Industrial Relations and Social Security

THE SOCIAL SECURITY ACT IN OPERATION

By HARRY MALISOFF

ON August 14, 1935, the Social Security Act entered the sixth year of its service to the American people. Unquestionably, the Act is the major piece of social legislation of the United States. It has established the Federal Old Age and Survivors' Insurance system, led to the establishment of the State and Territorial Unemployment Compensation systems and extended the State Public Assistance systems that afford aid to the needy aged, the blind and dependent children. It has fostered maternal and child welfare programs, vocational rehabilitation, and public health work. Although the progressive evolution of the Act has only recently begun, it represents one of the most concrete achievements of the last decade: the acknowledgment of governmental responsibility for the alleviation of all phases of insecurity. In this article, the highlights and operation of the different programs that constitute the Social Security system will be reviewed briefly.

Federal Old Age and Survivors' Insurance.[1]

The Federal Old Age and Survivors' Insurance system originated in amendments to the Social Security Act of August 1939. Between 1935 and 1940, there had been no provision for direct protection of the family members of the insured individual who would have qualified at age 65 for a monthly "benefit" based solely on his total wages in taxable employment. Such benefit was to be financed through a payroll tax on employers and a wage tax on employees, each rising from one-half of one percent to three percent in twelve years. Shortly before payment was scheduled to begin, the system was revamped in the direction of classical social insurance. Benefit was extended to the wives (over 65) of the insured, their dependent children under 18 and their surviving widows, orphans and dependent parents over 65. Lump sum payments were made available to the estates of decedent contributors without survivors entitled to benefit, though no longer to contributors who failed to qualify for benefit. At the same time, a scheduled increase in the wage and payroll taxes was postponed, and the original scheme to make the system self-sustaining through accumulation of a $47 billion reserve fund by 1980 was succeeded by one placing the system on a "pay-as-you-go" basis.

Not all of the 50 million persons said to be "covered" by the system because they hold official "social security account numbers", nor all of the 30 million annual contributors of wage taxes will be able to qualify for benefit in their own right upon reaching the age of 65. The applicant must then have earned taxable wages of at least $50 per calendar quarter in forty quarters altogether, or in half the number of quarters either since the end of 1936, or since the age of 21, whichever is later. However, survivors under 65 can secure benefit even if the decedent has earned $50 in only six of the twelve calendar quarters prior to his death. Unfortunately, it is possible for some persons with wage credits to fail to qualify for any benefit at all upon reaching the pensionable age. This situation is aggravated by the fact that wages in stipulated employments are not taxable so that time spent therein militates against attainment of the insured status. It has been estimated that 25,000,000 persons are in such excluded employments, the most important representing farm operators, self-employed, profes-

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(1) The writer is indebted to Dr. Franz Huber for helpful analysis of this system.

sionals, agricultural workers, persons on work relief, domestic servants, casual workers and employees of non-profit organizations.

The amount of the monthly benefit depends primarily on an "average wage" computed for each applicant by dividing his total taxable wages by the number of months in which he could have earned taxable wages (as if he had been in "covered" employment in each month after December 1937, or after the age of 22). The benefit amount is set at 40 percent of the first $50 of the average wage, plus 10 percent of the next $200 and plus 1 percent for each year in which taxable wages of $200 were earned. Dependents' and survivors' benefits amount to one-half, or three-fourths of this amount. No one qualifying for benefit receives less than $10 a month, nor more than $85, or 80 percent of the average wage, whichever is less. The beneficiary may earn up to $15 a month in covered employment without suffering reduction in the benefit amount. Although generalization about so complicated a benefit formula is difficult, it is perhaps safe to say that the workers who are most steadily employed in covered employment during their working lifetime will secure benefit on the most favorable terms, as will their dependents and survivors. Any conclusive evaluation of this formula will have to await accumulation of statistical experience.

Since benefit payment began in January, 1940, this experience has been too scanty to warrant definitive interpretation. In June 1940, 108,604 insured persons, survivors and dependents were in receipt of benefit amounting to $2,000,000. Average payments were about $22 for insured persons, $12 for wives, $12 for children, $20 for widows and $13 for parents. The average payment to families with more than one beneficiary was probably not more than $45. These benefits compare rather unfavorably with those of the Federal Railroad Retirement system, established in 1935. In June 1940 this system, which applies to 2,000,000 interstate railroad workers, afforded monthly old age annuities totalling $5,700,000 and averaging $65 to 87,289 members and annuities averaging $33 to 2,341 survivors. Moreover, annuities were paid to 18,788 persons 45 years of age and over on account of disability. However, the comparison with other systems providing for aged persons is favorable. The average monthly benefit to the insured person is now slightly higher than the average sum paid under State laws to the needy aged, average benefit per family exceeds average payment per case made by the State and local general relief systems, and survivors' benefit is running higher than state payments to needy dependent children.

The operation of the Old Age and Survivors' Insurance system has led to family-protection by the insurance method that will be considerable but not comprehensive. In the near future, at any rate, a large part of the aged population may have to look to other systems for necessary support. Although U. S. Senator Robert F. Wagner has introduced a bill extending benefit to members of the insurance system who become totally and permanently disabled before the age of 65, action does not seem near, and such persons will have to rely on general relief and workmen's compensation for aid.

State Unemployment Compensation.

Though the American unemployed compensation systems are established under state statute, their provisions have been determined to some extent by those of the Social Security Act, and their administration by state officials is subject to the supervision of the U. S. Social Security Board. Under the Federal Act, employers of eight or more workers in specified employments are taxed 3 percent of annual payrolls but can secure credit for as much as 2.7 percent if they pay a similar tax under a State unemployment compensation law that meets minimal Federal standards. This "tax-credit" provision was the method of winning nation-wide enactment of state laws in the period, April 1935 to July 1937. Federal control of State administration rests on the fact that the cost of state administration is borne by the Federal Government from funds derived virtually from the uncreditable portion of the employer payroll tax.

The state unemployment compensation provisions are too varied to describe in a limited space. The typical system operates about as follows: Employers contribute to a single State-wide "pooled" fund[1] at the rate of 2.7 percent of payrolls. The state collects the tax. The U. S. Treasury holds the returns and releases sums for benefit payment upon certification by the Social Security Board. Within a year or two, the employer's tax will be reduced, or raised under "experience rating" provisions according to his record of hirings and dismissals of workers.[2] The covered employees, if they qualify for benefit, must wait two weeks before payment begins. Their weekly benefit amount is set as a fraction (1/20th to 1/26th) of their highest quarterly earnings in a "base period", defined as the year, or so, prior to the start of unemployment and varies between limits of $5 and $15. The duration of benefit payment is proportional to total credited earnings in the base period and usually cannot exceed 16 weeks for total unemployment. Partial unemployment benefit becomes payable when the weekly earnings drop below the weekly benefit amount for total unemployment, or thereabouts. In order to qualify for benefit, the claimant must have earned a given multiple (e.g., 30) of his total unemployment benefit amount—in this typical case, at least $150 in his base year. Benefits are disbursed by state employment offices at which the claimant must register and affirm that he is capable of and available for work.

Several American practices appear in the Canadian Unemployment Insurance system, which has borrowed provisions from various places. Like the great majority of States, Canada employs a pooled fund. The worker contribution required by the Canadian law is found in only four States. Whereas the Canadian Government contributes toward benefit payment and bears the cost of administration from general revenues, neither the States nor the U. S. Government raise funds from this source. Only the District of Columbia adds to the benefit amount when the claimant has dependents, as in Canada, but the former is more like the British system in basing the size of the increment on the number of dependents. Canada's qualifying condition for benefit, namely, a minimum number of weekly contributions in a given period traces to the similar provision in Great Britain. Weekly benefit amounts in Canada are either expressed uniquely as a multiple of the weekly contribution rate of the employee, or vary by wage classes, as in Germany. Like the States, Canada varies benefit duration according to the length of employment of the worker in preference to the British method of granting the first 26 weeks of benefit uniformly to all eligible claimants. But Canada has followed the British example in avoiding experience rating.

It will be interesting to compare Canada's future benefit experience with that of the States since 1938. As the number of states instituting benefit payment increased, expenditure has risen from $396,000,000 in 1938 to $436,000,000 in 1939 and, at the monthly average of about $50,000,000 attained by June 1940, will probably exceed half a billion dollars in 1940. The average weekly payment to over 1,000,000 individuals was $10.50 in the first six months of 1940. Owing to stringent qualifying conditions and benefit formulae, income has been running much higher than out go so that a reserve of $1.7 billion had accumulated in June. These conditions are reflected in the facts that some proportion of the 27,000,000 workers covered by unemployment compensation can be disqualified from benefit on account of insufficient earnings and that low-paid workers who qualify tend to secure benefit at the lowest rate for the least number of weeks. Within

(1) Three states, however, segregate the contributions of each employer into a fund providing benefit for his employees only, while four states divert part of the employer's contribution into a pooled fund and part into individual employer funds.

(2) 39 states have experience rating provisions.

the last year or two, there has been considerable discussion of "liberalization" of the laws, possibly through higher Federal standards, and the paradoxes of the laws may yet be eliminated.

Public Assistance.

The Federal Government participates in the State Public Assistance programs by contributing part of the individual grants made to needy aged persons, blind persons, and dependent children. In 1939, the Federal share of the individual grants amounted to 44 percent of the total cost of $557,000,000, while the states bore 43 percent of the cost and the localities 13 percent. The "public assistances" are categorical relief measures, enacted by the States as individual laws, or collectively in "public welfare" statutes. Receipt of Federal financial support is conditioned on compliance of these enactments with minimal standards contained in the Social Security Act.

Old Age Assistance is the most important of the public assistance programs. It makes assistance available to persons over 65 who pass a means test and satisfy local conditions as to residence and citizenship, among other things. By June 1940 the number of pensioners was approaching 2,000,000—at that time the highest number aided by any of the social security or relief systems. The monthly expenditure had reached $40,000,000, while the average monthly pension remained about $20. Average pension amounts varied greatly from State to State. States with a low "fiscal capacity", particularly in the South, find it difficult to take advantage of the Federal offer to match payment up to $40 a month per pensioner. Congressional bills have therefore, proposed that for such states the Federal government pay a larger proportion than half of individual grants below $40. Such a measure will probably pass before long.

Aid to Dependent Children was extended in June 1940 by forty-two States to 802,503 children in 333,046 families at a total cost of $10,700,000. These figures were the largest then attained by the program, which in 1939 disbursed $110,700,000. The Federal government shares half the cost up to $18 for the first child and $12 for other children. Localities in twenty-six states also contribute toward the grants. By the liberalizing amendments of August 1939, the federal matching grant was increased and proffered not only in respect of dependent children under 16 but also to those under 18 regularly attending school. Like old age assistance, a leading problem of the program is to equalize the assistance available to needy children from state to state.

Forty-three State plans to aid the needy blind in conformity with the Social Security Act expended $1,126,000 on 47,589 persons in June, 1940, making an average grant of $24. These figures are maxima in the history of the program, and indicate an annual increase in expenditure of about $1,000,000. In addition, about 25,000 blind persons benefited from State or local programs without federal participation. As in old age assistance, the maximum federal matching grant is $20 per pensioner, and the poorest states are least able to take advantage of the offer.

Maternal and Child Welfare, Vocational Rehabilitation and Public Health.

One title of the Social Security Act authorizes annual appropriations and allotment of $11,200,000 to the States in order to assist them in services for promoting the health of mothers and children, for crippled children and for the protection of homeless and neglected children. The State services, which exist in all states, must be approved by the U. S. Children's Bureau. Annual appropriations of $3,500,000 also enable the support of State vocational rehabilitation of the physically disabled, in accordance with the policy of the basic Federal rehabilitation act of 1920, with which nearly all of the states now cooperate. Finally, by another title annual appropriations of $11,000,000 may be distributed by the U. S. Public Health Service in order to improve and expand the public health plans of States and localities.

The operation of the Social Security Act represents a tremendous improvement over the earlier limited capacities of private philanthropy and independent state measures. Yet this does not mean that the Act is not in need of improvement in the near future. The absence of National health and disability insurance, ior instance, weakens the whole social security program. The principles underlying unemployment compensation require "socializing" no less than those of old age and survivor's insurance did in 1939. In public assistance, federal financial participation should be revised so as to achieve the ultimate objective of uniform, adequate treatment of the needy categories of people throughout the country. Though the Act has experienced progress, in the present period of crisis an accelerated development would contribute greatly to American national defense.

Health and Health Services in Canada

The following are some of the most important findings of *The Study of the Distribution of Medical Care and Public Health Services in Canada*, which was reviewed in the March issue of PUBLIC AFFAIRS:

Doctors, dentists and nurses are unevenly distributed throughout the country. Location for practice is, of necessity, more largely determined by ability to earn a living in a given area rather than by the health needs of that area. The total number of medical personnel would be insufficient to provide adequate services for all of Canada if the services were available to and used by all the population.

Many Canadians suffer and die from diseases which can be prevented or controlled. This is due to failure to make full use of the knowledge which medical science has made available for protection against disease.

The Public Health Services of Canada are satisfactory as far as they go, but unfortunately they are anything but adequate in relation to the needs of the population.

The outstanding weakness in our public health services is that, with the exception of those in the provinces of Quebec and Prince Edward Island, the rural areas of Canada are insufficiently served by full-time health units.

The securing of medical care on a fee basis is naturally related to the capacity of the individual or family to pay fees. 25 per cent of Canadians live in families where the family income is less than $950 a year. With such a family income, it is evident that the family, in general, is unable to pay medical fees without depriving the members of other necessities of life. 65 per cent of the population live in families with an income of between $950 and $2,950 per annum.

Over 55,000 individuals, including 10,000 physicians and surgeons, 4,000 dentists and 20,000 graduate nurses, earn their living by providing public health and medical care services for the Canadian people. The total cost of these services is approximately $193,000,000 or $19 per person, which is a higher figure than the amount spent on education and just below that expended on clothing.

Employee Representatives as Directors of Joint Stock Companies

Canada Packers Limited, a firm which is well known for its interest in Industrial Relations, has recently started a new and interesting experiment in that field. It has appointed an hourly paid employee of the Toronto plant as a member of the firm's Board of Directors. The man who has worked for the company for over twenty years was elected by the ballots of his fellow employees in Toronto with the concurrence of the employees in the company's other Canadian plants. The appointment is an annual one and will be held by representatives chosen by the different plants in turn.

The election of the director by the employees of the firm is an interesting and promising method for improving employer-employee relations in Canada. While new in the Dominion, the device has been practised in various European countries and is even put there on a statutory basis.