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RECOMMENDATIONS FOR SOCIAL SECURITY LEGISLATION

THE REPORTS

OF

THE ADVISORY COUNCIL ON SOCIAL SECURITY

TO THE

SENATE COMMITTEE ON FINANCE

UNITED STATES
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[Submitted by Mr. MILLIKIN]

IN THE SENATE OF THE UNITED STATES,
June 19 (legislative day, June 15), 1948.

Ordered, That reports of the Advisory Council on Social Security to the Committee on Finance, when submitted to the Secretary of the Senate subsequent to the proposed adjournment of the Senate, be printed as Senate documents with illustrations, and that thereafter a compilation of the various reports by such Advisory Council, with other relevant materials on the subject, be printed as a Senate document with illustrations.

Attest:

CARL A. LOEFFLER, *Secretary.*

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LETTER OF TRANSMITTAL

DECEMBER 31, 1948.

Hon. EUGENE D. MILLIKIN,
Chairman, Committee on Finance,
United States Senate, Washington 25, D. C.

DEAR SENATOR MILLIKIN: There is transmitted herewith a compilation of the four reports of the Advisory Council on Social Security to the Senate Committee on Finance containing recommendations for changes in social-security legislation. Each of these reports has previously been issued as a separate document: (1) Old-Age and Survivors Insurance (S. Doc. 149), (2) Permanent and Total Disability Insurance (S. Doc. 162), (3) Public Assistance (S. Doc. 204), and (4) Unemployment Insurance (S. Doc. 206).

The Council has studied the social-security programs and their implications carefully and has endeavored to take full account of the interests—both present and future—of all segments of the Nation. It is the hope of the Council that these reports will be of value to the Congress in bringing about necessary and desirable changes in the social-security programs.

I wish again to express my deep appreciation of the earnest and fine-spirited efforts of all members of the Council and particularly of the splendid work done by the Associate Chairman, Dr. Sumner H. Slichter. The work of the Council has been greatly facilitated by an efficient and cooperative staff working under the able direction of Robert M. Ball.

Respectfully submitted.

EDWARD R. STETTINIUS, Jr.,
Chairman, Advisory Council on Social Security.

SENATE RESOLUTION 141

(80th Cong., 1st sess., July 23, 1947)

Resolved, That the Committee on Finance, or any duly constituted subcommittee thereof, is authorized and directed to make a full and complete investigation of old-age and survivors insurance and all other aspects of the existing social-security program, particularly in respect to coverage, benefits, and taxes related thereto, for the purpose of assisting the Senate in dealing with legislation relating to social security hereafter originating in the House of Representatives under the requirement of the Constitution.

SEC. 2. For the purpose of this resolution, the Committee on Finance, or any duly constituted subcommittee thereof, is authorized to sit and act at such places and times during the sessions, recesses, and adjourned periods of the Eightieth Congress, to require by subpena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, to procure such printing and binding, and to make such expenditures as it deems advisable.

SEC. 3. The committee is authorized to designate and appoint an Advisory Council to study, assist, consult with, and advise the Committee on Finance or its duly authorized subcommittee, and the committee is further authorized to designate and appoint such other officers, experts, or assistants as it deems necessary for the performance of the investigation directed by this resolution.

SEC. 4. The compensation of persons assisting the committee in the investigation directed by this resolution shall be fixed by the committee at such amounts or rates as the committee deems appropriate, but such amounts or rates shall not exceed the amounts or rates payable for comparable duties prescribed by the Classification Act of 1923, as amended.

SEC. 5. The committee, or its duly constituted subcommittee, is authorized, with the approval of the Committee on Rules and Administration, to request the use of the services, information, facilities, and personnel of the departments and agencies in the executive branch of the Government in the performance of its duties under this resolution.

SEC. 6. The expenses of the committee under this resolution, which shall not exceed $25,000, shall be paid out of the contingent fund of the Senate upon vouchers signed by the chairman.

SENATE RESOLUTION 202

(80th Cong., 2d sess., February 20, 1948)

Resolved, That the limit of expenditures authorized under Senate Resolution 141, Eightieth Congress, agreed to July 23, 1947 (authorizing an investigation by the Committee on Finance of old-age and survivors insurance and other aspects of the social-security program), is hereby increased by $25,000.

FOREWORD

The Advisory Council on Social Security was appointed by the Committee on Finance of the United States Senate under authority of Senate Resolution 141. Members of the Council, citizens from various walks of life and representing different parts of the country, were appointed on September 17, 1947. Preliminary meetings to plan the work of the Council were held in October and November and, at the first meeting of the full Council held in Washington on December 4–5, 1947, an interim committee was designated to make a continuing study of the problems before the Council and to develop proposals to be considered by the Council as a whole. The full Council has held a total of seven 2-day meetings and the interim committee has had eight 1-day meetings.

The Council's four reports appear in this compilation in the order that they were prepared and transmitted to the Senate Committee on Finance. Part I covers old-age and survivors insurance; part II recommends the establishment of a permanent and total disability insurance program; part III relates to public assistance and maternal and child health and welfare services; and part IV relates to unemployment insurance and temporary disability insurance.

Part I. Old-Age and Survivors Insurance

In some areas the present provisions of the old-age and survivors insurance program fail to provide basic security. The weaknesses of the existing program have been taken into consideration, and recommendations are made for ways to close the gaps in the protection now offered. Account has been taken also of changes that have occurred in our economy since 1939, when the general structure of the present program was adopted. Particular attention has been given to the problem of financing the program. The recommendations regarding the contribution rates recognize the need for a rate which is high enough to establish a reasonable relationship between contributions and benefits and which will increase gradually to the full amount necessary to support the future program, but not so large as to build up excessive amounts in the trust fund in the early years.

The recommendations on old-age and survivors insurance are designed to provide a program that will meet the present needs of the people without imposing too heavy a burden on the taxpayers of the future. The Council anticipates that still further revisions in the program will be needed as future events affect family life, the labor force, and the general conditions under which people live.

Part II. Permanent and Total Disability Insurance

The recommendations on disability insurance are designed to provide benefits for permanently and totally disabled workers through

the extension of the present system of old-age and survivors insurance to cover the risk of disability. The Advisory Council has found that one of the few major areas in which the Nation lacks social-insurance protection is the area of need and dependency arising out of permanent and total disability. The possibility of total income loss and eventual exhaustion of all personal resources because of such disability is of grave concern to every individual, his family, and the community.

Two members of the Council oppose the inclusion of the risk of total and permanent disability under social insurance but favor providing disability protection through the addition of a new category to the present State-Federal assistance program. (See appendix II–B.)

Part III. Public Assistance

This section of the compilation includes recommendations for modifying the existing State-Federal programs—old-age assistance, aid to dependent children, and aid to the blind—and for the establishment of a State-Federal general assistance program for needy persons not currently covered by any State-Federal public assistance program. No recommendations are made for changes in the provisions of title V of the Social Security Act relating to maternal and child health, services for crippled children, and child welfare services; the Council recommends, however, that a special commission be appointed to study and report on these programs.

The recommendations on public assistance are limited to the changes in the Federal law that the Council considers necessary to help the States correct the weaknesses in their programs. The Council does not propose basic changes in the present State-Federal division of responsibility under which the administration of the program is entirely in the hands of the States and Territories, subject to certain minimum Federal standards relating to the definition of need and other conditions of eligibility and to certain aspects of administration. Beyond these minimum standards, the States have wide discretion in determining who is eligible for assistance and in administering the programs.

The Council has not made a detailed study of the policies and administrative practices of the various States and Territories but rather, accepting the desirability of considerable State discretion in determining standards and policies, has confined itself to a consideration of the Federal role. The wide differences among the States in the proportion of population receiving public assistance and in the amount of their payments indicate not only great differences in the need to be met but differences in the definition of need and in the administration of the programs. The Congress may wish to inform itself further concerning the effects of Federal grants-in-aid upon the policy decisions and administrative practices of the States. The Council, in studying the Federal part of the program, has found indications of a number of inadequacies and of several opportunities to improve and strengthen the Federal role in this State-Federal program.

In making its recommendations, the Council has been guided by the conviction that social security should be provided insofar as possible through insurance rather than through assistance. Its recommendations with respect to public assistance, therefore, presuppose that the essential recommendations contained in parts I, II, and IV,

of this compilation on old-age and survivors insurance, permanent and total disability insurance, and unemployment insurance will be enacted into law.

Part IV. Unemployment Insurance

The recommendations in this section of the compilation are designed to improve the existing State-Federal system of unemployment insurance by (1) extension of coverage, (2) removing some of the present barriers to more adequate benefit provisions and providing for adequate benefit financing, (3) making more rational the relationship of the rate of contribution to the cyclical movements of business, (4) improving the methods and financial basis of administration, and (5) increasing employee and citizen participation in the program.

Five members of the Council favor the establishment of a single national system of unemployment insurance (see appendix IV–C). It should be noted, however, that four of these members would join with the majority in supporting the recommendations in this report for the improvement of the State-Federal system should the Congress decide against the establishment of a national program.

ACKNOWLEDGMENTS

The Council was greatly facilitated in its work by the generous assistance given by many public and private agencies and interested individuals. Information received from Members of Congress and in letters from the general public was particularly helpful.

Organizations and individuals most familiar with each specific area of the Council's investigation furnished technical service and advice. Among those giving such aid were the Social Security Administration and its Bureaus of Old-Age and Survivors Insurance, Employment Security, Public Assistance, and Children's Bureau; the Treasury Department; the American Public Welfare Association; the Interstate Conference of Employment Security Agencies; the Council of State Governments; the American Association for the Blind and the National Federation of the Blind; representatives of commercial insurance companies; the Russell Sage Foundation; and a number of State and local public welfare and unemployment insurance administrators. The Council and its staff would have been greatly hampered in its work had it not been for the valuable assistance rendered by these groups and individuals.

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PART I

OLD-AGE AND SURVIVORS INSURANCE

INTRODUCTION AND SUMMARY

Opportunity for the individual to secure protection for himself and his family against the economic hazards of old age and death is essential to the sustained welfare, freedom, and dignity of the American citizen. For some, such protection can be gained through individual savings and other private arrangements. For others, such arrangements are inadequate or too uncertain. Since the interest of the whole Nation is involved, the people, using the Government as the agency for their cooperation, should make sure that all members of the community have at least a basic measure of protection against the major hazards of old age and death.

In the last analysis the security of the individual depends on the success of industry and agriculture in producing an increasing flow of goods and services. However, the very success of the economy in making progress, while creating opportunities, also increases risks. Hence, the more progressive the economy, the greater is the need for protection against economic hazards. This protection should be made available on terms which reinforce the interest of the individual in helping himself. A properly designed social-security system will reinforce the drive of the individual toward greater production and greater efficiency, and will make for an environment conducive to the maximum of economic progress.

The Method of Social Insurance

The Council favors as the foundation of the social-security system the method of contributory social insurance with benefits related to prior earnings and awarded without a needs test. Differential benefits based on a work record are a reward for productive effort and are consistent with general economic incentives, while the knowledge that benefits will be paid—irrespective of whether the individual is in need—supports and stimulates his drive to add his personal savings to the basic security he has acquired through the insurance system. Under such a social insurance system, the individual earns a right to a benefit that is related to his contribution to production. This earned right is his best guaranty that he will receive the benefits promised and that they will not be conditioned on his accepting either scrutiny of his personal affairs or restrictions from which others are free.

Public-assistance payments from general tax funds to persons who are found to be in need have serious limitations as a way of maintaining family income. Our goal is, so far as possible, to prevent dependency through social insurance and thus greatly reduce the need for assistance. We recognize that, for a decade or two, public assist-

ance will be necessary for many persons whose need could have been met by the insurance program if it had been in effect for a longer time and had covered all persons gainfully employed. The Council looks forward, however, to the time when virtually all persons in the United States will have retirement or survivorship protection under the old-age and survivors insurance program. If insurance benefits are of reasonable amount, public assistance will then be necessary only for those aged persons and survivors with unusual needs and for the few who, for one reason or another, have been unable to earn insurance rights through work. Under such conditions the Federal expenditure for public assistance can be reduced to a small fraction of its present amount.

The Council has studied the existing system of old-age and survivors insurance and unanimously approves its basic principles. The Council, however, finds three major deficiencies in the program:

1. Inadequate coverage—only about three out of every five jobs are covered by the program.
2. Unduly restrictive eligibility requirements for older workers—largely because of these restrictions, only about 20 percent of those aged 65 or over are either insured or receiving benefits under the program.
3. Inadequate benefits—retirement benefits at the end of 1947 averaged $25 a month for a single person.

The Council's recommendations are designed to remedy these major defects.

The Council has agreed unanimously on 20 of its 22 specific recommendations. The two instances of dissenting opinions have been noted in connection with the recommendations themselves, and the reasons for the dissents have been given in appendixes I-E and I-F.

Summary of Recommendations

1. *Self-employment.*—Self-employed persons such as business and professional people, farmers, and others who work on their own account should be brought under coverage of the old-age and survivors insurance system. Their contributions should be payable on their net income from self-employment, and their contribution rate should be 1½ times the rate payable by employees. Persons who earn very low incomes from self-employment should for the present remain excluded.

2. *Farm workers.*—Coverage of the old-age and survivors insurance system should be extended to farm employees.

3. *Household workers.*—Coverage of the old-age and survivors insurance system should be extended to household workers.

4. *Employees of nonprofit institutions.*—Employment for nonprofit institutions now excluded from coverage under the old-age and survivors insurance program should be brought under the program, except that clergymen and members of religious orders should continue to be excluded.

5. *Federal civilian employees.*—Old-age and survivors insurance coverage should be extended immediately to the employees of the Federal Government and its instrumentalities who are now excluded from the civil-service retirement system. As a temporary measure designed to give protection to the short-term Government worker, the wage credits of all those who die or leave Federal employment with less than 5 years'

service should be transferred to old-age and survivors insurance. The Congress should direct the Social Security Administration and the agencies administering the various Federal retirement programs to develop a permanent plan for extending old-age and survivors insurance to all Federal civilian employees, whereby the benefits and contributions of the Federal retirement systems would supplement the protection of old-age and survivors insurance and provide combined benefits at least equal to those now payable under the special retirement systems.

6. *Railroad employees.*—The Congress should direct the Social Security Administration and the Railroad Retirement Board to undertake a study to determine the most practicable and equitable method of making the railroad retirement system supplementary to the basic old-age and survivors insurance program. Benefits and contributions of the railroad retirement system should be adjusted to supplement the basic protection afforded by old-age and survivors insurance, so that the combined protection of the two programs would at least equal that under the Railroad Retirement Act.

7. *Members of the armed forces.*—Old-age and survivors insurance coverage should be extended to members of the armed forces, including those stationed outside the United States.

8. *Employees of State and local governments.*—The Federal Government should enter into voluntary agreements with the States for the extension of old-age and survivors insurance to the employees of State and local governments, except that employees engaged in proprietary activities should be covered compulsorily.

9. *Social security in island possessions.*—A commission should be established to determine the kind of social-security protection appropriate to the possessions of the United States.

10. *Inclusion of tips as wages.*—The definition of wages as contained in section 209 (a) of the Social Security Act, as amended, and section 1426 (a) of subchapter A of chapter 9 of the Internal Revenue Code should be amended to specify that such wages shall include all tips or gratuities customarily received by an employee from a customer of an employer.

11. *Insured status.*—To permit a larger proportion of older workers, particularly those newly covered, to qualify for benefits, the requirements for fully insured status should be 1 quarter of coverage for each 2 calendar quarters elapsing after 1948 or after the quarter in which the individual attains the age of 21, whichever is later, and before the quarter in which he attains the age of 65 (60 for women) or dies. Quarters of coverage earned at any time after 1936 should count toward meeting this requirement. A minimum of 6 quarters of coverage should be required and a worker should be fully and permanently insured if he has 40 quarters of coverage. In cases of death before January 1, 1949, the requirement should continue to be 1 quarter of coverage for each 2 calendar quarters elapsing after 1936 or after the quarter in which the age of 21 was attained, whichever is later, and before the quarter in which the individual attained the age of 65 or died.

12. *Maximum base for contributions and benefits.*—To take into account increased wage levels and costs of living, the upper limit on earnings subject to contributions and credited for benefits should be raised from $3,000 to $4,200. The maximum average monthly wage

used in the calculation of benefits should be increased from $250 to $350.

13. *Average monthly wage.*—The average monthly wage should be computed as under the present law, except that any worker who has had wage credits of $50 or more in each of six or more quarters after 1948 should have his average wage based either on the wages and elapsed time counted as under the present law or on wages and elapsed time after 1948, whichever gives the higher result.

14. *Benefit formula.*—To provide adequate benefits immediately and to remove the present penalty imposed on workers who lack a lifetime of coverage under old-age and survivors insurance, the primary insurance benefit should be 50 percent of the first $75 of the average monthly wage plus 15 percent of the remainder up to $275. Present beneficiaries, as well as those who become entitled in the future, should receive benefits computed according to this new formula for all months after the effective date of the amendments.

15. *Increased survivor protection.*—To increase the protection for a worker's dependents, survivor benefits for a family should be at the rate of three-fourths of the primary insurance benefit for one child and one-half for each additional child, rather than one-half for all children as at present. The parent's benefit should also be increased from one-half to three-fourths. Widows' benefits should remain at three-fourths of the primary insurance benefit.

16. *Dependents of insured women.*—To equalize the protection given to the dependents of women and men, benefits should be payable to the young children of any currently insured woman upon her death or eligibility for primary insurance benefits. Benefits should be payable also (a) to the aged, dependent husband of a primary beneficiary who, in addition to being fully insured, was currently insured at the time she became eligible for primary benefits, and (b) to the aged, dependent widower of a woman who was fully and currently insured at the time of her death.

17. *Maximum benefits.*—To increase the family benefits, the maximum benefit amount payable on the wage record of an insured individual should be three times the primary insurance benefit amount or 80 percent of the individual's average monthly wage, whichever is less, except that this limitation should not operate to reduce the total family benefits below $40 a month.

18. *Minimum benefit.*—The minimum primary insurance benefit payable should be raised to $20.

19. *Retirement test.*—No retirement test (work clause) should be imposed on persons aged 70 or over. At lower ages, however, the benefits to which a beneficiary and his dependents are entitled for any month should be reduced by the amount in excess of $35 which he earns from covered employment in that month. Benefits should be suspended for any month in which such earnings exceed $35 but, each quarter, beneficiaries should receive the amount by which the suspended benefits exceeded earnings above the exemption.

20. *Qualifying age for women.*—The minimum age at which women may qualify for old-age benefits (primary, wife's, widow's, parent's) should be reduced to 60 years.

21. *Lump-sum benefits.*—To help meet the special expenses of illness and death, a lump-sum benefit should be payable at the death of

every insured worker even though monthly survivor benefits are payable. The maximum payment should be four times the primary insurance benefit rather than six times as at present.

22. *Contribution schedule and Government participation.*—The contribution rate should be increased to 1½ percent for employers and 1½ percent for employees at the same time that benefits are liberalized and coverage is extended. The next step-up in the contribution rate, to 2 percent on employer and 2 percent on employee, should be postponed until the 1½-percent rate plus interest on the investments of the trust fund is insufficient to meet current benefit outlays and administrative costs. There are compelling reasons for an eventual Government contribution to the system, but the Council feels that it is unrealistic to decide now on the exact timing or proportion of that contribution. When the rate of 2 percent on employers and 2 percent on employees plus interest on the investments of the trust fund is insufficient to meet current outlays, the advisability of an immediate Government contribution should be considered.

Technical and Minor Amendments

In addition to these major recommendations, several minor and technical amendments are needed to correct certain inequities and administrative problems resulting from the present provisions. The Council has preferred in the main to leave recommendations on such questions to the Social Security Administration. The Council would like to call attention, however, to the need for additional adjustments to protect the rights of men who served in World War II. Our general recommendations, if put into effect, would remove most of the inequities which these veterans would otherwise suffer; but, in addition, section 210[1] of the present act should be temporarily extended to protect veterans during the transitional period until our general recommendations become fully operative. The Council also wishes to call attention to the lack of coverage for American citizens employed outside the United States by American firms.

Interdependence of Recommendations

The Council stresses the fact that its recommendations are a consistent whole and that many of the 22 specific proposals are interdependent. If coverage is not broadly extended, for example, the Council would propose very different modifications in the present provisions for insured status, benefit structure, method of determining the average monthly wage, and financing. Accordingly, the Council strongly urges that its recommendations be considered as a whole.

Plan of the Report

The Council's proposed remedies for the three major deficiencies of the present program—inadequate coverage, unduly restrictive eligibility requirements, and inadequate benefits—are outlined in this section. The test of retirement, financing, and the importance of a broad informational program are also discussed. The section which follows treats the 22 specific recommendations in more detail. Appendixes I-A and I-B are concerned with special aspects of costs and financing.

[1] Section 210 provides special survivor benefits to dependents of veterans who died within 3 years of discharge if such dependents are not entitled to survivor benefits under veterans' laws.

Goal of Universal Coverage

The basic protection afforded by the contributory social insurance system under the Social Security Act should be available to all who are dependent on income from work. The character of one's occupation should not force one to rely for basic protection on public assistance rather than insurance.

Earlier decisions to exclude the self-employed, workers in agriculture, and workers in domestic service from coverage of the insurance system were based on expectation that there would be administrative difficulties in collecting contributions and obtaining wage reports for these groups. Other groups such as railroad workers, government employees, and employees of religious, charitable, and educational institutions were excluded for various reasons—because some of the workers were protected under existing retirement plans, because of the constitutional barrier to the levy of a Federal tax on State and local governments, or because of objections to taxing traditionally tax-exempt nonprofit organizations.

The Council believes that none of the reasons for the original exclusions justifies continued denial of basic social insurance protection to these groups. The administrative difficulties which may arise from including the self-employed and workers in agriculture and domestic service seem far less formidable today than they did 10 years ago when the social insurance system was new and in the early stages of developing its administrative organization.

Ten years' experience with incomplete coverage has revealed the many inequities and anomalies which arise when workers move between covered and noncovered employments. In many cases these workers pay contributions but never receive benefits, and in others they may become entitled to benefits which, though small, are worth far more in relation to their contributions than are the benefits of workers covered regularly.

The present incomplete system of social insurance affords uneven protection in different parts of the United States. Coverage restrictions cause relatively fewer people to receive old-age and survivors insurance benefits in agricultural States than in States where industry predominates. Conversely, the number of persons receiving old-age assistance per 1,000 aged population is considerably larger in the agricultural States (see appendix I-C). As a consequence, the taxpayers of the agricultural States must meet, from general revenues, a disproportionate share of the costs of old-age security and aid to families of workers who die prematurely. Since the per capita income of most predominantly agricultural States is far below that of the largely industrial and commercial States, the former have relatively more people in need of assistance and smaller revenues from which to meet this need.

Employers as well as employees suffer from the lack of protection for the noncovered occupations, because employers offering noncovered jobs cannot furnish as attractive labor conditions as those of their competitors in the labor market who are in covered industries. Some workers who have been protected by social insurance during the war have been unwilling to return to such noncovered jobs as agriculture or domestic work or work in nonprofit organizations, where they will lose that protection.

An incidental but important result of extension of coverage will be a reduction in the percentage of pay rolls required to meet the costs of old-age and survivors insurance. Extension of coverage would increase the revenue of the program more than it increases benefit payments. The net saving would be roughly one-half percent to 1 percent of pay roll under the present provisions. Under a program of liberalized benefits such as we recommend, costs would, of course, be increased, but under such a program the net saving as a result of the extension of coverage would also be increased—possibly to as much as 2 percent of pay roll. The saving occurs in the main because under the present limited coverage system, those who move in and out of covered employment have low average monthly wages in covered employment and receive the advantage of a formula weighted in favor of those with low average wages. Under extended coverage such persons will have to pay contributions on all the wages which they earn, and although their benefits will be increased, they will be increased at the lower rate of the formula (the present formula pays 40 percent of the first $50 of average monthly wage, but only 10 percent above) and the income to the fund will increase more than the claims against it.

There are no immediate obstacles to extension of coverage to the self-employed, farm employees, workers in domestic service, employees of nonprofit institutions, the armed forces, and employees of State and local governments. Accordingly, the Council recommends that coverage be extended to these groups without delay. A similar recommendation applies to the Federal civilian employees who are not under the civil-service retirement system. Extension of coverage to Federal civilian employees who are subject to the Federal retirement plan and to the employees of the railroads, however, requires solution of various technical problems before legislation is enacted. The civil-service retirement system and the railroad retirement system will have to be modified to take into account the protection which would be afforded by coverage under old-age and survivors insurance. The Council believes that the best way to work out these problems is through joint studies by the Social Security Administration and the Civil Service Commission in the case of Federal civilian employees, and the Social Security Administration and the Railroad Retirement Board in the case of the railroad employees. The Council has recommended that the necessary studies be required by Congress. Extension of coverage to types of employment with existing staff retirement systems or compulsory insurance protection can and should be accomplished without any loss of benefits to the workers regularly covered by these systems. This result can be achieved by making their present special pension plans supplementary to old-age and survivors insurance.

Since the present civil-service retirement plan and railroad retirement system now give more protection to those regularly covered than would old-age and survivors insurance, the question may be asked: "Why extend old-age and survivors insurance to Federal civil-service employees or to railroad workers?" This question is discussed under the specific recommendations in the Council's report. In essence, the answer is that some workers, particularly short-service workers and those who move in and out of Federal or railroad employ-

ment, are inadequately protected under present arrangements. An extension of coverage would help these workers without reducing the combined protection available for long-service workers. In addition, if the Council's recommendation for an eventual Government contribution were followed, an extension of coverage would mean that these employers and employees would pay less for that protection.

Limitations of Voluntary Methods

Voluntary coverage under old-age and survivors insurance has been suggested. In the opinion of the Council, voluntary coverage is defensible only where the Federal Government cannot under the Constitution apply compulsion. Since it is apparently unconstitutional for the Federal Government to tax the States and localities, we believe it necessary to allow these units to enter into voluntary compacts for the coverage of their employees. We are convinced that to offer voluntary coverage in any area where it can possibly be avoided would be a grave mistake.

Since the chief objective of the old-age and survivors insurance program is basic family protection adequate for the needs that can be presumed to exist in various family situations, the program contains eligibility and benefit provisions which, especially in the early years of operation and in the case of workers with large families, allow for the payment of benefits considerably in excess of the value of contributions. These provisions make the program vulnerable if voluntary participation by individuals is allowed. The "adverse selection" which would occur would have serious effects on the program's solvency.

Voluntary participation by employing organizations would have less serious but still highly undesirable effects. The organizations most likely to participate in an elective program would be those whose employees as a group would stand to gain disproportionately large benefits in return for their contributions, such as organizations largely made up of persons nearing retirement age or men with large families. Furthermore, many employers in the groups now excluded employ only a few persons. The smaller the staff, the greater the probabilities that the distribution of employees by age, sex, and family dependents will differ from the distribution which obtains among the employee population as a whole and therefore the greater are the possibilities of adverse selection. Under a voluntary system, the employers who pay the lowest wages and whose employees consequently may be in greatest need of protection would be least likely to elect coverage.

The history of voluntary social insurance indicates that those who most need the protection seldom participate. Usually the persons who choose to participate are those who can expect a large return for their contributions and who can easily spare the money. We see no justification whatever in offering insurance protection at extreme bargain rates to a select group, consisting primarily of those who recognize the opportunity for a bargain and are well able to take advantage of it, and in requiring the covered group as a whole to bear the cost of the difference between what the select group pays and what it receives.

More Liberal Eligibility Requirements for Older Workers

Old-age and survivors insurance now offers basic retirement protection to the majority of younger workers, but many of those in the

middle and higher-age groups will not be eligible for benefits when they retire. The worker who is now young and has a whole working lifetime of some 40 years ahead has ample opportunity to build up credits toward meeting the present eligibility requirements. Older workers, however, have only relatively limited opportunity to build up such credits, and many fail to qualify who would have done so had the program come into existence when they were young. The Council believes that, in establishing eligibility requirements, special allowance should be made for those who were already at the higher ages when the system began. Liberalization of the present eligibility requirements is made even more necessary if coverage is extended. As a group, newly covered workers will have had no opportunity to build up credits in the past and, unless some change is made in the requirements, very few of the older workers in the newly covered groups would ever be eligible for retirement benefits.

If the effectiveness of the social-insurance method of meeting income loss in old age is not to be unduly postponed, the period of covered employment required for insured status will have to be substantially reduced. It should not, of course, be reduced so far as to endanger the character of the benefit as an earned right based on contributions and work records. We propose as a method of reducing the requirements for insured status a "new start" which will require the same qualifying period for an older worker now as was required for a person who was the same age when the system began operation. As pointed out in the report which follows, this recommendation is contingent on a broad extension of coverage.

More Adequate Benefits Now

The benefit amounts now being paid under the old-age and survivors insurance program are inadequate for the security of most of the beneficiaries. At the end of 1946 the average benefit for a retired male worker alone was $24.90 a month, the average benefit for a retired man and wife was $39, and the average family benefit for a widow and two children was $48.20. If the old-age and survivors insurance program is to do an effective job of insuring gainfully occupied individuals and their families against dependency in the old age or on the death of a family breadwinner, the level of benefits must be raised.

Under the present program, benefits are computed as a basic amount which is increased by 1 percent for each year in which the wage earner received $200 or more in wages. Full-rate benefits, under this system of computation, will not be paid until after 1980, when those now young will be able to retire on benefits some 40 percent larger than the basic amounts payable at the beginning of the system's operation.

The Council believes that the primary benefit should be 50 percent of the first $75 of the average monthly wage and 15 percent of the remainder up to the maximum average monthly wage ($350 a month) that can be counted toward benefits. Under this formula, the full rate of benefits contemplated for the future would be paid at once and the 1-percent increment would be eliminated. Without the increment, which commits the system to an automatically increasing level of benefits, a higher level of benefits can be paid immediately than would be warranted under a formula such as that in the present law.

Our proposed benefit formula was chosen because it combines the advantages of relatively high benefits in the low-wage brackets with

a considerable spread of benefit amounts for the middle- and higher-wage levels.

In addition to the revision in the benefit formula, several other changes we recommend would have the effect of making benefits more adequate. Extension of coverage will achieve this result for those who move in and out of the employments now covered, since their future benefits will be based on all their earnings up to the maximum base rather than only on those earned in certain types of employment. By reducing the age of eligibility for women from 65 to 60, benefits payable to a family consisting of a primary beneficiary and his wife aged 60 to 64 would be increased immediately by 50 percent. By raising the base for computation of benefits from the present $3,000 to $4,200, the benefits for workers at the higher-wage levels will be increased somewhat in the near future and to a greater extent as additional years elapse—an increase for which in a mature program these workers will have paid by additional contributions. An increase in benefits would also result from our recommendation for basing benefits solely on wages earned after 1948 if such wages result in a higher average monthly wage than that derived from all wages earned under the program. After this "new start" provision becomes effective, the over-all effect of our recommendations would be to increase the benefit currently awarded a retired male worker alone from the present average of about $25 a month to an average of about $55. An average benefit for man and wife would be about $85 a month, and the average family benefit for a widow and two children would be about $110. These amounts are higher than those which would be paid under the proposed formula before the new start becomes effective.

Test of Retirement

The rapidly increasing number of aged in the population has made the Council conscious of the need for modification of the present retirement test, which prevents the payment of benefits to all who earn $15 a month or more in covered employment. Since the time of the passage of the original act, the number of persons aged 65 and over has risen from somewhat more than 7.8 million to nearly 11 million. In another 25 years there may be nearly 20 million aged persons in the United States. In these circumstances it is particularly important that the aged make the contribution to production of which they are capable.

Most aged persons, it is true, do not retire voluntarily. Generally speaking, those who retire do so at the will of the employer or because they are unable to work. The existence of a work clause in old-age and survivors insurance probably has little effect on this basic fact, since few people are likely to give up full-time jobs because of the availability of old-age and survivors insurance benefits. The present very restrictive work clause, however, probably discourages some of those who have retired from their regular jobs from making such contribution to production as they are capable of making. We have therefore suggested liberalizations in the retirement test which will remove some of the barriers to gainful activity on the part of beneficiaries.

The Council believes that further study of the broad problem of the aged in our society is desirable. We recommend that the Federal

Government establish a commission to undertake such a study. We have in mind particularly consideration of employment opportunities for the aged, their adjustment to retirement, the availability of recreational facilities, housing for the aged, care for the chronically ill, and other services. The maintenance of income for those who have retired is only part of the provision of security for the aged.

Financing

A primary consideration in evaluating proposals for social security benefits must be the impact of their present and future costs on the Nation's economy. The recommendations of the Council for changes in benefits and in coverage have been made only after careful consideration of the probable costs and the method for financing them. The Council, however, would be less than frank if it failed to stress the difficulties of estimating the ultimate cost of the system. Appendix I-B of this report deals with the problem of estimating costs and discusses in some detail the nature and purpose of long-range cost estimates.

Exactly what future costs will be will depend on a number of factors that are more or less uncertain—the proportion of men and women in covered employment who will reach the age of retirement, the proportion of persons reaching the age of retirement who will have fully insured status, the proportion of persons eligible for benefits who will elect to work rather than retire, and the length of time retired persons will draw benefits. Similar questions arise in connection with survivorship benefits.

In setting the contribution rates for the system, the essential question is probably not "What percentage of pay roll would be required at some distant time to pay benefits equal to the money amount provided in the Council's recommendations?" Rather it is "What percentage of pay roll will be required to pay benefits representing about the same proportion of future monthly earnings that the benefits recommended by the Council represent of present monthly earnings?" If past trends continue, monthly wage earnings several decades hence will be considerably larger than those of today, and benefits will probably be revised to take these increased wages into account. The long-range estimates presented by the Council, however, disregard the possibility of increases in wage levels and state the costs of the proposed benefits as a percentage of the pay rolls based on continuation of the wage levels of the last few years. If increasing wage levels had been assumed, the costs of these benefits as a percentage of pay rolls would be lower than those presented. Use of the level-wage assumption, therefore, has the effect of allowing for liberalizations of benefits to keep pace with any increases in wages and pay rolls which may occur. If wages continue to rise and such liberalizations are not made, these estimates overstate the cost as a percentage of pay roll and a contribution rate based on them would be too high.

The percentage-of-pay-roll figures are the most important measure of the financial effort required to support the system and are the basis for determining ultimate contribution rates. Dollar figures taken alone are misleading. For example, extending coverage to groups now excluded would greatly increase the dollar costs because more people would become eligible for benefits, but as indicated earlier it will actually decrease the cost as a percentage of pay roll. As a result of

coverage extension the income of the insurance system will be increased more than the outgo. In appendix I-B, however, we have included both the dollar figures and the percentage-of-pay-roll figures.

As indicated in appendix I-B, the percentage of pay roll required to maintain the relationship between benefits and monthly earnings recommended by the Council would average somewhere between 4.9 percent and 7.3 percent of covered pay roll under a system of nearly universal coverage. The cost in the early years of the system is much lower than it will be when those attaining age 65 have had a working lifetime under the program in which to gain insured status. By that time, the number of persons over age 65 will be much larger than at present and a much larger proportion of the aged population will be eligible for benefits. Our estimates show that the cost of the expanded plan in 1955 will probably be between 2.4 percent and 3.1 percent of pay rolls. In the year 2000 a program which maintains the same relationship between benefits and monthly earnings as the program now being recommended by the Council might cost from 5.9 percent to 9.7 percent of pay rolls. These costs are well within the range of costs expected for the program adopted in 1935 and for the amended program of 1939. Our recommendations therefore do not make necessary any increase in contribution rates over those contemplated from the beginning.

Appendix I-B also contains an estimate of what the Council's proposals would cost now as a percentage of covered pay rolls under a nearly universal system, had the Council's recommendations been in effect over the last 100 years. These estimates are included to give a sense of what these recommendations would mean if they were now fully operative. Using the estimate of the actual wages paid over the last 100 years, such a system would cost this year from 2.4 percent to 3.0 percent of pay rolls. If it were assumed that the benefits being paid now under such a system were based on current wage levels rather than past wages, such a system would cost this year from 4.1 percent to 4.9 percent. These figures are lower than the estimates for the future, largely because the number of old people will be much greater in the future than now.

Contribution Rate

The Council believes that, at the time benefits are liberalized, the contribution rate should be raised to 1½ percent for both employees and employers. The present 1-percent rate has remained unchanged for more than 10 years. The longer it remains unchanged, the greater the danger that the public will fail to appreciate that in the long run there must be a close relationship between contributions and benefits. It is also desirable to achieve the increase in contribution rates to the level which will eventually be necessary by gradual and more or less evenly spaced changes. Even at the present level of benefits, contributors pay but a fraction of the actuarial value of the benefits to which they are entitled. If benefits and eligibility requirements are changed as the Council recommends, current contributions will bear an even smaller ratio to the actuarial value of benefits. For these reasons, the Council believes that the contribution rate should be increased when benefits are liberalized.

An incidental effect of the recommendation just outlined is that the trust fund will continue to increase for a number of years. Changes

in the size of the trust fund, whether increases or decreases, may present certain problems of fiscal policy, the character of which will depend on prevailing economic conditions. The Council does not believe that the short-range increases in the trust fund which will result from its recommendations will confront the Government with fiscal problems that cannot be readily handled. We favor, however, keeping this excess of income over outgo as low as is consistent with public understanding that in the long run there must be a close relationship between benefits and contributions. We believe that the second step-up in the tax rate, to 2 percent on employer and 2 percent on employee, should not take place until actually needed to cover current disbursements.

Government Participation

The Council believes that old-age and survivors insurance should be planned on the assumption that general taxation will eventually share more or less equally with employer and employee contributions in financing future benefit outlays and administrative costs. Under our recommendations, the full rate of benefits will be paid to those who retire during the first two or three decades of operation even though they pay only a fraction of the cost of their benefits. In a social insurance system, it would be inequitable to ask either employers or employees to finance the entire cost of liabilities arising primarily because the act had not been passed earlier than it was. Hence, it is desirable for the Federal Government, as sponsor of the program, to assume at least part of these accrued liabilities based on the prior service of early retirants. A Government contribution would be a recognition of the interest of the Nation as a whole in the welfare of the aged and of widows and children. Such a contribution is particularly appropriate in view of the relief to the general taxpayer which should result from the substitution of social insurance for part of public assistance.

The Council has suggested that the introduction of the Government contribution be considered when the 2 percent rate for employer and employee plus interest on the trust fund is insufficient to meet current costs. If the Government contribution is delayed beyond the point at which costs begin to exceed 4 percent, the result might well be that the contribution would never be as much as one-third of eventual benefit outlays, because under our low-cost estimates, the annual cost of the benefits never exceeds 6 percent of pay roll even though under the high estimates the cost reaches 9.7 percent.

Purchasing Power of Benefits

For millions of persons the social security system represents a guaranty of future security. If that guaranty is to be valid and meaningful, the purchasing power of benefits must not be destroyed by large increases in price levels. A special obligation rests on the Government and all groups in the community with an interest in the social-insurance system and in the security it offers to make sure that monetary policies, price policies, and wage policies contribute to the objective of preventing such a large rise in the price level. If the people of the United States are unable to prevent steep increases in price levels, benefits will have to be readjusted to preserve their purchasing power for unless the purchasing power of the benefits is pre-

served, the security guaranteed by the social-insurance plan will be illusory.

Importance of a Broad Informational Program

The Council recommends a broad informational program to give publicity to any new amendments passed by the Congress. Under old-age and survivors insurance, contributors have established an equity in the trust fund. The Government as trustee has an obligation to inform the beneficiaries of their rights. The reporting and tax provisions as well as the benefit provisions will affect millions heretofore outside the scope of the law; unless they are fully informed of the duties they must now assume, records will be incomplete and the resulting confusion may tend to defeat the purpose of the extended protection. No social-security program can be effective unless those who are entitled to participate know their rights and obligations.

RECOMMENDATIONS ON COVERAGE

1. Self-Employment

Self-employed persons such as business and professional people, farmers, and others who work on their own account should be brought under coverage of the old-age and survivors insurance system. Their contributions should be payable on their net income from self-employment, and their contribution rate should be 1½ times the rate payable by employees. Persons who earn very low incomes from self-employment should for the present remain excluded

The self-employed—business and professional people, farmers, and others who work on their own account—represent more than one-third of all persons in jobs now excluded from coverage and constitute by far the largest single group denied the protection of the system. They include about 6 million persons in urban self-employment and perhaps 5 million farmers, though the number of individuals actively engaged in farm operation as a business is probably only about 3.5 million.[2]

The desirability of extending coverage to the self-employed has long been generally acknowledged. Their need for the basic protection afforded by old-age and survivors insurance is as great as that of the groups now covered and, like persons in all other excluded groups, they move back and forth between covered and noncovered work. The Advisory Council of 1937–38 recommended extension of coverage to the self-employed as soon as administratively feasible plans could be worked out; since then, the issue has been largely one of administration.

The fact that almost all full-time and a large proportion of part-time self-employed persons have for the last few years been required to file income-tax returns has radically changed the outlook for extending coverage to this group. It has been demonstrated that income reports can be obtained from the great majority of the self-employed, and it is now apparent that the coverage of the insurance system can be extended to them by tying in a self-reporting system for social insurance with the income tax. Certain items now reported for income-tax purposes can be used as the contribution base for old-age and survivors insurance and entered on a social-security report form. In the main, these items are net income from a business, profession, or farm (schedule C of the Federal income-tax return), and from partnerships, syndicates, etc. (schedule E).

If the contribution base for the self-employed is to be strictly comparable to that for the groups now covered, only the net income from self-employment attributable to personal services should be taxable. We believe, however, that this refinement would be admin-

[2] The census figures on farm operators include many persons who are principally engaged in other kinds of employment or are retired persons, disabled persons, people of independent means, and operators dependent on the wage income of someone else in the family group.

istratively impossible. The contribution base for the self-employed can readily exclude certain types of income which are obviously not work-connected, such as dividends, interest, annuities, capital gains and losses, and some types such as rental income from real property that largely arise from capital investment. Each dollar of income from typical self-employment such as retail trade or a profession or farming, however, is income derived partly from personal services and partly from capital investment, combined in such a way as to make any separation virtually impossible.

For many persons with relatively high income from a business, profession, or farming, the failure to make the distinction between income from personal services and income from investment will be of little significance, since that part of their income (the first $4,200 a year of net income) on which they will pay contributions may be presumed to be derived from personal services. Self-employed persons with lower incomes who yet have substantial capital invested in their business, however, will get higher benefits and pay more in contributions than they would if it were possible to tax only their income from personal services.

One of the reasons for our recommending that self-employed persons contribute at a rate of 1½ times the employee-contribution rate rather than at the combined rate for employer and employee is the fact that some of them will be paying on income from capital investment as well as on income from personal services. Moreover, if they were required to pay twice the normal employee rate, the high-income self-employed persons who contributed over a long period might be "overcharged" for their coverage in relation to what they would have to pay for comparable protection under private insurance. The later retirement age which characterizes the self-employed will lengthen their contribution period, reduce the number of years they receive retirement benefits, and result in savings to the trust fund. As a reasonable compromise, we recommend that the self-employed person—who is at once his own employer and employee—should contribute at 1½ times the employee rate.

The Council believes that, at the outset, extension of coverage to the self-employed should be limited to those at income levels to which the requirement for filing Federal income-tax returns has applied, i. e., those with gross annual incomes of at least $500. We therefore recommend exclusion of those whose self-employment yields gross income of less than $500 or a net income of less than $200. Setting a minimum net income for coverage in addition to a minimum gross income will prevent a large volume of returns from persons who earn so little from self-employment that they could not qualify for benefits. This exclusion will avoid reporting with respect to inconsequential amounts of income and will avoid collecting contributions at an expense out of all proportion to the benefits afforded.

We advocate limiting coverage to those who have been required to file income-tax returns in the past. The coverage of the old-age and survivors insurance system should not vary with changes in the income-tax exemption. The Treasury Department should require returns for social-security purposes from anyone who has a gross income of $500 or more and net income of at least $200, regardless of changes in income-tax requirements.

The application of a retirement test for the self-employed presents special and difficult problems. This is one of the reasons for the recommendation in proposal 19 that benefits be paid at age 70 or over without reduction for earnings. Since many self-employed persons remain at work until at or near age 70, the application of the retirement test only to beneficiaries under that age will avoid the need to make many of the more difficult administrative determinations connected with such a test. The work clause for those between 65 and 70 will, of course, have to be modified for the self-employed in view of the fact that their income will be reported annually.

2. Farm Workers

Coverage of the old-age and survivors insurance system should be extended to farm employees

During the course of a year about 3.5 million agricultural workers are excluded from old-age and survivors insurance. The social desirability of extending coverage to these workers has long been a matter of common agreement, and it is now evident that administrative considerations no longer constitute an important barrier to their receiving the protection of the system. The Treasury Department and the Social Security Administration have developed plans which the Council believes are workable, although reporting problems may be difficult in the early years.

The Treasury Department in cooperation with the Social Security Administration should be left free to select the method of collecting contributions for these workers. Although we believe that either the stamp system or some modification of the present reporting plan would be practicable, we believe that it would be a mistake at this point to stipulate the exact method to be used and thus preclude further study by the agencies concerned.

Wages credited toward benefits should include wages-in-kind, when substantial. Without credits for wages-in-kind, many farm workers would be ineligible for benefits, and the benefit amounts for which many others could qualify would be very small. Although evaluating wages-in-kind may prove difficult at the outset, the same type of problem is now being met satisfactorily for groups covered under the present system. Wage credits of workers in restaurants, hotels, and cafeterias and of maritime workers, building superintendents, and resident managers, among others, already include wages-in-kind. Minimum presumptive schedules setting the value of the more important types of wages-in-kind, such as regular meals and lodging, might be of assistance to farm workers and their employers in reporting wages. Inconsequential facilities or privileges, which might create a reporting nuisance out of all proportion to their significance, should be excluded.

3. Household Workers

Coverage of the old-age and survivors insurance system should be extended to household workers

The 2.5 million persons who work in household employment during the course of a year should be covered under old-age and survivors insurance. They need social insurance protection fully as much as

does any other group, and the Council believes that it is now administratively feasible to extend protection to them.

Though there was ample reason at the outset to postpone undertaking the special problems of including household workers in the system, the administrative agencies are now in a position to deal adequately with these problems. A strong argument for the delay was the difficulty anticipated in collecting wage reports and contributions from the employers of domestic workers. Since employers may be expected to outnumber employees in this area, the relatively high costs and administrative problems generally associated with obtaining reports from small employers will be heavily concentrated here. The Social Security Administration and the Treasury Department, however, have now had 11 years of experience in collecting wage reports and contributions from small employers, and the administrative machinery of the insurance system functions satisfactorily for these small establishments. In the first quarter of 1946, for example, employers with only one employee represented one-fourth of the total number who reported for purposes of old-age and survivors insurance.

In the early years of coverage for household workers, some difficulties may arise from delinquency in the payment of contributions and from incomplete understanding of the program by household workers and their employers. We believe, however, that these problems can be solved fully as effectively and quickly as were the very considerable problems met when the present program was started.

As we indicated with respect to farm workers, we believe that, for household workers, substantial wages-in-kind in the form of meals and lodging should be reported and recorded as wage credits, but that wages-in-kind of relatively small value should be disregarded. As in the case of farm workers, also, the administrative agencies concerned should be left free to decide on the methods to be used for collecting wage information and contributions.

4. Employees of Nonprofit Institutions

Employment for nonprofit institutions now excluded from coverage under the old-age and survivors insurance program should be brought under the program, except that clergymen and members of religious orders should continue to be excluded [3]

Approximately a million employees of nonprofit organizations are at present denied the protection of the old-age and survivors insurance program. Almost half are in the service of charitable organizations, one-fourth are in educational institutions, and another fourth work in religious institutions. These employees include not only professional persons such as nurses, teachers, and clergymen, but also office workers, laboratory assistants, janitors, and maids.

The extension of coverage to employees of nonprofit organizations presents no administrative difficulties and the need for old-age and survivors insurance protection of these workers and their families is as great as for workers who are now covered. Especially when they work in nonprofessional jobs, the tasks and earnings of employees of nonprofit organizations, as well as the extent to which they move

[3] Two members of the Council favor extension of coverage to the nonprofit group on an elective basis for reasons given in appendix I-E.

from one job to another, are equally characteristic of industrial and commercial workers.

Probably not more than two-fifths of the employees of nonprofit organizations are covered by any formal retirement plan and very few of such plans extend protection to survivors. Moreover, in general, the right to pensions from the private plans is contingent on long periods of service, hence, persons who transfer from one nonprofit organization to another or between nonprofit and other organizations, may forfeit all retirement rights.

Although many clergymen are covered by retirement programs, in some denominations the lower-paid clergymen do not participate, while benefits for those who do are often inadequate; more serious, however, is the fact that few lay employees of churches have any assurance of economic security in their old age through staff pension plans. Not more than half the college teachers of the Nation actually participate in retirement systems, and in private colleges most such systems do not cover nonteaching personnel. Coverage under old-age and survivors insurance can and should be effected for teachers, employees of charitable and scientific organizations, and lay employees of churches, without impairing any of the rights which individuals may have built up under private systems.

Leaders of religious, charitable, scientific, and educational organizations apparently agree on the desirability of providing protection under old-age and survivors insurance for employees of these institutions. Some, however, have feared that an extension of the compulsory insurance system to employment for religious institutions might impair religious freedom by undermining the principle of the separation of church and state. Others evidently feel that a tax on employers under the Federal Insurance Contributions Act would tend to weaken the traditional tax-exempt status of such institutions.

The members of the Council are unanimous in believing that freedom of religion should be protected, but we are convinced that a tax on employment—a function which employers in the nonprofit area have in common with all others—for the special purpose of giving equal social insurance protection to all employees would in no way imply or lead to Government control over the performance of the religious function. To make it absolutely clear that the legislation is not concerned with the performance of religious duties, we recommend that persons directly engaged in religious duties, such as clergymen and members of religious orders, remain exempt from coverage under the program. Our recommendation would extend coverage only to lay personnel who perform services which are secular in character.

We also believe that public encouragement of religious, charitable, scientific, and educational enterprise should be continued through preservation of the traditional tax-exempt status of such institutions. That encouragement, however, would be better expressed, we believe, by extending social insurance protection to their employees than by continuing to deny it. Employers in the nonprofit field are at a considerable disadvantage in the labor market because they cannot offer retirement and survivorship protection, hence, coverage exclusion handicaps these organizations and fails to promote their services to the community.

Religious, charitable, scientific, and educational organizations, which have been traditionally exempt from taxation on income and property dedicated to the purposes which the community wishes to promote, can and should continue to enjoy their traditional tax exemption when the old-age and survivors insurance program is extended to their employees. It has long been customary to require such institutions to pay certain types of special assessments for property improvement, to pay Federal excise taxes, and in some States to pay the local and State taxes on commodities which they use. Even in some States with exclusive State funds, they have been required to carry workmen's compensation insurance. The use of Government compulsion in connection with these special taxes and levies has not led to taxation on the property and general income of these institutions. Moreover, many organizations such as trade-unions, trade associations, fraternal and beneficial organizations, and the like, which are exempt from the Federal income tax and certain other taxes, pay the old-age and survivors insurance contribution without appearing to be in danger of losing their exemptions under other laws.

Old-age and survivors insurance levies a special-purpose tax on the function of employment. The proceeds are automatically appropriated to a trust fund dedicated to benefits for those who have contributed. It has always been clear that it is a special kind of tax which should not serve as a precedent for other forms of taxation any more than would a special assessment levied by a local government. We believe, however, that Congress should indicate its intent that the taxation of nonprofit organizations for old-age and survivors insurance in no way implies a departure from the principle of promoting the function of these organizations through tax exemption, and that a major reason for extending protection to this area of employment is to assist these institutions in fulfilling their purpose.

5. Federal Civilian Employees

Note.—The enactment of Public Law 426 by the Eightieth Congress has strengthened and improved the Civil Service Retirement Act. Some 500,000 Federal workers [4] remain outside the coverage of any retirement system, however, and neither retirement nor survivorship protection is afforded Federal employees with less than 5 years of service. Estimates developed from prewar employment figures indicate that, in general, only about 60 percent of all persons entering Federal service remain for 5 years or more.

Persons who leave Federal service after having been employed for as much as 5 years but less than 20 years may elect to withdraw their contributions instead of accepting a deferred annuity. When they so elect, they lose all retirement protection under the Civil Service Retirement Act. Whatever survivorship protection an individual may have acquired under the civil-service plan lapses as soon as he leaves the Federal service.

Old-age and survivors insurance coverage should be extended immediately to the employees of the Federal Government and its instrumentalities who are now excluded from the civil-service retirement system. As a temporary measure designed to give protection to the short-term Government worker, the wage credits of all those who die or leave Federal employment with less than 5 years' service should be transferred to old-age and survivors insurance. The Congress should direct the Social Security Administration and the agencies administering the various Federal retirement programs to develop a permanent plan for extending old-age and survivors insurance to all

[4] This figure includes an unknown number of foreign nationals.

Federal civilian employees, whereby the benefits and contributions of the Federal retirement systems would supplement the protection of old-age and survivors insurance and provide combined benefits at least equal to those now payable under special retirement systems

The Advisory Council believes that the civil-service retirement system—which now covers about 1.5 million workers—should be maintained as a supplementary retirement system because of its importance in furthering the efficient conduct of the business of government. The civil-service retirement system performs the function of a private staff-pension plan. For this function to be performed successfully and for the Government to meet the obligations created by its compulsory retirement of its employees, benefits larger than those payable under the general old-age and survivors insurance system must be provided. Hence, nothing should be done to weaken the Federal civil-service retirement system.

We are convinced, however, that extension of the coverage of old-age and survivors insurance to all Federal civilian employees (including those, other than foreign nationals, who are employed outside the United States) would strengthen rather than weaken the civil-service system. Such extension would remedy three major defects in the protection now afforded Federal employees—the lack of adequate survivorship protection, the lack of continuity of protection for those who move in and out of Government service, and the exclusion of many Federal workers from any Government retirement system.

The survivor benefits provided by Public Law 426 (80th Cong., 2d sess.), while of considerable value for long-term workers, are quite inadequate for the survivors of workers with relatively short periods of Federal service. First, no monthly survivor benefits are payable unless the employee has had at least 5 years' service. Second, survivor benefits are very small if the employee has had only a short period of service and annual wages at about the current average. Thus, the widow of a Federal employee who had 5 years of service and an average annual salary of $3,000 would receive a monthly payment of about $11, and his child's monthly payment would be about $6. The Federal employee, like all others, needs survivorship protection based on the insurance principle of full protection for the young worker as well as for the older age groups.

As noted above, persons who leave Federal employment with less than 5 years' service receive only a refund of their contributions to the civil-service retirement system, while those who leave after 5 years but before 20 years of service have the option of receiving either a refund of their contributions or a deferred annuity. Almost 20 percent of all Federal employees leave in their first year of Government employment and another 10 percent leave during the second year. According to data developed from prewar histories, only about one-third stay on to retirement. The time spent in Federal employment, moreover, reduces the possibility of obtaining adequate protection under old-age and survivors insurance. Extension of old-age and survivors insurance coverage to Federal employment would provide continuing protection for these short-time workers as well as for career employees.

The 500,000 persons who are now working for the Federal Government in civilian jobs and who are not covered by any Federal retirement program represent nearly one-fourth of the total of all Federal

employees. The group includes some postal workers, and certain temporary, part-time, contract, and piecework employees.

Pending the development of a suitable plan, recommended by the agencies concerned, for extending old-age and survivors insurance coverage to all employees (except foreign nationals) and congressional action on such general extension, coverage should be extended immediately to the employees of the Federal Government and its instrumentalities who are not now covered under any system. Old-age and survivors insurance coverage would be particularly valuable to many employees in this group because they are temporary or part-time workers who may ordinarily work in employment now covered under old-age and survivors insurance.

In addition, we advocate some immediate provision for the employee whose Federal service is too short to furnish protection under the civil-service retirement system, even though he is covered by that system. Accordingly, as a temporary measure, pending complete extension of coverage to all Federal workers, we recommend that—when separated from Federal service, whether by death, resignation, or dismissal before having served for 5 years—the Federal employee receive appropriate wage credits under old-age and survivors insurance for his Federal service.

When the employee leaves the service, he should receive a refund of his contributions to the civil-service retirement system, less an amount equal to the employee contribution which he would have paid on his wage credits if he had been contributing toward old-age and survivors insurance. The latter amount should be transferred to the Federal Old-Age and Survivors Insurance Trust Fund, and this transfer of credits and contributions should be irrevocable. In addition, the Federal Government, through an annual appropriation by the Congress, should pay the old-age and survivors insurance trust fund the employer's share of the contributions which would have been collected for old-age and survivors insurance with respect to the wage credits given for Federal service. To be eligible for full civil-service retirement benefits if he later returns to Federal service, the employee should be required, after completing 5 years of total service, to redeposit the full amount of his previous contributions to the civil service retirement and disability fund. In some such instances, he will thus have duplicate credits for the same period of service. In a temporary plan, however, this duplication does not seem serious, since the employee will have paid for his credits under each program.

When the employee dies during his first 5 years of service, the old-age and survivors insurance trust fund should be reimbursed for the cost of that part of the benefits payable to his survivors which is attributable to his civil-service wages. This reimbursement should be based on recommendations by the Civil Service Commission and Social Security Administration as to the most equitable method for such reimbursement.

This proposal falls short of an adequate permanent solution to the problem. It does nothing, for example, for persons who, on leaving Federal service after 5 years, elect to take an immediate refund rather than a deferred annuity; it also fails to provide survivorship protection for those who leave Federal service. A temporary measure obviously cannot avoid all possible situations in which hardship may develop. The measures we propose are a stopgap to prevent the most glaring anomalies, until such time as complete old-age and survivors

insurance coverage of Federal employees, with appropriate supplementation by the civil-service retirement system, can be adopted.

6. Railroad Employees

Note.—Like the civil-service retirement system, the Railroad Retirement Act has recently been substantially revised. The amendments of 1946 (Public Law 572, 79th Cong.) established survivorship protection for railroad workers based on a combination of their earnings in the railroad industry and in employment covered by old-age and survivors insurance, under eligibility and benefit provisions closely resembling those of old-age and survivors insurance. No such coordination, however, is provided for retirement protection under the two programs, hence workers with earnings from both railroad employment and employment covered by old-age and survivors insurance, but with only a relatively few years in either one, may receive considerably lower retirement benefits in relation to their contributions than they would if all their employment had been covered under one program or the other. The extent of shifting between the two employment areas is substantial.

The Congress should direct the Social Security Administration and the Railroad Retirement Board to undertake a study to determine the most practicable and equitable method of making the railroad retirement system supplementary to the basic old-age and survivors insurance program. Benefits and contributions of the railroad retirement system should be adjusted to supplement the basic protection afforded by old-age and survivors insurance, so that the combined protection of the two programs would at least equal that under the Railroad Retirement Act

The railroad retirement system developed out of special conditions on the railroads and has a distinctive history. It grew out of, and superseded, many private pension plans which had existed in the railroad industry, and through its adoption the protection which formerly had been afforded to only a limited number of railroad workers was made available to all. The protection against old age and premature death provided by the railroad retirement program is generally more liberal than that provided under old-age and survivors insurance, and long-service railroad workers are insured against the risk of permanent and total disability. Moreover, the contributions of the railroad program are considerably larger than those now payable under old-age and survivors insurance.

While the railroad program provides adequately for the workers who remain in the industry during their entire working lifetimes, inadequate protection is given in some instances to those who move between railroad and other employment. That this movement is very large is indicated by a comparison of the total number of workers employed by the railroads during a year with the average number at work at any one time. While average railroad employment in 1945 was nearly 1.7 million, about 3.1 million individuals had some railroad earnings during the year. Thus, for every 100 railroad employees working at a given time in 1945, 183 acquired railroad-retirement credits in that year; in 1940 this ratio was 100 to 140. During 1937–46 probably about 4,000,000 persons had wage credits under both railroad retirement and old-age and survivors insurance; this group represents more than half the workers (approximately 7,000,000) with wage credits under the Railroad Retirement Act during the 10-year period.

Extension of old-age and survivors insurance to railroad employees would prevent losses in protection that may now result from these

shifts in employment. It would also prevent the disproportionately high total of benefits which may result from shifting employment in some cases. Such cases arise when a higher-paid worker employed for the most part in the railroad industry, and so eligible for substantial railroad benefits, acquires enough credit under old-age and survivors insurance to qualify for benefits under that program also and receives the advantage of the weighting in the benefit formula of the latter program which is intended to favor lower-paid workers.

The railroad-retirement program gives railroad workers vested rights in retirement benefits regardless of the length of time they are employed. Thus, unlike Government employees, employees of nonprofit organizations, and members of the armed forces, railroad workers are certain to qualify for at least some benefits under at least one retirement system. Nevertheless, we believe that employees who spend all or part of their working lives in the railroad industry should have all their employment credited under the old-age and survivors insurance program; otherwise, some railroad workers will contribute substantially toward that program without qualifying for its benefits. Furthermore, during the early years of the old-age and survivors insurance program, some persons who work for only a few years in railroad employment will have less in combined protection than they would if they had been under old-age and survivors insurance continuously.

If the basic protection of old-age and survivors insurance were extended to railroad employment, supplementary benefits under the railroad program would be needed to prevent railroad workers from receiving less retirement and disability protection than is now available to them. If the survivor benefits of old-age and survivors insurance are increased as we propose, they would be higher than survivors benefits under the present Railroad Retirement Act.

We believe that the basic differences between the structures of the retirement benefits under old-age and survivors insurance and the Railroad Retirement Act preclude any coordination short of extending old-age and survivors insurance coverage to railroad workers and making the Railroad Retirement Act a supplementary program. In our opinion, a satisfactory plan can be developed for extending old-age and survivors insurance to all railroad employees and thus strengthening the protection now afforded railroad workers. A report on such a plan should be made to Congress at the earliest practicable date.

Extension of old-age and survivors insurance to railroad employees and making the railroad system supplementary to old-age and survivors insurance would result in lower pay-roll contributions by railroad workers and their employers for the same protection as at present if, as we propose, old-age and survivors insurance is ultimately financed in part by appropriations from general revenues.

7. Members of the Armed Forces

Old-age and survivors insurance coverage should be extended to members of the armed forces, including those stationed outside the United States

Although the career serviceman is eligible for retirement benefits after 20 years of service, the person who spends a shorter period in the armed forces is seriously handicapped by the fact that his military or naval service is not covered under old-age and survivors insurance.

At his death his survivors may not be eligible for any benefits, since protection of peacetime servicemen under the programs for veterans ceases immediately on discharge from service; while if he lives to retirement age, he may fail to be eligible for retirement benefits under either old-age and survivors insurance or one of the special retirement plans. In other cases, benefits will be payable only under old-age and survivors insurance and at a greatly reduced rate because of the time spent in the armed forces. Extension of old-age and survivors insurance to the armed forces will give continuous basic protection both to the career serviceman and to those with shorter periods of military or naval service.

We believe that an adequate staff system affording retirement and survivorship protection for peacetime servicemen is essential to maintaining a strong and efficient military establishment. Although benefits payable under service retirement systems and the programs for veterans should be adjusted to supplement the basic benefits payable under old-age and survivors insurance, nothing should be done to weaken the military staff retirement system. The combined protection under the various programs should at least equal that afforded servicemen at present.

Wage credits under old-age and survivors insurance for personnel of the armed forces should represent the amount of remuneration actually received, including the cash value of perquisites and the amount of allowances to the extent that such perquisites and allowances can be regarded as remuneration for services performed. Perquisites furnished and allowances paid solely in consideration of the serviceman's dependents, however, probably cannot be so regarded, since they do not vary with the grade of the serviceman or the type of services performed.

The Federal Government, as the employer, should pay the equivalent of the employer tax under the Federal Insurance Contributions Act, and the servicemen themselves should bear the cost of the employee contribution. Servicemen should have the same interest and stake in the system that other covered workers have, and the contributory character of the basic insurance program should be maintained.

8. Employees of State and Local Governments

The Federal Government should enter into voluntary agreements with the States for the extension of old-age and survivors insurance to the employees of State and local governments, except that employees engaged in proprietary activities should be covered compulsorily

Voluntary coverage of a limited group under an otherwise compulsory social insurance system is ordinarily undesirable and unwise. Under a system such as old-age and survivors insurance, in which benefits are not directly related to the value of the contributions paid, voluntary participation is likely to result in disproportionately large benefits for those who elect coverage. Even if voluntary participation is limited to entire groups of workers, the organizations that elect coverage are likely to be those in which most employees are persons nearing retirement age or men with large families. The smaller the organization, of course, the greater the danger of this "adverse selection."

Because of the apparent constitutional barrier against Federal taxation of the States, however, coverage of the employees of State

and local governments, except for those engaged in proprietary functions, will have to be on a voluntary basis unless these government employees are to be denied the protection of the Federal program. Because of this fact, and because a clear need exists for old-age and survivors insurance protection of these employees, the Council believes that a voluntary plan should be offered to State and local governments in their capacity as employers.

Coverage can and should be extended on a compulsory basis to government employees engaged in proprietary—as opposed to government—functions of the employing units. Proprietary activities include, for example, State liquor stores, municipal subway systems, and other public utilities that are owned and operated by the government unit. Compulsory extension of coverage to these groups appears to raise no constitutional questions and would immediately give 150,000 to 200,000 workers the advantages of basic social insurance protection.

Under a voluntary system, adverse selection occurs when coverage is elected by only a part of the total employee group and that part is not representative of the entire group. Such selection can be controlled to some extent by restricting the employer's latitude of choice in determining coverage of the plan. The Council, therefore, recommends that coverage be permitted only when elected for all employees within an occupational or departmental group. Thus, when coverage is extended to a government department, bureau, or other administrative division of the State or of a locality, all employees of the department would have to be covered. If coverage is extended to an occupational group, all employees of a State or of a local government unit who are engaged in the specified type of work (such as teachers, typists, truck drivers, janitors) would have to be covered.

As further assurance that the covered group will contain a reasonably representative distribution of risks, coverage should be permitted only if one-fourth of the employees of the State or local government (such as a county, township, municipality, or school district) are brought into the program. This requirement would probably be adequate for the larger local government units, but a more restrictive one is recommended for localities with less than 400 employees. If the locality has less than 400 but more than 100 employees, coverage would have to be elected for at least 100 employees. If the local government unit has 100 or fewer employees, all would have to be covered.

It is recommended that agreements be entered into only with States, although political subdivisions of the State should be permitted to participate. A State entering into an agreement would assume the responsibilities of an employer under old-age and survivors insurance; that is, the State, both for itself and for those of its political subdivisions which participate in the agreement, would collect and transmit to the Federal Government wage information and contributions. The fact that the Federal Government would deal only with the States would greatly reduce an otherwise heavy administrative burden. Since the agreements would be voluntary, no question of the Federal right to levy a tax on States and localities would be raised.

As of April 1947, nearly 4,000,000 employees of States, political subdivisions of States, and instrumentalities of State and local governments were excluded from old-age and survivors insurance. The average earnings of these employees as a rule are somewhat lower than those in private industry. The average monthly salary during

April 1947 was $160 for nonschool employees and $185 for school employees as compared with an average monthly wage of about $205 in manufacturing industries.

Almost half the total number of State and local employees are not covered under any retirement system, and of those who are so covered, probably about four-fifths lack adequate survivorship protection. The need of this group for the protection of the old-age and survivors insurance program is clear. An equally important reason for extending old-age and survivors insurance to employees of State and local governments is to give public workers continuous protection when they shift from one government unit to another, or between government units and private industry. Existing State and local staff retirement systems are designed primarily for those who continue in the service of the particular unit until their retirement; the majority of those who leave the service before retirement age normally forfeit any rights to retirement benefits they may have acquired. Similarly, persons who enter government employment from private industry may lose all or part of the protection they have acquired under old-age and survivors insurance.

Although jobs in State and local government agencies are more stable than in many areas of private industry, there is nevertheless a substantial turn-over. In April 1946, a typical month, 3.4 million persons were employed by State and local governments, while during the whole year about 4.3 million were so employed. Thus, several hundred thousand had temporary employment in these units, or shifted from permanent government jobs to work in other fields. In 1944, about one-seventh of all nonschool employment for State and local government units was on a part-time basis and about one-eighth of all State and local employment was temporary. Even for the permanent, full-time jobs, the annual turn-over probably ranges from 4 to 7 percent.

Many proposals previously advanced for covering these workers have advocated excluding, on either a permissive or a mandatory basis, various limited groups of State and local employees, apparently in fear that coverage under old-age and survivors insurance would weaken or even completely destroy their State and local retirement system. As pointed out in the Council's recommendations for coverage of Federal and railroad employees, retirement systems supplementary to old-age and survivors insurance perform a valuable and necessary function. When coverage is extended to State and local employees who are members of staff retirement systems, those systems can be adjusted to supplement the basic old-age and survivors insurance benefits. Private employers have demonstrated that such adjustments can be made satisfactorily and without any loss in total retirement protection. The Council believes that in light of (a) the incontrovertible merit of the retention and development of supplementary plans, (b) the fact that employees under industrial pension systems did not suffer losses in benefits attributable to adjustment to the old-age and survivors insurance program, and (c) the fact that State and local governments have recognized the need for, and taken action to provide, retirement protection for their employees, any fear that the availability of old-age and survivors insurance will lead government units to reduce the total protection afforded their employees is unjustified.

9. A Study of Social Security Protection for the Possessions of the United States

A commission should be established to determine the kind of social security protection appropriate to the possessions of the United States

The social insurance and public assistance provisions of the Social Security Act do not at present apply to Puerto Rico, the Virgin Islands, Guam, or other possessions of the United States, even though the livelihood and security of the people of such possessions are bound up with the United States economy. The kind of social security protection to be afforded to these people should be based on detailed studies of economic and social conditions in the islands. Matters that require investigation include wage rates, regularity of employment, extent of unemployment, incidence of illness, and the nature of public assistance and public-health provisions now administered by the insular governments.

The extended inquiry which would be called for, particularly since areas outside the continental United States are involved, is believed by the Council to be beyond its function. For this reason the Council proposes that a special commission be established to make such inquiry and recommend appropriate social security legislation. The commission should represent the general public, including residents of the possessions, as well as agencies such as the Federal Security Agency and the Departments of Labor, Agriculture, Interior, Commerce, and Treasury, which either have a special interest in the islands or would normally concern themselves with the problems at issue.

10. Inclusion of Tips in the Definition of Wages

The definition of wages as contained in section 209 (a) of the Social Security Act, as amended, and section 1426 (a) of subchapter A of chapter 9 of the Internal Revenue Code should be amended to specify that such wages shall include all tips or gratuities customarily received by an employee from a customer of an employer

Tips or gratuities paid directly to an employee by a customer of an employer, but not "accounted for" by the employee to the employer, are not now included in wages as defined for benefit and contribution purposes. Only a small part of all tips are now accounted for. Consequently, substantial numbers of workers in such service industries as hotels, restaurants, barber shops, and beauty parlors are denied the degree of protection they would acquire if all such payments were included in their wage records. Some workers may fail to qualify for benefits because, except for tips, their remuneration is inconsequential. This condition is especially illogical since tips are frequently contemplated in the wage contract, are earned in the service of the employer, and are received for services generally recognized as performed in the interest of the employer.

Tips are included in taxable income under the Federal income-tax law. Moreover, in about half the States, such payments are reported under the State unemployment insurance laws on a more inclusive basis than under the program of old-age and survivors insurance.

Estimates indicate that full inclusion of tips and gratuities would sharply increase the wage credits of approximately a million workers now covered by the old-age and survivors insurance program. The

increase for roughly two-thirds of that number would amount to about 40 percent of their wages as reported under present interpretation of the law. According to Department of Commerce estimates, $183,000,000 was paid in tips in 1939; $196,000,000 in 1940; $238,000,000 in 1941; $308,000,000 in 1942; and $396,000,000 in 1943. If a similar rate of increase continued after 1943, as seems likely during years of high prices, the total amount now paid in tips might well exceed half a billion dollars a year. The inclusion of such additional sums in the wage credits of approximately a million workers in covered service industries would clearly have an important effect on their benefits rights and their contributions to the trust fund.

In the absence of an exact reporting of tips by persons receiving them, it would be possible to permit employers to report a reasonable estimate of the tips received by their employees, as is now done under some of the State unemployment insurance laws. In making such estimates, the employer would take into account the volume of business handled by the employee, the tips reported by other employees, the type of establishment, and any other pertinent factors. The employer should not be held responsible for any inaccurate reporting of tips by his employees, however, and should be protected from penalties on this account. Procedural and administrative questions could be settled by appropriate regulations designed to implement the intent of the law.

Adoption of this recommendation, the Council believes, would bring the contributions paid and the benefits received by a large number of people more nearly in line with their actual earnings, thus ending an inequity to persons whose employment is covered by the program but who receive much of their remuneration for such employment in a form not now considered wages. It would also result in greater uniformity in interpretation of wages in laws relating to income taxes, unemployment insurance, and old-age and survivors insurance.

RECOMMENDATIONS ON ELIGIBILITY

11. Insured Status

To permit a larger proportion of older workers, particularly those newly covered, to qualify for benefits, the requirements for fully insured status should be 1 quarter of coverage [5] for each 2 calendar quarters elapsing after 1948 or after the quarter in which the individual attains the age of 21, whichever is later, and before the quarter in which he attains the age of 65 (60 for women) or dies. Quarters of coverage earned at any time after 1936 should count toward meeting this requirement. A minimum of 6 quarters of coverage should be required and a worker should be fully and permanently insured if he has 40 quarters of coverage. In cases of death before January 1, 1949, the requirement should continue to be 1 quarter of coverage for each 2 calendar quarters elapsing after 1936 or after the quarter in which the age of 21 was attained, whichever is later, and before the quarter in which the individual attained the age of 65 or died

The Council recommends a "new start" in the eligibility requirements which will require the same qualifying period for an older

[5] As under the present program, a calendar quarter in which the worker has $50 or more in earnings from covered employment.

worker now as was required for a person who was the same age when the system began operation. All workers who will have attained age 62 before the middle of 1949 would be insured with the minimum of 6 quarters of coverage, just as workers of the same age in 1937 could be insured with the minimum number.

A major reason for the fact that the old-age and survivors insurance program has been slow in replacing public assistance as the chief method of meeting income loss in old age is the difficulty which older people face in meeting the present eligibility requirements. Eleven years after the inauguration of the program only about 20 percent of the population aged 65 and over is either insured under the program or receiving benefits.

Eligibility requirements for the older workers as difficult to meet as those of the present program (24 quarters of coverage will be required under present provisions for those attaining age 65 in the first quarter of 1949) mean an unwarranted postponement of the effectiveness of the insurance method in furnishing income for the aged. In a contributory social insurance system, as in a private pension plan, workers already old when the program is started should have their past service taken into account. The unavailability of records of past service prevents giving actual credits under old-age and survivors insurance for employment and wages before the coverage becomes effective, but eligibility requirements and the benefit formula can and should take prior service into account presumptively. To pay benefits to all the current aged—including those who have not worked at all since the inauguration of the system—might endanger the character of the benefit based on contributions and work records, but in getting the system started, it is important to make due allowance for those who, because of age, will probably continue at work for only a short period.

All persons who reached age 62 before the middle of the year in which the system began to operate (1937) could be fully insured under the present act if they acquired six quarters of coverage. Those who attained age 62 in the third or fourth quarters of 1937 needed 7 quarters, and so on, while, as indicated above, those attaining age 65 in the first quarter of 1949 will need to have had 24 quarters. After 1956, under the present provisions, all persons who had attained age 21 before 1937 will need the maximum requirement of 40 quarters.

Unless the present provisions are modified, all persons covered for the first time in January 1949 who are less than 57 years old will have to have 10 years of coverage before they can become eligible for retirement benefits, while even those aged 65 will need six more years of steady employment before they can receive benefits. A "new start," treating those newly covered workers in the same way that the program treated other occupational groups when they were first covered, seems reasonable and fair.

While it would theoretically be possible to liberalize requirements only for newly covered workers and to retain the present provisions for all others, this is not a practical or desirable solution. Shifts between covered and noncovered employment are so common that it would be all but impossible to establish a fair criterion for determining, for the purpose of special eligibility requirements, which individuals should be treated as belonging to a newly covered occupation. Any

liberalization designed to reduce the handicap of newly covered workers must be a generally applicable provision.

The Council recommends that the liberalization of eligibility requirements should apply only to individuals living at the date of coverage extension. This proposal is consistent with the treatment accorded survivors under the 1939 amendments when the provisions for survivor benefits were made applicable only in cases of death after December 31, 1939. Considerable administrative difficulty would arise if the eligibility for benefits of individuals who died before the amendment of the law were reconsidered.

Of the various possible methods of adjusting the fully insured status requirement for newly covered workers, the one we recommend seems to us to offer the advantages of uniformity and simplicity and at the same time to provide a much-needed liberalization in the requirements for all older workers. It would also reduce the disadvantages which many workers normally in covered employment now face because of their work during the war in Government shipyards, munitions plants, emergency Government agencies, and other noncovered occupations.

The new-start method would be impractical if extension is on a piecemeal basis. More than one "new start," we believe, would be indefensible and would tend to weaken public confidence in the program. It would be possible to use the new-start plan, however, even though coverage is not extended to Federal and railroad workers until later, since available records of past employment and wages for these workers would permit crediting their back wages. Under such an arrangement, amounts equivalent to the contributions which would have been collected if the workers had previously been covered under old-age and survivors insurance could be transferred to the old-age and survivors insurance trust fund from the trust funds for their separate Federal retirement systems.

The "new start" would result in payment of retirement benefits to a much higher proportion of the aged during the early years of the system, but it would not increase beneficiary rolls and costs in the later years since the eligibility requirements would remain the same for workers now young.

RECOMMENDATIONS ON BENEFITS

12. Maximum Base for Contributions and Benefits

To take into account increased wage levels and costs of living, the upper limit on earnings subject to contributions and credited for benefits should be raised from $3,000 to $4,200. The maximum average monthly wage used in the calculation of benefits should be increased from $250 to $350 [6]

A social insurance program must be adjusted periodically to basic economic changes. In a dynamic economy, provisions which were appropriate at the time they became effective inevitably become

[6] While the majority of the Council favor increasing the upper limit to $4,200, some favor keeping the limit at $3,000 and some favor increasing it to $4,800. The reasons for these two positions are given in appendix I-F.

outmoded. This is what has happened to the limitation placed on the amount of wages subject to contributions and allowed as wage credits.

In 1939, when the $3,000 maximum wage base was established, nearly 97 percent of all workers in covered employment had wages of less than $3,000 a year, and thus they were required to pay contributions on their total wages and could have their total wages counted toward benefits. Even among workers who were steadily employed throughout 1939, fewer than 5 percent received wages of more than $3,000 a year. With the general rise in wage levels since 1939, however, the $3,000 limitation has tended to exclude from taxation and use in benefit computations part of the wages of a substantial proportion of covered workers. In 1945 about 14 percent of all covered workers had wages exceeding $3,000, and among workers who were steadily employed throughout the year, about 24 percent had wages in excess of that amount.

The wage base for contributions and benefits under the program should be higher not only because of increases in the level of wages but also because of price increases. Since the base has not kept pace with rising prices, benefits now supply a smaller proportion of the costs of maintaining the beneficiary's previous standard of living than they did in 1939. Today for example, $4,200 a year represents a somewhat lower standard of living than $3,000 a year could purchase a decade ago. Raising the upper limit on wages is necessary if the relationship between benefits and standards of living which was intended in the 1939 amendments is to be maintained.

To take full account of the increase in wages and prices, the limitation on taxable wages would have to be raised to somewhat more than $4,800. The Council, however, recommends that a part of the increase in wages be disregarded by changing the limitation to $4,200 as a conservative adjustment to the rise in wage and price levels which has occurred since the $3,000 figure was adopted. With a wage base of $4,200, about 95 percent of the workers in covered employment in 1945 would have had all their wages from covered employment available for benefit purposes.

If the old-age and survivors insurance program is to fulfill its function, benefits for all insured workers must be increased. Since the American system of relating benefits to past wages rests on the principle that considerations of individual security and individual incentive require a relationship between benefits and the previous standard of living of the retired person, benefits must be increased for higher-paid wage earners as well as for workers in the lower-income brackets. Comparisons between the primary insurance benefits payable under the plan proposed by the Advisory Council and those payable under the present program appear in table 1. As those figures show, we recommend that a worker with an average monthly wage of $350 (the maximum) shall have the potential protection of a primary insurance benefit representing 22.5 percent of his average monthly wage. Under the present program, that percentage represents the primary insurance benefit of a worker who has earned $3,000 or more a year and who has had 40 years of coverage.

TABLE 1.—*Primary insurance benefit and its ratio (percent) to specified average monthly wages under the Advisory Council's proposals and under the present law* [1]

Average monthly wage	Advisory Council's proposal [2]		Present law					
			10 years of coverage		20 years of coverage		40 years of coverage	
	Primary insurance benefit	Percent of average monthly wage	Primary insurance benefit	Percent of average monthly wage	Primary insurance benefit	Percent of average monthly wage	Primary insurance benefit	Percent of average monthly wage
$50	$25.00	50.0	$22.00	44.0	$24.00	48.0	$28.00	56.0
$75	37.50	50.0	24.75	33.0	27.00	36.0	31.50	42.0
$100	41.25	41.2	27.50	27.5	30.00	30.0	35.00	35.0
$150	48.75	32.5	33.00	22.0	36.00	24.0	42.00	28.0
$200	56.25	28.1	38.50	19.2	42.00	21.0	49.00	24.5
$250	63.75	25.5	[3] 44.00	17.6	[3] 48.00	19.2	[3] 56.00	22.4
$300	71.25	23.8	[3] 44.00	14.7	[3] 48.00	16.0	[3] 56.00	18.7
$350	[3] 78.75	22.5	[3] 44.00	12.6	[3] 48.00	13.7	[3] 56.00	16.0

[1] The percentage is higher when a wife's benefit is also payable.
[2] Uniform for all years of coverage.
[3] Maximum primary insurance benefit possible under the benefit formula.

An objective of the present law is to have workers in the highest wage brackets covered by the system pay the costs of their own benefits over a full working lifetime. Under the benefit formula we have recommended, benefits for the $4,200-a-year man bear approximately the same relation to his contributions as benefits under the present law bear to the contributions of the $3,000-a-year man.

With the increased base, the high-paid person will have somewhat higher benefits than he would have had if only the formula were changed, but he will in the long run, pay for nearly all the increase in the cost of his benefits. If the wage base is not increased, those in the higher wage brackets will have higher benefits without having contributed toward the cost of the increases.

13. Average Monthly Wage

The average monthly wage should be computed as under the present law, except that any worker who has had wage credits of $50 or more in each of six or more quarters after 1948 should have his average wage based either on the wages and elapsed time counted as under the present law or on the wages and elapsed time after 1948, whichever gives the higher result

Persons whose occupations have been excluded from coverage under the present program will suffer serious disadvantage after coverage is extended, unless an alternative is permitted for the present method of calculating the average monthly wage. Under the present law, benefit amounts are based on an average computed, in general, by adding all wage credits a worker has received for covered employment and dividing that sum by all the months elapsing since 1936, except for quarters before the worker reached age 22 in which he received less than $50. On this basis, a worker who has been in an employment hitherto excluded from coverage will always be penalized for his former lack of coverage, since, in effect, his wages from newly covered employment will be averaged over all the months elapsed

since 1936 or since he reached age 22, if later. His low average wage, in turn, will result in a low benefit amount.

The Council believes that an appropriate way to eliminate this handicap for newly covered groups would be to have their average wages computed from the date of the coverage extension, just as the average wage now disregards periods before January 1, 1937, for those in employments first covered as of that date. Since large numbers of workers have been in both covered and noncovered employment, however, it would be almost impossible to establish a sound basis for determining which individuals should be treated as belonging to a newly covered group. The opportunity to profit from the provisions designed for the newly covered groups must, therefore, be open to all persons.

Unless previously covered workers also have the alternative of a "new start," moreover, many will fare worse than those newly covered, since the relatively low wages paid in the late thirties and early forties will tend to reduce their average wages and thus yield benefit amounts lower than those of newly covered persons in comparable jobs.

Some insured persons will have little or no covered employment after the date coverage is extended; others will have too small an amount to form a fair basis for determining an average; and others may have employment after the "new start" at wages much lower than their previous earnings. The starting point of January 1937 specified in the present law should, therefore, be retained as an alternative and the individual worker's average wage computed from that date if it gives a higher amount than would the "new start."

The new start for all, on an alternative basis, appears to be the only equitable plan, but for the reasons pointed out in the recommendation for a new start on insured status (recommendation 11, p. 29) we do not recommend a new start unless coverage is extended broadly as of one date.

14. Benefit Formula

To provide adequate benefits immediately and to remove the present penalty imposed on workers who lack a lifetime of coverage under old-age and survivors insurance, the primary insurance benefit should be 50 percent of the first $75 of the average monthly wage plus 15 percent of the remainder up to $275.[7] *Present beneficiaries, as well as those who become entitled in the future, should receive benefits computed according to this new formula for all months after the effective date of the amendments*

The benefit formula of the present program, with its automatic increase of 1 percent for each year of coverage, in effect postpones payment of the full rate of benefits for more than 40 years from the time the system began to operate. Under such provisions, if the benefit amount of a retired worker after he has had a lifetime of coverage represents a reasonable proportion of his average wage, that for older workers who have been in the system for only a few years and for the survivors of younger workers will almost of necessity be inadequate. Thus, the survivors of a man who began working at age 20 and dies at age 30 will have rights to benefits only about three-

[7] The members of the Council who favor retaining $3,000 as the maximum annual wage credit and taxable wages would retain $250 as the maximum average monthly wage. They advocate a primary insurance benefit representing 50 percent of the first $75 of that monthly wage plus 15 percent of the remainder up to $175.

fourths as large as those which the same average monthly wage would have provided if he had lived to age 65. Yet the worker who dies at an early age has had less opportunity than have older workers to accumulate savings and other resources to supplement the benefits payable to his survivors. The Advisory Council believes that adequate benefits should be paid immediately to retired beneficiaries and survivors of insured workers but considers it unwise to commit the system to automatic increases in the benefit for each year of covered employment.

Benefits payable under old-age and survivors insurance, with the beneficiaries' other permanent resources, should suffice to supply at least the basic necessities of life for the great majority of beneficiaries. The present program does not achieve this objective. Field studies made by the Bureau of Old-Age and Survivors Insurance in 1941 and 1942 in seven cities showed that one-third of the primary beneficiaries surveyed had insufficient nonrelief income, assets, and possible help from relatives in their household for a maintenance level of living and that, taking account of their own permanent resources only, nearly two-thirds of the beneficiaries had less than was required for a maintenance budget.[8]

Inadequate as benefits were in 1941–42, they are even less adequate now that costs of living have increased by at least 60 percent. The average primary benefit now being paid is only about 10 percent higher than that paid in 1940. The table in appendix I-D shows the distribution of benefits being paid under the present program at the end of 1947. The inadequacy of these benefits is self-evident.

The benefit formula in the present Social Security Act provides a primary benefit representing 40 percent of the first $50 of the average monthly wage and 10 percent of the next $200. It is thus weighted in favor of workers whose average wages are low. As a result of increases in wage rates, the effect of the original weighting, however, has been substantially reduced. In 1939, when the program was drafted and approved, $50 represented about one-half the average monthly earnings of fully employed persons in covered employment. By 1947, fully employed workers were receiving an average of about $185 a month. As a conservative recognition of the effect of wage increases on the original weighting, the Council recommends a change in the benefit formula to make $75 the upper limit for that part of the average monthly wage to which the higher percentage is applied.

This change, however, will not in itself sufficiently increase the primary benefits of low-wage workers. Many beneficiaries now on the rolls receive benefits based on an average monthly wage of less than $75. These beneficiaries and others in the future whose benefits are based on low wages lack outside resources and should not be denied the right to more liberal benefits. If the benefit formula gave 50 percent, rather than 40 percent, of the first $75 of the average monthly wage, the beneficiaries whose rights are based on low wages would receive fairly substantial increases in their benefit amounts.

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[8] The standard used was based on the WPA maintenance budget. For a single man living alone, it ranged from $463 in Philadelphia-Baltimore to $505 in St. Louis. For an aged couple it ranged from $773 to $814. Possible aid from relatives in the household, the imputed rental value of homes the beneficiaries owned, income from employment, and income from the liquidation of assets were among the resources taken into account. Since the studies were made shortly after the beneficiaries became entitled to benefits, many of them still had incomes and resources that could not be expected to continue in later years. For a fair picture of their economic security, therefore, the studies attempted to differentiate between temporary resources and those which could be considered permanent, such as old-age and survivors insurance benefits, retirement pay, insurance annuities, imputed rent from the homes they owned, and the estimated amounts that could be realized from their assets prorated over their life expectancy.

We also propose that the percentage applied to the portion of the average wage above $75 be increased to 15 percent. If that percentage remains fixed at 10 percent, there will be too little spread between the benefit amounts of low-income and high-income workers. Thus, for an average monthly wage of $100, the primary benefit would be only $10 less than that for an average wage of $200, a differential that we believe is insufficient for the wage interval of $100–$200, which now includes the great majority of workers in covered employment.

We believe that benefits should be related to the continuity of the worker's coverage by and contributions to the system, as well as to the amount of his earnings. Under our recommendations, accordingly, benefits will continue to vary—as they now do—with both these factors. Thus, in figuring the average monthly wage (recommendation 13, p. 33), a worker's total wage credits are—and would continue to be—divided by the total number of months that he might have been contributing to the system. His average wage, and consequently his primary benefit, will therefore be the smaller for each month lacking in his record of covered employment. In our opinion, this method of adjusting benefits permits sufficient differentiation between workers who are steadily employed in covered jobs and those whose covered employment is only brief or intermittent. Thus, an increment is not needed for the purpose of such differentiation.

With coverage broadly extended, the increment would serve largely to reward younger workers for their greater contributions by paying them higher retirement benefits than those paid to persons who were old when the system started. To us, such discrimination seems undesirable. The older worker should not be penalized for the fact that he could not contribute throughout his life. We propose, in effect, that, as in many private pension plans, the older worker receive credit for his past service and acquire rights to the full rate of benefits now.

TABLE 2.—*Illustrative old-age benefits under present formula* [1] *and that proposed by Advisory Council* [2]

[NOTE.—Potential beneficiary in covered employment continuously from Jan. 1, 1937, to date shown]

Average monthly wage	Basic amount [3]		Entitlement date					
			Jan. 1, 1949 (12 years of coverage)		Jan. 1, 1957 (20 years of coverage)		Jan. 1, 1977 (40 years of coverage)	
	Present law	Advisory Council proposal	Present law	Advisory Council proposal	Present law	Advisory Council proposal	Present law	Advisory Council proposal
$50	$20.00	$25.00	$22.40	$25.00	$24.00	$25.00	$28.00	$25.00
$75	22.50	37.50	25.20	37.50	27.00	37.50	31.50	37.50
$100	25.00	41.25	28.00	41.25	30.00	41.25	35.00	41.25
$125	27.50	45.00	30.80	45.00	33.00	45.00	38.50	45.00
$150	30.00	48.75	33.60	48.75	36.00	48.75	42.00	48.75
$200	35.00	56.25	39.20	56.25	42.00	56.25	49.00	56.25
$250	40.00	63.75	44.80	63.75	48.00	63.75	56.00	63.75
$300	[4] 40.00	71.25	[4] 44.80	71.25	[4] 48.00	71.25	[4] 56.00	71.25
$350	[4] 40.00	78.75	[4] 44.80	78.75	[4] 48.00	78.75	[4] 56.00	78.75

[1] 40 percent of the first $50 of the average monthly wage plus 10 percent of the next $200, increased by 1 percent of the sum of the foregoing for each year of coverage.
[2] 50 percent of the first $75 of the average monthly wage plus 15 percent of the next $225.
[3] Under present law, the benefit amount without the increment for years of coverage; under the Advisory Council's proposal, the amount payable.
[4] Maximum average monthly wage used in computing benefits under present law is $250.

A major draw-back in liberalizing a benefit formula that contains an increment lies in the danger that benefits in future years will be excessively high. By eliminating the increment, the benefits paid now can be more adequate than would seem feasible if the level of benefits were also to be raised automatically in future years by the application of an increment in the formula.

15. Increased Survivor Benefit

To increase the protection for a worker's dependents, survivor benefits for a family should be at the rate of three-fourths of the primary insurance benefit for one child and one-half for each additional child, rather than one-half for all children as at present. The parent's benefit should also be increased from one-half to three-fourths. Widows' benefits should remain at three-fourths of the primary insurance benefit

Adoption of this recommendation would serve mainly to provide higher benefits for children of deceased workers, since few parents of insured workers are eligible for benefits. Families consisting of young children and widowed mothers would benefit particularly from this recommendation. Studies made by the Bureau of Old-Age and Survivors Insurance in 1940–42 indicate that this beneficiary group is the one most in need of benefit increases. Of the widows with entitled children, 44 percent—a larger percentage than for any other beneficiary type—were found to have insufficient income for a maintenance level of living [9] and had net assets of less than $2,500. Of the widows with three or more children, 73 percent had to live below this maintenance level.

Under the present program, the benefit rates of family groups of the same size vary, before the application of the maximums, in ways unrelated either to need or to insurance principles. There are three types of monthly benefits, in addition to the primary insurance benefit, which an individual may receive without other benefits being payable in the same family group. An aged widow as a sole beneficiary receives three-fourths of the primary insurance benefit, and the survivor benefit payable to one child or to one dependent parent of a deceased insured worker equals one-half the primary benefit. Family groups with two beneficiaries may receive one and one-half times the primary benefit (husband and wife), one and one-fourth times the primary benefit (widow and child), or the same amount as the primary benefit (two children or two dependent parents). Families with three beneficiaries may receive twice the primary benefit (retired worker, wife, and child), or one and three-fourths times the primary benefit (widow and two children), or one and one-half times the primary benefit (three children).

There is no good reason for these differentials in benefit rates. The Council's recommendation would result in a uniform ratio to the primary benefit for all survivor benefits paid to a sole beneficiary and for all two-person and three-person beneficiary groups, except for those consisting only of children.

[9] The standard used in this study was based on the WPA budget for a maintenance level of living and was found to have been very close to the relief standard. In the cities investigated, it ranged from $1,052 a year in Philadelphia-Baltimore to $1,145 in Los Angeles for a widow and two children (aged 10 to 15).

16. Dependents of Insured Women

To equalize the protection given to the dependents of women and men, benefits should be payable to the young children of any currently insured[10] *woman upon her death or eligibility for primary insurance benefits. Benefits should be payable also (a) to the aged, dependent husband of a primary beneficiary who, in addition to being fully insured, was currently insured at the time she became eligible for primary benefits, and (b) to the aged, dependent widower of a woman who was fully and currently insured at the time of her death*

Under the present program, insured women lack some of the rights which insured men can acquire. Thus, when an insured married woman dies or retires, monthly benefits can seldom be paid to her children on the basis of her wage record and are never payable to her husband. If she has been working steadily before her death or retirement, the Council believes her participation in the insurance program should carry protection against the loss of her earnings, which presumably have been an important part of the family income.

The changes proposed by the Council would mainly affect orphaned children. At present, young children of a deceased insured woman can receive monthly benefits based on her wage record only if the father has died or if the child was not living with his father and had been supported by his mother. Under our proposal, monthly benefits would be payable to the young children of any woman who died currently insured, in recognition of the fact that the earnings of a working wife are an important contribution toward the support of the family.

Supplementary child's benefits should be payable to the young children of any retired woman who was currently insured when she attained age 60. If both husband and wife are primary beneficiaries, however, the child would receive only the benefits based on the larger of the two wage records. In the majority of such instances, the child's benefits would thus be based on the father's wage record rather than on the mother's, but the mother's insurance should be the basis of the benefit if it would yield a larger addition to the family's benefit income. Since very few women aged 60 or over have children under age 18, however, supplementary child's benefits will be payable with respect to retired women in relatively few cases.

We also believe that a widower who was dependent on his fully and currently insured wife at the time of her death should receive a benefit based on her wage credits when he attains age 65, but as is now the case for aged widows, he should receive his widower's benefit only if it is larger than the primary benefit based on his own earnings.

Similarly, supplementary benefits should be payable to the dependent husband (at age 65 or over) of a female primary beneficiary who was currently insured at the time she attained age 60. These husband's benefits would be comparable to the present wife's benefits for wives of male primary beneficiaries. Such benefits will be payable in relatively few cases, however, because the man would receive only the larger of the husband's benefit or his own primary benefit.

[10] To be currently insured, a worker must have had 6 quarters of coverage within the period consisting of the quarter in which he died and the 12 quarters immediately preceding such quarter.

Except in the case of family situations in which supplementary or survivor benefits are payable under present law, we advocate that supplementary or survivor benefits be payable only on the wage record of a woman who was currently insured on her attainment of age 60 or her death. A woman who has not worked in at least half the calendar quarters of the 3 years immediately preceding her retirement or death is not likely to have been responsible for even partial support of her family. If she is fully but not currently insured, all her gainful employment will in most cases have antedated her marriage or the birth of her children, and her death will mean no loss of income for the family.

The cost of paying the proposed supplementary and survivor benefits to dependents of women workers will be very small. Relatively few aged dependent husbands and widowers or children of retired women workers will qualify for benefits, for most of the men will be eligible for higher primary benefits in their own right and few aged women have children under 18. Although benefits to children of deceased insured younger women will be paid more frequently, they will cost considerably less than 0.1 percent of pay rolls.

17. Maximum Benefits

To increase the family benefits, the maximum benefit amount payable on the wage record of an insured individual should be three times the primary insurance benefit amount or 80 percent of the individual's average monthly wage, whichever is less, except that this limitation should not operate to reduce the total family benefits below $40 a month

The Advisory Council believes that the wife of a retired beneficiary and each of his children under age 18 should receive 50 percent of the primary insurance benefit, the same proportion as under the present program. According to recommendation 15 (p. 37), however, the widow and the first child of a deceased insured worker would each receive 75 percent of the primary insurance benefit, while each additional child would receive 50 percent. The total monthly amount of benefits payable when deceased insured workers leave very large families might thus be excessive unless some maximum limits the total monthly amount of benefits payable on the basis of a single wage record.

Under present law, whenever the total of all monthly benefits payable with respect to the wage record of an individual exceeds (1) $85, or (2) twice the primary benefit amount, or (3) 80 percent of the wage earner's average monthly wage, the total must be reduced to the least of these three. These limitations, however, do not operate to reduce the total family benefits below $20 a month.

The increase in the wage base (recommendation 12, p. 31) and the changes in the benefit formula (recommendation 14, p. 34) which the Council has recommended make the $85 maximum too restrictive. The average primary insurance benefit under our proposals will be about $50 and the maximum primary insurance benefit will be $78.75. At higher levels of average monthly wages (about $200), full benefits could not be paid to the wife of a primary beneficiary or to a widow and

one child if the $85 maximum were retained. If the primary beneficiary also had a minor child, full benefits could not be paid to the family even at average monthly wages of about $110. The majority of family benefits would be reduced by this dollar maximum, and much of the value of a family benefit system would be lost. To maintain a proper recognition of family need, the $85 maximum limitation must be removed.

Moreover, it is unnecessary in our opinion to place any specific dollar limit on the benefit amount. The other maximums we propose will serve to keep benefits at reasonable levels. The highest payments that can be made under our proposals are justified by the large amount of the worker's contributions as well as by the large number of his dependent survivors.

The maximum of 80 percent of the average monthly wage should be retained. The Council is convinced of the soundness of the principle that social insurance benefits should be less than the former wages of the worker covered by the program. This principle, however, should not be applied to reduce total family benefits below $40 a month. A widow and two children should receive an amount based on the full minimum primary benefit (recommendation 18, p. 41), as they can at present, even though the amount exceeds 80 percent of the insured worker's average monthly wage.

The Council recommends an additional maximum of three times the primary benefit. The present maximum of twice the primary benefit is too restrictive. It reduces the family benefits of larger families in the moderate income groups more sharply than do either of the other maximums in the present program. Probably few groups for whom more liberal benefits should be recommended are in greater need of additional income than are these larger families. The hardship to the children is intensified by the fact that, by their very numbers, they have limited their parents' ability to make other savings from their moderate wages.

The cost of raising the maximum benefit payment from twice the primary insurance benefit to three times that benefit will not be great. This maximum will seldom affect a family containing a retired worker, for it can apply only if he has a wife entitled to wife's benefits and more than one minor child, or if he has three minor children. Among families of survivor beneficiaries, only about 6 percent are large enough to receive more in benefits under the maximum of three times the primary benefit than under a maximum of twice the primary.[11] This 6 percent, however, includes more than 20 percent of the survivor families in which children are entitled to benefits. The liberalization we propose would be extremely significant to the welfare of the relatively small number of families it would affect.

Under our proposals, in no case will any group of survivors receive more than 80 percent of the average monthly wage, unless entitled to the minimum benefit, and when that average wage exceeds $225, our proposed maximum of three times the primary insurance benefit will become effective and will reduce the total monthly benefits for the family below 80 percent of the average wage.

[11] A maximum of twice the primary benefit would apply to survivor benefits when the deceased insured worker leaves a widow and three or more minor children or more than three minor children and no widow.

TABLE 3.—*Maximum amounts of benefits payable under the present law* [1] *and under Advisory Council's proposal,* [2] *at various levels of average monthly wage, to survivor families consisting of a widow and 1 or more child beneficiaries*

Average monthly wage	Applicable provisions	Primary insurance benefit	Maximum family benefit	Benefit amount payable to				
				Widow	First child	Second child	Third child	Fourth child
$50	Present law	$22.00	$40.00	$16.50	$11.00	$11.00	$1.50	.....
	Advisory Council	25.00	40.00	18.75	18.75	2.50	.....	.....
$75	Present law	24.75	49.50	18.56	12.38	12.38	6.18	.....
	Advisory Council	37.50	60.00	28.13	28.13	3.74	.....	.....
$100	Present law	27.50	55.00	20.63	13.75	13.75	6.87	.....
	Advisory Council	41.25	80.00	30.94	30.94	18.12	.....	.....
$125	Present law	30.25	60.50	22.69	15.13	15.13	7.55	.....
	Advisory Council	45.00	100.00	33.75	33.75	22.50	10.00	.....
$150	Present law	33.00	66.00	24.75	16.50	16.50	8.25	.....
	Advisory Council	48.75	120.00	36.56	36.56	24.38	22.50	.....
$200	Present law	38.50	77.00	28.88	19.25	19.25	9.62	.....
	Advisory Council	56.25	160.00	42.19	42.19	28.13	28.13	$19.36
$225	Present law	41.25	82.50	30.94	20.63	20.63	10.30	.....
	Advisory Council	60.00	180.00	45.00	45.00	30.00	30.00	30.00
$250	Present law	44.00	85.00	33.00	22.00	22.00	3.00	.....
	Advisory Council	63.75	191.25	47.81	47.81	31.88	31.88	31.87
$300	Advisory Council	71.25	213.75	53.44	53.44	35.63	35.63	35.61
$350	Advisory Council	78.75	236.25	59.06	59.06	39.38	39.38	39.37

[1] It is assumed that the insured worker had 10 increment years. Maximum family benefit is least of: (1) 80 percent of average monthly wage, (2) twice the primary insurance benefit, or (3) $85. Widow receives three-fourths of primary benefit; each child receives one-half of primary benefit.

[2] Assumes benefit formula in Advisory Council's proposals. Maximum family benefit is lesser of: (1) 80 percent of average monthly wage, or (2) 3 times the primary insurance benefit. Widow and first child each receive three-fourths of primary benefit. Each additional child receives one-half of primary benefit.

18. Minimum Benefit

The minimum primary insurance benefit payable should be raised to $20

The present minimum primary benefit of $10 is too small to serve any social purpose. If the coverage of the program is extended to include nearly all types of gainful employment, this minimum should be raised to $20. With a $20 minimum primary benefit a widow, parent, or the first child survivor beneficiary in a family would receive minimum monthly benefits of $15, and a wife or any child beneficiary after the first would have a minimum monthly benefit of $10.

The minimum benefit is necessarily limited by the previous standard of living of the lowest wage group covered by the program, for it seems undesirable to pay social insurance benefits which would give retired persons a higher income than they previously had, or enable them to maintain a higher standard of living than is possible for others in the community who are employed at work comparable to that on which the benefits are based. A social insurance system cannot appropriately attempt to correct, after retirement, the basic problems of low living standards stemming from inadequate wages and sporadic employment.

Taking account of the areas where living standards and costs are the lowest and the fact that, in general, retired persons need less money than those who are employed, $20 for a single person and $30 for a couple is probably as high a minimum as could reasonably be allowed at the present time. These amounts, of course, are hardly large enough to meet the full cost of subsistence in any part of the country and are far below the amount needed in most parts of the United States. Only a variable benefit related to previous wages and living standards on an individual basis can provide benefits which are signifi-

cant for the higher-paid workers, without at the same time exceeding the previous earnings of some insured workers.

In a program in which the benefits represent a reasonable proportion of past wages, the minimum will be paid to very few persons, particularly if coverage is nearly universal. Even under the present method of computing benefits and the present limited coverage, persons at the minimum primary benefit levels a few decades hence would usually be married women who left covered employment after becoming permanently insured or individuals whose covered employment was part-time or intermittent.

Under the benefit formula recommended by the Council (recommendation 14, p. 34), those whose average monthly wage was at least $40 would receive at least $20 without operation of the minimum. Over a lifetime, nearly all persons would average wages of more than $40 a month or would be dependent on persons who did. Consequently, only a few persons would have to have their computed benefit raised to the minimum of $20. The minimum, however, would make a significant contribution toward the living expenses of the few beneficiaries who otherwise would receive a smaller amount, and would aid in promoting the program's objective of reducing old-age dependency to the extent that it is feasible for an insurance system to do so for short-term or very low paid workers.

The Council's recommendation on this point is conditioned on broad extension of coverage, because otherwise many persons would work for only short periods in covered employment and receive the relatively high minimum benefit. Workers who contribute regularly to a system of limited coverage should not be required to subsidize short-term workers to the extent which would result if the increased minimum were paid under limited coverage.

A $20 minimum coupled with broad coverage would help provide a basic security at no significant additional costs and without destroying the range in benefits whereby an individual's equity in the system is related to the amount of wages he receives from covered employment.

19. Retirement Test

No retirement test (work clause) should be imposed on persons aged 70 or over. At lower ages, however, the benefits to which a beneficiary and his dependents are entitled for any month should be reduced by the amount in excess of $35 which he earns from covered employment in that month. Benefits should be suspended for any month in which such earnings exceed $35 but, each quarter, beneficiaries should receive the amount by which the suspended benefits exceeded earnings above the exemption

The larger the proportion of aged persons who find suitable employment, the greater the output of goods and services, and consequently the higher the standard of living in the community. In the opinion of the Advisory Council, accordingly, the work clause should not be designed to encourage persons to cease all gainful work. The chief purpose should be to prevent the payment of benefits to persons who continue working for wages at or near the level of those earned during much of their working lives; such persons have not suffered the loss of earnings against which the system insures.

The Council recognizes that the great majority of retirements are involuntary. Most workers want to continue working after age 65

even though their earnings are small. The work clause should therefore be liberalized to encourage those who can earn moderate amounts which will contribute toward their support to do so without being entirely deprived of old-age benefits. The fact that opportunities to work in noncovered employment will be practically eliminated by extension of coverage is an additional reason for liberalization.

The present program calls for suspension of benefits for any month in which the beneficiary earns wages of $15 or more in covered employment. When a primary beneficiary works, dependents' benefits are also suspended. We propose that monthly earnings of $35 or less should be permitted without reduction of benefit income.

The present provision, or any work clause which requires suspension of benefits for earnings in excess of a specified amount, may in some instances mean that a beneficiary has a smaller total income when he works than when he remains unemployed or does a small amount of work. This will result whenever he earns more than the exempt amount but less than the sum of that amount and the total benefits to which he and his dependents are entitled.

The Council believes that beneficiaries should not have their total income reduced because of work. Otherwise some beneficiaries may refrain from taking jobs because the only opportunities available to them would pay an amount which would result in an income loss. Furthermore, beneficiaries who take jobs will run the risk of income loss if they are unable to continue working until they have earned more than the exempt amount plus their benefits. To prevent the possibility of such losses, we propose that the beneficiary should forego only as much of his benefits as the amount by which his earnings exceed the exemption of $35 a month.

We recommend that the beneficiary earning more than $35 in a month should be required to report to the Social Security Administration the amount of his wages in that month. The Social Security Administration should then suspend his benefit. After the Administration receives the employer's quarterly tax return, adjustments should be made if necessary. If the amounts reported by the beneficiary for the 3 months in the quarter agree reasonably with the total quarterly wages shown for him on the employer's return, payment should be made of as much of his monthly benefits for the 3 months in question as exceeds the difference between his earnings in each of the 3 months and the exemption. Ordinarily, of course, a full-time worker will be getting wages high enough so that no adjustment need be made. This would be true if his earnings were more than the exempt amount plus his benefits. If the amounts reported by the beneficiary do not agree with his total quarterly wages shown on the employer's return and adjustments are necessary, the employer should be asked for a monthly break-down of the reported wages, and adjustments would be made on the basis of the information furnished. In view of the annual reports of the self-employed, some modification would have to be made in the application of the work clause to them.

Full benefits should be paid to all beneficiaries who are aged 70 or over, regardless of their earnings. Many old-age insurance beneficiaries undoubtedly consider any work clause a hardship and restriction on their freedom of activity. In our opinion, the savings effected by a work clause for beneficiaries who are 70 years old or more would not be significant enough to outweigh the advantage of giving some recognition to the beneficiary's desire to receive benefits without qualifica-

tion. The cost of eliminating the work clause at age 70 would be about one-third of the estimated cost of removing it for all beneficiaries. Obviously, however, not all the cost of eliminating the work clause at age 70 would be a net burden on the community. To the extent that beneficiaries would be encouraged to continue working, the elimination of the work clause would increase the output of goods and the utilization of the plant and equipment of industry.

The social-insurance system of the future will probably have to take into account, more than does the present one, both the need for the economic contribution of the aged and their desire to make that contribution. We suggest that the Federal Government establish a commission to study the broad problem of the aged in our society including employment opportunities and the adjustment of the aged to retirement. This study might well furnish the basis for additional changes in the retirement provision of the old-age and survivors insurance program.

20. Qualifying Age for Women

The minimum age at which women may qualify for old-age benefits (primary, wife's, widow's, parents) should be reduced to 60 years

Under the present program, 65 is the qualifying age for all aged beneficiaries—wives, widows, dependent parents, and retired workers. The Council recommends that the age requirement for women be reduced to 60.

Until a retired worker's wife reaches age 65, no wife's benefits are now payable. In most instances, the husband's retirement benefit and other family resources are inadequate to maintain the family. Surveys indicate that the proportion of beneficiary families with retirement income and other assets sufficient for a maintenance level of living is substantially less among those in which the wife is not entitled to a wife's benefit than among those in which she is so entitled. Although less than one-fifth of the married men who attain age 65 have a wife of the same age or older, more than half have a wife who has reached age 60. Since many workers do not retire until several years after attaining age 65, a reduction of the age requirement for wife's benefits to age 60 will permit the wives of about three-fourths of the married men who claim primary or retirement benefits to receive wife's benefits as soon as their husbands retire.

Women aged 60 or over find it practically impossible to get a job unless they have recently been employed. Aged widows and aged dependent mothers of deceased insured workers therefore should also be able to qualify for benefits at age 60. If the age requirement for women were reduced to 60 years, about two-fifths of the insured workers' widows without minor children in their care would be eligible for benefits immediately.[12]

If the age requirement for wives, widows, and aged dependent mothers of insured workers is lowered to 60, the same qualifying age should also apply to women who become primary beneficiaries through their own covered employment. If insured women are not made eligible for retirement benefits at age 60, benefits would be payable at an earlier age, and thus for a longer life expectancy, to the wife, widow, or mother of an insured worker who had not herself contributed directly to the program, than to a woman worker who had perhaps paid contributions for many years.

[12] Widows caring for a minor child of a deceased insured worker can draw benefits at any age.

21. Lump-Sum Benefits

To help meet the special expenses of illness and death, a lump-sum benefit should be payable at the death of every insured worker even though monthly survivor benefits are payable. The maximum payment should be four times the primary insurance benefit rather than six times as at present

The present provision for lump-sum benefits, which allows for a payment only if no survivors are immediately eligible for monthly benefits, evidently developed primarily from the idea of guaranteeing some return for the contributions insured workers had paid. The lump sum would serve a more useful purpose than it now does if it were payable for all deceased insured workers, regardless of the monthly benefits that might also be paid at the same time.

Monthly benefits for survivors provide only a partial replacement of the income earned by the deceased worker and are needed to meet current living expenses. No allowance is made in these monthly payments for such expenses as the cost of the last illness and burial. The need for a lump-sum death payment is therefore fully as great when monthly benefits are payable as when they are not. In fact, when survivors are immediately entitled to monthly benefits, the need for a lump-sum payment may be even greater than in other cases, since these survivors are persons who are presumed to have been currently dependent on the wages of the deceased worker.

The increase in the primary insurance benefit which the Council has recommended (recommendation 14, p. 34) would automatically result in a substantial increase in the lump-sum payment if the present formula of six times the primary insurance benefit were retained for lump-sum payments. We do not recommend a general increase in the dollar amounts of the lump-sum payment and therefore believe that the formula should be reduced to four times the primary insurance benefit.

The lump sum should be payable, as at present, to a spouse if such spouse were living with the deceased insured worker at the time of his or her death. If no spouse survives, the payment should be made to the person equitably entitled to such payment on the basis of having paid the funeral expenses. In this event the amount should be limited to the funeral expenses, if such expenses were less than the maximum of four times the primary insurance benefit.

RECOMMENDATIONS ON FINANCING

22. Contribution Schedule and Government Participation

The contribution rate should be increased to 1½ percent for employers and 1½ percent for employees at the same time that benefits are liberalized and coverage is extended. The next step-up in the contribution rate, to 2 percent on employer and 2 percent on employee, should be postponed until the 1½-percent rate plus interest on the investments of the trust fund is insufficient to meet current benefit outlays and administrative costs

There are compelling reasons for an eventual Government contribution to the system, but the Council feels that it is unrealistic to decide now on the exact timing or proportion of that contribution. When the rate of 2 percent on employers and 2 percent on employees, plus inter-

est on the investments of the trust fund, is insufficient to meet current outlays, the advisability of an immediate Government contribution should be considered.

The present rate of contributions of 1 percent payable by employers and 1 percent by employees has remained unchanged for more than 10 years. If benefits and eligibility requirements are liberalized as the Council recommends, the contribution rate should be raised to 1½ percent each. This increase is desirable to promote public understanding of the fact that, in the long run, a close relationship exists between the rate of contribution and the size of benefits. It is desirable also to permit spacing, more or less evenly, small increases in the rate of contributions as they rise to their ultimate level. It is also fair because, at present rates, contributions fall far short of covering the value of the benefit rights that workers are acquiring.

The step-up to 2 percent should be postponed until actually needed. The Council believes that the excess of income over outgo, inevitable in the early years of the program, should be kept as low as is consistent with the contributory character of the program. Even with the increase to 1½ percent, assets of the trust fund may rise for a few years at an annual rate of about $2,000,000,000.

For the reasons given above, the Council believes that the first step-up is needed when the liberalized program becomes effective, but we wish to emphasize that building up the trust fund is not the purpose of our proposed increase in the contribution rate, and we therefore urge that additional increases in the rate be postponed. The increase in the trust fund is an incidental result of the contribution rates, the benefit rates, and the eligibility requirements that seem to us desirable on other grounds. Unlike private insurance, a social-insurance scheme backed by the taxing power of the Government does not need full reserves sufficient to cover all liabilities.

Some people fear that additions to the trust fund will have adverse effects on the economy. Whether the economic effects of additions to the trust fund are good or bad will depend on the general economic situation and on the fiscal policies of the Government. In any circumstances, an annual surplus for a few years of as much as $2,000,000,000 would not, in our opinion, be unduly large or unmanageable; in fact, such a surplus would be small in comparison with the amounts involved in many recent financial operations of the Government. On the other hand, the Council sees no reason to increase this surplus even further by moving to the 2-percent rate before the demands of the system actually call for such an increase.

The Council believes that the Federal Government should participate in financing the old-age and survivors insurance system. A Government contribution would be a recognition of the interest of the Nation as a whole in the welfare of the aged and of widows and children. Such a contribution is particularly appropriate, in view of the relief to the general taxpayer which results from the substitution of social insurance for part of public assistance.

The old-age and survivors insurance program starts with an accrued liability resulting from the fact that, on retirement, the present members of the labor force will not have contributed toward their benefits over a full working lifetime. Furthermore, with the postponement of the full rate of contributions recommended above, even young people who enter the labor force during the next decade will not pay the full

rate over a working lifetime. If the cost of this accrued liability is met from the contributions of workers and their employers alone, those who enter the system after the full rate is imposed will obviously have to pay with their employers more than is necessary to finance their own protection.[13] In our opinion, the cost of financing the accrued liability should not be met solely from the pay-roll contributions of employers and employees. We believe that this burden would more properly be borne, at least in part, by the general revenues of the Government.

Old-age and survivors insurance benefits should be planned on the assumption that general taxation will eventually share more or less equally with employer and employee contributions in financing future benefit outlays and administrative costs. The timing and exact proportion of this contribution, however, cannot be decided finally now. They will depend in part on the other obligations of the Government and the relationship between such obligations and current income. We believe that a Government contribution should be considered when the 2-percent rate for employer and employee plus interest on the investments of the trust fund is insufficient to meet current costs. To increase the pay-roll contributions above the 2-percent rate before the introduction of a Government contribution might mean that the Government contribution would never reach one-third of eventual benefit outlays, since under our low-cost estimates the annual cost of the benefits never exceeds 6 percent of pay roll even though it reaches 9.7 percent under the high estimate.

[13] It is estimated that the cost of the protection for a generation of workers under the program for a full working lifetime would be from 3 to 5 percent of pay roll, while the level premium cost of the whole system including the accrued liability, is from 4.9 to 7.3 percent of pay roll.

APPENDIXES—OLD-AGE AND SURVIVORS INSURANCE

APPENDIX I–A. THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

As stated in its recommendations, the Council does not favor a full reserve plan sufficient to cover all liabilities. Under a contributory system of old-age and survivors insurance, however, qualifying requirements—even though liberal—unavoidably result in lower benefit disbursements in the early years of operation than in the later years. If contributions in the early years were no more than sufficient to cover disbursements, they would be so small in relation to benefit rights currently being established that the system could scarcely be called contributory. For example, on a strictly current-cost basis, contribution rates at present could not be set above 0.3 of 1 percent of pay roll for employers and 0.3 of 1 percent of pay roll for employees. The contributory nature of the system, therefore, inevitably develops at least a limited reserve.

This reserve has been invested in United States Government securities, which, in the opinion of the Council, represent the proper form of investment for these funds. We do not agree with those who criticize this form of investment on the ground that the Government spends for general purposes the money received from the sale of securities to that fund. Actually such investment is as reasonable and proper as is the investment by life-insurance companies of their own reserve funds in Government securities. The fact that the Government uses the proceeds received from the sales of securities to pay the costs of the war and its other expenses is entirely legitimate. It no more implies mishandling of moneys received from the sale of securities to the trust fund than it does of the moneys received from the sale of United States securities to life-insurance companies, banks, or individuals.

The investment of the old-age and survivors insurance funds in Government securities does not mean that people have been or will be taxed twice for the same benefits, as has been charged. The following example illustrates this point: Suppose some year in the future the outgo under the old-age and survivors insurance system should exceed pay-roll tax receipts by $100,000,000. If there were then $5,000,000,000 of United States 2-percent bonds in the trust fund, they would produce interest amounting to $100,000,000 a year. This interest would, of course, have to be raised by taxation. But suppose there were no bonds in the trust fund. In that event, $100,000,000 to cover the deficit in the old-age and survivors insurance system would have to be raised by taxation; and, in addition, another $100,000,000 would have to be raised by taxation to pay interest on $5,000,000,000 of Government bonds owned by someone else. The bonds would be in other hands, because if the Government had not been able to borrow from the Old-Age and Survivors Insurance Trust

Fund, it would have had to borrow the same amount from other sources. In other words, the ownership of the $5,000,000,000 in bonds by the old-age and survivors insurance system would prevent the $100,000,000 from having to be raised twice—quite the opposite from the "double taxation" that has been charged.

Under present conditions the Government is operating with a budget surplus and is not borrowing. The trustees of the Old-Age and Survivors Insurance Trust Fund, therefore, when they invest the excess income in Government securities, in effect cause Government debt to be transferred from private ownership to the Old-Age and Survivors Insurance Trust Fund. The same saving of the amount of the interest for the general taxpayer will occur in this instance as in the one described above.

The members of the Advisory Council are in unanimous agreement with the statement of the Advisory Council of 1938 to the effect that the present provisions regarding the investment of the moneys in the Old-Age and Survivors Insurance Trust Fund do not involve any misuse of these moneys or endanger the safety of the funds.

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Appendix I–B. Actuarial Cost Estimates for Old-Age and Survivors Insurance Recommendations

Estimates of future costs of the old-age and survivors insurance system are affected by many factors that are difficult to determine; hence, assumptions may differ widely and yet be reasonable. Some of the factors concerning which assumptions must be made are indicated below.

FACTORS IN ASSUMPTIONS

How many persons will reach age 65

To determine how many persons may eventually qualify for retirement benefits, it is necessary to estimate the number of men and women who can be expected to attain age 65 each year. Such estimates involve assumptions as to birth, mortality, and net immigration rates. Although fairly reliable data on fertility and mortality over long periods are available, wide variations in the next half century are possible and may cause considerable change in the size and age structure of the population. Immigration, although not recently significant, could become of great importance.

How many will be eligible for benefits

Next, the number of persons reaching age 65 who will be "insured" for benefits must be ascertained. Since insured status is based on the number and proportion of quarters in which covered workers have earnings of $50 or more, such factors as wage levels, employment duration, unemployment—whether due to economic, health, or other conditions—labor mobility, and related matters must be taken into account, with special attention to variations by age and sex. Estimating the number of persons likely to be insured—or uninsured—at different periods involves assumptions concerning wage and salary rates by age and sex, as well as the extent and steadiness of employment.

How many will retire

Having estimated how many persons will qualify for benefits, the next query is how many will actually receive them. Since the law specifies that benefits will be withheld or reduced when the beneficiary earns more than a stated amount, it is necessary to estimate how many beneficiaries will be affected, and how many will work continuously or intermittently after the minimum retirement age. The retirement rate will depend on such factors as the level of benefits, extent of private group and individual insurance, job prospects, and the current philosophy in regard to displacement of older by younger workers.

How long will benefits be paid

It is not enough to know how many persons will be placed on the benefit rolls; the duration of their benefit payments is equally signifi-

cant. To estimate duration, mortality rates for men and women must be applied to each group entering beneficiary status to gage the number who will die each year.

How much will be paid as retirement benefits

This basic inquiry primarily involves application of the benefit formula to the wage histories of those eligible for benefits. Benefits depend on the "average monthly wage," which in turn depends on total wages received over a period of time. Just as in estimating the number of persons with insured status, assumptions must be made concerning sustained versus sporadic employment, wages, and the level of employment.

How much will be paid as supplementary and survivor benefits

To estimate the cost of benefits to survivors and dependents of insured persons, many of the same factors applying to the worker must be considered, such as birth, mortality, retirement rates, and their interlocking effect. In addition, the same problem arises of estimating the number of insured workers and the amount of their primary benefits on which the survivor and supplementary benefits will be based. Because survivor benefits are terminated when certain changes in family and age status occur, assumptions have to be made concerning the marital and parental status of the insured group. Such factors as remarriage rates of widows, marriage rates of child beneficiaries, economic dependency of parents, and existence of specified surviving relatives must also be taken into account. The "work clause" affects the benefits of survivors and dependents as well as those of retired workers.

Adjustments

Lastly, there remain various adjustments affecting the number and size of benefits which arise from contingent features of the law, such as reduction or increase in the average size of benefits because of minimum and maximum provisions and eligibility for concurrent benefits of different types.

Among the many assumptions necessary for the cost estimates, the following were perhaps most important:

1. *Mortality.*—The low-cost estimates assume a continuation of mortality at the present levels, while the high-cost estimates assume that mortality will decrease in the future (or in other words, that longevity will increase).

2. *Employment.*—The estimates of future costs assume that the general level of employment will be about the same as during 1944–46. Corrections have been made, however, for the temporary wartime dislocations in the labor force. A "normal" age and sex distribution for the labor force has been assumed.

3. *Wage levels.*—With a $3,000 maximum wage base, it is assumed that four-quarter male workers earn $2,400 per year, while for women the corresponding figure is $1,440. For persons working in less than four quarters, these averages were reduced in the proportions shown in actual wage records. With a maximum wage limit of $4,200, these two figures for four-quarter workers become $2,600 and $1,450, respectively.

4. *Retirement rates.*—The old-age and survivors insurance program has been in effect too short a time to give much useful evidence as to

the probable retirement rates of the future. Moreover, the war has made the few years of experience with retirement rates under old-age and survivors insurance a poor basis for projection. Furthermore, the larger retirement benefits provided by the proposed plan, as contrasted with the relatively inadequate benefits under the present system, might cause more persons to retire voluntarily. Since little is really known on this subject, the estimates are based on two widely different assumptions so as to encompass a wide range of possibilities.

It is assumed under the low-cost estimates that under a mature program about 45 percent of the eligible men aged 65 to 69 would get benefits, while for women aged 60 to 69 about 70 percent of those eligible would get benefits (all eligible persons beyond age 70 would receive benefits regardless of work). For the high-cost estimate the corresponding figures are 60 percent for men and 80 percent for women. In the early years all these figures are materially lower, since more of those eligible have recently been in employment and would thus be more likely to continue at work.

THE ESTIMATES

The tables that follow (pp. 56–59) summarize actuarial cost estimates for the expanded old-age and survivors insurance program recommended by the Advisory Council.

In table 4, the benefit costs are in terms of percentage of pay roll for various future calendar years, starting in 1955 and running up to the "ultimate" year 2000, when benefit disbursements will more or less level off; "level premium" [1] costs are also shown.

Table 5 gives comparable data in absolute dollar amounts. In both these tables the costs are shown as increases or decreases in the cost arising under the present program, taking successive account of each major change recommended by the Council. The order in which these various changes are considered determines in many instances how much of the increase in cost is attributed to a specific recommendation. For example, the increased cost arising from the revised work clause follows the estimates of cost changes resulting from extension of coverage, but precedes the estimated effect of the new benefit formula. Thus, the estimated cost of abolishing the retirement test for all beneficiaries aged 70 and over represents increases in benefit payments based on the present formula. If the cost effect of the new benefit formula had preceded the figures on the effect of the proposed new work clause, the increase in cost arising from the new work clause would have been greater, since it would have been based on the payment of higher benefits to those aged 70 and over. On the other hand, considering the benefit formula first would result in showing the cost effect of the new benefit formula as smaller than it is shown in these tables because the present work clause would prevent the payment of benefits to many of those over age 70. The order in which the changes are considered does not, of course, affect the final or net cost of the recommendations.

[1] The level-premium contribution rate is the rate which would support the system into perpetuity if collected from the first year. It is higher than the contribution rate which would be required to pay the benefits of any one generation of workers because it covers also the cost of the accrued liability resulting from the payment of full benefits to workers already middle-aged or older at the time the system goes into effect. In computing the level premium rate it is assumed that benefit payments and taxable pay rolls remain level after the year 2000 and that accumulated reserves earn interest at the rate of 2 percent.

Table 6 presents the estimated costs as a percentage of pay roll for each of the various categories of benefits under the proposed expanded plan, along with the "level premium" cost for each category. Table 7 gives the corresponding dollar figures.

Table 8 presents the estimated taxable pay rolls under the present coverage (with the $3,000 maximum wage) and under the expanded coverage (with the $4,200 maximum wage). These estimates are based on the employment and wage levels of 1944–46 which are somewhat below present levels but still represent a relatively high level of economic activity.

In table 9 are estimates of the percentage of persons in various future years who will be fully insured when they attain age 65, both for the present limited coverage and for complete extension of coverage under the eligibility conditions recommended by the Council. Table 10 shows estimates of the percentage of all persons aged 65 and over who will be fully insured in various future years.

Table 11 presents the estimated operations of the trust fund under the expanded program recommended by the Advisory Council. The proposed program is assumed to become effective at the beginning of 1949, when the trust fund will probably amount to about $10.5 billion. Further, it is assumed that the benefit disbursements in 1949 will bear the same relationship to the expanded covered pay roll as the benefit disbursements under the present system bear to the present limited-coverage pay roll. The effect of immediate changes in benefits paid (principally, the liberalized benefit formula and the reduction in the retirement age for women) is thus assumed to be relatively equal to the proportionate increase in pay roll (namely, about 60 percent). Thereafter, until 1955, the increase in disbursements will at first be gradual and then more rapid as workers in the newly covered groups acquire insured status.

The estimates of trust fund operations have been developed under the contribution schedule which most nearly approximates the Council's proposals, namely, a combined employer-employee rate of 2 percent until 1948, 3 percent in 1949–56, and 4 percent thereafter until the Government contribution has reached one-half the revenue from the combined employer-employee contribution, at which point under the high-cost estimate further increases are assumed in the combined employer-employee rate. This contribution-rate schedule, in contrast with the present law (combined rate of 2 percent through 1949, 3 percent in 1950–51, and 4 percent thereafter), increases the rate immediately on establishment of the expanded program, but defers the next increase until 1957, which is about when disbursements may exceed income at the 3-percent combined rate (this is anticipated in 1959 under the low estimate and in 1955 under the high estimate).

The Council has recommended that the Government contribution be postponed until the income of the trust fund at the combined 4-percent contribution rate for employers and employees first falls short of meeting the outgo. The Government contribution will be of such amount as to maintain the trust fund at its highest point without any decrease thereafter (disregarding any minor, short-range cyclical fluctuations). It is assumed that the Government contribution will not be allowed to exceed one-half the combined employer-employee contributions. Under the low-cost estimate the 4-percent employer-employee rate is sufficient to prevent the Government contribution

from exceeding one-half, but under the high-cost estimate the rate would have to be increased to 5 percent in 1972–80, 6 percent in 1981–89, and 7 percent thereafter. These specific years are the ones which reflect the assumptions of the high-cost estimates. It is not expected, of course, that all these assumptions will turn out to be the correct ones and that the years specified will be the ones in which increases in rates necessarily have to be made.

Since both the low-cost and the high-cost estimates assume a high future level of economic activity, the pay rolls are substantially the same under the two estimates in the early years (see table 8). Accordingly, there is little difference in the contribution income in the two estimates. The assumptions which affect benefits, however, have widely different effects even in the early years of the program. The range of error in the estimates, nevertheless, may be fully as great for contributions as it is for benefits.

The effect of the new eligibility conditions and the "new start" in computing the average monthly wage are particularly difficult to estimate during the early years of operation. The number of persons who will qualify and get benefits on the new basis is more uncertain when we are dealing only with older workers and the qualifying work period is relatively short. While an attempt has been made to allow for this very important factor, the costs shown here for 1955, and possibly for 1960, may, nonetheless, be overstatements.

Table 12 gives the results of an actuarial study to determine the hypothetical "current" experience under the plan recommended by the Advisory Council if that plan had been in effect long enough (say, for a century) to be relatively "mature"—that is, to have a relatively stable number of qualified beneficiaries.[2]

While more precise data are available on many of the factors which enter into these estimates since they deal with the present or past rather than the future, it is still necessary to show some range in the figures because some factors are unknown; for example, the extent of retirement if the proposed benefits were available to all the current aged population.

Table 12 gives low and high estimates of the number of beneficiaries and benefit disbursements by type of benefit. In estimating the number of beneficiaries, account has been taken of past trends in employment, mortality, etc. As a result, the table shows relatively fewer female primary beneficiaries than there will be in the future if the upward trend in employment of women continues.

Under assumption A, the estimated benefit disbursements are assumed to be based on past trends in wages, which have been sharply upward during the past century. For the most part, the benefits paid currently would therefore reflect the lower wages of the past, hence the amounts involved are relatively low in terms of current wages and price levels. Thus, the average primary benefit would be about $30–$35, while an average on the basis of 1948 earning levels would be about $50–$55 or approximately 50 percent higher. Nevertheless, the average of the primary benefits on which some of the survivor benefits are based would be somewhat higher than $30–$35, because it would be related to the recent earnings of young workers

[2] In a fully mature program the number of beneficiaries added to the rolls would equal the number dropped by death, remarriage, attainment of age 18, or similar reasons. The program could not be fully mature, however, until the population is also stable or mature—i. e., births equal deaths and age distributions are stable.

who leave survivors eligible for widow's current and child survivor benefits.

Under assumption B, the average wage or benefit provisions of the program or both are assumed to have been continuously modified in such a way as to take full account of the increases which have occurred in wage levels and to provide benefits related at all times to current wage levels.

The total number of beneficiaries receiving monthly payments during an average month of 1948 under the assumptions of this study would be about 10.3–12.6 million. Among them, 3.4–4.1 million would be men aged 65 and over (representing 65–80 percent of the 5.1 million men aged 65 and over in the United States), while 5.2–6.2 million would be women aged 60 and over (representing 60–75 percent of the 8.5 million women aged 60 and over in the population). The aged who would not be receiving benefits would represent, for the most part, those still at work or those whose husbands were still working. There would also be some aged persons who failed to qualify because of lack of sufficient employment resulting from disability and other causes.

Under the assumption that benefits are based on the wages actually paid in the past, the total benefit disbursements in 1948 would range from 3.4 to 4.2 billion dollars, representing from 2.4 to 3.0 percent of current pay rolls which would be about $140,000,000,000 [3] if all occupations were covered by the program. On the other hand, under the assumption that benefits are always based on current wage levels, the disbursements would range from 5.7 to 6.9 billion dollars, or in other words from 4.1 to 4.9 percent of pay roll. These estimates are considerably lower than the estimates of the ultimate cost of the proposed plan which is shown on table 4 to be from 5.9 to 9.7 percent of pay roll. The difference is explained largely by the increasing number of the aged in the population.

It should be noted that in all the estimates the coverage is assumed to be universal and to include railroad and all governmental employment, the goal the Council hopes will be attained.

[3] This figure is higher than those shown for expanded coverage in 1955, table 8, appendix I-B, because the figures in table 8 are based on the somewhat lower wage rates of 1944–46.

TABLE 4.—*Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by major changes, in terms of percentage of pay roll*

Calendar year	Cost of present program	Increase in cost arising from—							Net cost of expanded plan
		Extension of coverage	Age 60 for women	Revised lump-sum [2]	Revised work clause	Higher rate for first child [3]	Additional benefits in re women [4]	New benefit formula [5]	
	Low-cost estimate [1]								
1955	1.31	−0.34	0.11	----------	0.43	0.04	0.02	0.82	2.39
1960	1.75	−.28	.15	−0.01	.51	.06	.02	1.06	3.26
1970	2.56	−.28	.29	−.01	.62	.06	.02	1.20	4.46
1980	3.33	−.33	.42	−.01	.67	.07	.03	1.12	5.30
1990	4.02	−.47	.46	−.02	.71	.07	.03	1.03	5.83
2000	4.19	−.42	.44	−.02	.71	.07	.03	.87	5.87
Level premium [6]	3.26	−.38	.36	−.01	.63	.06	.03	.95	4.90
	High-cost estimate [1]								
1955	1.87	−0.43	0.19	----------	0.29	0.04	0.01	1.14	3.11
1960	2.46	−.37	.28	−0.01	.35	.06	.02	1.28	4.07
1970	3.66	−.47	.47	−.01	.46	.06	.02	1.39	5.58
1980	5.18	−.72	.65	−.01	.57	.06	.02	1.37	7.12
1990	6.93	−1.14	.75	−.01	.68	.06	.02	1.34	8.63
2000	8.12	−1.32	.79	−.02	.78	.06	.02	1.27	9.70
Level premium [6]	5.66	−.91	.60	−.01	.59	.06	.02	1.26	7 27

[1] Based on assumption of continuation of employment and wage levels of 1944–46.
[2] Lump-sum death payment for all deaths but only in amount of 4 times primary benefit (rather than 6 times as at present).
[3] Including also higher rate for parent's benefit.
[4] Supplementary and survivor monthly benefits in respect to insured women.
[5] Including also revision in computation of average wage and higher limit on maximum annual wages counted toward benefits.
[6] Level premium contribution rate (based on 2 percent interest) for benefit payments after 1949 and into perpetuity, not taking into account accumulated funds.

TABLE 5.—*Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by major changes (in millions of dollars)*

Calendar year	Cost of present program	Increase in cost arising from—							Net cost of expanded plan
		Extension of coverage	Age 60 for women	Revised lump-sum [2]	Revised work clause	Higher rate for first child [3]	Additional benefits in re women [4]	New benefit formula [5]	
	Low-cost estimate [1]								
1955	$1,046	$173	$138	----------	$540	$50	$22	$1,222	$3,189
1960	1,469	441	195	−$13	662	78	26	1,647	4,505
1970	2,421	772	406	−14	867	84	28	2,057	6,621
1980	3,474	965	621	−15	990	103	44	2,136	8,318
1990	4,509	1,066	722	−31	1,114	110	47	2,176	9,713
2000	5,072	1,227	736	−33	1,188	117	50	2,064	10,421
	High-cost estimate [1]								
1955	$1,482	$323	$238	----------	$363	$50	$19	$1,675	$4,150
1960	2,062	677	366	−$13	458	78	26	2,012	5,666
1970	3,442	1,056	662	−14	648	84	28	2,457	8,363
1980	5,191	1,312	947	−15	831	87	29	2,653	11,035
1990	7,125	1,498	1,116	−15	1,012	89	30	2,795	13,650
2000	8,463	1,711	1,182	−30	1,167	90	30	2,765	15,378

[1] Based on assumption of continuation of employment and wage levels of 1944–46.
[2] Lump-sum death payment for all deaths but only in amount of 4 times primary benefit (rather than 6 times as at present).
[3] Including also higher rate for parent's benefit.
[4] Supplementary and survivor monthly benefit in respect to insured women.
[5] Including also revision in computation of average wage and higher limit on maximum annual wages counted toward benefits.

TABLE 6.—*Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by type of benefit, in terms of percentage of pay roll*

Calendar year	Primary	Wife's [2]	Widow's [2]	Parent's	Child's	Widow's current	Lump-sum death	Total
	Low-cost estimate [1]							
1955	1.24	0.28	0.29	0.03	0.34	0.11	0.10	2.39
1960	1.66	.36	.54	.04	.43	.13	.11	3.26
1970	2.27	.42	.98	.04	.47	.14	.14	4.46
1980	2.80	.43	1.24	.04	.49	.14	.15	5.30
1990	3.29	.41	1.29	.03	.50	.15	.16	5.83
2000	3.43	.36	1.22	.03	.51	.15	.17	5.87
Level premium [3]	2.75	.37	1.01	.03	.46	.14	.15	4.90
	High-cost estimate [1]							
1955	1.85	0.39	0.30	0.05	0.31	0.12	0.09	3.11
1960	2.42	.48	.54	.07	.34	.13	.10	4.07
1970	3.43	.59	.95	.08	.30	.11	.12	5.58
1980	4.58	.71	1.24	.09	.27	.10	.14	7.12
1990	5.89	.79	1.37	.08	.24	.09	.16	8.63
2000	6.89	.84	1.41	.08	.22	.09	.18	9.70
Level premium [3]	4.92	.69	1.08	.08	.26	.10	.14	7.27

[1] Based on assumption of continuation of employment and wage levels of 1944–46.
[2] Including the relatively negligible amount of husband's and widower's benefits.
[3] Level premium contribution rate (based on 2 percent interest) for benefit payments after 1949 and in perpetuity, not taking into account accumulated funds.

TABLE 7.—*Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by type of benefit (in millions of dollars)*

Calendar year	Primary	Wife's [2]	Widow's [2]	Parent's	Child's	Widow's current	Lump-sum death	Total
	Low-cost estimate [1]							
1955	$1,657	$378	$383	$41	$456	$144	$130	$3,189
1960	2,291	500	739	54	588	178	155	4,505
1970	3,372	623	1,451	61	704	207	203	6,621
1980	4,400	679	1,944	62	771	225	237	8,318
1990	5,484	675	2,144	57	841	243	269	9,713
2000	6,099	637	2,162	49	910	265	299	10,421
	High-cost estimate [1]							
1955	$2,468	$517	$400	$68	$421	$154	$122	$4,150
1960	3,359	671	745	97	479	176	139	5,666
1970	5,134	880	1,417	126	455	171	180	8,363
1980	7,094	1,101	1,920	137	413	158	212	11,035
1990	9,325	1,253	2,162	132	379	149	250	13,650
2000	10,915	1,333	2,236	127	341	142	234	15,378

[1] Based on assumption of continuation of employment and wage levels of 1944–46.
[2] Including the relatively negligible amount of husband's and widower's benefits.

TABLE 8.—*Estimated taxable pay rolls under present coverage and under expanded coverage (in billions of dollars)*

Calendar year	Present coverage [1]		Expanded coverage [2]	
	Low-cost estimate	High-cost estimate	Low-cost estimate	High-cost estimate
1955	$80	$79	$134	$133
1960	84	84	138	139
1970	95	94	149	150
1980	104	100	157	155
1990	112	103	167	158
2000	121	104	178	158

[1] Based on $3,000 maximum creditable wage.
[2] Based on $4,200 maximum creditable wage.

TABLE 9.—*Estimated percentage of persons attaining age 65 in various future years who will be fully insured, if high employment conditions prevail*

Calendar year	Complete extension of coverage		Present coverage	
	Men	Women	Men	Women
1955	66–74	12–17	46–52	8–11
1960	74–84	16–23	50–58	10–14
1970	81–91	22–31	61–71	15–20
1980	84–93	30–38	72–82	24–32
1990	86–96	43–52	74–84	36–46
2000	88–96	50–60	74–84	40–50

TABLE 10.—*Estimated percentage of persons aged 65 and over in the population of various future years who will be fully insured, if high employment conditions prevail*

Calendar year	Complete extension of coverage		Present coverage	
	Men	Women	Men	Women
1955	57–66	10–13	39–44	6–7
1960	69–81	13–17	44–49	7–10
1970	76–86	17–25	54–62	10–14
1980	81–91	23–31	64–73	16–22
1990	84–94	33–40	72–81	27–34
2000	86–95	43–51	74–84	35–43

TABLE 11.—*Estimates relating to size of trust fund under expanded program recommended by Advisory Council (in millions of dollars)*

Calendar year	Contributions		Benefit payments	Administrative expenses	Interest[2] on Fund	Increase in Fund	Fund at end of year
	Employer-employee[1]	Government					
	Low-cost estimate						
1955	$3,833	----------	$3,189	$87	$451	$1,008	$23,276
1960	5,279	----------	4,505	109	581	1,246	29,950
1970	5,683	$419	6,621	146	665	0	33,645
1980	6,003	1,825	8,318	175	665	0	33,645
1990	6,370	2,877	9,713	199	665	0	33,645
2000	6,792	3,177	10,421	213	665	0	33,645
	High-cost estimate						
1955	$3,823	----------	$4,150	$128	$338	[3] −$117	$16,999
1960	5,318	$163	5,666	159	344	0	17,362
1970	5,726	2,506	8,363	213	344	0	17,362
1980	7,408	3,548	11,035	265	344	0	17,362
1990	10,209	3,413	13,650	316	344	0	17,362
2000	10,606	4,777	15,378	349	344	0	17,362

[1] Joint contribution schedule assumed is as follows: Low-cost estimate, 3 percent for 1949–56 and 4 percent thereafter. High-cost estimate, 3 percent for 1949–56; 4 percent for 1957–71; 5 percent for 1972–80; 6 percent for 1981–89; and 7 percent thereafter.

[2] Fund reaches a peak in 1954 and then declines for 2 years, but thereafter increases to another peak in 1959.

[3] Interest is figured at 2 percent on average balance in fund during year but is payable at end of year. After fund reaches maximum size the interest income is slightly less than 2 percent of the balance at the end of the year as shown in the last column, since the fund decreases slightly during the year. The interest payable at the end of the year brings it back to the level shown.

TABLE 12.—*Estimated beneficiaries and disbursements in 1948 under expanded program recommended by Advisory Council, if the plan had been in effect for a century, under two assumptions* [1]

Type of benefit	Number of beneficiaries (in thousands)		Benefit disbursements [2] (in millions)			
			Assumption A		Assumption B	
	Low	High	Low	High	Low	High
Total	----------	----------	$3,400	$4,160	$5,720	$6,930
Primary	4,780	6,060	1,820	2,290	3,050	3,810
Wife's	1,220	1,280	250	260	430	450
Widow's	2,430	2,650	660	710	1,270	1,380
Parent's	100	270	20	50	30	100
Widow's current	330	420	120	160	170	220
Child's	1,470	1,940	430	570	590	780
Lump-sum death	830	930	100	120	180	190

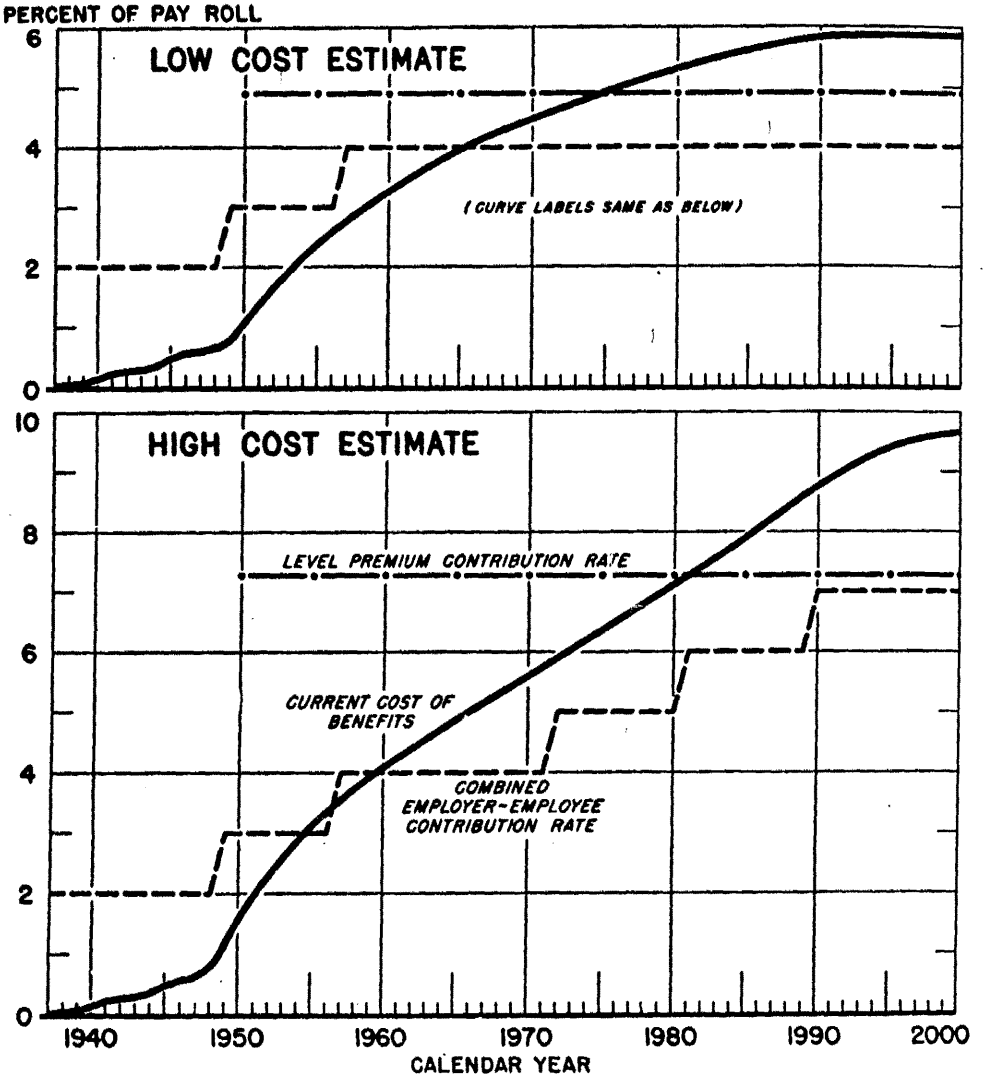
[1] Benefit-disbursement estimates are shown on the basis of 2 different assumptions:
A. Benefits determined under average wage provisions and benefit formula proposed by Council using estimates of wages actually paid over the last 100 years.
B. Benefits determined under average wage and benefit provisions continuously revised so that benefits are related to current wage levels.

[2] Benefit disbursements in percentage of pay rolls would be as follows:

Assumption A:		Assumption B:	
Low	2.4	Low	4.1
High	3.0	High	4.9

CHART A

ESTIMATED COST OF EXPANDED PROGRAM RECOMMENDED BY ADVISORY COUNCIL, IN TERMS OF PERCENTAGE OF PAY ROLL

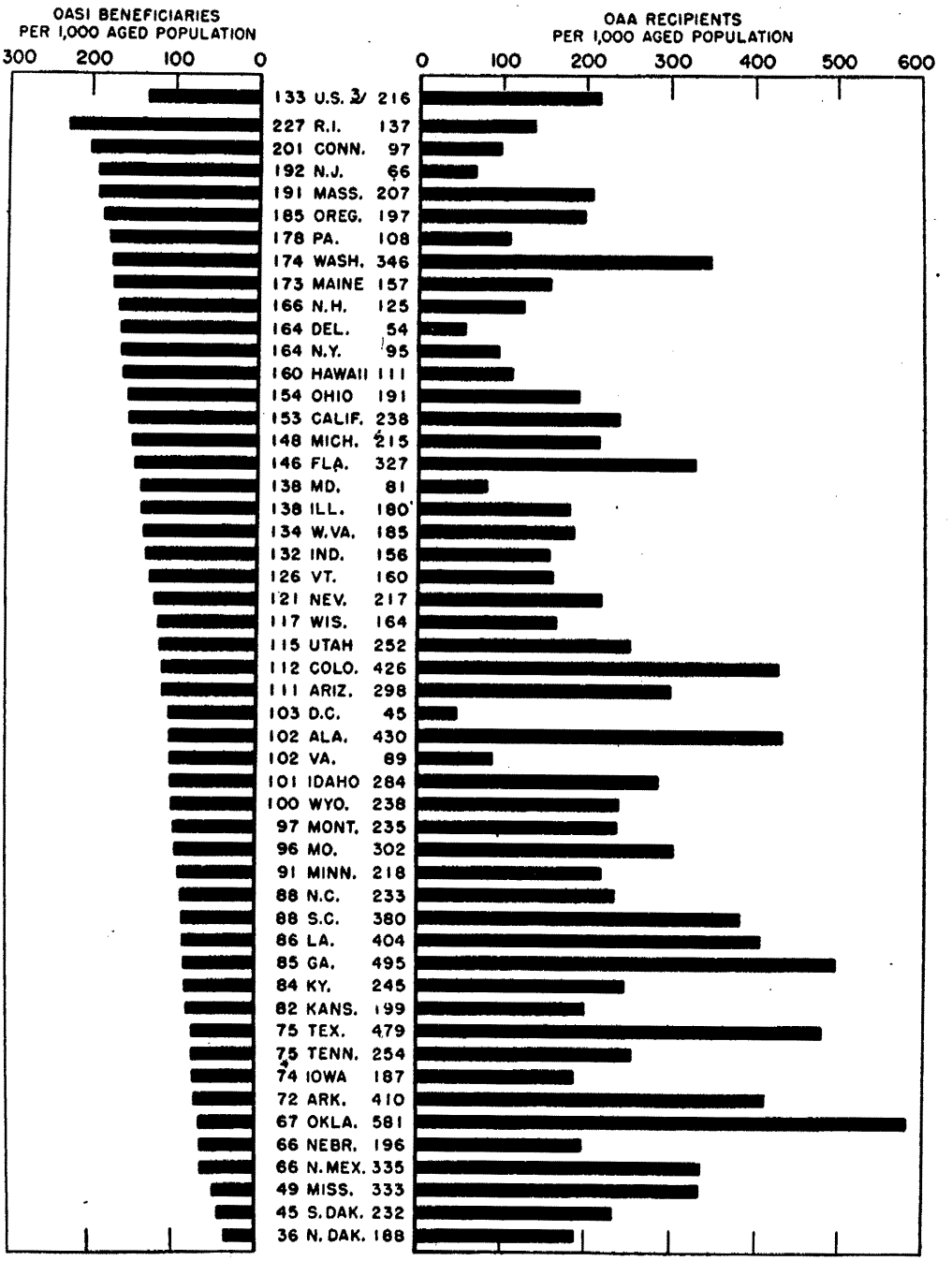


NOTE: ESTIMATES BASED ON ASSUMPTION OF CONTINUATION OF EMPLOYMENT AND WAGE LEVELS OF 1944-46.
NOTE: SEE TEXT FOR DESCRIPTION OF TERMS.

APPENDIX I–C

CHART B

NUMBER OF AGED PERSONS RECEIVING BENEFITS UNDER OLD-AGE AND SURVIVORS INSURANCE [1] AND NUMBER RECEIVING OLD-AGE ASSISTANCE PER 1,000 PERSONS AGED 65 YEARS AND OVER, BY STATE,[2] JUNE 1948



[1] Primary, wife's, widow's, and parent's benefits in current-payment status at end of June.
[2] Aged population as of July 1, 1948, estimated by Social Security Administration.
[3] Includes Hawaii.

APPENDIX I–D. FAMILY BENEFITS UNDER PRESENT PROGRAM, DECEMBER 1947

TABLE 13.—*Percentage distribution of beneficiary families by monthly amount of family benefits in current-payment status at end of 1947, for each specified family group in receipt of benefits*

[Based on 20-percent sample. Average benefits shown to the nearest 10 cents. Corrected to May 20, 1948]

Monthly family benefit amount	Retired worker only		Retired worker and wife	Retired worker and 1 child	Aged widow	Widowed mother and children			Children only			
	Male	Female				1 child	2 children	3 or more children	1 child	2 children	3 children	4 or more children
Total number [1]	470,800.0	118,800.0	269,000.0	10,500.0	164,200.0	69,100.0	39,300.0	22,600.0	83,100.0	37,400.0	15,400.0	20,100.0
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less than $10					[2] 0.8	0	0	0	[3] 5.1	[3] 0.1	0	0
$10 to $19.99	[4] 24.3	[4] 46.1	[5] 10.4	[5] 10.7	49.5	8.6	4.5	[3] 0.1	90.8	20.6	12.6	[3] 0.3
$20 to $29.99	47.6	47.1	10.3	11.6	39.7	21.6	5.9	12.3	[4] 4.1	50.8	12.6	18.0
$30 to $39.99	22.3	5.8	31.9	35.8	[6] 10.0	36.1	14.8	8.2		24.6	37.8	11.1
$40 to $49.99	[4] 5.9	[4] 1.0	25.3	23.4		23.7	27.8	21.5		[5] 3.9	26.1	24.8
$50 to $59.99			14.0	12.4		[6] 10.2	24.7	24.6			8.9	22.8
$60 to $69.99			[5] 8.1	[5] 6.0			14.3	19.3			[5] 2.1	14.9
$70 to $79.99							[5] 8.0	9.2				6.1
$80 to $85.00								4.7				1.8
Average monthly amount per family	$25.30	$19.90	$39.60	$38.40	$20.40	$35.40	$48.80	$52.20	$13.20	$25.60	$36.30	$47.70

[1] Families with retired worker, wife, and child, or retired worker and 2 or more children, or widowed mother only, or 1 or 2 aged parents not shown because too few cases in sample.
[2] Widow's benefit reduced to less than $10 by primary benefit to which widow was concurrently entitled.
[3] Family benefit is less than minimum amount because one or more additional family members were entitled to benefits which were withheld at end of 1947.
[4] The percentage at the $10 minimum was 7.1 for retired male workers and 15.7 for retired female workers.
[5] The percentage at the $15 minimum was 5.9 for retired worker and wife and 6.2 for retired worker and 1 child.
[6] The maximum possible in 1947 was as follows: $22.20 for each child; $33.30 for an aged widow; $44.40 for a retired male or female worker; $55.50 for a widowed mother and 1 child; $66.60 for a retired worker and wife or 1 child; and $77.70 for a widowed mother and 2 children.

Appendix I–E. Memorandum by Two Members Dissenting from the Majority Report with Respect to Mandatory Coverage of the Traditionally Tax-Exempt Institutions

As stated in the report of the majority of the Council members, it is highly desirable to establish as complete coverage as possible of employees under old-age and survivors insurance. The majority report recognizes special problems with respect to Federal civil-service employees, railroad employees, and the employees of State and municipal governmental units. Special problems exist also and should be recognized with respect to the traditionally tax-exempt religious, charitable, and educational institutions. A reasonable method of attaining maximum coverage of their employees should be possible without doing violence to traditional tax exemption.

There is no doubt that the contributions to old-age and survivors insurance are taxes. The statutory declaration of intent that the imposition of taxes for purposes of old-age and survivors insurance is not a precedent for other taxation of religious, charitable, and educational institutions, is at best a "pious hope," because the imposition of any tax on the institution is in fact an encroachment on its tax exemption.

There is in this problem no insuperable difficulty. The method of inclusion by voluntary adherence is no more difficult than in the case of employees of other employers that require special treatment. In each case there is a problem of method. The appropriate device, in order to safeguard immunity from the power to tax, which is the power to destroy, is an elective right to the institution to come in under the old-age and survivors insurance provisions.

Protection against adverse selection of risk would be adequately assured by requiring the electing institution to cover all its employees, except clergy and members of religious orders, within a reasonable period for exercising the election.

It seems unnecessary here to recount why a free society in its own self-interest has encouraged religious, charitable, and educational institutions to develop free from the political constraints of taxation. This basic protection of other freedoms surely should not be jeopardized where, as here, the desired social objectives can be reasonably accomplished by sound alternative methods.

Appendix I–F. Résumé of Minority Opinions on Changes in Benefit and Contribution Base

THE PRESENT BASE OF $3,000 SHOULD BE RETAINED

The following statement is a résumé of the various reasons why several Council members approve of retaining unchanged the present tax and benefit base of $3,000. Some members lay more stress on one or more of the reasons stated than on others.

The proposed change from $3,000 to $4,200 in the present tax base and in the wages credited for benefits should be judged by the concrete results which the change would produce and not by theoretical considerations related to the fact that $3,000 was chosen as the base when prices were lower. These results, boiled down, mean that the well-to-do, all those with average wages of $4,200 a year *and over*, would receive larger increases in benefits both by amounts and by percentages than would those with average wages below $3,000, with whom social security should primarily be concerned.[1] Moreover, these extra benefits to the well-to-do would be granted for many years without being covered by the additional taxes which they pay.

If the new benefit formula were applied to the present base of $3,000 these errors would be avoided. This is illustrated in the following table which gives the monthly primary benefits for persons becoming entitled to benefits (1) in 1949 after continuous coverage since January 1, 1937, and (2) after 40 years of coverage. The figures above the horizontal line are those that would follow a retention of the $3,000 base. Those below the line show the changes that would result from raising the $3,000 to $4,200. In considering the amounts of the benefits it should be borne in mind that if the retired worker has a wife aged 60 or over, 50 percent must be added in each case.

Average wage	Entitlement in 1949 after 12 years of coverage				Entitlement after 40 years of coverage			
	Present formula	AC formula	Amount of increase	Percent increase	Present formula	AC formula	Amount of increase	Percent increase
$100	$28.00	$41.25	$13.25	47	$35.00	$41.25	$6.25	18
$200	39.20	56.25	17.05	43	49.00	56.25	7.25	15
$250	44.80	63.75	18.95	42	56.00	63.75	7.75	14
$300	44.80	63.75	18.95	42	56.00	63.75	7.75	14
$350 and over	44.80	63.75	18.95	42	56.00	63.75	7.75	14
$300	44.80	71.25	26.45	59	56.00	71.25	15.25	27
$350 and over	44.80	78.75	33.95	76	56.00	78.75	22.75	41

Looking at the left-hand half of the table, one may well ask why should those at the $4,200 and other levels receive a 76-percent increase in benefits as compared with 42 percent for those at the $3,000 level?

[1] It should also be stated that those with average wage between $3,000 and $4,200 also receive extra benefits that favor them as compared with those earning $3,000, but not to the same extent as at the $4,200 level and above.

Looking at the right-hand half, one may well ask why should the well-to-do receive a 41-percent increase in benefits and those at the $3,000 level only 14 percent? The figures above the line represent reasonable changes. Those below depart from sound social-security principles by unduly favoring the high-income groups.

If the $3,000 base were retained, the primary benefit for persons with average wages of $3,000 and over would, as indicated, be $63.75 a month or $95.62 for a man with a wife over age 60. Such monthly payments should be sufficient to provide the basic measure of protection which is the stated objective of old-age and survivors insurance.

It is important to realize that for many years the extra benefits to the well-to-do which would result from shifting the base from $3,000 to $4,200, would not be covered by the extra taxes which they pay as a result of the change. The extra taxes would be brought about by the fact that all earning $4,200 and over would pay taxes on an additional $1,200 of earnings. If the combined employers and employees tax rates were 3 percent (1½ plus 1½), the trust fund would receive extra taxes of $36 a year. If the combined rates were 4 percent (2 plus 2), the extra taxes would be $48 a year.

Now consider the values of the extra benefits resulting from the change in the base. One way of showing what these would amount to is to compute the single premium values of the extra benefits as of the time they become payable. For example, the single premium value to a man aged 65 with a wife of the same age, of the extra benefits ($15 a month to him, $7.50 a month to her) is $3,057. To meet this amount, the Government will have collected extra taxes of $36 or $48 a year. To get an idea of the values of the extra benefits for other conditions, the following table has been prepared.

Age	Single premium values of extra benefits		
	Single man	Married man with wife aged—	
		Same as himself	5 years younger
65	$1,852	$3,057	$3,346
70	1,485	2,456	2,738

It is obvious from these figures that the extra taxes will not cover the extra benefits for those with average wages of $4,200 or over who are *now middle-aged or older*. In essence we say to them that in addition to the very substantial subsidies required to provide the benefits they will receive on the $3,000 base, they are to be still further subsidized for extra benefits of $15 or $22.50 a month. Why is it not reasonable to expect persons in such circumstances to make independent provision for these extra benefits without Government subsidy?

Another valid reason for retaining the $3,000 base is the extensive changes that would have to be made in many of the more than 6,800 private pension plans which are now integrated into the present base.

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Furthermore, unemployment insurance and old-age and survivors insurance now have the same tax base. The benefits under unemployment insurance have been raised substantially without a change in the base, and the same can be done in old-age and survivors insurance, as indicated above. Different tax bases in the two systems would complicate record keeping and tax reporting for all employers, resulting in much additional clerical work.

The time, of course, may come when the distortions that would be caused by much higher price levels than at present would justify a change both in the type of formula and in the tax base. When that time arrives, however, there should be no such special favoring of the well-to-do as would follow the adoption of the proposed change. Under present conditions, adherence to the $3,000 base is the proper course.

THE PRESENT BASE OF $3,000 SHOULD BE RAISED TO $4,800

The following statement is a résumé of the various reasons why several Council members favor increasing the present tax and benefit base to $4,800. Some members lay more stress on one or more of the reasons stated than do others.

The increase in the tax base from $3,000 to $4,200 and the corresponding change in the top limit of wages credited for benefits is not sufficient. The increase should be to $4,800. Since the original base was set, the consumers' price index has risen by more than 60 percent, so that an income of $4,800 today has less purchasing power than an income of $3,000 had in 1939. Hence, raising the tax base and wages credited for benefits to $4,800 would not be a real increase—it would, in fact, fall short of maintaining the 1939 relationship between the wage base and prices.

The rise in prices during the last 9 years has cut by over 38 percent the purchasing power of the savings which millions of people had accumulated against their old age. Increasing the tax base to $4,800 and permitting wages up to this amount to be credited for benefits would help to correct some of the injustices which the rise in prices has inflicted.

The members of the Council who dissent from the proposal to increase the base seem to have based their dissent in part on the assumption that a large number of those who would receive larger benefits as a result of the increase can be classed as well-to-do. The great majority of such persons are not well-to-do by current standards. Only about 3 percent of all workers have wages in excess of $4,800. A survey of the Department of Labor has indicated that 4 months ago a budget for an urban worker, his wife and two children ranges from $3,121 in the lowest-cost city to $3,565 in the highest-cost city surveyed. *This budget does not include any amount for cash savings.* It is not a luxury budget.

It is, of course, true that raising the wages credited for benefits from $3,000 to $4,200 or to $4,800 would give a larger percentage increase in benefits to persons earning above $3,000 than to persons receiving less than $3,000. The reason for this is the obvious one that under the present formula no wages above $3,000 affect the size of the benefits.

It has been argued that the increased benefits which would result from raising the wage base above $3,000 will not be covered by the additional taxes paid. In the short run no one at any wage level pays the costs of even the present benefits. Even in the short run, however, the high-income person pays more of the costs of his own benefits than does one with low income. The higher the wage base, the greater percentage of the cost of their benefits do those in the top brackets pay.

On the basis of the majority recommendation for raising the limit to $4,200, for example, the $350 per month man would—

Pay in contributions—	But receive in benefits—
250 percent	90.9 percent—More than the $100 per month man.
75 percent	40 percent—More than the $200 per month man.
40 percent	23.5 percent—More than the $250 per month man.
16.7 percent	10.5 percent—More than the $300 per month man.

Taken as a whole and over the entire existence of the system, there is a net gain to the system by raising the wage base above $3,000. Taken over the short run as well, the additional tax receipts on wages between $3,000 and $4,800 would more than offset the additional benefits based on these wages.

If one were to accept the argument that the wages credited for benefits should not be increased above $3,000 a year because doing so would increase the benefits of persons receiving above $3,000 a year by a larger percentage than those of persons receiving below $3,000, one would be committed to permanent retention of the $3,000 limit no matter how high prices and wages might go. That would be an untenable position. The tax base and the wages credited for benefits should be adjusted from time to time as the price level changes and also as the wage level changes. There are likely to be few periods in the country's history in which the price level rises by 60 percent in a 9-year period. Hence, there are likely to be few times when an adjustment of the tax base and the wages credited for benefits are more needed than today. The adjustment should be by approximately the amount of the increase in the consumer price index since 1939, that is, to $4,800.

Appendix I–G. Staff for Old-Age and Survivors Insurance

Robert M. Ball, staff director.
Leona V. MacKinnon, executive assistant.
Fedele F. Fauri, professional assistant.
Irving Ladimer, professional assistant.
Milton M. Mayer, professional assistant.
Helen Livingston, research assistant.

Robert J. Myers, actuarial consultant of the Social Security Administration, prepared the cost estimates, which were reviewed by George W. K. Grange, a member of the staff of the Metropolitan Life Insurance Co.

Part II

PERMANENT AND TOTAL DISABILITY INSURANCE

INTRODUCTION AND SUMMARY

Income loss from permanent and total disability is a major economic hazard to which, like old age and death, all gainful workers are exposed. The Advisory Council believes that the time has come to extend the Nation's social-insurance system to afford protection against this loss.

There can be no question concerning the need for such protection. On an average day the number of persons kept from gainful work by disabilities which have continued for more than 6 months is about 2,000,000. The economic hardship resulting from permanent and total disability is frequently even greater than that created by old age or death. The family must not only face the loss of the breadwinner's earnings but must meet the costs of medical care. As a rule, savings and other personal resources are soon exhausted. The problem of the disabled younger worker is particularly difficult since he is likely to have young children and not to have had an opportunity to acquire any significant savings.

Present methods of protection against income loss from permanent and total disability are not adequate. More than 60 life-insurance companies offer such protection, but few individuals purchase it. The cost is high, the terms on which it is sold are restrictive, and most life-insurance companies no longer follow aggressive sales policies with respect to permanent and total disability insurance. Workmen's compensation affords protection against work-connected disabilities, but less than 5 percent of all permanent and total disability cases are of work-connected origin. Special programs provide disability payments for limited groups such as veterans, railroad employees, and some Federal, State, and local employees. In a high percentage of the total cases, however, the disabled worker exhausts his own resources and becomes dependent upon public assistance. Few persons, even those receiving moderately high salaries, can accumulate enough to support their families during prolonged periods of income loss. Social insurance seems the only practical and adequate method of preventing dependency from income loss resulting from permanent and total disability.

The Council recognizes the difficulties in extending social insurance to cover permanent and total disability. Unless adequate safeguards are established, the possibility of receiving monthly disability benefits over extended periods may lead to some unjustified claims and induce some beneficiaries to resist efforts to restore their capacity to

work. In certain types of cases, disability may not be easily and reliably determined. The Council also appreciates that the number and duration of disabilities reflect somewhat the state of the labor market and may increase as unemployment rises. We are aware that in the past many life-insurance companies have had unfavorable experience with disability insurance. In our opinion, that experience is important but not conclusive.

The Council is also aware that the low levels of disability benefits paid by some foreign countries affect the usefulness of their experience as a precedent for the American program. Other countries, however, have successfully administered systems paying benefits at least as high in relation to average wages as those proposed by the Council. The experience of some 40 foreign countries with programs of permanent and total disability insurance offers much that is valuable for America. Nevertheless, the United States must of necessity pioneer in the kind of disability program adapted to its needs just as it has had to pioneer in other areas of social insurance in designing programs to meet special American conditions. Experience which will be valuable in the development of the American program is provided by workmen's compensation, commercial insurance, and the several special programs for veterans, railroad workers, and public employees, as well as by the foreign social-insurance systems.

The Council is strongly impressed with the seriousness of the problems created by permanent and total disability and with the social disadvantages of compelling the victims of this misfortune to depend upon public assistance. We believe that there is enough administrative ability in our Government organization to provide effective machinery for meeting this pressing social need. In view of the admitted administrative difficulties in undertaking the payment of such benefits, however, the Council recommends a highly circumscribed program. More progress will be made in the long run if the persons responsible for operating the program have an opportunity to develop experience under relatively favorable conditions.

We believe further that it would be desirable to establish a public advisory board to counsel with the Federal administration particularly during the early years of the operation of this new program. Such an advisory group could assure that a variety of viewpoints are considered in the formulation of policy. The advisory group might appropriately later review and make recommendations on the conduct of operations and the extent to which the program achieves its purpose. The estimated level-premium cost[1] of the program recommended by the Council would be only about one-tenth to one-fourth of 1 percent of pay roll and in the early years would be considerably less. Furthermore, these costs would not constitute a wholly new expense since the cost of providing for the permanently and totally disabled is now met to a considerable extent by public and private assistance and institutional care. For instance, in January 1948 about 80,000 persons were receiving aid to the blind, and payment for aid to dependent children went to the families of about 100,000 disabled men. A substantial percentage of the approximately 375,000 family heads and single individuals receiving general assistance are disabled.

[1] The level-premium contribution rate is the rate which would support the system in perpetuity if collected from the first year.

Summary of Major Recommendations

Eligibility requirements.—To qualify for benefits, a disabled person would have to be incapable of self-support for an indefinite period—permanently and totally disabled. He would have to be unable, by reason of a disability medically demonstrable by objective tests, to perform any substantially gainful activity. This requirement would eliminate the problems involved in the adjudication of claims based solely on subjective symptoms.

We recommend that a waiting period of 6 months be required and that benefits be payable only in those cases in which, at the end of the waiting period, the disability appears likely to be of long-continued and indefinite duration. This requirement is much more exacting than the disability provisions of commercial insurance policies now being issued, which specify that a total disability that has persisted for 6 months will be presumed to be permanent. The definition as a whole constitutes a strict test of permanent and total disability, which would operate as a safeguard against unjustified claims.

To assure that disability benefits will be available only to workers who have suffered income loss by reason of disability we recommend that strict eligibility requirements be adopted to test both the recency and long duration of an individual's attachment to the labor market. To be eligible, a worker would need a minimum of 40 quarters of coverage, would have to have one quarter of coverage for every 2 in his working lifetime after 1948 in covered employment, and would have to show employment during at least one-half the time within the period immediately preceding the onset of his disability.

Amount of benefits.—The same benefit formula recommended for old-age and survivors insurance is proposed for the disability insurance program. The Council does not recommend, however, that benefits be provided for dependents of the disabled worker. If these were provided, there is the possibility that disability benefits in some cases might prove attractive enough to discourage return to gainful work after recovery or rehabilitation. Thus the benefits under the disability program when the worker has dependents would be substantially less than those we propose for old-age and survivors benefits. They would be as much as one-half the average monthly wage only in the case of workers who averaged $75 a month or less, while the average benefit for all workers would be only about 30 percent of the average wage. (See table at the end of recommendation 3, p. 75.)

Provisions for rehabilitation of disabled workers.—The Council recommends that contributions be made from the Federal old-age and survivors insurance trust fund toward the expense of rehabilitating beneficiaries on the disability rolls. A substantial number of beneficiaries can be rehabilitated and become self-supporting. The national economy will benefit from the restoration of their earning capacity, and the cost of the insurance system will be reduced because the disability benefits of persons who have been rehabilitated will be terminated.

Termination or suspension of benefits.—Benefits should be denied when the beneficiary refuses to undergo a medical examination or reexamination and should be suspended when he refuses to cooperate in his rehabilitation. Payments should also be suspended for any period for which workmen's compensation is payable under a State or Federal program.

Integration with old-age and survivors insurance.—Permanent and total disability insurance and old-age and survivors insurance should be administered as a single system. Aside from the similarity of risks, considerations of administrative efficiency and economy make the integration logical. Integration would also facilitate the maintenance of the benefit rights of disabled workers for purposes of future old-age and survivors insurance payments.

If the administration of the two programs is integrated, the facilities already established under old-age and survivors insurance for maintaining individual wage records, the network of old-age and survivors insurance field offices, and the administrative machinery for awarding benefits and certifying claims could be adapted to the requirements of the disability program with relatively minor adjustments.

The Method of Social Insurance

The Council is strongly of the belief that the foundation of the social-security system should be the method of contributory social insurance with benefits related to prior earnings and awarded without a needs test. As stated in our report on old-age and survivors insurance, p. 1:

> Differential benefits based on a work record are a reward for productive effort and are consistent with general economic incentives, while the knowledge that benefits will be paid—irrespective of whether the individual is in need—supports and stimulates his drive to add his personal savings to the basic security he has acquired through the insurance system. Under such a social insurance system, the individual earns a right to a benefit that is related to his contribution to production. This earned right is his best guaranty that he will receive the benefits promised and that they will not be conditioned on his accepting either scrutiny of his personal affairs or restrictions from which others are free.
>
> Public assistance payments from general tax funds to persons who are found to be in need have serious limitations as a way of maintaining family income. Our goal is, so far as possible, to prevent dependency through social insurance and thus greatly reduce the need for assistance.

The Council believes that the permanently and totally disabled worker—as well as the aged worker or the dependent survivors of a deceased worker—should not be required to reduce himself to virtual destitution before he can become eligible for benefits. Certainly there is as great a need to protect the resources, the self-reliance, dignity, and self-respect of disabled workers as of any other group. The protection of the material and spiritual resources of the disabled worker is an important part of preserving his will to work and plays a positive role in his rehabilitation.

RECOMMENDATIONS

1. Eligibility Requirements

To be eligible for permanent and total disability benefits, an otherwise qualified individual should be required to meet strict tests of recent and substantial attachment to the labor market. He should be required to have (a) a minimum of 40 quarters of coverage, (b) 1 quarter of coverage for every 2 calendar quarters elapsing after 1948 (or after attainment of age 21 if that was later) and prior to the first quarter of total disability, (c) 6 quarters of coverage within the 12 quarters preceding his disability, and (d) 2 quarters of coverage within the 4 quarters preceding his disability

Permanent and total disability benefits should be paid only to those who have suffered a loss of earnings by reason of total disability. To

determine whether such a loss has occurred, both the recency and substantiality of the individual's attachment to the labor market should be tested. In keeping with the objective of establishing a carefully circumscribed and restricted program, the proposed test is an exacting one.

The requirement of 6 quarters out of the last 12 (comparable to currently insured status under old-age and survivors insurance) plus 2 quarters of coverage out of the last 4 is designed to exclude persons, such as housewives, who have retired from the labor market before the onset of disability and consequently have not incurred any loss of earnings because of their incapacity. Under this requirement, it is true, some persons who did suffer genuine losses because of disability might be prevented from qualifying if their total disability had been relatively slow in developing and they had been unemployed for more than 2 quarters because of partial disability. In view of the large number of withdrawals from the labor market each year, however, and the difficulty of determining in many cases whether or not the worker has withdrawn or is only unemployed, a requirement of very recent earnings is needed.

A strict test of long-term attachment to the labor force is proposed as evidence that the disabled worker has contributed substantially to his own support over a long period of time. A worker should be required to have a minimum of 40 quarters of coverage and 1 quarter of coverage for every 2 elapsed calendar quarters in his working lifetime (after 1948) up to the first quarter of total disability. This requirement would prevent individuals with congenital disabilities and those who have not regularly been gainful workers from qualifying. For all persons who qualify, there would be convincing proof both of the will to work and of the ability to earn income over a substantial period of time.

In some cases of total disability it will not be clear immediately whether the disability will be of long duration. It would be both unfair to the claimant and administratively wasteful to require that a person forfeit the opportunity of having insured status calculated as of the time of onset of disability because he had not filed application and undergone official examination at that time. Determinations of the existence of a total disability retroactive for strictly limited periods would be feasible and should be allowed. On the other hand, provisions requiring medical determination retroactive over long periods of time would involve serious administrative problems and uncertainties, increasing as the time of alleged onset of disability becomes more remote from the date of medical examination. The Council believes that a reasonable limitation on retroactive determinations would be 6 months before the date of application. Inevitably, under such a limitation, workers who unduly postpone filing their claims will lose insured status. This requirement seems necessary, however, to avoid the complications and difficulties involved in determining retroactively over a long period the date of the beginning of permanent and total disability.

2. Definition of Permanent and Total Disability

Benefits should be paid to an insured individual who is permanently and totally disabled. A "permanent and total disability" for the purpose of this program should mean any disability which is medically demonstrable by objective tests, which prevents the worker from performing any substantially gainful activity, and which is likely to be of long-continued and indefinite duration

Qualified individuals should be eligible for permanent and total disability benefits after a waiting period of 6 months. The first benefit should be paid for the seventh month of disability

The definition of "disability" used in a disability program will in large part determine the feasibility of administration and the costs of the program. The proposed definition is designed to establish a test of disability which will operate as a safeguard against unjustified claims. It is an administratively practicable test and it will facilitate the evaluation of permanent and total disabilities.

The Council recommends that compensable disabilities be restricted to those which can be objectively determined by medical examination or tests. In this way, the problems involved in the adjudication of claims based on purely subjective symptoms can be avoided. Unless demonstrable by objective tests, such ailments as lumbago, rheumatism, and various nervous disorders would not be compensable. The danger of malingering which might be involved in connection with such claims would thereby be avoided.

Total disability lasting more than six consecutive calendar months should be considered permanent if the disability is diagnosed as likely to be of long-continued and indefinite duration. Periodic medical reexaminations, as well as other checks and safeguards which will exist in the system, may be relied upon to discover cases in which a beneficiary has recovered. The period of 6 months is recommended because it is sufficiently long to permit most essentially temporary conditions to clear up or show definite signs of probable recovery. The claims payable after the 6-month waiting period has expired would be only those involving long-term or chronic conditions.

The great majority of persons applying for permanent and total disability benefits will have had no income during the waiting period. Only two States now provide temporary disability benefits and no benefits are payable to persons who are incapacitated for work at the time they file claims for unemployment insurance benefits.[2] Only a limited number of workers have short-term disability protection in some other form, such as commercial insurance policies. Consequently, the waiting period—constituting as it does in most cases a 6-month period without income—would make it very unprofitable for would-be malingerers to give up work and attempt to qualify for benefits.

The concept of permanent disability which the Council envisages should be defined in legislation only in broad terms and should be worked out in detail through regulations. We do not believe that mere duration of a total disability for 6 months should give rise to an automatic presumption of permanency, as is generally the case with commercial insurance policies offering permanent and total disability

[2] See appendix IV-D for provisions under these and a third State law under which temporary disability benefits are payable in 1949.

protection. On the other hand, we would not limit benefits to the cases in which it is certain that the disability is, in the strictest sense of the word, permanent. In some cases which are to all intents and purposes "permanent," physicians are nevertheless reluctant to designate the condition as incurable, both because of the psychological effect on the patient and because recovery is theoretically possible. Most systems using a concept of permanency have found it necessary to presume permanency in cases of long and uncertain duration and to subject claimants to periodic reexamination to determine whether they have recovered. Such an approach prevents the extreme hardships which would result from the denial of benefits in many cases of total disability which continue indefinitely, perhaps for years, but which cannot with certainty be adjudged "permanent."

Since the objective of disability insurance is to compensate for loss of earning capacity, payments should not be made for the mere physical impairment, loss of strength, disfigurement, or diseased condition which results from illness or accident. Payments should be made only if the individual is unable to perform any substantially gainful activity.

Some disability insurance plans are based on the concept of compensating an individual for incapacity to work within the area covered under a particular insurance or retirement scheme or within an area of customary employment. With this criterion, an individual who with reasonable effort could obtain employment in a different area, or perform another type of work, may nevertheless be considered disabled. While this "occupational" concept may be justified in systems designed primarily to provide for the retirement of employees when they are no longer able to perform their jobs efficiently, it would not be appropriate for a general social-insurance system. Such a system, financed by employers and employees in wide and diverse areas of employment, should not permit workers to withdraw from the labor market and receive benefits if they have not suffered a loss of general earning capacity. In the best interests of the individual and of the national economy, and in view of the limitation on total national resources available for social-insurance purposes, it is important to utilize any substantial earning capacity that handicapped persons may retain.

The exact limits of what constitutes "substantially gainful activity" should, in the early years of the program, at least, be defined by regulations. After the program has been in operation, administrative experience will doubtless indicate ways in which the definition can be improved. Leaving the definition to regulations will make it possible to take prompt advantage of that experience. The Council believes, however, that the regulations governing this definition should be strict.

3. Amount of Benefits

Primary disability benefits should be based on the same formula recommended for old-age and survivors insurance. No benefits should be provided for dependents of the disabled wage earner

In general, the needs of a permanently and totally disabled worker are at least as great as those of a retired worker. In many respects the burden of disability is even greater than the burdens created by old age or death. These facts speak strongly for providing disability benefits similar in types and amounts to payments provided for retirement and

death cases. Payments should not be high enough, however, to encourage persons on the borderline of total disablement to seek benefits or to malinger when total disability has ceased to exist. The incentive for beneficiaries to return to work when possible is a very significant factor influencing the costs of a disability program. This incentive might not exist if the worker on the disability rolls could receive, in the form of benefits payable on his wage account, too high a replacement of his earnings loss. In keeping with the Council's view that stringent provisions should be established, it would seem desirable to restrict disability payments to the primary insurance benefit payable to the worker himself. No dependents' benefits, such as those under old-age and survivors insurance, should be payable to the wife or minor children of the disabled worker. The proposed restriction on the types of disability benefits payable would mean that benefits would amount on the average to about 30 percent of the worker's average monthly wage and would in no case exceed one-half of the average monthly wage. As shown in the following table, it would be as much as one-half only in the case of workers with average monthly wages of $75 or less.

TABLE 1.—*Disability insurance benefit and its ratio (percent) to specified average monthly wages under the Advisory Council's proposals*

Average monthly wage	Disability insurance benefit	Percent of average monthly wage	Average monthly wage	Disability insurance benefit	Percent of average monthly wage
$50	$25.00	50.0	$200	$56.25	28.1
$75	37.50	50.0	$250	63.75	25.5
$100	41.25	41.2	$300	71.25	23.8
$150	48.75	32.5	$350	78.75	22.5

4. Disqualifications

Claims should be disallowed if the claimant refuses to submit to medical examination, and benefits should be terminated if the beneficiary refuses to submit to reexamination. Provision should be made for periodic reexaminations so that benefit payments can be terminated promptly when the beneficiary is no longer disabled. Disability benefits should be withheld if a disabled person refuses without reasonable cause to accept rehabilitation services

If an applicant for disability benefits refuses to submit to medical examination required for the purpose of determining whether a disability exists, such refusal should result in disallowance of the claim; if an individual receiving benefits refuses to submit to reexamination, his refusal should result in termination of benefit payments. Benefits should, of course, be terminated if the disability ceases. Provisions for periodic and special medical reexaminations of beneficiaries are essential to the administration of any disability program, but the frequency of reexamination should be adapted to the needs of individual cases. It would probably be desirable that cases be reexamined at least once a year, although some types of disablement may require more frequent checking.

Effective administration and conservation of funds make it desirable that benefits be suspended when refusal to accept rehabilitation is

determined to be unwarranted. Together with the proposed requirements calling for termination of benefits on recovery or successful rehabilitation, this provision would serve to prevent payments when the continuation of benefits is not justified.

5. Adjustment to Workmen's Compensation

Permanent and total disability insurance benefits should be suspended for any period for which workmen's compensation cash benefits are payable under State or Federal programs

Workmen's compensation is payable in less than 5 percent of all cases of economic loss due to permanent and total disability. Although the total area of possible duplication is small, an individual should not receive disability payments under more than one program at the same time. If combined payments become a major fraction of prior earnings, the economic incentive for beneficiaries to return to work may be insufficient.

Workmen's compensation reflects society's conviction that part of the costs of industrial accidents and diseases are a responsibility to be borne by the employer, regardless of fault, and in lieu of any common-law liability the employer may otherwise have incurred. Contributory disability-insurance benefits should not take the place of, or interfere with the continuing development of, the special programs affording protection against work-connected disabilities.

The most practical approach to the problem of duplication of benefits by State and Federal workmen's compensation systems and the social-insurance system seems to the Council to be the suspension of basic social-insurance benefits for any periods for which cash benefits are payable under workmen's compensation programs. Thus the Federal program would be precluded from making payments in cases covered by workmen's compensation, but benefits could be paid when there was no eligibility for workmen's compensation or when cash benefits under workmen's compensation were terminated. Although disability-insurance benefits would be suspended, an individual's rights to retirement and survivorship benefits would be protected in the same way as if he were receiving the disability benefit. To accomplish the objectives of the suspension provision, lump-sum and commuted benefits paid as workmen's compensation for permanent total disability should also cause suspension of the disability-insurance benefits for a period of time which would be the equivalent of the time the payments would have lasted if made on a periodic basis.

6. Adjustment to Other Federal Disability Programs

A disabled worker eligible for benefits under both the disability program recommended here and another Federal disability program (other than a Federal workmen's compensation system) should receive only the larger benefit

Protection against the risk of permanent disability is provided for railroad and Federal civilian employees and members of the armed services under their special retirement systems. Similar provision is made under laws administered by the Veterans Administration for disabled servicemen and veterans. The benefits provided under

these Federal programs are usually substantial since these systems are either staff retirement plans or, in the case of the veterans' program, are designed to compensate for losses incurred in the Nation's defense.

It is important that combined benefits to which some persons might become entitled under one of these special systems and under the social-insurance program should not be so high as to discourage beneficiaries from returning to gainful work when they are able to do so. The Council believes therefore that where there is entitlement under two systems, only the higher benefit should be payable.

At the direction of the Congress, a study should be made to develop cooperative administrative procedures, to draft a plan for equitably financing disability benefits, and to make such other recommendations as are necessary for effective coordination of disability payments under the several Federal programs. Participating in the study should be such agencies as the Federal Security Agency, the Veterans Administration, and the service departments, and the study should be tied in with those proposed in the Council's old-age and survivors insurance report with respect to the programs administered by the Railroad Retirement Board and the Civil Service Commission.

Undoubtedly, private as well as State and local retirement systems which provide disability protection would have to be modified to avoid unnecessarily high total payments when payments are also payable under the social-insurance disability program.

7. Integration with Old-Age and Survivors Insurance

Permanent and total disability insurance and old-age and survivors insurance should be administered as a single system. Provisions of the two programs should be integrated so that, in computing insured status and the average monthly wage of a disabled person, periods of total disability will not be counted

There are numerous administrative and organizational needs which are common to both an old-age and survivors insurance program and a program for permanent and total disability insurance. Most of the industrial nations of the world have recognized this fact and have established single plans covering both types of social insurance.

Under the permanent and total disability program we recommend, the same wage information will be necessary as under old-age and survivors insurance to determine insured status and the amounts of benefit payments. Administering these forms of social insurance as a single program would permit utilizing for disability insurance purposes the central accounting operations and the field and area office facilities already established under old-age and survivors insurance.

For disability cases, additional techniques and procedures would have to be developed by the old-age and survivors insurance field and adjudication staffs. On the other hand, procedures and techniques already developed under old-age and survivors insurance would apply to many essential phases of disability insurance such as the determination of insured status, the computation of benefit amounts, and the monthly certification of benefit payments. In addition, broad skills necessary for the administration of old-age and survivors insurance, such as those needed in interviewing, investigation, and

evaluating evidence, would be of value in the administration of a new disability program. There would be substantial savings in administrative costs if the programs were combined rather than separate. Of importance also would be the convenience for the public in having one organization to look to for information on both types of insurance.

Integration of the two programs would also facilitate the maintenance of the disabled worker's average monthly wage and insured status for purposes of retirement and survivor benefits. An insured person now has his average monthly wage reduced during a period of extended incapacity to work and may lose benefit rights entirely if he is not permanently insured. The disability program should contain a provision excluding periods of prior permanent and total disability from the computation of the average monthly wage whenever a subsequent claim is filed on the same wage record. Furthermore, periods of prior permanent and total disability should not be considered in determining currently insured status. This will prevent loss of rights to certain dependents' and survivors' benefits which, under the Council's recommendations for old-age and survivors insurance, would be payable only on the basis of currently insured status.[3] With the two programs administered as a single system, the necessary information regarding the existence and duration of a prior disability would be readily available when needed in connection with old-age and survivors insurance claims.

8. Effective Date

The effective date for the payment of first benefits under the disability insurance program should be 1 year after the effective date for the extension of coverage under old-age and survivors insurance

Assuming that the disability program may be adopted at the same time as broad coverage extension for old-age and survivors insurance, the Council recommends that permanent and total disability insurance payments first be made approximately 1 year after the date of coverage extension. The coverage of farm labor, domestics, self-employed, and others will create new problems of administration, stimulate numerous inquiries, and increase old-age and survivors insurance work loads. It would probably be undesirable for the Social Security Administration to take on both the coverage extension and disability insurance problems simultaneously.

Even if the disability insurance legislation is passed later than comprehensive old-age and survivors insurance amendments, postponement of the disability program's effective date for approximately 1 year from the date of the passage of the disability legislation would probably still be desirable. Such postponement would allow time for the preparation of regulations and procedures, for the necessary recruitment and training of staff for work in this new field, and for informing the public of its rights in connection with the new type of protection.

[3] Recommendation 16 of the old-age and survivors insurance report suggests benefits under certain conditions for the children, aged dependent husband and aged dependent widower of a woman worker who, among other requirements, must be currently insured. Under the proposed eligibility provisions for the disability program, there is no need for a similar "freeze" of fully insured status since the minimum requirement of 40 quarters of coverage to qualify for disability payments constitutes fully insured status.

9. Rehabilitation Services

Rehabilitation services should be furnished to disability insurance beneficiaries when it appears that the services to be furnished will assist the beneficiary to return to gainful work and so will result in a saving to the trust fund. The services should be furnished through existing facilities, with contributions toward the expense of such services being made from the trust fund. Benefits should be terminated if rehabilitation of the beneficiary has been successful

It would be economically and socially sound to provide rehabilitation services for those disability insurance beneficiaries who could be expected to profit by them. While the possibilities of rehabilitation are limited for many permanently and totally disabled persons, the provision of such services would reduce the ultimate cost of the disability insurance benefits by enabling some beneficiaries to again become self-supporting. It would also benefit the national economy by restoring to it the services of otherwise idle individuals. Physical restoration services, as well as vocational retraining, should be provided; vocational training is of limited value unless it can be supplemented by necessary medical and surgical rehabilitation.

State programs of rehabilitation are already in operation and are coordinated and aided by the Federal Government under the authority of the Federal Rehabilitation Act of 1920, as amended. The existing facilities could be immediately utilized in furnishing services to disability insurance beneficiaries since the currently operated Federal-State programs afford the necessary organization, staffed, trained, and equipped to furnish rehabilitation services on a Nation-wide basis.

Close and complementary relationships should be established between the two programs. State agencies as well as the Federal old-age and survivors insurance trust fund would benefit from such cooperation. The State agencies carrying out rehabilitation would have cases referred to them on the basis of the medical diagnosis and vocational case history developed by the insurance program. The problem of maintenance of the client during rehabilitation, at present a troublesome one in many cases, would be at least partially solved by the disability benefits which would continue to be paid during rehabilitation. Finally, the problem of locating cases for rehabilitation at early stages of disability, also frequently troublesome, would be nearer solution because of early referrals by the Social Security Administration.

Contributions toward the expense of rehabilitating insurance beneficiaries should be made from the trust fund only where it is probable that a saving to the fund will result from the rehabilitation. The contributions would, of course, be in the form of payments for services furnished beneficiaries through existing facilities. No services would be provided directly by the Social Security Administration.

Since rehabilitation services are now furnished at the expense of the present Federal-State program, it may be questioned why the trust fund should bear the cost of services now financed from other sources. Several factors make this recommendation appropriate. First, under the present rehabilitation program, before certain services can be furnished, the disabled individual must meet a "needs test," and this requirement might preclude some insurance beneficiaries from qualifying. (The individual must meet a needs test to receive medical and

surgical treatment, prosthetic appliances, tools and books, and maintenance.) Second, in many States the funds available for rehabilitation programs are inadequate; contributions from the trust fund would enable them to afford better services to the beneficiaries. Finally, early attention and treatment are of the utmost importance for successful rehabilitation; if trust-fund contributions were made, it would undoubtedly be possible for the rehabilitation of insurance beneficiaries to be instituted more promptly than otherwise, thereby reducing the costs of the disability program.

It would seem essential to provide for the suspension of benefits if the beneficiary refuses rehabilitation without reasonable cause. There is considerable precedent for such a provision in foreign disability systems and State workmen's compensation programs. The provision would make for effective administration and conservation of the funds of the insurance system. A beneficiary who has been rehabilitated should have his benefits terminated if the rehabilitation has been successful.

ADMINISTRATION OF PERMANENT AND TOTAL DISABILITY INSURANCE

This section presents a picture of the operation of a disability insurance program as visualized by the Council in arriving at its recommendations. This description is illustrative only and is not intended to prejudge alternative methods of organization and other administrative problems.

Development and adjudication of claims for old-age and survivors insurance have been decentralized to field offices throughout the Nation; supervision of the field offices has been delegated to regional staffs; and broad authority for the activities incident to the payment of claims is carried by area offices in various parts of the country. This pattern of operations, which can be further localized at any time the volume of claims activity warrants, has brought old-age and survivors insurance into intimate contact with claimants in their own towns and with employers and the general public as well. The central administration of the system is limited to activities essential to supervising the establishment and reasonably uniform application of Nation-wide policy. The Council believes that a similar degree of decentralization could be achieved in the administration of permanent and total disability insurance.

Every claimant for permanent and total disability benefits will have to undergo a medical examination as a first step in the determination of the existence of disability. In many cases it would be unnecessary or impractical to conduct these medical examinations in Federal facilities, although where such facilities exist (for example, those of the U. S. Public Health Service and of the Veterans Administration), they could be used to the extent available. Contract arrangements could be made with private physicians, clinics, and State and local hospital facilities in all parts of the country to perform such examinations for the social-insurance program. General practitioners as well as specialists would no doubt furnish their services on a fee basis for this purpose, much as they now perform examinations for other Federal agencies as, for example, the Bureau of Employees' Compensation, the

Civil Service Commission, and the Veterans Administration. Consistent with the decentralized pattern of old-age and survivors insurance operations, relationships with the local medical profession would be carried out through regional or area medical representatives. These representatives would be concerned with liaison and instructional work with examining physicians, consultation with the field offices on special problems in claims development, and, in unusual cases, decisions on whether a claimant should undergo additional examinations by specialists or observation and tests in a hospital.

After medical examination has established the nature and extent of the claimant's disability, his condition would be evaluated in terms of its effect on his capacity for substantially gainful activity, and all the evidence in the claim would be subject to determination. This process would probably be carried on in the various area offices after an initial period of centralized determinations. If it is determined that the claimant is permanently and totally disabled, a decision would be made concerning the frequency of reexaminations. Periodic medical examinations, confirmed by results of special field investigations in any doubtful cases, would provide the basis for reviewing a case whenever it appeared that a change in conditions might call for termination of the benefit.

When a disability claim is filed, or in any event at the time of medical examination or claims adjudication, any disabled person for whom rehabilitation appears possible would be referred to the appropriate State rehabilitation agency. Each State now has a rehabilitation program operated with Federal aid and administered by the Office of Vocational Rehabilitation. The State agency, as a rule, could observe the beneficiary's progress for the social insurance system, and benefits would be stopped when rehabilitation was completed. If a claimant was reluctant to undergo rehabilitation, he would know that provisions of the Federal program would require a suspension of his disability benefits for refusal to accept rehabilitation.

Under the method of Federal operations described, various relationships with State and local interests would bring local viewpoints to bear on the program. The Council believes that this can be a very important factor in preventing abuses of the system. It is highly desirable that the administration of the program be responsive to local and regional viewpoints. On the other hand, there are distinct advantages in the fact that the permanent and total disability insurance program would be far enough removed from local influence to be free of the pressures which might result in widely divergent local standards and concepts. The Council believes the recommended program can be administered to achieve a desirable balance of interests and influences.

APPENDIXES—PERMANENT AND TOTAL DISABILITY INSURANCE

Appendix II–A. Actuarial Cost Estimates for Permanent and Total Disability Benefits

Estimates of future costs of permanent and total disability benefits to be added to the old-age and survivors insurance system are affected by the same factors arising in connection with the estimates for old-age and survivors insurance as outlined in the preceding report on that subject.[1] In addition there are certain other factors which enter in, principally, (1) the probability of a person's becoming disabled and eligible for benefits—a factor that varies by age and sex; and (2) the probability of such a disabled person's continuing to receive benefits, with termination depending on the events of death, recovery, or attainment of age 65 (and hence eligibility for old-age retirement benefits)—a factor that varies by sex, age at disability, and duration of disability.

A relatively wide range in disability cost estimates is necessary because there are no available experience data on a social insurance system that pays disability benefits of the type under consideration and at the level presumed. Moreover, it is difficult to estimate the effect of the four types of insured status requirements on the number of persons who will be eligible at various periods in the future.

It is estimated that the level premium cost [2] of the disability benefits proposed will be about one-tenth to one-fourth percent of pay roll. These figures include not only the actual cost of disability benefits to disabled individuals under age 65 but also the additional cost for old-age and survivor benefits resulting from "freezing" the disabled individual's insured status and average wage.

Considering the disability benefit costs of various future years as related to pay roll, it is anticipated that the trend will level off after a relatively short time—perhaps in 20 or 25 years. In the early years of operation the benefit outgo will be very small because of (1) the natural slow growth in building up a benefit roll; (2) the stringent qualifying requirements which for a number of years will exclude most of those who in the past had been primarily engaged in employment newly covered under the system; and (3) the delay in filing, as well as the nonfiling, of claims by persons who are not familiar with the program.

After the program has been in operation for a few years, the number of new disability claims arising annually will range from 20,000 to 50,000, although after perhaps a decade or so, when the full effect of the extension of coverage has made itself felt, this number will rise to perhaps 40,000 to 100,000. Eventually the total number of dis-

[1] See pp. 50–60.

[2] The level premium contribution rate is the rate which would support the system in perpetuity if collected from the first year.

abled persons who are on the benefit roll and who are under age 65 will number roughly 300,000 to 800,000. The eventual annual cost of the proposed permanent and total disability benefits as a percentage of pay roll will probably range from somewhat more than 0.1 to possibly as much as 0.3 percent of pay roll; in terms of dollars this corresponds to about 200 to 500 million dollars a year.

When the relatively small cost for disability benefits as set forth above is added to the estimated cost for the expanded old-age and survivors insurance program recommended, the over-all cost is increased only slightly. Thus, including disability benefits as proposed in this report the level premium cost of the entire expanded program would range from 5 to 7½ percent of pay roll, while the ultimate annual cost after the old-age, survivors, and disability insurance system had been in operation for some 50 years or more would be about 6 to 10 percent of pay roll. In view of the small increase in costs resulting from these disability recommendations, there would seem to be no need to consider a special increase in contributions to finance the disability benefits.

TABLE 2.—*Estimated permanent and total disability beneficiaries and benefit disbursements under Advisory Council proposal*

[In thousands of persons and millions of dollars]

Calendar year	Number of beneficiaries	Benefit disbursements	Benefits as percent of pay roll
	Low cost estimate		
1960	157	$97	.07
1970	221	135	.09
1980	252	153	.10
1990	267	163	.10
2000	300	182	.10
	High cost estimate		
1960	454	$264	.19
1970	629	362	.24
1980	711	409	.26
1990	739	425	.27
2000	800	458	.29

Appendix II-B. Memorandum of Dissent by Two Members

Total disability should be covered by State assistance programs aided by Federal grants and should not be included in a Federal contributory social-security program.

Lessons from life insurance experience

A persuasive theoretical case can be made for including total disability benefits in the Federal old-age and survivors insurance system. Total disability is a distressing catastrophe involving serious consequences for those whom it overtakes and for their dependents. However, the way to meet the situation and at the same time avoid many of the pitfalls indicated by life insurance and other experience is on an assistance basis.

In the 1920's a persuasive case was developed for the inclusion of total and permanent disability income provisions in life-insurance policies. There was no doubt that this type of insurance was popular and met a real need. Accordingly the life-insurance companies issued large amounts of insurance providing the disability income benefits only to learn by hard experience during the depression of the 1930's, involving literally hundreds of millions of dollars of losses, that insurance of this type cannot be issued safely except under severe restrictions as to benefit provisions, rigid selection of risks, high premium charges, the most careful scrutiny of new claims, and an adequate follow-up of those receiving disability incomes.

It is sometimes claimed that the difficulties and losses incurred by the life-insurance companies arose from the overinsurance of well-to-do persons who built up disability insurance coverage to unsound levels. It is true that this was a source of heavy loss. However, the hazard of the disability coverage was clearly evident in group insurance where the rates of disability during the depression rose to a greater extent than did the rates under ordinary insurance. The group experience is much more significant as a criterion in considering total disability on a contributory basis in a social-security program because it related to wage earners, was issued on a wholesale basis without adverse selection by the insured, and was free from the overinsurance characteristics of business issued on an individual basis.

Some life-insurance companies today sell disability income insurance in connection with life insurance to carefully selected male applicants on a very restricted basis and at high rates of premiums. This fact provides no basis whatever for claiming that all gainfully employed persons could safely be covered for total disability in a contributory social-insurance program.

Unfortunately for reasons analogous in some ways but different in others, total disability benefits cannot be included in a Federal contributory social-insurance program with any reasonable assurance that claims can be limited to the type of disability envisaged when the program is adopted. They will get out of hand just as they did in the life insurance experience. The reasons are outlined below.

The break-down of the system is most likely to occur in period of unemployment

In the prosperous years of the middle 1920's, the life-insurance companies were able to administer the total disability insurance provision with relatively little trouble. Because of the problems inherent in a political system providing benefits available to practically all wage earners in all occupations, a Federal contributory total disability benefit program would probably experience more trouble than the life-insurance companies in periods of prosperity when job opportunities are plentiful. However, very serious difficulties would develop when unemployment began to assume major proportions. Under such conditions, there would be tremendous pressure to attempt to prove disability to the extent necessary to get on the Government benefit rolls.

Theoretically it would appear easy to prevent abuse of the system, but practically, as the life-insurance companies discovered, the problem is extremely difficulty to handle. The crux of the matter lies in the fact that it is next to impossible to evaluate total disability when there is a determination to attempt to prove that one is disabled in order to obtain a potential life income from the Government. Claims exceedingly difficult to evaluate are those where it is alleged that the disability which prevents one from working is of the subjective type that is next to impossible to disprove—for example, the various manifestations of "rheumatism," feigned or imaginary angina pectoris, and nervous disorders.

Once on the benefit rolls, it would be hard in a large percentage of cases to get the worker to return to his job. An individual's net earnings as a worker after deduction of taxes, union dues, and contributions for insurance benefits, after payment of transportation and meal costs, and purchases of work clothes, would in many instances, not be sufficiently attractive to induce him to return to work as compared with the tax-free disability payments and freedom from other charges. Moreover, being on the benefit rolls would give many persons a welcome sense of security not present in regular employment, especially if they were of the marginal type in ability. Many would prefer a small income with security, to a larger income with what they would consider insecurity.

This would be true because after the period of unemployment which had caused the increase in the number of persons on the benefit rolls, there would be a substantial residue of persons with impaired earning power, whose net earnings if they returned to work, would not be enough more than their benefits, based upon prior earnings records, to make it appear worth while to go back to work. These individuals would do everything in their power to have their disability incomes continued.

Another factor in periods of unemployment that would greatly increase the problem of holding disability claims to proper limits would be the incentive employers would have to lay off inefficient workers who later would be represented as unable to work because of alleged disability. Since the laid-off workers would probably be those whose efficiency was failing, their chances of being employed again at their previous wage levels would be small. Hence their disability benefits, based upon prior wage records, might be very attractive as compared with what could be earned net upon again being employed. The in-

centive therefore to do everything possible to stay on the benefit rolls would be great indeed. With unemployment insurance as the first, and total disability as an eventual later means of support, the temptation to employers to use the system to get rid of inefficient workers could have very serious consequences.

It might be thought that workmen's compensation would provide guidance in appraising the total disability problem. Unfortunately it does not offer much help. Most workmen's compensation cases arise from accidents and are relatively easy to appraise and adjudicate. The insurance companies have had but little difficulty in issuing coverage for disability arising from accidents. It is on the health side that the problems described above are encountered.

Many people are working who the doctors will say are near the border line and should stop work. These individuals will be inclined to stop work, and a careful physician will feel obliged to give them the benefit of the doubt and say they are disabled for benefit purposes, when they are not totally disabled at all.

In the disability field the primary problem is likely to be determination of the present or potential ability to do some work, not the diagnosis of a physical condition. Many individuals with an unquestioned pathological condition are earning their support in properly chosen useful work and in so doing are benefited mentally as well as physically. Others in a similar physical condition are supported in idleness by insurance benefits, an independent income or by their families. In cases of this type, which constitute a large proportion of disabled individuals, whether one earns his living or not depends on economic incentives.

Unfortunately experience demonstrates that cash disability benefits operate as a deterrent to rehabilitation. Entirely aside from the problem of over-all cost, any benefit which diminishes the incentives toward rehabilitation and self-support is socially undesirable.

Benefits as rights

A basic difficulty to bear in mind is that in any system supported by taxes specifically levied for the purpose, workers will look upon benefits as rights to which they are equitably entitled.

This will color their fundamental attitude toward the system and intensify their demands for benefits when their disabilities do not warrant their doing so. In taking this position they will feel they are doing what they are equitably entitled to do and are doing nothing wrong. Moreover, if a person thinks someone else has received benefits when no more disabled than he, he will contend for similar treatment for himself.

Though the right to receive benefits is, of course, always limited by qualifying conditions, yet in the worker's mind it is the question of right that tends to be uppermost, while qualifying conditions are relegated to the background. The former will be stressed, and the latter soft-pedaled. When fulfillment of the conditions can be readily verified objectively, as in the case of death or retirement at a specified age, it is not so easy to lose sight of them or to deny their relevance. However, when a substantial measure of subjectivity is involved, as in many types of disability claims, it becomes simultaneously much easier for a worker to maintain, and harder for an administrator to deny, that the necessary qualifying conditions are

present—and all the more so when the administrator has no strong motive, financial or otherwise, for denying the claim.

The fact that the plan is contributory would not provide a financial incentive for sound administration since the source of the funds would be either the large old-age and survivors insurance reserve fund or general revenues, as indicated below.

In the Federal system there would be strong pressure against, and little incentive for, sound administration of claims

In a system where the payment of benefits depends upon discretion, there is a strong tendency to be generous in the adjudication of claims, especially when the money comes from a reserve fund in Washington amounting to billions of dollars. In the event the Federal Government should bear part of the cost from general revenues, the feeling that the funds for the payment of claims were unlimited would be intensified.

There would also be an incentive to pay border-line claims, arising from a feeling that the money available to the system was going to be used anyhow so that the beneficiaries in a particular locality might as well get their share. Administrators who did a conscientious job and attempted to hold benefits to bona fide claimants would likely be subject to local criticism because their claim rates were lower than those in other communities where lax methods prevailed.

Because the program is operated by the Government, Congressmen are sure to be appealed to for assistance to have claims approved which constituents believe are appropriate, but which in fact are far removed from the total disability classification. Appeals of this kind put conscientious Congressmen in a difficult spot. For those willing to curry favor with constituents at the expense of the reserve fund or of Federal Treasury, as the case may be, the situation offers great opportunities.

It is also clear that in a system where the payment of benefits is dependent upon broad discretionary powers to be exercised by Government employees, there would be opportunity for a national administration to use the system to influence votes. The mere expression of an attitude toward the treatment of claims would be sufficient to determine the votes throughout the whole country of large numbers of beneficiaries, actual or potential, and their families. There would also be wide open opportunity for political favoritism in handling claims which any political party in power could use with great effect if it so desired.

A large percentage of covered workers are women (18 million, or 40 percent, in 1944)

In 1944 over 8,000,000 women were fully insured under the old-age and survivors insurance system and more than half had worked steadily in covered employment for 8 years. Women are the most difficult group to insure against disability. Claims of disability for types of physical ailments that cannot be disproved are exceedingly common, e. g., nervous disorders, rheumatism, etc., etc. Life insurance companies found that out, and except to a negligible extent and under very restrictive conditions, women are no longer offered disability income insurance.

There is furthermore the impossibility in many instances of determining attachment to the labor market. A woman may have worked

for years and when unemployment appears, or when she merely wants to stop work and take care of her home, she can quit her job, and after 6 months claim she would like to work but cannot because of physical disability. She can claim she is able only to be around the house and do nothing more. Having paid taxes for disability benefits she will demand them. There would be opportunity for the development of a serious racket in this area; and organizations would spring up to supply individuals with information as to ways and means of making claims which would probably be approved.

All of the foregoing problems are greatly intensified if the woman is married.

Costs

No estimates of costs can forecast the probable drain on the funds resulting from the operation of the forces outlined above.

Experience in other countries

It is sometimes claimed that other countries have blazed the way for the successful inclusion of total disability in a governmental contributory social-insurance program. This type of coverage originated in central Europe. To cite Germany and Austria as examples which we should now emulate will not carry conviction in the United States.

In Great Britain the disability program has heretofore been operated by the so-called "approved societies" in which the benefit claims of workers were adjudged by their associates whose own benefit rights would be endangered by the improper approval of claims. The Socialist government changed this plan in its recent revision of the British social-insurance program, but there has been no experience to indicate that the change will be successful. Furthermore, the benefits under the program have been so low, only 10 to 15 percent of wages on the average, that the incentives to abuse were very much curtailed.

The experience of Central and South American countries cannot be cited as examples we should follow. The social-insurance programs of those countries are new and have built up no adequate experience. Many of them were set up by refugees from central Europe operating through the International Labor Office and simply duplicate the thinking of the central European social-insurance bureaus.

Therefore, there is no valid experience to guide the United States in setting up a contributory total-disability program in its social-security system. The project must be appraised by applying the best possible judgment to the particular situations existing in this country.

Present proposals as an entering wedge

It is generally advocated by those favoring the proposed plan for including disability benefits in the old-age and survivors insurance system, that the program be expanded as soon as the initial experience would appear to warrant. The proposed rules for eligibility are quite restrictive and the level of benefits relatively low as compared with old-age and survivors insurance. It has been the general experience that the smaller the benefits in relation to the individual's normal earnings, the lower the rates of becoming disabled. Therefore, given a few years of relatively high employment, the experience is likely, on the surface at least, to appear to contradict the critics and to justify liberalization of the program all along the line. Thus the stage

would be set for changes which would bring about the extremely serious consequences described above. The way to avoid them is to seek another, safer solution to the problem.

Total disability should be provided for under State assistance programs with Federal grants-in-aid

In view of the many pitfalls involved in Federal contributory disability insurance, the problem should be met through the development of State assistance programs providing for Federal grants-in-aid. This should be accomplished under a plan setting up a new specific category of total disability. At the same time it would be wise to provide for a much more liberal means test than is required in other types of assistance cases. Since wherever possible the emphasis should be on restoring the worker to productive activity, it would be unfortunate to have him and his family reduced to destitution in the process, thus handicapping him in his efforts to again become a useful member of society.

The States already have the vocational rehabilitation agencies that would be essential to the proper functioning of the program. One of the undesirable consequences of plans which pay cash disability benefits as a matter of right, is that they tend in so many instances to cause the individual person to resist the process of rehabilitation. When State agencies handle cases on the basis of need, they have much greater authority in insisting upon rehabilitation.

The States have agencies close to the disabled in their homes, including medical and case work facilities for treating individual cases. They can retrain and rehabilitate many disabled persons, find work for them and render such financial assistance as befits each case. Where institutional treatment is required, State and local institutions already care for many disabled, and this service would be expanded under the proposed program.

In such a State plan the prime emphasis should be on rehabilitation—medical and vocational—rather than on benefits. Rehabilitation should be undertaken wherever there is any indication that it would help the disabled person, and cash assistance should be conditioned on the need for and acceptance of rehabilitation measures. Disabled persons should be well instructed as to the superior value and importance of rehabilitation, so that they would come to realize that the best service the State could render them would be to restore their capacity for self-support, if only in part. As an incentive in this direction there should be assurance of work in a protected labor market (sheltered workshops) for those whom rehabilitation measures cannot fully reequip for a place in the open labor market, or while they are undergoing reconditioning.

A decentralized system of this kind would render unnecessary the extensive organization of Nation-wide facilities under Federal control to provide the medical, technical, and nursing staffs required to handle total disability cases. The country should stop, look, and listen before setting up a far-flung Federal bureaucracy in this area with the wide discretionary latitude in paying benefits which a Federal program would necessarily entail.

It would be much safer to have the system handled by State agencies. Since the local taxpayers' own money would be used in carrying out the program there would be an incentive to administer claims properly

which would not exist if the money came from Washington and was dispensed by Federal agents. Benefits could not be considered as rights which had been paid for. Hence doubtful or fraudulent claims could be held to a minimum.

As in all governmental programs there would, of course, be the possibility of political abuse in the State systems. However, it would probably be absent in most States. Where it did creep in, it would not be all in one direction as it would be under a Federal system which would present a ready-made instrument at hand for any party which might desire to abuse it. Under the State systems, different States would tend to cancel each other out politically.

The State systems would not function perfectly from the start. In many instances it would take time for the programs to be developed to a high state of efficiency. However, the presence of Federal grants-in-aid and the setting up of standards would stimulate the process. Furthermore, the substantial enlargement of benefits for the aged and for children proposed under the old-age and survivors insurance system, would before long relieve the States of some of their financial burdens in these areas, and thus release funds for the total disability program.

Total disability obviously would affect a worker's earning record under the old-age and survivors insurance system. It should therefore be provided that the State authorities would certify to the Social Security Administration each quarter during which an individual was totally disabled and receiving benefits or rehabilitation under the State system. Then in computing the average wage for old-age and survivors insurance purposes, the numerator of the fraction would contain no wages for the quarters of total disability and the same quarters would be eliminated from the denominator.

CONCLUSION

The discussion of total disability leads naturally to a consideration of the proper role of a Federal system of contributory social security in a vast country like ours. Among the first tests to be applied is the degree of discretion involved in determining the eligibility for benefits. In old-age and survivors insurance such determination is largely objective, requiring but little discretionary decision. Total disability on the other hand involves a great deal of subjective consideration, both on the part of the individuals concerned and of those who administer claims. Disability claims vary greatly as to types and circumstances and require widely differing methods of individual treatment.

Because of these subjective characteristics, the handling of total-disability cases belongs peculiarly in the realm of the individual States and not in that of the Federal bureaucracy. Turning over to the Federal Government this area of individual care would mean further encroachment of Washington upon State authority, further building up of the Federal pay-roll vote and of the potential opportunity to exert Nation-wide political influence in the handling of benefit payments. The fact, as previously indicated, that the Federal plan might be set up originally with strict conditions as to eligibility and with limited benefits would provide little if any ultimate protection. Once on the statute books, continuous efforts would be

made to liberalize the eligibility rules and raise the benefit levels. The country would be well advised not to start on this seductive path in the first place.

It would be most unfortunate if, because of budgetary problems, the States should be persuaded to reject a properly devised total-disability-assistance program involving Federal grants-in-aid. A system of this kind would lead to tremendous improvement in the State systems which are now attempting to handle disability cases with but little Federal aid. It would have the great advantage of avoiding the serious and perhaps irrevocable error of providing total-disability benefits to individuals as a matter of right under a Federal contributory program.

Appendix II–C. Staff for Permanent and Total Disability Insurance

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Part III

PUBLIC ASSISTANCE

INTRODUCTION AND SUMMARY

Public Assistance and Social Insurance

In each of its two preceding reports,[1] the Advisory Council has stated that it believes the foundation of the social-security system should be the method of contributory social insurance with benefits related to prior earnings and awarded without a means test. In its first report the Council recommended extension of the protection of the old-age and survivors insurance system to virtually all persons who work, a substantial increase in benefits, and considerable liberalization of eligibility requirements for older workers. In its second report the Council recommended expansion of the Federal system of old-age and survivors insurance to include protection against loss of income arising from permanent and total disability.

The adoption of the recommendations in the Council's first two reports would, in the long run, greatly reduce the need for public assistance. Employed and self-employed persons would earn protection for themselves and their families while working, and—in the event of old age, permanent and total disability, or death—they or their families would receive insurance benefits. Assistance payments, however, still would be necessary for those who had unusual needs, or for those who were in need for reasons not covered by the insurance program, or for the few who for one reason or another were unable to earn insurance rights through work. Even in the long run there would be from 5 to 15 percent of the men over 65 years of age who would not be able to meet the eligibility requirements for retirement benefits. About half the women over 65 would not have retirement protection based on their own earnings, but most of them would have protection based on their husband's wage records. Assistance would continue to be necessary for children in need because of desertion by their father, for persons who become disabled before they have an opportunity to earn insurance rights, and for persons who had exhausted their rights under unemployment insurance or who were unprotected by that program. Finally, since the amount of insurance benefits must be geared to the more or less average case, some persons in unusual circumstances would need assistance to supplement their insurance benefits.

During the next decade or two there will be a much greater need for assistance than this continued long-run need for supplementing and filling in the gaps of the insurance program. In the immediate future large numbers of aged persons, children, and disabled persons will be forced to rely on assistance because old-age and survivors

[1] See pp. 1–68 for report on old-age and survivors insurance and pp. 69–93 for report on permanent and total disability insurance.

insurance has failed to cover all occupations from the beginning of the program and because it is unable to cover those who are already retired or disabled, or the survivors of those who have already died when the expanded system first becomes effective. By 1955 there will still be an estimated 33 to 44 percent of the male population 65 years of age and over who will not be eligible for retirement benefits even though coverage is broadly extended, and only 10 to 13 percent of the women 65 years of age and over will have retirement rights based on their own employment. Even by 1960 there will be 19 to 31 percent of the men and 83 to 87 percent of the women in this age group without fully insured status (appendix III–A, table 1). Furthermore, under the Council's recommendations only persons with at least 10 years of coverage and a continuing attachment to the labor market would be eligible for permanent-and-total-disability benefits. A relatively small proportion of workers therefore would have such protection in the immediate future.

In its recommendations on public assistance, the Council has had in mind both the function of that program as a large-scale transitional system during the relatively short period which will elapse before the comprehensive social-insurance system becomes fully effective and the function of public assistance in a mature social-security system as a means of supplementing the basic insurance benefits and filling in the gaps in insurance protection. Assistance is the program which takes final responsibility for meeting need when all methods of preventing dependency have failed.

In the Council's opinion, public assistance should continue to be administered on the basis of a strict needs test with all income being taken into account in determining both eligibility and the amount of the payment. A relaxation of the needs test in assistance would result either in more funds being expended for assistance than would otherwise be necessary or, if additional funds were not made available, the increasing number of eligible persons would necessarily force down the level of payments for those who need help most.

The development of the proper relationship between social insurance and public assistance is a matter of major concern to the Council. We believe that it is of great importance that the social-insurance system be strengthened at the earliest opportunity through extension of coverage, increases in benefit amount, and liberalization in eligibility requirements so that insurance becomes the recognized basic method for dealing with income loss. As stated in our report on old-age and survivors insurance, p. 1:

> Differential benefits based on a work record are a reward for productive effort and are consistent with general economic incentives, while the knowledge that benefits will be paid—irrespective of whether the individual is in need—supports and stimulates his drive to add his personal savings to the basic security he has acquired through the insurance system. Under such a social-insurance system, the individual earns a right to a benefit that is related to his contribution to production. This earned right is his best guaranty that he will receive the benefits promised and that they will not be conditioned on his accepting either scrutiny of his personal affairs or restrictions from which others are free.
>
> Public assistance payments from general tax funds to persons who are found to be in need have serious limitations as a way of maintaining family income. Our goal is, so far as possible, to prevent dependency through social insurance and thus greatly reduce the need for assistance.

If social-insurance payments are allowed to be lower on the average than assistance payments, public support of the insurance principle will be undermined. People expect benefits under a contributory program to be at least as high as grants made from general taxation as a consequence of need. At the beginning of 1941 this was the case. The national average for retirement benefits under the insurance program was slightly higher than the national average for assistance—$22.60 as compared with $20.49. Since that time, however, the level of assistance payments has increased considerably as prices have increased and the Federal Government has twice increased its amount of participation in the assistance program, once in 1946 and again in 1948. No comparable increase has been made in the level of payments under the old-age and survivors insurance program. At the beginning of 1945, even before the Federal Government had increased its rate of participation in assistance, the national average for old-age assistance had risen to $28.52, while the average for retirement benefits was $23.73. According to the latest available figures (June 1948), the assistance average has risen to $38.18 as compared with $25.13 for insurance. In October of 1948 under Public Law 642 (80th Cong., 2d sess.), the amount in old-age assistance can be increased to about $43 for the number of recipients now on the old-age-assistance rolls without additional cost to the States and local units of government. The following table shows the progressive disparity in amounts paid under the two programs:[2]

TABLE A.—*Comparison of average payments under old-age assistance and for retired workers under old-age and survivors insurance*

	Old-age assistance	Retired worker under old-age and survivors insurance
January 1941	$20.49	$22.60
January 1945	28.52	23.73
June 1948	38.18	25.13

In October of 1948 the old-age assistance average will again increase substantially because of changes in the Federal law, while the old-age and survivors insurance average will be only a few cents more.

The fact that these changes in the public assistance program have preceded changes in social-insurance coverage and benefits is in our opinion a matter of serious concern. Unless the insurance system is expanded and improved so that it in fact offers a basic security to retired persons and to survivors, there will be continual and nearly irresistible pressure for putting more and more Federal funds into the less constructive assistance programs.

[2] If it were possible to compare the national averages for aged couples under the two programs, the disparity would undoubtedly be greater than that shown above. Aged couples under insurance are entitled to only half again as much as the single retired worker with the same wage record, while the aged couple under assistance may receive up to twice as much as the single person and on the average do receive much more than half again as much. The averages shown above for assistance include those cases in which both a husband and wife are receiving payments, while the averages for old-age and survivors insurance include only the retired worker. If the wife's benefits under old-age and survivors insurance were averaged in, the figure for June 1948 would be $21.98 per individual as compared with $25.13 for retired workers.

The Nature of the Program

Responsibility for public assistance in the United States is now shared by the local, State, and Federal Governments. Until 1936 this reponsibility was entirely local and State, except for the emergency programs during the early thirties. Earlier still, the responsibility for relief was entirely local. Even now all expenditures for general assistance come from local funds in 15 States; half or more than half of the funds for general assistance come from the State in only 18 States; and in only 4 States are all expenditures for general assistance financed by the State (appendix III–A, table 14).

With the passage of the Social Security Act, the Federal Government assumed substantial responsibility on a continuing basis for public assistance to the aged, to the blind, and to dependent children. Within these areas the Federal Government has supplied large sums, at first on a 50–50 matching basis within maximums of $30 for old-age assistance and aid to the blind, while the basis was $1 for each $2 for aid to dependent children within maximums of $18 for the first child and $12 for each additional child aided in the family. In 1939 the Federal maximums for old-age assistance and aid to the blind were increased to $40 and Federal matching for aid to dependent children was established on a 50–50 basis. Since October 1, 1946, Federal funds have been paid under a matching formula which established the Federal share of assistance payments at two-thirds of the first $15 of the average monthly payment per recipient, plus one-half the remainder within maximums of $45 for old-age assistance and aid to the blind; in aid to dependent children the Federal share has been two-thirds of the first $9 of the average payment per child plus one-half of the remainder within maximums of $24 for the first child and $15 for each additional child aided.

In October 1948 the Federal participation in the three State-Federal programs will increase again under Public Law 642. The Federal Government will provide three-fourths of the first $20 of the average monthly payment plus one-half of the remainder within maximums of $50 for old-age assistance and aid to the blind; the Federal share for aid to dependent children will be three-fourths of the first $12 of the average payment per child plus one-half the remainder within the maximums of $27 for the first child and $18 for each additional child. Except for the emergency programs in the early thirties, no Federal funds have been made available for general assistance.

The Federal Government has not assumed responsibility for the operation of the three public-assistance programs for which Federal aid is provided. Aside from sharing in the costs of assistance and administration, the role of the Federal Government has been limited to that of setting minimum standards and providing technical advice and consultation on problems of administration.

Because public assistance is essentially a State responsibility, considerable variation in operating policies and in eligibility requirements, including definitions of need, appears among the States. The wide range in the proportion of persons receiving assistance in the several States and the range in the amount of the average payment not only indicate State differences in the need to be met and ability to meet that need, but also reflect wide State diversity in standards and policies. The proportion of the population aged 65 or over who were in receipt

of old-age assistance in December 1947 ranged from a high of 581 per 1,000 in Oklahoma, and more than 400 per 1,000 in Colorado, Georgia, and Texas, to a low of less than 100 per 1,000 in Delaware, the District of Columbia, Maryland, New Jersey, New York, and Virginia (appendix III–A, chart 3). The average payment per recipient for old-age assistance ranged from $84.72 a month in Colorado and $57.10 in California to $16.90 in Georgia and $15.87 in Mississippi (appendix III–A, chart 2). Similar variation occurs in the other programs. The Council does not regard an investigation of the policy decisions by the several States in connection with public assistance as part of its mandate. Nevertheless, the very wide variation among the States suggests that Congress might want to inform itself further concerning the effect of Federal grants-in-aid upon the policy decisions of the several States. A special investigation of this matter is worthy of consideration.

Wide differences are also apparent in the extent to which expenditures and case loads of the various public assistance programs have been affected by general economic conditions. The rise in employment brought about by the war and postwar boom was sharply reflected in rapidly declining expenditures for general assistance. Expenditures by the States and localities for the general assistance program dropped from $493,900,000 in 1940 to $104,800,000 in 1945 and rose to $168,200,000 in 1947. (See appendix III–A, table 13, for case loads and expenditures, 1936–47.) Although expenditures for aid to dependent children increased from $128,300,000 in 1940 to $151,400,000 in 1945 and $275,600,000 in 1947, a relationship between this program and business conditions is reflected in the changes in the number of families on the rolls. At the end of the 1940 fiscal year, 333,000 families were receiving aid as compared with 255,600 at the end of the 1945 fiscal year. The 1947 case load, however, exceeded the 1945 figure partly, no doubt, because the rise in the number of broken homes, in the birth rate, and in the cost of living made it necessary for families to seek aid to supplement income from other sources. (See appendix III–A, table 12.) Changes in the number of recipients of old-age assistance and aid to the blind have not reflected general economic conditions to the same extent as general assistance or aid to dependent children. Although the number of recipients on old-age assistance did decline somewhat in 1943, 1944, and 1945, the 1945 figure was somewhat more than 2,000,000 as compared with somewhat less than 2,000,000 in 1940. By June of 1947 there were 2.3 million persons on the old-age assistance rolls, the same number as were on the rolls in March 1948, the last date for which figures are available. Expenditures for old-age assistance and aid to the blind rose continually throughout this period since the level of assistance payments increased enough to offset the declining number of recipients in those years when the number did decline. (See appendix III–A, tables 10 and 11.)

The varying effect of general economic conditions on the different programs reflects the fact that general assistance and, to a less extent, aid to dependent children are available to persons who are employable in times of good business conditions. On the other hand, old-age assistance and aid to the blind are limited for the most part to persons unable to work regardless of economic conditions. A study conducted in 1944 in 21 States indicated that only about 20 percent of

the old-age assistance recipients were under age 70 and about 45 percent were age 75 or over. To some extent, the differences in expenditures and case loads of the various programs may also reflect the absence of Federal participation in general assistance and the lower rate of Federal participation in aid to dependent children. States and localities have not been encouraged to put money into these programs to the same extent as in old-age assistance and aid to the blind.

Several other factors should be taken into account in seeking an explanation of the differences in expenditures from one year to the next and among the various programs. These factors include (1) the increase in the number of aged persons in the population from about 9 million in 1940 to about 10.8 million in 1947, (2) the long waiting lists of eligible applicants during the early years of the State-Federal programs, a fact which indicates that the number of recipients was lower in the early years because funds were not available to meet existing need (witness the 260,000 applications for old-age assistance pending in January 1940 as compared with 42,000 in January 1945), and (3) the increase in expenditures for assistance resulting from rising prices.

Major Defects in the System of Federal Grants-in-Aid for Public Assistance

The Council believes that the basic features of the present arrangements are sound. In particular, it believes that the diversity of conditions and traditions among the States makes it desirable that the States retain wide discretion in determining needs, eligibility, and administrative policies. The Council feels, however, that the present system of Federal grants-in-aid for public assistance has many gaps and inequities. Federal participation in aid to dependent children is far less adequate than in old-age assistance and aid to the blind. Needy persons who require medical attention cannot receive adequate medical services within the limits of the ceilings on Federal matching. Moreover, many persons who do not fall within the categories of the aged, the blind, or dependent children may be in dire need of public assistance. As now constituted, the Social Security Act ignores the needs of this group. In point of fact, the act has led some States to apply virtually all the State and local funds available for public assistance to the specific programs for which Federal reimbursement is available, leaving little or no money for so-called general assistance. State funds are thus concentrated on programs which have Federal grants-in-aid.

There is an immediate and imperative need to redress this imbalance by eliminating the existing gaps and correcting the inequities in the public assistance titles of the Social Security Act. More extensive Federal participation in such programs has been recommended because of the conviction that readjustments are urgently needed and cannot otherwise be achieved as expeditiously. The Council believes, however, that the total amount of Federal expenditure for assistance should decline as the insurance program becomes more fully operative.

In making recommendations to improve the present Federal policy in assistance, the Council has been guided by the following major considerations:

1. The public-assistance program should not interfere with the growth and improvement of the insurance program.

2. The Federal Government's participation in public assistance should be designed to encourage the best possible administration by the States and localities and promote adequate support of the needy by the States and the localities.

3. The Federal Government should continue its present practice of setting only minimum standards relating to conditions of eligibility and administration but, beyond the minimum, it should leave to the States wide discretion both in determining policies and in setting standards of need.

Summary of Recommendations

1. *Increased payments for aid to dependent children.*—The Federal Government's responsibility for aid to dependent children should be made comparable to the responsibility it has assumed for old-age assistance and aid to the blind. In determining the extent of Federal financial participation, the needs of adult members of the family as well as of the children should be taken into consideration. Federal funds should equal three-fourths of the first $20 of the average monthly payment per recipient (including children and adults) plus one-half the remainder, except that such participation should not apply to that part of payments to recipients in excess of $50 for each of two eligible persons in a family and $15 for each additional person beyond the second.

2. *Federal grants for general assistance.*—Federal grants-in-aid should be made available to the States for general assistance payments to needy persons not now eligible for assistance under the existing State-Federal public assistance programs. Federal financial participation should equal one-third of the expenditures for general assistance payments, except that such participation should not apply to that part of monthly payments to recipients in excess of $30 for each of two eligible persons in a family and $15 for each additional person beyond the second. In addition, the Federal Government should match administrative expenses incurred by the States for general assistance on a 50–50 basis, in the same manner that it now shares in administrative expenses for the existing State-Federal public assistance programs. The proposed grants-in-aid for general assistance, however, should not be considered as a substitute for a program designed to deal with large-scale unemployment.

3. *Medical care for recipients.*—To help meet the medical needs of recipients of old-age assistance, aid to the blind, and aid to dependent children, the Federal Government should participate in payments made directly to agencies and individuals providing medical care, as well as in money payments to recipients as at present. The Federal Government should pay one-half the medical-care costs incurred by the States above the regular maximums of $50 a month for a recipient ($15 for the third and succeeding persons in a family receiving aid to dependent children) but should not participate in the medical costs above the regular maximums which exceed a monthly average of $6 per person receiving old-age assistance or aid to the blind and a monthly average of $3 per person receiving aid to dependent children.

State public-assistance agencies should be required to submit plans to the Social Security Administration for its approval, setting forth

the conditions under which medical needs will be met, the scope and standards of care, the methods of payment, and the amount of compensation for such care.

4. *Care of the aged in medical institutions.*—The Federal Government should participate in payments made to or for the care of old-age-assistance recipients living in public medical institutions other than mental hospitals. Payments in excess of the regular $50 maximum made to recipients living in public or private institutions or made by the public-assistance agency directly to those institutions for the care of aged recipients should be included as a part of medical-care expenditures under recommendation 3. To receive Federal funds to assist aged persons in medical institutions under either public or private auspices, a State should be required to establish and maintain adequate minimum standards for the facilities and for the care of persons living in these facilities. These standards should be subject to approval by the Social Security Administration.

5. *Residence requirements.*—Federal funds should not be available for any public-assistance program in which the State imposes residence requirements as a condition of eligibility for assistance, except that States should be allowed to impose a 1-year residence requirement for old-age assistance.

6. *Study of child health and welfare services.*—A commission should be appointed to study current child health and welfare needs and to review the programs operating under title V of the Social Security Act relating to maternal and child health services, services for crippled children, and child welfare services. The commission should make recommendations as to the proper scope of these services and the responsibilities that should be assumed by the Federal and State governments, respectively.

The Cost of the Council's Recommendations

Assuming the continuation of current conditions, it is estimated that the annual cost to the Federal Government of all the public-assistance recommendations of the Council will range between about $270,000,000 and $340,000,000. If the Council's recommendations for social insurance become effective, the cost of assistance to the Federal Government should gradually decline as insurance benefits eliminate or reduce the need for assistance among more and more persons affected by old age, loss of parental support, or permanent and total disability.

These estimates are subject to a considerable margin of error since many unpredictable factors will influence the Federal cost of these recommendations. As public assistance is a matching program, that cost is determined by the extent to which the States take advantage of the offer of Federal funds as well as by the extent of the actual need to be met. The availability of State revenues to finance a share of public assistance, the competing demands of other governmental functions, and State and local policies in determining need and granting aid are all important factors in determining costs.

These estimates are based on recent case loads which may prove unreliable guides for the future. Changes in social and economic conditions would have a substantial effect on the need for assistance and thus on future case loads. The error which can arise from this factor is limited, however, by the fact that the recommendations in this report are not intended to meet the problem of mass unemploy-

ment in the event of a severe or even moderately severe depression. In its report to be submitted on unemployment insurance, the Council plans to consider the problem of the responsibility of the Federal Government for the income maintenance of workers in time of business depression. (Note: The Council was not able to carry out this plan. See pp. 178–180). Yet, even though the recommendations in this report pertain to the needs that arise in times when employment is good, these needs are nevertheless greatly influenced by changes in price levels and by even relatively minor changes in levels of employment and unemployment. Changes in other social provisions to meet or prevent need, such as social insurance, dependents' allowances for servicemen, veterans' benefits, and health programs, may also have a significant effect on the extent to which the assistance programs will be called on to aid needy persons.

The extent of need for general assistance and for medical care (including care of the aged in public medical institutions) will not be completely clear until Federal funds become available for these types of aid. Present case loads in general assistance and present expenditures for medical care reflect more nearly what States and localities are able and willing to spend than the actual need for these services. As long as the means to meet need are lacking, much need remains hidden. Few people apply for help that they know they cannot get.

Because of the uncertainty of the effect of many of these factors, the estimates have been stated as a range. Separate estimates have been given for each recommendation.

Financing the Public Assistance Programs

The Council believes that, as provided in Public Law 642, the Federal Government should, for the near future, meet three-fourths of the first $20 of the average monthly payment per recipient and half the remainder within given maximums for old-age assistance and aid to the blind, and that Federal participation in aid to dependent children should be made comparable. The Council believes that the maximums up to which the Federal Government makes grants should be uniform for these three programs. As the burden on the States is reduced through the expansion and liberalization of the Federal insurance program, the rate as well as the total amount of Federal participation in these assistance programs should be reduced. For general assistance, the Council recommends a much lower rate of participation by the Federal Government than for the other parts of the assistance program.

The Council believes that, in general, the present method of participation by the Federal Government in the existing State-Federal programs is well adapted to a public-assistance program which leaves the States wide discretion in determining eligibility for assistance and in making administrative policies. Under such a program, the Council believes that it is wise to have the Federal Government and the States share equally in the costs above some low figure such as $20 a month per recipient. In some of the proposals which the Council has examined, such as those for relating the rate of Federal participation to the per capita income in the State, the amount of State financial interest would not seem sufficient in the lowest-income States to guarantee prudent consideration of the level of payments.[3] Under

[3] See *Annual Report of the Federal Security Agency, Section One, Social Security Administration, 1947*, pp. 109–110, for discussion of typical plan.

one per capita income plan studied, several States would be able to get three Federal dollars for each State and local dollar even if they made average assistance payments well above the national average. Low-income States could, for example, make average payments of nearly the Federal maximum of $50 for old-age assistance and the Federal Government would still pay three-fourths of the total cost.

The present method, as well as those which would vary the rate of Federal participation in accordance with per capita income, provides Federal funds which represent a larger proportion of the costs of assistance in most low-income States than in the high. Because the average assistance payment in low-income States is usually low, Federal participation at the rate of three-fourths of the first $20 of average payments will mean that the Federal Government will bear nearly three-fourths of the total expenditures for assistance payments in most of the lowest-income States. For example, in the calendar year 1947, when the rate of Federal participation was two-thirds of the first $15 in old-age assistance and aid to the blind and two-thirds of the first $9 in aid to dependent children, the Federal Government paid only 52.7 percent of all costs of old-age assistance in the United States, 50.6 percent of the total costs of approved plans for aid to the blind, and 39.4 percent of the total costs for aid to dependent children. In the five States with the lowest per capita income, however, Federal participation in old-age assistance ranged from 62.5 to 64.7 percent of total costs; in aid to the blind the Federal share ranged from 60.5 to 63.6 percent; and in aid to dependent children from 60.5 to 65.8 percent.

Federal, State, and Local Responsibility

Although it is beyond the scope of the present study to analyze the policy which should govern the over-all financing of public services in the United States and the relationship of the Federal Government to the States and localities, the Council wishes to express its belief that the only sound long-run method of preserving a workable State-Federal system lies in the readjustment of State-Federal tax and fiscal relationships. The principles of citizen-participation in Government and maximum State and local responsibility will be promoted if States and localities are better able and more willing than at present to raise the funds necessary to finance their own activities. Two world wars and a major depression have introduced a degree of central fiscal authority and an aggregate tax burden undreamed of 50 years ago. Indeed, within the last few years the demands upon the Federal Government have increased much faster than anyone would have anticipated. Several years ago forecasts of the postwar Federal budget usually ran in the neighborhood of $15,000,000,000 to $25,000,000,000 a year. For example, the Committee for Economic Development in a study of the tax problem assumed that the budget of the Federal Government would be about $18,000,000,000 in dollars of 1943 purchasing power or about $23,000,000,000 in dollars of 1947 purchasing power. The budget is now more than $40,000,000,000 and is likely to remain at that level. Because of these developments and because of the ever-increasing public demand for services from all units of government, means must be found to make sure that State and local governments have revenues adequate to finance the functions which they can best perform. These broad problems of inter-

governmental relationships need the most careful study so that financial self-sufficiency and harmonious fiscal policy among the various governmental units may be promoted to the greatest extent possible.

Under the best possible division of fiscal responsibility, however, there will remain wide differences in the available tax and revenue resources of the States and localities. In order to encourage the States to provide the assistance required for health and decency, Federal participation in financing old-age assistance, aid to dependent children, and aid to the blind should be continued on a basis whereby the Federal Government will pay a higher proportion of the total cost of assistance in the low-income States than in those with high per capita income.

The Council believes, furthermore, that differences between the needs and resources of the various counties within States require a flexible use of State and Federal funds on an equalization basis so that State plans may be uniformly and equitably in effect in all parts of a State. The Council believes that this end may be attained by State action and by Federal participation in the development of State plans, and that further Federal legislation is not now required to effect the desired end.

RECOMMENDATIONS

1. Increased Payments for Aid to Dependent Children

The Federal Government's responsibility for aid to dependent children should be made comparable to the responsibility it has assumed for old-age assistance and aid to the blind. In determining the extent of Federal financial participation, the needs of adult members of the family as well as of the children should be taken into consideration. Federal funds should equal three-fourths of the first $20 of the average monthly payment per recipient (including children and adults) plus one-half the remainder, except that such participation should not apply to that part of payments to recipients in excess of $50 for each of 2 eligible persons in a family and $15 for each additional person beyond the second

Today more than 1.1 million children under 18 years of age are receiving aid to dependent children through the State-Federal program because one or both of their parents are dead, absent from the home, or incapacitated. These children, regardless of the State in which they now live, will someday find their place in the productive activities of the Nation and, should the necessity arise, will take part in defending our Nation. Many of these children will be seriously handicapped as adults because in childhood they are not receiving proper and sufficient food, clothing, medical attention, and the other bare necessities of life. The national interest requires that the Federal Government provide for dependent children at least on a par with its contributions toward the support of the needy aged and blind.

Since Federal grants to States under the Social Security Act were first available, the Federal Government has made it possible for States to provide higher assistance payments to the needy aged and the needy blind than to those who meet the act's definition of "dependent children." The maximum amount of assistance payments in which the Federal Government will participate, beginning October

1, 1948, will be $50 for old-age assistance and aid to the blind and $27 for the first child and $18 for each additional child in a family receiving aid to dependent children. The Federal share of payments for old-age assistance and aid to the blind will be three-fourths of the first $20 of the average monthly payment per recipient, plus one-half the remainder within the maximums. The Federal share in aid to dependent children will be three-fourths of the first $12 of the average monthly payment per child, plus one-half the remainder up to the maximums. Thus the Federal Government will contribute a maximum of $30 a month toward meeting the needs of a recipient of old-age assistance or aid to the blind, while the maximum Federal contribution in aid to dependent children will be $16.50 for the first child in a family and $12 for each additional child aided. Yet, by and large, families with dependent children need as much in assistance payments as do aged and blind persons.

Further evidence of the favored position of old-age assistance and aid to the blind is found in the proportion of the total expenditures for assistance supplied by the Federal Government in States with approved plans. In 1947, under the matching formula then in effect,[4] Federal funds represented 53 percent of total expenditures for old-age assistance and 51 percent for aid to the blind, but only 39 percent for aid to dependent children. (See appendix III–A, tables 3, 4, and 5.) The Federal Government contributed $19.05 a month per recipient of old-age assistance, as compared with $6.92 per person receiving aid to dependent children (including the children and one adult in each family). In all States the average payment to recipients as well as the average amount paid from Federal funds was lower in aid to dependent children than in old-age assistance. (See chart A, p. 107.)

We believe that it is sound national policy for the Federal Government to make it possible for the States to provide payments for aid to dependent children comparable to those for the needy aged and blind. This result could be substantially attained if the Federal maximums for aid to dependent children were established at $50 for each of the first two persons in a family and $15 for each additional person and if the Federal Government shared in assistance payments within these maximums on a basis similar to that in old-age assistance and aid to the blind. Under our recommendation, Federal funds for aid to dependent children would equal three-fourths of the first $20 of the average payment per recipient, plus one-half the remainder within the maximums. The maximum Federal share would be $30 for each of the first two persons in a family and $11.25 for each additional person.

In determining the extent of Federal financial participation, the needs of the adult members of the household who are essential to the well-being of the children should be taken into consideration. Thus for a family consisting of a mother and one child, the Federal Government should participate with the State in an assistance payment to the child and to the mother. The mother and child would thus be entitled to the same consideration from the Federal Government as a husband and wife when both receive old-age assistance.

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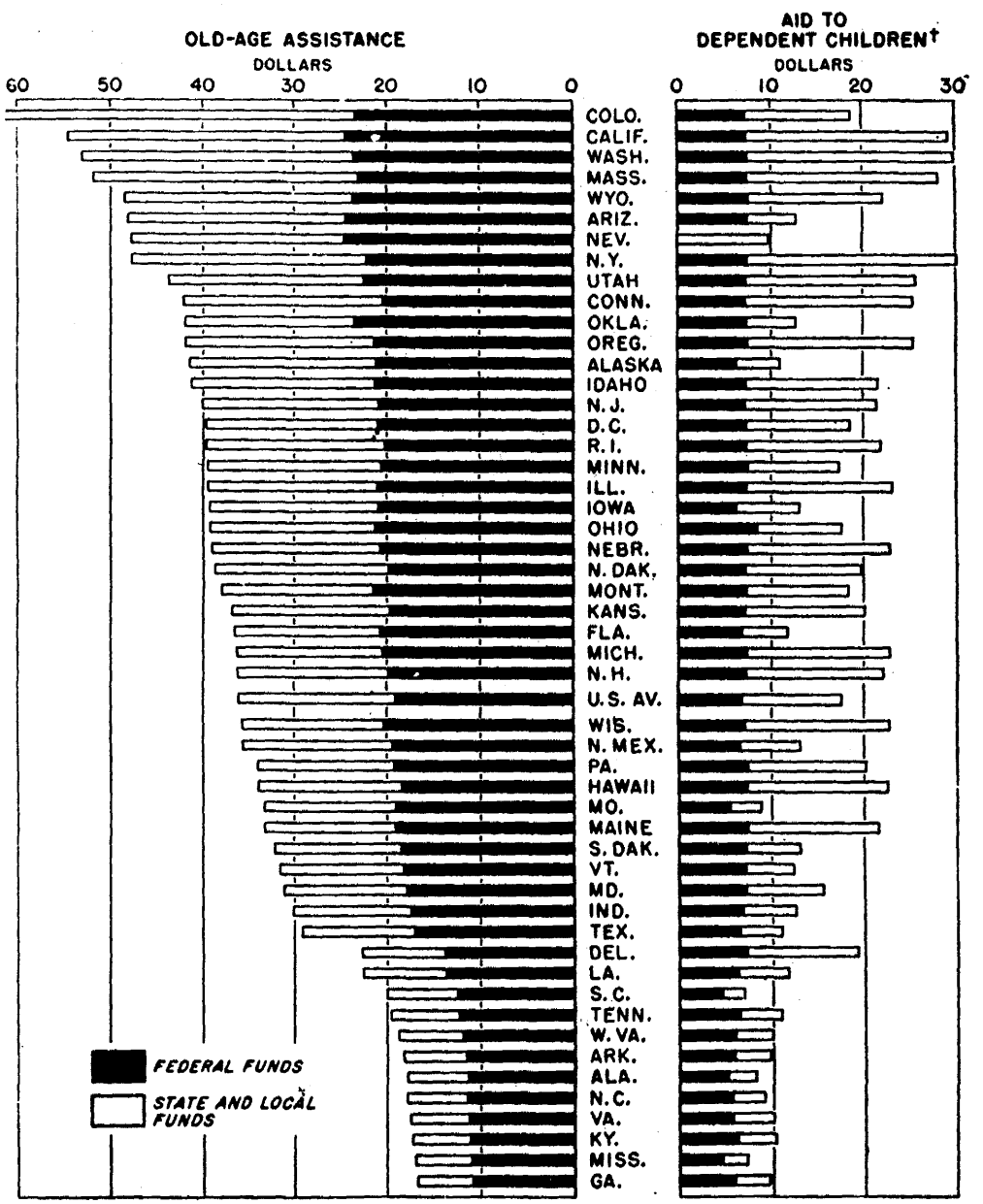
[4] The matching formula in effect from October 1, 1946, to September 30, 1948, set the Federal share of assistance payments at two-thirds of the first $15 of the average monthly payment per recipient, plus one-half the remainder within the maximums of $45 for old-age assistance and aid to the blind, and two-thirds of the first $9 of the average payment per child plus one-half of the remainder within the maximums of $24 for the first child and $15 for each additional child aided in a family receiving aid to dependent children.

CHART A

OLD-AGE ASSISTANCE AND AID TO DEPENDENT CHILDREN: AVERAGE MONTHLY PAYMENT PER RECIPIENT FROM FEDERAL, AND STATE AND LOCAL FUNDS, CALENDAR YEAR 1947



†ONE ADULT PER FAMILY, AS WELL AS THE CHILDREN, COUNTED AS A RECIPIENT.

Many families, of course, would not receive payments as high as the maximums set for Federal participation, since the amount of the payments would depend on the extent of the need of the children and adults and on the willingness and ability of the States and localities to put up their share of the cost. In October 1947, 34 percent of all payments for aid to dependent children were below the existing low maximum in the Federal law. (For distribution of payments for October 1947, see appendix III–A, table 9.)

The estimated additional annual cost to the Federal Government for the liberalized provisions for aid to dependent children that we have recommended would range from a low of $135,000,000 to a high of $160,000,000. This estimate is based on March 1948 case loads, the latest month for which data are available.

2. Federal Grants for General Assistance

Federal grants-in-aid should be made available to the States for general assistance payments to needy persons not now eligible for assistance under the existing State-Federal public assistance programs. Federal financial participation should equal one-third of the expenditures for general assistance payments, except that such participation should not apply to that part of monthly payments to recipients in excess of $30 for each of two eligible persons in a family and $15 for each additional person beyond the second. In addition, the Federal Government should match administrative expenses incurred by the States for general assistance on a 50–50 basis, in the same manner that it now shares in administrative expenses for the existing State-Federal public assistance programs. The proposed grants-in-aid for general assistance, however, should not be considered as a substitute for a program designed to deal with large-scale unemployment [5]

The Social Security Act limits Federal participation in the costs of public assistance to three groups of needy persons—the aged, the blind, and certain children. Federal funds may be used along with State funds for an assistance payment to a man aged 65 or over, but not to his 64-year-old wife, who may be just as much in need. Federal funds are available for assistance payments to a person handicapped by blindness but not to one incapacitated by paralysis. The Federal Government will share in the cost of aid to needy children living with certain relatives under conditions specified in the Social Security Act, but if the children are living with relatives other than those enumerated or are living with their parents under conditions other than those specified, the Federal Government assumes no share of the cost of assistance for them, regardless of how needy the children may be.

The persons who are not eligible for public assistance under the Social Security Act and who require assistance during periods of high employment usually have physical or mental handicaps, suffer from temporary or chronic illness, or are unable to earn a living because of age or home responsibility. In addition, there are some persons who, even during periods of high employment, are temporarily unemployed, are ineligible for unemployment insurance benefits, lack resources, and therefore require assistance.

[5] Four members of the Council do not favor Federal grants-in-aid for general assistance, but do favor the expansion of aid to the needy blind to include other disabled persons. The reasons for this opinion are given in appendix III-B.

Three members of the Council believe that its recommendations on Federal grants-in-aid for general assistance should be as generous as those for other categories.

The State-Federal vocational rehabilitation program provides payments for the maintenance of needy disabled persons when they are receiving training or services directed toward physical restoration, but that program provides no financial aid for their families. Payments for maintenance are made to facilitate rehabilitation of disabled individuals who must meet three basic conditions of eligibility: (1) They must be of employable age, (2) they must have an occupational handicap by reason of disability, and (3) it must be possible for them to become employable or more suitably employed through rehabilitation service. Only 13,062 persons received maintenance payments under this program during the fiscal year 1946–47. The responsibility for other persons without resources, who are not eligible for assistance under the existing State-Federal programs, now rests with the States and localities.

In March 1948, 402,000 cases (900,000 persons) were on State and local general assistance rolls, and assistance expenditures from State and local funds totaled $18,000,000 for the month. The average payment per case ranged from $67.16 in New York to $10.39 in Mississippi.

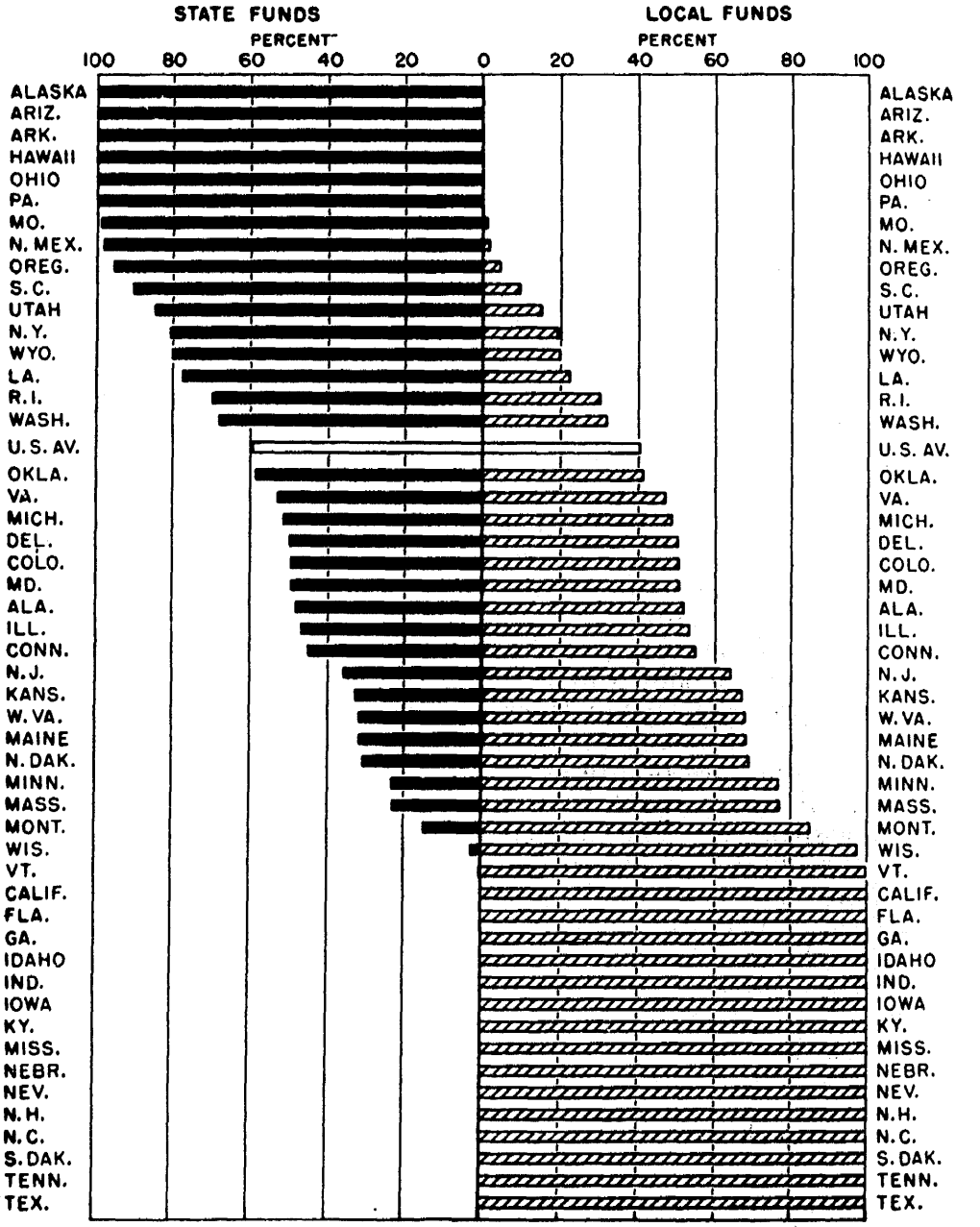
Wide differences in average payments are found not only among States, but also among communities within States. In some communities, general assistance payments are grossly inadequate. In one community, for example, the local public welfare agency granted only $2.50 per family per month to meet all the needs of the destitute families on the rolls. In another county, general assistance payments averaged $2.75 per person per month.

In 15 States general assistance is financed exclusively by the localities. In 15 additional States the local units of government bear more than half the costs (see chart B, p. 110). In view of the fact that many States have shown little interest in contributing to the general assistance program within their own boundaries, one may well ask why the Federal Government should contribute. The Council does not believe that lack of interest on the part of some States should deter the Federal Government from offering to bear a part of the cost of general assistance. The Council believes that as in old-age assistance, aid to the blind, and aid to dependent children, State financial participation should be made a condition of Federal aid to general assistance. When the financing of any assistance program is dependent upon the revenue that can be raised by local units of government without substantial contributions from a governmental unit with broader revenue-raising resources, the assistance needs of persons residing in impoverished communities cannot be met.

Many localities lack revenues sufficient to finance the other governmental functions imposed upon them and at the same time to furnish adequate aid to needy persons. States and localities tend to put the money available for public assistance into the programs in which State and local dollars will be augmented by Federal matching. This situation is particularly true in low-income States. Consequently, the provisions for public assistance in the Social Security Act, which recognize the needs of only those among the aged, the blind, and the dependent children who meet prescribed conditions of eligibility, sometimes have the effect of depriving other needy persons of adequate help from State and local funds.

CHART B

GENERAL ASSISTANCE: DISTRIBUTION OF EXPENDITURES FOR ASSISTANCE BY SOURCE OF FUNDS, FISCAL YEAR 1946-47 [1]



[1] Includes payments for maintenance assistance only; amounts for medical care, hospitalization, and burial are excluded except when allowances for such purposes are included in cash payments to recipients.

The Council believes that Federal financial participation in general assistance, even in the limited manner recommended herein—whereby the State and local unit of government would have to expend $2 for assistance payments to receive $1 in Federal funds—will, in most States, result in better provision for needy individuals. Federal financial help is especially important for the low-income States. Furthermore, the establishment of minimum Federal requirements for the operation of a State-Federal general assistance program as a condition of Federal aid would improve the administration of general assistance in all parts of the country. These requirements should be similar to those for the existing State-Federal public assistance programs, and should create a State-Federal partnership in general assistance like that in the other programs. The proposed program would continue to be essentially a State and local responsibility, but Federal participation would result in more nearly equitable and adequate treatment for persons in need of general assistance. The Social Security Administration would be charged with the duty of ascertaining that each State receiving Federal funds had a State-wide general assistance plan in effect which was administered in a proper and efficient manner, with the selection of personnel on a merit basis. General assistance would be available to needy persons regardless of where they happened to live in a State, and objective methods of determining eligibility for, and the amount of assistance would be required of all units of government administering the program.

Because the proposed general assistance program should provide subsistence to persons who cannot be self-supporting and for whom other provision is lacking, we believe that, as a condition of Federal financial participation, a State should be precluded from denying any person general assistance on the basis of his residence or citizenship. Without such a safeguard, it cannot be expected that all persons in need of assistance would receive aid. Today, although the State-local general assistance programs are widely assumed to assist all needy persons not covered by the State-Federal programs, State laws, as well as interpretations by local autonomous units of government administering the programs, generally provide continuing assistance only to those who meet State and local residence requirements. (See recommendation 5, p. 116, for discussion of residence requirements.)

In order to help persons who need assistance because of unemployment to obtain jobs and to avoid paying public funds to employable persons when suitable employment is available, the States should be required to assure registration and clearance of employable applicants for assistance with the public employment service. The States should also be required to refer all persons likely to benefit from the State-Federal vocational rehabilitation program to the agency administering that program.

Although we recommend that the Federal Government finance only one-third of the cost of general assistance payments made by the States within the maximums specified, we believe it is desirable to match the administrative costs incurred by the States on a 50–50 basis. Then the Federal Government will share uniformly in the administrative costs for all State-Federal public assistance programs. This uniformity will simplify recording for purposes of reimbursement in the States that integrate general assistance with one or more of the existing State-Federal assistance programs.

In recommending Federal grants-in-aid to the States for general assistance, we do not intend that a general assistance program should be considered as a preferred method of dealing with large-scale unemployment if it should again occur. Neither should general assistance be a substitute for unemployment insurance. These subjects are discussed in the report by the Council on pages 178–180. General assistance would serve the purpose of providing an underpinning for the other social measures by aiding those for whom no other means of support is available.

It is difficult to estimate with accuracy the long-range costs of a State-Federal general assistance program. General assistance is more sensitive to changes in economic conditions than are any of the other public-assistance programs. In the last 12 years, expenditures for general assistance have ranged from a high of $472,000,000 in the fiscal year 1938–39 to a low of $85,500,000 in 1944–45 (see appendix III–A, table 13). Expenditures for general assistance payments from State and local funds in 1947 amounted to $164,000,000.

It is estimated that under a continuation of current economic conditions, the annual cost to the Federal Government under the proposed general assistance program would range from a low of $65,000,000 to a high of $75,000,000 for assistance payments, and from $13,000,000 to $15,000,000 for administrative expenses. This estimate is based on the assumption that the October 1947 case loads represent an average annual case load. This assumption, of course, would be invalid if current economic conditions changed materially.

3. Medical Care for Recipients

To help meet the medical needs of recipients of old-age assistance, aid to the blind, and aid to dependent children, the Federal Government should participate in payments made directly to agencies and individuals providing medical care, as well as in money payments to recipients as at present. The Federal Government should pay one-half the medical care costs incurred by the States above the regular maximums of $50 a month for a recipient ($15 for the third and succeeding persons in a family receiving aid to dependent children) but should not participate in the medical costs above the regular maximums which exceed a monthly average of $6 per person receiving old-age assistance or aid to the blind and a monthly average of $3 per person receiving aid to dependent children

State public-assistance agencies should be required to submit plans to the Social Security Administration for its approval, setting forth the conditions under which medical needs will be met, the scope and standards of care, the methods of payment, and the amount of compensation for such care

The present Social Security Act limits Federal financial participation in assistance payments to those which are paid to the recipients in money. Consequently, if the cost of medical care furnished to recipients of assistance is met by the State or local agency through direct payments to physicians or other suppliers of medical care, the expenditures must now be borne entirely by the State and local governments. Under our recommendations, total money payments in which the Federal Government will be able to participate will be limited to $50 monthly ($15 for the third and succeeding persons in

a family receiving aid to dependent children) except when medical care is needed. In most cases these amounts or more will be needed to meet living costs other than medical care. Consequently, Federal funds will be available as they are now to only a very limited extent for money payments to recipients to enable them to arrange for their own medical care.

Most States are now financing the medical care they provide in large part from State and local funds. Since States with comparatively meager resources cannot afford to spend funds for which they cannot get Federal matching, they provide little or nothing for medical care, while in almost all States the medical care provided is inadequate.

It would seem desirable for the Federal Government to participate in the cost of necessary medical care for assistance recipients under arrangements that afford the assistance agency flexibility in establishing its policies and procedures. It is frequently desirable to let recipients make their own arrangements for medical services. On the other hand, there are many circumstances in which the assistance agency finds it preferable to pay the doctor or other supplier of medical care directly. People who are sick or old often need help in arranging and paying for medical services. Furthermore, care is sometimes not available unless arrangement is made in advance for payment to the doctor or hospital for the services to be supplied. The cost of the last illness of a recipient who leaves no insurance or other assets can be met only through direct payments. If the Federal Government—within specified maximums—should share one-half the payments to suppliers of medical care and one-half the money payments to recipients which exceed the maximums because of the need for medical attention, the State agency would have no financial inducement to provide medical care in one way rather than the other. Choice could be made of the best way to make medical care available to a recipient in his particular situation.

Illness and disability occur more often among recipients of public assistance than among persons in the general population. Recipients of old-age assistance have an average age of 75 years and have great need of medical services. Like other people of advanced age, they are particularly subject to chronic ailments requiring diagnosis, continuing treatment, and sometimes hospitalization or nursing care.

Evidence of the substantial need of dependent blind persons for medical care has been supplied by a study of the causes of blindness of recipients of aid to the blind. It is estimated that about one-third of the recipients are 65 years of age and over. Many of these aged, blind persons are handicapped by other infirmities as well as by blindness. About one-fifth of the recipients are blind as a result of cataract, a condition which in a substantial proportion of cases might have been corrected by surgery. More than one-tenth of the recipients suffer from glaucoma, which requires early detection and continuing medical treatment to prevent progressive and irremediable loss of vision. Medical assistance could do much to alleviate suffering and prevent or reduce visual loss among persons who are blind or in danger of becoming so.

Children on the aid to dependent children rolls, like all children, need medical services for acute illnesses, correction of defects, dentistry, and immunization against infectious diseases. To the extent

that other community programs do not provide such services, the assistance agency should be able to help children obtain them.

It would be very difficult to meet medical needs with a ceiling imposed on individual payments. When medical bills are incurred, they are often large, particularly when the recipient receives hospital or nursing-home care. We recommend, however, the control of Federal expenditures by limiting Federal contributions for medical care to one-half the amounts which average not more than $6 per month per person receiving old-age assistance and aid to the blind, and not more than $3 per month per person receiving aid to dependent children. Analysis of the characteristics of the case loads and of the costs of medical care indicate that adequate medical care for recipients of assistance can be provided on an average basis within these maximums. In addition to these maximums, the requirement of State financial participation in expenditures for medical care would act as a safeguard against extravagant expenditures. A further control would result from having each State set forth, in the plan which it submits to the Social Security Administration for approval, the conditions under which medical needs of recipients would be met, the scope and standards of care, the methods of payment, and the amount of compensation for such care.

The estimated additional annual cost to the Federal Government for providing medical care to recipients of old-age assistance ranges from a low of $45,000,000 to a high of $72,000,000. These amounts include the estimated annual cost to the Federal Government for recipients residing in public medical institutions under recommendation 4. For aid to dependent children the annual cost to the Federal Government would range from $10,000,000 to $15,000,000 and for aid to the blind from $1,000,000 to $2,000,000. Thus the estimated additional annual cost to the Federal Government under this and the following recommendation would range from $56,000,000 to $89,000,000. These estimates are based on March 1948 case loads, the latest month for which data are available.

4. Care of the Aged in Medical Institutions

The Federal Government should participate in payments made to or for the care of old-age-assistance recipients living in public medical institutions other than mental hospitals.[6] *Payments in excess of the regular $50 maximum made to recipients living in public or private institutions or made by the public-assistance agency directly to these institutions for the care of aged recipients should be included as a part of medical-care expenditures under recommendation 3, page 112. To receive Federal funds to assist aged persons in medical institutions under either public or private auspices, a State should be required to establish and maintain adequate minimum standards for the facilities and for the care of persons living in these facilities. These standards should be subject to approval by the Social Security Administration*

Many recipients of old-age assistance suffer from chronic ailments and some of these conditions require prolonged treatment in medical

[6] The Federal Government now shares in money payments to aged individuals living in private institutions, but it does not share in aid to persons who are living in public institutions, unless they are receiving only temporary medical care. Persons in public mental hospitals would not generally be competent to handle their own payments and are therefore excluded from this recommendation.

institutions. Private institutions and commercial nursing homes with charges within the financial reach of recipients of old-age assistance do not have sufficient capacity to provide for all recipients needing care in medical institutions. In some communities, public medical institutions could care for these aged persons if the Federal Government were to bear a share of the cost. Moreover, if Federal funds were available for this purpose, communities would be stimulated to develop additional facilities for the care of chronically ill persons and to improve the quality of care in such facilities.

Care for aged and chronically ill persons is a growing problem and in the opinion of the Council is a Federal concern. Today more than 350,000 recipients of old-age assistance are bedridden or are so infirm as to require considerable help in eating, dressing, and getting about indoors. Of them, about 50,000 are living in commercial boarding or nursing homes or private institutions. Some of these persons living in such homes or institutions are getting very unsatisfactory care. Of those living in their own homes or with others, many need prolonged treatment in medical institutions.

As the number of aged persons in the population grows, the number needing nursing-home and other services for the chronically ill will also rise. Since the passage of the original Social Security Act, the number of persons aged 65 and over has increased from about 8,000,000 to nearly 11,000,000. In another 25 years there will probably be almost twice as many aged persons in the United States as there are today.

Care of chronically ill persons in medical institutions is necessarily expensive. A needy person without some additional resources cannot obtain satisfactory care with an assistance payment limited to $50 a month. In Connecticut in 1946, for example, the average cost of nursing-home care for the aged was $118 a month.

We believe, therefore, that the Federal Government should participate in monthly amounts in excess of $50 paid to old-age-assistance recipients living in medical institutions, including commercial nursing homes meeting prescribed standards, and should participate also in payments made by the State or local agency directly to such institutions for the care of aged recipients. Such expenditures should be classified as medical-care costs and should be included in the average monthly maximum recommended for medical care in recommendation 3 (p. 112). Thus the Federal Government would share in individual payments beyond the regular maximum, but total Federal expenditures for medical care, including care of aged persons living in private or public medical institutions, would be limited to a monthly average of $6 per recipient for the program as a whole.

In writing the Social Security Act, Congress prohibited Federal participation in payments to persons living in public institutions. In so doing, it sought wisely, we believe, to discourage care of needy persons in almshouses. In many localities in the Nation, persons unable to support themselves previously had no choice but to go to the almshouse. We believe that it would be desirable to continue for the present to prohibit Federal sharing in assistance to recipients of old-age assistance in public domiciliary institutions. This recommendation therefore is limited to medical institutions. Although some States have developed public homes supplying a very high quality of care, there is still danger that in other States, Federal par-

ticipation in the cost of domiciliary care would encourage the continuance or return of the almshouse. Safeguards should be imposed by statute and by regulations of the Social Security Administration to preclude the use of the old-fashioned "poor house" for recipients of old-age assistance. Safeguards would also be needed to protect the rights of recipients to live where they choose, without pressure to live in institutions if they do not wish to do so.

At present the Social Security Act does not require States giving assistance to persons living in private institutions or nursing homes to establish any standards for the operation of such facilities. Some of the private institutions and nursing homes in which recipients are living offer a very poor quality of care and do not properly protect the health and safety of the recipients. We believe that, as a condition of eligibility for Federal funds, a State aiding needy aged persons in public and private medical institutions and commercial nursing homes should be required to have an authority or authorities that would establish and maintain adequate minimum standards for institutional facilities, and for the care of aged persons living in these facilities. The Social Security Administration should, before approving the standards established by a State, assure itself that the recipients of old-age assistance residing in private and public medical institutions and commercial nursing homes will receive adequate medical and nursing services and that their safety will be adequately protected. For institutions, both private and public, to be considered as medical institutions under this recommendation, the institutions should maintain and operate facilities for the diagnosis, treatment, or care of persons suffering from illness, injury, or deformity, and be devoted primarily to furnishing medical or nursing service.

It is estimated that the additional annual cost to the Federal Government under this recommendation would range from a low of $20,000,000 to a high of $32,000,000. These amounts have been included as part of the estimated cost for medical care under recommendation 3 (p. 112).

5. Residence Requirements

Federal funds should not be available for any public assistance program in which the State imposes residence requirements as a condition of eligibility for assistance, except that States should be allowed to impose a 1-year residence requirement for old-age assistance [7]

The Social Security Act provides that a State plan for old-age assistance or aid to the blind may not require, as a condition of eligibility, residence in a State for more than 5 of the 9 years immediately preceding application and 1 continuous year before filing the application. For aid to dependent children, the maximum requirement for the child is 1 year of residence immediately preceding application, or, if the child is less than a year old, birth in the State and continuous residence by the mother in the State for 1 year preceding the birth.

In old-age assistance, of the 51 jurisdictions with federally approved plans, 27 have a 5-year residence requirement. Three States require residence within the State for 3 years, 1 for 2 years, and 16 for 1 year.

[7] One member of the Council felt that States should be allowed to impose up to a 5-year-residence requirement in the old-age-assistance program.

Four States (Kentucky, New York, Rhode Island, and Utah) have no residence requirement imposed by statute or regulation.

In aid to the blind, of the 47 jurisdictions receiving Federal funds, 21 have a 5-year requirement; 2 require 3 years; 2 require 2 years; 17 require 1 year; and 5 have no requirement. The five States with no requirement are Mississippi and the four listed above as having no residence requirement for old-age assistance. Many other States waive the residence requirement in aid to the blind for applicants who become blind while residing in the State.

In aid to dependent children, of the 50 jurisdictions with approved plans, 8 States have no residence requirement: Alabama, Georgia, Kentucky, Mississippi, New York, Rhode Island, Wisconsin, and Utah. The others have a 1-year requirement. (See appendix III–A, table 15.)

In general assistance, which is financed solely from State and local funds, there is of course no Federal requirement and practice varies widely. Legal settlement in the community as well as State residence is often required. The settlement requirement not only makes it necessary for the applicant to have resided in the community for a specified period of time, but may require him and all members of his family to have been self-supporting, or at least not to have been dependent on public funds for support during any part of such time. In communities with such a rule, the receipt of any amount of public aid during a qualifying period prevents the recipient and his family from gaining legal settlement and thereby from becoming eligible for continuing assistance.

Under one State law, if the local public assistance office believes that a newcomer to a community may not retain his job and may need assistance, he may receive a "notice to depart." Such notices disqualify the person for general assistance for 2 years, and the notice is subject to renewal.

Residence and settlement laws result in unwarranted hardship for needy persons, not only because these laws are sometimes invoked by welfare administrators for the purpose of "shipping back" needy persons to the communities where they "belong," but also because persons often lose their residence and settlement in the State in which they once had such status before they can acquire it in another. They "belong" nowhere under the statutes of the respective States.

In our society, mobility of population is essential. Individuals should be free to move where jobs are available and if, as a result of illness or other misfortune, they become needy, they should not be denied assistance because they have crossed State or county lines. We believe that residence and settlement provisions are socially unjustifiable.

In the programs for aid to dependent children and aid to the blind, immediate steps should be taken to require the States to abolish residence requirements. Elsewhere in this report we have recommended that the Federal Government participate in the costs of a State-Federal general assistance program to aid those persons to whom no other means of support is available. We believe that it is essential, if such a program is to fulfill its purpose, that the States be prohibited from imposing any residence or other artificial barriers to eligibility for general assistance.

We recognize, however, that the States into which older persons move because of favorable climate and which have relatively adequate assistance for the aged, fear increased financial liability if residence requirements should be eliminated entirely for old-age assistance. Therefore, we have recommended that the States be authorized to impose, if they desire, a residence requirement of not more than 1 year for old-age assistance.

6. Study of Child Health and Welfare Services

A commission should be appointed to study current child health and welfare needs and to review the programs operating under title V of the Social Security Act relating to maternal and child health services, services for crippled children, and child welfare services. The commission should make recommendations as to the proper scope of these services and the responsibilities that should be assumed by the Federal and State Governments, respectively

More fully to meet the needs of children in two important areas, the Council has recommended increased insurance protection for children under old-age and survivors insurance and has recommended also that the Federal share in payments for aid to dependent children be made comparable to that in payments to needy aged and needy blind persons.

In addition, the Council received information on further needs of children which, the Council believes, would require direct health and welfare services rather than the cash payments with which it has been primarily concerned. Accordingly, the Council recommends appointment of a special commission which should include specialists in child health and welfare services to appraise currently unmet needs of children and to determine how these needs may best be met. Consideration should be given to such questions as: What constitute the essential features of an adequate maternal and child health program and an adequate child welfare program? Should necessary health and welfare services be provided to all children and mothers or should they be limited to those whose families cannot afford to pay for the services? Is the present scope of maternal and child health and welfare services sufficiently broad or should new services be instituted? Should new or expanded services be supplied by governmental agencies, by voluntary agencies, or by both acting together?

According to information supplied to the Council by the Children's Bureau, many children are now in great need of health and welfare services for whom such services are not available or are wholly inadequate. Among the health needs which that Bureau feels are most urgent are those arising from—

(1) Inadequate health services for both mothers and children; these services are lacking in many areas, particularly in rural communities.

(2) Rheumatic fever; some 500,000 children are suffering from rheumatic fever.

(3) Premature birth; some 150,000 infants are born prematurely each year.

(4) Lack of dental care; some 20,000,000 children are in urgent need of dental attention.

(5) Cerebral palsy; between 100,000 and 160,000 children have cerebral palsy.

(6) Physical and mental defects; many children of school age lack provision for medical examinations and for the correction of handicapping conditions found.

(7) Inadequate supply of professional personnel; nearly all parts of the United States lack a sufficient number of pediatricians, public-health nurses, and medical social workers to provide adequate health services for children.

Among the welfare services which the Bureau feels are most urgent are those arising from the lack of—

(1) Adequate boarding home care for children in need of such care—60,000 children are now receiving care in boarding homes under public auspices, and many communities have insufficient funds to provide adequate care.

(2) Proper detention or temporary shelter care for children—some 300,000 children annually receive detention care, a large proportion under very unfavorable circumstances.

(3) Facilities and services for the day care of children of working mothers; approximately 2,000,000 women with children under 10 years of age were in the labor force in February 1946.

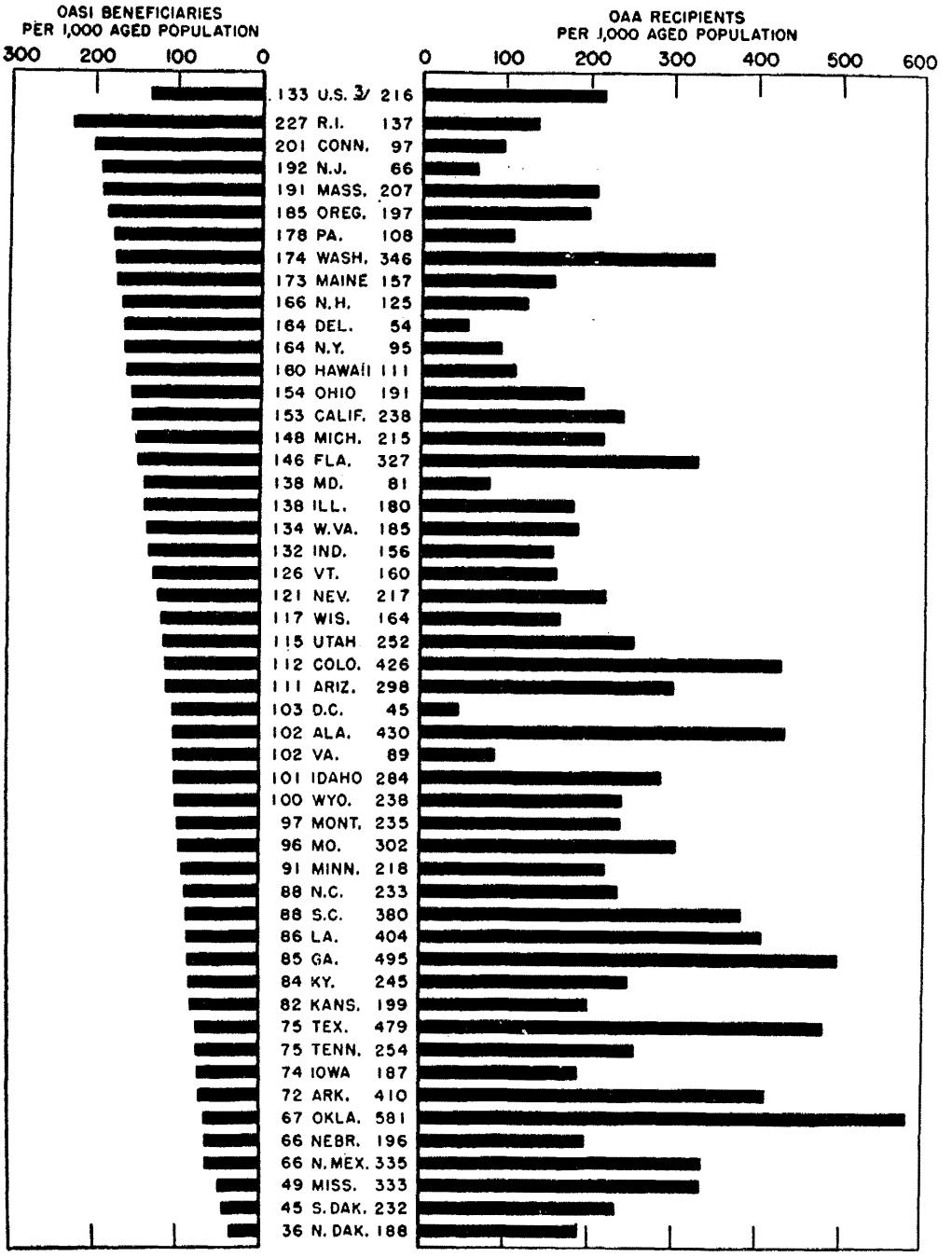
(4) A sufficient number of child welfare workers and other qualified personnel in many parts of the country, particularly rural areas.

Unmet health and welfare needs among children are of the gravest consequences to the Nation. Such needs, if ignored too long, may necessitate more expensive and less effective treatment later. If child health and welfare services meet these needs promptly and constructively, however, incalculable gains in physical strength and efficiency, in personal adjustment, family solidarity, vocational aptitude, and more satisfying and useful lives can be realized. The Council believes that, after extended inquiry, a commission such as that suggested here would be able to formulate farseeing plans on which may be built a sound long-range program for the Nation's children.

APPENDIX III–A. STATISTICS RELATED TO PUBLIC ASSISTANCE

CHART 1

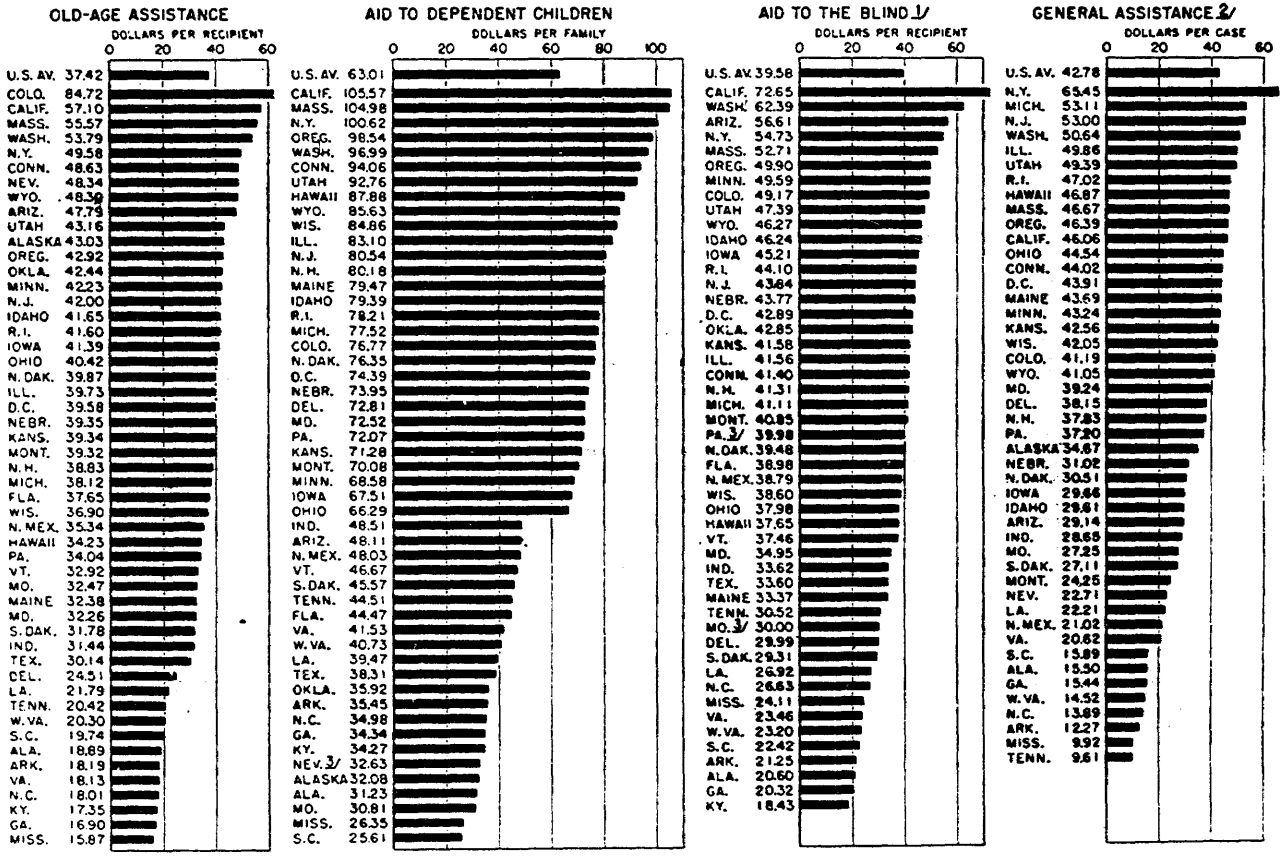
NUMBER OF AGED PERSONS RECEIVING BENEFITS UNDER OLD-AGE AND SURVIVORS INSURANCE [1] AND NUMBER RECEIVING OLD-AGE ASSISTANCE PER 1,000 PERSONS AGED 65 YEARS AND OVER, BY STATE,[2] JUNE 1948



[1] Primary, wife's, widow's, and parent's benefits in current-payment status at end of June.
[2] Aged population as of July 1, 1948, estimated by Social Security Administration.
[3] Includes Hawaii.

CHART 2

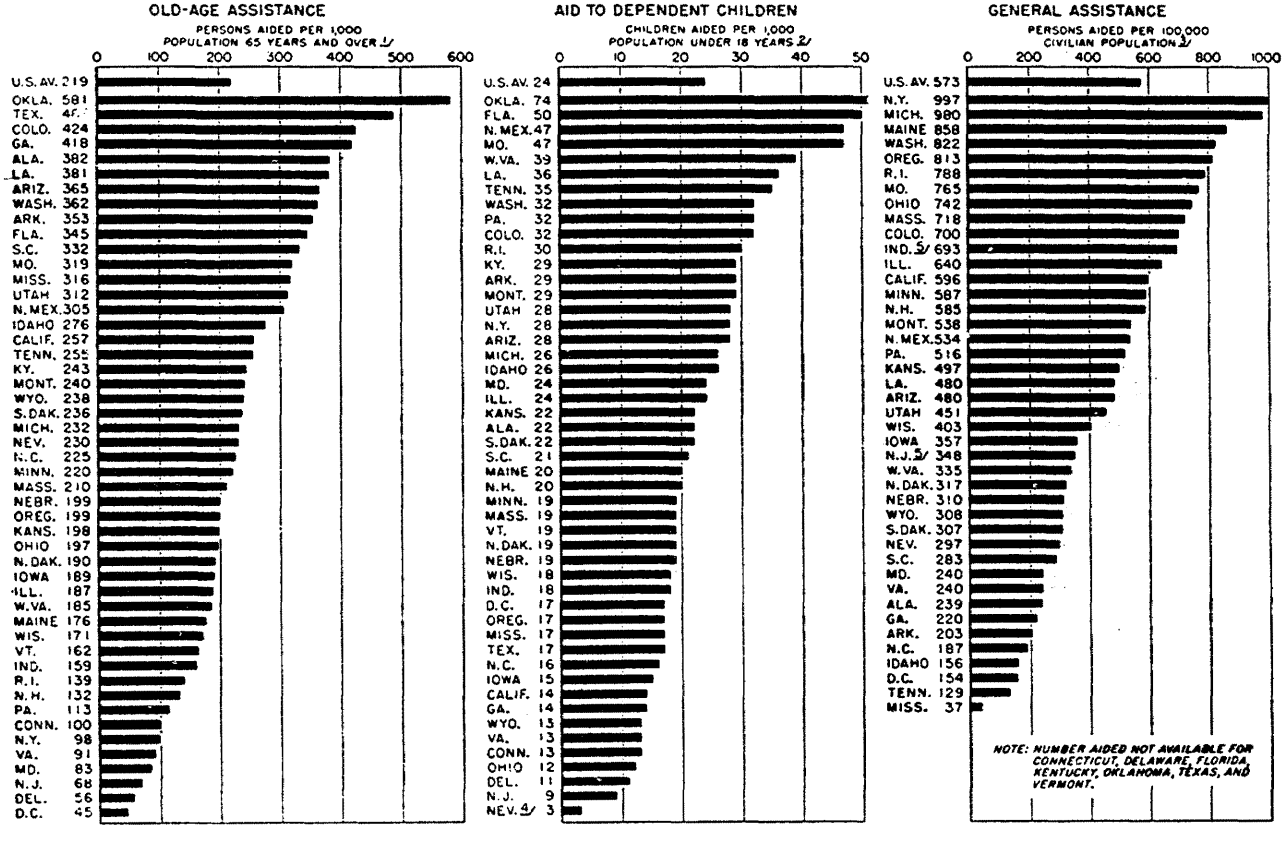
PUBLIC ASSISTANCE: AVERAGE MONTHLY PAYMENT, DECEMBER 1947



1/ ALASKA HAS NO PROGRAM; NOT COMPUTED FOR NEVADA (LESS THAN 50 RECIPIENTS).
2/ NOT COMPUTED FOR FLA., KY., TEX., OR VT. (DATA ESTIMATED) OR FOR OKLA. (COMPLETE DATA NOT AVAILABLE).
3/ NO FEDERAL PARTICIPATION.

CHART 3

PUBLIC ASSISTANCE: RECIPIENT RATES IN CONTINENTAL U.S., DECEMBER 1947



1/ POPULATION AGED 65 AND OVER AS OF APRIL 1947 ESTIMATED BY SSA. RATE IS UNDERSTATEMENT FOR SOME STATES AS ONLY ONE RECIPIENT IS REPORTED WHEN SINGLE PAYMENT IS MADE TO [HUSBAND AND WIFE, BOTH 65 AND OVER.
2/ POPULATION UNDER 18 AS OF APRIL 1947 ESTIMATED BY SSA. 3/ CIVILIAN POPULATION AS OF JULY 1946 ESTIMATED BY CENSUS BUREAU.
4/ NO FEDERAL PARTICIPATION. 5/ INCLUDES UNKNOWN NUMBER RECEIVING MEDICAL CARE, HOSPITALIZATION, AND BURIAL ONLY.

TABLE 1.—*Estimated percentage of persons aged 65 and over in the population of various future years who will be fully insured under old-age and survivors insurance if high employment conditions prevail*

Calendar year	Complete extension of coverage		Present coverage	
	Men	Women	Men	Women
1955	57–66	10–13	39–44	6–7
1960	69–81	13–17	44–49	7–10
1970	76–86	17–25	54–62	10–14
1980	81–91	23–31	64–73	16–22
1990	84–94	33–40	72–81	27–34
2000	86–95	43–51	74–84	35–43

TABLE 2.—*Special types of public assistance and general assistance: Expenditures for assistance to recipients, by program and source of funds, calendar year ended Dec. 31, 1947* [1]

Program	Expenditures from—			
	Total	Federal funds	State funds	Local funds
	Amount (in thousands)			
Total	$1,480,775	$650,310	$672,986	$157,479
Special types of public assistance:				
Old-age assistance	986,470	520,202	410,616	55,652
Aid to dependent children	294,038	115,740	142,924	35,374
Aid to the blind	36,198	14,368	19,048	2,783
General assistance	164,068	----	100,398	63,670
	Percentage distribution by program			
Total	100.0	100.0	100.0	100.0
Special types of public assistance:				
Old-age assistance	66.6	80.0	61.0	35.3
Aid to dependent children	19.9	17.8	21.2	22.5
Aid to the blind	2.4	2.2	2.8	1.8
General assistance	11.1	----	14.9	40.4
	Percentage distribution by source of funds			
Total	100.0	43.9	45.4	10 6
Special types of public assistance:				
Old-age assistance	100.0	52.7	41.6	5.6
Aid to dependent children	100.0	39.4	48.6	12.0
Aid to the blind	100.0	39.7	52.6	7.7
General assistance	100.0	----	61.2	38.8

[1] For detail by program see tables 3, 4, 5, and 6 of this appendix. For aid to dependent children and aid to the blind data include programs administered under State laws without Federal participation.

TABLE 3.—*Old-age assistance: Expenditures for assistance to recipients, by source of funds and State, calendar year ended Dec. 31, 1947* [1]

[Amounts in thousands]

State	Total	Federal funds		State funds		Local funds	
		Amount	Percent	Amount	Percent	Amount	Percent
Total, 51 States under plans approved by the Social Security Administration	$986,470	$520,202	52.7	$410,616	41.6	$55,652	5.6
Alabama	11,416	7,286	63.8	2,092	18.3	2,038	17.9
Alaska	679	345	50.8	334	49.2	.....	.....
Arizona	6,104	3,108	50.9	2,996	49.1	.....	.....
Arkansas	8,764	5,571	63.6	3,193	36.4	.....	.....
California	113,271	50,836	44.9	52,690	46.5	9,745	8.6
Colorado	31,560	12,010	38.1	19,550	61.9	.....	.....
Connecticut	7,601	3,681	48.4	3,921	51.6	.....	.....
Delaware	332	202	61.0	129	39.0	.....	.....
District of Columbia	1,087	574	52.8	513	47.2	.....	.....
Florida	23,197	13,169	56.8	10,027	43.2	.....	.....
Georgia	15,396	9,974	64.8	4,653	30.2	770	5.0
Hawaii	702	382	54.4	320	45.6	.....	.....
Idaho	5,177	2,659	51.4	2,517	48.6	.....	.....
Illinois	59,973	31,876	53.2	28,097	46.8	.....	.....
Indiana	18,998	11,043	58.1	4,773	25.1	3,182	16.7
Iowa	22,819	12,141	53.2	10,677	46.8	.....	.....
Kansas	15,061	8,036	53.4	4,597	30.5	2,428	16.1
Kentucky	9,929	6,395	64.4	3,534	35.6	.....	.....
Louisiana	13,397	8,101	60.5	5,296	39.5	.....	.....
Maine	6,036	3,467	57.4	2,569	42.6	.....	.....
Maryland	4,406	2,539	57.6	1,133	25.7	734	16.7
Massachusetts	53,005	23,565	44.5	21,053	39.7	8,387	15.8
Michigan	40,485	22,802	56.3	17,683	43.7	.....	.....
Minnesota	25,669	13,379	52.1	7,835	30.5	4,456	17.4
Mississippi	7,988	5,172	64.7	2,816	35.3	.....	.....
Missouri	45,375	26,066	57.4	19,310	42.6	.....	.....
Montana	4,878	2,759	56.6	1,415	29.0	704	14.4
Nebraska	11,659	6,195	53.1	5,464	46.9	.....	.....
Nevada	1,158	596	51.4	281	24.3	281	24.3
New Hampshire	2,942	1,616	54.9	590	20.1	736	25.0
New Jersey	11,145	5,791	52.0	4,016	36.0	1,339	12.0
New Mexico	3,407	1,857	54.5	1,550	45.5	.....	.....
New York	61,926	28,716	46.4	20,892	33.7	12,319	19.9
North Carolina	8,349	5,356	64.1	1,532	18.4	1,461	17.5
North Dakota	4,143	2,119	51.1	1,726	41.7	298	7.2
Ohio	57,230	30,941	54.1	26,289	45.9	.....	.....
Oklahoma	47,949	26,798	55.9	21,151	44.1	.....	.....
Oregon	11,140	5,639	50.6	3,626	32.6	1,874	16.8
Pennsylvania	36,711	20,774	56.6	15,937	43.4	.....	.....
Rhode Island	4,022	2,050	51.0	1,972	49.0	.....	.....
South Carolina	7,118	4,448	62.5	2,669	37.5	.....	.....
South Dakota	4,826	2,788	57.8	2,039	42.2	.....	.....
Tennessee	11,086	6,956	62.7	3,211	29.0	918	8.3
Texas	67,821	39,732	58.6	28,090	41.4	.....	.....
Utah	6,372	3,277	51.4	2,580	40.5	515	8.1
Vermont	2,132	1,235	57.9	897	42.1	.....	.....
Virginia	3,342	2,149	64.3	746	22.3	447	13.4
Washington	41,544	18,460	44.4	23,084	55.6	.....	.....
West Virginia	4,705	2,975	63.2	1,730	36.8	.....	.....
Wisconsin	20,233	11,521	56.9	6,111	30.2	2,600	12.9
Wyoming	2,206	1,076	48.8	709	32.1	421	19.1

[1] For definitions of terms, see the Social Security Bulletin, January 1948, pp. 24-26. Amounts cannot be compared with annual data based on monthly series, or with amount of Federal grants to the States.

TABLE 4.—*Aid to the blind: Expenditures for assistance to recipients, by source of funds and State, calendar year ended Dec. 31, 1947* [1]

[Amount in thousands]

State	Total	Federal funds		State funds		Local funds	
		Amount	Percent	Amount	Percent	Amount	Percent
Total, 50 States	$36,198	$14,368	39.7	$19,048	52.6	$2,783	7.7
Total, 47 States under plans approved by the Social Security Administration	28,367	14,368	50.6	11,224	39.6	2,775	9.8
Alabama	241	150	62.5	45	18.7	45	18.8
Arizona	430	186	43.2	244	56.8	----	----
Arkansas	373	230	61.7	143	38.3	----	----
California	5,017	1,797	35.8	1,874	37.4	1,346	26.8
Colorado	207	106	51.1	49	23.9	52	25.0
Connecticut	63	32	50.8	31	49.2	----	----
Delaware	40	23	58.7	16	41.3	----	----
District of Columbia	107	55	51.3	52	48.7	----	----
Florida	1,211	684	56.5	527	43.5	----	----
Georgia	533	332	62.3	174	32.7	27	5.0
Hawaii	31	16	51.3	15	48.7	----	----
Idaho	116	54	46.7	62	53.3	----	----
Illinois	2,340	1,235	52.8	1,105	47.2	----	----
Indiana	744	429	57.6	316	42.4	----	----
Iowa	659	316	48.0	178	27.0	165	25.0
Kansas	507	258	50.9	155	30.5	94	18.6
Kentucky	378	240	63.6	138	36.4	----	----
Louisiana	507	292	57.7	215	42.3	----	----
Maine	296	170	57.4	126	42.6	----	----
Maryland	190	109	57.2	15	7.8	67	35.0
Massachusetts	723	324	44.9	398	55.1	----	----
Michigan	686	383	55.8	303	44.2	----	----
Minnesota	542	259	47.7	284	52.3	----	----
Mississippi	583	353	60.5	231	39.5	----	----
Missouri	*1,042*	----	----	*1,042*	*100.0*	----	----
Montana	192	108	56.2	58	30.5	26	13.3
Nebraska	227	119	52.3	108	47.7	----	----
Nevada	*14*	----	----	*7*	*47.0*	*7*	*53.0*
New Hampshire	135	73	53.8	63	46.2	----	----
New Jersey	301	156	51.9	9	2.9	136	45.3
New Mexico	153	80	52.4	73	47.6	----	----
New York	2,133	916	42.9	795	37.3	422	19.8
North Carolina	884	527	59.7	178	20.2	178	20.2
North Dakota	58	30	51.4	28	48.6	----	----
Ohio	1,404	790	56.2	614	43.8	----	----
Oklahoma	1,251	698	55.8	553	44.2	----	----
Oregon	228	103	45.3	82	36.0	43	18.7
Pennsylvania	*6,776*	----	----	*6,776*	*100.0*	----	----
Rhode Island	67	33	48.4	35	51.6	----	----
South Carolina	330	201	60.9	129	39.1	----	----
South Dakota	76	44	58.4	31	41.6	----	----
Tennessee	556	330	59.3	176	31.7	50	8.9
Texas	2,047	1,183	57.8	864	42.2	----	----
Utah	83	39	46.7	38	45.4	7	7.9
Vermont	77	44	56.8	33	43.2	----	----
Virginia	304	186	61.1	74	24.3	44	14.6
Washington	480	187	38.9	293	61.1	----	----
West Virginia	226	139	61.4	87	38.6	----	----
Wisconsin	562	318	56.6	170	30.3	74	13.2
Wyoming	65	31	47.2	34	52.8	----	----

[1] For definitions of terms, see the Social Security Bulletin, January 1948, pp. 24-26. Amounts cannot be compared with annual data based on monthly series, or with amount of Federal grants to the States. Italicized figures represent programs administered under State laws from State and/or local funds without Federal participation. Data exclude program administered without Federal participation in Connecticut, which administers such program concurrently with program under the Social Security Act. Alaska does not administer aid to the blind.

TABLE 5.—*Aid to dependent children: Expenditures for assistance to recipients, by source of funds and State, calendar year ended Dec. 31, 1947* [1]

[Amounts in thousands]

State	Total	Federal funds		State funds		Local funds	
		Amount	Percent	Amount	Percent	Amount	Percent
Total, 51 States	$294,038	$115,740	39.4	$142,924	48.6	$35,374	12.0
Total, 50 States under plans approved by the Social Security Administration	294,020	115,740	39.4	142,924	48.6	35,356	12.0
Alabama	3,099	1,960	63.2	565	18.2	574	18.5
Alaska	100	58	57.7	42	42.3	----	----
Arizona	1,371	806	58.8	565	41.2	----	----
Arkansas	2,951	1,799	61.0	1,152	39.0	----	----
California	13,382	3,401	25.4	5,035	37.6	4,946	37.0
Colorado	3,491	1,354	38.8	1,264	36.2	873	25.0
Connecticut	2,906	829	28.5	1,205	41.5	872	30.0
Delaware	245	94	38.2	76	30.9	76	30.9
District of Columbia	1,117	438	39.3	679	60.7	----	----
Florida	5,384	3,151	58.5	2,233	41.5	----	----
Georgia	2,664	1,625	61.0	906	34.0	133	5.0
Hawaii	1,080	357	33.1	723	66.9	----	----
Idaho	1,618	552	34.1	1,066	65.9	----	----
Illinois	21,755	6,930	31.9	14,826	68.1	----	----
Indiana	3,981	2,201	55.3	1,068	26.8	712	17.9
Iowa	2,342	1,122	47.9	612	26.1	608	26.0
Kansas	4,020	1,447	36.0	1,234	30.7	1,339	33.3
Kentucky	4,181	2,528	60.5	1,653	39.5	----	----
Louisiana	6,019	3,262	54.2	2,758	45.8	----	----
Maine	1,897	664	35.0	810	42.7	423	22.3
Maryland	3,561	1,687	47.4	1,588	44.6	286	8.0
Massachusetts	10,812	2,853	26.4	3,604	33.3	4,355	40.3
Michigan	18,414	5,977	32.5	11,669	63.4	769	4.2
Minnesota	4,406	1,891	42.9	1,257	28.5	1,258	28.5
Mississippi	1,659	1,040	62.7	619	37.3	----	----
Missouri	7,579	4,703	62.1	2,876	37.9	----	----
Montana	1,338	533	39.8	516	38.5	290	21.7
Nebraska	2,860	928	32.4	1,865	65.2	67	2.4
Nevada	*19*	----	----	----	----	*19*	*100.0*
New Hampshire	1,031	342	33.2	689	66.8	----	----
New Jersey	3,794	1,279	33.7	1,165	30.7	1,351	35.6
New Mexico	2,090	1,061	50.8	1,029	49.2	----	----
New York	47,786	11,991	25.1	26,530	55.5	9,265	19.4
North Carolina	3,206	1,996	62.3	619	19.3	591	18.4
North Dakota	1,424	522	36.6	486	34.1	416	29.2
Ohio	7,344	3,567	48.6	[2] 1,840	25.1	[2] 1,937	26.4
Oklahoma	13,895	8,097	58.3	5,798	41.7	----	----
Oregon	2,431	717	29.5	1,134	46.7	579	23.8
Pennsylvania	33,302	12,385	37.2	20,917	62.8	----	----
Rhode Island	2,222	739	33.3	1,483	66.7	----	----
South Carolina	1,755	1,154	65.8	601	34.2	----	----
South Dakota	1,007	559	55.5	448	44.5	----	----
Tennessee	6,549	3,927	60.0	1,957	29.9	665	10.2
Texas	6,522	3,897	59.8	2,625	40.2	----	----
Utah	2,777	794	28.6	1,769	63.7	213	7.7
Vermont	381	224	58.9	109	28.6	48	12.5
Virginia	2,117	1,199	56.6	574	27.1	345	16.3
Washington	8,718	2,193	25.2	6,525	74.8	----	----
West Virginia	4,319	2,635	61.0	1,685	39.0	----	----
Wisconsin	6,722	2,140	31.8	2,310	34.4	2,272	33.8
Wyoming	395	135	34.1	167	42.3	93	23.6

[1] For definitions of terms see the Social Security Bulletin, January 1948, pp. 24-26. Amounts cannot be compared with annual data based on monthly series, or with amount of Federal grants to the States. Italicized figures represent program administered under State law from local funds without Federal participation. Data exclude programs administered without Federal participation in Florida, Kentucky, and Nebraska, which administer such programs concurrently with programs under the Social Security Act.

[2] State-local distribution partly estimated.

TABLE 6.—*General assistance: Expenditures for assistance to cases, by source of funds and State, calendar year ended Dec. 31, 1947* [1]

[Amounts in thousands]

State	Total	State funds		Local funds	
		Amount	Percent	Amount	Percent
Total, 51 States	$164,068	$100,398	61.2	$63,670	38.8
Alabama	941	459	48.7	482	51.3
Alaska	53	53	100.0	----	----
Arizona	749	749	100.0	----	----
Arkansas	[2] 388	388	100.0	(2)	(2)
California	13,280	----	----	13,280	100.0
Colorado	1,858	861	46.4	996	53.6
Connecticut [3]	1,659	691	41.6	968	58.4
Delaware	332	[2] 166	50.0	[2] 166	50.0
District of Columbia	652	652	100.0	----	----
Florida	[2] 758	----	----	758	100.0
Georgia	533	----	----	533	100.0
Hawaii	485	485	100.0	----	----
Idaho	240	----	----	240	100.0
Illinois	12,332	6,815	55.3	5,518	44.7
Indiana	1,692	----	----	1,692	100.0
Iowa	1,317	----	----	1,317	100.0
Kansas	2,395	900	37.6	1,495	62.4
Kentucky	[2] 372	----	----	372	100.0
Louisiana	[2] 2,217	1,763	79.5	[2] 454	20.5
Maine	1,135	373	32.9	762	67.1
Maryland	2,627	1,340	51.0	1,288	49.0
Massachusetts	7,588	1,655	21.8	5,932	78.2
Michigan	11,278	5,805	51.5	5,473	48.5
Minnesota	2,820	649	23.0	2,171	77.0
Mississippi	56	----	----	56	100.0
Missouri	[2] 3,488	3,443	98.7	[2] 46	1.3
Montana	407	68	16.7	339	83.3
Nebraska	542	----	----	542	100.0
Nevada	69	----	----	69	100.0
New Hampshire	463	----	----	463	100.0
New Jersey	3,071	[2] 1,136	37.0	[2] 1,935	63.0
New Mexico	[2] 459	450	98.0	[2] 9	2.0
New York	46,020	37,249	80.9	8,771	19.1
North Carolina	493	----	----	493	100.0
North Dakota	263	51	19.6	212	80.4
Ohio	9,444	9,442	100.0	2	(4)
Oklahoma	784	450	57.4	334	42.6
Oregon	2,922	2,457	84.1	465	15.9
Pennsylvania	14,085	14,085	100.0	----	----
Rhode Island	1,414	990	70.0	424	30.0
South Carolina	660	593	89.9	67	10.1
South Dakota	241	----	----	241	100.0
Tennessee	175	----	----	175	100.0
Texas	[2] 772	----	----	772	100.0
Utah	1,066	980	91.9	86	8.1
Vermont [3]	199	3	1.4	196	98.6
Virginia	854	500	58.5	354	41.5
Washington	5,255	[2] 4,194	79.8	[2] 1,061	20.2
West Virginia	753	258	34.3	495	65.7
Wisconsin	2,188	61	2.8	2,127	97.2
Wyoming	226	187	82.6	39	17.4

[1] For definitions of terms, see the Social Security Bulletin, January 1948, pp. 24-26. Amounts cannot be compared with annual data based on monthly series.

[2] For Arkansas, data on expenditures from local funds not available; for Louisiana, Missouri, and New Mexico data on expenditures from local funds incomplete.

[3] Estimated.

[4] Less than 0.05 percent.

TABLE 7.—*Old-age assistance: Distribution of payments to recipients, October 1947*

State	Number of payments	Percent receiving—										
		Less than $10	$10 to $19.99	$20 to $29.99	$30 to $39.99	$40 to $49.99	$50 to $59.99	$60 to $69.99	$70 to $79.99	$80 to $89.99	$90 to $99.99	$100 or more
Total	2,317,193	1.7	15.0	18.8	20.9	24.1	8.3	9.3	0.9	0.4	0.2	0.3
Alabama	60,138	4.2	61.2	25.9	6.1	2.3	.3	(1)	(1)	(1)	------	(1)
Alaska	1,362	.1	4.6	10.9	19.6	28.6	23.9	12.4	------	------	------	------
Arizona	10,601	.1	.4	1.2	5.0	14.5	78.8	------	------	------	------	------
Arkansas[2]	42,694	5.1	60.2	26.9	6.7	1.1	------	------	------	------	------	------
California	178,071	.1	.2	1.3	3.1	5.0	18.7	71.5	------	------	------	------
Colorado	43,627	.1	.3	.5	1.2	3.5	8.0	86.4	------	------	------	------
Connecticut	15,306	.5	3.8	10.4	18.4	59.0	.6	.2	.1	.2	.4	6.4
Delaware	1,260	5.0	25.5	40.6	22.0	7.0	------	------	------	------	------	------
District of Columbia	2,241	.1	5.5	16.8	27.8	30.8	13.8	3.7	1.0	.5	------	(1)
Florida	55,144	.4	2.4	16.6	33.3	47.2	------	------	------	------	------	------
Georgia	77,160	12.1	60.2	20.0	5.6	2.1	------	------	------	------	------	------
Hawaii	1,827	1.9	10.1	20.9	44.3	13.4	4.8	2.3	1.3	.4	.3	.3
Idaho	10,476	.3	2.8	15.1	28.2	30.4	13.4	5.5	3.3	.7	.2	.1
Illinois	126,475	.8	2.4	15.0	31.3	28.5	18.3	1.7	1.6	.2	.1	.1
Indiana	50,731	1.2	8.9	34.6	33.0	22.0	.2	.1	(1)	(1)	(1)	(1)
Iowa	48,391	.5	2.2	11.0	38.9	30.9	10.8	3.0	1.2	.7	.6	.2
Kansas	34,734	.5	3.4	19.9	32.5	27.0	9.5	4.4	1.7	.6	.2	.3
Kentucky	50,182	3.5	70.7	24.4	1.4	------	------	------	------	------	------	------
Louisiana	51,986	6.3	45.3	31.8	11.5	3.6	1.0	.3	.1	(1)	(1)	------
Maine	14,691	1.2	5.2	25.4	33.1	35.1	------	------	------	------	------	------
Maryland	11,859	2.1	14.9	29.6	28.2	22.4	.7	1.5	.1	.1	.2	(1)
Massachusetts	86,890	.6	2.1	5.4	14.7	25.4	20.7	16.3	6.8	3.1	1.7	3.2
Michigan	93,124	.8	3.3	15.1	27.4	50.7	.1	2.6	------	------	------	------
Minnesota	54,572	.9	2.2	12.9	32.3	33.3	16.9	.7	.3	.2	.1	.2
Mississippi	40,392	5.0	71.9	18.6	4.6	------	------	------	------	------	------	------
Missouri	115,208	.8	7.2	29.0	32.8	30.2	------	------	------	------	------	------
Montana	10,728	(1)	2.2	9.9	26.6	61.2	------	------	------	------	------	------
Nebraska	24,896	.5	2.0	17.2	39.1	25.2	16.0	------	------	------	------	------
Nevada	2,094	(1)	(1)	.5	4.0	20.4	75.0	------	------	------	------	------
New Hampshire	6,817	.7	5.8	17.5	27.8	40.9	1.5	2.3	1.2	1.8	.3	.2
New Jersey	23,329	.3	3.3	13.2	29.5	34.3	12.4	2.7	1.0	.6	1.3	1.3
New Mexico	8,317	------	5.6	29.9	31.9	17.1	13.0	2.5	------	------	------	------
New York	110,369	.6	2.9	11.4	18.1	24.0	18.8	13.6	6.3	2.0	.8	1.6
North Carolina	41,213	3.6	64.1	23.5	6.3	2.5	------	------	------	------	------	------
North Dakota	8,890	.7	3.4	22.2	38.3	21.7	7.2	3.2	1.1	.5	.3	1.5
Ohio	122,660	.4	1.8	12.3	30.7	33.3	21.5	(1)	(1)	(1)	(1)	.1
Oklahoma	96,867	.1	.7	2.2	15.2	81.9	------	------	------	------	------	------
Oregon	21,905	.3	3.3	12.4	31.7	27.3	13.1	5.4	3.0	1.4	1.4	.6
Pennsylvania	90,179	1.4	7.6	25.3	32.1	30.6	1.8	1.2	.1	(1)	------	(1)
Rhode Island	8,714	1.1	7.0	17.3	22.3	23.2	18.5	5.6	2.3	.8	.5	1.2
South Carolina	31,518	2.0	33.6	64.3	------	------	------	------	------	------	------	------
South Dakota	12,329	1.3	6.5	31.2	40.9	20.2	------	------	------	------	------	------
Tennessee	49,361	3.1	55.1	28.5	9.5	3.9	------	------	------	------	------	------
Texas	197,924	.5	8.1	41.9	33.9	15.6	------	------	------	------	------	------
Utah	11,459	.3	1.9	5.8	22.3	57.9	4.5	1.7	2.5	2.2	.8	.1
Vermont	5,802	1.4	6.9	20.3	34.0	37.3	------	------	------	------	------	------
Virginia	16,299	17.3	47.3	21.7	8.9	4.8	------	------	------	------	------	------
Washington	63,576	.7	1.8	3.7	6.7	31.3	30.4	11.9	5.0	4.3	2.3	2.0
West Virginia	21,679	1.4	53.7	32.2	9.4	3.3	------	------	------	------	------	------
Wisconsin	47,307	.6	3.2	18.3	31.6	46.3	------	------	------	------	------	------
Wyoming	3,819	.1	2.4	3.1	10.2	33.7	29.7	20.8	------	------	------	------

[1] Less than 0.05 percent.
[2] Data for September 1947.

TABLE 8.—*Aid to the blind: Distribution of payments to recipients, October 1947*

State	Number of payments	Percent receiving—										
		Less than $10	$10 to $19.99	$20 to $29.99	$30 to $39.99	$40 to $49.99	$50 to $59.99	$60 to $69.99	$70 to $79.99	$80 to $89.99	$90 to $99.99	$100 or more
Total	63,277	0.8	12.3	20.0	19.8	24.5	6.7	3.7	10.9	0.7	0.3	0.4
Alabama	1,060	1.0	56.4	29.7	8.8	4.1	------	------	------	------	------	------
Arizona	641	.2	------	.5	4.2	9.7	8.4	77.1	------	------	------	------
Arkansas [1]	1,516	2.4	46.2	33.0	15.6	2.7	------	------	------	------	------	------
California	6,670	.1	.2	.4	.5	1.1	2.0	6.0	89.6	------	------	------
Colorado	387	------	1.8	5.7	14.7	35.9	22.2	11.1	3.1	3.1	1.3	1.0
Connecticut	143	.7	8.4	9.1	21.7	55.2	1.4	------	------	------	.7	2.8
Delaware	122	2.5	19.7	30.3	18.8	28.7	------	------	------	------	------	------
District of Columbia	213	------	2.8	15.5	24.9	31.5	14.1	7.5	2.3	1.4	------	------
Florida	2,748	.8	1.7	12.8	27.4	57.2	------	------	------	------	------	------
Georgia	2,212	3.7	53.6	27.4	10.7	4.6	------	------	------	------	------	------
Hawaii	79	------	(2)	(2)	(2)	(2)	(2)	(2)	------	(2)	------	(2)
Idaho	204	------	4.9	15.2	15.2	21.6	21.6	9.3	8.8	2.0	1.0	.5
Illinois	4,748	.5	1.8	11.6	26.7	34.2	20.0	2.7	2.1	.2	.1	.1
Indiana	1,906	.8	4.7	29.7	32.4	32.3	.1	------	------	------	------	.1
Iowa	1,221	1.5	3.0	11.1	27.4	26.7	14.7	7.5	4.1	2.3	1.6	.2
Kansas	948	.4	4.0	20.0	25.7	25.3	12.8	6.5	3.5	.6	.5	.5
Kentucky	1,803	2.2	67.5	26.1	3.5	.7	------	------	------	------	------	------
Louisiana	1,565	4.0	31.1	29.8	21.6	9.2	3.0	.9	.3	------	------	------
Maine	709	.4	4.9	25.8	31.5	37.4	------	------	------	------	------	------
Maryland	464	.6	11.4	20.0	27.6	38.4	1.5	.2	------	.2	------	------
Massachusetts	1,231	.4	2.4	3.0	9.7	34.8	19.0	15.3	7.6	3.8	1.9	2.0
Michigan	1,448	.6	.8	10.2	17.0	69.3	------	2.2	------	------	------	------
Minnesota	1,006	.3	1.3	9.7	22.8	28.8	18.8	8.3	5.2	1.7	1.2	2.0
Mississippi	2,090	.5	21.3	45.2	33.0	------	------	------	------	------	------	------
Montana	412	------	1.9	7.0	15.5	75.5	------	------	------	------	------	------
Nebraska	480	.4	1.2	16.0	32.7	26.2	18.1	1.9	1.5	.8	------	1.0
New Hampshire	294	1.4	3.1	14.6	21.4	47.6	4.4	2.4	1.0	2.7	1.0	.3
New Jersey	603	.3	1.7	9.6	24.9	34.7	21.7	5.3	.8	.3	.7	------
New Mexico	395	------	4.8	22.8	22.8	20.8	24.3	4.6	------	------	------	------
New York	3,433	.3	1.8	7.7	14.9	20.0	18.8	14.1	11.8	5.5	2.0	3.0
North Carolina	2,960	.2	24.0	40.6	21.1	14.0	------	------	------	------	------	------
North Dakota	124	------	3.2	25.8	28.2	21.8	12.9	4.8	------	.8	1.6	.8
Ohio	3,295	.6	4.8	20.4	26.2	23.3	24.6	------	------	------	------	------
Oklahoma	2,548	.2	1.0	1.2	13.1	84.6	------	------	------	------	------	------
Oregon	376	.5	.5	10.1	22.3	25.5	13.0	12.5	9.0	2.9	2.1	1.3
Rhode Island	141	1.4	4.3	22.7	19.9	17.7	14.2	9.2	6.4	1.4	1.4	1.4
South Carolina	1,237	1.0	25.5	73.5	------	------	------	------	------	------	------	------
South Dakota	216	.5	9.7	48.1	24.1	17.6	------	------	------	------	------	------
Tennessee	1,782	.3	16.0	33.8	25.5	24.3	------	------	------	------	------	------
Texas	5,461	.2	3.0	31.6	37.7	27.4	------	------	------	------	------	------
Utah	135	.7	3.7	2.2	20.0	47.4	9.6	3.0	5.2	5.2	2.2	.7
Vermont	177	.6	3.4	14.1	18.1	63.8	------	------	------	------	------	------
Virginia	1,168	6.2	38.2	26.1	17.4	12.2	------	------	------	------	------	------
Washington	645	.9	.8	2.0	5.6	20.9	23.7	12.4	12.2	10.9	4.7	5.9
West Virginia	882	.7	36.7	37.8	18.7	6.1	------	------	------	------	------	------
Wisconsin	1,277	.3	2.7	16.0	29.3	43.8	7.9	------	------	------	------	------
Wyoming	100	------	1.0	1.0	7.0	35.0	21.0	35.0	------	------	------	------

[1] Data for September 1947.
[2] Not computed on base of less than 100 recipients.

TABLE 9.—*Aid to dependent children: Distribution of payments to families, October 1947*

State	Number of payments	Percent receiving—										
		Less than $10	$10 to $19.99	$20 to $29.99	$30 to $39.99	$40 to $49.99	$50 to $59.99	$60 to $69.99	$70 to $79.99	$80 to $89.99	$90 to $99.99	$100 or more
Total	413,724	0.9	7.6	14.8	13.8	7.9	10.5	8.5	7.4	6.5	5.3	16.8
Alabama	9,111	3.3	18.7	32.0	22.6	11.1	7.0	3.3	1.0	.6	.2	.1
Alaska	228	.9	31.1	8.3	26.8	18.4	9.2	3.5	1.8	------	------	------
Arizona	2,169	2.3	6.2	27.2	22.9	4.2	16.0	9.9	1.1	5.3	2.6	2.4
Arkansas [1]	7,611	1.7	13.0	30.4	22.9	9.0	12.3	6.3	2.5	1.2	.6	.1
California	12,326	.2	.7	2.6	7.3	5.1	4.4	6.1	8.3	8.9	7.8	48.5
Colorado	4,211	.4	3.3	5.6	8.2	9.4	10.3	12.8	12.4	9.9	7.7	20.1
Connecticut	2,763	.9	2.8	4.2	5.2	6.0	8.0	7.2	7.8	8.5	8.9	40.4
Delaware	315	.6	.6	4.1	3.5	7.9	17.5	17.8	1.9	19.7	11.4	14.9
District of Columbia	1,157	------	1.6	4.3	7.0	9.1	10.1	11.7	13.1	13.1	10.2	19.8
Florida	13,210	.5	4.4	31.4	25.1	1.6	16.3	10.0	.4	5.2	2.9	2.2
Georgia	6,641	2.0	15.3	32.0	23.0	7.9	10.4	5.6	1.0	1.9	1.0	------
Hawaii	1,132	.1	1.9	6.4	5.8	8.0	9.1	7.6	8.5	10.0	7.6	35.0
Idaho	1,734	.5	3.9	8.9	6.3	8.3	7.4	9.6	8.4	9.1	7.8	29.8
Illinois	21,322	.4	2.7	6.1	5.1	7.3	8.5	9.8	11.2	10.6	9.8	28.6
Indiana	7,842	.7	4.9	16.4	26.1	17.1	5.5	12.9	7.7	1.2	3.6	3.8
Iowa	4,237	1.7	7.7	11.1	10.6	10.5	10.4	9.7	8.4	7.0	5.5	17.5
Kansas	4,802	.5	3.1	9.8	7.7	9.3	11.0	11.6	11.3	8.4	7.1	20.2
Kentucky	11,143	.8	35.8	3.6	22.6	15.9	9.8	6.5	3.2	.5	1.0	.4
Louisiana	12,735	4.5	12.6	14.7	19.1	25.0	11.3	6.5	3.0	1.9	1.6	------
Maine	1,859	.4	2.4	4.5	5.1	8.1	18.3	5.1	18.2	3.5	13.4	21.1
Maryland	5,215	1.0	4.1	7.1	7.5	8.8	9.7	11.5	11.2	9.0	7.8	22.1
Massachusetts	9,441	.6	1.3	3.3	4.7	4.9	5.7	6.7	7.4	8.2	8.2	49.0
Michigan	20,443	.3	2.0	4.2	5.3	6.3	8.0	9.8	24.2	12.5	9.2	18.2
Minnesota	6,199	.2	2.1	4.8	6.2	7.8	22.0	5.4	18.9	14.0	1.5	17.2
Mississippi	5,437	.1	30.6	25.5	31.3	10.0	2.2	.3	(2)	------	------	------
Missouri	20,485	1.4	32.7	25.1	17.2	11.0	6.5	3.5	1.7	.6	.2	.1
Montana	1,712	------	3.1	9.6	10.6	11.6	10.1	10.4	9.0	8.8	7.4	19.5
Nebraska	3,246	.4	3.3	10.9	6.2	9.5	7.7	10.4	12.1	14.1	10.6	14.7
New Hampshire	1,121	.1	1.5	6.8	5.9	6.2	8.7	10.7	9.8	10.9	8.7	30.9
New Jersey	4,307	.2	2.9	6.8	7.0	6.5	7.6	9.0	10.8	10.1	8.7	30.3
New Mexico	3,907	------	13.9	11.6	15.3	16.5	14.9	10.3	7.0	4.5	2.2	3.8
New York	43,945	.5	1.3	2.4	3.2	4.5	5.6	7.1	9.7	11.0	10.6	44.2
North Carolina	7,958	1.0	14.0	30.9	25.0	9.6	10.1	6.1	1.0	1.4	.5	.3
North Dakota	1,569	.1	3.5	8.0	9.9	8.9	10.3	11.5	9.9	7.6	6.7	23.5
Ohio	9,421	.3	3.9	10.4	13.2	10.4	12.2	11.5	8.7	7.6	5.7	16.0
Oklahoma	28,968	.2	.8	37.8	24.5	.2	15.5	9.4	(2)	5.7	3.3	2.3
Oregon	2,307	.1	1.2	4.4	4.6	8.1	7.6	7.5	9.8	9.9	9.0	37.9
Pennsylvania	38,753	.5	2.7	5.3	7.3	9.7	15.5	13.0	11.4	8.6	6.9	19.2
Rhode Island	2,632	.5	3.1	4.5	7.1	8.3	8.5	9.3	11.2	12.1	9.5	25.8
South Carolina	5,949	6.7	35.8	24.9	19.0	9.0	3.4	1.0	.2	------	(2)	------
South Dakota	1,752	.5	3.6	8.0	29.9	24.0	15.0	8.8	.9	5.4	1.9	2.1
Tennessee	14,322	.3	5.5	25.7	25.0	4.3	16.6	11.8	2.1	4.9	2.4	1.3
Texas	15,443	1.0	5.7	29.6	26.1	3.1	16.1	9.6	8.8	------	------	------
Utah	2,477	.2	1.5	4.7	4.4	6.9	5.9	6.7	8.9	9.3	9.8	41.8
Vermont	708	.4	5.8	28.2	23.6	2.8	15.8	9.9	1.0	6.5	2.5	3.4
Virginia	4,652	2.1	15.3	20.9	20.7	12.9	10.4	7.4	3.8	2.6	1.5	2.4
Washington	7,205	.6	1.6	5.2	4.2	5.0	5.5	6.5	9.0	8.9	9.5	44.1
West Virginia	10,114	1.5	10.7	26.6	21.8	7.6	12.3	8.6	4.2	3.7	1.9	1.2
Wisconsin	7,105	.3	2.4	7.5	7.2	7.3	9.1	8.5	8.8	9.0	7.2	32.6
Wyoming	383	.3	1.3	3.4	6.3	5.2	10.4	7.0	12.0	10.4	8.1	35.5

[1] Data for September 1947.
[2] Less than 0.05 percent.

TABLE 10.—*Old-age assistance: Expenditures for assistance payments and administration, fiscal years 1936–47*

Fiscal year	Expenditures for assistance and administration, fiscal year					Recipients, June	Average assistance payment, June
	Total	Assistance		Administration [1]			
		Federal funds	State-local funds	Federal funds	State-local funds		
1936	[2] $33,805,000	[2] $16,602,000	[2] $17,203,000	----------	----------	603,710	$15.99
1937	243,229,000	119,095,000	124,134,000	----------	----------	1,290,673	18.91
1938	360,239,000	174,085,000	186,154,000	----------	----------	1,659,295	19.48
1939	415,764,000	198,645,000	217,119,000	----------	----------	1,845,040	19.43
1940	474,068,000	220,414,000	229,572,000	$8,600,000	$15,482,000	1,969,743	19.92
1941	535,700,000	251,254,000	253,799,000	12,060,000	18,587,000	2,170,500	21.08
1942	602,052,000	282,649,000	285,698,000	13,746,000	19,959,000	2,253,522	21.83
1943	652,901,000	305,748,000	310,512,000	15,320,000	21,321,000	2,170,090	24.61
1944	720,416,000	326,845,000	352,487,000	16,216,000	24,868,000	2,087,748	27.56
1945	743,981,000	335,453,000	366,498,000	16,655,000	25,375,000	2,038,443	29.46
1946	806,349,000	354,983,000	406,604,000	17,529,000	27,233,000	2,108,216	31.48
1947	960,295,000	472,007,000	438,262,000	23,336,000	26,690,000	2,271,007	36.04

[1] Data for 1936–39 not available. [2] Represents data for February–June.

TABLE 11.—*Aid to the blind: Expenditures for assistance payments and administration for State-Federal programs, fiscal years 1936–47*

Fiscal year	Expenditures for assistance and administration, fiscal year					Recipients, June	Average assistance payment, June
	Total	Assistance		Administration [1]			
		Federal funds	State-local funds	Federal funds	State-local funds		
1936	[2] $1,810,000	[2] $885,000	[2] $925,000	----------	----------	17,571	$24.10
1937	8,981,000	4,213,000	4,678,000	----------	----------	35,042	24.96
1938	11,339,000	5,046,000	6,293,000	----------	----------	38,783	23.32
1939	11,906,000	5,170,000	6,736,000	----------	----------	44,579	23.22
1940	13,791,000	5,805,000	7,015,000	$365,000	$606,000	47,538	23.53
1941	15,043,000	6,483,000	7,243,000	627,000	690,000	49,817	23.67
1942	16,541,000	7,097,000	7,919,000	733,000	792,000	54,378	24.37
1943	17,965,000	7,720,000	8,563,000	834,000	848,000	53,712	25.94
1944	20,595,000	8,729,000	9,739,000	1,054,000	1,073,000	56,834	28.64
1945	21,729,000	9,350,000	10,452,000	955,000	972,000	55,466	30.27
1946	23,500,000	9,658,000	11,751,000	1,037,000	1,054,000	57,616	32.89
1947	28,113,000	12,834,000	12,894,000	1,184,000	1,201,000	62,085	37.87

[1] Data for 1936–39 not available. [2] Represents data for February–June.

TABLE 12.—*Aid to dependent children: Expenditures for assistance payments and administration for State-Federal programs, fiscal years 1936–47*

Fiscal year	Expenditures for assistance and administration, fiscal year					Recipients, June		Average assistance payments, June	
	Total	Assistance		Administration [1]					
		Federal funds	State-local funds	Federal funds	State-local funds	Families	Children	Per family	Per child
1936	[2] $5,621,000	[2] $1,691,000	[2] $3,930,000	----------	----------	69,664	175,144	$23.46	$9.33
1937	40,774,000	12,005,000	28,769,000	----------	----------	171,434	421,868	30.56	12.42
1938	79,694,000	22,269,000	57,425,000	----------	----------	243,422	603,335	31.40	12.67
1939	102,796,000	27,544,000	75,252,000	----------	----------	297,344	717,989	31.21	12.92
1940	128,259,000	40,403,000	78,468,000	$3,771,000	$5,617,000	333,018	801,754	32.09	13.33
1941	152,793,000	57,528,000	84,063,000	5,516,000	5,686,000	379,655	916,895	33.01	13.67
1942	167,824,000	62,774,000	91,636,000	6,549,000	6,865,000	391,755	943,079	33.87	14.07
1943	161,926,000	58,627,000	89,754,000	6,754,000	6,791,000	301,353	740,031	38.96	15.86
1944	148,099,000	50,266,000	84,891,000	6,402,000	6,540,000	260,126	651,208	43.13	17.23
1945	151,398,000	48,520,000	89,564,000	6,637,000	6,677,000	255,577	646,575	47.46	18.76
1946	188,868,000	54,869,000	117,931,000	8,008,000	8,060,000	311,250	799,325	53.71	20.91
1947	275,624,000	95,876,000	158,459,000	10,626,000	10,663,000	396,098	1,009,360	61.68	24.21

[1] Data for 1936–39 not available. [2] Represents data for February–June.

TABLE 13.—*General assistance: Expenditures for assistance payments and administration, fiscal years 1936–47*

Fiscal year	Expenditures for assistance and administration, fiscal year			Cases receiving assistance, June	Average assistance payment, June
	Total [1]	Assistance	Administration [1]		
1936		[2] $239,390,000		1,556,000	$21.42
1937		401,430,000		1,277,000	22.10
1938		451,410,000		1,648,000	22.30
1939		472,359,000		1,566,000	23.72
1940	$493,896,000	444,450,000	$49,446,000	1,354,000	23.22
1941	389,935,000	336,945,000	52,990,000	934,000	22.03
1942	262,068,000	219,413,000	42,675,000	607,000	23.30
1943	166,876,000	137,441,000	29,435,000	354,000	26.19
1944	116,878,000	95,367,000	21,511,000	258,000	27.87
1945	104,763,000	85,545,000	19,218,000	234,000	29.07
1946	121,061,000	100,960,000	20,101,000	278,000	32.67
1947	168,173,000	143,836,000	24,337,000	335,000	39.18

[1] Data for 1936–39 not available; data incomplete for 1940–47.
[2] Represents data for January–June.

TABLE 14.—*General assistance: Percentage of assistance payments met from State funds, fiscal year ended June 30, 1947*

State	Percent	State	Percent
None:		25 to 49—Continued	
California		New Jersey	36.1
Florida		Connecticut	45.3
Georgia		Illinois	46.9
Idaho		Alabama	48.4
Indiana		Maryland	49.7
Iowa [1]		Colorado	49.8
Kentucky		50 to 74:	
Mississippi		Delaware	50.0
Nebraska		Michigan	51.6
Nevada		Virginia	53.1
New Hampshire		Oklahoma	58.8
North Carolina		Washington	68.1
South Dakota		Rhode Island	70.0
Tennessee		75 or more:	
Texas		Louisiana	77.6
Less than 25:		Wyoming	80.3
Vermont	0.3	New York	80.9
Wisconsin	2.6	Utah [2]	85.0
Montana	14.9	South Carolina	90.6
Massachusetts	23.2	Oregon	95.7
Minnesota	23.4	New Mexico	98.5
25 to 49:		Missouri	99.1
North Dakota	31.1	Arizona	100.0
Maine	32.0	Arkansas	100.0
West Virginia	32.1	Ohio	100.0
Kansas	33.0	Pennsylvania	100.0

[1] Some State funds are available though none was expended during this fiscal year.
[2] As of July 1, 1947, the State assumed all financial responsibility.

TABLE 15.—*Statutory residence provisions for public assistance programs under Social Security Act, February 1948*

State	5 years [1]		3 years [2]		2 years [3]		1 year			None [4]		
	Old-age assistance	Aid to the blind	Old-age assistance	Aid to the blind	Old-age assistance	Aid to the blind	Old-age assistance [5]	Aid to the blind [6]	Aid to dependent children [6]	Old-age assistance	Aid to the blind	Aid to dependent children
Alabama							X	X				X
Alaska	X								X		(8)	
Arizona	X	[7] X							X			
Arkansas							X	[7] X	X			
California	X	[7] X							X			
Colorado	X	[7] X							X			
Connecticut	X	X							X			
Delaware	X	[7] X							X			
District of Columbia	X	[9] X							X			
Florida	X	X							X			
Georgia							X	X				X
Hawaii							X	X	X			
Idaho							X	X	X			
Illinois							X	[7] X	X			
Indiana	X	[7] X							X			
Iowa	X	[7] X							X			
Kansas	X	X							X			
Kentucky										X	X	X
Louisiana			X	[7] X					X			
Maine	X	X							X			
Maryland							X	[7] X	X			
Massachusetts			X	[7] X					X			
Michigan	X	[7] X							X			
Minnesota	X							X	X			
Mississippi							X				X	X
Missouri	X								X		(8)	
Montana	X	X							X			
Nebraska	X							X	X			
Nevada	X										(8)	(8)
New Hampshire	X							X	X			
New Jersey							X	X	X			
New Mexico	(4)	(4, 7)							X	[4] X	[4, 7] X	
New York										X	X	X
North Carolina							X	X	X			
North Dakota							X	X	X			
Ohio	X	[7] X							X			
Oklahoma	X	[7] X							X			
Oregon	X	X							X			
Pennsylvania							X		X		(8)	
Rhode Island										X	X	X
South Carolina							X	[7] X	X			
South Dakota					X	X			X			
Tennessee	X	X							X			
Texas	X	X							X			
Utah										X	X	X
Vermont			X			[7] X			X			
Virginia	X	X							X			
Washington	X	[7] X							X			
West Virginia							X	X	X			
Wisconsin							X	[7] X				X
Wyoming							X	X	X			

[1] With the exception of Alaska and Colorado, the provision is residence in the State for 5 of last 9 years including 1 year immediately preceding application. Alaska and Colorado do not require the year immediately preceding application.

[2] With the exception of Vermont, the provision is residence in the State for 3 of last 9 years including 1 year immediately preceding application. Vermont requires 3 of last 10 years and does not require the year immediately preceding application.

[3] The provision is residence in the State for 2 of last 9 years including 1 year immediately preceding application.

[4] Although New Mexico has no statutory residence provision, there is an administrative requirement of 5 of last 9 years, including 1 year immediately preceding application.

[5] These States require residence of 1 year immediately preceding application. Georgia provides that a person must have been a "bona fide resident" of the State for not less than 1 year.

[6] States listed in this column vary in minor detail from a basic 1 year requirement.

[7] Residence requirement waived if persons became blind while residing in State.

[8] No approved State plan.

[9] Residence requirement reduced to 1 year immediately preceding application if person became blind while residing in District of Columbia.

TABLE 16.—*Federal grants for public assistance per capita, by State, 1946–1947*

State (in order of 1946 per capita income)	Federal grants certified 1946–47 (000's) (1)	Population 1946 (000's) (2)	Federal grants per capita (1)+(2) (3)	Per capita income 1946 (4)	Federal grant per capita as percent of total per capita income (3)+(4) (5)
Continental United States	$612,720	138,394	$4.43	$1,200	0.37
Nevada	563	134	4.22	1,703	.25
New York	40,580	13,693	2.96	1,633	.18
District of Columbia	1,067	815	1.31	1,569	.08
California	53,733	9,342	5.75	1,531	.38
New Jersey	6,997	4,217	1.66	1,494	.11
Delaware	319	286	1.12	1,493	.08
Illinois	38,727	7,946	4.87	1,486	.33
Connecticut	4,588	1,958	2.34	1,465	.16
Montana	3,236	477	6.79	1,394	.49
Massachusetts	25,797	4,568	5.65	1,356	.42
Rhode Island	2,555	735	3.47	1,347	.26
Washington	21,525	2,168	9.93	1,346	.74
Ohio	32,028	7,499	4.27	1,302	.33
Maryland	4,313	2,109	2.05	1,293	.16
Wyoming	1,229	260	4.73	1,264	.37
Idaho	3,163	470	6.72	1,243	.54
Pennsylvania	33,107	10,004	3.31	1,238	.27
South Dakota	3,238	547	5.92	1,228	.48
Michigan	27,727	6,050	4.58	1,215	.38
Wisconsin	13,014	3,163	4.12	1,198	.34
Colorado	12,486	1,103	11.32	1,196	.95
Oregon	6,596	1,449	4.55	1,188	.38
Iowa	12,191	2,541	4.80	1,183	.41
Nebraska	7,299	1,269	5.75	1,164	.49
North Dakota	2,763	537	5.14	1,162	.44
Indiana	14,728	3,745	3.93	1,158	.34
Missouri	29,766	3,766	7.90	1,143	.69
Minnesota	14,299	2,818	5.07	1,090	.47
Vermont	1,289	353	3.65	1,085	.34
Utah	4,475	623	7.18	1,063	.68
Kansas	8,867	1,835	4.83	1,062	.45
New Hampshire	1,943	513	3.78	1,048	.36
Maine	4,444	874	5.08	1,044	.49
Florida	15,027	2,249	6.68	1,010	.66
Arizona	3,869	617	6.27	995	.63
Texas	40,644	6,809	5.97	954	.63
Virginia	3,370	2,886	1.17	952	.12
West Virginia	5,026	1,806	2.78	914	.30
New Mexico	2,772	519	5.34	911	.59
Tennessee	9,263	2,987	3.10	843	.37
Oklahoma	32,674	2,211	14.78	825	1.79
North Carolina	6,749	3,573	1.89	817	.23
Georgia	10,898	3,088	3.53	809	.44
Louisiana	10,985	2,469	4.45	784	.57
Kentucky	7,661	2,698	2.84	778	.37
Alabama	8,054	2,774	2.90	733	.40
South Carolina	5,046	1,883	2.68	729	.37
Arkansas	6,067	1,877	3.23	697	.46
Mississippi	5,959	2,081	2.86	555	.52

NOTE.—Computations in Column 3 based on unrounded data.

Source: Column 1, annual report, Federal Security Agency, 1947, p. 166; column 2, estimated by Bureau of the Census; column 4, Survey of Current Business, August 1947.

Appendix III–B. Memorandum of Dissent by Four Members from the Majority Report with Respect to Federal Participation in General Assistance

Those opposing the extension of Federal grants to include general assistance are fully cognizant of the pressing need to improve the standards and effectiveness of this type of social-welfare program. They believe, however, that the extension and liberalization of the social insurances and the improvement of the program for aid to dependent children currently recommended by this Council, if adopted, will in time materially reduce the burden of general assistance to be borne by the States and localities. Further, they are convinced that general assistance for persons of working age is in particular, under our form of government, the responsibility of the State and locality, since sustained and immediate participation by community representatives is essential to the effective and economical administration of this form of assistance. They would favor the broadening of the existing program of Federal participation in State aid to the blind to cover persons of working age who are totally and permanently disabled by other specified physical impairments of an equally serious and demonstrable character.

Appendix III–C. Staff for Public Assistance

Robert M. Ball, staff director.
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Part IV

UNEMPLOYMENT INSURANCE

INTRODUCTION AND SUMMARY

Characteristics of State-Federal Unemployment Insurance

During the long and deep depression of the 1930's, the United States became acutely aware of the plight of millions of men and women who were unemployed through no fault of their own. Although up to that time, only one State had enacted an unemployment insurance law, the Federal Government took steps in 1935 to provide unemployment insurance at an early date for a large proportion of the industrial and commercial labor force. The Social Security Act of 1935, however, did not set up a single Federal system of unemployment insurance. Rather, through a tax-offset device, it encouraged the States to establish their own systems conforming to a few broad Federal standards. Within 2 years, the 48 States, the District of Columbia, Alaska, and Hawaii had unemployment insurance laws.

The Federal Government levies a 3 percent tax on the pay rolls of employers in business and industry who have eight or more employees. This tax can be offset—up to 90 percent—by contributions paid by employers under approved State laws. A State law can be approved only if the funds collected under it are deposited to the State's account in a trust fund in the Federal Treasury to be used by the State exclusively for the payment of unemployment insurance benefits. Furthermore, the benefits provided under the State law must be paid through public employment offices "or such other agencies as the Federal Security Administrator may approve." In general, no Federal standards have been established relating to such benefit rights as the amount or duration of benefits. One Federal standard relating to benefits, however, was set as a condition for tax offset; namely, that benefits under the State law shall not be denied to any otherwise eligible individual for refusing to accept new work (1) if the position offered is vacant due directly to a labor dispute; (2) if the working conditions offered are substantially less favorable than those prevailing for similar work in the locality; or (3) if, as a condition of employment, the individual must join a company union or resign from or refrain from joining any bona fide labor organization.

As an incentive to employment stabilization, employers were allowed credit against the Federal tax, not only for contributions actually paid, but also for contributions which were waived because the employer's contribution rate was reduced by the State on the basis of his experience with unemployment "or other factors directly related to unemployment risk."

In addition to stimulating the enactment of State unemployment insurance laws, the Federal Government undertook to assure adequate

Nation-wide provision for administering the program, by authorizing grants to States to meet the total cost necessary for proper and efficient administration of their laws. Although technically made from the general Federal Treasury, it is clear from the hearings and committee reports that these grants were thought of as being financed by the 0.3 percent of covered pay rolls which constitutes the income to the Federal Government from the Federal Unemployment Tax Act. These administrative grants were to enable, and also require, the States to use methods of administration reasonably calculated to insure the full payment of benefits when due, to provide for fair hearings to those whose claims are denied, to make reports, and to cooperate effectively with public works agencies and the Railroad Retirement Board. A State was not entitled to the grants if these conditions were not met or if, in the administration of the State law, benefits were denied in a substantial number of cases to individuals entitled thereto under the State law. Except for these very general Federal standards, each of the 51 systems has established its own eligibility requirements, benefit amounts and duration, waiting periods, disqualification rules, and administrative procedures.

The Council has studied the present State-Federal arrangements, and the majority approves the basic principles of the system. In the opinion of the majority (1) the State is the proper unit to determine the benefit provisions which will meet the varying conditions in different parts of the country; (2) State laws can assure more adequate benefits in highly industrialized areas; and (3) the State-Federal program has shown over the past 10 years that it is capable of making progress. In most States the minimums, maximums, and average weekly payments have risen, durations have increased, waiting periods have decreased, and coverage has broadened.

Five members of the Council, however, favor the establishment of a single national system of unemployment insurance. (See appendix IV–C.) In their opinion unemployment is essentially a national problem and is an inappropriate area for State operation. They point out that many workers move from State to State in their search for work and that labor markets cut across State lines. The maintenance of 51 separate systems, each with its own reserve, is in their opinion actuarially unsound. They also feel that the effectiveness of the various State plans has been diminished by the growing restrictions on benefits and that the progressive changes in the benefit provisions of State laws have not kept pace with increasing wages and prices. Four of these members would join with the majority, however, in the recommendations included in this report for the improvement of the State-Federal system should the Congress decide against the establishment of a national program. One member is not signing the recommendations of the Council since he disagrees with some of the most important ones even under a continued State-Federal system. (See appendix IV–C.)

Deficiencies in the Present Program

The dual nature of the State-Federal plan for unemployment insurance has limited the scope of the Council's work. Since the actual administration of unemployment benefits is the responsibility of 48 States, the District of Columbia, and the Territories of Alaska and

Hawaii, it would have been impracticable for the Council to have made a detailed investigation of administration in each jurisdiction. The Council, however, has studied the basic principles and operations of the State-Federal program and finds five major deficiencies:

1. *Inadequate coverage.*—Only about 7 out of 10 employees are now covered by unemployment insurance.

2. *Benefit financing which operates as a barrier to liberalizing benefit provisions.*—The present arrangements permit States to compete in establishing low contribution rates for employers and therefore discourages the adoption of more adequate benefit provisions.

3. *Irrational relationship between the contribution rates and the cyclical movements of business.*—The present arrangements tend to make the contribution rate fluctuate inversely with the volume of employment, declining when employment is high and when contributions to the unemployment compensation fund are easiest to make and increasing when employment declines and when the burden of contributions is greatest.

4. *Administrative deficiencies.*—Improvement is needed in methods of financing administrative costs, provisions for determining eligibility and benefit amount in interstate claims, procedures for developing interstate claims, and methods designed to insure prompt payments on all valid claims and to prevent payments on invalid claims.

5. *Lack of adequate employee and citizen participation in the program.*—Workers now have less influence on guiding the administration of the program and developing legislative policy than they should, and some employees, employers, and members of the general public tend to regard unemployment compensation more as a hand-out than as social insurance earned by employment, financed by contributions, and payable only to those who satisfy eligibility requirements.

The Council has also made recommendations on other points, but has mainly proposed measures designed to remedy these major defects. The recommendations apply only to the continental United States, Hawaii, and Alaska. The Council, in its report on old-age and survivors insurance, proposed that a special commission should be established to determine the various types of social-security protection appropriate to Puerto Rico, the Virgin Islands, Guam, and other possessions of the United States.[1]

Recommendations for Improvement of the Program

A summary of the Council's recommendations follows:

1. *Employees of small firms.*—The size-of-firm limitation on coverage in the Federal Unemployment Tax Act should be removed, and employees of small firms should be protected under unemployment insurance just as they are now protected under old-age and survivors insurance.

2. *Employees of nonprofit organizations.*—The Federal Unemployment Tax Act should be broadened to include employment by all nonprofit organizations, except that services performed by clergymen and members of religious orders should remain excluded. The exclusion of domestic workers in college clubs, fraternities, and sororities by the 1939 amendments to the Federal Unemployment Tax Act

[1] See p. 28.

should be repealed so that these workers will again be protected under all State laws.

3. *Federal civilian employees.*—Employees of the Federal Government and its instrumentalities should receive unemployment benefits through the State unemployment insurance agencies in accordance with the provisions of the State unemployment insurance laws. The States should be reimbursed for the amounts actually paid in benefits based on Federal employment. If there is employment under both the State system and for the Federal Government during the base period, the wage credits should be combined and the States should be reimbursed in the proportion which the amount of Federal employment or wages in the base period bears to the total employment or wages in the base period. The special provisions for federally employed maritime workers should be extended until this recommendation for covering all Federal employees becomes effective.

4. *Members of the armed forces.*—Members of the armed forces who do not come under the servicemen's readjustment allowance program should be protected by unemployment insurance.

5. *Borderline agricultural workers.*—To afford protection to certain workers excluded by the 1939 amendments to the Federal Unemployment Tax Act, defining agricultural labor, coverage of that act should be extended to services rendered in handling, packing, packaging, and other forms of processing agricultural and horticultural products, unless such services are performed for the owner or tenant of the farm on which the products are raised and he does not employ five or more persons in such activities in each of four calendar weeks during the year. Coverage should also be extended to services now defined as agricultural labor by section 1607 (l) (3) of the Unemployment Tax Act.

6. *Inclusion of tips in the definition of wages.*—The definition of wages contained in section 1607 (b) of the Federal Unemployment Tax Act should be amended to specify that such wages shall include all tips or gratuities customarily received by an employee from a customer of an employer.

7. *Contributory principle.*—To extend to unemployment insurance the contributory principle now recognized in old-age and survivors insurance, a Federal unemployment tax should be paid by employees as well as employers. Employee contributions to a State unemployment-insurance fund should be allowed to offset the Federal employee tax in the same manner as employer contributions are allowed to offset the Federal tax on employers. The employee tax would be collected by employers and paid by them when they pay their own unemployment tax.

8. *Maximum wage base.*—To take account of increased wage levels and costs of living, and to provide the same wage base for contributions and benefits as that recommended for old-age and survivors insurance, the upper limit on earnings subject to the Federal unemployment tax should be raised from $3,000 to $4,200.

9. *Minimum contribution rate.*—The Federal unemployment tax should be 0.75 percent of covered wages payable by employers and 0.75 percent payable by employees. The taxpayer should be allowed

to credit against the Federal tax the amount of contributions paid into a State unemployment fund, but this credit should not exceed 80 percent of the Federal tax. Since no additional credit against the Federal tax should be allowed for experience rating, the States would, in effect, be required to establish a minimum rate of 0.6 percent on employers and 0.6 percent on employees.

10. *Loan fund.*—The Federal Government should provide loans to a State for the payment of unemployment-insurance benefits when a State is in danger of exhausting its reserves and covered unemployment in the State is heavy. The loan should be for a 5-year period and should carry interest at the average yield of all interest-bearing obligations of the Federal Government.

11. *Standards on experience rating.*—If a State has an experience rating plan, the Federal act should require that the plan provide: (1) a minimum employer contribution rate of 0.6 percent; (2) an employee rate no higher than the lowest rate payable by an employer in the State; and (3) a rate for newly covered and newly formed firms for the first 3 years under the program which does not exceed the average rate for all employers in the State.

12. *Combining wage credits earned in more than one State and processing interstate claims.*—The Social Security Administration should be empowered to establish standard procedures for combining unemployment-insurance wage credits earned in more than one State and for processing interstate claims. These procedures should be worked out in consultation with the administrators of the State programs and should provide for the combination of wage credits not only when eligibility is affected but also when such combination would substantially affect benefit amount or duration. All States should be required to follow the prescribed procedures as a condition of receiving administrative grants. Similar procedures should be worked out, in cooperation with the Railroad Retirement Board, for combining wage credits earned under the State systems and under the railroad system.

13. *Financing administrative costs.*—Income from the Federal Unemployment Tax Act should be dedicated to unemployment-insurance purposes. One-half of any surplus over expenses incurred in the collection of the tax and the administration of unemployment insurance and the employment service should be appropriated to the Federal loan fund, and one-half of the surplus should be proportionately assigned to the States for administration or benefit purposes. A contingency item should be added to the regular congressional appropriation for the administration of the employment-security programs. The administrative standards in the Social Security Act should be applicable to the expenditure of the surplus funds as well as to expenditures of the funds originally appropriated.

14. *Clarification of Federal interest in the proper payment of claims.*—The Social Security Act should be amended to clarify the interest of the Federal Government not only in the full payment of benefits when due, but also in the prevention of improper payments.

15. *Standards for disqualifications.*—A Federal standard on disqualifications should be adopted prohibiting the States from (1) re-

ducing or canceling benefit rights as the result of disqualification except for fraud or misrepresentation, (2) disqualifying those who are discharged because of inability to do the work, and (3) postponing benefits for more than 6 weeks as the result of a disqualification except for fraud or misrepresentation.

16. *Study of supplementary plans.*—The Congress should direct the Federal Security Agency to study in detail the comparative merits in times of severe unemployment of (a) unemployment assistance, (b) extended unemployment-insurance benefits, (c) work relief, (d) other income-maintenance devices for the unemployed, including public works. This study should be conducted in consultation with the Social Security Administration's Advisory Council on Employment Security, the Council of Economic Advisers, and the State employment security agencies, and should make specific proposals for Federal measures to provide economic security for workers who do not have private or public employment during a depression and who are not adequately protected by unemployment insurance.

Plan of the Report

The Council's proposed remedies for the five major deficiencies of the present program are summarized in this section, which also includes a discussion of the need for a broad informational program. The section which follows presents the 16 specific recommendations in more detail. The report proper concludes with a discussion of temporary-disability insurance. The appendixes include cost estimates for unemployment insurance, material on the proper payment of benefits, dissents, and statistical information on the operation of the programs.

Goal of Universal Coverage

At present about 7 out of 10 jobs in American industry are covered by unemployment-insurance laws. It would obviously be desirable, if practicable, to have all jobs covered. In unemployment insurance, however, universal coverage would entail more difficult administrative problems than would be met in old-age and survivors insurance. The Council, therefore, does not recommend that the Federal Unemployment Tax Act be extended now to include the two groups which would present the greatest administrative difficulty—farm workers and domestic workers—and, in view of constitutional limitations, the coverage of employees of State and local governments will have to be left to the States.[2]

The Council favors the immediate extension of the Federal Unemployment Tax Act to the areas of employment that present no overwhelming administrative or legal difficulties—namely, to employment by small firms, by nonprofit organizations, by the Federal Government (both civil and military), and to certain borderline agricultural employments. Such extension might increase coverage in an average week by over 7 million or to about 85 percent of the total number of individuals employed by others.

[2] Extension of compulsory coverage to workers engaged in the "proprietary" functions of government—as opposed to regular governmental functions—is, in all probability, constitutional. In a State-Federal program, however, the Council believes that it would be better for States to provide for covering all governmental employees under one plan rather than, in effect, to force the coverage through Federal law of those governmental workers engaged in "proprietary" activities.

In absolute terms, the number of individuals in employment covered by the State unemployment-insurance laws has increased markedly in the past 10 years. This increase is shown in the following table:

TABLE A.—*Average monthly covered employment, 1938–48*

[In millions]

	Covered workers		Covered workers
1938	19.9	1944	30.0
1939	21.4	1945	28.4
1940	23.1	1946	30.2
1941	26.8	1947	32.2
1942	29.3	1948 (June)	32.6
1943	30.8		

Much of this increase has resulted from the increase in the active labor force of the United States. In considerable measure, however, the increase also reflects changes in the size of firm covered by State laws. The original laws of 33 States limited coverage to commercial and industrial workers in firms with 8 or more employees in at least 20 weeks in a calendar year. In 1948, 17 States covered employees in firms with 1 or more persons, although only 6 of the laws applied without restriction as to the number of workers, length of employment, or size of pay roll; and only 22 States still excluded from coverage employees of firms with less than 8 persons (table 2, appendix IV–E). The laws of 29 States contain provisions which will automatically extend coverage to smaller firms to the extent that the Federal size-of-firm restriction is reduced.

While progress has been made in extending coverage to smaller firms, maritime services represent the only type of work originally excluded to which coverage has been extended on a general scale. Effective July 1, 1946, Congress extended the Federal unemployment tax to services in private maritime employment and the States with maritime firms amended their laws accordingly. As early as 1944, a few States had already extended coverage to maritime workers following a Supreme Court decision that the Constitution did not prohibit such coverage under State laws. In addition, the War Mobilization and Reconversion Act of 1944 provided reconversion benefits for federally employed seamen.

The Federal Unemployment Tax Act now excludes agricultural labor; domestic service in a private home; service of an individual for his son, daughter, or spouse, or of a minor child for a parent; services for Federal, State, or local governments, or for foreign governments; services for nonprofit, religious, charitable, educational, scientific, or humane organizations; casual labor not in the course of the employer's business; and miscellaneous services such as services as a student nurse or interne, service for employees' beneficial associations, domestic service for college clubs, and services for organizations exempt from Federal income tax if the remuneration is not more than $45 in a calendar quarter. Railroad employment, which was originally covered, is now under a separate Federal unemployment insurance system.

The occupational exclusions in State laws are in most cases the same as those in the Federal act, but several States have provided for broader coverage. New York from the outset has covered domestic workers in a home with four or more domestics, and in 1947 New York provided protection for State employees. Wisconsin has covered some State and local government employees from the beginning. Hawaii in 1945 and Tennessee in 1947 extended coverage to nonprofit organizations, excluding ministers, members of religious orders, and, in Tennessee, executives and members of the teaching staffs of educational institutions. A few additional States cover some employment by nonprofit organizations. Many States have contemplated coverage extension and would automatically cover additional occupations if and when the Federal act is extended.

In an average week during the year ended June 30, 1948, the total labor force contained 62 million persons, of whom 2.1 million were unemployed and 59.9 million were employed. The employed labor force comprised 12.8 million self-employed persons and unpaid family workers and 47.1 million employees. About 70 percent of the employees, or 32.9 million of the 47.1 million, were covered by some unemployment insurance program. About 14.2 million employees, or 30 percent of those employed by others, were in employments which carried no form of unemployment insurance protection. The following table shows the distribution of the total labor force by coverage status:[8]

TABLE B.—*Total labor force by coverage status in an average week of year ended June 30, 1948*

	Persons in millions
Total labor force	62.0
Unemployed	2.1
Employed, total	59.9
Self-employed and unpaid family workers	12.8
Farm operators and unpaid family workers	6.3
Urban self-employed and unpaid family workers	6.5
Employed by others	47.1
Covered by unemployment insurance	32.9
State laws	31.3
Federal program for railroad workers	1.6
Not covered by unemployment insurance	14.2
Small firms	3.4
Employees of nonprofit organizations	.9
Federal employees	1.7
Armed forces	1.3
Agricultural workers	1.7
Domestic workers in private homes	1.7
Employees of State and local governments	3.5

[8] Data on labor force, unemployed and total employed, from Monthly Report on the Labor Force, Bureau of the Census; employment covered by unemployment insurance, estimated by the Bureau of Employment Security; employment not covered by unemployment insurance, from Bureau of the Census, adjusted by Bureaus of Old-Age and Survivors Insurance and Employment Security.

Some involuntarily unemployed persons will probably continue to be outside the scope of unemployment insurance even if "universal coverage" is achieved. Those seeking jobs for the first time or after a long absence from the labor market form one such group. Another is made up of those who are intermittently in and out of the labor market, but never in for very extended periods. Persons formerly dependent on self-employment but now, for one reason or another, seeking work as employees are a third group. It is probably not feasible to cover the self-employed against the risk of losing their self-employment, for it would be extremely difficult to determine when a self-employed person becomes unemployed. If his business declined gradually, it would be almost impossible to determine at what point he actually became available for employment by another. A further difficult problem would be to determine whether his unemployment was involuntary or merely the result of his decision to give up his business.

The Council's goal for coverage in unemployment insurance is the protection of all persons who work for others and have a recent record of depending on wages for a significant part of their support. This goal must be obtained gradually. The Council believes that the Federal Government cannot reasonably require the States to cover all workers immediately. The Council hopes, however, that some of the States will take advantage of the opportunity to assume leadership in extending coverage to domestic workers in private homes and to a larger part of farm employment than we believe should be covered immediately under the Federal act. The State-Federal program permits States wishing to make progressive changes in the program to take such steps before other States are willing to do so.

If the old-age and survivors insurance system is extended to virtually all who work, as recommended by the Council in its first report,[4] the resulting experience should be available for solution of the reporting problems connected with the extension of unemployment insurance to agricultural and domestic workers. The Council believes that this experience should be made available to the States and that the wage reports obtained under old-age and survivors insurance should be offered to the States on a cost basis.

Benefit Financing Designed To Encourage the Adoption of Adequate Benefit Provisions

The Council believes that liberalization of the benefit, duration, and eligibility conditions in the State laws is generally needed. Unemployment-insurance payments should be as high a proportion of wage loss caused by unemployment as is practicable without inducing people to prefer idleness to work. The higher the ratio of unemployment benefits to wage loss caused by unemployment, the more effectively unemployment insurance limits the tendency for the reduced purchasing power of unemployed persons to create more unemployment. Liberalization of unemployment compensation should take the form of (1) more liberal eligibility requirements; (2) higher benefits in relation to wages; and (3) longer duration of benefit payments.

[4] See p. 6.

Considerable progress has been made in the last 12 years in liberalizing benefit provisions in the State laws. Today, for example, 40 States pay benefits for 20 weeks or more (table 7, appendix IV–E), while in 1937 there were only 5 States which provided for duration of 20 weeks or more; in 1948 there are 41 States which pay a maximum weekly benefit of $20 or more (table 5, appendix IV–E), while in 1937 there were no such States. To some extent these gains have been limited by stricter eligibility requirements and despite the progress made in liberalizing unemployment insurance programs, it is estimated that approximately 27 percent of the beneficiaries in 1948 exhausted their benefit rights while still unemployed. Benefit amounts are generally still too low in relation to wages. Satisfactory estimates of the fraction of wage loss caused by the unemployment of covered workers that is compensated by unemployment benefits are not available, but rough calculations indicate that it is probably not more than 25 percent. As a result, unemployment compensation as it is today would have a very limited value in checking the cumulative increase of unemployment.

One way of encouraging liberalization of unemployment compensation would be to impose Federal standards for eligibility, duration, and benefit amount. The Council has carefully considered such standards and has decided not to recommend them. Such an approach seems to the majority of the Council to be unduly complicated as well as inappropriate in a State-Federal system. The Council believes that the best way to encourage the liberalization of unemployment compensation is to remove, or at least greatly diminish, the incentive which States now have to reduce their unemployment insurance contribution rates.

The Federal Unemployment Tax Act was passed, in part, to equalize the tax burden on employers regardless of the State in which they did business. Before the Federal tax was imposed, State legislatures were reluctant to establish unemployment compensation systems because of the fear of placing local employers at a disadvantage in competing with employers in States which did not require unemployment contributions.

The objective of eliminating interstate competition has been only partially realized and a strong incentive to reduction of contribution rates remains. Since the Federal tax rate of 3 percent may be offset up to 90 percent not only by actual payments to a State unemployment insurance system, but also by credits for experience rating, the tax burden on employers is allowed to vary considerably from State to State (table 10, appendix IV–E).

All States now have some form of experience rating. This fact, however, does not necessarily reflect their belief in the efficacy of experience rating as a device for inducing employers to regularize employment. Under the Federal act, experience rating is the only way that State contribution rates can be reduced below 2.7 percent (90 percent of 3 percent), and since in all likelihood no State would need such a high rate even for a greatly liberalized benefit system, the States have adopted experience rating as a rate-reduction device.

Unfortunately, the present law places no floor under rate reduction through experience rating. The contribution rate may be set at zero for a large group of employers, and the average for the whole State

may drop to very low levels. In the year 1948, 15 States had average rates of 1 percent or less (table 10, appendix IV–E). While the Federal law set rates higher than now seem necessary, many States have gone to the other extreme and are collecting contributions which in all probability are considerably below the average rate necessary to finance an adequate system of benefits over the next 10 years, even if their existing reserves in the unemployment trust fund are utilized extensively. Now, in a period of full employment, rates should certainly be at least as high as the average rate which will be needed over the next 10 years. Employers can now afford to pay higher rates and, on general economic grounds, rates should not be stepped up when unemployment is on the increase.

The Council is concerned that, under present arrangements, contribution rates will tend to become inadequate in more and more States. Employers are, of course, interested in rate reductions, and, since they pay the full cost of the present system, their wishes have considerable weight with legislatures and the public. Under present conditions, any proposal for more liberal benefits must be weighed against the cost to the employer and his tax position in relation to employers in other States.

The Council proposes two remedies for this situation: (1) The equal sharing of costs by employer and employee, and (2) the imposition of a Federal minimum for the State contribution rate, so that the rate will not be allowed to fall below a point which will be sufficient to pay adequate benefits in the great majority of States.

The Council believes that the proposed minimum rate, greatly reducing interstate competition for rate reduction and providing adequate funds for the majority of State systems, would result in considerable liberalization of benefit provisions.

Under such a plan there would no longer be strong inducements for a State to keep benefits below a reasonable amount. Low benefits would not hold out the possibility of lower contributions as they do now, but would merely result in an accumulation of ever-larger reserves.

Developing a More Rational Relationship Between Contribution Rates and Cyclical Movements of Business

A minimum contribution rate would also go far toward promoting a more rational relationship between the rate of contribution and the cyclical movements of business. In most States, experience rating, at least as practiced thus far, means that a favorable period of employment reduces the ratio of the employer's contributions to his pay rolls, while an unfavorable period of employment increases this ratio. Some types of experience rating create a closer relationship than others between recent changes in the volume of employment and the contribution rate, but all types—in greater or lesser degree—tend to vary the contribution rate inversely with the volume of employment.

The tendency for the rate of unemployment contributions to rise as employment decreases can have serious consequences for the economy. For example, today when employment is high and the demand for goods urgent, many employers are paying contributions at a lower rate than they can expect to pay, on an average, over a period of years. If business and employment were to decline and if unemployment were to rise, these employers would have to contribute at

higher rates, at the very time when prices were falling, when business profits were diminishing, and when business concerns were having increasing difficulty in meeting their obligations.

Under the Council's proposal for a minimum contribution rate, this tendency would be substantially reduced in States which retain experience rating. The minimum rate would reduce the possible range by requiring States to charge more than they might otherwise charge in periods of full employment, thus reducing their need to raise rates in periods of increasing unemployment. In the majority of States, the minimum rates will be sufficient for an adequate system of benefits and presumably would be the rate charged all employers and employees at all times.

The Council believes that it would be quite unfortunate if a rise in unemployment were to result in increasing the contribution rate when markets are falling. The Council has therefore proposed, in addition, a Federal loan fund, so that, if necessary, a State may borrow rather than increase the contribution rates while unemployment is rising. The Federal loan fund would make it possible for States to pay more liberal benefits with a given contribution rate, but neither the loan fund nor the Federal minimum rate would relieve a State from considering solvency problems in the light of its own contribution rate, reserve funds, and unemployment experience.

Setting the Minimum Contribution Rate

The Council has proposed a Federal tax rate of 0.75 percent of covered wages payable by employers and 0.75 percent payable by employees, with a credit up to 80 percent for contributions paid into a State unemployment fund. This proposal would result in a minimum State contribution at the combined rate of 1.2 percent.

Appendix IV–A discusses in detail the method of arriving at this minimum rate. In general, it was necessary to assume certain illustrative benefit plans as "adequate" and then to estimate the cost of such plans in the various States. These costs were estimated under two widely differing hypothetical sets of economic conditions for the next 10 years, and the actual cost was assumed to fall within the resulting range.

The Council emphasizes the difficulties of estimating the costs of unemployment insurance. No one can predict with assurance the pattern of employment and unemployment over even as brief a period as the next 10 years. Unemployment insurance has certain self-limiting factors, however, which reduce the effect of large-scale unemployment on costs. The program, in the first place, is not designed to compensate for long-term unemployment, and the eligibility requirements also serve to reduce the liability of the system during a depression. We believe, therefore, in spite of the uncertainty of the economic assumptions, that our estimates provide a sufficient basis for establishing minimum rates on a national basis.

A minimum rate which will adequately finance a given level of benefits in some States is bound to be too low in others, while some States will be able to finance more liberal benefits at the same rate. In selecting a minimum rate to recommend, therefore, the Council had to decide whether to recommend (1) a rate that would be high enough to finance an "adequate" system of benefits in all States but would be higher than necessary in most, (2) a rate that would be just

sufficient to supply an adequate level of benefits in the States with the lowest costs but would be too low for most States, or (3) a rate that falls between these two extremes and is about right for the majority of States.

The Council has decided in favor of the third of these approaches; it is therefore necessary to emphasize that the rate should be thought of strictly as a minimum rate and that several States will need to charge higher rates to support an adequate system of benefits. According to our estimates based on past benefit experience, the minimum rate of 1.2 percent would be applicable to at least 30 States within a relatively narrow range of adjustment in benefits or contributions under all of the economic and benefit assumptions used. Contributions in 5 States would undoubtedly have to be higher to support a benefit structure that could be considered adequate, and the past benefit experience of 3 others indicates costs so low that reserves would increase under even more pessimistic assumptions than 2 to 10 million unemployed. The 1.2 percent rate is reasonably applicable to various States among the remaining 13 depending on which set of assumptions is used and how large a reserve is assumed to be desirable at the end of the 10-year cycle.

In recommending a combined minimum contribution rate of 1.2 percent, the Council has assumed that in meeting benefit costs most States during the next 10 years will utilize a portion of their currently large reserves as well as contributions.

Promoting Greater Employee and Citizen Participation

The Council is impressed by evidence that, in general, the workers covered by unemployment-insurance laws lack an adequate sense of participating in the programs. Their failure to concern themselves with unemployment insurance may in part be the cause of the unduly strict eligibility requirements and disqualification provisions in some States. The Council finds several reasons for this lack of a sense of participation. One is probably the fact that the volume of unemployment during the last few years has been very small and jobs have usually been easy to obtain. Another is the fact that since the payroll contribution is paid solely by the employer, the employee does not have the sense of making a direct contribution each week to his protection against unemployment.

The Council believes that it is vitally important to have both employees and managements take a lively interest in the system of unemployment compensation and feel keenly concerned about providing the best possible administration and adequate benefits. Only keen interest on the part of the covered employees and managements will keep the unemployment compensation system adjusted to changing conditions and will assure the best possible administration. To this end, the Council proposes that employees contribute as they do for old-age and survivors insurance.

The Council also recommends that advisory councils composed of representatives of management, employees, and the general public be established and encouraged to assume an active role in advising on the formulation of legislative and administrative policy. The Council believes that these three groups must be kept fully informed and abreast of current developments and that advisory councils provide one way of accomplishing that purpose.

A Federal Advisory Council on Employment Security has recently been established. Forty-five States provide for State-wide councils with equal representation of labor and management groups and all but one provide for one or more public members. In 41 States these councils are mandatory and in 4 permissive; in over half of these States, the administrative agency appoints the councils; in less than half, the governor; and in 3, the governor on the recommendation of the State agency. In several States, such as New York, Connecticut, Massachusetts, Illinois, Wisconsin, and Utah, the councils have met frequently and played an important role, but in some others they are inactive. State advisory councils on employment security should be encouraged to assume an active role in the program.

Promoting Improved Administration

Efficient and equitable administration is of the utmost importance in unemployment insurance, since a large number of administrative decisions must be made continually and rapidly to determine if a person is eligible for benefits. The need for high quality in administration is most apparent in those aspects of the program which involve the determination of current eligibility for benefits and direct contact with claimants. In these aspects of the program, efficient procedures for claims taking, interviewing, and reconsidering claims and appeals are essential to adequate fact finding and correct determination of rights to benefits, a determination that assures both full and prompt payment of benefits to claimants entitled to them and denial of benefits to those who are not eligible.

The Council recognizes that responsibility for the fair and efficient administration of the unemployment-insurance programs is primarily the responsibility of each State. The quality of administration will necessarily depend in large part on the caliber of the personnel selected to do the State job. There can be no substitute for a career service with high standards of job performance and careful training for the complicated task of administering unemployment insurance. The Federal Government, however, has an important role in administration in enforcing minimum standards and in providing administrative funds.

There is considerable evidence to indicate that the funds supplied for administration in the past have not been sufficient to support the most efficient kind of administration. The Council believes further that the present arrangements for financing the administration of unemployment insurance are unduly rigid and do not give the State agencies sufficient opportunity to experiment in improving administration. The Council, therefore, recommends changes in the methods of financing administration which will provide additional funds for State administration of unemployment insurance. These funds would enable some States to pioneer in administration and do more than the minimum which the Federal Government is willing to approve as necessary for all States. The purpose can be accomplished by providing that some funds which could be used for administration be automatically assigned to the States. Because of great variation in work loads depending on the level of unemployment, a large contingency fund should be authorized in addition to the regular appropriations to the States and the Social Security Administration.

Although the Federal law provides specific authority for requiring "such methods of administration as are reasonably calculated to insure the full payment of compensation when due," equally specific authority is not given to require methods that will prevent improper payments. The Council has proposed that this situation be corrected.

The Federal Government has a particular responsibility for the protection of employees who move from State to State. In both war and peace, it is important that people should be free to move and that those who move should not be discriminated against either in regard to their benefit rights or their right to prompt payment. The Council proposes the establishment of Federal provisions to assure the coordination of the individual State laws in such cases.

Disqualifications

The Council believes that the Federal interest requires the establishment of a standard on disqualification provisions. In 22 States employees who are disqualified not only are denied benefits for unemployment immediately resulting from the voluntary quit, refusal of suitable work, or discharge for misconduct, but also lose accumulated benefit rights which would otherwise be available to them if they are subsequently employed and suffer a second spell of unemployment. The Council can see no justification for these punitive provisions in a social-insurance program and recommends that they be prohibited. Federal action is apparently needed to correct this situation, since the number of States with such provisions has been increasing. In 1937, 7 States reduced or canceled benefit rights for causes other than fraud or misrepresentation; in 1940, 12; and in 1948, 22.

The Council also believes that the postponement of benefits as the result of a disqualification should be for a limited period only and recommends a period of 6 weeks as the maximum. This is probably the longest period during which it is reasonable to presume that the original disqualifying act continues to be the main cause of unemployment. The Federal standard should also prohibit interpretations of "misconduct" which tend toward making inability to do the work a basis for a finding of misconduct.

Study of Supplementary Plans

The State-Federal system of unemployment insurance should pay benefits of sufficient duration to permit most covered workers in normal times to find suitable employment before their benefit rights are exhausted. Furthermore, the Council has recommended that the State-Federal public-assistance program be strengthened to meet more adequately the needs of unemployed workers ineligible for insurance benefits or with inadequate insurance rights.[5]

These dual provisions for the unemployed through the State-Federal programs would suffice, the Council believes, unless the country is again plunged into a period of severe economic distress. In that event, additional Federal action would clearly be needed for the relief of the unemployed. A depression has an uneven impact upon different cities and regions, and many States and localities are not capable of meeting the greatly increased expenditures necessitated by mass unemploy-

[5] Recommendation 2 in the public assistance report provides for Federal grants for "general assistance." See p. 108.

ment. In such a period only the Federal Government has sufficient credit and sufficiently broad eventual tax resources to meet the full need.

The Council has not been able to make a thorough study of the alternative lines of action open to the Federal Government for providing income maintenance for the unemployed in such a situation and has therefore made no specific recommendations on this point. We recommend, however, that the Congress should direct the Federal Security Agency to study in consultation with other interested agencies various methods for providing income security for workers who do not have private or public employment and to make specific proposals for putting the best methods into effect.

Temporary Disability Insurance

The Council has also been unable to devote the time necessary for making policy decisions in the field of temporary disability. We have included in this report, however, a section which discusses the need for protection against wage loss due to illness and the methods that have been suggested by various groups to provide this protection.

Importance of a Broad Informational Program

No social-security program can be effective unless those who are entitled to participate know their rights and obligations. A program of public information is particularly important in unemployment insurance. In this program, with its necessarily somewhat complicated provisions, it is of great importance that all claimants and workers understand the principles of the program and the specific provisions of law. We believe that much remains to be done to develop an informed public through informational programs. The addition of an employee contribution and the greater use of advisory councils will also contribute to this end.

RECOMMENDATIONS ON COVERAGE

1. Employees of Small Firms

The size-of-firm limitation on coverage in the Federal Unemployment Tax Act should be removed, and employees of small firms should be protected under unemployment insurance just as they are now protected under old-age and survivors insurance

In an average week of the year ended June 30, 1948, an estimated 3.4 million persons were excluded from unemployment insurance coverage under State laws because they were working for small firms. The need of these employees for unemployment insurance has been recognized from the beginning of the program. The size-of-firm restriction in the unemployment insurance titles of the original Social Security Act, limiting tax liability to employers with eight or more employees in each of 20 weeks during the year, was adopted as a temporary provision to simplify administration in the early years of the program. Experience under the old-age and survivors insurance program and under the unemployment insurance laws of 17 States, including such major industrial States as Pennsylvania, California, and Massachusetts, however, has now demonstrated the administrative feasibility of collecting contributions and wage records from small firms.

In 10 jurisdictions with widely differing economic characteristics—Arkansas, Delaware, District of Columbia, Hawaii, Idaho, Minnesota, Montana, Nevada, Pennsylvania, and Wyoming—employees of small firms have been covered since 1937. No serious administrative difficulties have been experienced. The seven additional States which now cover employers of one or more persons have also found such coverage to be administratively feasible. In fact, the administrative advantages of extension of coverage to small firms are probably greater than the administrative difficulties. For example, with the size-of-firm restriction removed, the State no longer faces the need for liability audits, or for questioning the employer about exact pay-roll counts. Some States have also found that having the same coverage as under old-age and survivors insurance facilitates policing tax liability by clearance with the Federal collector of internal revenue.[6]

The number of workers excluded from the Federal Unemployment Tax Act in 1948 was substantially higher than the 3.4 million excluded under State laws, because only 22 States restricted coverage in that year to persons who worked for firms employing 8 or more workers. Of the other 29 States, 2 covered those working for firms employing 6 or more; 8 covered those working for firms with 4 or more; 2 covered those working for firms with 3 or more; while 17 covered those working for firms employing 1 or more. On the basis of 1946 data, the number of workers with wage credits under State unemployment insurance

[6] Not all these 17 States cover employers of 1 or more at any time as in old-age and survivors insurance; in 6 States coverage is based solely on size of pay roll in a specified period; in 5 States employment must extend for a specified period.

laws would be larger by about 8.2 percent if the size-of-firm exclusion were removed. In the 22 States which retain the limitation in the Federal Unemployment Tax Act, the percentage increase in the number of workers with unemployment insurance wage credits would range from 11.6 percent in North Carolina to 35.1 percent in North Dakota, and would be more than 15 percent in half these States. Benefit rights of many persons who work for more than one employer would be greater because, in determining their rights, wages earned in employment for small firms would not be ignored as at present, but would be added to wages earned with large firms.

Twenty-nine State laws already contain provisions which will automatically broaden their coverage to the extent that the Federal size-of-firm limitation is reduced. (See table 2, appendix IV–E, for size-of-firm restrictions in State laws.)

2. Employees of Nonprofit Organizations

The Federal Unemployment Tax Act should be broadened to include employment by all nonprofit organizations, except that services performed by clergymen and members of religious orders should remain excluded.[1] *The exclusion of domestic workers in college clubs, fraternities, and sororities by the 1939 amendments to the Federal Unemployment Tax Act should be repealed so that these workers will again be protected under all State laws*

This proposal would broaden the coverage of unemployment insurance by bringing in approximately 1 million workers now excluded from protection because they are employed by nonprofit organizations. Almost one-half are in the service of charitable organizations, one-fourth are in educational institutions, and another one-fourth are in religious institutions.

Most State laws have followed the nonprofit exclusion in the Federal Unemployment Tax Act, but a few States already cover some workers in nonprofit organizations. Hawaii's exclusion applies only to service performed by members of religious orders or ministers of the Gospel. In Idaho and Oklahoma the exclusion does not apply to scientific or literary organizations; Indiana does not exclude service of a commercial character commonly performed for profit even though performed for a nonprofit organization; and New York does not exclude humane societies or building-trade employees of nonprofit organizations. Tennessee now limits the exclusion to professors, instructors, teachers, and executives in educational institutions, priests, clergymen, pastors, church musicians, singers, and members of choirs.

The extension of coverage to employees of nonprofit organizations presents no serious administrative difficulties; and the need of the great majority of these workers for unemployment insurance protection is clear. A very large proportion of the employees in charitable institutions work in hospitals which have relatively high employment turn-over rates. Educational institutions—including not only schools but also private libraries and miscellaneous research agencies and civic groups—have considerable turn-over among younger instructors and custodial staffs, and secular employees of religious institutions also

[1] Two members of the Council favor extension of coverage to the nonprofit group on an elective basis. In substantial part, the reasons which they gave in their dissent in pt. I are applicable here (see appendix I–E, p. 63).

suffer from unemployment. Equity and adequacy of protection can be assured only when all individuals similarly situated are similarly protected. The laundress and the cook in a hospital have the same need for protection as those who work in a hotel; there is no essential difference between the janitor in a private school and the one in a retail store, or the elevator operator in a YMCA and the one in a glass factory.

Although some categories of workers for nonprofit organizations doubtless have a high degree of security in employment—as is also true of some in private profit-making institutions—the Council believes that this fact does not justify their exclusion. In a social program such as this, the indirect benefits to all justify exacting a minimum contribution even from those who are in relatively little danger of becoming unemployed.

The Council is aware of the difficulties of adequately financing nonprofit organizations and would be reluctant to have their costs increased for any less compelling reason than the protection of their employees. These costs should be kept at a minimum. Under the Council's proposals, the employers' contribution rate required by the Federal Government would be 0.75 percent of pay roll (recommendation 9, p. 166) regardless of the length of time the employer is subject to the act. At present the Federal Government requires a rate of 3 percent for an employer's first 3 years under the program. Furthermore, under recommendation 11, if a State wished to charge more than the minimum, it would, nevertheless, be prohibited from charging a rate for newly covered and newly formed firms which exceeded the average rate for all employers in the State.

With other college employees covered, there seems to be no reason to continue the exclusion of domestic workers in college clubs, fraternities, and sororities. These workers were protected until 1940 and, in the Council's opinion, protection should be restored to them.

The Council believes, however, that the present exclusion of services for organizations exempt from Federal income tax when the remuneration does not exceed $45 per quarter should be continued. This exclusion would avoid much of the administrative difficulty of attempting to cover such persons as church singers and musicians and part-time semivolunteer workers for church and welfare organizations who, in any event, would usually not earn enough from the work to qualify for benefits.

The original exclusion of nonprofit employment was not based on the conviction that employees of nonprofit institutions needed protection less than others; it resulted from the fear of some institutions that they might lose their tax-exempt status, and the fear of some religious groups that they might become subject to some form of Government control. The Council, in considering the exemption of the same group from old-age and survivors insurance, stated its belief that extension of coverage under social insurance would not lead to the results feared. The statement made in connection with old-age and survivors insurance is equally applicable to unemployment insurance:

> The members of the Council are unanimous in believing that freedom of religion should be protected, but we are convinced that a tax on employment—a function which employers in the nonprofit area have in common with all others—for the special purpose of giving equal social insurance protection to all employees

would in no way imply or lead to Government control over the performance of the religious function. To make it absolutely clear that the legislation is not concerned with the performance of religious duties, we recommend that persons directly engaged in religious duties, such as clergymen and members of religious orders, remain exempt from coverage under the program. Our recommendation would extend coverage only to lay personnel who perform services which are secular in character.

We also believe that public encouragement of religious, charitable, scientific, and educational enterprise should be continued through preservation of the traditional tax-exempt status of such institutions. That encouragement, however, would be better expressed, we believe, by extending social insurance protection to their employees than by continuing to deny it. Employers in the nonprofit field are at a considerable disadvantage in the labor market because they cannot offer retirement and survivorship protection, hence, coverage exclusion handicaps these organizations and fails to promote their services to the community.

Religious, charitable, scientific, and educational organizations, which have been traditionally exempt from taxation on income and property dedicated to the purposes which the community wishes to promote, can and should continue to enjoy their traditional tax exemption when the old-age and survivors insurance program is extended to their employees. It has long been customary to require such institutions to pay certain types of special assessments for property improvement, to pay Federal excise taxes, and in some States to pay the local and State taxes on commodities which they use. Even in some States with exclusive State funds, they have been required to carry workmen's compensation insurance. The use of Government compulsion in connection with these special taxes and levies has not led to taxation on the property and general income of these institutions. Moreover, many organizations such as trade-unions, trade associations, fraternal and beneficial organizations, and the like, which are exempt from the Federal income tax and certain other taxes, pay the old-age and survivors insurance contribution without appearing to be in danger of losing their exemption under other laws.[1]

The State unemployment insurance laws levy a special-purpose tax on the function of employment. The proceeds are automatically deposited in a trust fund dedicated to the payment of benefits to covered workers. Under recommendation 13, p. 172, the proceeds of the Federal Unemployment Tax Act will also be dedicated to unemployment insurance. Unemployment insurance taxes are a special kind of tax which should not serve as a precedent for other forms of taxation any more than would a special assessment levied by a local government. We believe, moreover, that Congress should indicate its intent that the taxation on nonprofit organizations for social insurance in no way implies a departure from the principle of promoting the function of these organizations through tax exemption.

3. Federal Civilian Employees

Employees of the Federal Government and its instrumentalities should receive unemployment benefits throuhg the State unemployment insurance agencies in accordance with the provisions of the State unemployment insurance laws. The States should be reimbursed for the amounts actually paid in benefits based on Federal employment. If there is employment under both the State system and for the Federal Government during the base period, the wage credits should be combined and the States should be reimbursed in the proportion which the amount of Federal employment or wages in the base period bears to the total employment or wages in the base period. The special provisions for Federally em-

[1] See pp. 19–20.

ployed maritime workers should be extended until this recommendation for covering all Federal employees becomes effective [9]

The Council believes that the approximately 1.7 million employees of the Federal Government, now without unemployment insurance protection, should be covered immediately. A civil-service system in itself provides no guaranty against unemployment; separations among civil-service employees in recent years (1944–47) have ranged from 36 to 55 percent annually, and on the average somewhat more than half have been involuntary. Although these rates may be somewhat higher than may be expected in the future, they are nevertheless an indication that Federal workers are subject to a considerable amount of involuntary unemployment. The abolition of agencies or functions, reorganization of agencies, and reduction in appropriations, as well as the discharge of temporary or probational employees, are all common causes of unemployment among Federal workers, and indicate a real need for unemployment insurance.

In the Council's opinion, the Federal Government should offer its employees the same protection that it requires employers to provide in private industry. By so doing, the Government will not only fulfill its obligation as a good employer, but will also cease to handicap itself in a competitive labor market by offering less income protection against unemployment than private industries offer.

In recommending protection under unemployment insurance, the Council has considered whether other programs give the Federal worker sufficient protection against the risk of losing his job. It might be argued that the refunds paid under the Civil Service Retirement Act to those who have served less than 5 years in the Federal Government are a substitute for unemployment insurance. The Council is not of that opinion. Refunds to these short-time workers are usually very small and, in any event, represent withheld savings. Under State unemployment insurance laws for commercial and industrial workers, similar payments would not generally be considered in determining whether benefits are payable. While Federal employees with service of 5 to 20 years may, if they desire, receive substantial refunds, the Council believes that encouragement of such withdrawals would be unsound social policy. It would weaken the protection these workers had accumulated against the risk of old age to give them protection against the risk of unemployment. The Council's recommendation for the extension of unemployment insurance to Federal workers would make it unnecessary for them to cash in their retirement benefit rights to meet the immediate and pressing expenses of unemployment.

Similar considerations apply to an evaluation of accrued annual leave as a substitute for unemployment insurance. The annual-leave system is designed to promote the efficiency of the service, and Federal employees are expected to use the leave privilege as they are able. It would be unsound policy to encourage persons to forego vacations so that their accumulated annual leave will afford protection against the risk of unemployment.

In the Council's opinion, the extension of unemployment insurance under the State programs on a reimbursable basis is the most effective

[9] Two members of the Council favor protection of Federal employees under a Federal system with benefit and eligibility conditions established by Federal law and administered by the State organizations on a reimbursable basis.

and economical way of providing the protection needed by Federal workers. Coverage under the State programs will avoid treating Federal employees as a distinctive class and will give the same degree of protection to all workers seeking employment in the same localities. Employees of the same Federal agency will, of course, have differing benefit rights, depending on the law of the State in which they file their claims, just as is now true of persons employed by private firms with branches in more than one State. Such differences are inherent in a State-operated system.

Federal employment should be combined with employment covered under the State law to determine eligibility and benefit rights. The Federal Government should reimburse the State in the proportion which the amount of Federal employment or wages in the base period bears to the total employment or wages in the base period. Administrative expenses incurred by the States for benefits to Federal employees should be covered by the regular administrative grants.[10]

To reduce to a minimum the volume of interstate claims which would result from this proposal, the Council recommends that the State law applied to a Federal worker's claim be either the law of the State of his residence at the time of filing or the State in which he was last employed—the choice to be made by the employee. Federal workers who have served in foreign countries will thus be able to claim benefits based on the law of the State in which they are currently residing.

The Council recommends that benefits to Government workers who become unemployed be financed by direct reimbursement of the State agencies making these payments, rather than by State-imposed taxes. This is the plan now used for paying unemployment-insurance benefits for former employees of the War Shipping Administration, and it seems more practical than any other for those who have been employed by the Federal Government in more than one State or have been employed abroad. Furthermore, if the Federal Government were to pay "contributions," like any other employer, either the State system would bear part of the load for the Federal Government or the Federal Government would pay part of the costs of unemployment for all workers. The Council believes that the Federal Government should not use a method of that type to support State unemployment-insurance funds. Federal employees should contribute at the minimum rate required by the Federal Government for all covered employees (recommendation 7, p. 163). The contribution should be collected by the Federal Government and used in the reimbursement of the States. Additional amounts necessary to cover the cost of benefits actually paid should be appropriated from the general revenues of the Federal Treasury.

This recommendation would require the Social Security Administration to enter into agreements with State agencies to handle the claims of Federal workers. If such an agreement is not reached in a State, the Social Security Administration should be empowered to pay the benefits in that State on the same terms as if the agreement were in effect. In working out the agreement, the States should permit the Federal Government to limit its wage reporting to wage-and-separation reports for individuals who are separated or who apply for

[10] It would be desirable for Congress to add to the total funds dedicated to unemployment insurance and available for administration (0.3 percent of covered pay rolls, see recommendation 13, p. 172) by appropriating an additional amount estimated to cover the costs of administering the program for Federal employees. It does not seem practicable to make special grants to the individual States covering these costs alone.

benefits. A similar right is now granted to large employers by some States, and Wisconsin and Michigan use this method for all employers.

In 1946, the Federal Unemployment Tax Act was amended to permit State laws to cover seamen on private vessels and to provide a temporary reconversion unemployment benefit for seamen employed by the United States Maritime Commission. Under the present shipping situation, the Maritime Commission will operate longer than anticipated. The special provisions for federally employed maritime workers should therefore be extended until this recommendation for covering all Federal employees becomes effective. Thereafter, the special provisions for maritime workers should be terminated.

4. Members of the Armed Forces

Members of the armed forces who do not come under the servicemen's readjustment-allowance program should be protected by unemployment insurance

At present, members of the armed forces with service between September 16, 1940, and July 25, 1947, are protected by the Federal servicemen's readjustment-allowance program, under which unemployed servicemen may receive a flat weekly benefit of $20 for as many as 52 weeks. This protection will expire for most servicemen on July 25, 1949.[11] The benefits are administered by the State agencies responsible for the administration of the State unemployment-insurance laws, and the law of the State in which the claim is taken governs the criteria used for determining suitable work.

The servicemen's readjustment-allowance program was designed for those who served in the armed forces in time of war. In our opinion, many of its provisions are not appropriate to peacetime service in the Army and the Navy. The flat duration of 52 weeks, for example, now permitted for World War II veterans, seems inappropriate for persons serving only the 21-month period required under the current draft. Yet, those who serve in the armed forces in peacetime, like any other employed group, need protection against the risk of unemployment. Some ex-servicemen will readily find a place in industry, but others will need a longer period in which to get jobs. Unemployment insurance is the most satisfactory way of giving the needed protection. Unlike a dismissal payment which would be the same for all, the insurance program pays benefits only as long as the man is unemployed, thus using available funds where they are most needed.

The Council believes, therefore, that protection against the risk of unemployment should be extended on a permanent basis to those who serve in the armed forces, and that the insurance program for servicemen should be based on peacetime conditions. As a matter of public policy, service in the armed forces should be made more attractive than it is now. One method would be to grant social-insurance rights for military service just as such rights are granted for employment with private industry. The Council has considered two possible approaches, either of which is satisfactory to the majority of the Council, although some prefer one and some the other. One way of extending unemploy-

[11] Allowances may be claimed for any week ending on or before July 24, 1949, or 2 years after date of discharge, whichever is later (but not later than July 24, 1952), except that persons enlisting or reenlisting in the armed forces between October 6, 1945, and October 6, 1946, under the Armed Forces Voluntary Recruitment Act of 1945, may receive benefits during a limited additional period.

ment-insurance protection to the armed services would be to establish a Federal system which would be administered by the State agencies, following the pattern established by the servicemen's readjustment-allowance program. The Federal act would determine the eligibility conditions, the benefit amount, and the maximum duration, while the States would actually administer the program and apply State law to the determination of suitable work. Under this plan, as under the readjustment-allowance program, the benefit rate would probably be the same for all regardless of previous rank.

The other approach is to treat members of the armed forces as we propose to have all other Federal employees treated (recommendation 3, p. 156). Under this plan State law would determine the eligibility conditions, benefit amount, duration, etc.; benefits would be based on actual wages paid, including the fair value of board and clothing,[12] and would vary with the serviceman's grade. The Federal Government would reimburse the States for unemployment-insurance benefits paid under this program and would pay the cost of administration in the same manner as for other Federal employees.

Under either of these plans, the Council believes, members of the armed services should contribute toward the cost of their protection like other employees (recommendation 7, p. 163). The contributory principle should apply to all, and servicemen should have the same interest and stake in the system as other covered workers.

5. Borderline Agricultural Workers

To afford protection to certain workers excluded by the 1939 amendments to the Federal Unemployment Tax Act, defining agricultural labor, coverage of that act should be extended to services rendered in handling, packing, packaging, and other forms of processing agricultural and horticultural products, unless such services are performed for the owner or tenant of the farm on which the products are raised and he does not employ five or more persons in such activities in each of four calendar weeks during the year. Coverage should also be extended to services now defined as agricultural labor by section 1607 (l) (3) of the Unemployment Tax Act.

In an average week, approximately 1.7 million individuals are unable to acquire unemployment-insurance protection because they are agricultural workers, and at some time during a year as many as 4.1 million are employed in work defined as agricultural. In the Council's opinion, extension of coverage to these workers under the unemployment-insurance program—the Federal Unemployment Tax Act and State unemployment-insurance laws—is highly desirable. From the viewpoint of the objectives of the program, the agricultural workers' need for protection is unquestionable. Their employment is unstable, and their wages are often too low to permit them to accumulate savings to tide them over periods of unemployment. Moreover, as surveys of the employment history of farm workers show, the number of persons with both farm and nonfarm employment in the course of a year is appreciable. Since much of their nonfarm employment is covered, these workers frequently claim unemployment-insurance benefits. If all their work were covered, a higher proportion of them

[12] The Army estimates board and clothing to be worth $108 a month at 1948 prices.

would be eligible for benefits, and the benefit rights of those now eligible would be increased.

The Council, however, does not recommend at this time extension of the Federal Unemployment Tax Act to all agricultural employment. Such an extension would in effect require the States to cover all agricultural workers immediately, and the Council recognizes that certain administrative problems connected with extension of coverage to this group would present serious difficulties in some States. While problems of reporting wages and collecting contributions are similar to those in old-age and survivors insurance, unemployment insurance has an even greater need for prompt and accurate reporting. Since unemployment-insurance benefits are usually based on recent wages paid during a relatively short period, rather than a lifetime average, an error or delay in reporting may have a far more serious effect on benefit rights in unemployment insurance than in old-age and survivors insurance.

The Council recommends, however, immediate extension of the Federal Unemployment Tax Act to those persons now excluded by section 1607 (l) (3) and those excluded by section 1607 (l) (4) who are engaged under what are substantially commercial conditions in the handling, grading, storing, packaging, delivery to storage or to market, and other processing of agricultural products. Both of these groups were originally covered under the Federal Unemployment Tax Act and were excluded by the amendments of 1939. The packaging and processing group is made up of some 200,000 to 225,000 persons, many of whom are covered under State, although not Federal, law. For example, Florida covers the grading, packing, packaging, or processing of fresh citrus fruits; and California restricts the agricultural exclusion to services on a farm or in the employ of the owner or tenant of the farm where the materials being processed were produced. A number of States require that the service to be excluded must be for an owner or tenant as an incident to ordinary farming operations. The laws of 32 States, however, follow the Federal definition and exclude nearly all workers engaged in packing and processing agricultural products, other than in commercial canning and freezing.

The Council believes that the continued exclusion of this group by the Federal law is unjustified. These persons frequently work under factory conditions and operate mechanical equipment such as graders or conveyors. Stationary engineers tending steam boilers, box assemblers, truck operators, plant superintendents and department foremen, receiving clerks, box lidders, electricians, and mechanics are excluded, as well as the workers who handle, sort, grade, wash, polish, and pack the fruits and vegetables, and the laborers who keep the packing house in order. The operations which these workers perform are essentially commercial or industrial in character.

The Council believes, on the other hand, that when packing and processing services are not essentially a commercial operation but are performed in the employ of the owner or tenant of a small farm, these services should remain excluded until coverage is extended to all farm workers. The Council recommends that the farmer who does not employ at least five persons in packing and processing work in each of four calendar weeks during the year should not be subject to the act. Services of this nature performed for persons other than the owner

or tenant of the farm growing the products to be processed would be covered without exception.

Section 1607 (l) (3) of the Unemployment Tax Act excludes services performed off the farm in connection with the ginning of cotton; the hatching of poultry; the operation or maintenance of ditches, canals, reservoirs, or waterways used for supplying and storing water for farming purposes; and in connection with the production and harvesting of maple sirup or maple sugar, turpentine, gum resin, and crude gum. These activities are not what one ordinarily means by agricultural labor and, in our opinion, should be covered under the Federal act. The Council believes that the test should be whether the employment is reasonably associated with industry now covered and whether it can be brought under the program without substantial administrative difficulty. If performed on a farm, these activities would ordinarily continue to be excluded by the definitions in sections 1607 (l) (1) or 1607 (l) (2).

The Council hopes that some of the States will take advantage of the opportunity to assume leadership in extending coverage to a larger part of farm employment than we feel should be covered immediately under the Federal act. Under the State-Federal program, States wishing to make progressive changes can take such steps before it seems practical to require such changes in all States. States might experiment with several possible approaches to extending coverage to a part of the group of farm workers. Two approaches which seem to be among the most promising are:

1. Extension of coverage to all those working on farms with more than a given number of workers, for example, four; or
2. Extension of coverage to all employees of farm operators with an annual pay roll in excess of a specified amount.

6. Inclusion of Tips in the Definition of Wages

The definition of wages contained in section 1607 (b) of the Federal Unemployment Tax Act should be amended to specify that such wages shall include all tips or gratuities customarily received by an employee from a customer of an employer

Tips or gratuities paid directly to an employee by a customer of an employer, but not "accounted for" by the employee to the employer, are not now included in wages as defined under the Federal Unemployment Tax Act. Moreover, relatively few tips are accounted for and subject to the Federal law. As many as 31 States, however, levy unemployment-insurance contributions on tips without differentiating between those accounted for and others. In the absence of an exact reporting by persons receiving tips, most of these States permit employers to report a reasonable estimate of the amount received as tips by their employees. In making such estimates, the employer takes into account the volume of business handled by the employee, the tips reported by other employees, the type of establishment, and other pertinent factors. In many instances, such estimates are made after agreement with the employee. Although the administrative problems connected with the inclusion of tips are not inconsiderable, they are generally being solved satisfactorily and are not substantial enough to justify the continued exclusion of this type of remuneration from the Federal law.

The Council believes that the Federal Unemployment Tax Act should be amended to include all tips in the definition of wages. In the absence of such an amendment, substantial numbers of workers in some States—those employed in restaurants, barber shops, beauty parlors, and the like—are denied the degree of protection they would acquire if their tips and gratuities were included in their wage records. Some workers may fail to qualify for unemployment benefits because, except for tips, they receive inconsequential remuneration. This situation is especially illogical because tips are frequently contemplated in the wage contract, are earned in the service of the employer, and are received for services generally recognized as performed in the interest of the employer.

The Council has recommended identical provisions for old-age and survivors insurance. From an administrative standpoint, it is highly desirable to have an identical tax base in both systems of social insurance. Tips are also included as taxable income under the Federal income-tax law.

While the Council urges that all tips be included for tax and benefit purposes either on an estimated or reported basis, it believes that—if the reporting basis is chosen—the employer should be protected from inaccuracy on the part of his employees. The Council believes that employees should not be allowed to change a previous report on tips when applying for benefits. Otherwise, additional assessments would have to be levied against the employer or benefits would be paid at rates higher than contributions collected would warrant. The Council considers both these results undesirable.

RECOMMENDATIONS ON BENEFIT FINANCING

7. Contributory Principle

To extend to unemployment insurance the contributory principle now recognized in old-age and survivors insurance, a Federal unemployment tax should be paid by employees as well as employers. Employee contributions to a State unemployment-insurance fund should be allowed to offset the Federal employee tax in the same manner as employer contributions are allowed to offset the Federal tax on employers. The employee tax would be collected by employers and paid by them when they pay their own unemployment tax.

The Council believes that part of the cost of social-insurance programs should be borne directly by those who are the beneficiaries of the program. The employee contribution is a significant factor in public understanding, for it demonstrates the insurance principle and the worker's right to the benefit and clearly differentiates social insurance from relief and assistance. The contributory principle is recognized not only in old-age and survivors insurance program of this country but also in the unemployment-insurance laws of all other countries. It is a cornerstone of social insurance.

The Council recommends the addition of an employee tax in unemployment insurance because of the fundamental concern of employees with the operation of this program. They receive the benefits; they are greatly affected by the administration of the laws; and they have a basic interest in determining legislative policy.

Employee interest in administration would be strengthened by employee sharing in the cost of the program. If they paid part of the cost directly, employees would have an even greater stake than at present in promoting methods of administration which will best assure the full exercise of their rights to benefits and the prompt payment of those benefits. An employee contribution would also stimulate employee interest in the prevention of improper payments, whether due to lax administrative procedures or to fraudulent claims, for they will want to avoid having their contributions dissipated unwisely. Students of British experience cite many instances in which labor representatives were better able to prevent abuses than were employers or officials.

Labor now complains that some State legislatures listen more attentively to employer groups than to those representing employees, because the unemployment-insurance program is considered by many to be financed exclusively by the employers. The employee tax would help put employees on a parity with the employer. On the one hand, if employees pay a part of the cost they will have a stronger voice in determining the amount of benefits and the conditions of eligibility; on the other hand, their direct contribution should make employees more responsible in their demands for higher benefits than if the cost falls on them only indirectly. Under the present arrangement, many employees believe that benefit increases are financed entirely by the employer and they tend therefore to exert their influence mainly toward payment of higher benefits without consideration of costs.

Since some of the employer's tax is shifted to the workers as employees and as consumers anyway, it would be far better to tax workers directly and achieve the advantages to be derived from the recognition of their part in paying the costs of benefits. Under the present law employers can shift at least part of the unemployment taxes to the consumer in higher prices or to the worker in lower wages. In good times, the former is more feasible, while in times of unemployment the latter is more likely to occur.

Only two States, New Jersey and Alabama, now provide for employee contributions to unemployment insurance, although nine States have required such contributions at one time or another. Federal action is needed to extend the contributory principle in unemployment insurance to all States. At the same time section 303 (a) (5) of title III of the Social Security Act should be revised to provide that, after the effective date of a Federal unemployment tax on employees, the employee contributions available for temporary disability benefits should be limited to the amount in excess of the minimum rate required for unemployment insurance. Employee contributions paid into the unemployment trust fund before that effective date would continue to be available for the State's disability-insurance program.

Following the principles of the present State-Federal program, employee contributions to a State unemployment-insurance fund should be allowed as an offset against the Federal employee tax in the same manner as offsets are allowed against the Federal tax on employers. The employee tax would be withheld by the employer from wages and combined with the amount he is required to pay as an employer. Federal employees should contribute at the minimum rate required by the Federal Government for all covered employees but, in accord-

ance with recommendation 3, the contribution would be collected by the Federal Government and used to reimburse the States for benefits actually paid on the basis of wage credits earned from Federal employment.

8. Maximum Wage Base

To take account of increased wage levels and costs of living, and to provide the same wage base for contributions and benefits as that recommended for old-age and survivors insurance, and upper limit on earnings subject to the Federal unemployment tax should be raised from $3,000 to $4,200 [13]

A social insurance program must be adjusted periodically to basic economic changes. In a dynamic economy, some provisions which were appropriate when they became effective eventually become outmoded. This is what has happened to the limitation placed on the amount of annual wages subject to social insurance contributions.

In 1939, when the maximum wage base for contributions and benefits was set at $3,000, nearly 97 percent of all workers in covered employment had wages of less than $3,000 a year; contributions were thus paid on the full wages of virtually all covered workers. With the general rise in wage levels since 1939, however, the $3,000 limitation has tended to exclude from taxation part of the wages of a substantial proportion of covered workers. In 1947 about 18 percent of all covered workers had wages exceeding $3,000, and among workers who were steadily employed throughout the year, from one-fourth to one-third had wages in excess of that amount. When the figures for 1948 are available, these percentages will be even higher.

As wages continue to rise, the $3,000 limitation excludes a larger and larger proportion of wages from taxation. Thus the system suffers progressive loss of income, which makes it increasingly difficult to finance benefits related to current wages. Furthermore, when the limitation excludes a significant part of the wages, it is a source of inequality in the tax burden, for the ratio of taxes to wages is lower for establishments with high average wages than for those with low wages. In our opinion, the taxation base should be kept broad and the tax rate set lower than would be prudent with a more limited base.

The higher wage base is not only wise for revenue purposes but is also desirable as a base for calculating benefits. In a contributory system, taxes should be paid on all wages which serve as a basis for benefits. It is undesirable, for example, to pay higher benefits to those getting more than $3,000 than to those at the $3,000 level without at the same time charging more for the higher benefits. Thus if wages in excess of $60 a week (approximately $3,000 a year) are

[13] While the majority of the Council favor increasing the upper limit to $4,200, some favor keeping the limit at $3,000 and some favor increasing it to $4,800. Those who favor the retention of the present tax base feel that adequate benefits can be paid without any change and cite as evidence the benefits already being paid by several States, such as New York and California. An increase in the base would result in an increase in benefits only to those in the upper income group. In the opinion of these members, payment of increased benefits to this group is not consistent with the basic principle of social insurance to provide a basic floor of protection. Those who feel that the change in the top limit of taxable wages should be to $4,800 rather than $4,200 accept the reasoning of the majority report, but point out that the consumers' price index has risen by more than 60 percent, so that an income of $4,800 today has less purchasing power than an income of $3,000 had in 1939. Hence, raising the tax base and wages credited for benefits to $4,800 would not be a real increase—it would, in fact, fall short of maintaining the 1939 relationship between the wage base and prices. In substantial part, the reasons which were given by both groups in their dissents in pt. I are applicable here. See appendix I–F, p. 64.)

credited for benefit purposes, the tax base should be similarly increased. To relate benefits to wages for a large proportion of claimants. benefits should be based on wages above this $60 a week figure. If benefits are to vary with earnings for even as many as three-fourths of the claimants and if workers are to receive as much as 50 percent of earnings, in many States benefits would now have to be based on earnings up to $70 or $80 a week. If wages continue to rise, more and more States will be in this position.

The Council believes that a system of differential benefits related to the individual's contribution to production as reflected in his earnings supports general economic incentives and provides more adequate security than does a system which fails to take account of the individual's standard of living. The desire to return to productive work is well protected by a system which relates benefits to the earnings of the individual worker. Such a system permits higher benefits to those who are able to earn more and consequently, while protecting the desire to return to work, compensates for a greater proportion of total wage loss due to unemployment than is possible under a system in which a large proportion or all of the beneficiaries receive the same amount. For these reasons we believe it is important that, in the great majority of cases, benefits should vary with the wages earned by the individual worker and that the system should not become a flat benefit system because of benefit maximums which are too low in relation to current wages.

To take full account of increases in wages and prices, the limitation on taxable wages would have to be raised to somewhat more than $4,800. The Council, however, recommends that a part of the increase in wages be disregarded by raising the limit to $4,200 as a conservative adjustment to the rise in wage and price levels which has occurred since the $3,000 limitation was adopted. The $4,200 limitation proposed for unemployment insurance is the same as that recommended by the Council for old-age and survivors insurance. For administrative reasons it is desirable to have the same contribution base for both systems.

9. Minimum Contribution Rate

The Federal unemployment tax should be 0.75 percent of covered wages payable by employers and 0.75 percent payable by employees. The taxpayer should be allowed to credit against the Federal tax the amount of contributions paid into a State unemployment fund, but this credit should not exceed 80 percent of the Federal tax. Since no additional credit against the Federal tax should be allowed for experience rating, the States would, in effect, be required to establish a minimum rate of 0.6 percent on employers and 0.6 percent on employees

The Council believes that Congress should put a floor under State unemployment contribution rates at a point which will allow the majority of States to pay adequate benefits to most unemployed members of the covered labor force for a period sufficient in normal times to cover the duration of their unemployment. Under the present law there is no floor under the rates which States may charge. Credit allowances against the Federal tax are permitted to replace actual tax payments for the full 90 percent offset, as long as the allowances are based

on experience rating. States may thus reduce their contribution rates to a very low average rate and even to zero for some employers. (See table 10, appendix IV–E, for average employer contribution rates 1941–48.)

The present arrangement permits the States to compete in establishing low contribution rates for employers and therefore discourages the adoption of adequate benefit provisions, since proposals to provide more nearly adequate benefits in a given State are weighed against the effect of increased contribution rates on the competitive position of employers in that State. Yet a basic purpose behind the State-Federal tax offset plan adopted in 1935 was to remove interstate competition. Until the passage of the Federal act, the States were reluctant to require unemployment insurance contributions from employers within their boundaries unless other States had similar requirements. The Council's proposed minimum contribution rate is a return to the principle of assuring relative equality among employers in the various States. It will remove an important barrier to the liberalization of benefits by requiring that all covered employers and employees throughout the Nation pay a minimum rate.

Some States will have to charge more than the minimum suggested by the Council if they are to finance an adequate system of benefits; others will be able to pay benefits somewhat higher than the amount used by the Council in deriving the suggested rate. This situation will result from the considerable differences among the States in the size of reserves and in the unemployment rates which may be expected to prevail. Under the Council's recommendation, each State will continue to be responsible for relating its contribution rates to its own benefit payments and reserves. A State could thus impose a higher rate on all employers and all employees, or it could maintain a system of experience rating under which some employers would pay more than the minimum rate.

The Council is aware that some jurisdictions, such as Wisconsin, Hawaii, and the District of Columbia, will have unusually low costs if their past benefit experience can be taken as a reliable guide. Under the minimum tax proposed, these governmental units can perhaps afford to pay more generous benefits than can other jurisdictions. If, in the future, any State with benefits substantially more generous than others continues to build up a reserve, the Congress might consider some adjustment in the minimum rates required of them or allow all or part of the minimum employee contribution in such States to be used for other social insurance purposes. The Council believes that no special plan is needed now to provide for such a contingency, and none may ever be needed.

Appendix IV–A discusses in detail the method of arriving at the minimum rate.[14] In general, it was necessary to assume certain illustrative benefit plans as "adequate" and then to estimate the cost of such plans in the various States. These costs were estimated under two widely differing hypothetical sets of economic conditions for the next 10 years, and the actual cost was assumed to fall within the resulting range.

[14] A comprehensive study of the principles underlying the estimates of unemployment insurance costs has been made by W. S. Woytinsky, formerly principal consulting economist to the Bureau of Employment Security of the Social Security Administration, Principles of Cost Estimates in Unemployment Insurance, Government Printing Office. Washington, 1948. This study has been the basis of the cost estimates used by the Council.

Since reserves in most States are now at a high level, we have assumed that a substantial part of the costs of benefits during the next 10 years should be met from these reserves. We have set therefore the minimum contribution rate at a point which will allow most States to pay adequate benefits if they utilize a considerable portion of their reserves. (See table 11, appendix IV–E, for funds available for benefits as of September 30, 1948.)

The present system of State offsets against the Federal tax should be continued, but the percentage should be changed from 90 percent to 80 percent. The employer and employee would thus have to pay a minimum of 0.6 percent each to the State and 0.15 percent to the Federal Government. Thus the present Federal income of 0.3 percent of pay roll would remain unchanged although it would now be paid in equal shares by employer and employee.

10. Loan Fund

The Federal Government should provide loans to a State for the payment of unemployment insurance benefits when a State is in danger of exhausting its reserves and covered unemployment in the State is heavy. The loan should be for a 5-year period and should carry interest at the average yield of all interest-bearing obligations of the Federal Government

The Council believes that during a period of heavy unemployment, the Federal Government should stand ready to make loans to States whose unemployment trust fund reserves are in danger of being exhausted. In times of relatively light unemployment, a State would be expected to raise its unemployment contribution rate to prevent exhausting its reserve. That remedy would not be justified, however, during a period of heavy unemployment when an increase in the contribution rate would aggravate unemployment and impose hardships on many employers and employees. Equally disastrous in a time of heavy unemployment would be an attempt to preserve solvency by reducing the amount or duration of benefits or by restricting eligibility. The Council believes that present provisions in several State laws which provide for a decrease in benefits or an increase in contribution rates when reserves fall below a given point are contrary to sound policy. To obviate need for such measures, we recommend the establishment of a Federal loan fund.

A State's need for a Federal loan may result from two causes:

1. The contribution rate established by a State may be too low to meet actual costs over the entire 10-year period. Since the volume and incidence of unemployment are difficult to predict and differ from State to State, some States will, through error, probably establish contribution rates too low to finance benefits. If they rely on the minimum rate set by the Federal Government (recommendation 9, p. 166), a few States will almost certainly find the rate too low to support an adequate benefit program over the cycle.

2. Although the rate may be sufficient to support the system over the cycle, the fund may be temporarily exhausted. It is expected that a State will establish a contribution rate designed to cover costs over a relatively long period, such as 10 years. This assumption was the basis used in determining the minimum contribution rate discussed in

recommendation 9, page 166, and appendix IV–A. Such a rate, however, is not expected to provide income equal to outgo during some phases of the business cycle. Thus States with unusually severe fluctuations in the level of employment or with relatively low initial reserves might temporarily lack funds sufficient to meet benefit costs.

If a State's need for the Federal loan results from the situation described under 2, the loan will be self-liquidating, because the State's unemployment contributions will in time yield sufficient revenue to repay the amount borrowed. But if the situation is that described under 1, the State will have to use other revenue sources or increase its unemployment contribution rate after the volume of unemployment has declined.

The Council is aware that some States have constitutional provisions which, unless amended, will prevent them from taking advantage of these loans. It seems important to us, however, that the Federal offer be put on a businesslike basis with provision for the payment of interest and other safeguards against too frequent and too extensive borrowing. The loan should be for a 5-year period and should carry interest at the average yield of all obligations of the Federal Government. This is the interest rate now paid to the States by the Federal Government on the amounts which the States have on deposit in the Unemployment Trust Fund. No one loan should be greater than the estimated requirements of the State for the next 12 months but there would be no limit on the total amount which a State might borrow. The State would become eligible for a loan on meeting all other conditions if it had insufficient funds in its unemployment trust fund account to meet estimated expenditures for the next 12 months.

To promote a more rational relationship between the contribution rates and the cyclical movements of business, it is desirable to prevent an increase in rates when unemployment is high. If a State increased its unemployment contribution rate before covered unemployment had dropped below a given percentage of covered employment in that State—an appropriate figure might be from 10 to 12 percent—further loans would be denied. To provide for prompt repayments of the loans, the Federal law should require that all contributions deposited in the State's unemployment trust fund account in excess of benefit payments expected in the next quarter would be applied against the loan. The loan should be negotiated by the Federal Security Administrator on application of the State agency and he would approve the loan for payment by the Treasury.

As indicated in recommendation 13, p. 172, the income from the Federal Unemployment Tax Act should be earmarked for unemployment insurance purposes, and one-half of any surplus over expenses incurred in the collection of the tax and the administration of unemployment insurance and the employment service should be appropriated and credited to the loan fund. The War Mobilization and Reconversion Act of 1944 has already established a fund to provide advances to the States for unemployment benefits, but, under existing law, that fund would terminate on April 1, 1950. By July 1948 that fund, which was authorized to hold the difference between the 0.3 percent Federal unemployment tax and the actual administrative expenditures of the State and Federal Governments under title III of the Social Security Act, would have totaled $970,000,000 if the authorized appropria-

tion had been made.[15] The amount already authorized for this fund should stand to the credit of the new loan fund and should be appropriated as needed. If the amounts available from both these sources prove insufficient to finance the necessary loans, the additional sums needed should be appropriated from general Federal revenues.

11. Standards on Experience Rating

If a State has an experience rating plan, the Federal act should require that the plan provide (1) a minimum employer contribution rate of 0.6 percent; (2) an employee rate no higher than the lowest rate payable by an employer in the State; and (3) a rate for newly covered and newly formed firms for the first 3 years under the program which does not exceed the average rate for all employers in the State

To finance an adequate system of unemployment insurance, some States will need to establish unemployment contribution rates higher than the combined employer and employee minimums of 1.2 percent required by the Federal Government. In such cases, the Council believes that the States should be left free to set the higher rates uniformly for all employers and employees or to relate the higher employer rates to the employer's individual experience with the risk of unemployment. The Council believes, on the basis of its analysis of the arguments for and against experience rating, that the Federal interest in unemployment insurance does not require prohibition of all experience rating but is concerned rather that contribution rates reduced through experience rating are consistent with reasonably adequate benefit provisions and sound fiscal practice.

Under the Council's proposals for a minimum contribution rate (recommendation 9, p. 166), experience rating in most States could not operate to reduce the income of the system to a point which would threaten adequate benefit standards. Furthermore, the minimum rate would place a limit on the tendency of most experience rating plans to reduce contribution rates in prosperous times just when general economic principles dictate peak rates, and correspondingly would limit the increase in rates in periods of growing unemployment when it is desirable to have low rates. The Council believes that, after establishing certain safeguards, the Federal Government should leave to the States the option of maintaining experience rating plans.

A minimum employer contribution rate of 0.6 percent would be automatically achieved under recommendation 9, p. 166, hence no specific Federal standard on this point would be necessary. The Council proposes, however, two Federal standards for State experience rating plans to replace the present requirements in section 1602 of the Federal Unemployment Tax Act, which would become obsolete under the Council's proposal. These Federal standards are as follows: (1) The contribution rate for employees should not exceed the lowest rate payable by any employer in the State, and (2) newly formed or newly covered firms, for the first 3 years under the program, should be required to pay no more than the average rate for all employers in the State.

[15] This figure equals the 0.3 percent of pay roll collected by the Federal Government since 1936, minus the Federal costs of collecting the tax and administering the unemployment insurance program and all grants to the States under title III of the Social Security Act. Grants to the States under title III include the expenses of administering unemployment insurance for all years and the expenses of the employment service related to unemployment for the years 1938 through 1941.

The Council considers experience rating inapplicable to employees. Generally speaking, differentials based on company experience with the risk of unemployment could not be expected to stimulate employees to effective action in regularizing employment. In our opinion, all employees in a State should pay the same rate for the same benefits. We believe further that employees should not pay at a higher rate than their employers. It follows therefore that under experience rating schemes, the employee rate for all employees should equal the rate payable by the employer with the lowest rate in the State.

Under the present law, new employers must have 3 years of contribution experience before they are eligible for a reduction from the full 3 percent tax rate. Many new business ventures, especially firms established by veterans, have felt this provision discriminatory, since they must pay the full rate, while some of their long-established competitors may pay less than 1 percent. The mere repeal of section 1602 would allow the States to determine the rates payable by new employers and newly covered employers more equitably than is now possible; the Council nevertheless believes that the Federal Government should go further and require State experience rating plans to stipulate that new employers will be required to pay no more than the average contribution rate for all employers in the State for the first 3 years under the program. Under the proposed standard, a State would be allowed to charge new firms a lower-than-average rate, perhaps the minimum State rate of 0.6 percent.

RECOMMENDATIONS ON ADMINISTRATION

12. Combining Wage Credits Earned in More Than One State and Processing Interstate Claims

The Social Security Administration should be empowered to establish standard procedures for combining unemployment insurance wage credits earned in more than one State and for processing interstate claims. These procedures should be worked out in consultation with the administrators of the State programs and should provide for the combination of wage credits not only when eligibility is affected but also when such combination would substantially affect benefit amount or duration. All States should be required to follow the prescribed procedures as a condition of receiving administrative grants. Similar procedures should be worked out, in cooperation with the Railroad Retirement Board, for combining wage credits earned under the State systems and under the railroad system.

In a State-Federal system, the Federal Government has a clear responsibility for seeing that the provisions of the several State unemployment insurance programs do not penalize workers who move from State to State in search of work. Of the 51 jurisdictions, 45 now have a limited type of voluntary interstate agreement on combining wage credits, but only if such combination is needed to make a worker eligible for unemployment benefits. No provision is made for combining credits solely to increase the benefit amount or duration and there is no safeguard to prevent the windfalls which may now result when a worker becomes entitled to benefits in more than one State. All States participate in a voluntary plan for the acceptance and transmittal

of claims based upon wage credits earned in other States. Under present arrangements, however, long delays in the payment of these claims frequently result from divided authority among the States. The State taking the claim gathers the facts, while the State in which the credits were earned makes all decisions. An appeal under these conditions is particularly difficult to process.

At present 18 States are engaged in an experiment in which the State where the wage credits were earned makes the initial decision only. All decisions on continuing eligibility are made in accordance with the law of the State in which the worker is applying for benefits.

The Council believes that it is possible to work out more equitable protection for the interstate worker and that all States should be required to cooperate in giving such protection. The absence of even one State as a party to these agreements leaves a serious gap in the protection afforded. At present, even the States that have entered into voluntary agreements may withdraw at any time or merely refuse to follow the procedures agreed upon if they find them onerous. In our opinion, the Federal Government, in protecting the interest of the interstate worker, cannot afford to rely on the voluntary cooperation of individual States. The Social Security Administration should be empowered by statute to prescribe standard procedures for combining wage credits earned in more than one State and for processing interstate claims. These procedures should be worked out in consultation with the administrators of the State programs. All States should be required to follow the procedures as a condition of receiving administrative grants.

The Council recognizes that Congress has long responded to the expressed need for special legislation for railroad workers and that unemployment insurance for such workers would be particularly difficult to administer under State laws, since a large proportion of railroad employment is performed in more than one State. The Council, in its consideration of the relationship of the old-age and survivors insurance program to the railroad retirement program, has noted, however, the large extent of shifting between railroad and other employment. The Council therefore strongly recommends that the Social Security Administration, the Railroad Retirement Board, and the State employment security agencies develop the provisions necessary for combining wage and employment credits for unemployment insurance that will neither penalize nor encourage shifts to or from railroad employment.

13. Financing Administrative Costs

Income from the Federal Unemployment Tax Act should be dedicated to unemployment-insurance purposes. One-half of any surplus over expenses incurred in the collection of the tax and the administration of unemployment insurance and the employment service should be appropriated to the Federal loan fund and one-half of the surplus should be proportionately assigned to the States for administration or benefit purposes. A contingency item should be added to the regular congressional appropriation for the administration of the employment-security programs. The administrative standards in the Social Security Act should be applicable to the expenditure of the surplus funds as well as to expenditures of the funds originally appropriated

Administrative costs of State unemployment-insurance programs and State employment services are now financed by grants to the States from the general revenues of the Federal Government. Individual States estimate their work loads on the basis of general economic assumptions supplied by the Social Security Administration. Using these State estimates, the Social Security Administration prepares a consolidated budget for the entire country sufficient for the "proper and efficient administration" of the programs. After review and possible amendment by the Bureau of the Budget acting on behalf of the President, the consolidated budget is submitted to the Congress. The amount appropriated by Congress is distributed among the States in accordance with State factors determined by the Social Security Administration.

The Council believes that it is important for the Federal Government to continue its responsibility for assuring to each State enough funds to administer the program in accord with at least minimum Federal standards, and therefore recommends that the Federal Government continue to bear financial responsibility for paying the costs of proper and efficient administration of the program. We believe, however, that it is important to provide an additional source of funds for the administration of unemployment insurance which would make it possible for certain States to pioneer in administration and do more than the minimum which the Federal Government is willing to approve as necessary for all States. This purpose can be accomplished by providing that some funds which could be used for administration be automatically assigned to the States.

At present, the 0.3 percent of covered pay roll which the Federal Government derives from the Federal unemployment tax goes into the Treasury of the United States without earmarking. The hearings and committee reports at the time the tax was imposed, however, clearly indicate that this revenue was intended to finance the administrative costs of the program. Actually the income from this tax has greatly exceeded administrative costs over the period since it was first imposed.[16] The Council believes that this Federal "profit" is unjustified and that the proceeds of the Federal tax should be earmarked for the use of the employment security programs. One-half of any surplus over expenses incurred in the collection of the tax and the administration of unemployment insurance and the employment service should be appropriated to the Federal loan fund (recommendation 10, p. 168) and one-half of the surplus should be assigned to the States—each State getting the proportion that taxable wages in that State bear to all taxable wages in the United States. The amounts so credited could be used on the State's initiative for either administration or benefits. The Council believes that the right to use excess funds for administration should be limited to 3 years after receipt of the funds. Thereafter, any excess funds which had not been used for administration would be available only for the payment of benefits. The Council believes further that the administrative standards in the

[16] Grants for administration under title III of the Social Security Act and the costs of collecting the tax have fallen some $970,000,000 short of the amount collected by the Federal Government. When the total expenses of the employment service as well as administrative costs of unemployment compensation are subtracted from the Federal income from this tax, the balance is somewhat less than half a billion dollars.

Social Security Act should be applicable to the expenditure of the surplus funds as well as to expenditures of the funds originally appropriated.

The employment-security programs are particularly sensitive to changes in economic conditions, making it difficult to budget adequately for administration. At present it is frequently necessary to appeal to Congress for deficiency appropriations and for the Federal Government to deny much-needed funds to the States until such appropriations are available. To correct this situation, a contingency item should be added to the regular congressional appropriations for the administration of the employment-security programs.

The Council wishes to emphasize that the 0.3 percent of taxable wages may not always be the exact amount which should be earmarked for administration; it is hoped that States will continue to find means of cutting costs. Likewise, to the extent that broadened coverage includes groups presenting administrative problems, costs may rise. Similarly a radical change in the employment situation would greatly increase administrative costs. A period of experimentation will determine whether the amount is too great or too small. Subsequent changes can then be made.

14. Clarification of Federal Interest in the Proper Payment of Claims

The Social Security Act should be amended to clarify the interest of the Federal Government not only in the full payment of benefits when due, but also in the prevention of improper payments

The Social Security Act now directs the Federal agency to withhold the payment of administrative expenses unless a State law provides for methods of administration such as "to insure full payment of unemployment compensation when due." [17] Furthermore, the Administrator is authorized to halt payments for administrative expenses to any State when he finds that, in the administration of the law, there is "a denial, in a substantial number of cases, of unemployment compensation to individuals entitled thereto under such law." [18] The present Federal law thus clearly holds the Federal agency responsible for seeing that State agencies pay valid claims, promptly and in full.

The Social Security Act is not equally specific about Federal responsibility for assuring that the State laws provide for administration reasonably calculated to prevent payment of invalid claims. While the Federal agency has taken some responsibility in this area, its statutory authority in relation to payments on invalid claims has been less clear than in relation to the failure to make payments on valid claims.[19]

The Council believes that the integrity of the system would be gravely threatened by payment of benefits which are not due as well as by failure to make payments when due. An amendment should therefore make it clear that the Congress intends the Federal agency to refuse to certify grants for administrative costs when the evidence of inadequate administrative methods is either the denial of valid claims or the payment of invalid claims.

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[17] Sec. 303 (a).
[18] Sec. 303 (b).
[19] Both the Social Security Administration and the States, however, have for some time been concerned with the problem of erroneous and fraudulent claims; appendix IV–B deals with this subject at greater length.

One way of clarifying this intent would be to add to section 303 (a) of the Social Security Act the phrase "but only to individuals entitled thereto." It would then read in part:

> The Administrator shall make no certification for payments to any State unless he finds that the law of such State * * * includes provision for such methods of administration * * * as are * * * reasonably calculated to insure full payment of unemployment compensation when due, *but only to individuals entitled thereto.*

Although we believe that the total number of cases of deliberate fraud is relatively small, despite the widespread public attention given to such cases, all reasonable effort should, of course, be made to prevent fraud and eliminate all types of unwarranted payments. This result will be achieved mainly by improving methods in determining eligibility. The determination of eligibility in unemployment insurance is extremely difficult. The facts needed are hard to obtain and the questions to be decided are susceptible of widely differing interpretations. To determine what constitutes "suitable employment," "good cause for not accepting suitable employment," "availability for work," "a voluntary quit," for example, requires first the formulation of general interpretations of the statutory terms and then the application of the interpretations to a specific set of facts gathered largely through the interviewing process.

Anything short of carefully conducted interviews by specially trained and selected personnel of high caliber inevitably results in a large volume of unwarranted payments, some of them on deliberately fraudulent claims, and others merely erroneous. Even more important, badly conducted interviews result in disqualifying many claimants who are really entitled to payments. Both the failure to make proper payments when due and the payment of unwarranted benefits result mainly from the claimstaker's lack of skill or his or the worker's or employer's failure to understand the provisions of the law. Improper payments can be eliminated only by improvement of educational and training programs for employed personnel and by an increase in the amount and quality of information made available to the public.

The Council recognizes that under the present program administration of the unemployment insurance programs is primarily a State responsibility and that the quality of administration will necessarily depend in large part on the caliber of the personnel the State selects to do the job. Nevertheless, the Federal Government is concerned with the quality of administration both in determining whether a State is entitled to administrative funds through conformity with certain basic administrative standards and in approving funds for proper and efficient administration. In our opinion, improved administration is of major importance in the development of the unemployment insurance program. A major reason for our recommendation for changes in the provisions for financing administrative costs (recommendation 13, p. 172) is to insure the availability of more funds for this purpose.

RECOMMENDATION ON DISQUALIFICATIONS

15. Standards for Disqualifications

A Federal standard on disqualifications should be adopted prohibiting the States from (1) reducing or canceling benefit rights as the

result of disqualification except for fraud or misrepresentation; (2) disqualifying those who are discharged because of inability to do the work; and (3) postponing benefits for more than 6 weeks as the result of a disqualification except for fraud or misrepresentation[20]

Under most State laws workers are "eligible" for benefits only as long as they continue to be able to work and available for work.[21] In addition, they may be "disqualified" for benefits even though they are able to work and available for work and meet all other eligibility requirements. These disqualifications are imposed for three major reasons: "Voluntary leaving," the "refusal of suitable work," and "misconduct connected with the work." (See table 9, appendix E, for summary of disqualification provisions in State laws.)

In the Council's opinion, reasonable disqualification provisions should be maintained and strictly enforced to prevent payments to those who are unemployed through their own voluntary act or because they have failed to make a reasonable effort to hold a job. In some States, however, disqualification provisions have been introduced which deny benefits to individuals who are genuinely unemployed through no fault of their own and are ready, willing, and able to accept suitable work. In other States, unreasonable penalties have been attached to the disqualifying acts.

1. *Provisions which cancel or reduce benefit rights.*—In 22 States benefit rights are now canceled or reduced for some cause other than fraud or misrepresentation. Such reduction or cancellation means that those who are disqualified not only are denied benefits for unemployment immediately resulting from the voluntary quit, refusal of suitable work, or discharge for misconduct, but also lose accumulated benefit rights which would otherwise be available to them if they are subsequently employed and suffer a second spell of unemployment. The Council condemns the intent and effect of these provisions. Such cancellation and reduction deny benefits in periods of unemployment for which the propriety of compensation is not open to question. The Council recommends the establishment of a Federal standard to prohibit the cancellation or reduction of benefit rights except for fraud or misrepresentation.

2. *Interpretations of "misconduct" tending toward making discharge for inability to do the work a basis for a finding of misconduct.*—The concept of involuntary unemployment should undoubtedly exclude unemployment resulting from discharge, if the worker has made no real attempt to hold the job and if the reason for his discharge is insubordination, consistent refusal to follow shop rules, or other types of gross misconduct. Failure to perform adequately in a job, however, is most commonly due to inadequate training, poor placement, and other inadequacies attributable to both management and worker. To deny benefits because a worker cannot measure up to criteria established by the employer under conditions primarily under

[20] Three members of the Council are of the opinion that there should be no Federal standards relating to disqualifications beyond those now in the act. They believe the underlying principle of the present State-Federal system is that wide discretion be left to the individual States and that by compelling all States to accept the proposed standards, this principle would be violated and a considerable number of States would be required to change their laws. They also point out that there is a wide divergence of opinion regarding the merits of disqualification provisions in State laws, and that some provisions have been introduced in an effort to reduce improper payments. They maintain that if some States have gone too far, public opinion within the State will bring about a change.

[21] In five States a worker who was able to work at the time of filing a claim but became ill while still unemployed may nevertheless continue to receive benefits.

the employer's control is, in the Council's opinion, to deny benefits to many whose unemployment can in no sense be considered as voluntarily incurred.

3. *Excessive postponement of benefits or denial of benefits during the entire spell of unemployment because of a disqualification.*—Some States (11 with respect to voluntary leaving, 6 for misconduct, and 12 for refusal of suitable work) withhold benefits for any period within the spell of unemployment following such action. Certainly a worker should not receive benefits if his actions are not consistent with a genuine desire for work; and voluntary leaving, refusal of suitable employment, and other causes of disqualification raise a presumption that he does not desire work. This presumption, however, should not apply to the whole spell of unemployment regardless of its length. The basic question is whether the entire spell of unemployment following a voluntary quit, refusal of work, or misconduct can reasonably be considered voluntary unemployment or whether, after a limited period, if the worker remains able to work and available for work, the continued unemployment is not due to lack of suitable work. The Council believes that 6 weeks is probably the maximum period during which it is reasonable to presume that the original disqualifying act continues to be the main cause of unemployment.

A Federal standard such as we propose would in no way prevent States from imposing a shorter period of disqualification, either in all cases or on a basis which would vary with the particular disqualification. A new "refusal of suitable employment," of course, could result in postponement of benefits for an additional 6 weeks and States would be allowed to postpone benefits for longer periods than 6 weeks for fraud or misrepresentation.

Opinion within the Council is divided on whether it would be desirable to propose an additional Federal standard prohibiting State laws from disqualifying persons because their unemployment is not "attributable to the employer" or "connected with the work." There are now 16 State laws which have such provisions. They rule out personal reasons as good cause for leaving a job. All members of the Council agree that the payment of benefits to persons who leave jobs for personal reasons should not be reflected in the employer's experience rating and most members of the Council favor the practice that several States now follow—paying benefits in such cases but not counting the benefits for experience-rating purposes.

The division within the Council is related to the question of how far the Federal Government should go in requiring the States to compensate for unemployment attributable to personal reasons rather than to the question whether it is desirable for the States on their own initiative to compensate for such unemployment. Some members feel that the States should be required to compensate for unemployment arising in such instances as when a worker moves to a new locality for the sake of his own health or that of his family, or he leaves one job to accept an offer of work which is later withdrawn. Another example of unemployment attributable to personal reasons which is not compensated in some States is that which results when a worker who recovers from an illness finds that his old job has been filled and that he must seek another; the unemployment under these rulings is not com-

pensated because it is not "attributable to the employer." Other members of the Council feel that the decision whether unemployment resulting from such causes should be compensated should be left entirely to the States.

RECOMMENDATION ON PLANS SUPPLEMENTARY TO UNEMPLOYMENT INSURANCE

16. Study of Supplementary Plans

The Congress should direct the Federal Security Agency to study in detail the comparative merits in times of severe unemployment of—(a) unemployment assistance, (b) extended unemployment-insurance benefits, (c) work relief, (d) other income-maintenance devices for the unemployed, including public works. This study should be conducted in consultation with the Social Security Administration's Advisory Council on Employment Security, the Council of Economic Advisers, and the State employment security agencies, and should make specific proposals for Federal measures to provide economic security for workers who do not have private or public employment during a depression and who are not adequately protected by unemployment insurance

The Council recognizes that the burden of unemployment in a severe depression cannot be met in any one way. Neither unemployment insurance nor any other single method will be sufficient to do the whole job. A complete system of social security would provide for various types of plans to supplement unemployment insurance in times of large-scale unemployment.

The Council intended to make recommendations concerning the merits and shortcomings of the various possible plans and, in submitting recommendations on public assistance, said: "In its report to be submitted on unemployment insurance, the Council plans to consider the problem of the responsibility of the Federal Government for the income maintenance of workers in time of business depression."[22] We regret that we have been unable to make the thorough study of alternative lines of action on which to base a policy decision in this area. We believe, however, that it is important that the Federal Security Agency study alternative methods of providing income security for workers who do not have private or public employment during a depression and who are not adequately protected by unemployment insurance and that preliminary plans be completed for putting the best methods into effect. We therefore recommend that the Congress direct the Federal Security Agency to make such a study in consultation with its Advisory Council on Employment Security, the Council of Economic Advisers, and the State employment security agencies.

The State-Federal system of unemployment insurance should pay benefits of sufficient duration to permit most covered workers in normal times to find suitable employment before their benefit rights are exhausted. Furthermore, the Council has recommended that the State-Federal public assistance program be strengthened to meet more adequately the needs of unemployed workers ineligible for in-

[22] See p. 103.

surance benefits or with inadequate insurance rights.[23] These dual provisions for the unemployed through the State-Federal programs would suffice, the Council believes, unless the country is again plunged into a period of severe and prolonged economic distress. In that event, additional Federal action would clearly be needed for the relief of the unemployed. A depression has an uneven impact upon different cities and regions and many States and localities are not capable of meeting the great increase in expenditures called for by mass unemployment. In such a period only the Federal Government has sufficient credit and sufficiently broad eventual tax resources to meet the full need.

The Council does not anticipate a return to the economic stagnation of the 1930's, but believes that it is prudent to prepare for a heavy volume of unemployment even while steps are being taken to prevent its recurrence. The Council cites without specific recommendation various types of possible Federal action. We wish to emphasize that whatever methods are used the integrity of the insurance system should be maintained and separate financing should be provided for the supplementary plans.

(*a*) *Unemployment assistance.*—A special program of unemployment assistance might be used for persons who do not come under the unemployment insurance program either because of its failure to cover all types of work or because many members of the covered labor force are unable to meet the eligibility requirements in times of depression. Depressions greatly increase the number of persons who seek work for the first time to supplement the family income, and the number of formerly self-employed persons looking for jobs also rises. Moreover, as the depression deepens, the number of wage earners who lack recent earnings in covered employment increases, hence the insurance system bears a smaller and smaller proportion of the load of unemployment.

A State-Federal unemployment assistance plan might be established with the same scale of Federal contributions as those recommended in the Council's report on public assistance for old-age assistance, aid to the blind, and aid to dependent children (three-fourths of the first $20 plus one-half up to $50 for the first two in a family plus $15 for each additional person). If the depression were prolonged, some States might be unable to meet their share of unemployment assistance payments without additional Federal help. The Federal Government, as in the 1930's, might take over almost all costs, or it might lend the States their share.

(*b*) *Extended unemployment benefits.*—Another possibility would be to permit extension of unemployment benefits at the same rate and to the same persons for an additional 13 or 26 weeks. If extended benefits are granted, the beneficiary might be required to take a training course or move to an area offering better employment opportunities. A needs test, however, would not be applied. A separate plan for financing extended benefits should be provided either on a joint State-Federal basis or by the Federal Government alone. Otherwise, extended unemployment benefits would undermine the unemployment insurance system.

(*c*) *Work-relief program.*—In the 1930's Congress spent billions of dollars on a series of work-relief projects. Debates over the advan-

[23] Recommendation 2 in pt. III, p. 108, provides for Federal grants for "general assistance."

tages and disadvantages of work versus cash relief are still raging long after the demise of NYA, CCC, and WPA. Advocates of work relief may admit the folly of some projects, but they point to thousands of successful ones which have added significant value to the American economy. They also argue that many relief workers received training on the job and that work habits were maintained better than if cash relief had been the only method used. The advocates of cash relief cite its great simplicity and economy, and argue that most of the best work-relief projects competed with private industry or regular Government work and that work relief in many cases fostered bad work habits rather than maintained good ones.

(*d*) *Other income—maintenance devices for the unemployed, including public works.*—Quite apart from unemployment insurance, unemployment assistance, extended unemployment insurance, and work relief, the Federal Government might, in times of serious depression, increase its spending on essential public works. Such action would stimulate employment primarily in the construction industries, secondarily in industries supplying the construction industry, and indirectly in the industries whose products are consumed by workers employed on the projects and in the supplying industries. On the basis of past experience, however, it is clear that public works alone are insufficient for a large number of the needy unemployed. Although in other recessions large numbers of construction workers have been unemployed, the secondary and subsequent effects of increased public works were not enough to give employment to many other groups who needed jobs. Although the Council recognizes the advantages of planning public works in good times and expanding them in periods of slack employment, it considers public works as an incomplete solution of the problem of widespread depression unemployment among persons ineligible for unemployment insurance benefits.

Various combinations of the methods discussed above might be used. Other plans have also been suggested such as self-help groups, share-the-work plans, and guaranteed employment.

Throughout the country, both in business and labor groups, there is a widespread conviction that serious cyclical recessions can and should be minimized. Many general proposals have been made to promote full employment, and Congress has established a Council of Economic Advisers to deal specifically with this problem. If these attempts are successful, supplementary plans will not be needed, but as a safeguard against hasty and ill-conceived schemes, it will be well to have a sound plan ready if, despite all efforts, the country is again faced with the problem of large-scale unemployment.

TEMPORARY DISABILITY INSURANCE

The Council in its second report to the Senate Committee on Finance presented recommendations for a program that would afford protection to workers against the loss of wages due to permanent and total disability.[24] Under these recommendations, benefits would be provided only to workers who have been disabled for a period of at least 6 months when it appears likely that the disablements will be of long-continued and indefinite duration. Because time was lacking for a comprehensive study of the various methods that have been proposed to afford protection to workers who are unemployed because of temporary disability, the Council refrains from making any recommendations covering this area. The Council, however, recognizes that the loss of income from temporary disability is a major economic hazard to which all wage earners are exposed. In lieu of recommendations, a summary statement on the need for providing protection against wage loss due to temporary disability, the scope of existing programs, and some of the methods that have been suggested by various groups to afford workers such protection is presented below.

On the average day, illness prevents about 2 to 2½ million persons recently in the labor force from working or seeking work. In a year wages amounting to 5 to 6 billion dollars are lost because of disabilities lasting up to 6 months. The economic hardship caused by disability may be an even more serious hazard to workers than is wage loss, because illness entails medical expenses as well as the loss of income. Unlike the situation in other major industrialized countries, however, compulsory protection against wage loss due to temporary incapacity in this country is largely confined to work-connected accidents and diseases in industry and commerce which are covered by workmen's compensation programs. Only three States (Rhode Island, California, and New Jersey) have provided for the payment of benefits for temporary disability to workers covered by their unemployment-insurance laws. In addition, the railroad unemployment-insurance law has been extended to provide cash sickness benefits to workers covered by that law.

In recent years, voluntary health and welfare plans provided under collective-bargaining agreements have expanded materially. While such plans may provide excellent protection against the loss of income from temporary illness or other disablements for the groups economically powerful enough to obtain such protection, large groups of workers continue to remain unprotected under voluntary health and welfare plans. A study made in New York State indicated that only about 30 percent of the workers now covered by unemployment insurance have some protection against wage loss due to disability under group health and accident policies or formally established employer plans. For the country as a whole, an estimated 20,000,000 workers

[24] See pp. 69–93.

who are covered by State unemployment-compensation programs have no protection under formally established voluntary sickness-benefit plans. The extension of such protection to all employees in industry and commerce is unlikely because individual premium rates under commercial group insurance policies make coverage expensive for industries in which a relatively high incidence of disability may be expected. For instance, when women and nonwhite employees constitute 51 to 60 percent of the total number of eligible employees, rates for manual workers are 62.5 percent higher than the minimum—and increase proportionately to 112 percent higher when all eligible employees are women or nonwhite. Furthermore, group contracts are not suitable for small establishments; the smaller the number of employees, the greater the probabilities that the distribution by age and sex, as well as health of employees, will differ from the norms for establishments with a large number of employees. It is not uncommon for underwriters of group health and accident insurance to refuse to insure groups of less than 50 employees, while State insurance laws frequently prohibit issuance of group policies to groups of less than 25. Moreover, under any voluntary plan of affording protection to workers against the loss of wages, the employers who pay the lowest wages and whose employees consequently are in greatest need of protection would be the least likely to participate in such a plan.

The New Jersey State Commission on Postwar Economic Welfare, after considering the need for temporary disability insurance and the possibilities for coverage under voluntary plans, came to the following conclusion:

> Popular opinion also overwhelmingly favors the extension of some form of social security legislation to protect against the hazards of illness. Particularly in the lower income levels, where the frequency of nonoccupational illness seems to be greatest, people suffer most severely from the economic effects of wage loss. Since it is an accepted public policy to protect the individual against wage loss caused by involuntary unemployment, it seems desirable to fill the gap in this protection by meeting the hazards of inability to work caused by sickness. The public interest in social and economic security and stability is as much served in the one case as in the other.
>
> While the progress made in supplying protection against wage loss caused by illness through voluntary programs adopted by employers has been great, the need for the extension of such protection is so great as to warrant the establishment of some form of uniform minimum standard coverage. Given sufficient time, the voluntary program might very well be extended greatly, but there would always remain a significant number of people for whom either no provision has been made or for whom inadequate provision has been made. The establishment of a minimum standard and its enforcement is essentially a function which must be performed by government, in whatever manner benefits may be provided. It remains to determine the best method by which such minimum benefits may be provided and financed.[25]

The four existing laws providing insurance against temporary disability—the Rhode Island, California, and New Jersey State laws, and the Federal law for railroad workers—are very closely allied with the respective unemployment insurance laws in both substantive provisions and administrative arrangements. The same groups of workers are covered, the same type of formula determines the benefits payable, the same measure of attachment to the labor force is used, and except in the New Jersey plan for disability during employment, the same "base periods" and "benefit years" are used for temporary dis-

[25] Fourth Report of New Jersey State Commission on Postwar Economic Welfare, pp. 9–10.

ability and for unemployment insurance. While the New Jersey plan has no "benefit year," minimum and maximum benefits in any 12-month period are determined on the same basis as in unemployment insurance. All four statutes are administered by the unemployment insurance agencies, and thus use the same administrative machinery for collecting contributions, for maintaining wage records, and for staff services for both programs. Obviously, because disability rather than availability for work must be demonstrated by the claimant, the claims procedures are markedly different.

Benefits have been payable in Rhode Island since April 1, 1943, in California since December 1, 1946, and under the railroad system since July 1, 1947. In New Jersey, benefit payments will begin on January 1, 1949.

The most distinctive difference among the four programs is the provision in the California and New Jersey plans for a State-supervised system of private voluntary plans which may be substituted for the State-operated plan. (See appendix IV–D, table I, for comparison of the four temporary disability laws.) The voluntary plans, however, must fulfill certain requirements specified in the respective statutes. The California law requires that a private plan must afford more favorable rights to the employees it covers than are afforded by the State plan, at no greater cost to the employees; the plan must be available to all employees, must be accepted by a majority, and must not result in a substantial selection of risks adverse to the State fund. The New Jersey requirements differ in that the rights afforded under the private plan must at least equal those under the State plan, at no greater cost to the employees; if a majority of the workers in a plant accept a private plan, all the workers of that plant must be covered under it rather than under the State plan; and there is no other provision against adverse selection. Both laws contain other requirements designed to assure that the benefits promised by the private plans will actually be paid.

Voluntary private plans may be either self-insured by the employer or carried by a properly qualified insurance company. If a plan is approved as meeting the requirements of the State law, the employees covered by it receive their disability benefits under the voluntary plan and are exempted from paying contributions to the State fund. On June 30, 1948, there were over 10,000 employers with approved voluntary private plans in effect in California (5 percent of the covered employers), which covered about 765,000 workers or 32 percent of the total number covered by the unemployment insurance and disability law.

Benefits under the State-operated systems in California and Rhode Island (which has no provision for the substitution of private voluntary plans for the State system) are financed exclusively by employee contributions of 1 percent of wages up to $3,000. In New Jersey, benefits under the State-operated system are financed by an employee contribution of 0.75 percent and an employer contribution of 0.25 percent. The current contribution rate for the railroad temporary disability insurance system and unemployment insurance is 0.5 percent levied on employers. In all four laws, the weekly benefit amount is determined according to a schedule and related to previous wages; in Rhode Island the amount ranges from $6.75 to $18; in California from $10 to $25; in New Jersey from $9 to $22; and under

the railroad system the amount for a 2-week period ranges from $17.50 to $50. The maximum duration of benefits ranges from 3 to 20 weeks in Rhode Island, from 10 to 26 weeks in California, and from 10 to 26 weeks in New Jersey, depending on the amount of base-period wages. The railroad system provides a uniform potential duration of 26 weeks.

The New Jersey law actually provides three systems, one for workers unemployed when they get sick, one for those who are employed and not covered by private plans, and a third for those covered by private plans. For those employed at the time the disability begins, the weekly benefit amount is computed for the period of disability, and the maximum and minimum benefits mentioned above apply to any 12-month period. The individual is considered disabled when he is unable to perform the duties of his current job. The worker who is unemployed when he becomes disabled, however, must be unable to perform any work for remuneration if he is to be eligible for disability benefits. Moreover, he must have established a benefit year by a claim for unemployment benefits and must have served the 1-week unemployment insurance waiting period.

Disability due to pregnancy is treated quite differently under the four laws. Rhode Island considers pregnancy a disability whenever a woman is not working during pregnancy; maximum benefits for any one pregnancy, however, are limited to 15 weeks, except for unusual complications, and may be less, depending upon the amount of base-period wages. Under the New Jersey law, on the other hand, no payments are made for periods of disability due to pregnancy. California will pay for periods of disability lasting more than 4 weeks after the termination of pregnancy. The railroad act provides separate maternity benefits which are in addition to the ordinary duration of benefits; the maternity benefits are paid for 16 weeks, beginning 8 weeks prior to the anticipated date of confinement.

Temporary disability insurance is intended to protect against wage loss due to nonoccupational disability and is not a replacement for workmen's compensation, which continues to bear the costs of work-connected injury and disease. The existing laws provide for varying methods of coordination between the two programs. Rhode Island is the most liberal, permitting the payment of both types of benefits up to a weekly total of 90 percent of the weekly wage rate before the disability.

In June 1948, about 5.5 million workers (of the 34.3 million workers covered by unemployment insurance laws) were covered under the 4 existing laws for temporary disability insurance, 4.2 million of them under the 3 laws which had been paying benefits for at least 12 months on June 30, 1948.

During the year ended June 30, 1948, more than 50.3 million dollars was paid in temporary disability insurance benefits, with 50,700 disabled workers receiving benefits in an average week. Of the total benefit expenditures, 26.6 million dollars was paid to railroad workers—0.56 percent of taxable railroad wages. The California State plan paid out 19.4 million dollars—0.41 percent of the wages taxed under the State plan; an additional 56,000 spells of disability were compensated by approved private plans. Rhode Island benefits were 4.3 million dollars—0.78 percent of taxable wages. (See appendix

IV–D, table J, for summary of operations of California, Rhode Island, and railroad programs.)

During the year, there were three railroad sickness beneficiaries for every four unemployment insurance beneficiaries in the same period. In Rhode Island, there were two temporary disability insurance beneficiaries in an average week for each five unemployment insurance beneficiaries, while under the California State plan, disability accounted for only one beneficiary in an average week for every seven beneficiaries for unemployment insurance. These variations can be explained in terms of variations in the unemployment rates and in the characteristics of the covered groups, as well as differences in statutory provisions. Unemployment has been very low in the railroad industry during the past few years, while the ratios of insured unemployment to covered workers in California and Rhode Island have been among the highest in the country. Moreover, the average age of railroad workers is much higher than the average age of workers covered by a State law. The high proportion of women in the Rhode Island covered group, combined with the provision for benefits in cases of pregnancy, increased the number of Rhode Island beneficiaries.

Various methods have been suggested by interested groups to provide temporary disability insurance for workers in all States. These proposals differ on such points as whether the program should be established by State legislation, Federal legislation, or a combination of both. Further, the various proposals differ in respect to the administrative agency that would be responsible for the program. Among these proposals are those that would (1) integrate temporary disability insurance and unemployment insurance, (2) integrate temporary disability insurance and permanent and total disability insurance with old-age and survivors insurance, (3) provide only for State-supervised private plans, and (4) integrate temporary disability insurance with medical care insurance.

The proposal to integrate temporary-disability insurance with unemployment insurance has had considerable acceptance. As has been noted above, all four of the existing temporary-disability programs are closely linked with the unemployment-insurance programs. The Congress in 1946 enacted legislation to permit employee contributions collected by the States for unemployment-insurance purposes to be used to support State temporary-disability-insurance systems. Most of the bills for temporary-disability insurance that have been introduced in State legislatures would provide for the integration of the two programs.

The proponents of this method of affording protection to workers point to the economy to be derived from using the same administrative machinery and similar substantive provisions for both programs. In general, these proponents also recognize that a temporary-disability insurance program poses some problems that are not common to unemployment insurance and would therefore require certain special provisions, procedures, and staff to meet these problems. It has been argued that, for both programs, coverage could be afforded the same workers; the same covered wages and pay rolls could be used as a basis for contributions; and even if the benefit formula were somewhat different for temporary-disability insurance, the same wage credits could serve as a basis for benefits under both programs.

Although proponents for integration of these two programs may agree on the desirability of such action, sharp differences of opinion are expressed among them on the degree of responsibility for the temporary-disability system that should be vested in the State unemployment-insurance agency. Some advocate an exclusive State system, while others advocate a State-operated system, plus substitute State-supervised private plans. As has been noted above, the first type of system has been adopted by Rhode Island, and the second by California and New Jersey. Those who advocate an exclusively State-operated system argue that pooling all risks on a State-wide basis results in a higher level of benefits (or lower contributions) than if the risks were shared with private plans, since the latter would not cover poor risks. Further, it is claimed that, when any private plan proves unprofitable, the group covered by such a plan is eventually turned over to the State-operated system. The proponents of an exclusively State-operated system also point out that a State agency, unlike insurance companies engaged in the business of insuring workers under a private plan, earns no profit and incurs no sales cost; so that, if the State system is permitted to insure all eligible workers, the proportion of contributions available for benefit payments is larger than under any other system. Recognition of private plans, it is argued, will also add to administrative problems because of the need for review and supervision of these plans and the need to assure continuity of coverage and prevention of duplicate payments to workers moving from one type of plan to another.

Those who favor a State-operated system plus substitute State-supervised private plans emphasize that all eligible workers acquire protection, either under the State-operated program or under substitute private plans approved by the State supervisory agency. They claim that this type of system, whereby the employees and employer may choose between the public or private plans, provides a high degree of flexibility and avoids freezing benefits at a statutory minimum level. Workers who are now covered by generous private plans could retain that coverage if the employer agreed and the State agency approved, thereby avoiding the need to transfer many workers to a system paying lower benefits. Similarly, private plans with provisions more liberal than those offered by the State law could be adopted if employers and employees desired and were able to pay for better protection, and employers would have a more direct interest in the plan. The advocates of this type of system also claim that competition between a State-operated plan and private plans stimulates more economical and efficient administration of both plans.

Proponents for integration of temporary-disability insurance and unemployment insurance disagree on the role of the Federal Government in such a program. Some advocate complete federalization of both unemployment and temporary-disability insurance; others say that the program should be exclusively a State responsibility; while many other types of action advocated fall between these two extremes.

Those who favor Federal action argue that the Federal Government has as vital an interest in protecting the workers of the country against the loss of income from disability as it has in seeing that they are covered by unemployment insurance. They argue that, if workers in all States are to get this additional protection within the foreseeable

future, Federal action will be needed; and they cite the delay of 37 years in obtaining workmen's compensation in all States as compared with the 2-year period required to obtain unemployment insurance on a Nation-wide basis.

A number of the alternatives for Federal action short of complete federalization are listed below:

1. The Federal Government might pay the administrative expenses of State temporary-disability-insurance systems in the same manner as it now pays such expenses for unemployment insurance.
2. The Federal Government might go further and permit the use of State accounts in the unemployment trust fund to finance State systems of temporary-disability insurance under adequate safeguards for the solvency of the funds.
3. The Federal Government might make the establishment of a disability program a condition for the continued receipt of the tax offset under the present tax on employers for unemployment insurance.
4. The Federal Government might extend the Federal-State device used in unemployment insurance by levying a Federal tax for temporary-disability insurance.

Those who advocate the integration of temporary-disability and unemployment insurance under State laws, without any Federal legislative action, claim that State-Federal programs result in at least some control over the State agencies administering the programs; that such control sometimes makes it impossible for a particular State to use the best methods of meeting problems that are peculiar to the State; and that even limited Federal responsibility sometimes stifles State initiative and experimentation, which are especially important in developing sound programs in a relatively new area of the social-security field.

The proposal to integrate a temporary disability program and a permanent-and-total-disability program with old-age and survivors insurance has received considerable attention in recent months. The proponents of this plan cite the economy to be obtained from using the Nation-wide old-age and survivors insurance administrative machinery for payment of benefits and collection of contributions for a disability program, and the convenience to the public in having one field office for the filing of claims and the handling of wage questions for the three programs. They claim that only under a Federal program would workers have uniform protection against the loss of wages from illness regardless of State of residence or employment. These proponents also contend that, since temporary-disability insurance and permanent-and-total-disability insurance both need to establish disablement, the special staff and special procedures required for determining medical disability in one program could be utilized for the other. If the two disability programs were not integrated, much duplication of staff and procedures would be necessary. Furthermore, these proponents claim that, because many of the persons who will become eligible for permanent-and-total-disability benefits will first be eligible for temporary-disability benefits, a single administrative agency would be able to emphasize rehabilitation service for disabled persons at the earliest possible time instead of delaying such service until a claimant has become a beneficiary under the permanent-and-total-disability program. Similarly, it is claimed that integration of

the two programs will eliminate many of the gaps in protection against the loss of wages from disability that would exist under two separate programs.

The plan to provide temporary-disability insurance by the exclusive use of State-supervised private plans has been advocated by those who recognize the need for protection from wage loss during temporary disability but who believe such protection can best be provided by the purchase of group insurance or by self-insurance by employers. Under this plan, there would be no State-operated program; but, instead, private plans would be required under compulsory State legislation which would make it necessary for employers to provide a minimum level of protection to employees.

Many of the arguments in favor of this plan are similar to those that are advanced for permitting private plans to be substituted for a State-operated system. The proponents of the exclusively private-plan system argue that such a system would provide a high degree of flexibility and avoid freezing benefits at a statutory level; would permit the continuation of existing employer plans or the adoption of new plans if employers and employees desired and were able to pay for better protection; and that the employers would have a more direct interest in the system.

The advocates of this plan usually admit that some difficulties may arise in assuring protection to employees of some employers who may not be readily able to obtain insurance or to meet all the State requirements. They claim, however, that a solution to such difficulties can be found; and they cite the operation of workmen's compensation in jurisdictions that have exclusively private plans for that program as a precedent for the workability of a similar plan for a temporary disability program.

The plan to integrate temporary-disability insurance with medical-care insurance has been proposed by some of the advocates of the latter program. Under this plan, cash benefits would be paid for loss of wages due to temporary disability; and direct payments would be made to doctors, hospitals, and so forth, furnishing medical care to eligible persons. Although the two programs would be administered by one agency and persons receiving cash benefits would receive medical care, the latter service would also be available to others covered by the medical-care provisions.

Those who favor this plan cite the economy to be obtained by using one wage-record system and one administrative organization to serve both programs. They argue that, because the medical staff needed for one program would also be available for the other, such integration would permit better utilization of the time of the medical profession than would any other system. Furthermore, they claim that integration of the two programs would make rehabilitation services available without delay to those who could benefit from such services.

APPENDIX IV–A. COST ESTIMATES

This appendix explains the bases of the cost estimates used by the Council in arriving at its proposed Federal tax rate of 1.5 percent for unemployment insurance to be paid in equal shares by employers and employees. In this rate , 1.2 percent would be offset by contributions to States for benefit purposes, leaving the 0.3 percent Federal tax to be expended for administration and the other purposes outlined in recommendations 10 and 13. This appendix deals only with benefit costs.

The 1.2 percent rate is merely a minimum State-contribution rate; any State may set a higher rate, as several States will need to do in order to support an adequate system of benefits. Under the Council's proposals, the States will retain responsibility for setting rates high enough to finance benefits under their programs. This minimum tax is proposed by the Council as a means of eliminating, so far as possible, interstate competition for lower contribution rates and thereby reducing present barriers to the provision of adequate benefits.

The 1.2 percent minimum rate is proposed by the Council for the next 10-year period only. It may be too low or too high as a minimum rate for periods which follow. It will certainly be too low for some States. It has been possible to recommend a rate as low as 1.2 percent because of the assumption that a considerable portion of present reserves will be utilized to pay benefits during the next 10 years. Actual benefit costs for the Nation as a whole over the next 10 years will probably be in excess of 1.2 percent of covered pay rolls. The amount of this excess will depend, of course, partly upon the employment pattern and partly on the rate of benefits. The Council has made four estimates based on two economic assumptions and two levels of benefits. The average cost for the next 10 years as shown by these estimates ranges from 1.5 to 2.0 percent of pay rolls.

Cost estimates for unemployment insurance depend on the benefit provisions, and on the volume, duration, and concentration of unemployment. The Council believed it wise to base estimates on two sets of hypothetical economic conditions which might prevail during the next 10 years—(1) a favorable cycle with unemployment ranging from 2 to 5 million in the next decade and (2) a more pessimistic outlook with unemployment ranging from 2 to 10 million. Estimates have been made for two different levels of benefits. One group of benefit assumptions is roughly equivalent to the benefit provisions now in effect in the States with the most liberal provisions, and the other assumption postulates somewhat higher expenditures. Since the estimates form the basis for setting a minimum rate which might prevail over the next 10 years, it seemed desirable to assume some liberalization of benefits such as might be expected during that period.

The Council recommends the minimum rate of 1.2 percent for benefit purposes because this rate seems to be applicable to the majority of the States under both benefit assumptions and both the favorable and unfavorable economic assumptions. We might have suggested a higher rate that would have covered the costs of even the highest-cost State, but this approach was rejected because it would require many States to collect more than they needed for an adequate level of benefits. Similarly, the Council might have proposed a much lower rate that would have covered the costs only in the lowest-cost States; but this approach was rejected because it would not accomplish the Council's purpose of reducing interstate competition for lower contribution rates. With such a minimum rate, most States would still be in the position of having to decide whether they would provide more liberal benefits or reduce the contribution rate to the minimum. The Council believes that the rate of 1.2 percent will avoid interstate competition in contribution rates among most States, but again reiterates the fact that, under its cost assumptions, a few States will have to charge more than the minimum rate, and that all States, under the State-Federal system, must be responsible for providing adequate contribution rates and benefits in relation to their own experience.

These estimates do not undertake to indicate what unemployment insurance will cost in the individual States over the next 10 years or what rates particular States should charge. Much more detailed study on an individual State basis would be needed before conclusions of this type could be reached. The estimates for the individual States are rough calculations based on their past benefit experience (the war years, 1942–44, were not considered in these estimates), and future benefit experience in many States will probably differ from past experience. The estimates do, however, give a basis for establishing a national minimum rate; for this purpose it is not necessary that the costs in each State be accurately predicted as long as the general picture is reasonably correct.

I. Economic Assumptions

Benefit costs for a specific unemployment insurance program depend primarily upon the economic conditions prevailing during the period under consideration.

In order to determine costs over a complete business cycle, the duration of the cycle must be established. If estimates are projected for only 3 or 4 years ahead they cannot adequately take account of a relatively severe decline, with unemployment reaching 5, 8, or 10 million, and subsequent return to predepression levels of business activity. On the other hand, it would be impractical to plan the financial structure of an unemployment insurance program too many years ahead. In view of these considerations, therefore, variations in economic activity over a 10-year period were considered. Ten years was deemed long enough to encompass anticipated variations in economic activity but not too long for practical purposes of planning.

To estimate costs over a business cycle, three basic assumptions need be established: (a) a high level of employment at the beginning and end of the cycle; (b) employment declining in the early phase of the cycle and increasing in its later phase; and (c) the range in the volume

of unemployment. The precise shape of the pattern does not significantly affect the size of the estimates. The slope may be irregular and the trough shifted to the left or right without affecting costs. It is important only that there be peak levels of employment at the beginning and end of the cycle and a specified range of variation in unemployment over the period. Detailed differences during the course of a business cycle tend to average out over the cycle.

A. FAVORABLE PATTERN OF EMPLOYMENT

One set of cost estimates was based on the assumption that unemployment during the next 10 years would vary from 2 to 5 million as follows:

Year of cycle	Unemployment (in millions)		Year of cycle	Unemployment (in millions)	
	At end of year	Average for year		At end of year	Average for year
1	2	2.0	7	5	5.0
2	2	2.0	8	2	3.5
3	5	3.5	9	2	2.0
4	5	5.0	10	2	2.0
5	5	5.0			
6	5	5.0	Average for the cycle		3.5

B. UNFAVORABLE PATTERN OF EMPLOYMENT

It is possible that estimated unemployment of 5 million at the trough of the business cycle might prove to be over-optimistic. Another set of estimates was therefore prepared based on the assumption that unemployment would range from 2 to 10 million during the course of the business cycle. In the 2 to 10 million cycle, unemployment was assumed to vary in the following manner:

Year of cycle	Unemployment (in millions)		Year of cycle	Unemployment (in millions)	
	At end of year	Average for year		At end of year	Average for year
1	2.0	2.0	7	7.5	8.7
2	2.0	2.0	8	2.0	4.8
3	7.5	4.8	9	2.0	2.0
4	10.0	8.7	10	2.0	2.0
5	10.0	10.0	Average for the cycle		5.5
6	10.0	10.0			

C. TURN-OVER

Unemployment insurance, as it operates in all States, compensates the highest proportion of unemployed workers during peak levels of employment and the initial stages of an economic set-back. As the depression deepens, a growing proportion of unemployed workers exhaust their benefit rights and find it difficult or impossible to get new jobs. During the later stages of a depression, although the absolute number of unemployed may be large, the percentage of the unemployed receiving benefits is much smaller than in the early stages. A fairly rigid demarcation develops among the unemployed between

workers in the turn-over group who stand a good or reasonable chance of finding a job, and those in the hard-core group who have relatively little chance of reemployment during the depression.

The cost estimates under both economic patterns were based on the assumption that turn-over among covered workers during periods of peak employment would average 2 to 3 percent of covered employment per month. This turn-over pattern is indicated by data on initial claims and covered employment reported by the State employment security agencies.

The turn-over group consists in large part of workers out of a job because of frictional factors in the economy that are prevalent in both good times and bad. Even if the workers in the turn-over group had as good chances of finding employment during the depression as during peak business activity, however, the emergence of the hard-core in a depression with almost no chances of finding a job tends to reduce the hiring prospects of unemployed workers taken as a whole. As a result, turn-over tends to decline during a depression. This phenomenon was taken into account in the preparation of the cost estimates.

An even more unfavorable pattern than either of those assumed, with unemployment rising to as much as 13,000,000, would raise costs on the average by perhaps 5 to 10 percent. These higher costs would result mainly from the increased number of initial layoffs averaged over the 10-year period, but also to a lesser extent from the longer duration of compensated unemployment. It is significant, however, that even extreme assumptions for the volume of unemployment do not increase costs substantially. Since unemployment benefits are paid for a limited duration and since eligibility depends upon recent earnings, the effect of large-scale unemployment on the costs of the system is limited.

Some consideration was given to the possibility that employers might rotate jobs by hiring workers as they exhaust benefit rights and laying off others as they gain eligibility for benefits. If this type of share-the-work were widespread, it would increase costs considerably. Because of seniority rules and employment practices, however, the extent of this type of job rotation is likely to be slight. On the other hand, the more normal share-the-work practice of reducing the number of hours worked per week would tend to reduce benefit costs. The cost estimates were based on the assumption that these contrary tendencies would about cancel out and that share-the-work practices would not affect benefit costs.

D. LABOR FORCE

Under both economic patterns, the labor force was assumed to increase at an average of 600,000 a year over the 10 years. At present, the labor force is growing at a rate of more than a million a year. Such growth, however, is unusual during peacetime and is probably attributable to the prevailing boom conditions. As conditions become more stable, the growth in size of labor force will probably tend toward the long-run average of 1 percent per year. About 1.2 million people will probably reach working age each year, while slightly more than half a million will leave the labor market because of age, infirmity, marriage, or death. During the past 12 months, the labor force has been averaging about 62 million.

II. Benefit Assumptions

WEEKLY BENEFIT AMOUNT

Several facts have led the Council to conclude that existing benefit levels are on the average too low for estimating future costs. The facts are:

1. The average weekly benefit amount is now only about 35 percent of the average weekly wage; in the second quarter of 1947 it was less than 30 percent in eight States.
2. Even the maximum weekly benefit amount now ranges among the States from 35 to 59 percent of the average weekly wage, with 31 States in the 35 to 45 percent interval.
3. In 1947 more than half the benefit payments (57 percent) were at the maximum weekly benefit amount payable under the State laws; in eight States the proportion limited by the maximum exceeded 70 percent.
4. Increases in the cost of living have so greatly reduced the purchasing power of benefits that the average weekly benefit of $19.28 in July 1948 was worth only $11.11 in terms of 1935-39 dollars.
5. Even the present maximum weekly benefit amount would meet only 56.2 to 69.4 percent of the nondeferrable costs of living (49 to 53 percent of a total budget for family requirements) for a family of 4 in the 22 cities surveyed in June 1947, and the range among all 34 cities studied was from 48.9 to 86.4 percent.[1]

In order to determine the proper minimum rate over the next 10 years, it seemed prudent, on the basis of these facts, to assume for estimating purposes a higher level of benefits than now prevails in most States. The Council therefore assumed two sets of benefit conditions. The first set of assumed conditions is about equivalent to the provisions in the States with the most liberal benefits. These conditions assume weekly benefits equal, on the average, to at least 50 percent of previous weekly earnings up to a maximum benefit of $25 a week and a uniform duration of 26 weeks.

The second set of benefit assumptions used by the Council provides for a somewhat higher level of benefits. The cost estimates are projected over a 10-year cycle and it is reasonable to assume that benefits will rise during this period as they have during the past 10 years. In this second set of conditions, the Council assumed weekly benefits equal, on the average, to 50 percent of previous weekly earnings calculated on wages up to $80 a week.

There are many sets of benefit conditions, of course, which would result in approximately the same costs and any one of them would do equally well for the purpose of these estimates. Instead of a flat-rate of 50 percent of weekly earnings up to $80 a week, a State might use a formula which would permit claimants with less than average wages to receive somewhat more than 50 percent, and those with greater than average incomes to receive somewhat less. One such formula resulting in approximately the same costs as the above formula is 60 percent of the first $25 of weekly wages plus 40 percent of the next $55. One formula with dependents' allowances resulting in approximately the same costs as the above formulas is 60 percent of

[1] See Unemployment Benefits, Wages, and Living Costs, Social Security Bulletin, April 1948, pp. 3–9.

the first $30 of weekly wages, plus 30 percent of the next $50 of weekly wages, plus $2 for each of the first 3 dependents, with a maximum benefit not exceeding 75 percent of earnings.

The following table shows the weekly benefit amount under these three formulas, all of which are examples of formulas with costs equal to the second set of benefit assumptions.

Illustrative schedule of unemployment benefits using alternative formulas entailing approximately the same costs

Weekly earnings	Benefits representing—					
	A	B	C			
	50 percent of earnings	60 percent first $25; 40 percent next $55	60 percent first $30; 30 percent next $50; plus $2 dependents' allowance; 75 percent of weekly earnings maximum			
			No dependents	1 dependent	2 dependents	3 or more dependents
$10	$5	$6	$6	$7.50	$7.50	$7.50
$20	10	12	12	14.00	15.00	15.00
$30	15	17	18	20.00	22.00	22.50
$40	20	21	21	23.00	25.00	27.00
$50	25	25	24	26.00	28.00	30.00
$60	30	29	27	29.00	31.00	33.00
$70	35	33	30	32.00	34.00	36.00
$80	40	37	33	35.00	37.00	39.00

Cost equivalents of the first set of benefit assumptions might also be substituted for the particular formula chosen.

DURATION

With the first set of benefit conditions containing the $25 maximum weekly benefit, the Council has assumed a uniform duration of 26 weeks of benefits. With the second set of benefit conditions, the Council has assumed a minimum duration of 13 weeks and a maximum duration of 26 weeks, with the further assumption that a week of employment or twice the benefit amount would be required for each additional week of benefits between 13 and 26 weeks. A person with 26 weeks of employment in the base year would be fully insured and entitled to the maximum duration of 26 weeks of benefits.

Since the beginning of the program, there has been a marked trend toward longer duration; the two patterns assumed therefore seem realistic in the light of recent developments. These are the facts:

1. The fraction of base-year earnings used in determining duration has been increased somewhat since the beginning of the program, but a more pronounced increase has occurred in the maximum weeks of benefits to which workers are entitled. In 1937, the maximum duration was 16 weeks or less in all but 6 States; 43 States now provide a maximum of more than 16 weeks, and 7 pay benefits for a maximum of 26 weeks. Now, 87 percent of the covered workers are in States with a maximum of 20 weeks or more, as compared with only 12 percent in 1937.

2. Minimum duration has been increased in nearly all States, though not so markedly as maximum duration. Changes in the minimum duration have resulted from adopting a uniform duration, or from setting

a statutory minimum duration, or, most frequently, from changing the relationships between qualifying earnings, weekly benefit amount, and fraction of base-period earnings used to compute duration. While there has never been any pronounced concentration of minimum-duration provisions at or near a specific figure, the average minimum duration has increased from about 7 weeks in 1940 to about 10 weeks at present.

3. Because of liberalization of State laws, as well as increases in annual earnings on which duration is based in most States, potential duration has risen from an average of 13 or 14 weeks in 1941 and 1942 to approximately 20 weeks in 1947.

ELIGIBILITY REQUIREMENTS

Under the set of conditions with the $25 maximum weekly benefit, the Council assumed that 13 weeks in the base period would make a worker eligible for 26 weeks of unemployment benefits. In the other set of conditions, the Council assumed that claimants who had been employed for 13 weeks in the base period would be eligible for the minimum duration of 13 weeks of benefits and that duration would increase for every week of employment in the base period up to a maximum of 26 weeks. It is not expected that these assumptions would significantly change the proportion of unemployed workers who would earn eligibility for benefits under present laws.

WAITING PERIOD

Both sets of benefit assumptions use a 1-week waiting period. In 1948, 43 States had a waiting period of this length or less. The trend toward reduction of the waiting period is indicated by the fact that in 1938 all States required a waiting period of 2 to 4 weeks; while, in 1948, only 8 States had a 2-week waiting period, and none required 3 or 4 weeks.

III. General Procedures Used in Estimating Costs

Mr. Woytinsky's monograph, entitled "Principles of Cost Estimates in Unemployment Insurance," [2] provided the ground work for estimating costs. The "favorable" and "medium patterns" described by Mr. Woytinsky are practically the same as the 2-to-5-million and 2-to-10-million unemployment cycles assumed in these estimates.

The estimated cost rates (benefits as a percent of taxable wages) shown in the Woytinsky monograph—for a uniform duration of 26 weeks and benefits of 50 percent of previous weekly earnings up to a maximum weekly benefit of $25—ranged from 1.4 to 1.7 percent for the favorable pattern and from 1.8 to 2.0 percent for the medium pattern. These benefit assumptions are the same as one set of benefit assumptions made by the Council. To arrive at the costs of the other set of benefit assumptions described in part II of this appendix, each of the differences between those assumptions and the Woytinsky benefit assumptions was analyzed.

1. *A weekly benefit of 50 percent of the weekly earnings up to a maximum benefit of $40 or its equivalent.*—Mr. Woytinsky assumed a

[2] Op. cit.

maximum benefit of $25 and 50 percent of weekly earnings up to this maximum. Raising the maximum from $25 to $40 would increase costs by about 20 percent, according to estimates based on the distribution of high-quarter earnings of workers covered by the old-age and survivors insurance program. This 20-percent increase, applied to Mr. Woytinsky's estimates, yielded cost rates for the higher-cost benefit assumptions of 1.7 to 1.9 percent for the favorable pattern and 2.2 to 2.4 percent for the medium pattern, assuming a uniform duration of 26 weeks.

2. *A week of benefits for each week of employment during the base period, not to exceed 26 weeks.*—It was estimated that, under these assumptions, potential duration would average 24 weeks during peak employment years. Costs over a 10-year cycle under a program providing uniform duration of 24 weeks were estimated by interpolating Mr. Woytinsky's estimates for uniform duration of 20 and 26 weeks. The combination of raising the maximum to $40 and a uniform duration of 24 weeks results in estimated costs of 1.7 to 1.9 percent for the favorable pattern of unemployment and 2.1 to 2.3 percent for the medium pattern. The Council assumes variable rather than uniform duration, however; and a slight additional downward adjustment is necessary, for, although potential duration would average 24 weeks during good years, it would probably drop below that figure during a depression.

3. *Minimum eligibility requirement of 13 weeks of employment.*—Mr. Woytinsky assumed that the proportion of claimants ineligible for benefits because of insufficient wage credits would remain about the same as in past experience. With very few exceptions, eligibility provisions under State laws are such that claimants must have worked about 13 weeks on the average to be eligible for benefits. The assumed eligibility requirement, therefore, would not materially increase or decrease present costs.

4. *Increase in the tax base to $4,200.*—Mr. Woytinsky's estimates are based on the assumption that the first $3,600 of annual earnings would be taxable. If the tax base were raised to $4,200, as the Council recommends, costs under the formula providing a $25 weekly maximum for 26 weeks would probably not exceed 1.5 percent over the cycle with 2 to 5 million unemployed, or 1.8 percent over the cycle with 2 to 10 million unemployed. Comparable figures for the more liberal benefit assumptions would be 1.7 percent and 2.0 percent.

The above figures are cost figures for the country as a whole. To arrive at a minimum contribution rate which would be appropriate for the majority of States, it is necessary first to develop cost figures for the individual States and then, in setting the rate, to take into account a reasonable utilization of existing reserves State by State.

Actual experience during the past 10 years provided the basis for estimating benefit costs for the States, but the experience during the war years of 1942–44 was excluded as not typical of what is anticipated during the next 10 years. Costs were calculated for each State for all other years. The effect of differences in benefit provisions was then eliminated by estimating what the costs would have been under a uniform formula. In this way, a cost relationship among the States based on their past benefit experience was established. The same re-

lationship was assumed in estimating costs under the two benefit assumptions and the two economic assumptions in this report. (See tables C and F of this appendix.)

IV. Setting the Minimum Contribution Rate

The problem in setting the minimum contribution rate was to arrive at a rate which would support the assumed level of benefits in most States over the next 10 years, taking into account the utilization of existing reserves. As has been indicated, the Council made estimates for the individual States for two sets of benefit assumptions under two hypothetical economic conditions. Under either set of economic assumptions, a contribution rate of 1.2 percent, required as a minimum by the Federal Government, seems reasonable for either of the assumed benefit levels.

According to our estimates, the minimum rate of 1.2 percent would be applicable to at least 30 States within a relatively narrow range of adjustment in benefits or contributions under all four sets of assumptions. Contributions in five States would undoubtedly have to be higher to support a benefit structure that could be considered adequate, and benefit costs in three others are so low that reserves would increase under even more pessimistic assumptions than 2 to 10 million unemployed. The 1.2 percent rate is reasonably applicable to various States among the remaining 13 depending on which set of assumptions is used and how large a reserve is assumed to be desirable at the end of the 10-year cycle. Below is an analysis of the effect of the 1.2 percent minimum rate under the two assumed levels of benefits, in each case discussed under the two sets of hypothetical economic conditions.

A. The Equivalent of 50 Percent of Average Wages up to a Maximum Benefit of $40 a Week [3]

Under the more liberal benefit assumption and assuming that unemployment will range between 2 and 5 million, a 1.2 percent contribution rate (0.6 percent payable by employers and 0.6 percent by employees) over the next 10-year cycle would, on the basis of past benefit experience, result in there being 26 States with reserves at the end of the cycle of from 5.0 to 9.9 percent of taxable pay rolls (table C, p. 198). In 13 States, the reserves at the end of the 10-year cycle would be less than 5 percent of taxable wages, and in 12 States the reserves would be more than 10 percent.

Of the 13 States whose reserve ratios would be less than 5 percent, 5 (Alabama, Massachusetts, Michigan, New York, and Rhode Island) would have exhausted their reserves completely if they provided benefits as liberal as those assumed and charged no more than the 1.2 percent rate. Table D, p. 199, indicates the tax rates which these 13 States would have to charge on the basis of past benefit experience if they were to end the 10-year cycle with reserves representing either 3 percent or 5 percent of taxable wages.

[3] Pt. II of this appendix describes these benefit assumptions in detail.

TABLE C.—*Estimated average annual benefit costs and State unemployment reserves as a percent of taxable wages* [1] *at the end of a 10-year cycle with a uniform contribution rate of 1.2 percent and a $40 maximum benefit formula* [2]

State	Percent of taxable wages				
	Reserves as of June 30, 1948	A. Assuming 2 to 5 million unemployed		B. Assuming 2 to 10 million unemployed	
		Cost of average annual benefits	Reserves at end 10-year cycle with contribution rate of 1.2 percent	Cost of average annual benefits	Reserves at end 10-year cycle with contribution rate of 1.2 percent
	I	II	III	IV	V
Average, 51 States	8.3	1.7	4.4	2.0	1.1
Alabama	5.8	1.9	−.3	2.2	−3.9
Alaska	10.3	1.5	9.1	1.8	5.8
Arizona	9.3	1.6	6.8	1.9	3.4
Arkansas	9.2	1.6	6.6	1.9	3.3
California	10.6	2.3	.6	2.7	−3.8
Colorado	8.6	1.4	8.1	1.6	5.9
Connecticut	10.8	1.5	9.7	1.8	6.4
Delaware	6.6	1.3	6.8	1.5	4.6
District of Columbia	8.5	.8	14.6	.9	13.5
Florida	7.1	1.5	5.2	1.8	1.9
Georgia	8.5	1.1	10.3	1.3	9.1
Hawaii	9.6	.8	15.9	.9	14.8
Idaho	10.8	1.4	10.8	1.6	8.6
Illinois	6.9	1.6	3.9	1.9	.6
Indiana	7.2	1.5	5.3	1.8	2.0
Iowa	8.1	1.4	7.5	1.6	5.4
Kansas	8.5	1.7	4.7	2.0	1.4
Kentucky	12.3	1.5	11.4	1.8	8.1
Louisiana	9.4	1.7	5.8	2.0	2.5
Maine	9.1	2.1	.2	2.5	−3.4
Maryland	9.5	1.7	5.9	2.0	2.6
Massachusetts	5.2	1.9	−1.5	2.2	−4.8
Michigan	5.1	1.9	−1.6	2.2	−4.9
Minnesota	8.7	1.4	8.2	1.6	6.0
Mississippi	10.8	1.3	11.8	1.5	9.7
Missouri	8.4	1.9	2.4	2.2	−.9
Montana	12.0	1.5	11.1	1.8	7.7
Nebraska	7.3	1.1	9.9	1.3	7.5
Nevada	13.4	1.5	12.8	1.8	9.8
New Hampshire	9.0	1.6	6.4	1.9	3.1
New Jersey	13.3	2.1	6.0	2.5	1.9
New Mexico	8.9	1.1	10.8	1.3	9.6
New York	8.2	2.1	−.1	2.5	−4.8
North Carolina	10.3	1.1	13.5	1.3	11.2
North Dakota	5.6	1.3	5.6	1.5	3.4
Ohio	9.2	1.3	9.9	1.5	7.7
Oklahoma	5.9	1.5	3.8	1.8	.4
Oregon	8.7	1.6	6.0	1.9	2.7
Pennsylvania	7.9	1.6	5.1	1.9	1.8
Rhode Island	8.4	2.5	−4.8	2.9	−8.6
South Carolina	7.9	1.1	10.6	1.3	8.4
South Dakota	5.7	1.1	7.9	1.3	5.7
Tennessee	8.8	1.6	6.1	1.9	2.8
Texas	6.1	1.3	6.2	1.5	4.0
Utah	11.2	1.6	9.0	1.9	5.7
Vermont	9.7	1.4	9.4	1.6	7.2
Virginia	7.0	1.1	9.5	1.3	7.3
Washington	10.4	2.3	.4	2.7	−4.0
West Virginia	7.3	1.6	4.4	1.9	1.1
Wisconsin	10.3	.8	17.1	.9	15.6
Wyoming	8.5	1.3	9.1	1.5	6.9

[1] "Taxable wages" have been increased to take account of the Council's recommendations for extension of coverage and for an increase in the maximum tax base to $4,200 a year.

[2] Pt. II of this appendix describes these benefit assumptions in detail.

TABLE D.—*Estimated State unemployment contribution rates in high-cost States necessary to maintain reserves of 3 or 5 percent of taxable wages at the end of a 10-year cycle using a $40 maximum benefit formula and assuming 2 to 5 million unemployed*[1]

State	Contribution rates for—		State	Contribution rates for—	
	3 percent reserve ratio	5 percent reserve ratio		3 percent reserve ratio	5-percent-reserve ratio
	Percent	*Percent*		*Percent*	*Percent*
Alabama	1.5	1.7	Missouri	1.3	1.4
California	1.4	1.6	New York	1.5	1.7
Illinois	[2] 1.2	1.3	Oklahoma	[2] 1.2	1.4
Kansas	[2] 1.2	1.3	Rhode Island	1.8	2.0
Maine	1.4	1.6	Washington	1.4	1.6
Massachusetts	1.6	1.8	West Virginia	[2] 1.2	1.3
Michigan	1.6	1.8			

[1] Pt. II of this appendix describes these benefit assumptions in detail.
[2] Under Council recommendations 1.2 would be the minimum rate so that no rates below this figure have been included.

The reserves of 8 States would not only increase over the 10-year cycle but would be more than 10 percent of taxable wages at the end of the cycle. In 4 (Georgia, New Mexico, North Carolina, and South Carolina) of these 8 States, the benefit costs are estimated at 1.1 percent of taxable wages. In Mississippi, with costs of 1.3 percent, reserves would also increase because of the interest on the fund. According to their past benefit experience, these States would be able to charge the minimum rate and provide benefits somewhat more liberal than those assumed in our estimates. In 3 jurisdictions (District of Columbia, Hawaii, and Wisconsin), the increase in reserves would be substantial under our assumptions, since the estimated cost of benefits for each is only 0.8 percent.

For the country as a whole reserves under these assumptions would be reduced over the next 10-year cycle from the present average level of 8.3 percent of taxable wages to 4.4 percent.

Using the same benefit assumptions and applying the past benefit experience of the States, but assuming 2 to 10 million unemployed and a contribution rate of 1.2 percent, reserves in 21 States would be reduced below 3 percent of taxable wages at the end of the 10-year period. In 9 States (Alabama, California, Maine, Massachusetts, Michigan, Missouri, New York, Rhode Island, and Washington) reserves would be completely exhausted and the cycle would end with deficits. There would be 12 additional States (Florida, Illinois, Indiana, Kansas, Louisiana, Maryland, New Jersey, Oklahoma, Oregon, Pennsylvania, Tennessee, and West Virginia) that would either have to raise contribution rates or pay somewhat lower benefits than assumed in order to end the cycle with reserves of 3 percent or more of taxable wages under these assumptions (see table E, p. 200); but of this group of 12 States, only Illinois, Oklahoma, and West Virginia would have to increase their contribution rates by as much as 0.2 percentage point.

If, after weathering a depression of this magnitude, it still seemed desirable to start a new cycle, 10 years from now, with a reserve as high as 5 percent of taxable wages, all 27 States listed in table E would have to charge a contribution rate above the minimum or provide some-

what lower benefits. The increase would need to be only 0.1 percentage point in 2 of these States, however, only 0.2 in 7, and 0.3 in 6.

Of the 8 States whose reserves would increase over the 10-year cycle and represent more than 10 percent of taxable pay roll at the end of the cycle, assuming 2 to 5 million unemployed, 7 would also have increased reserves if 2 to 10 million were unemployed (table C, p. 198). Four (District of Columbia, Hawaii, North Carolina, and Wisconsin) would have reserves of over 10 percent of taxable pay roll under the 2 to 10 million assumption as well. In the eighth State, Mississippi, reserves would decrease slightly.

TABLE E.—*Estimated State unemployment contribution rates in high-cost States necessary to maintain reserves of 3 or 5 percent of taxable wages at the end of a 10-year cycle using a $40 maximum benefit formula and assuming 2 to 10 million unemployed*[1]

State	Contribution rate for—		State	Contribution rate for—	
	3 percent reserve ratio	5 percent reserve ratio		3 percent reserve ratio	5 percent reserve ratio
	Percent	*Percent*		*Percent*	*Percent*
Alabama	1.8	2.0	Missouri	1.5	1.7
Arizona	[2] 1.2	1.4	New Hampshire	[2] 1.2	1.4
Arkansas	[2] 1.2	1.4	New Jersey	1.3	1.5
California	1.8	2.0	New York	1.9	2.1
Delaware	[2] 1.2	1.3	North Dakota	[2] 1.2	1.4
Florida	1.3	1.5	Oklahoma	1.4	1.6
Illinois	1.4	1.6	Oregon	1.3	1.4
Indiana	1.3	1.5	Pennsylvania	1.3	1.5
Kansas	1.3	1.5	Rhode Island	2.3	2.5
Louisiana	1.3	1.4	Tennessee	1.3	1.5
Maine	1.8	2.0	Texas	[2] 1.2	1.3
Maryland	1.3	1.4	Washington	1.8	2.0
Massachusetts	1.9	2.1	West Virginia	1.4	1.6
Michigan	1.9	2.1			

[1] Pt. II of this appendix describes these benefit assumptions in detail.
[2] Under Council recommendations 1.2 would be the minimum rate so that no rates below this figure have been included.

B. THE EQUIVALENT OF 50 PERCENT OF AVERAGE WAGES UP TO A MAXIMUM BENEFIT OF $25 A WEEK[4]

Under the less liberal set of benefit assumptions and using past benefit experience, our estimates indicate that a 1.2 percent contribution rate over a 2 to 5 million unemployment cycle would result in there being nine States at the end of the cycle with reserve ratios of less than 5 percent. Reserve ratios in 21 States would be between 5 and 10 percent and in 21 States over 10 percent.

Of the nine States whose reserves would be less than 5 percent of taxable pay rolls by the end of the cycle, one—Rhode Island—would undoubtedly have exhausted its reserve and incurred a deficit; three others—Alabama, Massachusetts, and Michigan—would be dangerously close to the exhaustion mark (table F). Under these assumptions, table G indicates the contribution rates that, on the basis of past benefit experience, would have to be levied in these nine States to insure reserves of 3 and 5 percent of taxable wages by the end of the cycle.

[4] Pt. II of this appendix describes these benefit assumptions in detail.

TABLE F.—*Estimated average annual benefit costs and State unemployment reserves as a percent of taxable wages*[1] *at the end of a 10-year cycle with a uniform contribution rate of 1.2 percent and a $25 maximum benefit formula*[2]

State	Percent of taxable wages				
	Reserves as of June 30, 1948	A. Assuming 2 to 5 million unemployed		B. Assuming 2 to 10 million unemployed	
		Cost of average annual benefits	Reserves at end 10-year cycle with contribution rate of 1.2 percent	Cost of average annual benefits	Reserves at end 10-year cycle with contribution rate of 1.2 percent
	I	II	III	IV	V
Average, 51 States	8.3	1.5	6.7	1.8	3.4
Alabama	.8	1.7	1.5	2.0	−1.8
Alaska	10.3	1.3	11.3	1.6	8.0
Arizona	9.3	1.4	9.0	1.7	5.7
Arkansas	9.2	1.4	8.8	1.7	5.5
California	10.6	2.0	3.9	2.4	−.6
Colorado	8.6	1.2	10.3	1.4	8.1
Connecticut	10.8	1.3	11.9	1.6	8.6
Delaware	6.6	1.1	9.0	1.4	5.7
District of Columbia	8.5	.7	15.7	.8	14.6
Florida	7.1	1.3	7.4	1.6	4.1
Georgia	8.5	1.0	12.4	1.2	10.2
Hawaii	9.6	.7	17.0	.8	15.9
Idaho	10.8	1.2	13.0	1.4	10.8
Illinois	6.9	1.4	6.1	1.7	2.8
Indiana	7.2	1.3	7.5	1.6	4.2
Iowa	8.1	1.2	9.7	1.4	7.5
Kansas	8.5	1.5	6.9	1.8	3.6
Kentucky	12.3	1.3	13.7	1.6	10.4
Louisiana	9.4	1.5	8.0	1.8	4.8
Maine	9.1	1.8	4.3	2.2	−.1
Maryland	9.5	1.5	8.1	1.8	4.8
Massachusetts	5.2	1.7	.7	2.0	−2.6
Michigan	5.1	1.7	.7	2.0	−2.7
Minnesota	8.7	1.2	10.4	1.4	8.2
Mississippi	10.8	1.1	14.1	1.3	11.9
Missouri	8.4	1.7	4.6	2.0	1.3
Montana	12.0	1.3	13.3	1.6	10.0
Nebraska	7.3	1.0	11.0	1.2	8.8
Nevada	13.4	1.3	15.0	1.6	11.7
New Hampshire	9.0	1.4	8.6	1.7	5.3
New Jersey	13.3	1.8	9.4	2.2	5.0
New Mexico	8.9	1.0	12.9	1.2	10.7
New York	8.2	1.8	3.2	2.2	−1.2
North Carolina	10.3	1.0	14.6	1.2	12.3
North Dakota	5.6	1.1	7.8	1.4	4.5
Ohio	9.2	1.1	12.1	1.4	8.8
Oklahoma	5.9	1.3	6.0	1.6	2.7
Oregon	8.7	1.4	8.2	1.7	4.9
Pennsylvania	7.9	1.4	7.3	1.7	4.0
Rhode Island	8.4	2.2	−.8	2.6	−5.3
South Carolina	7.9	1.0	11.7	1.2	9.5
South Dakota	5.7	1.0	9.0	1.2	6.8
Tennessee	8.8	1.4	8.4	1.7	5.1
Texas	6.1	1.1	8.4	1.3	6.2
Utah	11.2	1.4	11.2	1.7	7.9
Vermont	9.7	1.2	11.6	1.4	9.4
Virginia	7.0	1.0	8.6	1.2	8.4
Washington	10.4	2.0	3.6	2.4	−2.9
West Virginia	7.3	1.4	6.6	1.7	3.3
Wisconsin	10.3	.7	17.9	.8	16.8
Wyoming	8.5	1.1	11.3	1.3	9.1

[1] "Taxable wages" have been increased to take account of the Council's recommendations for extension of coverage and for an increase in the maximum tax base to $4,200 a year.

[2] Pt. II of this appendix describes these benefit assumptions in detail.

TABLE G.—*Estimated State unemployment contribution rates in high-cost States necessary to maintain reserves of 3 or 5 percent of taxable wages at the end of a 10-year cycle using a $25 maximum benefit formula and assuming 2 to 5 million unemployed*[1]

State	Contribution rate for—		State	Contribution rate for—	
	3 percent reserve ratio	5 percent reserve ratio		3 percent reserve ratio	5 percent reserve ratio
	Percent	*Percent*		*Percent*	*Percent*
Alabama	1.4	1.6	Missouri	[2] 1.2	1.3
California	[2] 1.2	1.4	New York	[2] 1.2	1.4
Maine	[2] 1.2	1.3	Rhode Island	1.6	1.8
Massachusetts	1.4	1.6	Washington	[2] 1.2	1.3
Michigan	1.4	1.6			

[1] Pt. II of this appendix describes these benefit assumptions in detail.
[2] Under Council recommendations 1.2 would be the minimum rate so that no rates below this figure have been included.

Of the 21 States whose reserves are shown as exceeding 10 percent of taxable wages (table F, p. 201), by the end of the cycle, 1 would have benefit costs of 1.4 percent of taxable wages and 11 would have costs of 1.1 to 1.3 percent. These States would be able to charge the minimum rate of 1.2 percent and provide benefits more liberal than those on which these estimates were based. In the other 9, costs would be so low judging by past benefit experience that, with a 1.2 percent tax rate and benefits limited to those in the assumptions, reserves would continue to grow considerably even if unemployment rose above 10 million.

Applying these benefit assumptions to a business cycle with unemployment of 2 to 10 million, it was estimated that, by the end of the 10-year period, reserves in 11 States would be less than 3 percent of taxable wages. In 8 States (Alabama, California, Maine, Massachusetts, Michigan, New York, Rhode Island, and Washington) reserves would be completely exhausted and the respective State programs would have incurred a deficit by the end of the cycle. The other 3 States (Illinois, Missouri, and Oklahoma) would have to increase their contribution rates if they paid such benefits and ended the cycle with a 3 percent reserve. Of these 3 States, only Missouri might have to increase its rate by as much as 0.2 percentage point.

If, at the end of such a cycle, it seemed desirable to have a reserve as high as 5 percent of taxable wages, the 20 States shown in table H would have to levy contribution rates higher than the 1.2 percent minimum if they were to provide such benefits. Eight of these States would have to increase their rates by only 0.1 percentage point, and 3 by only 0.2. Of the 21 States whose reserve would be more than 10 percent of taxable wages at the end of a cycle with 2 to 5 million unemployment, 11 would also have reserves representing more than 10 percent of taxable wages at the end of a cycle with unemployment of 2 to 10 million.

Assuming the continuation of past benefit experience, costs in the District of Columbia, Hawaii, and Wisconsin under these assumptions would be so low as to increase their reserves substantially.

TABLE H.—*Estimated State unemployment contribution rates in high-cost States necessary to maintain reserves of 3 or 5 percent of taxable wages at the end of a 10-year cycle using a $25 maximum benefit formula and assuming 2 to 10 million unemployed* [1]

State	Contribution rate for—		State	Contribution rate for—	
	3 percent reserve ratio	5 percent reserve ratio		3 percent reserve ratio	5 percent reserve ratio
	Percent	*Percent*		*Percent*	*Percent*
Alabama	1.6	1.8	Michigan	1.7	1.9
California	1.5	1.7	Missouri	1.4	1.6
Florida	[2] 1.2	1.3	New York	1.6	1.8
Illinois	1.3	1.4	North Dakota	[2] 1.2	1.3
Indiana	[2] 1.2	1.3	Oklahoma	1.3	1.4
Kansas	[2] 1.2	1.3	Oregon	[2] 1.2	1.3
Louisiana	[2] 1.2	1.3	Pennsylvania	[2] 1.2	1.3
Maine	1.5	1.7	Rhode Island	2.0	2.2
Maryland	[2] 1.2	1.3	Washington	1.5	1.7
Massachusetts	1.7	1.9	West Virginia	[2] 1.2	1.4

[1] Pt. II of this appendix describes these benefit assumptions in detail.
[2] Under Council recommendations 1.2 would be the minimum rate so that no rates below this figure have been included.

Appendix IV–B. Payments on Erroneous and Fraudulent Claims

The Social Security Administration and the States have for some time been concerned with the problem of payments on erroneous and fraudulent claims. The Interstate Conference of Employment Security Agencies has for several years made special studies and recommendations in this field. The first committee on fraud, organized in 1941, later issued the 1942 Report of Interstate Conference Committee on Fraudulent and Other Illegal Benefit Payments. A second report was made in September 1943. The third report of the Subcommittee on Fraud Prevention and Detection was submitted to the interstate conference on July 30, 1948. It summarized present State practices and made several recommendations. This subcommittee reported:

> Fragmentary evidence, which has come to our attention as a byproduct of our study of the devices for the prevention and detection of fraud, leads us to believe that erroneous payments as a whole do not exceed 1 percent of all benefit payments, and that payments caused by deliberate fraud with criminal intent do not exceed one-half of 1 percent of the total amount of disbursements. However, disbursements of the State unemployment insurance program run into hundreds of million of dollars each year and, small as it is percentagewise, the loss traceable to fraud is great.

The subcommittee believed that strict controls over claims were the first essential and that they would reduce fraud to that "clear-cut type of criminal activity which never can be entirely eradicated." Among the methods of claims control now being used, the committee listed the following as the most effective in preventing improper claims:

1. Weekly reporting of claims in person.
2. Contacts with the claimants' previous employers to obtain information on the causes of their unemployment.
3. Testing each claimant's availability for work and ability to work through offers of jobs by the Employment Service.
4. Current checks on the claimants' own job-seeking endeavors.
5. Periodic analysis of comprehensive questionnaires, prepared by claimants to substantiate their eligibility for benefits.
6. Frequent interviews of claimants by thoroughly qualified claims examiners.

The subcommittee favored constructive publicity showing that the State agency utilizes reasonable control over claims, prosecutes violations, and obtains convictions with real penalties. Such publicity might serve as an active deterrent to fraud. There was fear, however, that some types of publicity limited to a few sensational cases actually encouraged people to file fraudulent or improper claims.

The subcommittee also favored the establishment of a fraud investigation unit as a device which saves money. Many States would need only a small unit, but, as a desirable minimum, each State should have at least one specialist in fraud investigation and fraud control devot-

ing full time to investigation, devising control measures, training claims takers, etc.

The Federal authorities also believe that each State should have a positive program to keep fraud at an inconsequential minimum, and that the first step in fraud prevention is to use proper claims procedures. These procedures include requirements for claimant reporting; adequate explanation to claimants of eligibility conditions; the use of separation information and information concerning failures to respond to call-ins or to accept referrals or jobs through the employment services; adequate fact-finding when claims issues arise; the use of claimant questionnaires and special claimant interviews. Sound basic procedures, adequate supervision, and intensive training are important in these operations, and the more effective the results, the less will be the need for the extensive use of special methods to prevent and detect fraud.

Several specific methods to improve procedures have been used in some States, and the Bureau of Employment Security recommends their use in other States:

1. Refusal to take continued claims during the noon hours when employed claimants could most easily visit the local office.
2. Rotation of the time for claimants' reporting.
3. Rotation of claims takers' stations.
4. Particular attention to claimants who delay filing initial claims for a considerable period after they lose their employment, to claimants who often fail to report at their scheduled appointments, and to claimants who leave the office without waiting a reasonable time for adjustment or other special interviews. Substitutes for the social security account number card should never be accepted when claims are filed, and the verification of the signature on continued claims should be a required practice.

Three other techniques have been used effectively by some States, but their results must be constantly checked since considerable costs are involved:

1. Accession notices have been used in Connecticut and Maryland with considerable success. Workers know that, when they are hired, their employer must send an accession notice to the employment office. This requirement tends to prevent fraud; it also permits the State agency to catch some fraudulent claims before payments actually begin. The system would be much more effective if all employers were required to file such notices and not just covered employers.
2. In a larger number of States a check of employee wage reports is made to find persons who might have drawn wages at the same time they were receiving benefits. This check can be done rather simply by mechanical means, and cases of apparent discrepancies can be individually investigated. The check can be made against old-age and survivors insurance records if a State keeps no wage reports.
3. Special industrial surveys can be made by field workers or merely by telephone. Fraud seems to concentrate in certain spots in certain occupations. Interstate claims may become especially troublesome. Particular attention to these troubled areas may yield greater results than would any system of over-all investigation.

Appendix IV–C. Memorandum by Five Members Dissenting From the Majority Report With Respect To Continuation of Unemployment Insurance and the Employment Service on a State Basis

There are important advantages in a national system of unemployment insurance. These advantages lead some members of the Council to prefer a national plan to the present State-Federal system. Indeed, these members of the Council believe that experience under a State-Federal plan will ultimately compel a shift to a national plan. Four of the members of the Council who prefer a national plan of unemployment compensation believe, however, that the existing State-Federal plan should be immediately improved. They have therefore signed the recommendations of the Council, believing that these recommendations, if adopted, would not impose any obstacles to a later shift to a national plan. Mr. Rieve concurs in this minority dissent but is not signing the recommendations of the Council since he disagrees with some of the most important ones. His views are explained in a concurring dissent at the end of this appendix.

The members of the Council who prefer a national plan but who have signed the report believe that the report should contain a statement of the reasons for their preference for a national plan. They believe the following are the principal reasons for preferring a national plan.

A NATIONAL ECONOMY REQUIRES A TRULY NATIONAL SYSTEM

The fundamental fallacy in the present structure of unemployment insurance and the employment service in this country is that it is premised upon the theoretical considerations of State-by-State political organization rather than upon the realities of our national economic organization. Employment, unemployment, prices, profits, and taxes are largely determined by Nation-wide influences. Employment or unemployment in the automobile industry in Michigan or in the steel industry in Pennsylvania or the coal industry in West Virginia is not the result of conditions or policies arising within the particular State. Why then should the contribution rate, benefit amounts, and other essential factors be varied on a State basis?

The argument is made by those advocating a State system that the determination of the existence of unemployment is an individual and local matter. This statement is true, but such a determination can and should be made on the basis of standards applicable throughout the country. The experience gained through the operation of the Federal old-age and survivors insurance program indicates that local and personalized administration can be achieved under a Federal law and uniform Federal standards.

The most apparent inconsistency in the administration of the present program is the fact that while there are numerous local labor markets which cross State lines, the local offices for unemployment insurance and employment service are organized and operated in accordance with the fortuitous State boundaries. Although various techniques have been tried to assure a more effective operation in labor-market areas crossing State lines, the effort has been largely ineffective because of the natural insistence of governors, State legislatures, and State and local directors to think in terms of State sovereignty and responsibility.

There are nearly 50 natural labor-market areas in the United States which cut across State lines. In these areas the number of individuals in the labor force represent a substantial proportion of the total labor force of the entire country. Among the outstanding examples of markets which cross State lines are the following: St. Louis, Mo., and East St. Louis, Ill.; Kansas City, Mo., and Kansas City, Kans.; Philadelphia, Pa., and Camden, N. J.; Duluth, Minn., and Superior, Wis.; Washington, D. C., and adjacent Maryland and Virginia; New York City and adjacent Connecticut and New Jersey. Only a service organized and administered day-by-day on the principle of a Nation-wide service can break down the psychological and political separatism which now permeates the system.

DISCRIMINATION AMONG EMPLOYERS

Under the existing State-by-State systems, employers are required to submit different forms, comply with different procedures, and pay different contribution rates in accordance with varying State laws. An employer operating on a Nation-wide basis is required to submit quarterly wage reports on individual employees in some States but must submit separation reports on individual employees in others. The forms for many reports differ among the States.

Some progress has been made in the States, under the pressure of action for a Federal system, to simplify the forms and eliminate the haphazard variations which still exist. However, in view of the fact that the Federal Government already collects wage reports from employers for the Federal old-age and survivors insurance program, the cost of administration could be greatly reduced and employers relieved of part of the present bookkeeping burden and inequities by utilizing one report to the Federal Government for all social-insurance contributions.

There is no uniform definition of the terms "employment" or "employee" under the State laws nor even a uniform interpretation among those States which have identical provisions. The result is that employers are sometimes required, without sound justification, to comply with several different State laws. Nation-wide employers who have isolated representatives in many different States have a legitimate complaint about the unnecessary burden which is placed upon them by the necessity of complying with a multiplicity of varying State laws and varying reporting requirements.

DISCRIMINATION AMONG EMPLOYEES

Under the existing State-by-State system, the amount and duration of benefits as well as most other conditions relating to eligibility and disqualification for benefits are determined exclusively by State law and State interpretation. Although in Nation-wide industries—such as automobiles, steel, coal, shipping, and textiles—wages, hours, and working conditions, as well as prices, are determined on a Nation-wide basis, unemployment insurance benefits are determined on a State-by-State basis. Thus, though two individuals receive the same wages and work the same period in the aircraft industry, for example, one, if he had worked in the State of Washington upon becoming unemployed could be eligible to receive $25 per week for 26 weeks or a total of $650; while the other, if he had worked in the State of Arizona could receive $20 per week for 12 weeks or $240.

The discrimination which also exists in such matters as eligibility conditions, waiting period, disqualification provisions, determination of suitable work, minimum amounts, appeals procedures, methods of computing the average wage of the unemployed individual, and other factors is very marked.

The case for a Federal system of unemployment insurance and employment service offices does not rest entirely on the inadequacies, discriminations, and inequities of the present State-by-State system. There is no doubt that much could be done to improve the present State-by-State system if greater authority were given to the Federal Government to set minimum standards. But even with such authority the present system would be inappropriate to deal with the employment and unemployment problem on a national basis in accordance with the economic and social requirements of our economy.

ECONOMIC FACTORS

The variations in benefits and contributions mentioned previously are discriminatory as between individuals. No principle of equity or justice can be advanced for such variations. In addition, such variations are a hindrance to developing a Nation-wide policy designed to assure maximum employment and productivity. States with low benefits and high reserves and restrictive disqualifying requirements may be adhering to policies which thwart national policy. In brief, there is no assurance that the State programs based on State laws and State regulations will reinforce national policy aimed at meeting the needs of a national economy. Since most State legislatures meet biennially, they are often unable to make the necessary changes promptly to adjust to a national emergency involving millions of our citizens. In fact, during the war and the reconversion period policies of particular States were frequently out of accord with rapidly changing national needs.

Under a State-by-State system, the total amount of reserves must necessarily be greater than under a single Federal system. In order to safeguard each State program separately, there must be accumulated reserves which for all the States together must aggregate a far larger amount than that equally safe for a single Federal system. There is, therefore, under a State system need to levy higher contributions and build up reserves larger than would be necessary under a Federal plan.

Instead of the present $7,000,000,000 of reserves isolated in water-tight compartments under the State-by-State system, not more than $2,000,000,000 to $3,000,000,000 of reserves would be necessary under a Federal system. The comparable advantages of centralized reserves in our banking system have been recognized for 35 years.

LACK OF UNIFORM TREATMENT

One of the major defects of the State-by-State system is that, even when uniform terms and provisions are included in State laws, there is lack of uniformity in the interpretation and application of such uniform decisions. Thus, the various State agencies and the courts have rendered dissimilar decisions on such important matters affecting the benefit rights of employees as who is an "employee," what is "suitable work," "voluntary leaving," "stoppage" of work, "available for work," and "good cause" for refusing suitable work. No basic improvement can be made in this situation without materially increasing the authority of the Federal Government. Only a Federal system can provide for a uniform and equitable interpretation of uniform statutory provisions.

LACK OF ENCOURAGEMENT FOR MOBILITY OF LABOR

A valuable element in the American economic system is the incentive given to the maximum utilization of individual skills in the changing need for labor. As new plants are built in new communities, new labor is required which must be drawn from other communities. This situation permits individuals to climb the economic ladder to utilize their greater skills, earn higher cash rewards, and thereby to increase national production and consumption. The various eligibility conditions of the State laws and the restrictive interpretations given of "voluntarily leaving" work, and the heavy penalties placed on "voluntary leaving" when not "attributable to the employer," all act as bars to the effective geographic and economic mobility of labor. A typical case illustrates the way in which this barrier works. An individual "voluntarily leaves" his employer to take a better paying job at a higher skill. After he works for a short period of time for his new employer, the plant burns down, the employer goes bankrupt or, for some other reason, the employee becomes unemployed *due to no fault of his own.* Under nearly half of the State laws this involuntarily unemployed individual will be denied benefits during all or part of this period of unemployment.

Another facet of this same problem is the unwillingness of a State legislature to increase the benefits under its law because of the competitive disadvantage which the employers in the State will face as against employers in other States with lower benefits and lower employer contributions. The recommendations in the body of the report will result in considerable improvement in this situation but will not entirely eliminate it. The only way in which unemployment insurance benefits can come to have a neutral effect on labor mobility is by providing a uniform national system with eligibility, amount and duration of benefits, disqualifications, and related matters on a common basis throughout the Nation.

RECIPROCAL ARRANGEMENTS AMONG STATES

One of the serious shortcomings of the State-by-State system has been the failure, after nearly 15 years of effort, to work out a simple and effective system of reciprocal arrangements among all States as to both coverage and benefits. The present situation is costly for employers, employees, and the State agencies alike. The failure, after so many years, to achieve satisfactory administrative arrangements is an indication of the great obstacles faced by a State-by-State system in dealing with this important problem. It appears that the major reason why interstate claims are paid after a longer delay than intrastate claims is the fact that the provisions of the State laws are so complicated and diverse that speedy settlement is difficult.

PUBLIC UNDERSTANDING

The Council, in an earlier report on old-age and survivors insurance, unanimously recommended the development of a broad informational program. The Council said then:

> No social-security program can be effective unless those who are entitled to participate know their rights and obligations.

This principle is equally applicable to other areas of social insurance. In some respects it is even more applicable to unemployment insurance since unemployment is a current and recurring risk. There is ample evidence that the many complicated and technical provisions of State unemployment insurance laws have made it extremely difficult for individuals to know their benefit rights. A Federal program could greatly reduce the baffling complexities of the many State laws and thereby make it possible for both employers and employees to know their rights and duties under the law, irrespective of State-by-State variations.

NATIONAL DEFENSE

An additional justification for the operation of a Federal employment service is the necessity for having an effective manpower program in case of a national emergency. Federalization of the employment service in time of a national emergency and subsequent return of the service to the States is not a satisfactory procedure. Such a procedure does not assure an effective Federal system during an emergency. It is disruptive of staff morale when the service is returned to the States. It is disruptive of the tenure of office, compensation, and retirement rights of the employees involved. Only a permanent Federal employment service can give assurance that there will be the most effective service available in an emergency.

ADMINISTRATION

Although the Federal Government now pays all the costs of State administration, each State pays its employees in the employment security program on a State salary scale under State provisions with respect to tenure of office, retirement, leave, and other conditions of work. One of the chief advantages of a Federal system over a State-by-State system is that under the Federal civil service and the Federal civil-

service retirement system, better qualified staff could be recruited and could improve services to everyone.

While each form of social insurance has its characteristic administrative problems, all involve the process of determining the eligibility of claimants for benefits and all in this connection draw upon a basic skill in human relations and in the application of law and policy to individual circumstances. A unified program with one local office for all types of benefits would facilitate the kind of training of personnel that would increase the possibility of an interchange of personnel in relation to fluctuations in the staff requirements of the different parts of the system. The result would be a more efficiently administered program with greater service to employers, employees, and the public.

The Federal old-age and survivors insurance program already offers the administrative and financial basis for simplifying and improving our unemployment insurance program. One wage report from each employer can be received for all social insurance purposes. One wage record can be maintained for all benefits. One local office with suitable specialists for each of the different programs could be established. There could be one Federal agency with a single set of regional, area, and local offices. Such an organization would assure simplified administration for employees, employers, and the public, lower administrative costs, more efficient administration, and greater consistency in the application of the law to all persons in similar circumstances.

Concurring Dissent by Mr. Rieve in Support of a National System of Unemployment Insurance and in Opposition to the Recommendations of the Majority of the Council With Respect To Continuation of Unemployment Insurance on a State Basis

I heartily agree with the four other Council members who believe in a national system of unemployment insurance. As our joint dissent explains, such a national system would make possible adequate benefits, would promote necessary mobility of labor during full employment or national defense emergencies, would meet the realities of our national economic organization, would overcome the present widespread differences in treatment of workers and of employers, and would make possible the development of a unified, comprehensive, adequate program of social insurance against the hazards of sickness, costs of medical care, old-age and survivorship, as well as unemployment.

It is already more than clear that only a national system can achieve these results. The State-Federal set-up has shortcomings even greater than those described in the majority report.

The four other members who support a national system seem to doubt that it can be obtained now. This doubt was valid during the life of the Eightieth Congress which appointed our Advisory Council, but the election has basically changed the situation. This is not the time for patchwork poultices that do not meet basic needs.

Even if a national system is not voted by this Congress, the recommendations of the majority do not contain sufficiently far-going improvements in the present State-Federal system. Employees are being asked to share half the costs of unemployment insurance with no assured gain in return. No Federal benefit standards are established, although the recommendation on disqualifications would mean improvement. Extension of coverage is certainly desirable, though not to Federal employees on a State basis. Certain minor advances in administration are more than offset by the proposal that funds be given the States for administrative purposes over and above congressional appropriations, thus confusing budgetary problems and weakening the Federal agency in its efforts to improve State programs.

It seems important to explain in more detail my opposition to this suggestion for administrative financing and the recommendation for an employee contribution.

At present employers are paying an average tax of 1.5 percent on pay rolls. The majority proposes that this be cut in half and that employees should accept a tax burden of 0.75 percent of their wages to make up the difference. This contribution amounts to a wage cut averaging 1 cent an hour. I believe that the evidence is insufficient to bolster the majority's argument that the combined flat rate will assure improvements in benefits by putting a floor under experience

rating and taxes and thus theoretically weakening employer opposition to improve benefits. The Council's own estimates show that the flat amount would not be enough for even meager increases in benefits in an important group of States, including Alabama, Massachusetts, Michigan, New York, and Rhode Island. This statement would be true even if unemployment does not rise above 5,000,000. If unemployment rises to 10,000,000, these States as well as others, such as California and Missouri, would exhaust all their reserves. These are the Council's own estimates based on what, to me, are too low benefit provisions.

I have never accepted the idea that the unemployment-insurance contribution should be split equally between employers and employees. I certainly cannot agree to the idea that workers will show sufficient interest in unemployment insurance only if they pay for it. In New Jersey, in spite of the employee contribution for this program, the CIO State industrial union council has been unable to secure representation on the State advisory council and labor has lost representation on appeals boards. A national system would make it far easier for workers to understand unemployment compensation and would permit unions to acquaint their members with their rights and to participate more actively in the various administrative processes. When one system takes the place of 51 State and Territorial systems, the number of complexities, ambiguities, and uncertainties will be reduced by approximately 50 fifty-firsts; hence, it will for the first time be possible for any one person to understand unemployment insurance in the United States.

As for administrative financing, State employment security agencies should have enough money to operate properly, just as Federal agencies should. Congress should appropriate sufficient funds for all important Government functions. I am now supporting additional Federal grants for unemployment insurance and the employment offices. But this Council would give millions of dollars back to State agencies to be used for the same purpose as the money voted by Congress. I agree with the Bureau of Employment Security in opposing this suggestion, which in the current fiscal year would have given Illinois 2.8 million dollars over and above its budgetary administrative grant, or an addition of 44 percent. Pennsylvania, Indiana, Missouri, Ohio, and Wisconsin would have received 36 to 42 percent in addition. These proportions would be increased if Congress should lower rather than increase its appropriations. Supporters of this type of financing have frankly indicated that one objective is to escape from Federal controls, whereas I believe that the Federal agency should have increasing power to promote proper performance.

APPENDIX IV–D. PROVISIONS OF TEMPORARY DISABILITY INSURANCE LAWS AND DATA CONCERNING THEIR OPERATION

TABLE I.—*Comparison of temporary-disability-insurance laws administered in connection with unemployment-insurance laws*

Provision	Rhode Island	California	New Jersey		Railroad
Name of program	Cash sickness compensation	Unemployment compensation disability benefits.	Temporary disability benefits—disability during unemployment.	Temporary disability benefits—State plan—disability during employment.	Railroad Unemployment Insurance Act, sickness and maternity benefits.
Type of fund	State fund	State fund and approved private plans (insured or self-insured).	State fund for State plan and disability during unemployment, and approved private plans (insured or self-insured).		Federal fund; benefits paid out of railroad unemployment account, no separate account or fund for those benefits.
Effective dates:					
Contributions	June 1, 1942	May 21, 1946	June 1, 1948. (See also Financing, below)		No additional or separate contribution.
Benefits	April 1943	Dec. 1, 1946	Jan. 1, 1949		July 1, 1947.
Coverage	Same as for unemployment insurance (firms with 4 or more workers in 20 weeks) except that individual workers can elect out on religious grounds.	Same as for unemployment insurance (firms with 1 worker and $100 in a quarterly pay roll).	Same as for unemployment insurance (firms with 4 or more workers in 20 weeks) except that individual workers can elect out on religious grounds.		Railroad workers covered by railroad unemployment insurance.
Financing	1 percent employee contribution, formerly paid for unemployment-insurance purposes.	1 percent employee contribution, formerly paid for unemployment-insurance purposes.	June 1, 1948, to Jan. 1, 1949, 0.75 percent employee contribution, out of 1 percent employee contribution formerly paid for unemployment insurance purposes. Remaining 0.25 percent employee contribution still allotted for unemployment insurance Jan. 1, 1949, and after. Workers covered by State plan pay 0.75 percent for temporary disability insurance and 0.25 percent for unemployment insurance; workers covered by private plan pay only 0.25 percent for unemployment insurance. Employers whose workers are not covered by private plan pay 0.25 percent for temporary disability insurance; after July 1, 1951, employer rate to be modified by experience rating.		Employer contribution—no additional contribution for temporary disability insurance.
Administrative financing	6 percent of contributions	5 percent of contributions	6 percent of contributions		Out of railroad unemployment insurance administration funds; 10 percent of contributions allowed for administration of both programs.
Definition of disability	Inability because of physical or mental condition to perform regular or customary work.	Inability because of physical or mental condition to perform regular or customary work.	Total inability to perform any work for remuneration resulting from any accident or sickness not compensable under workmen's compensation law.	Total inability to perform duties of the employment resulting from any accident or sickness not arising out of and in course of employment or if so, not compensable under workmen's compensation law.	Inability to work because of physical, mental, psychological, or nervous injury, illness, sickness, or disease.

Maternity	Except for unusual complications as a result of childbirth, limitation of 15 weeks' benefits for a pregnancy, even if new benefit year supervenes.	No payments for any illness or injury caused by or arising out of pregnancy for first 4 weeks after termination of the pregnancy.	No payments for any period of disability due to pregnancy, childbirth, miscarriage, or abortion.		Special maternity benefits for a period beginning 57 days before expected date of childbirth, and ending 115 days later, or 31 days after child is born, whichever is later, but not more than 84 days' benefits before childbirth. Benefits for first 14 days in maternity period, and first 14 days after childbirth at 1½ times regular rate. Maternity benefits not deductible from regular duration. Disabilities due to pregnancy not excluded from regular benefits.
Other exclusions			No payments for any period of disability due to willfully and intentionally self-inflicted injury, or to injuries sustained in the perpetration of a high misdemeanor.		
Benefit provisions	Differ in weekly amount and duration from unemployment insurance, otherwise the same.	Same as unemployment insurance.	Same as unemployment insurance.	Similar to unemployment insurance.	Same as unemployment insurance.
Benefit year	Uniform, beginning first Sunday in April.	Individual, beginning with valid claim. Valid claim for either temporary disability or unemployment insurance establishes benefit year for both.	Individual, beginning with valid claim for unemployment insurance.	No benefit year, but State plan provides for minimum and maximum benefits in any 12-month period on same basis as in unemployment insurance.	Uniform, beginning July 1.
Base period	Calendar year preceding benefit year.	First 4 of last 5 calendar quarters preceding benefit year beginning in second or third month of quarter; first 4 of last 5 calendar quarters preceding benefit year beginning in first month of quarter.	First 4 of last 5 calendar quarters preceding benefit year.	First 4 of last 5 calendar quarters preceding commencement of any period of disability.	Calendar year preceding benefit year.
Qualifying earnings	$100 in base period	30 × weekly benefit amount or 1½ × high-quarter wages, whichever is less, but not less than $300.	30 × weekly benefit amount.	Same except for different base period.	$150 in base period.
Weekly benefit amount.	$6.75 to $18, based on schedule of high-quarter wages. Unemployment insurance, $10 to $25, based on schedule of high-quarter wages.	$10 to $25 based on schedule of high-quarter wages.	$9 to $22 (1/22 of high-quarter wages rounded to next higher dollar.)	do	Daily benefit amount of $1.75 to $5, based on schedule of annual wages. $17.50 to $50 for 2-week registration period after the waiting period.

TABLE I.—*Comparison of temporary-disability-insurance laws administered in connection with unemployment-insurance laws*—Continued

Provision	Rhode Island	California	New Jersey		Railroad
Benefit provisions—Con.					
Duration	3+ to 20+ weeks, $34 to $364.50, based on schedule of annual wages. Unemployment insurance, 5 to 26 weeks, $52 to $650, based on schedule of annual wages.	9+ to 26 weeks, $150 to $650 computed as lesser of 26× weekly benefit amount or ½ base-period wages.	10 to 26 weeks, $90 to $572 computed as lesser of 26 × weekly benefit amount or ⅓ base-period wages. 150 percent of duration for either program separately.	Same except that limit applies to benefits in any consecutive 12-month period.	Uniform 130 days—26 weeks, $227.50 to $650.
Limit on joint duration.	None	150 percent of duration for either program separately.	None	None	None.
Waiting period	1 calendar week of disability in benefit year.	7 consecutive days of disability at beginning of each uninterrupted period of disability.	1 week of unemployment in benefit year.	7 consecutive days of disability at beginning of each uninterrupted period of disability.	7 days in first 14-day registration period in a benefit year; benefits not paid for first 4 days of sickness in subsequent 14-day registration periods.
Part weeks of disability.	No provision. Benefits paid only for complete calendar weeks of disability.	Benefits paid for any days of disability in excess of 7 in a spell, at rate of ½ of weekly amount.	Payment for part weeks of disability if combined with employment according to unemployment-insurance formula for partial benefits—weekly amount minus earnings with an allowance of $3 rounded to next higher dollar.	Benefits paid for any days of disability in excess of 7 in a spell at rate of ½ of weekly amount, payment for part week rounded to next higher dollar.	Benefits paid for each day of disability in excess of 4 in a 14-day registration period after the waiting period.
Benefit provisions for private plans.	No provision for private plans.	Benefit rights greater than under State plan—rights at least equal in all respects, and greater in at least one.		Weekly benefits and weeks of benefits at least equal to State plan and eligibility requirements no more restrictive, except that private plans already in existence may continue throughout the period of their present contract.	No provision for private plans.
Disqualification		Claimant disqualified for unemployment insurance because of a labor dispute disqualified for disability benefits. Claimant disqualified for unemployment insurance for voluntary leaving, discharge for misconduct, refusal of suitable work, willfully misrepresenting facts, is presumed disqualified for	No benefits for disability beginning more than 26 weeks after claimant unemployed and ineligible or disqualified.	Claimant disqualified for unemployment insurance because of a labor dispute is disqualified for disability benefits.	

		disability benefits unless there is a finding of disability and good cause for disability-benefit payments. Claimant neither employed nor registered at a public employment office for more than 3 months preceding beginning of period of disability must prove that unemployment is due to disability and not to a withdrawal from the labor market.			
Disqualifying income:					
Workmen's compensation.	If claimant receives workmen's compensation, total of workmen's compensation and disability benefits cannot exceed 90 percent of average weekly wage on last job prior to sickness. No deduction for lump-sum payments.	If claimant receives or is entitled to receive an equal or greater amount as workmen's compensation for same disability and week, not eligible for disability benefits; except that if workmen's compensation less than disability benefit, claimant is entitled to the difference.	Compensable disability excludes accident or sickness compensable under workmen's compensation law.		Not eligible if claimant receives workmen's compensation. If he receives it or damages for a disability for which disability benefits have been paid, agency is entitled to recover benefits from such payments.
Wages	Eligible even though claimant receives regular wages or part thereof while not working.	Not eligible if claimant receives wages or part thereof, except that if wages are less than weekly benefit amount, claimant draws the difference.	If remuneration minus $3 is less than weekly benefit, claimant receives the difference rounded to the next higher dollar.	No payment for period during which claimant performs work for remuneration; if he continues to receive wages, benefits plus wages may not exceed regular weekly wages prior to disability.	Not eligible if claimant receives wages.
Administrative procedures:					
Claims	Initial and continued claims to central office by mail.	Initial claims to central office by mail; continued claims to 16 area offices by mail.	Law provides for claims in accordance with statutory provisions for filing unemployment insurance claims.	Law provides for written notice of claim for benefits by or on behalf of the claimant.	Initial and continued claims to appropriate one of 9 regional offices by mail. All maternity benefit claims to Chicago central office by mail.
Medical certification of disability.	Medical certification required on all initial claims and on continued claims when State agency considers necessary.	First claims must be signed by a California physician, surgeon, dentist, chiropodist, osteopath, chiropractor, by a medical officer of the U. S. Government, or by authorized California religious practitioner. Continued claims must have similar certification when State agency considers necessary, except that, on continued claims, certification from out of State may be accepted.	No benefits for any period when claimant is not under care of a legally licensed physician. Claimant must furnish notice and proof of claim in accordance with rules and regulations to be issued.	When State agency considers necessary, proof of disability must include certification of total disability by attending physician or a record of hospital confinement.	Applications must be signed by a doctor of medicine, an osteopath, or a dentist. Continued claims must have similar certification on agency request.

TABLE I.—*Comparison of temporary-disability-insurance laws administered in connection with unemployment-insurance laws*—Continued

Provision	Rhode Island	California	New Jersey		Railroad
Required medical examination.	Agency employs part-time salaried physicians who give examinations to claimants directed by the agency to report for such examination.	Agency uses panel of physicians to give examinations to claimants directed by the agency to report for such examinations, and pays the physicians a scheduled fee for each case.	Not specified.....	When directed by Commission, claimant must submit himself at intervals not more often than once a week, for examination by a legally licensed physician or public health nurse designated by Commission.	Agency has designated physicians to give examinations to claimants directed by the agency to report for such examinations, and pays the physicians a scheduled fee for each case.

TABLE J.—*Operations of 3 temporary-disability-insurance programs during fiscal year July 1, 1947–June 30, 1948*

Item	California		Rhode Island		Railroad	
	Temporary disability (State insurance plan)	Unemployment insurance	Temporary disability insurance	Unemployment insurance	Temporary disability insurance	Unemployment insurance
Covered employment	[1] 1,637,500	[2] 2,402,500	[2] 238,200	[2] 238,200	[2] 2,300,000	[2] 2,300,000
Weekly average number of beneficiaries	18,500	125,450	4,800	11,705	[4] 150,400	[4] 210,000
Average number of beneficiaries as percent of covered workers	1.1	5.2	2.0	4.9	[5] 1.2	[5] 1.9
Benefits paid	$19,410,000	$128,394,500	$4,257,400	$12,348,400	$26,604,300	$32,426,200
Estimated taxable wages	[1] $4,776,036,000	$6,227,058,000	$547,982,000	$547,982,000	$4,742,000,000	$4,742,000,000
Benefits as percent of taxable wages	0.41	2.1	0.78	2.3	0.56	0.73
Funds available for benefit payments as of June 30, 1948	[6] $70,716,400	[6] $719,513,000	$34,079,800	$50,584,000	[7] $956,282,500	[7] $956,282,000

[1] Represents estimate of the number covered by the State plan and their wages. The difference between this figure and the employment and wages covered under unemployment insurance is the number of workers covered by private plans, and consequently not required to contribute to the State fund and not eligible for benefits under it.

[2] Estimated average covered employment in 1947.

[3] Number of workers with sufficient base period wage credits to be qualified for benefits during the fiscal year.

[4] Total number of different beneficiaries in the period.

[5] Computed as a ratio of average number of payments for a 2-week period to covered employment.

[6] In addition, $106,373,500 now in the unemployment insurance account is available for transfer to the temporary disability insurance account.

[7] One single fund from which both benefits are paid.

APPENDIX IV–E. STATISTICS RELATED TO UNEMPLOYMENT INSURANCE

TABLE 1.—*National summary of data on unemployment insurance operations, by years, 1938–47*

[Corrected to Dec. 10, 1948]

Item	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
Covered employment and wages: [1]										
Estimated workers with wage credits (in thousands)	27,500	30,100	31,900	37,600	43,000	44,000	43,000	43,000	45,500	45,600
Average monthly employment (in thousands)	19,929	21,378	23,096	26,814	29,349	30,828	30,044	28,407	30,235	[1] 32,216
Total wages in covered employment (in millions)	$26,200	$29,069	$32,450	$42,146	$54,796	$66,117	$69,139	$66,642	$73,403	[2] $86,467
Taxable wages in covered employment (in millions)	$25,665	$28,411	$30,107	$38,677	$49,721	$59,034	$60,655	$58,545	$63,691	[2] $72,831
Subject employers as of December 31 (in thousands)	(3)	[4] 807	843	[4] 896	877	876	885	943	1,223	1,338
Claim and benefit activities: [5]										
Total number of initial claims (in thousands) [6]	9,565	9,765	11,140	8,527	6,324	1,884	1,503	[7] 6,049	9,828	9,724
New claims (in thousands) [8]	(3)	(3)	[6] 7,328	[6] 5,435	[6] 4,250	1,296	1,067	4,862	6,988	6,159
Additional claims (in thousands) [8]	(3)	(3)	(3)	(3)	(3)	589	436	1,169	2,838	3,565
Estimated number of different beneficiaries (in thousands) [9]	(3)	4,336	5,043	3,311	2,680	633	523	2,861	4,461	3,984
Average weekly number of beneficiaries (in thousands)	732	799	982	621	541	115	79	462	1,150	852
Weeks compensated, all unemployment (in thousands)	[10] 38,076	[10] 41,554	51,084	32,295	28,158	6,004	4,124	24,261	59,915	44,325
Average weekly benefit amount for total unemployment	$10.94	$10.66	$10.56	$11.06	$12.66	$13.84	$15.90	$18.77	$18.50	$17.83
Average actual duration of benefits (in weeks) [11]	(3)	(3)	9.9	9.4	10.0	9.0	7.7	8.5	13.4	11.1
Ratio of persons exhausting benefits to first payments (percent) [12]	(3)	59.6	50.6	45.6	34.9	25.5	20.2	19.2	38.3	30.7
Total benefits paid (in millions)	$393.8	$429.3	$518.7	$344.3	$341.1	$79.6	$62.4	$445.9	$1,094.9	$776.2
Interstate benefits paid (in millions)	(3)	(3)	$24.2	$21.1	$20.8	$6.8	$4.6	$19.1	$89.9	$39.0
Ratio of benefits to collections (percent)	[13] 74.3	[14] 54.6	60.7	34.2	30.2	6.0	4.7	38.4	120.1	70.8
Ratio of benefits to taxable wages (percent [15]	2.2	1.5	1.7	.9	.7	.1	.1	.8	1.7	1.1

See footnotes at end of table.

TABLE 1.—*National summary of data on unemployment insurance operations, by years, 1938–47*—Continued

[Corrected to Dec. 10, 1948]

Item	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
Financial data:										
Average rate of employer contributions (percent):[16]										
For the United States	2.75	2.72	2.69	2.58	2.17	[17] 2.09	[17] 1.92	[17] 1.72	[17] 1.43	[17] 1.41
For States operating under experience rating	2.74	2.09	2.29	2.17	1.81	[17] 1.85	[17] 1.73	[17] 1.68	[17] 1.38	[17] 1.40
Number of States with experience rating in effect	1	1	4	17	34	40	42	45	45	50
Estimated reduction in revenue as result of experience rating (in millions)	0	$4	$7	$54	$269	[17] $369	[17] $485	[17] $586	[17] $821	[17] $984
Collections (in millions)[18]	$819	$825	$854	$1,006	$1,139	$1,325	$1,317	$1,162	$912	$1,096
Interest (in millions)	$21	$32	$42	$53	$68	$82	$102	$127	$130	$139
Funds available for benefits, as of December 31 (in billions)	$1.1	$1.5	$1.8	$2.5	$3.4	$4.7	$6.1	$6.9	$6.9	$7.3

[1] Excludes data for railroads and allied groups, subject, as of July 1, 1939, to Federal Unemployment Insurance Act.
[2] Includes estimates for 2 States.
[3] Data not available.
[4] 1939, includes estimate for District of Columbia and West Virginia; 1941, includes estimate for Pennsylvania.
[5] Benefits first became payable as follows: 1936, 1 State (Wisconsin); 1938, 30 States; 1939, 20 States.
[6] Central office data for 1938; local office data for other years. Figures shown for new claims, 1940–42, actually new claims disposed of (central office).
[7] Includes some initial claims filed in Michigan not identified as new or additional.
[8] New claims 1943–45 includes all initial claims for Texas and Wisconsin; new claims 1946 include all initial claims for Texas. Additional claims for the corresponding years exclude such claims for these States.
[9] Represents number of new claims authorized for 1939 and number of first payments for subsequent years; 1938 through 1942 excludes Indiana and Wisconsin; data not comparable. Wisconsin excluded 1943 through June 1945; Indiana excluded January to June 1943.
[10] Represents number of checks issued.
[11] Duration based on all beneficiaries; computed by dividing weeks compensated for all types of unemployment by the number of first payments during the year.
[12] Based on data for 40 States in 1939; 49 States in 1940; 48 States in 1941; 48 States in 1942; 48 States in 1943; 49 States in 1944; and 50 States in 1945. Ratio for 1939 computed by dividing exhaustions by first payments for the respective calendar year. Ratios for 1940–47 computed by dividing exhaustions for the calendar year by first payments for 12-month period ending September 30 of same year.
[13] Based on data for 23 States paying benefits for entire year.
[14] Based on data for 49 States paying benefits for entire year.
[15] "Taxable wages" used here are wages under $3,000. For some States in same years taxable wages were not in fact identical with wages under $3,000.
[16] Represents employer contributions including voluntary contributions, as percent of taxable wages.
[17] Includes voluntary contributions and effect of war-risk contributions in 1943, 1944, 1945, and 1946.
[18] Includes collections subsequently transferred to Railroad Unemployment Insurance Account.

TABLE 2.—*Size of firms covered by State laws, Dec. 31, 1948*

State	Minimum number of workers	Period of time	Added conditions (pay roll)	Alternative conditions
Alabama	8	20 weeks		
Alaska	1	At any time		
Arizona	3	20 weeks		
Arkansas	1	10 days		
California	1	At any time	$100 in any quarter	
Colorado	8	20 weeks		
Connecticut	4	13 weeks		
Delaware	1	20 weeks		
District of Columbia	1	At any time		
Florida	8	20 weeks		
Georgia	8	20 weeks		
Hawaii	1	At any time		
Idaho	1	At any time	$75 in any quarter	
Illinois	6	20 weeks		
Indiana	[1] 8	20 weeks		
Iowa	8	15 weeks		
Kansas	8	20 weeks		25 in 1 week.
Kentucky	4	3 quarters of preceding year.	$50 per quarter for each worker.	8 in 20 weeks.
Louisiana	4	20 weeks		
Maine	8	20 weeks		
Maryland	1	At any time		
Massachusetts	1	20 weeks		
Michigan	8	20 weeks		
Minnesota	[2] 1	20 weeks		([3]).
Mississippi	8	20 weeks		
Missouri	8	20 weeks		
Montana	1	20 weeks		$500 in a calendar year.
Nebraska	8	20 weeks		$10,000 in any quarter.
Nevada	1	At any time	$225 in any quarter	
New Hampshire	4	20 weeks		
New Jersey	4	20 weeks		
New Mexico	1	At any time	$450 in any quarter	2 or more in 13 weeks.[1]
New York	4	15 days		
North Carolina	[1] 8	20 weeks		
North Dakota	8	20 weeks		
Ohio	3	At any time		
Oklahoma	8	20 weeks		
Oregon	4	At any time	$500 in any quarter	
Pennsylvania	1	At any time		
Rhode Island	4	20 weeks		
South Carolina	8	20 weeks		
South Dakota	8	20 weeks		
Tennessee	8	20 weeks		
Texas	8	20 weeks		
Utah	1	At any time	$140 in any quarter	
Vermont	8	20 weeks		
Virginia	8	20 weeks		
Washington	1	At any time		
West Virginia	8	20 weeks		
Wisconsin	6	18 weeks		$6,000 in any year or $10,000 in any quarter.[3]
Wyoming	1	At any time	$500 in any year	

[1] Workers whose services are covered by another State through election under a reciprocal coverage agreement are included for purposes of determining employer liability.

[2] Employers of less than 8 (not subject to the Federal Unemployment Tax Act) outside the corporate limits of a city, village, or borough of 10,000 population or more are not liable for contributions.

[3] Not counting more than $1,000 in wages per employee in applying the test of $10,000 per quarter.

TABLE 3.—*Wage and employment qualifications for benefits under State laws, Dec. 31, 1948* [1]

State	Qualifying formula [2]		Minimum amount in		Wages in at least
	Employment	Wages	Base period	High quarter	
Alabama		30 x wba	$120.00	$75.01	[3].
Alaska		Flat	150.00		
Arizona		30 x wba [4]	150.00		2 quarters.
Arkansas		30 x wba	150.00		
California		30 x wba [5]	300.00		2 quarters. [6]
Colorado		30 x wba	180.00		
Connecticut		Flat	240.00		2 quarters.
Delaware		30 x wba	210.00		
Dist. of Col		25 x wba to $250	150.00		
Florida		30 x wba	150.00		2 quarters.
Georgia		25, 30, 40, x wba [4]	100.00	48.00	2 quarters.
Hawaii		30 x wba	150.00		
Idaho		25-37 x wba	250.00	150.00	2 quarters.
Illinois		Flat	225.00		
Indiana		Flat	250.00		$150 in last 2 quarters.
Iowa		20 x wba	100.00		
Kansas		Flat	100.00		2 quarters or $200 in 1 quarter.
Kentucky		Flat	300.00		
Louisiana		30 x wba	150.00		
Maine		Flat	300.00		
Maryland		40 x wba	240.00	156.00	
Massachusetts		Flat	150.00		
Michigan	14 weeks	[6]	112.14		
Minnesota		Flat	200.00		
Mississippi		30 x wba [7]	90.00		
Missouri		40 x wba	20.00		3 quarters. [8]
Montana		30 x wba	210 00		
Nebraska		Flat	200.00		
Nevada		30 x wba [4]	240.00		
New Hampshire		Flat	200.00		
New Jersey		30 x wba	270.00		
New Mexico		30 x wba	150.00	78.00	
New York		30 x wba	300.00	100.00	
North Carolina		Flat	130.00		
North Dakota		28 x wba	140.00		
Ohio	20 weeks	Flat	160.00		
Oklahoma		20 x wba	120.00		
Oregon		Flat	300.00		
Pennsylvania		30 x wba	240.00		
Rhode Island		Flat	100.00		
South Carolina		30 x wba [4]	120.00		
South Dakota		Flat	125.00	60.00	
Tennessee		25, 30 x wba [7]	125.00	50.00	
Texas		18 x wba [8]	90.00		
Utah		14 percent of average State wages and 150 percent of high-quarter wages.	[9] 294.00		2 quarters.
Vermont		30 x wba	180.00	50.00	
Virginia		20, 25 x wba [7]	100.00		
Washington		Flat	300.00		
West Virginia		Flat	300.00		
Wisconsin	14 weeks	[10]	140.00		
Wyoming		25 x wba	175.00	70.00	

[1] See table 5, p. 225, for minimum qualifying wages for maximum weekly benefit and table 7, p. 229, for minimum qualifying wages for maximum annual benefits.

[2] Based on wages or employment in a specified prior period, a 2-year period in Missouri, and a 1-year qualifying period in all other States. Weekly benefit amount abbreviated as wba.

[3] Claimant must have worked less than 160 hours and earned less than $120 in 3 weeks preceding unemployment.

[4] If claimant failed to receive qualifying wage for weekly benefit amount computed on high-quarter wages but received qualifying wages in next lower bracket, he is considered eligible for lower weekly benefit.

[5] Base-period wages equal to 1½ times high-quarter wages or 30 times weekly benefit amount, whichever is less, but not less than $300.

[6] Fourteen weeks of employment at $8.01 or more.

[7] Minimum number of weeks applies to minimum weekly benefit only. Same step-down provision as described in footnote 4.

[8] Converted from 2-week period.

[9] Effective for uniform benefit year beginning July 4, 1948, based on average 1947 wages.

[10] Fourteen weeks of employment at an average wage of $10 or more.

TABLE 4.—*Waiting-period requirements under State laws, Dec. 31, 1948*

State	Initial waiting period		In new benefit year	
	Weeks of total unemployment	Weeks of partial unemployment	Not to interrupt consecutive weeks of benefits	May be served in last week of old year
Alabama	1	2	X	
Alaska	1	1	X	
Arizona	1	1	X	X
Arkansas	1	1	X	
California	1	1	X	X
Colorado	2	2	X	
Connecticut	1	1	X	
Delaware	1	1	X	
District of Columbia	1	1		
Florida	1	1		
Georgia	2	2	X	X
Hawaii	1	1	X	
Idaho	1	1	X	
Illinois	1	1	X	X
Indiana	1	1		
Iowa	1	2		
Kansas	1	1		
Kentucky	1	1		
Louisiana	1	1	X	
Maine	1	1		
Maryland	0	0		
Massachusetts	1	2	X	
Michigan	1	1	X	
Minnesota	2	2		
Mississippi	1	1	X	X
Missouri	1	2	X	
Montana	2	[1]		
Nebraska	2	2	X	X
Nevada	1	1		
New Hampshire	1	2	X	X
New Jersey	1	1		
New Mexico	1	1	X	
New York	[2] 1	[2] 2-4		
North Carolina	1	2		
North Dakota	1	1	X	
Ohio	2	2		
Oklahoma	1	1	X	
Oregon	1	1	X	X
Pennsylvania	1	1		
Rhode Island	1	2	X	[3] X
South Carolina	1	1		
South Dakota	1	1		
Tennessee	1	2	X	
Texas	[4] 1	1		
Utah	1	1		[5]
Vermont	1	1	X	X
Virginia	1	1	X	
Washington	1	1		
West Virginia	1	[6]		
Wisconsin	2	[6]	[7]	[7]
Wyoming	2	2		

[1] No payment of partial benefits as such.
[2] Waiting period of 4 effective days may be accumulated in 1 to 4 weeks.
[3] May be served in last 4 weeks of old benefit year.
[4] A new announcement of intention to file a claim followed by an additional waiting period is required if a previous announcement is not followed within 13 days by an initial claim or if the claim series beginning with an initial claim is interrupted by a period of more than 35 days during which the worker does not report to the office to show completion of 14 days of unemployment.
[5] No waiting period required for claims filed in last 4 weeks of a benefit year.
[6] No waiting period required for benefits for partial unemployment; waiting-period requirement is in terms of weeks of total unemployment.
[7] Only one waiting period of 2 weeks is required within the last 5 weeks of one calendar year and the first weeks of the next calendar year.

TABLE 5.—*Weekly benefits for total unemployment under State laws, Dec. 31, 1948*

State	Method of computing [1]	Rounding to—	Minimum weekly benefit [2]	Maximum weekly benefit [2]	Wage credits required [3]			
					For minimum		For maximum	
					High quarter	Base period	High quarter	Base period
	High-quarter formula							
Alabama	1/26	Nearest dollar	$4.00	$20.00	$75.01	$120.00	$507.01	$600.00
Alaska	1/20	Higher dollar	8.00	25.00	37.50	150.00	480.01	480.01
Arizona	1/20	do	5.00	20.00	37.50	150.00	380.01	600.00
Arkansas	1/24	Nearest dollar	5.00	20.00	37.50	150.00	468.01	600.00
California	1/20-1/28	Dollar schedule	10.00	25.00	75.00	300.00	580.00	750.00
Colorado	1/25	Higher 50 cents	6.00	17.50	45.00	180.00	425.01	525.00
Connecticut	1/26+d.a.	Nearest dollar	8.00-12.00	24.00-36.00	60.00	240.00	611.00	611.00
Delaware	1/25	Higher 50 cents	7.00	18.00	52.50	210.00	437.51	540.00
District of Columbia	1/28+d.a.	Higher dollar	6.00-9.00	[2] 20.00	37.50	150.00	437.01	437.01
Florida	1/18-1/24	Dollar schedule	5.00	15.00	37.50	150.00	345.01	450.00
Georgia	1/23-1/26	do	4.00	18.00	48.00	100.00	455.01	720.00
Hawaii	1/25	Higher dollar	5.00	25.00	37.50	150.00	600.01	750.00
Idaho	1/19-1/24	Dollar schedule	10.00	20.00	150.00	250.00	475.01	745.00
Illinois	1/20	Higher 50 cents	10.00	20.00	56.25	225.00	390.01	390.01
Indiana	1/25	Higher dollar	5.00	20.00	75.00	250.00	475.01	475.01
Iowa	1/28	No provision	5.00	20.00	25.00	100.00	460.00	460.00
Kansas	1/25	Higher dollar	5.00	18.00	25.00	100.00	425.01	425.01
Louisiana	1/20	do	5.00	25.00	37.50	150.00	480.01	750.00
Maryland	1/26	Nearest dollar	6.00	25.00	156.01	240.00	637.01	1,000.00
Massachusetts	1/20+d.a.	Higher dollar	6.00-10.00	[2] 25.00	37.50	150.00	480.00	480.00
Mississippi	1/26	do	3.00	20.00	22.50	90.00	494.01	600.00
Missouri	1/25	Higher 50 cents	[4] .50	20.00	2.50	20.00	487.51	800.00
Montana	1/22	Higher dollar	7.00	18.00	52.50	210.00	378.00	540.00
Nebraska	1/25	do	5.00	18.00	50.00	200.00	425.01	425.01
Nevada	1/20+d.a.	do	8.00-14.00	20.00-26.00	60.00	240.00	380.01	600.00
New Jersey	1/22	do	9.00	22.00	67.50	270.00	462.01	462.01
New Mexico	1/26	do	5.00	20.00	78.00	150.00	494.01	600.00
New York	1/23	Nearest dollar	10.00	26.00	100.00	300.00	586.00	780.00
North Dakota	1/23	Higher dollar	5.00	20.00	35.00	140.00	347.01	560.00
Ohio	1/20-1/28	Dollar schedule	5.00	21.00	40.00	160.00	581.00	[6] 581.00
Oklahoma	1/20	Higher dollar	6.00	18.00	30.00	120.00	340.01	360.00
Pennsylvania	1/25	Nearest dollar	8.00	20.00	60.00	240.00	488.00	600.00
Rhode Island	1/20	do	10.00	25.00	25.00	100.00	490.00	490.00
South Carolina	1/20-1/24	Higher dollar	5.00	20.00	100.00	150.00	400.00	600.00
South Dakota	1/20-1/23	Dollar schedule	6.00	20.00	60.00	125.00	450.00	450.00
Tennessee	1/20-1/26	do	5.00	18.00	50.00	125.00	442.01	540.00
Texas	1/26 [5]	Higher dollar	[5] 5.00	[5] 18.00	22.50	90.00	455.01	455.01
Utah [6]	1/20+cost-of-living allowances.	do	5.00-7.00	17.00-25.00	73.50	294.00	380.00	600.00
Vermont	1/18-1/26	Dollar schedule	6.00	20.00	50.00	180.00	500.00	600.00
Virginia	1/25	Higher dollar	5.00	20.00	25.00	100.00	475.01	500.00
Wyoming	1/20	do	7.00	20.00	70.00	175.00	380.01	500.00
	Annual-wage formula							
	Percent							
Kentucky	2.3-1	Dollar schedule	7.00	20.00	.....	300.00	.....	1,755.00
Maine	2.3-1.1	.....	6.75	22.50	.....	300.00	.....	2,000.00
Minnesota	3.6-1.1	Dollar schedule	7.00	20.00	.....	200.00	.....	1,750.00
New Hampshire	3.0-0.9	do	6.00	22.00	.....	200.00	.....	2,000.00
North Carolina	3.1-0.9	Dollar to 50-cent schedule.	4.00	20.00	.....	130.00	.....	2,080.00
Oregon	3.3-1.3	Dollar schedule	10.00	20.00	.....	300.00	.....	1,600.00
Washington	3.3-1.1	do	10.00	25.00	.....	300.00	.....	2,200.00
West Virginia	2.7-1.1	do	8.00	20.00	.....	300.00	.....	1,800.00

See footnotes at end of table.

TABLE 5.—*Weekly benefits for total unemployment under State laws, Dec. 31, 1948*—Continued

State	Method of computing [1]	Rounding to—	Minimum weekly benefit [2]	Maximum weekly benefit [2]	Wage credits required [3]			
					For minimum		For maximum	
					High quarter	Base period	High quarter	Base period
	Average weekly wage							
Michigan	67-64+ d. a.	Dollar schedule	$6.00-7.00	$20.00-28.00	----	[7] $112.14		[7] $420.14
Wisconsin	70-51	----do----	8.00	24.00	----	[7] 140.00	----	[7] 644.14

[1] The fraction of high-quarter wages applies between the minimum and maximum amounts. When State uses a weighted table, approximate fractions are figured at midpoint of brackets between minimum and maximum. When dependents' allowances are provided the fraction applies to the basic benefit amount. With annual wage formula, fraction is minimum and maximum percentage used in any wage bracket. Dependents' allowances abbreviated as d. a.

[2] When 2 amounts are given, higher includes maximum dependents' allowance except in Utah. See footnote 6. In the District of Columbia same maximum with or without dependents. Maximum augmented payment to individual with dependents not shown for Massachusetts since highest taxable average weekly wage may be $231 and any figure presented would be based on an assumed maximum number of dependents.

[3] See table 3, p. 223, for additional requirements concerning distribution of earnings. See also table 7, p. 229, for wage credits required for maximum duration as well as maximum weekly benefit.

[4] If benefit is less than $3, benefits are paid at the rate of $3 a week.

[5] Actually, benefits are paid for a 2-week period, based on 1/13 of wages in high quarter, minimum $10, maximum $36.

[6] The normal rates are minimum $5, maximum $20. When the cost-of-living index of the Bureau of Labor Statistics stands at or below 98.5, rates are 80 percent of the normal rates, computed to the next higher $1. When the index stands at or above 125, rates are 120 percent of the normal rate, computed to the next higher $1. Minimum earnings for maximum and minimum benefits shown are those now applicable for the State average annual wage effective for the benefit year beginning July 4, 1948.

[7] Figured as 14 times minimum and maximum average weekly wage brackets.

TABLE 6.—*Selected data relating to the weekly benefit amount, by State, 1938–41, 1944–47*

[Data corrected to Dec. 10, 1948]

State	Average weekly payment for total unemployment in—								Percent of weeks of total unemployment compensated during 1947 at [1]—							
	1938 [1]	1939 [1]	1940	1941	1944	1945	1946	1947	Less than $5	$5–$9.99	$10–$14.99	$15–$17.99	$18–$19.99	$20 or more	Minimum weekly benefit	Maximum weekly benefit
United States	$10.94	$10.66	$10.56	$11.06	$15.90	$18.77	$18.50	$17.83	0.1	4.4	16.6	13.7	10.3	54.8	3.2	56.7
Alabama	7.63	7.15	6.52	7.16	11.64	16.72	16.57	14.65	1.4	14.2	28.0	17.1	9.5	29.9	1.4	29.9
Alaska	-------	15.06	14.67	14.24	14.21	15.57	16.03	21.79	-------	2.5	6.7	12.2	3.0	75.5	.9	70.7
Arizona	11.79	11.19	10.96	11.02	14.43	14.70	14.39	16.08	-------	2.7	12.7	46.2	4.1	34.3	.3	75.6
Arkansas	-------	6.66	6.36	6.84	11.15	13.24	12.61	13.75	2.4	17.8	30.0	36.8	3.4	9.6	2.6	39.8
California	9.72	10.99	13.98	14.57	18.22	19.40	19.03	18.75	-------	-------	7.8	7.5	6.8	78.0	2.0	78.0
Colorado	-------	10.79	10.51	10.21	13.36	13.58	13.89	14.53	-------	7.7	22.9	69.4	-------	-------	1.0	60.5
Connecticut	10.62	10.04	9.98	10.65	18.87	20.84	21.08	19.56	-------	3.4	15.3	14.6	10.3	56.4	2.2	46.8
Delaware	-------	8.41	8.96	9.08	14.76	16.69	16.25	14.95	-------	11.0	23.6	13.7	51.7	-------	3.9	51.7
District of Columbia	8.81	8.58	9.71	12.20	17.78	17.78	17.14	16.46	-------	6.1	23.3	20.3	9.6	40.8	1.5	40.8
Florida	-------	8.68	9.72	10.24	12.96	13.99	14.02	13.53	-------	6.6	28.9	64.5	-------	-------	.5	64.5
Georgia	-------	6.38	6.56	7.47	10.54	15.94	15.20	13.32	1.6	17.0	34.1	25.0	22.3	-------	1.6	22.3
Hawaii	-------	8.96	8.24	7.36	19.57	21.25	21.86	19.87	-------	5.1	15.1	12.6	7.1	60.2	.5	39.8
Idaho	10.73	11.21	11.24	11.19	12.40	13.70	15.45	15.99	-------	2.5	24.0	30.5	30.1	13.0	.8	39.7
Illinois	-------	12.90	12.92	13.17	17.55	18.95	18.67	18.23	-------	-------	13.6	10.9	8.0	67.5	3.3	67.5
Indiana	12.42	11.06	10.97	11.51	16.10	16.38	18.66	17.00	-------	4.2	19.3	15.4	10.1	51.0	.1	51.0
Iowa	9.30	9.08	9.50	9.37	11.59	16.25	15.80	14.55	-------	14.8	23.3	14.7	40.0	7.2	1.9	45.6
Kansas	-------	10.25	9.30	9.57	13.42	15.37	15.09	14.56	-------	8.2	19.0	53.9	18.9	-------	1.3	65.7
Kentucky	-------	8.45	7.88	7.56	10.50	12.43	12.09	10.98	-------	39.6	33.6	26.8	-------	-------	10.8	19.9
Louisiana	8.41	8.33	8.02	9.65	14.46	16.48	15.76	13.93	2.8	17.1	27.0	15.9	37.2	-------	1.1	37.2
Maine	8.94	7.64	6.65	7.06	10.49	15.83	15.86	13.48	-------	27.5	26.6	15.3	13.7	16.9	5.7	16.9
Maryland	10.21	9.31	8.96	11.04	17.43	19.24	18.97	18.07	-------	5.5	19.5	13.0	8.1	54.0	.6	39.8
Massachusetts	10.62	9.03	10.09	10.44	16.21	19.19	20.86	21.85	-------	2.3	7.8	9.3	7.7	72.8	.4	52.9
Michigan	13.49	13.30	12.56	12.76	19.03	20.70	20.37	19.77	.1	.8	8.0	6.5	5.2	79.4	1.5	79.4
Minnesota	10.41	11.14	10.24	10.61	14.28	17.18	16.70	14.98	-------	7.5	39.0	14.4	15.1	24.0	1.1	24.0
Mississippi	5.89	5.64	6.03	7.58	11.16	12.90	12.85	12.15	1.6	18.8	40.5	39.1	-------	-------	.6	39.1
Missouri	-------	8.68	9.09	9.60	15.27	16.75	16.40	16.40	.7	6.7	21.0	13.5	8.9	49.3	0	49.3
Montana	-------	11.20	10.89	11.00	12.34	13.05	13.35	14.24	-------	13.5	23.2	35.1	28.2	-------	3.9	53.7
Nebraska	-------	8.67	9.28	9.21	12.65	16.31	16.17	14.92	-------	9.3	25.0	16.8	48.9	-------	.6	48.9
Nevada	-------	12.94	13.22	13.30	14.75	17.17	18.09	18.85	-------	1.2	4.5	5.3	68.9	20.1	.6	87.6
New Hampshire	9.28	8.80	8.82	8.65	11.14	13.38	13.61	15.42	-------	17.5	24.8	18.4	10.9	28.4	4.9	16.0
New Jersey	-------	9.68	9.46	11.26	16.41	20.27	20.39	19.51	-------	3.5	10.3	9.5	7.4	69.3	3.5	61.3
New Mexico	9.22	10.14	9.16	8.89	11.66	12.67	13.41	13.85	-------	12.2	25.8	50.7	2.4	8.9	1.6	55.2
New York	12.04	12.88	11.58	11.69	16.17	19.48	19.36	18.77	-------	-------	14.9	12.0	8.1	65.0	4.4	60.6
North Carolina	[2]	5.81	4.68	5.90	7.91	12.66	11.94	11.35	2.4	33.4	49.2	6.9	2.0	6.0	1.2	6.0
North Dakota	-------	9.45	9.54	9.69	12.10	14.56	16.87	17.39	-------	6.3	16.2	12.2	7.7	57.6	.4	57.6

See footnotes at end of table.

TABLE 6.—*Selected data relating to the weekly benefit amount, by State*—Continued

[Data corrected to Dec. 10, 1948]

State	Average weekly payment for total unemployment in—								Percent of weeks of total unemployment compensated during 1947 at [2]—							
	1938 [1]	1939 [1]	1940	1941	1944	1945	1946	1947	Less than $5	$5–$9.99	$10–$14.99	$15–$17.99	$18–$19.99	$20 or more	Minimum weekly benefit	Maximum weekly benefit
Ohio	-------	$10.25	$10.28	$10.14	$14.44	$18.84	$18.72	$17.27	-------	2.2	19.7	22.1	14.9	41.1	.1	34.3
Oklahoma	$10.57	10.15	9.84	10.07	14.69	17.43	16.63	16.09	-------	5.7	13.0	10.8	70.5	-------	1.7	70.5
Oregon	11.95	11.90	12.43	12.52	14.32	16.82	16.88	15.94	-------	-------	31.1	22.1	30.6	16.2	2.7	44.4
Pennsylvania	11.18	11.67	10.90	11.02	15.18	17.87	18.15	17.13	-------	6.4	18.6	13.2	8.5	53.3	4.0	53.3
Rhode Island	9.63	9.99	10.54	10.69	16.44	17.35	17.36	18.90	-------	1.9	8.8	6.3	46.8	36.2	1.9	65.7
South Carolina	6.71	6.28	6.71	7.30	11.15	11.89	14.10	13.92	2.3	14.2	38.3	18.9	8.1	18.2	2.3	18.2
South Dakota	-------	9.11	7.24	7.45	9.50	11.21	13.59	13.59	-------	11.2	26.7	55.4	1.0	5.8	2.2	58.6
Tennessee	7.27	7.21	7.48	8.12	11.45	13.15	13.38	12.85	-------	22.1	31.0	34.0	12.9	-------	4.4	40.3
Texas	9.23	8.43	8.07	8.11	11.55	15.44	15.64	13.74	-------	17.3	24.9	13.9	43.9	-------	3.0	43.9
Utah	11.37	10.32	11.11	12.26	18.88	22.76	23.35	22.82	-------	1.0	4.1	6.5	2.7	85.7	.2	72.5
Vermont	9.39	9.23	9.08	9.52	12.29	16.55	16.85	16.84	-------	3.2	23.0	20.1	12.4	41.4	.2	41.4
Virginia	8.08	7.88	7.68	8.03	11.13	12.81	12.97	12.35	(4)	20.1	37.4	42.4	-------	-------	2.6	42.4
Washington	-------	11.82	12.62	12.65	13.91	21.07	20.94	19.14	-------	-------	27.2	10.9	8.1	53.9	14.4	34.7
West Virginia	10.83	8.44	8.00	9.60	14.42	16.00	16.03	15.27	-------	12.7	28.9	19.4	14.1	24.9	6.5	24.9
Wisconsin	10.57	10.05	11.02	11.19	14.25	17.81	17.67	16.44	-------	2.4	30.0	21.7	9.8	36.1	.8	32.1
Wyoming	-------	13.84	13.16	13.21	15.13	18.02	18.89	18.52	-------	2.1	8.0	8.8	6.8	74.4	.7	74.4

[1] Average computed from date benefits were first payable.
[2] Based on payments for full weekly benefit rate only; excludes residual payments and payments reduced because of receipt of benefits under other programs.
[3] Data not available.
[4] Less than 0.05 percent.

TABLE 7.—*Duration of benefits in a benefit year under State laws, Dec. 31, 1948*

State	Proportion of wages in 4-quarter base period	Minimum potential benefits [1]		Maximum potential benefits			
		Amount	Weeks	Amount [2]	Weeks	Wage credits required	
						High quarter	Base period
	Uniform potential duration for all eligible claimants						
Arizona		$60.00	12	$240	12	$380.01	$600.00
Georgia		64.00	16	288	16	455.01	720.00
Hawaii		100.00	20	500	20	600.01	750.00
Kentucky		154.00	22	440	22	[3] 438.75	1,755.00
Maine		135.00	20	450	20	[3] 500.00	2,000.00
Mississippi		48.00	16	320	16	494.01	600.00
Montana		112.00	16	288	16	377.78	540.00
New Hampshire		138.00	23	506	23	[3] 500.00	2,000.00
New York		260.00	[4] 26	676	[3] 26	586.00	780.00
North Carolina		64.00	16	320	16	[3] 520.00	2,080.00
North Dakota		100.00	20	400	20	537.01	560.00
South Carolina		90.00	18	360	18	400.00	600.00
Tennessee		100.00	20	360	20	442.01	540.00
Vermont		120.00	20	400	20	500.00	600.00
West Virginia		168.00	21	420	21	[3] 450.00	1,800.00
	Maximum potential duration varying with wage credits						
Alabama	⅓	$40.00	10	$400	20	$507.01	$1,200.00
Alaska	⅓	64.00	[5] 8	625	25	480.01	1,875.00
Arkansas	⅓ [6]	20.00	4	320	[5] 16	468.01	[6] 960.00
California	½	150.00	[4] 12+	650	26	580.00	1,300.00
Colorado	⅓	60.00	10	350	20	425.01	1,050.00
Connecticut	¼	70.00	[4] 6+	528–792	22	611.00	2,080.00
Delaware	¼	77.00	[5] 11	396	22	437.51	1,584.00
Dist. of Col.	½	75.00	[4] 10+	400	20	437.01	800.00
Florida	¼	38.00	7+	240	16	345.01	960.00
Idaho	40–22 percent	100.00	10	400	20	475.01	1,820.00
Illinois	50–33 percent	125.00	[4] [5] 10	520	26	390.01	1,575.00
Indiana	¼	62.00	[4] 6+	400	20	475.01	1,600.00
Iowa	⅓	33.33	6+	400	20	460.00	1,200.00
Kansas	⅓	34.00	6+	360	20	425.01	1,080.00
Louisiana	⅓	50.00	10	500	20	480.01	1,500.00
Maryland	¼	60.00	10	650	26	[7] 650.00	2,600.00
Massachusetts	3/10	45.00	[4] 5+	575	23	480.00	1,916.66
Michigan	2/3 of weeks of employment	56.00	9+	400–560	20	[8] 390.13	[8] 900.30
Minnesota	47–22 percent	84.00	[5] 12	400	20	[3] 437.50	1,750.00
Missouri	¼ in 8 quarters	5.00	[8] 1+	400	20	487.51	1,600.00
Nebraska	⅓	67.00	[4] 7+	324	18	425.01	972.00
Nevada	⅓	80.00	10	400–520	20	380.01	1,200.00
New Jersey	⅓	90.00	[5] 10	572	26	462.01	1,716.00
New Mexico	⅖	60.00	12	400	20	494.01	1,000.00
Ohio	Schedule of weeks of employment.[10]	90.00	18	462	22	581.00	[10] 1,117.25
Oklahoma	⅓	40.00	6+	360	20	340.01	1,080.00
Oregon	¼	75.00	7+	400	20	[3] 400.00	1,600.00
Pennsylvania	3/10	72.00	9	480	24	488.00	1,646.00
Rhode Island	52–27 percent	52.00	5+	650	26	[7] 600.00	2,400.00
South Dakota	48–22 percent	60.00	[4] 6+	400	20	450.00	1,800.00
Texas	⅙	18.00	[3] 3+	324	[3] 18	455.01	1,620.00
Utah	Schedule in percent of average State wages.[11]	125.00	[11] 12+	500	[11] 20	[7] 525.00	[11] 2,100.00
Virginia	¼	30.00	6	320	16	475.01	1,240.01
Washington	40–29 percent	120.00	[5] 12	650	26	[3] 550.00	2,200.00
Wisconsin	5/6 of weeks of employment	68.00	8+	576	24	(9)	[8] 1,840.40
Wyoming	¼	40.00	5+	400	20	390.01	1,560.01

[1] Minimum potential benefits for claimants with minimum qualifying wages. (See table 3, p. 223 for these qualifying wages.) In States noted, weeks for claimants with minimum weekly benefit will be greater than figure here for claimants whose weekly benefit is higher than the minimum because qualifying wages are concentrated largely or wholly in high quarter. (See table 5, p. 225, for minimum weekly benefit and divide into minimum potential benefits.) In Connecticut, District of Columbia, Michigan, and Nevada, dependents' allowances being outside the duration formula, add to potential benefits for claimants with minimum qualifying wages.

[2] When 2 amounts are given, higher includes maximum dependents' allowances; same maximum with or without dependents' allowances in District of Columbia and Massachusetts.

[3] Annual wage formula: amount shown for high quarter is ¼ of required base-period wages.

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

[5] Statutory minimum.

[6] Or 4 times weekly benefit times quarters with wages at least ¼ of high quarters, if less; maximum duration given assumes such wages in 4 quarters.

Footnotes continued on p. 230.

[7] Amount shown is ¼ of base-period wages. To obtain maximum potential annual benefits, claiman must have more than 4 times high-quarter wages necessary for maximum weekly benefit.

[8] Figures given are based on highest average weekly wage in schedule ($30.01). High-quarter figure assumes 13 weeks' employment; base-period figure the minimum 30 weeks required.

[9] A claimant eligible for the minimum benefit amount may draw all benefits due in 1 and a fraction weeks because benefits of 50 cents to $3 a week are paid at rate of $3.

[10] 18 weeks' duration for 20 weeks of employment; 19 weeks, for 21-24 weeks of employment; 22 weeks, for more than 24 weeks of employment. Base-period wages are 25 weeks' wages if high quarter represents 13 weeks of employment.

[11] Maximum potential benefits of $125 for 14 percent of average State wages to $500 for 100 percent are not increased by cost-of-living allowance which raises weekly benefits; hence, weeks of duration are reduced. Qualifying wages shown are for benefit year beginning July 4, 1948, based on 1947 average wages.

TABLE 8.—*Selected data relating to the duration of unemployment benefits, by State*

[Data corrected to Dec. 10, 1948]

State	Exhaustions of benefits as percent of first payments in [1]—					Average actual duration (weeks) for claimants exhausting benefit rights, in benefit years ended in—					Average actual duration (weeks) for claimants *not* exhausting benefit rights, in benefit years ended in—	
	1940	1942	1944	1946	1947	1941	1942	1944	1946	1947	1946	1947
United States [2]	50.6	34.9	20.2	38.3	30.7	12.1	12.6	13.8	18.5	17.8	9.0	8.2
Alabama	48.4	30.0	25.5	63.4	55.3	17.3	17.0	17.2	18.2	17.0	9.4	8.4
Alaska	45.9	12.7	25.7	29.1	31.2	[3]	[3]	[3]	15.0	14.6	7.7	7.9
Arizona	72.2	45.2	30.2	51.5	48.4	10.1	9.8	8.8	12.6	11.8	6.7	7.1
Arkansas	55.3	42.0	38.9	62.3	52.0	[3]	9.5	8.3	10.5	9.9	6.3	6.4
California	50.8	32.9	27.7	46.0	44.1	16.8	16.7	15.3	19.2	18.0	11.2	10.4
Colorado	53.2	30.9	19.4	29.4	25.4	14.7	[3]	12.8	13.3	14.4	5.3	6.7
Connecticut	52.6	19.2	10.1	36.7	21.9	8.5	10.4	11.0	17.3	16.9	7.7	7.6
Delaware	64.8	37.8	23.3	49.6	33.4	8.3	9.0	11.7	18.1	16.3	8.6	7.8
District of Columbia	40.0	34.9	23.9	31.5	46.2	[3]	[3]	18.6	18.5	18.7	8.7	8.8
Florida	64.5	43.9	18.9	43.5	49.8	12.7	11.4	11.0	14.8	13.9	6.5	7.5
Georgia	75.6	43.2	35.5	69.3	46.1	10.6	14.0	15.5	15.8	15.5	8.7	8.0
Hawaii	51.5	21.1	9.1	12.1	16.2	14.4	15.7	20.0	20.0	20.0	5.2	5.9
Idaho	68.8	34.8	41.2	31.2	26.4	13.9	12.2	[3]	14.9	14.4	9.3	7.5
Illinois	38.0	23.4	13.2	23.7	20.6	11.8	12.1	14.2	20.4	18.8	8.6	8.5
Indiana	[3]	[3]	24.7	40.5	29.9	11.0	11.8	[3]	16.6	16.0	6.9	5.1
Iowa	59.9	43.4	40.8	53.9	33.9	8.5	8.5	7.8	15.6	13.8	7.6	6.6
Kansas	67.7	32.7	27.0	55.3	36.1	7.7	10.4	13.9	18.5	16.8	9.1	7.9
Kentucky	55.2	35.0	19.9	49.9	42.5	15.5	16.0	16.7	19.8	19.6	8.7	8.2
Louisiana	73.1	52.2	38.7	73.8	62.4	10.9	10.3	10.6	17.0	15.0	11.0	7.9
Maine	24.7	21.4	23.2	22.6	19.0	15.9	14.0	14.2	19.9	19.9	8.1	8.2
Maryland	44.9	29.9	16.3	30.3	18.2	13.4	10.9	12.2	16.8	19.5	8.6	7.8
Massachusetts	46.5	28.2	16.1	43.9	34.0	[3]	15.4	[3]	17.6	15.9	8.0	7.7
Michigan	26.5	38.7	20.2	50.0	21.4	14.0	15.2	14.4	17.9	14.6	8.5	4.8
Minnesota	59.9	40.9	25.0	46.2	30.9	14.3	13.8	9.7	18.7	18.4	8.7	8.5
Mississippi	57.7	35.5	28.8	48.2	43.5	11.3	14.0	14.0	14.0	14.0	6.4	7.1
Missouri	55.3	44.8	22.0	49.6	39.0	9.0	11.0	11.9	14.8	17.0	6.7	7.4
Montana	55.3	29.0	28.7	38.4	34.9	16.0	16.0	16.0	16.0	16.0	7.0	7.9
Nebraska	56.4	33.3	24.9	47.6	32.4	14.5	13.9	13.0	16.7	15.5	7.7	7.2
Nevada	62.1	30.1	29.8	36.7	31.3	13.2	13.1	17.1	18.1	17.4	9.8	9.4
New Hampshire	36.0	18.6	9.6	16.5	11.8	10.3	14.9	18.0	20.0	19.9	8.0	6.5
New Jersey	60.2	37.5	21.5	42.9	35.7	9.1	10.5	10.8	20.0	19.4	10.8	10.0
New Mexico	56.9	28.0	23.0	37.5	28.3	14.8	14.7	13.4	15.0	14.6	7.5	7.6
New York	49.8	39.2	11.0	19.1	14.5	13.0	13.0	20.0	26.0	26.0	10.3	10.0
North Carolina	30.2	32.4	22.9	34.0	32.2	16.0	16.0	15.6	15.7	15.7	6.7	7.2
North Dakota	59.9	28.0	14.8	14.9	13.0	14.8	13.5	16.0	19.0	20.0	10.0	9.3
Ohio	48.1	31.4	11.9	42.9	29.7	15.4	15.4	16.5	20.4	20.9	8.7	7.8
Oklahoma	71.3	38.0	22.1	65.6	55.1	7.7	8.8	13.5	17.8	15.8	9.4	8.4
Oregon	50.1	28.2	18.4	29.1	22.7	7.5	6.5	7.6	17.5	13.2	8.7	7.0
Pennsylvania	63.8	37.4	28.9	32.7	28.9	9.0	9.2	12.1	18.3	17.6	7.5	6.6
Rhode Island	65.9	46.9	30.1	42.5	38.8	9.2	9.1	11.1	13.5	14.8	7.3	7.6
South Carolina	41.4	32.9	28.0	45.5	41.8	15.6	15.5	15.7	16.0	16.0	6.7	6.8
South Dakota	48.4	42.0	31.5	26.0	21.1	14.0	12.2	12.0	13.0	12.3	7.6	5.4
Tennessee	50.3	37.8	35.0	59.8	46.5	16.0	16.0	16.0	16.0	16.0	7.8	7.7
Texas	63.3	45.6	51.2	70.4	65.6	9.8	9.4	[3]	14.3	12.4	8.2	7.8
Utah	55.6	22.8	7.0	27.0	26.6	12.1	20.0	20.0	18.5	18.5	9.2	8.7
Vermont	50.5	36.3	28.4	30.5	17.9	13.0	13.2	18.0	20.0	20.0	8.5	7.0
Virginia	39.1	40.5	28.2	42.1	43.2	12.7	13.4	12.3	12.1	12.6	8.1	6.7
Washington	50.2	22.6	9.7	21.6	41.1	12.6	11.6	11.5	20.9	22.0	10.8	9.6
West Virginia	45.5	19.3	17.3	36.7	25.7	14.0	16.0	[3]	20.6	20.2	6.8	7.0
Wisconsin	[3]	[3]	[3]	41.6	29.4	[3]	[3]	[3]	[3]	[3]	[3]	[3]
Wyoming	58.7	[3]	[3]	27.7	40.8	10.7	10.3	6.7	12.6	12.1	7.4	6.9

[1] Ratios computed by dividing exhaustions for the calendar year by first payments for 12-month period ending Sept. 30 of same year.

[2] For each column the United States total is based on data from the States for which figures are shown. See footnote 3.

[3] Comparable data not available.

TABLE 9.—*Summary of disqualification provisions for three major causes, State laws, Dec. 31, 1948* [1]

State	Voluntary leaving		Discharge for misconduct		Refusal of suitable work	
	Number of weeks disqualified	Benefits reduced or canceled	Number of weeks disqualified	Benefits reduced or canceled	Number of weeks disqualified	Benefits reduced or canceled
Alabama	Duration	Partial cancellation.	W+3-6	Mandatory.	Duration+	Mandatory.
Alaska	W+1-5		W+1-5		W+1-5	
Arizona	W+4	Mandatory.	W+4	Mandatory.	W+1-5	
Arkansas	W+1-5		W+1-5		W+1-5	
California	1-5		1-5		1-5	
Colorado	W+3-15	Mandatory.	W+3-15	Mandatory.	W+3-15	Mandatory.
Connecticut	W+4		W+4		W+4	
Delaware	Duration		Duration		Duration	
Dist. of Col	W+3		W+1-4		W+3	
Florida	W+1-12 and duration+.		W+1-12 and duration+.		W+1-5 and duration+.	Optional.
Georgia	W+2-8	Mandatory.	W+3-10	Mandatory.	W+2-8	Mandatory.
Hawaii	W+2-7		W+2-7		W+2-7	
Idaho	6 [2]		6 [2]		6 [2]	
Illinois	W+3-7		W+3-7		W+3-7	
Indiana	W+5	Mandatory.	W+5	Mandatory.	W+5	Mandatory.
Iowa	Duration+.	Cancellation.	2-9	Mandatory.	Duration	
Kansas	W+1-9		W+1-9		W+1-9	
Kentucky	1-16		1-16		1-16	
Louisiana	W+1-6		W+1-6		W+1-6	
Maine	W+1-5	Mandatory.	W+1-9	Mandatory.	W+1-5	Mandatory.
Maryland	Duration+.		W+1-9		Duration+.	
Massachusetts	Duration		Duration		W+1-4	Optional.
Michigan	Duration	Partial cancellation.	Duration	Partial cancellation.	Duration	Partial cancellation.
Minnesota	3-7		3-7		W+3	
Mississippi	W+1-12		W+1-12		W+1-12	
Missouri	Duration+.		Duration+.		Duration+.	
Montana	1-5		1-9		W+1-5	
Nebraska	W+1-5		W+1-5		Duration+.	Cancellation.
Nevada	W+1-15		W+1-15		W+1-15	
New Hampshire	Duration+.		W+3	Mandatory.	W+3	
New Jersey	W+3		W+3		W+3	
New Mexico	W+1-13	Mandatory.	W+1-13	Mandatory.	W+1-13	Mandatory.
New York	6		7		Duration	
North Carolina	4-12	Mandatory.	5-12	Mandatory.	4-12	Mandatory.
North Dakota	W+1-7		W+1-10		W+1-7	
Ohio	Duration+.		3	Mandatory.	Duration	
Oklahoma	W+2		W+3		W+2	
Oregon	W+4		W+4-8		W+4	
Pennsylvania	Duration		Duration		Duration	
Rhode Island	W+3		W+1-10		W+1-3	Optional.
South Carolina	W+1-5	Optional	W+1-16		W+1-5	Optional.
South Dakota	1-5		5-10		5-10	
Tennessee	W+1-5		W+1-9		W+1-5	
Texas	2-16	Mandatory.	2-16	Mandatory.	2-8	Mandatory.
Utah	W+1-5		W+1-9		W+1-5	
Vermont	W+1-9		W+1 or more.		W+6	
Virginia	5	Mandatory.	5-9	Mandatory.	6-9	Mandatory.
Washington	5-10		5-10		W+1-4	
West Virginia	W+6	Mandatory.	W+6	Mandatory.	W+4 or more. [3]	Mandatory.
Wisconsin	W+4	Partial cancellation.	W+3	Partial cancellation.	Duration+.	
Wyoming	W+1-5	Mandatory.	W+1-5		W+1-5	Mandatory.

[1] "W+" means the week in which the disqualifying act occurred plus the indicated number of weeks following. "Duration" means that the disqualification is for the duration of the unemployment due to or following the act and "duration+" indicates that the disqualification lasts until the individual earns a specified amount or works a given time as shown in the detailed tables. "Mandatory" indicates a mandatory reduction of benefits in every case; "optional" that the reduction is optional with the State agency.

[2] Law includes postponement until claimant works 30 days (i. e., duration of unemployment plus) or for 6 weeks if he is diligently seeking suitable employment. Agency reports latter provision currently effective.

[3] Such additional weeks as any offer of suitable work continues open. Benefits reduced are recredited if claimant returns to suitable employment during benefit year.

TABLE 10.—*Average employer contribution rate, by State, 1941–48*

[Data corrected to Dec. 10, 1948]

State	Average employer contribution rate [1]							
	1941	1942	1943	1944	1945	1946	1947	1948
United States	2.58	2.17	2.09	1.92	1.72	1.43	1.41	1.2
Alabama	2.08	1.59	1.42	1.31	1.17	.80	1.04	1.2
Alaska	(2)	(2)	(2)	(2)	(2)	(2)	2.09	1.7
Arizona	(2)	2.51	2.33	2.12	1.94	1.69	1.69	1.4
Arkansas	(2)	2.47	2.16	2.06	2.00	1.71	1.51	1.6
California	2.48	2.45	2.28	2.17	2.02	2.00	2.04	1.7
Colorado	(2)	1.98	1.92	1.70	1.69	1.53	1.47	1.4
Connecticut	2.29	2.09	2.09	2.12	2.12	2.05	.95	.3
Delaware	(2)	.98	.79	.68	.66	.73	.60	.6
District of Columbia	(2)	(2)	1.71	.50	.51	.52	.39	.4
Florida	(2)	2.27	2.33	2.25	2.18	1.77	1.24	.9
Georgia	(2)	2.07	2.11	1.98	1.83	1.55	1.25	1.0
Hawaii	1.65	1.54	1.38	1.21	1.24	.82	1.01	1.1
Idaho	(2)	(2)	2.53	2.43	2.22	2.09	2.02	2.0
Illinois	(2)	(2)	1.53	1.66	1.47	.79	.85	1.0
Indiana	2.29	1.91	1.97	1.85	1.62	.81	.54	.5
Iowa	(2)	1.85	2.20	2.40	1.96	1.30	1.42	1.2
Kansas	2.07	2.20	2.09	2.10	2.01	1.51	1.27	1.4
Kentucky	2.68	2.32	2.18	2.08	1.89	1.51	1.53	1.6
Louisiana	(2)	(2)	(2)	(2)	2.35	1.42	1.55	1.8
Maine	(2)	(2)	2.50	2.28	2.09	1.93	1.74	1.6
Maryland	(2)	(2)	2.49	2.28	2.07	1.21	1.21	1.2
Massachusetts	(2)	1.52	1.28	.94	.88	.88	1.13	1.3
Michigan	(2)	1.69	1.57	1.17	1.66	1.28	1.65	1.9
Minnesota	2.05	1.95	2.29	2.33	2.22	1.64	1.09	1.0
Mississippi	(2)	(2)	(2)	(2)	(2)	(2)	(2)	2.1
Missouri	(2)	1.52	1.68	2.02	1.93	1.17	1.36	1.4
Montana	(2)	(2)	(2)	(2)	(2)	(2)	1.73	1.7
Nebraska	1.38	1.56	2.02	1.74	1.30	.99	1.40	.6
Nevada	(2)	(2)	(2)	(2)	2.40	1.93	1.68	1.7
New Hampshire	2.54	2.38	2.21	1.81	1.65	1.48	1.30	1.4
New Jersey	(2)	1.64	1.87	1.85	1.62	1.65	1.83	1.9
New Mexico	(2)	2.17	2.17	1.97	2.02	1.83	1.90	1.8
New York	(2)	(2)	(2)	(2)	1.99	1.81	2.17	1.3
North Carolina	(2)	(2)	2.65	2.44	2.07	1.63	1.52	1.7
North Dakota	(2)	1.95	1.86	1.64	1.54	1.40	1.54	1.6
Ohio	(2)	1.25	1.48	1.71	1.50	1.26	.82	.7
Oklahoma	(2)	1.69	1.80	1.45	1.28	1.01	1.06	1.2
Oregon	2.65	2.41	2.31	2.23	1.98	1.73	1.81	1.7
Pennsylvania	(2)	(2)	(2)	1.21	1.29	1.22	.99	.9
Rhode Island	(2)	(2)	(2)	(2)	(2)	(2)	2.11	1.5
South Carolina	(2)	1.98	1.74	1.86	1.44	1.29	1.29	1.3
South Dakota	1.65	1.57	1.16	1.01	1.13	.93	1.18	.9
Tennessee	(2)	(2)	(2)	2.60	2.29	1.85	1.61	1.4
Texas	1.60	1.56	1.42	1.24	.92	.89	.95	.9
Utah	(2)	(2)	(2)	(2)	(2)	(2)	1.91	1.1
Vermont	2.46	2.10	2.38	2.01	1.80	1.76	1.59	1.5
Virginia	1.75	1.59	1.50	1.21	1.16	1.18	1.18	.7
Washington	(2)	(2)	(2)	(2)	(2)	(2)	1.92	1.8
West Virginia	2.42	2.14	1.76	1.62	1.40	1.24	1.32	1.3
Wisconsin	1.49	1.55	2.44	3.08	2.04	.54	.99	.5
Wyoming	(2)	2.66	1.93	1.67	1.44	1.42	1.09	1.2

[1] Computed on calendar-year basis. Preliminary estimates for 1948; 1948 data do not include effect of voluntary contributions from employers collected during the year. Effect of war-risk contributions included in rates for 1943, 1944, 1945, and 1946. These average rates include only what is paid to the States. Employers, in addition, pay 0.3 percent to the Federal Government.

[2] No experience rating, contribution rate 2.7 percent.

TABLE 11.—*Cumulative receipts, benefits paid, and funds available for benefits, by State, as of Sept. 30, 1948*

[In thousands, data corrected to Dec. 10, 1948]

State	Cumulative contributions and interest [1]	Cumulative benefits paid [2]	Funds available for benefits [3]	State	Cumulative contributions and interest [1]	Cumulative benefits paid [2]	Funds available for benefits [3]
United States	[4] $12,563,087	$5,087,983	[4] $7,475,104	Missouri	$265,519	$88,776	$176,742
				Montana	39,158	11,152	28,006
Alabama	122,178	60,883	61,295	Nebraska	43,423	10,287	33,137
Alaska	14,754	3,518	11,236	Nevada	18,868	5,601	13,267
Arizona	37,687	10,523	27,165	New Hampshire	43,058	15,279	27,779
Arkansas	56,652	19,540	37,113	New Jersey	[4] 740,329	281,751	[4] 458,578
California	[4] 1,401,090	683,957	[4] 717,133	New Mexico	23,034	5,003	18,031
Colorado	65,765	14,413	51,351	New York	2,020,915	984,943	1,035,972
Connecticut	276,446	85,480	190,965	North Carolina	190,104	41,616	148,488
Delaware	21,948	7,066	14,883	North Dakota	10,883	2,949	7,933
District of Columbia	61,946	16,668	45,278	Ohio	734,918	185,982	548,936
Florida	113,966	40,983	72,984	Oklahoma	82,375	36,948	45,427
Georgia	137,680	37,489	100,191	Oregon	134,221	51,462	82,759
Hawaii	26,027	2,452	23,576	Pennsylvania	1,059,916	430,083	629,834
Idaho	33,189	10,044	23,145	Rhode Island	[4] 118,971	69,901	[4] 49,070
Illinois	853,522	345,030	508,492	South Carolina	70,010	17,187	52,823
Indiana	297,787	105,735	192,052	South Dakota	10,816	2,006	8,810
Iowa	111,195	28,111	83,084	Tennessee	169,666	65,663	104,003
Kansas	87,805	27,707	60,098	Texas	263,769	70,469	193,300
Kentucky	145,469	32,990	112,479	Utah	50,731	17,420	33,311
Louisiana	153,488	57,222	96,265	Vermont	22,827	6,479	16,348
Maine	72,619	30,326	42,293	Virginia	120,818	37,592	83,226
Maryland	211,240	84,511	126,730	Washington	267,933	117,782	150,151
Massachusetts	437,069	260,708	176,362	West Virginia	135,769	49,689	86,080
Michigan	665,529	387,702	277,827	Wisconsin	264,088	47,889	216,199
Minnesota	181,277	61,471	119,807	Wyoming	15,777	4,339	11,438
Mississippi	58,864	15,208	43,656				

[1] Represents contributions, penalties, and interest from employers; interest earned by State accounts in unemployment trust fund and reported by Treasury; and contributions from employees. Also includes the excess of contributions on wages earned by railroad workers through June 30, 1939, over the amounts transferred to the railroad unemployment insurance account, and refund of $41 million by Federal Government to 13 States, Alaska, and Hawaii, collected on pay rolls for 1936 under title IX of the Social Security Act.

[2] Adjusted for voided benefit checks. Includes benefits paid to railroad workers through June 30, 1939; excludes benefits paid under reconversion unemployment benefits for seamen program.

[3] Represents sum of balances at end of month in State clearing account and benefit-payment account, and in State unemployment trust fund account in Treasury.

[4] Excludes $200,000 in California, $50,000,000 in New Jersey, and $28,968,681 in Rhode Island withdrawn for payment of disability benefits.

TABLE 12.—*Ratio of benefits [1] to taxable wages,[2] by State, 1938–41, 1945–47*

[Data corrected to Dec. 10, 1948]

State	Calendar year							12-month period ended Sept. 30, 1948
	1938	1939	1940	1941	1945	1946	1947	
United States	[3] 2.2	[4] 1.5	1.7	0.9	0.8	1.7	1.1	0.9
Alabama	3.9	1.8	1.8	.8	.9	2.2	1.0	.8
Alaska	.....	1.9	2.3	.8	.2	.9	.7	1.2
Arizona	2.8	2.1	1.7	.9	.4	.7	.5	.5
Arkansas	.....	1.6	2.5	1.4	.4	1.3	.9	.8
California	1.2	1.9	3.2	1.9	1.1	2.8	2.1	2.1
Colorado	.....	2.1	2.5	1.1	.1	.4	.2	.2
Connecticut	2.2	.8	.7	.3	1.2	1.5	.7	.7
Delaware	.....	.8	1.0	.5	.6	1.0	.5	.4
District of Columbia	.8	.7	.9	.8	.1	.4	.6	.6
Florida	.....	1.6	2.6	1.8	.4	.8	.9	.8
Georgia	.....	1.1	1.4	.7	.6	.8	.7	.5
Hawaii	.....	.4	.4	.1	[5]	.1	.2	.5
Idaho	.....	3.3	2.8	1.7	.1	.5	.5	.7
Illinois	.....	.....	1.7	.9	.8	1.6	.8	.8
Indiana	.....	1.4	1.2	.5	.7	1.3	.3	.4
Iowa	.....	1.9	1.4	.7	.4	.7	.3	.3
Kansas	.....	1.4	1.2	.8	.8	2.2	.7	.5
Kentucky	.....	1.8	1.7	.7	.4	1.0	.6	.5
Louisiana	1.5	2.1	2.2	1.9	.6	1.8	.8	.7
Maine	3.4	2.1	2.3	.8	.6	1.7	1.2	1.2
Maryland	2.7	1.3	1.4	.7	1.0	2.3	.9	.8
Massachusetts	2.2	1.4	2.2	1.0	.6	1.5	1.7	1.4
Michigan	.....	2.5	1.5	.6	2.3	2.3	.8	.8
Minnesota	1.8	1.5	2.1	1.3	.3	1.0	.4	.4
Mississippi	.....	1.7	2.2	1.2	.3	.7	.7	.7
Missouri	.....	.8	1.0	.6	.7	1.5	1.1	.8
Montana	.....	.....	3.1	2.4	.1	.7	.5	.6
Nebraska	.....	1.1	1.5	1.0	.2	.8	.4	.3
Nevada	.....	2.6	3.2	1.9	.1	.7	.9	1.2
New Hampshire	2.7	1.4	2.1	.7	.2	.3	1.0	1.1
New Jersey	.....	1.2	1.2	.8	1.4	2.8	1.8	1.4
New Mexico	.....	2.6	2.4	1.3	[5]	.2	.2	.3
New York	2.1	1.8	2.1	1.2	.7	2.1	1.7	1.5
North Carolina	2.4	1.1	1.1	.6	.2	.5	.5	.5
North Dakota	.....	1.8	2.0	1.5	[5]	.4	.4	.4
Ohio	.....	1.2	1.2	.4	.5	1.2	.4	.4
Oklahoma	.....	1.8	1.7	1.0	.7	2.1	1.1	.6
Oregon	2.9	1.8	1.7	.7	.4	2.6	1.0	.9
Pennsylvania	2.7	1.9	1.5	.6	.5	1.6	.9	.6
Rhode Island	4.5	2.5	3.3	1.1	1.2	2.3	1.9	2.3
South Carolina	.....	1.4	1.4	.7	.1	.4	.5	.6
South Dakota	.....	1.0	1.0	.8	.1	.2	.2	.2
Tennessee	2.3	1.5	1.9	1.1	.4	1.5	1.2	1.0
Texas	1.2	1.4	1.2	.6	.2	.7	.3	.2
Utah	3.0	1.9	1.6	1.2	.2	2.0	1.0	.9
Vermont	1.7	1.1	1.6	.6	.3	.7	.8	.9
Virginia	1.9	1.3	1.6	.5	.2	.7	.4	.4
Washington	.....	1.7	2.4	.9	.7	4.4	2.1	1.4
West Virginia	3.9	1.2	1.0	.6	.4	1.3	.7	.5
Wisconsin	1.6	.6	.7	.4	.3	.6	.2	.2
Wyoming	.....	2.8	2.9	1.3	[5]	.3	.3	.3

[1] Excludes benefits paid under reconversion unemployment benefits for seamen program.
[2] Taxable wages as used here means wages of $3,000 or less. For some States for years in which taxable wages were not identical with wages of $3,000 or less, an estimate was used.
[3] Based on 23 States paying benefits Jan 1, 1938.
[4] Based on 49 States paying benefits Jan 1, 1939.
[5] Less than 0.05 percent.

TABLE 13.—*Funds available for benefits at end of year as percent of taxable wages, by State,*[1] *1939–41, 1945–47*

[Data corrected to Dec. 10, 1948]

State	1939	1940	1941	1945	1946	1947	12-month period ended Sept. 30, 1948
United States	5.4	6.0	6.5	11.8	10.8	10.1	9.5
Alabama	5.0	6.3	6.2	9.2	8.5	7.0	6.9
Alaska	5.9	5.1	4.9	17.8	18.5	12.0	11.2
Arizona	3.6	4.1	4.9	11.6	11.5	10.9	10.5
Arkansas	6.1	5.5	5.3	10.3	10.7	10.0	9.6
California	7.5	7.7	7.5	15.0	12.9	12.0	11.2
Colorado	6.4	6.0	6.5	11.9	11.6	11.2	11.2
Connecticut	4.4	5.7	6.4	13.4	13.5	12.9	11.9
Delaware	6.8	8.1	8.7	9.5	8.2	7.5	7.0
District of Columbia	7.6	8.7	9.5	13.2	11.0	10.1	9.3
Florida	5.9	4.9	4.8	10.1	9.8	9.6	9.0
Georgia	6.8	7.9	7.1	11.1	10.8	10.4	10.0
Hawaii	7.0	9.5	7.9	11.8	11.3	10.1	10.3
Idaho	4.6	3.7	4.2	13.0	12.3	11.5	11.5
Illinois	7.1	7.6	7.9	11.3	9.7	8.8	8.2
Indiana	4.5	5.4	5.7	10.5	10.3	9.1	8.4
Iowa	5.4	6.0	6.7	12.2	11.6	10.9	10.7
Kansas	8.1	8.1	7.5	11.5	12.4	11.5	11.2
Kentucky	9.5	11.2	11.4	15.8	15.2	13.8	13.7
Louisiana	5.9	5.8	5.4	12.6	11.9	10.6	10.6
Maine	2.5	2.7	3.7	12.3	11.7	11.1	10.7
Maryland	3.7	4.5	5.0	12.7	11.3	10.6	10.1
Massachusetts	5.1	5.6	6.1	8.5	7.0	5.9	5.4
Michigan	3.2	3.9	5.3	7.5	6.2	6.1	6.4
Minnesota	4.7	5.2	5.3	10.7	10.4	10.2	9.8
Mississippi	4.8	4.0	4.3	12.0	12.4	13.3	14.0
Missouri	7.2	7.9	8.6	12.0	11.3	10.4	10.1
Montana	7.6	5.4	5.7	14.7	14.2	13.5	13.2
Nebraska	8.1	7.8	7.6	10.3	10.3	9.9	9.6
Nevada	5.5	3.4	3.5	16.4	13.5	13.8	13.7
New Hampshire	5.3	5.4	5.7	12.2	10.9	10.3	9.7
New Jersey	7.9	9.6	10.1	16.9	15.6	15.5	13.7
New Mexico	5.8	4.8	5.4	10.2	9.4	9.4	9.5
New York	4.0	4.3	5.2	12.0	10.6	10.4	9.3
North Carolina	4.6	5.9	6.2	13.8	12.5	11.9	11.8
North Dakota	8.0	6.8	7.0	10.9	9.5	9.0	8.9
Ohio	6.5	7.6	8.0	11.4	11.1	10.4	10.0
Oklahoma	6.4	7.5	8.1	9.7	8.7	7.9	7.5
Oregon	3.4	4.1	4.9	11.5	10.9	10.3	10.2
Pennsylvania	3.4	4.4	5.5	11.6	10.3	9.0	8.6
Rhode Island	4.1	4.9	6.4	17.0	16.5	12.9	8.7
South Carolina	6.2	6.4	6.5	11.3	9.9	9.2	8.9
South Dakota	7.3	8.1	8.6	10.9	9.3	8.5	8.1
Tennessee	4.4	4.9	4.7	10.4	11.3	10.6	10.1
Texas	5.8	6.6	6.5	8.5	8.1	7.8	7.6
Utah	3.6	3.9	4.8	14.9	13.9	12.9	12.0
Vermont	5.7	5.6	6.3	12.7	12.0	11.7	11.5
Virginia	5.0	5.2	4.8	9.2	8.6	8.3	8.0
Washington	6.0	5.6	5.4	13.4	12.7	11.9	11.3
West Virginia	3.8	5.2	5.8	10.2	9.3	8.7	8.6
Wisconsin	8.0	8.8	8.4	13.7	13.6	12.6	12.0
Wyoming	6.5	4.9	5.7	10.5	10.1	9.5	9.0

[1] Taxable wages as used here mean wages of $3,000 or less. For some States for years in which taxable wages were not identical with wages of $3,000 or less, an estimate was used.

Appendix IV–F. Staff for Unemployment Insurance

Robert M. Ball, staff director.
Everett D. Hawkins, research director.
Fedele F. Fauri, professional assistant.
Leona V. MacKinnon, executive assistant.
Helen K. Gross, secretary.
Clarence A. Kulp, professor of insurance at the Wharton School of Finance and Commerce, the University of Pennsylvania, served as a consultant to the Council.

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