident in prior years.

In 23 States, disqualification for all three causes now takes the form of postponement of benefits for a limited period only. Twenty-four States provide for cancellation or reduction of benefit rights for one or more of the three disqualifications, and 13 for all three causes. However, in four of these States cancellation or reduction is discretionary with the administrator of the State law. Five States disqualify for the duration of the unemployment for all three causes and seven additional States for one or two of the disqualifying reasons. In a period when few jobs are available, disqualification for the duration of the unemployment may mean a complete denial of benefits. This result is true also of provisions which completely cancel benefit rights.

On the subject of disqualifications considerable disagreement exists. In justification of present restrictive disqualifications, it is said that liberalization of benefit schedules requires the States to exercise more controls over the receipt of benefits. Moreover, many of them were enacted during the war period, when all efforts were being made to induce workers to remain on or to go to essential jobs.

On the other side, it is said that restrictive disqualification provisions conflict with the basic objectives of the system, insofar as it is designed to promote labor mobility, protect labor standards, and maintain purchasing power. It is said that unemployment which originates out of an individual's own actions cannot be attributed to such actions for more than a specified period of time after which it becomes attributable to the state of the labor market rather than commission of the act. Unemployment thus becomes involuntary in character and should be compensated as such, provided, of course, the individual is otherwise eligible. A variable period, depending on the circumstances in each case, of up to 4 to 6 weeks is suggested by many as an appropriate disqualification period.

In addition, it is asserted that the trend toward restrictive disqualifications is in part due to the presence of experience rating in unemployment compensation. Under most experience-rating plans, contribution rates are based on the benefits of former workers which are charged to each employer's record. Hence, it is said, employers are interested in avoiding benefit charges through restrictive disqualifications in order to increase their chances of getting a lower tax rate.

Chapter III. Coverage of Unemployment Compensation

As originally passed, the Federal unemployment tax applied to all employers who employ eight or more workers within 20 or more weeks in a calendar year in employment

P. 396 to 398

covered by the act. The employments covered included any service, of whatever nature, performed within the United States, by an employee for an employer, except: (1) Agricultural labor; (2) domestic service in a private home; (3) service performed as an officer or member of the crew of a vessel; (4) service performed by an individual in the employ of his son, daughter, or spouse, and by a child under the age of 21 in the employ of his father or mother; (5) service performed in the employ of the United States Government; (6) service performed in the employ of a State, or its political subdivisions; and (7) service performed in the employ of nonprofit organizations such as, community chests, or foundations organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes. Railroad workers were also excluded when the Congress established a national railroad unemployment insurance system, effective July 1, 1939.

No action was taken by the Congress to broaden to any substantial extent the coverage provided in the original Social Security Act until 1946 when coverage was extended to private maritime employment. Generally speaking, State laws contain the same exclusions as the Federal act, except for employees of small firms.

For the week of August 3–9, 1947, it is estimated that some 34.4 million individuals were protected by unemployment compensation, including 31.4 million under State laws, 1.6 million under the Railroad Unemployment Insurance Act, and 1.4 million under the Servicemen's Readjustment Act. Some 13.6 million wage workers were without such protection. Another 13.3 million self-employed persons in the labor force are not considered within the scope of unemployment insurance for purposes of this report.

EMPLOYEES IN SMALL FIRMS

P. 398 to 399

From the beginning several State laws have applied to employers with less than eight workers. At present, 29 State laws cover employers of less than 8, of which 16 cover employers of 1 or more.

Although more than half the unemployment compensation laws now extend to these smaller employers, universal coverage of such employers within the foreseeable future will probably require congressional action. They are already covered by old-age insurance. The administrative feasibility of such coverage has been demonstrated in the States which have administered coverage of one or more.

CIVILIAN EMPLOYEES OF THE FEDERAL GOVERNMENT

P. 409 to 420

Except for the temporary program of unemployment benefits for seamen employed by the United States through the War Shipping Administration, the Social Security Act provides no protection for Federal civilian employees. States, of course, are powerless to bring them under State

unemployment compensation laws, without appropriate congressional action.

Involved in any consideration of the extension of unemployment insurance to Federal workers are questions of coverage, benefits, administration, and method of financing. Bills which were introduced in Congress in the last 3 or 4 years include proposals for: (1) a completely Federal system, administered by a Federal agency; (2) payments made in accordance with a uniform national scale of benefits, administered by State agencies; (3) payments made in accordance with the provisions of the law of the State in which the Federal service was performed, administered by State agencies; and (4) payments made in accordance with the law of the State in which the unemployed Federal worker files his claim for benefits, administered by State agencies.

MARITIME WORKERS

P. 399 to 409

Originally no State laws covered maritime services because it was thought that there was a constitutional bar to such coverage. When the Supreme Court decisions in May 1943 on the *Standard Dredging Corporation* v. *Murphy* and *International Elevating Company* v. *Murphy* cases altered this situation, maritime service was automatically covered in a few States and subsequently some States repealed the specific exclusion. With the amendment of the Unemployment Tax Act to cover maritime services from July 1, 1946, many States automatically covered these services and others amended their laws to cover them, so that by September 15, 1947, all but eight States [4] provided some coverage for maritime services.

In addition to extending the coverage of maritime workers in the permanent Federal-State unemployment insurance system, the Social Security Act Amendments of 1946 also provided a temporary Federal program of reconversion unemployment benefits for seamen who were employed by agents of the War Shipping Administration. The Federal program became effective on July 8, 1947, when funds were appropriated to pay the benefits provided in the 1946 law, and will continue through June 30, 1949. As a result of this amendment all State employment security agencies are now paying benefits to these seamen in accordance with the benefit provisions in the State laws.

AGRICULTURAL WORKERS

P. 420 to 424

Agricultural workers were excluded from the Social Security Act in 1935 largely because the collection of the tax on their wages would be difficult. In the Social Security Act Amendments of 1939 the definition of "agricultural labor" was amended so that the exclusion was extended to plants that process agricultural products and transport them to market.

[4] Arizona, Kentucky, Mississippi, Montana, Nevada, North Dakota, South Dakota, Utah;

Administrative difficulties remain the chief objection to covering agricultural labor, but they do not seem to be insuperable. The problem of collecting contributions might be met by using a stamp book. Deciding when a farm laborer is unemployed and whether he is available for work is one of the responsibilities now faced by States whenever a farm worker, qualified for benefits by nonfarm work in covered employment, claims benefits. Similar decisions could be made if he were covered as an agricultural worker.

DOMESTIC SERVICE

P. 424 to 430

Domestic service in a private home, a local college club, or a local chapter of a college fraternity or sorority is excluded under the Federal Unemployment Tax Act. Only one State, New York, has provided protection to domestic workers in those private homes in which four or more such workers are employed.

The exclusion of domestic workers falls principally upon women; over 93 percent of all household employees were women, and household employment constituted the major occupation of 18 percent of the 12.5 million women who were gainfully employed in 1940. The exclusion also falls disproportionately upon Negroes.

NONPROFIT WORKERS

P. 430 to 432

Nonprofit organizations were excluded from the Social Security Act in 1935 without any reason being given for the exclusion. Their workers are also excluded from coverage by State laws, except in Hawaii and Tennessee.

The arguments generally given for excluding nonprofit organizations are that their employees are in less need of protection than industrial workers, that the taxes would have to be paid out of charitable donations, and that taxing religious organizations would infringe on religious freedom. In favor of covering nonprofit organizations, it is argued that at least their maintenance and clerical employees are frequently unemployed, that even religious organizations cover their employees with workmen's compensation and other insurance, and that the administrative difficulties of this coverage would be minor.

EMPLOYEES OF STATE AND LOCAL GOVERNMENTS

P. 432 to 435

Although the Federal tax is not applicable to State or local governments in their capacity as employers, several States have extended the protection of unemployment compensation to some of their employees. New York includes almost all State employees. Other State laws cover certain selected groups of public employees, while still others allow election of coverage by political subdivisions.[5]

[5] Arizona, Idaho, Maryland, Nevada, Ohio, Tennessee, Utah, Washington, and Wisconsin.

State and local government employees are engaged in a wide variety of occupations, some of them stable and others not. It would seem, however, that provision of unemployment compensation for State and local employees is peculiarly a State matter.

Chapter IV. Financing Unemployment Compensation

Benefit financing

For the most part, benefits have been financed from a payroll tax imposed on employers. In line with the suggestion made by the Committee on Economic Security, the Congress made the unemployment tax in the Social Security Act applicable only to employers. At one time or another, nine State laws have required contributions from employees, but only two States—Alabama and New Jersey—now require them. P. 443 to 449

In the early years of benefit payments considerable concern was expressed as to the ability of State unemployment compensation funds to meet their benefit liabilities. However, because of several circumstances, including the high level of employment during the war period and the inclusion of special war-risk rates in several States, State reserves are, on the whole, adequate to meet benefit payments for any foreseeable future period.

Experience has demonstrated that there are wide differences among States in the rate and duration of unemployment. As a consequence, even if every State had the same benefit structure, benefit costs would likewise vary widely among the States. It seems essential, therefore, that States be permitted to limit tax collections to the amounts necessary to support their benefit needs. At the present time, the only method by which States can limit their collections is by experience rating. At the end of 1946, 45 State laws provided for experience rating. In 1947 another five States adopted it. As a result, there have been sharp reductions in tax rates. In 1946 the average rate for the Nation was 1.4 percent, as compared with the standard rate of 2.7 percent. The average rate in individual States ranged from 0.3 to 2.1 percent.

It has been suggested that States should also be permitted to limit their collections by flat (or horizontal) rate reductions. Flat-rate reductions would apply to all employers alike, in contrast to rates based on the individual employer's experience with unemployment. A flat rate imposed on pay rolls automatically results in high income to the unemployment fund during periods of high employment levels and in reduced income when pay rolls are at a low level. Under existing experience-rating systems, the opposite is true; rates tend to be high during depressions and low during more prosperous periods. A flat rate, moreover, would not penalize new employers.

Whatever the decision as to flat, or horizontal, tax deductions, the requirements that the experience-rating provisions

in State laws must meet now in the Federal Unemployment Tax Act might well be reexamined. The requirements are very difficult to apply to specific provisions in State laws. If experience rating is to be continued, consideration might be given to the appropriateness of revising the requirements so as to give the States more freedom in selecting the type of experience-rating system they want. Still another question is whether or not action should be taken to permit the granting of lower tax rates to newly subject employers.

[Support for reduction in the Federal tax from 3 to 2 percent is provided by estimates that the cost of the program for the country as a whole would average less than 1.5 percent if peak unemployment amounted to less than 10 percent of the civilian labor force and somewhat under 2 percent if unemployment were as high as 20 percent.[6] Even with such a reduction the offset provisions could be retained.]

A more radical change would involve shifting from the present tax-offset system to a grant-in-aid system. Specifically, a Federal grant-in-aid system would substitute a specified Federal unemployment tax (1 percent has been suggested), without any offset provisions, for the present provision. Out of the proceeds of the Federal unemployment tax the Federal Government would provide a 50-percent Federal grant-in-aid toward the cost of State benefit payments. It is suggested that Federal grants might begin when a State's reserve had declined to one-half of its present size. Since one-half of the cost would be defrayed by the Federal Government, it is said that a State would be as well off with one-half of its present reserve as it now is. Moreover, under this proposal, each State would decide for itself how it would finance its half of the cost. Its cost would be financed out of employer taxes, employee taxes, general taxes, or, for a time, by drawing upon the present reserve. If a State financed its portion of the cost through an employer's tax it could retain employer experience rating or not, as it chose. P. 455 to 458

The advocates of a grant-in-aid system in connection with unemployment compensation base their proposal in part upon what they consider the relatively favorable experience with it in public assistance and in part upon what they consider to be anomalies, inconsistencies, and complexities in the existing tax-offset system.

Against the proposal it is suggested that this method commits the Federal Government to expenditures that are not needed, because the States have fully adequate funds to finance benefits. Moreover, the potential loss to the States of a share of the proceeds from a relatively small payroll tax collected by the Federal Government might, in extreme cases, not even prevent some States from abandoning altogether their unemployment compensation systems. On the other hand, some States might so liberalize their benefits as to result in a disproportionate flow of Federal funds to them.

[6] Principles of Cost Estimates in Unemployment Insurance, W. S. Woytinsky, Washington, Government Printing Office, 1947.

ADMINISTRATIVE FINANCING

As was indicated earlier, Federal grants provide the funds to cover all State unemployment-compensation administrative expenses. While a number of considerations influenced the decision to establish this unique arrangement, probably the major factor was the desire of the Congress to insure adequate administrative financing in all States at a time when the Federal Government wished to give every possible incentive to the States to pass laws. The system has now been in operation for more than 11 years. P. 436

In 1941, the last prewar year, a total of approximately 71 million dollars was spent in administering unemployment compensation and employment service functions in the States. In the year ending June 30, 1947, the comparable total was about 126 million dollars, about 57.6 million dollars for unemployment compensation and 68.4 million dollars for employment services. The substantial increase is due in part to higher salaries, higher prices of supplies and equipment, and, in some areas, higher work loads. An important contributing factor, however, has been an expansion in administrative and staff functions.

It may be pointed out that the 1947 total does not include some $30,000,000 spent by the States in administering the readjustment allowance program for veterans. In neither year are the expenses of administering Federal functions connected with the program included.

The present method

A primary advantage of the present method is that it provides a national pooled administrative fund for all States. More effective use can be made of such a single pooled fund from which money is allocated among the States, in accordance with their changing needs during the year, than would be possible with 51 separate administrative funds, with no possibility of shifting money from a State where it is not needed to one where it is. P. 437 to 441

The Congress, which determines the size of the national pool through the appropriation process, has generally made adequate administrative funds available and can be expected to continue to do so, so long as the Federal Government has revenue from the Federal unemployment tax, which, in congressional opinion, is intended for the administrative expenses of the program.

A second advantage is that Federal budgetary procedures offer a way of meeting the rapidly changing needs of a dynamic system like unemployment compensation. Work loads fluctuate widely, both as to totals for all States and in individual States. Since the Congress remains in session almost continuously, it is available to consider deficiency appropriation requests as the need arises. This budgetary method is far more flexible than that of many States. Usually, the amount of money appropriated to a State-financed agency by the average State legislature is fixed for

the year or for the biennium, with little or no provision for supplementary funds in case of need.

In spite of its advantages, the present method has been the subject of considerable criticism. One criticism has been that, with complete Federal financing, the States may not exercise as much care in controlling expenditures as they would if they were responsible, in whole or in part, for raising their administrative funds. Some States have criticized the present method on the grounds that it does not provide adequate funds and that Federal budgeting arrangements do not permit proper planning of State agency operations.

The system, moreover, has created a fertile field for disagreement between Federal and State authorities. The States often express the belief that the funds which they receive are inadequate, that the Social Security Administration discriminates among States in its allocation of funds, and that the Administration exercises too many controls in connection with the granting of funds. On its side, the Administration points to Federal Statutory requirements which State administrative performance must meet in order to qualify for administrative grants. The Administration has taken the position that the Congress looks to it for an accounting of the manner in which a congressional appropriation for administrative grants to States is finally spent. On this assumption it has undertaken to establish controls that, in its opinion, will make reasonably certain that State agencies expend administrative grants carefully and economically.

Despite differences of opinion, Federal and State authorities have worked together to improve the present method. The States now participate in the development of the estimates needed for the annual appropriation request; improvements have been made in the method of allocating funds to States; [and efforts are being made to obtain approval of a contingency fund, which would be used only if work loads exceeded estimates. The establishment of such a fund would introduce additional flexibility into the financing process]. The area of disagreement has been reduced, and there is every prospect that further cooperation will result in additional improvements.

Suggested changes

As a result of criticisms of the present system, however, several suggestions have been made for modifying the method of financing State administration.

One suggestion is that present Federal discretion as to amounts of administrative grants be replaced by some type of statutory formula, based on factors such as State populations, areas, claims loads, etc. The chief difficulty with this approach is in developing an effective and equitable formula and one which would take account of sudden changes in work load. P. 441

Another suggestion would substitute a grant-in-aid plan for paying administrative costs. Under such an approach, the Federal Government would match State appropriations. State agencies would presumably go before their State legislatures and justify their budgets. The Social Security Administration would then match the funds appropriated by the legislatures. P. 441

This approach would give the States responsibility for determining the amount of funds needed and sharing in the costs of financing administration. To the extent their legislatures permitted, the State agencies would have wider latitude in making expenditures within the limits of the amounts appropriated.

[Another suggestion is that the Federal share of the Federal unemployment tax be earmarked and made available under a continuing appropriation for financing administration. Under this arrangement a designated Federal agency would determine the amounts necessary for administration in each State without specific over-all congressional appropriation. The difference between tax collections and amounts needed for administration could periodically be placed in a loan fund similar to that established by the War Mobilization and Reconversion Act of 1944. Precedent for this type of continuing appropriation in Federal financing may be found in the Railroad Unemployment Insurance Act.[7]

[This proposal would place complete discretion for determining amounts needed by States in the hands of a Federal administrative agency; legislative scrutiny of appropriation requests would then be eliminated.]

The suggestion receiving the most attention is that the offset against the Federal tax be made 100 percent instead of 90 percent, so that the States might collect the 0.3 percent tax now collected by the Federal Government. The States would deposit their collections in their trust funds and then use the trust funds to meet both benefit and administrative costs. Presumably, this approach would require State agencies to go before their legislatures and justify their budgets and obtain their administrative appropriations. If legislatures limited appropriations to the new source of revenue, some State agencies would be inadequately financed. During the year ending June 30, 1947, costs of administering unemployment insurance and employment service functions in 13 States were in excess of Federal collections in those States, which means that a 0.3 percent tax in those States would not have produced enough money to administer the program adequately. As a consequence, proponents of the proposal recommend that appropriations not be so limited. This would mean that in some States reserves originally intended for benefit payments would be used for administration. In any event, complete responsibility for financing would presumably be placed in the States; the Federal Government would retire from the field. P. 442 to 443

[7] Public Law 346, 78th Cong., 2d sess., sec. 11.

It is difficult to establish a justification for the imposition of a Federal tax which would yield little if any revenue for Federal purposes. The existence of the tax would seem to necessitate the continuation of most, if not all, present tax-collection procedures, including the determination of liability, but the revenue obtained would be limited to collections from employers who, for one reason or another, had not qualified for the 100-percent offset. Moreover, since the Congress would still be basically responsible for the imposition of the tax even if the 100-percent offset were permitted, it seems reasonable to assume that it would continue some controls over the expenditure of the revenue derived from the tax.

Conclusions

Any proposal for altering the present method of financing administrative costs involves a great many considerations, but perhaps the basic ones are that adequate funds be provided and the proper controls be exercised over their expenditure. The question now at issue is as to whether the national interest requires the Federal Government to continue its responsibility for assuring adequate funds and controlling their expenditure, or whether that responsibility shall be given to State legislatures. It seems manifest that this responsibility would not be given to State unemployment compensation agencies themselves, since such an arrangement would give a public spending agency final authority to determine the amount of funds it needed to spend.

Public Employment Services

P. 680 to 681

The present system of public employment offices is based on the provisions of the Wagner-Peyser Act, approved June 6, 1933. The Wagner-Peyser Act abolished the then existing United States Employment Service and created a new USES as a separate bureau in the Department of Labor. The purpose of the Wagner-Peyser Act was "to promote the establishment and maintenance of a national system of public employment offices." To that end, among other things, the United States Employment Service was directed "to assist in establishing and maintaining systems of public employment offices in the several States and the political subdivisions thereof."

The device provided in the Wagner-Peyser Act for encouraging States to act was the authorization of grants-in-aid to State employment services which affiliated with the United States Employment Service. For this purpose an appropriation of $1,500,000 was authorized for the fiscal year ending June 30, 1934, and the sum of $4,000,000 for each of the four succeeding fiscal years, and such sums annually thereafter as the Congress might deem necessary. Federal funds were used to match State appropriations, within specified limits. By 1938 all States had employment services affiliated with the USES.

The passage of the Social Security Act in August 1935 provided the basis for an expansion of public employment offices. It required State unemployment compensation laws to include a provision for the "payment of unemployment compensation solely through public employment offices or such other agencies as the Board may approve." In actual operation the Social Security Administration has approved only public employment offices. The expansion occurred with the beginning of benefit payments in 1938, and was financed with funds made available to the Social Security Board for grants to States for the proper and efficient administration of State unemployment compensation laws. P. 682

With the beginning of benefit payments, two major problems emerged. One of these was the lack of integration and coordination of employment service and unemployment compensation personnel and activities in State and local offices. Integration and coordination were lacking, although employment service and unemployment compensation functions were usually administered by the same overhead agency in the States.

Integration and coordination of the two functions in State agencies was complicated by the fact that the responsible Federal agencies were separate, and this condition constituted the second major problem. The USES was in the Department of Labor; Federal unemployment compensation functions were in the Social Security Board. State agencies were thus required to deal with two Federal agencies on almost all matters affecting their operations. They were receiving their funds for employment service operations from three sources: State and local funds, Wagner-Peyser grants from the Department of Labor, and unemployment compensation administrative grants from the Social Security Board. Their funds for unemployment compensation operations came wholly from the Social Security Board. P. 683

Despite the best efforts of the Federal agencies concerned, confusion continued to exist. Most students of the problem recommended that Federal responsibility for employment service and unemployment compensation functions be placed in one agency. Much testimony on the point was given before the Committee on Ways and Means in 1939. Finally, on July 1, 1939, the USES was transferred from the Department of Labor to the Social Security Administration, by the President's Reorganization Plan No. 1. P. 686 to 693

From July 1, 1939, to December 31, 1941, the USES was administered by the Social Security Board. During this period State agencies generally effected a more complete integration of their unemployment compensation and employment service programs.

On January 1, 1942, the State employment services disappeared as a result of their transfer to the USES, in accordance with a request from the President. The provisions of the Wagner-Peyser Act thus became inoperative as of that date—and the USES became an operating Federal service. The Service was operated by the Social Security Board until P. 685 to 686

September 17, 1942. On that date, it was transferred to the War Manpower Commission where it remained until September 19, 1945. It was then transferred to the Department of Labor, where it is now located.

As the peak in war production passed and increasing attention was given to postwar problems, the States began to express concern as to the return of the employment services. The return of the employment services was a major issue when Issues in Social Security was published and the Congress gave much consideration to the matter in 1945 and 1946, but the return was not actually effectuated until November 16, 1946.

The return of the employment services to State control was brought about by provisions in the 1947 Labor-Federal Security Appropriation Act. This act provided for a separate Federal appropriation to meet 100 percent of the expenses of the State services and stipulated that a State need not make any appropriation to match Wagner-Peyser grants until after July 1, 1948. Since November 16, 1946, the employment services have thus been administered by the States, by the same agencies which administer unemployment compensation.

[At the present time Federal employment service and unemployment compensation functions are performed by separate agencies, and the situation existing prior to the 1939 reorganization is practically duplicated. Under the terms of existing legislation, however, the USES is scheduled to revert to the Federal Security Agency 6 months after the termination of the war. On May 5, 1947, President Truman sent Reorganization Plan No. 2 of 1947 to Congress. This plan provided for the permanent retention of the USES in the Department of Labor and thus provided for permanent separation of employment service and unemployment compensation at the Federal level. Hearings were held on this reorganization plan and a joint resolution of both Houses turned it down. While this action may be interpreted to indicate clearly the desire of both the House and the Senate that Federal employment service and unemployment compensation functions should be located in the same Federal agency, the rejection of Reorganization Plan No. 2 did not necessarily indicate what Federal agency should perform them. The House Committee on Expenditures in the Executive Department in its report [8] rejecting the plan, however, stated:

> The hearings brought out that—
>
> 1. The Bureau of the Budget, while favoring the recommendation of the President, indicated that its professional staff differed as to the solution of this organization problem.
>
> 2. The Department of Labor's representatives favored the consolidation of the two functions in one agency and expressed the opinion that the Department of Labor could administer more efficiently the two functions than any other agency of the Government because of the related programs having to do with labor statistics and other labor laws.

[8] Report No. 499, 80th Cong., 1st sess. [to accompany H. Con. Res. 49].

3. The representatives of the Federal Security Agency believed that the administration of the unemployment insurance laws should remain, as at present, related to the administration of social-security laws.

4. The representatives of the State bodies administering these two programs expressed the belief that more efficiency and economy would be obtained by consolidating the two functions. These representatives also expressed the belief that the preferred handling of the organization problem in the Federal Government would be—

(*a*) Transfer the USES to the Federal Security Agency.

* * * * * * *

The chief argument of the Federal officials urging the permanent transfer to the Department of Labor was the fear that, in the Federal Security Agency, the job placement function would be subordinated to the payment of unemployment benefits.

No other witnesses concurred in that fear. The fact of the matter is that such subordination would have to take place at the operating level—in the States at any event.

The great weight of the evidence is to the effect that social security activities, which concern all the people—employers, employees, and generally the public—should be consolidated in one central agency. The committee believes that it would be as great a mistake to place the Employment Service under the jurisdiction of the Department of Labor as to place it under the Department of Commerce.

[Although under existing legislation, Federal responsibilities for the employment service are scheduled to revert to the Federal Security Agency 6 months after the end of the war, an issue has arisen as to whether employment service functions should revert to the Federal Security Agency, as scheduled, or whether unemployment compensation functions should be transferred to the Department of Labor. In 1939 the decision was that the two functions appropriately belonged in the Federal Security Agency. The question now arises as to whether the considerations which influenced the decision in 1939 remain valid today.]

Chapter V. Issues in Unemployment Compensation

Prior to the advent of the depression of the thirties, assistance for the unemployed was considered generally to be a responsibility of local government. State governments, to say nothing of the Federal Government, were not deemed to have an interest in the problem. Even as late as 1931 only four States provided any aid to the unemployed. P. 450 to 453

As unemployment climbed from an estimated 1.5 millions in 1929 to 4.2 millions in 1930, to 7.9 millions in 1931, to 11.9 millions in 1932, and to 12.6 millions in 1933, prevailing concepts of governmental responsibility underwent change. The States generally were forced to accept some responsibility for the unemployed. Then, as the problem grew beyond their capacity to handle it, the States and localities turned to the Federal Government.

The Federal Government appeared reluctant to recognize a national interest in aid to the unemployed, but finally such recognition was given. The first step was taken when the Congress, in July 1932, appropriated $300,000,000 for loans—later canceled—to States and localities for use in meeting the relief problem. Since 1932 the national interest in the prob-

lem of unemployment has manifested itself in widely different programs. Beginning in May 1933, with an appropriation of $500,000,000 to be used in making direct grants to the States for emergency relief, the Federal Government subsequently spent billions of dollars of Federal funds through various programs for the unemployed, including the Federal Emergency Relief Administration, the Civil Works Administration, the Works Progress Administration, the Civilian Conservation Corps, and the National Youth Administration.

By the middle of 1943 the emergency programs established during the thirties had been discontinued. In the meantime, however, the national long-range interest in providing for the unemployed had been expressed in the unemployment compensation provisions of the Social Security Act, passed in 1935. Later, in 1938, a special Federal system of unemployment insurance was established for railroad workers. In 1944 the Congress expressed the national interest in the unemployment of another special group—the veterans of World War II. This expression of national interest took the form of a provision for readjustment allowances, at Federal expense, for veterans who are unemployed or who fail to earn as much as $100 per month in self-employment. Again, in 1946, the Congress expressed its interest in another special group—maritime workers who had been employed by the United States through agents of the War Shipping Administration. This expression took the form of a provision for unemployment insurance, at Federal expense, for a temporary period ending June 30, 1949.

In 1946 the Congress also expressed the national interest in another type of unemployment—unemployment due to nonindustrial accident and sickness. It did this by providing a temporary disability insurance program for railroad workers. In 1946, too, the Congress took action to facilitate the enactment of temporary disability insurance laws by the States, by authorizing States which have collected employee contributions to withdraw them to finance temporary disability insurance.

The foregoing indicates the extent to which the Congress has recognized unemployment to be of national concern. It has supported that recognition with billions of dollars for various programs providing emergency relief or work for the unemployed. It has made an important long-range attack on the problem of providing income for the involuntarily unemployed through the unemployment compensation provisions of the Social Security Act. The effectiveness of this attack will substantially affect the extent to which the Congress may be called upon for work relief and other emergency programs in the future. Thus it is of national concern that the Federal-State unemployment-compensation programs for providing income to the unemployed shall be effective systems.

The initial establishment of unemployment-compensation programs is principally attributable to Federal action taken at a time when large relief expenditures were being made.

Up to 1935, the year in which the Social Security Act became law, the efforts of the States to establish programs had been almost completely ineffective. Only one State, Wisconsin, had enacted a law. Judging from experience with other types of social legislation, it seems fair to conclude that, without the Social Security Act, many States would not now have unemployment-compensation laws. Although the Social Security Act did not, in specific terms, require States to enact unemployment-compensation laws, it was intended to encourage them to do so, and its tax offset provisions might be described as compelling.

National interest in unemployment compensation thus inspired Federal action which has resulted in an unemployment-compensation program in every State. The Federal action was, of course, designed to achieve a result—not the mere enactment of State laws, but the creation of a mechanism to aid in solving the problem of unemployment.

The Federal tax coverage in effect insured that certain broad groups would be protected. The connotations of the term "unemployment compensation" prescribed the general approach in providing this protection, as did the requirement of making payments through public employment offices. Beyond this, and some guaranty against misuse of the systems, the development of the programs was left to the States. Thus the amount and duration of benefits, their relationship to past wages, and other matters which determine the effectiveness of the program's attack on the problem of unemployment have been left to State decision.

The question now arises as to whether the national interest in unemployment compensation requires Federal action beyond the limits established in existing law. The Congress is basically responsible for the imposition of the taxes collected under State unemployment compensation laws. Are the conditions imposed for the receipt of benefits and the amounts payable from the proceeds of these taxes such as to be consistent with the national interest in effective unemployment compensation systems? The benefit structures in the various State programs differ greatly—as to weekly amounts, duration, conditions required to qualify for benefits, and as to reasons for and severity of disqualifications for benefits. The question is whether the resulting protection is nevertheless such that the national interest in unemployment compensation is reasonably satisfied, or whether there are some limitations on benefits so pronounced as to require Federal action in this area, which has heretofore been left largely to State action.

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With respect to coverage, the question arises as to whether considerations initially resulting in treating some groups of citizens differently from other groups, when the only essential difference between them is the kind of work they do or the size of the firm in which they work, still prevail, or whether the national interest now requires their coverage.

Questions of Federal action in the field of unemployment compensation have sometimes been discussed in terms of

States' rights. Without attempting any evaluation of the historical or emotional aspects of this concept, perhaps it might be generally agreed to mean that, as applied to unemployment compensation, the Federal Government should take no steps other than those required by the national interest. Perhaps it might also be agreed that the Congress must be the judge of what is required in the national interest.

Thus, if the Congress determines that the provisions now contained in the Federal Unemployment Tax Act and the Social Security Act represent the extent of the national interest in unemployment compensation, it will presumably not modify the Federal-State system as it now exists. If it believes that present Federal requirements go beyond the national interest, it presumably will modify the Federal-State system in the direction of eliminating some present Federal requirements and could conceivably withdraw from the field of unemployment compensation altogether. If, however, the Congress believes that present Federal requirements fall short of expressing the national interest, it presumably will modify the Federal-State system in the direction of extending Federal control by introducing additional requirements for States to meet and could conceivably establish a completely Federal system of unemployment compensation.

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Any proposal for altering basically the present Federal-State system should be considered in the light of the system's accomplishments. The protection provided by the original State laws has been generally expanded over the years since their enactment in 1935, 1936, and 1937. Speaking generally, weekly benefit amounts have been increased, durations have been extended, waiting periods have been reduced, and in some States new groups, particularly the employees in small firms, have been brought within the scope of the program. The trend has been restrictive only as to the conditions required to qualify for benefits. As a method for protecting workers against wage loss, unemployment compensation is far more effective today than it was in the beginning. Moreover, present methods of administrative financing have been reasonably effective, for new and complicated administrative mechanisms have been established under them which, generally, are now operating efficiently and economically. Finally, reserve funds have been built up which are adequate to meet any foreseeable contingency.

TABLE 5.—*Maximum weekly and potential annual benefits, and qualifying wages, for maximum benefits, by State, Sept. 15, 1947*

State	Maximum weekly benefit	Maximum weeks of benefits for total unemployment	Maximum annual benefits	Qualifying wages for maximum benefits [1]			
				High quarter		Base period	
				Amount	Fraction	Amount	Fraction or percent
Alabama [2]	$20.00	20	$400	$507.01	1/26	$1,200.00	1/3
Alaska [2]	25.00	25	625	480.01	1/20	1,875.00	1/3
Arizona	20.00	12	240	390.01	1/20	[4] 600.00	Uniform
Arkansas	20.00	16	320	468.01	1/24	[5] 960.00	[5] 1/3
California [6]	25.00	26	650	580.00	1/20-1/13	1,300.00	1/2
Colorado	17.50	20	350	425.01	1/28	1,050.00	1/3
Connecticut [6]	[7] 24.00-36.00	22	[7] 528-792	611.00	1/20	2,080.00	[8] 1/4
Delaware [2]	18.00	22	396	437.51	1/28	1,584.00	1/4
District of Columbia [2]	[9] 20.00	20	[9] 400	437.01	1/22	800.00	1/2
Florida	15.00	16	240	345.01	1/26-1/24	960.00	1/4
Georgia [2]	18.00	16	288	455.01	1/28-1/26	[4] 720.00	Uniform
Hawaii [2]	25.00	20	500	600.01	1/28	[4] 750.00	Uniform
Idaho	20.00	20	400	475.01	1/26-1/24	1,820.00	[8] 40-22%
Illinois [2]	20.00	26	520	390.01	1/20	1,575.00	[8] 56-33%
Indiana [2]	20.00	20	400	475.01	1/28	1,600.00	1/4
Iowa	20.00	20	400	460.00	1/23	1,200.00	1/3
Kansas	18.00	20	360	425.01	1/28	1,080.00	1/3
Kentucky [10]	16.00	20	320	[11] 398.75	(11)	[4] 1,595.00	Uniform
Louisiana [10]	18.00	20	360	425.01	1/28	1,440.00	1/4
Maine [2]	20.00	20	400	[11] 500.00	(11)	[4] 2,000.00	Uniform
Maryland	25.00	26	650	637.01	1/20	2,600.00	1/4
Massachusetts [2]	[12] 25.00	23	[12] 575	480.00	1/20	1,916.66	3/10
Michigan [6]	[14] 20.00-28.00	20	[14] 400-560	[15] 390.13	(15)	[15] 900.30	[15] 3/5
Minnesota [6]	20.00	20	400	[11] 437.50	(11)	1,750.00	[8] 47-22%
Mississippi [10]	15.00	14	210	364.01	1/26	[4] 450.00	Uniform
Missouri [2]	20.00	20	400	487.51	1/28	1,600.00	[16] 1/4
Montana	18.00	16	288	368.88	1/22	[4] 540.00	Uniform
Nebraska [2]	18.00	18	324	425.01	1/28	972.00	1/3
Nevada	[17] 20.00-26.00	20	[17] 400-520	390.01	1/20	1,200.00	1/3
New Hampshire	22.00	23	506	[11] 500.00	(11)	[4] 2,000.00	Uniform
New Jersey [2]	22.00	26	572	462.01	1/22	1,716.00	1/3
New Mexico	20.00	20	400	494.01	1/26	1,000.00	2/5
New York [2]	[18] 21.00	[18] 26	546	471.00	1/23	[4] 630.00	Uniform
North Carolina [2]	20.00	16	320	[11] 520.00	(11)	[4] 2,080.00	Uniform
North Dakota [2]	20.00	20	400	437.01	1/23	[4] 560.00	Uniform
Ohio [2]	21.00	22	462	584.00	1/26-1/23	[19] 1,117.31	[20]
Oklahoma [2]	18.00	20	360	340.01	1/20	1,080.00	1/3
Oregon	20.00	20	400	[11] 400.00	(11)	1,600.00	[8] 1/4
Pennsylvania [6]	20.00	24	480	488.00	1/28	1,646.00	[8] 3/10
Rhode Island	25.00	26	650	490.00-600.00	1/20	2,400.00	[8] 52-27%
South Carolina [2]	20.00	16	320	494.01	1/26	[4] 800.00	Uniform
South Dakota	20.00	20	400	450.00	1/26-1/23	1,800.00	[8] 48-22%
Tennessee	18.00	20	360	442.01	1/26	[4] 540.00	Uniform
Texas [2]	[13] 18.00	[13] 18	324	455.01	1/26	1,620.00	1/3
Utah	[21] 17.00-25.00	[21] 20-25	500	380.00-450.00	1/20	[22] 1,800.00	[23]
Vermont [2]	20.00	20	400	500.00	1/26-1/20	[4] 600.00	Uniform
Virginia [10]	15.00	16	240	350.01	1/28	930.01	[8] 1/4
Washington [2]	25.00	26	650	[11] 550.00	(11)	2,200.00	[8] 40-29%
West Virginia [2]	20.00	21	420	[11] 450.00	(11)	[4] 1,800.00	Uniform
Wisconsin [6]	24.00	24	576	[24] 598.13	(24)	[24] 1,840.40	[24] 3/5
Wyoming [2]	20.00	20	400	390.01	1/20	[25] 1,560.01	[25] 1/4

[1] The amount of high-quarter wages required for the maximum benefit amount varies with the rounding provision as well as with the fraction of high-quarter wages. Rounding is indicated by odd cents regardless of State practice in adding or dropping cents. When 2 amounts are given, the higher amount is required for maximum duration at maximum weekly benefits; the lower amount for maximum weekly benefits. In statement of maximum base-period qualifying wages, rounding of benefit duration to dollar amounts is, ignored. Odd amounts given are from tables of duration. The fraction of high-quarter wages applies between the minimum and maximum amounts. When the State law utilizes a weighted table for the benefit formula, approximate fractions are figured at midpoint of brackets between minimum and maximum. When dependents' allowances are provided, the fraction applies to the lesser benefit. See also footnotes 15 and 24.

[2] Legislature still in session.

[3] No change in 1947.

[4] The potential duration is uniform for all eligible claimants, and the only requirement for base-period wages is a multiple of the weekly benefit amount specified in the eligibility provision, as 30 in Arizona.

[5] Assume that wages in the 3 quarters other than high-quarter equal at least one-third wages in high quarter. Duration is lesser of 4 times each quarter of base period in which wages are equal one-third wages in the high quarter or one-third of base-period wages.

Footnotes at top of page 74.

Footnotes continued from page 73.

[6] Statutory provisions shown will become effective after Sept. 15, 1947: California and Michigan, benefit years beginning on and after Jan. 1, 1948; Connecticut, Apr. 14, 1948; Pennsylvania, benefit years beginning on and after Oct. 1, 1947; Wisconsin, determinations which include 1 or more credit weeks ended after 1947.

[7] $24 maximum basic benefit plus $3 per dependent up to one-half basic benefit.

[8] Maximum potential benefits according to table of base-period wages. Fractions approximate. In Idaho, Illinois, Pennsylvania, and Virginia duration rounded to weekly benefit amount.

[9] Same maximum with or without dependents; below maximum, weekly benefits equal one-twenty-third of high-quarter wages plus $1 for each of not more than 3 dependents, and annual benefits may be increased accordingly.

[10] No session in 1947.

[11] Utilizes annual rather than high-quarter formula; amount shown is one-fourth of the annual wage required.

[12] $25 maximum basic benefit plus $2 for each dependent, total not to exceed average weekly wage. Maximum augmented payment to an individual with dependents not shown, since highest average weekly wage may be $231 and any figure presented would be based on an assumed maximum number of dependents.

[13] Weeks of duration for claimants with dependents decreased, since potential benefits are the same whether or not a claimant has dependents.

[14] Basic benefit is 64 to 67 percent of average weekly wage, $20 maximum basic benefit plus $2 per dependent up to 4 according to table but not more than 78 to 92 percent of average weekly wage.

[15] Requirements are in terms of average wages with the employer whose account is being charged. Figures given are based on an "average weekly wage" of $30.01 and all earnings from 1 employer. Duration is full benefit amount times two-thirds number of credit weeks earned with employer.

[16] 8-quarter base period.

[17] $20 maximum basic benefit amount plus $2 for each dependent up to 3.

[18] Converted from days of unemployment in New York and 2-week periods in Texas.

[19] For 25 calendar weeks if high quarter represents 13 calendar weeks of employment.

[20] 18 weeks' duration for those employed 20 calendar weeks in base period; 19 weeks' duration for those employed 21 to 24; 22 weeks for those employed more than 24.

[21] Weekly benefit amounts adjusted with cost-of-living index; statutory maximum of $20 reduced 20 percent when index is 98.5 or below, increased 20 percent when index is at or above 125; maximum annual benefits not affected; therefore under present upward adjustment of weekly benefit amount, weeks of duration are decreased to 20 from maximum potential duration of 25 weeks at $20 maximum.

[22] Requirements are in terms of the average annual State wage of $1,800 effective for the uniform benefit year beginning July 1, 1947.

[23] Maximum potential benefits determined from a weighted schedule of base-period wages vary in accordance with the percentage relationship of the claimant's base-period wages to average annual State wage.

[24] Requirements are in terms of average weekly wages with employer whose account is being charged. Figures given are based on an "average wage" of $46.01 and all earnings from 1 employer. Duration is in terms of three-fifths of credit weeks with the employer but not more than 40 weeks with 1 employer counted.

[25] Fraction of base-period wages rounded to nearest $20.

Source: Bureau of Employment Security, Social Security Administration.

TABLE 6.—*Minimum weekly benefits and qualifying wages therefor, and potential annual benefits and duration of benefits for claimants who meet minimum qualifying requirements, by State, Sept. 15, 1947*

State	Minimum weekly amount	Minimum weeks of benefits for total unemployment [1]	Potential annual benefits	Qualifying wages for minimum benefits [2]		
				High quarter	Base period	Formula [3]
Alabama [4]	$4.00	10	$40.00	$75.01	$120.00	30×.
Alaska [5]	8.00	8	64.00	37.50	150.00	Flat.
Arizona	5.00	[1] 12	60.00	37.50	150.00	30×.
Arkansas	5.00	[6] 4	[6] 20.00	37.50	150.00	30×.[6]
California [7]	10.00	[8] 15	150.00	75.00	300.00	([9])
Colorado	6.00	10	60.00	45.00	180.00	30×.
Connecticut [7]	[10] 8.00-12.00	[8] 8+	[10] 70.00-106.00	60.00	240.00	Flat.
Delaware [5]	7.00	11	77.00	52.50	210.00	30×.[11]
District of Columbia [5]	[10] 6.00-9.00	[8] 12+	[10] 75.00-114.00	37.50	150.00	25×-$250.[12]
Florida [5]	5.00	7+	37.50	37.50	150.00	30×.[8]
Georgia [5]	4.00	[1] 16	64.00	48.00	100.00	25-40×.
Hawaii [5]	5.00	[1] 20	100.00	37.50	150.00	30×.
Idaho	10.00	10	100.00	150.00	250.00	25-37+×.
Illinois [5]	10.00	[8] 12+	125.00	56.25	225.00	Flat.
Indiana [5]	5.00	[8] 12+	62.00	75.00	250.00	Do.
Iowa	5.00	6+	33.33	25.00	100.00	20×.
Kansas	5.00	6+	34.00	50.00	100.00	Flat.
Kentucky [13]	5.00	[1] 20	100.00	50.00	200.00	Do.
Louisiana [13]	3.00	7+	23.00	22.50	90.00	30×.
Maine	6.00	[1] 20	120.00	75.00	300.00	Flat.
Maryland	6.00	10	60.00	156.00	240.00	40×.
Massachusetts [5]	[10] [14] 6.00-10.00	[8] 7+	45.00	37.50	150.00	Flat.
Michigan [7]	[10] 6.00-7.00	9+	[10] 56.00-66.00	([15])	112.14	14 weeks.[15]
Minnesota [5]	7.00	12	84.00	50.00	200.00	Flat.
Mississippi [13]	3.00	[1] 14	42.00	22.50	90.00	30×.
Missouri [5]	[16] .50	1+	5.00	5.00	20.00	40×.
Montana	7.00	[1] 16	112.00	52.50	210.00	30×.
Nebraska [5]	5.00	[8] 13+	67.00	50.00	200.00	Flat.

See footnotes at end of table, p. 75.

TABLE 6.—*Minimum weekly benefits and qualifying wages therefor, and potential annual benefits and duration of benefits for claimants who meet minimum qualifying requirements, by State, Sept. 15, 1947*—Continued

State	Minimum weekly amount	Minimum weeks of benefits for total unemployment [1]	Potential annual benefits	Qualifying wages for minimum benefits [2]		
				High quarter	Base period	Formula [3]
Nevada	[19] $8.00–14.00	10	[19] $80.00–140.00	$50.00	$240.00	30X.
New Hampshire	6.00	[1] 23	138.00	50.00	200.00	Flat.
New Jersey [4]	9.00	10	90.00	37.50	150.00	Do.
New Mexico	5.00	12	60.00	78.00	150.00	30X.
New York [4]	[17] 10.00	[1] 26	260.00	100.00	300.00	Do.
North Carolina [4]	4.00	[1] 16	64.00	32.50	130.00	Flat.
North Dakota [4]	5.00	[1] 20	100.00	35.00	140.00	28X.
Ohio [4]	5.00	18	90.00	40.00	160.00	Flat.[18]
Oklahoma [4]	6.00	6+	40.00	30.00	120.00	20X.
Oregon	10.00	7+	75.00	75.00	300.00	Flat.
Pennsylvania [4 7]	8.00	9	72.00	60.00	240.00	30X.
Rhode Island	10.00	5+	52.00	25.00	100.00	Flat.
South Carolina [4]	4.00	[1] 16	64.00	30.00	120.00	30–40X.
South Dakota [4]	6.00	[5] 10	60.00	60.00	125.00	Flat.
Tennessee	5.00	[1] 20	100.00	50.00	125.00	25–30X.
Texas [4]	[17] 5.00	3+	18.00	22.50	90.00	18X.
Utah	[19] 5.00–7.00	[1] 25–17+	125.00	63.00	252.00	([20]).
Vermont [4]	6.00	[1] 20	120.00	50.00	180.00	30X.
Virginia [13]	5.00	6	30.00	25.00	100.00	20–25X.
Washington [4]	10.00	12	120.00	75.00	300.00	Flat.
West Virginia [4]	8.00	[1] 21	168.00	75.00	300.00	Do.
Wisconsin [7]	8.00	8+	68.00	([11])	140.00	14 weeks.[11]
Wyoming [4]	7.00	5+	40.00	70.00	175.00	25X.

[1] "U" indicates uniform potential duration for all eligible claimants.

[2] Where high-quarter wages are not specified in the law, base-period wages are divided by the number of quarters in which they must be earned. Formula in terms of multiple of weekly benefit amount indicated. See companion table for high-quarter formula.

[3] Distribution of base-period wages required as follows: In 1 quarter $75.01 (Alabama), $156 (Maryland), $78 (New Mexico), $60 (South Dakota), $50 (Tennessee and Vermont), $70 (Wyoming); wages in 2 quarters (Arizona, Connecticut, Florida, and Georgia); $150 in 1 quarter and wages in 2 quarters (Idaho); $150 in last 2 quarters (Indiana); $100 in 2 quarters or $200 in base period (Kansas); wages in 3 quarters of 8-quarter base period (Missouri).

[4] State legislature still in session.

[5] No change in 1947.

[6] Duration is the lesser of 4 weeks for each quarter of the 4-quarter base period in which the claimant's wages are equal to at least one-third his high-quarter wages or one-third of base-period wages. Therefore, if all or the largest part of the qualifying wage was earned in 1 quarter, the potential annual benefits are $20. If one-third high-quarter wages were earned in each other quarter, the total potential benefits would be one-third of the qualifying amount or $50.

[7] Statutory provisions shown will become effective after Sept. 15, 1947; California and Michigan, benefit years beginning on and after Jan. 1, 1948; Connecticut, Apr. 4, 1948; Pennsylvania, benefit years beginning on and after Oct. 1, 1947; Wisconsin, determinations which include 1 or more credit weeks ended after 1947.

[8] In States which have a flat dollar qualifying requirement, if the qualifying wages are concentrated largely or wholly in the high quarter, the weekly benefit may be higher than the minimum and the weeks of benefits for such a claimant with minimum qualifying wages would be less than the weeks of benefits here shown at the minimum benefit amount for minimum qualifying wages.

[9] Greater of $300 and one-third of high-quarter wage in the other 3 base-period quarters or 30 times the weekly benefit, whichever is lesser.

[10] Higher figure includes dependents' allowances.

[11] $200 if 75 percent of an individual's wages are in seasonal industry; i. e., in first processing of agricultural products; such individual's benefits are not payable during period November through April.

[12] 25 times up to weekly benefit of $10; above that amount, flat $250.

[13] No session in 1947.

[14] The augmented payment shown assumes that the average weekly wage is $9.23 which by statute is raised to the next highest dollar. Dependents' allowance of $2 per dependent (total payment not to exceed average weekly wage) will not increase maximum annual benefits and hence will decrease weeks of benefits for claimants with dependents.

[15] 14 weeks of employment are needed to qualify computations based on employment with 1 employer. In Michigan benefits are two-thirds of credit weeks and lowest average weekly wage to qualify is $8.01; in Wisconsin benefits are three-fifths of credit weeks and lowest average weekly wage to qualify is $10.

[16] Minimum weekly benefit is 50 cents, but if less than $3, total benefits are paid at rate of $3 per week.

[17] Converted from days of unemployment in New York and 2-week periods in Texas.

[18] And employment in at least 20 weeks.

[19] Cost-of-living provision raises weekly benefit amount 20 percent, rounded to next higher dollar, when cost-of-living index reaches 125. Since total annual benefits are not increased, duration is decreased. Therefore, under present upward adjustment of minimum benefit to $7, weeks of duration are decreased to 17 from potential duration of 25 weeks at $5.

[20] 14 percent of average annual State wage which is $1,800 for the benefit year beginning July 1, 1947, and the higher of $150 or 150 percent of high-quarter wages.

Source: Bureau of Employment Security, Social Security Administration.