SOCIAL SECURITY PROGRAMS AND ECONOMIC STABILITY

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The social security program in this country came into existence as a result of the most serious depression in our history. There had been earlier social security measures—most notably workmen's compensation. And the full employment and the semicontrolled economy of the war years have left their impress on the program, both in the rapid growth of supplementary private plans and in attitudes toward the basic national system of old age and survivors' insurance and its place in our economy. The social security programs are now generally regarded as a continuing mechanism for providing income to individuals and groups who—whether in time of full employment or depression—are for short or long periods without income from employment.

The existence of such programs, however, cannot but have an effect on the course of any future depression, recession, or lesser adjustment in economic activity. As this paper will attempt to demonstrate, the social security programs should be counted among the significant built-in stabilizers. But considerably more analysis is needed of the nature and the strength of the stabilizing effect which is exerted by existing programs or which might be exerted by somewhat modified and expanded programs. Such an analysis must be concerned with (1) the direct compensatory action of unemployment insurance and, to some extent, of all the social security programs; (2) the steady base of demand provided by the programs; (3) the effect of methods of financing; and (4) the psychological, political, and administrative importance of the programs as going institutions.

In the absence of social security programs, individuals who have no current income from employment and earnings, and their dependents, draw their support from families or relatives, from

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private charity, or from use of personal savings and assets. The family or clan system that, largely through a widespread sharing of income in kind, was the major guarantee of security in earlier societies has shown itself unable to survive in industrial and highly organized economies. In our society, support by relatives and friends is still important in meeting the needs of persons who lack sufficient independent sources of income, but it has largely a supplementary role. In this respect we are in a transitional stage. There are, for example, still a considerable number of older persons who do not qualify for benefits under the old age insurance program, but this number is rapidly decreasing. At present, about 45 per cent of all persons aged 65 and over are eligible for benefits; by 1960 about 75 per cent and by 1980 nearly 95 per cent will be eligible as a result of the maturing of the system and the broad coverage extensions effected by the 1954 amendments of the Social Security Act. Unemployment insurance—in spite of limitations of coverage and of benefit adequacy—has become the primary method of channeling current income to persons who are temporarily unemployed. For those who are sick or disabled, our social security provisions are much more limited. Railroad workers and most government employees—as well as veterans—have disability insurance protection. Otherwise, the major organized arrangements are paid sick leave or private employee benefit plans, which ordinarily stop for an individual when he leaves the particular employment, and public assistance for the permanently and totally disabled.

In assessing the economic effects of the existing or of an expanded social security system, we are concerned with the amount of the transfer payments involved in relation to other aggregates, such as wages and salaries or personal consumption expenditures. We are concerned with the net effect on consumption and, indirectly, on productivity of this organized method of providing for the nonearning groups. And we are concerned with the way in which these programs adjust automatically to changing economic conditions, and the kind of stabilizing influence which they thus exert.

1. Unemployment Insurance

Certain easily stated relationships give one kind of quantitative measure of the possible compensatory action of unemployment insurance. In 1954 the state and railroad unemployment insurance programs together covered about two-thirds of all civilian employees and about 77 per cent of civilian wages and salaries or just under 60 per cent of total earnings (including earnings of the self-employed). Since average weekly benefits for total unemployment are only about one-third of average weekly wages, under existing civilian programs the maximum replacement of aggregate wage loss due to unemployment would be about 25 per cent even in the initial stage of a downturn if the incidence of unemployment were proportionately the same in the covered and noncovered sectors of the economy.[1] This figure must be further reduced to take account of compensation for partial unemployment at a rate of less than one-third of the wage loss, and the substantial amount of uncompensated earnings loss resulting from disqualifications for benefits, initial waiting periods before benefits are payable, and the exhaustion of benefit rights before the individual is re-employed.

In most states the initial waiting period after a claim is filed and before benefits become payable is now one week or less. The extent of uncompensated wage loss resulting from this factor can be measured by comparing the figures on average weekly insured unemployment with the average weekly number of beneficiaries. In 1949, for instance, almost 13 million weeks of unemployment were uncompensated because they were waiting-period weeks under the state, railroad, or veterans' programs (as compared with 115.7 million weeks compensated). Had these weeks been compensated at the average rate, the total unemployment benefits paid in that year would have been increased by about 11 per cent.

It is more difficult to measure the effect of ineligibility for benefits resulting either from insufficient wage credits or from disqualifications. At the outset of an employment decline, those who fail to meet the wage credit requirements will be primarily marginal workers and also new entrants to the labor force. The longer a depression continues, the more significant will be this factor of new entrants who cannot qualify for benefits. The disqualification provisions of most state unemployment insurance laws have become increasingly restrictive. In almost all states, workers who are fired for misconduct (a term subject to wide variations of interpretation) are disqualified for benefits for specified periods or for the duration of a spell of unemployment. So also are workers who leave a job without "good cause." This means that workers who leave one job with the expectation of finding a better one which then does not

[1] Special provisions for veterans' unemployment benefits may also be a significant factor in some periods. This point is discussed below in connection with the analysis of the 1949–1950 experience. Coverage was extended somewhat by the 1945 amendments to the Social Security Act (see below).

materialize, secondary workers who move to another locality when the primary earner moves, workers who are forced to give up particular jobs for reasons of health, and many others who are not voluntarily unemployed in the ordinary meaning of that term, fail to qualify for benefits. There is no basis for judging whether the administration of the disqualification provisions is likely to result in proportionately more uncompensated wage loss in good times, at the beginning of a depression, or after a depression has continued for some time.

At the beginning of a decline in economic activity, a large part of the wage loss may result from partial unemployment—three- or four-day workweeks, a drop in overtime hours, etc. All the state unemployment insurance laws and the railroad unemployment insurance program provide some coverage for partial unemployment, but most states limit the payment to an amount equal to the difference between weekly earnings (from a short workweek or odd jobs) and the maximum weekly benefit amount plus a variable allowance (in most states, $3). Thus, on the average, workers may suffer a wage loss of two-thirds of their previous earnings and still not be entitled to any compensation, and may be compensated at a rate of only 15 or 20 per cent of an even larger wage loss. How important an effect this factor will have on the proportion of aggregate wage loss compensated in a particular recession may depend on which industries are most seriously affected by unemployment and their customary or depression-induced employment practices.

The maximum potential duration of unemployment insurance benefits was originally limited to 16 weeks or less in most states, largely as a result of what proved to be gross overestimates of the costs of the program. The maximum duration of benefits has gradually been increased in all states until it now ranges from 16 to 26 weeks. In only 14 states, however, is the potential duration uniform for all eligible claimants. In the others potential duration varies depending on the individual worker's past employment and earnings, being as low as 5 weeks for some workers. In 1948 a million workers exhausted their benefit rights under state unemployment insurance laws before becoming re-employed; in 1949 the number jumped to 1.9 million, and in 1950 it was 1.8 million. Both the total number of persons exhausting benefit rights and the length of time they remain unemployed thereafter tend to increase as a depression becomes more severe.

The compensatory effect of unemployment insurance would be increased by a number of proposed modifications of the program. As a result of the 1954 amendments, coverage will be extended beginning in 1955 to about 2.5 million federal employees and about 1.3 million workers in firms employing 4 to 7 people. It could easily (in terms of administrative feasibility) be extended to the 2.1 million employees of firms in industry and commerce that employ less than 4 and to some 5.0 million government and borderline agricultural workers who will still be excluded. It would be more difficult but entirely possible to cover all farm and domestic workers as well.

The original legislative intention was to cover about 50 per cent of the wage loss by insurance benefits. The present situation results not so much from an explicit change in what is regarded as the appropriate proportion of wage loss to be compensated as it does from what might be called the fallacy of absolute numbers. Benefits today are only one-third of average wages primarily because the fixed dollar maximums have not been raised proportionately with rising wage levels. It is probable that many persons have not fully adjusted their thinking to what today's dollar wage levels should call for in the way of maximum weekly benefits. It can also be argued that unemployment insurance would better serve its purpose if benefits compensated for something like two-thirds rather than one-half of the wage loss, particularly in the case of workers with families.

The uniform provision of benefits for 26 weeks to all workers who remain unemployed that length of time would further greatly increase the effectiveness of the program. Even if the amount of wages required to qualify for benefits were as a result increased somewhat in some states, thus disqualifying additional marginal and seasonal workers, the net effect of such uniform duration provisions would be to increase the proportion of wage loss compensated in a period of moderate decline and still more in a deeper depression.

In summary, a practicable scheme of expanded unemployment insurance might have the following maximum compensatory result: Assuming 90 per cent of civilian wages and salaries to be covered, the effective rate of compensation to be two-thirds of gross weekly wages (at all levels of earnings), and disqualification provisions to be less restrictive than they are today, unemployment benefits could at the maximum compensate for something less than 60 per cent of the aggregate loss of civilian wages and salaries resulting from declining economic activity at the beginning of a decline. Whether unemployment insurance should be relied upon to provide the major source of income to unemployed workers throughout a long depression is debatable. Some would argue that benefit duration should be extended to 39 or even 52 weeks. Depending on circumstances, however, a vigorous public works and public service program might be a more desirable alternative for unemployed persons and for society as a whole.

All of the figures presented thus far as to the possible portion of wage loss that might be compensated have been based on the tacit assumption that the rate of decline in employment and earnings would be about the same in the covered as in the noncovered sectors of the economy. Were as much as 90 per cent of civilian wages and salaries covered, it would make little difference whether or not this was the case. With more limited coverage, there may be significant differences in the extent of wage loss in the covered industries and the net loss in the economy as a whole. If unemployment were concentrated in covered industries and among lower-paid workers, even the present limited program could compensate for a larger portion of aggregate wage loss than the figures cited above suggest. The opposite situation might also occur. Timing may be important. The period of time over which the program plays a significant sustaining role will ordinarily be greater if employment declines come at different times in different industries or areas than if the same total decline is concentrated in time and widespread.[2]

[2] These observations and the detailed analysis of the 1949–1950 experience which follows assume that what we are concerned with are (1) the net aggregate wage loss for the economy as a whole resulting from fairly general declines in economic activity and (2) the extent to which unemployment benefits replace this wage loss. That is to say, for purposes of this analysis the (individual) wage loss—and benefit payments—resulting from seasonal fluctuations in employment are ruled out. Wage loss is computed on the basis of seasonally adjusted data. For benefit payments a similar result is achieved for the 1949–1950 period by taking into account only the amounts above the payments in the same month of the preceding year (of full employment). This procedure rules out also benefits paid to compensate for wage losses to the individual resulting from normal job mobility. Such wage losses are automatically excluded from any aggregate wage figure.

The wage loss concept used here is a net concept in that any increases in employment are offset against declines in other sectors. To illustrate some of the factors operative in the 1949–1950 period, the net aggregate wage loss is computed separately for total civilian wages and salaries, private wages and salaries, and covered payrolls. Even within the latter, more restricted sector, however, there will be divergent movements, with some firms or industries expanding even during a general decline. Such divergent movements would occur in the absence of unemployment insurance, or of any stabilization policy. The most general measure of the stabilization potential of unemployment insurance would thus appear to be that used here—that is, the ratio of the additional or depression-

UNEMPLOYMENT INSURANCE IN THE 1949–1950 DECLINE

An analysis of the operation of unemployment insurance during 1949 and 1950 illustrates some of the factors that determine the program's effectiveness as a stabilizing device.

The 1949–1950 decline in economic activity was relatively moderate—whatever specific term be used to describe it. Between the fourth quarter of 1948 and the first quarter of 1949, gross national product (seasonally adjusted) dropped 2.4 per cent, and it continued to drop, but by less than 1 per cent, in each of the remaining three quarters of 1949. In the first quarter of 1950 it turned upward, almost reaching the level of the fourth quarter of 1948, and it increased steadily thereafter.

Personal consumption expenditures (seasonally adjusted) dropped less than 1 per cent (.6) from the fourth quarter of 1948 to the first quarter of 1949 and increased slightly thereafter through the middle of 1950, when the outbreak of war resulted first in a spurt and then in a relative falling off in consumer buying.

The initial drop in total wages and salaries on a seasonally adjusted basis was 2.6 per cent, only fractionally higher than the drop in gross national product. The first upturn in wages and salaries came in the fourth quarter of 1949, but it was not until the second quarter of 1950 that this figure reached and surpassed the fourth-quarter 1948 level.

Unemployment did not reach its peak until February 1950, when it stood at 4.7 million, or 7.6 per cent of the labor force. In July of 1949 it had reached a peak for that year of 6.4 per cent of the labor force (see Table 1). Persons receiving unemployment benefits from the state, railroad, and veterans' programs constituted a larger proportion of the total number unemployed in March 1949, however, when they were 84 per cent of the total, than in any subse-

induced benefits to the net (nonseasonal) wage loss of the economy as a whole. In terms of this ratio the effectiveness of unemployment insurance will be less in a general and major decline than in a minor depression (assuming the same relative replacement of individual weekly wage loss), even without taking account of the factor of the limited duration of benefit payments. This accords with common sense, and it points up one reason why such an automatic stabilizing measure is relatively more effective at the outset of a decline and in minor than in major depressions. On the other hand, in situations where employment declines are concentrated in particular areas or regions, and what is important is the maintenance of consumer income in those regions (i.e. where the effect of a regional decline has not yet spread to the economy as a whole), this method of measurement and analysis may overstate the effectiveness of unemployment insurance as a stabilization measure.

TABLE 1

Unemployment and Unemployment Insurance Beneficiaries, October 1948–December 1950
(*numbers in thousands*)

Year and Month	*Number Unemployed*	*Average Weekly Number of Beneficiaries— State, Railroad and Veterans' Programs*	*Unemployed as a Per Cent of Civilian Labor Force*	*Beneficiaries as a Per Cent of Total Unemployed*	*Number Exhausting State Unemployment Insurance Benefits (Quarterly)*
1948					
October	1,642	973	2.7%	59.3%	. . .
November	1,831	1,047	3.0	57.2	. . .
December	1,941	1,351	3.2	69.6	241
1949					
January	2,664	1,809	4.4	67.9	. . .
February	3,221	2,234	5.3	69.4	. . .
March	3,167	2,651	5.2	83.7	371
April	3,016	2,425	5.0	80.4	. . .
May	3,289	2,419	5.3	73.5	. . .
June	3,778	2,504	6.0	66.3	439
July	4,095	2,464	6.4	60.2	. . .
August	3,689	2,346	5.8	63.6	. . .
September	3,351	1,972	5.3	58.8	534
October	3,576	1,776	5.7	49.7	. . .
November	3,409	1,973	5.4	57.9	. . .
December	3,489	2,121	5.6	60.8	591
1950					
January	4,480	2,315	7.3	51.7	. . .
February	4,684	2,254	7.6	48.1	. . .
March	4,123	2,326	6.7	56.4	730
April	3,515	1,701	5.7	48.4	. . .
May	3,057	1,672	4.9	54.7	. . .
June	3,384	1,466	5.2	43.3	528
July	3,213	1,233	5.0	38.4	. . .
August	2,500	1,050	3.9	42.0	. . .
September	2,341	852	3.7	36.4	342
October	1,940	692	3.0	35.7	. . .
November	2,240	771	3.5	34.4	. . .
December	2,229	873	3.6	39.2	253

Source: *Monthly Report on the Labor Force,* Bureau of the Census; Social Security Administration, Dept. of Health, Education, and Welfare; Bureau of Employment Security, Dept. of Labor.

quent period. The absolute number of weekly beneficiaries under the three programs combined was also higher in March 1949 than at any other time during this period. By February 1950, beneficiaries represented only 48 per cent of the total unemployment figure. The decreasing proportion of persons receiving benefits was probably related in part to changes in the previous labor force experience of the unemployed group. More important, however, was the increasing number of persons exhausting their benefit rights before becoming re-employed. Almost three-quarters of a million persons exhausted their benefit rights under the state unemployment insurance programs in the first quarter of 1950. The number of exhaustions in this quarter was almost twice as great as in the first quarter of 1949, when unemployment insurance was having its maximum effect.

Per Cent of Wage Loss Compensated. Wage and salary receipts on a seasonally adjusted annual basis reached a peak in October 1948 which they did not again touch until May 1950. The aggregate total wage loss over this period, measured from the October 1948 level, was \$6.3 billion, and the aggregate civilian wage loss \$5.8 billion. Government civilian wages and salaries on a seasonally adjusted basis increased throughout the period, however, and the wage loss that occurred was concentrated in the private sector. For private wages and salaries the total wage loss from October 1948 to May 1950 was \$7.2 billion. Unemployment benefit payments (state, railroad, and veterans combined) in the same period totaled \$3.2 billion. Some of these benefits would have been paid, however, even had aggregate wages and salaries not decreased. Normal labor turnover and seasonal unemployment give rise to some unemployment benefit payments even in periods of full employment. To measure the extent to which unemployment benefits compensated for wage losses resulting from the decline in the level of employment, one has to use some figure representing "additional" benefits.

For state and railroad unemployment benefits, the amount by which benefits in each month exceeded the payments in the same month of 1948 (or 1947 if the measurement is on a monthly rather than a quarterly basis) may be taken as an approximate measure of such additional or depression-induced benefit payments. Veterans' unemployment benefit payments, however, had been high in 1947 and 1948 for reasons other than general employment conditions and fell off rapidly in the last five months of 1949 because the period of eligibility expired for most veterans on July 25, 1949 (two years after the official end of the war). Since many veterans would have been receiving state or railroad unemployment benefits in the absence of the special program for veterans, and considerable numbers did file claims and receive payments under the regular programs after July 1949, the veterans' benefits cannot

TABLE 2

Wage Loss Compensated by Unemployment Benefits, 1949 and First Quarter of 1950

YEAR AND QUARTER	QUARTERLY WAGE LOSS FROM LEVEL OF FOURTH QUARTER, 1948 (billions of dollars)			ADDITIONAL UNEMPLOYMENT BENEFITS [a] (millions of dollars)			PER CENT OF WAGE LOSS COMPENSATED			
	Civilian Wages and Salaries	*Private Wages and Salaries*	*Payrolls Covered by State Unemployment Insurance*	*State, Railroad, and Veterans'*	*State and Railroad*	*State*	*Civilian Wages and Salaries, All Benefits*	*Private Wages and Salaries: All Benefits*	*Private Wages and Salaries: State and Railroad*	*Payrolls Covered by State Unemployment Insurance and State Benefits*
1949										
I	$ .9	$ .9	$1.2	$ 261.3	$ 181.1	$ 174.0	29.0%	29.0%	20.1%	14.5%
II	1.2	1.3	1.3	316.8	237.0	226.0	26.4	24.4	18.2	17.4
III	1.3	1.5	1.2	347.1	300.6	281.5	26.7	23.1	20.0	23.5
IV	1.4	1.6	1.6	306.9	298.4	260.9	21.9	19.2	18.6	16.3
1950										
I	.9	1.1	1.1	377.2	368.7	344.3	41.9	34.3	33.5	31.3
Entire period	$5.7	$6.4	$6.4	$1,609.3	$1,385.8	$1,286.7	28.2%	25.1%	21.7%	20.1%

[a] Amount of state and railroad benefits above amounts in same months of 1948 and one-half of total veterans' benefits paid in indicated quarter.

Source: Computed from data from National Income Division, Dept of Commerce and Social Security Administration, Dept. of Health, Education, and Welfare.

be disregarded in an analysis of the 1949–1950 experience. As an expedient it was assumed that half of the veterans' benefits paid in 1949 and 1950 were additional to those that would have been paid had employment remained at 1948 levels. This is probably an understatement, but there is no ready basis for a more refined estimate.

The quarterly wage loss during 1949 and the first quarter of 1950 as measured from the fourth-quarter 1948 level is shown in Table 2 for civilian wages and salaries, private wages and salaries, and payrolls covered by state unemployment insurance programs.[3] The total wage loss over the entire period is, of course, less when measured from the fourth quarter of 1948 than from the peak month of October.

The additional unemployment benefits paid under the state unemployment insurance laws would appear to have compensated for about one-fifth of the aggregate loss in covered payrolls during 1949 and the first quarter of 1950. Additional state and railroad benefits combined represented about 22 per cent of the private wage and salary loss, and these plus half of the veterans' benefits paid, about 25 per cent. Because all civilian wages and salaries, including government, declined less than those in the private sector alone, the depression-induced state, railroad, and veterans' benefits together amounted to a little more than 28 per cent of the aggregate civilian wage loss.[4]

[3] The seasonal factors applied to payrolls covered by state unemployment insurance programs to obtain this measure were developed by Mr. Hyman Kaitz of the Bureau of Employment Security, Department of Labor.

[4] Beginning with data for January 1950, the National Income Division of the Department of Commerce has computed a seasonally adjusted unemployment benefit payments figure. An alternative method of calculating the increase in benefits as a result of employment declines—that is, comparison with the level of seasonally adjusted payments in the base period—is therefore readily available for periods after 1950. To test the results of the two methods, the increase in seasonally adjusted benefit payments in the fourth quarter of 1953 and the first quarter of 1954 above the third quarter of 1953 was computed. The additional benefit payments in the two quarters were also computed by the method used for the 1949–1950 analysis—that is, the excess of payments in the given quarter over payments in the same quarter of the previous year. For state and railroad benefits combined, the "additional benefit" figures derived by the two methods were identical for the fourth quarter of 1953; for the first quarter of 1954 the figure based on the seasonally adjusted data was 92 per cent of the figure based on the previous year comparison. Using the same method as in the 1949–1950 analysis, state and railroad unemployment benefits compensated for 15.8 per cent of the wage loss in private wages and salaries in the fourth quarter of 1953 and 25.6 per cent in the first quarter of 1954, or 22.1 per cent over the two quarters. Using seasonally adjusted benefit payments data, the extent of wage loss compensated over the two quarters is 20.9 per cent.

It is possible to derive a rough measure of the effect of the limited duration provisions of the state unemployment insurance laws on the total benefits paid. From the fourth quarter of 1948 through the second quarter of 1950, some 3.4 million persons exhausted their benefit rights under the state unemployment insurance programs before they were re-employed. They had received benefits for an average of about 19.5 weeks. Had all of them received benefits for a full 26 weeks at the average benefit rate, the aggregate benefits paid during the period would have been some $467 million higher than they actually were. Here again, however, account must be taken of the fact that some workers (particularly those with limited potential duration) will exhaust benefits even in periods of high employment. If only exhaustions in excess of those occurring in the same quarters of 1948 and only through the first quarter of 1950 are considered, the additional benefit payments resulting from a uniform potential duration of 26 weeks would have been about $177 million and state unemployment insurance benefits would have compensated for 23 instead of 20 per cent of the loss in covered payrolls.

This entire analysis neglects the fact that under conditions of full employment, wages and salaries would have been rising throughout 1949 and early 1950 and not merely holding the fourth-quarter 1948 level. It is perhaps sufficient for present purposes to recognize this factor without attempting a quantitative measure.

There might be some interest in a comparison of the extent of wage loss compensated in different states. Such comparisons would reflect not only differing economic conditions but also differences in the benefit provisions of the several states. Time did not permit any such elaborate analysis in connection with the preparation of this paper. Nor was there any state in which unemployment was of such magnitude and duration as to illustrate the operation of unemployment insurance in a really serious depression. The wage loss compensated was calculated for one state, Connecticut. This state was selected because it had a substantial increase in unemployment from 1948 to 1949, although the absolute level was not unusually high, and a relatively large wage loss continuing into the second quarter of 1950. Its benefit provisions were perhaps a little above average, primarily because of the provision for dependents' benefits. The additional benefits paid in 1949 and the first two quarters of 1950 in the state compensated for 20.6 per cent of the wage loss in covered payrolls (on a seasonally adjusted basis) during that period. Had all of the additional persons who exhausted benefits (those above the number exhausting in the same quarter of 1948) received payments for 26 weeks, the proportion of covered wage loss compensated would have been 25.7 per cent.

Benefits Related to Consumption Expenditures. Another measure of the impact of unemployment benefit payments on the economy is the relation between aggregate benefits and personal consumption expenditures. In the fourth quarter of 1948, unemployment benefit payments (state, railroad, and veterans') represented .6 per cent of personal consumption expenditures. This ratio more than doubled in the first quarter of 1949 and stood as follows in subsequent quarters:

1949	
First quarter	1.3
Second quarter	1.4
Third quarter	1.3
Fourth quarter	1.0
1950	
First quarter	1.4
Second quarter	.9
Third quarter	.5
Fourth quarter	.4

In a period when consumption expenditures dropped significantly (it will be remembered that on a seasonally adjusted basis they were below the fourth-quarter 1948 level only in the first quarter of 1949), there could be a much larger increase in the ratio.

Payments and Contributions. In the initial phase of a downturn in economic activity, the stimulating or, more properly, the sustaining effect of an increase in unemployment benefit payments is presumably little if at all affected by what happens on the contribution side of the program. Indeed, throughout even a fairly long depression the economic effects of the benefit payments are probably quite separate and distinct from the effects of contribution collections. By and large, benefit payments are spent promptly and in their entirety. Whatever the ultimate incidence of the employer payroll tax, it seems unlikely that the continued payment of the tax, at an established rate, during a period of declining economic activity would have a significant effect on wages or prices or, therefore, on consumption expenditures. Under existing laws, however, rates are not fixed.

Declining covered payrolls would automatically result in lower aggregate contributions throughout a depression were it not for the effect of rate changes under the experience-rating provisions of the state unemployment insurance laws. Since there is some time lag in rate changes, there is likely to be a falling off of contributions in the early stages of a decline. To what extent contribution rates will subsequently be increased depends on the severity of the depression. Rate increases are very likely to come just at the wrong time from the economic point of view—that is, just when employment and production are beginning to pick up and increased tax rates may most discourage employers and deter the needed expansion in economic activity.

The 1949–1950 recession was too brief to show the potential effect of experience rating. The amounts of contributions collected and their relation to aggregate benefit payments, by quarter, in 1949 and 1950 are shown in Table 3. Contributions as a per cent of covered payrolls—which, it will be noted, were higher in 1950 than in 1949—continued to increase in 1951, amounting to 1.5, 1.6, and 1.5 per cent in the first, second, and third quarters, respectively, and not dropping to 1.1 per cent until the fourth quarter of that year.

Because of the operation of the experience-rating provisions, contribution rates would have increased in 1951 in a number of states even had employment continued to decline. The precise timing of rate changes varies from state to state, depending on the nature of the experience-rating formula used. Thirty-five states have some requirement of a minimum fund balance before rates may be reduced below the standard 2.7 per cent, and others have different rate schedules depending on the status of the reserve fund. The requirements are too detailed and too varied to lend themselves to brief summary. The net effect of the provisions is to require rate increases—some quite substantial—following any serious drain on the state's reserve fund. The economic consequences could be unfortunate. One may question whether the existing provisions would be permitted to stand in a serious depression.

In addition, the separate financing of unemployment insurance on a state-by-state basis makes it highly probable that in a depression of any size one or more state funds would be exhausted. Such exhaustion would be in states that always have a higher than average rate of unemployment and that can provide benefits comparable to those in other states and accumulate adequate reserves only by collecting much higher than average contributions from the employers in the state. Federal loans to states threatened with bankruptcy of their unemployment insurance funds would help tide them over an immediate crisis but would do nothing to meet

TABLE 3

Unemployment Insurance Contributions and Benefit Payments, Fourth Quarter of 1948 to Fourth Quarter of 1950

(*dollars in millions*)

YEAR AND QUARTER	UNEMPLOYMENT INSURANCE CONTRIBUTIONS: *Total—State, Federal, Railroad*	UNEMPLOYMENT INSURANCE CONTRIBUTIONS: *State Laws*	UNEMPLOYMENT BENEFIT PAYMENTS: *Total—State, Railroad, Veterans'*	UNEMPLOYMENT BENEFIT PAYMENTS: *State and Railroad*	UNEMPLOYMENT BENEFIT PAYMENTS: *State*	BENEFIT PAYMENTS MORE (+) OR LESS (−) THAN CONTRIBUTIONS: *Total Benefits; Total Contributions*	BENEFIT PAYMENTS MORE (+) OR LESS (−) THAN CONTRIBUTIONS: *State and Railroad Benefits; Total Contributions*	BENEFIT PAYMENTS MORE (+) OR LESS (−) THAN CONTRIBUTIONS: *State Benefits; State Contributions*	TOTAL CONTRIBUTIONS AS A PER CENT OF COVERED PAYROLLS
1948									
I	$297.9	$280.0	$282.3	$203.4	$197.6	$ −15.6	$ −94.5	$ −82.4	1.1%
1949									
I	362.8	181.4	547.6	387.2	370.5	+184.8	+24.4	+189.1	1.5
II	270.8	252.3	617.4	457.8	438.0	+346.6	+187.0	+185.7	1.1
III	301.8	280.0	590.2	497.1	473.5	+288.4	+195.3	+193.5	1.2
IV	292.1	273.3	519.0	501.8	458.5	+226.9	+209.7	+185.2	1.1
1950									
I	391.6	218.7	591.8	574.9	540.8	+200.2	+183.3	+322.1	1.6
II	344.3	322.5	418.1	408.0	395.2	+73.8	+63.7	+72.7	1.3
III	351.3	332.4	266.8	261.1	253.9	−84.5	−90.2	−78.5	1.3
IV	337.4	317.9	194.7	193.0	186.9	−142.7	−144.4	−131.0	1.1

Source: Social Security Administration, Dept. of Health, Education, and Welfare and Bureau of Employment Security, Dept. of Labor.

the fundamental problem of risk sharing across state boundaries. This problem, of course, involves other issues than those specifically related to economic stabilization.

THE INSTITUTIONAL ASPECTS OF UNEMPLOYMENT INSURANCE

So many factors contribute to the turn of economic events that it is difficult to evaluate the significance of a 20 per cent—or indeed a 50 per cent—replacement of wage loss in any particular recession or depression. As was said earlier, both the timing and the localization of employment declines may make a considerable difference.

It would seem probable, however, that the availability of unemployment insurance would have a significant effect on the attitudes and on the expenditures of those who are still at work as well as of those who are unemployed and drawing benefits. Unemployment insurance may thus contribute more to sustaining consumer spending than the ratio of aggregate payments to aggregate wage loss would suggest.

These secondary effects of unemployment insurance will presumably be weak and could even become nonexistent when benefits are very low in relation to previous earnings and when the potential duration of payments is very limited. One may hazard a guess that an increase in maximum benefit amounts and benefit duration beyond what they now are in most states would result in a larger increase in the sustaining force of unemployment insurance than the actual dollar increases in aggregate benefit payments.

While the compensatory effect of unemployment insurance is more important at the beginning of a downturn than it would be in a long depression, the program has a stand-by value that might be of considerable importance in the event of a serious decline. The existence of the unemployment insurance machinery would in such circumstances greatly facilitate both the payment of extended benefits—if this were regarded as desirable—and the orderly referral of workers to public works and service programs. While one may hope that the unemployment insurance system will not be called upon for extensive operations of either type, its availability may properly be regarded as an institutional safeguard over and above its automatic stabilizing effect.

2. Old Age and Survivors' Insurance and Related Programs

The importance of the long-term benefits—old age, survivor, and disability benefits—for economic stability derive primarily from the assured base of demand which they provide for increasingly large segments of the population. In terms of individual benefit amounts the base may be somewhat meager. Nevertheless, the programs probably support larger aggregate consumption expenditures than would be made were these same persons entirely dependent on children or other relatives, on their own savings, or on relief. The assured nature of the benefits is particularly important in a period of declining employment, not only to the beneficiaries but also to the children whose earnings might otherwise have to be shared, or more largely shared, with the beneficiary group.

Furthermore, even these long-term benefit payments do expand or contract in the aggregate with changing economic conditions. The tight labor market and increased employment opportunities for the aged held down the old age and survivors' insurance benefit rolls during World War II. A serious depression might force many older persons out of employment and thus substantially increase the number of beneficiaries and amount of benefit payments beyond what they would otherwise be.

PRESENT MAGNITUDE OF LONG-TERM BENEFIT PROGRAMS

During 1953 just under $7 billion was paid in monthly benefits under old age and survivors' insurance, the railroad retirement system, retirement systems for federal, state, and local government employees, and the veterans' pension program. Benefit payments and beneficiaries under the several programs were as follows:

	Beneficiaries as of December 1953 (thousands)	*Benefits Paid in 1953 (millions)*
Old age and survivors' insurance	5,981.4	$2,918.8
Railroad retirement	543.1	457.4
Government employees	740.0 [a]	1,099.2 [a]
Veterans' pensions	3,647.3	2,435.9
		$6,929.4

[a] Partly estimated.

There are no good estimates of the number of persons receiving benefits under workmen's compensation. The amounts paid to persons with long-continued disabilities and to survivors under this program may be in the neighborhood of a quarter of a billion dollars a year.

Private pension plans, it may be estimated, paid benefits to something like 650,000 persons in 1953 at an annual rate of something under $.4 billion. Most but not all of the persons receiving private pensions were also receiving benefits under one (or more) of the public programs.

The approximately $7.5 billion a year being paid under these long-term benefit programs at the end of 1953 represented 3.3 per cent of total consumption expenditures in 1953, 2.7 per cent of personal income, 4.1 per cent of civilian wages and salaries.

POTENTIAL EXPANSION OF OLD AGE AND SURVIVORS' INSURANCE IN THE NEAR FUTURE

The old age and survivors' insurance program is still in a period of fairly rapid expansion benefitwise. Even with no further increase in the system's coverage (or benefit provisions) beyond that in effect in 1953, the number of beneficiaries and the aggregate benefit payments would have been substantially larger in the future than today. The major factors involved in the maturing of the system are: the increasing proportion of persons reaching the age of sixty-five who will have had an opportunity to acquire insured status, the increasing number and proportion of aged persons in the population, and the increasing proportion of beneficiaries who will be receiving the higher benefit amounts based on earnings after 1950.[5]

The upward trend in old age and survivors' insurance beneficiaries and benefit payments (present price levels) under the program in effect in 1953 would—according to actuarial projections—have continued throughout this century. The expansion of coverage under the 1954 amendments will result in a more rapid maturing of the system but, primarily because of the increasing number of aged persons in the population, will not change this trend.

For present purposes, however, we are concerned not with the year 2000 but with the 1950's. The analysis which follows makes use of estimates of benefit payments in the fiscal years 1956, 1957, and 1958 on two alternative assumptions as to the economic conditions in those years which were developed in connection with the preparation of the Fourteenth Annual Report of the Board of Trustees of the Old-Age and Survivors Insurance Trust Fund.[6]

[5] The 1950 amendments brought in a substantial number of persons under the "new start" relaxed eligibility provisions, at minimum benefit levels; furthermore, the increase effectuated by the 1950 and 1952 amendments in the benefits of those already on the rolls in 1950 were smaller than the benefit formula increases (including the effect of the new start in the computation of average wages) for persons with earnings after 1950. The 1954 amendments do not include another "new start" provision, but they will result in somewhat higher benefits for persons qualifying on the basis of earnings after 1954 than on the basis of comparable earnings in earlier periods.

[6] I am indebted to my colleagues in the Bureau of Old-Age and Survivors Insurance, particularly Mr. Lawrence Alpern and Miss Roslyn Arnold, for help in converting these estimates to a calendar year basis and in preparing comparable estimates for an expanded program.

The estimates were developed early in 1954 and relate to (1) the program then in effect and (2) the expanded program proposed by the Administration for Congressional consideration. The amendments adopted by Congress in August 1954 differ somewhat from these proposals. Coverage was extended to most but not all of the groups for whom it had been recommended (the most important of the groups left out are self-employed doctors, dentists, lawyers, and members of a few other professions). On the other hand, overall benefit liberalizations were slightly greater than those proposed. It has not been possible in the time available to prepare comparable estimates based specifically on the 1954 amendments. Such estimates would differ very little from those shown for an expanded program. Certainly the general conclusions to be drawn from the figures for the purposes of this analysis would be the same. The estimates based on the act prior to the amendments have been retained for purposes of comparison. In any use of either set of figures it should be remembered that the specific amounts derive from a stated set of economic assumptions and will differ somewhat from estimates based on other economic assumptions.

The economic assumptions underlying the estimates are intended not as predictions of what is likely to happen in the next three years, but as illustrations of the way the program would operate under conditions of relatively high employment or, alternatively, with moderately heavy unemployment. A mild contraction in 1954 and early 1955 is assumed to preface both these alternatives. Specifically, the assumptions as to civilian employment and unemployment are as follows:

	Alternative I: Relatively High Employment				Alternative II: Lower Employment Levels			
	Labor Force (millions)	*Employment* (millions)	*Unemployment* (millions)	*Unemployed as Per Cent of Labor Force*	*Labor Force* (millions)	*Employment* (millions)	*Unemployment* (millions)	*Unemployed as Per Cent of Labor Force*
Dec. 1954	63.4	61.1	2.3	3.6%	63.4	61.1	2.3	3.6%
June 1955	66.1	62.9	3.2	4.8	66.1	62.9	3.2	4.8
Dec. 1955	64.0	61.9	2.1	3.3	64.0	60.1	3.9	6.1
June 1956	66.3	63.7	2.6	3.9	66.3	60.8	5.5	8.3
Dec. 1956	64.5	62.9	1.6	2.5	64.4	58.8	5.6	8.7
June 1957	66.9	64.2	2.7	4.0	66.6	60.2	6.4	9.6
Dec. 1957	65.1	63.5	1.6	2.5	64.9	59.1	5.8	8.9

With continuing moderately high employment, benefit payments in 1957 under the old age and survivors' insurance program in effect in 1953 amount to about $4.5 billion (present price levels).

Should economic activity decline to a point where unemployment was as high as 9 or 10 per cent of the civilian labor force, a considerable number of older persons would probably be forced out of jobs and onto the old age and survivors' insurance benefit rolls. The additional benefit payments under the assumed conditions might be in the neighborhood of $300 million a year (Table 4).

TABLE 4

Benefits and Beneficiaries under Existing Old Age and Survivors' Insurance Program, 1953, and Same Program, Alternative Employment Conditions, 1955–1957

Calendar Year	*Relatively High Employment*	*Lower Employment Levels*	*If All Eligible Aged Retired*
	Total Benefit Payments (*billions of dollars*)		
1953	$3.0		$4.3
1955	$3.8	$3.9	5.1
1956	4.2	4.4	5.5
1957	4.5	4.8	5.8
	Number of Beneficiaries (Midpoint of Year) (*millions*)		
1953	5.6		7.3
1955	7.0	7.0	8.7
1956	7.5	7.8	9.2
1957	8.0	8.4	9.7

At the present time, almost 1.4 million persons between sixty-five and seventy-five years of age and with insured status—that is, persons who could receive benefits if they retired—are still at work. An indication of the maximum expansion of benefit payments (without changes in legislation) in the event of a major depression can be obtained by assuming that all of this group retire and they and their eligible dependents receive benefits. While this limit would never actually be reached, the figure is nevertheless of some interest. Because the persons in this group are in general among the higher-paid workers, their benefits would also be higher than average. As Table 4 indicates, according to the old age and survivors' insurance program in effect in 1953, 1957 aggregate benefit payments would amount to about $5.8 billion if conditions were such as to induce all persons with insured status to retire.[7]

[7] No account has been taken in these estimates of the fact that some additional children and younger widows could receive benefits if they stopped working; the

The total old age and survivors' insurance benefits paid in 1957 as shown in Table 4 represent about 1.3 per cent of aggregate personal income under the high-employment assumptions used and 1.7 per cent under the low-.

EFFECT OF EXPANDED COVERAGE AND BENEFIT PROVISIONS

The old age and survivors' insurance program in effect in 1953 covered almost four-fifths of the civilian labor force. The 1954 amendments extended coverage to almost all paid employment effective as of January 1, 1955. The major groups still not covered are: railroad workers (who have a separate system partially integrated with old age and survivors' insurance); federal government workers covered by the Civil Service Retirement system and military retirement systems (for whom old age and survivors' insurance coverage also has now been recommended); self-employed doctors, dentists, lawyers, and members of a few other professions; and irregularly employed agricultural workers. The immediate effect of coverage extension alone is to increase contributions more than aggregate benefit payments, since it takes a little time for individuals in newly covered jobs to acquire insured status. There will, however, be an increase in the number of beneficiaries on the rolls in 1957 as compared with the number who would have qualified under the law in effect earlier. And in the long run, of course, the effectiveness of the program will be substantially increased.

In spite of the increases in benefits as a result of the 1950 and 1952 amendments of the Social Security Act, the benefits payable to workers retiring in 1953 and early 1954 were lower, when adjusted for price changes, than the dollar amount of benefits that would by this time have been payable under the 1939 act to workers with the same average earnings. The deterioration in the value of the benefits is most striking in terms of the proportion of wage loss compensated. Under the 1939 act the taxable wage base, which sets a limit on both the amount of the individual earnings on which contributions are payable and the amount credited for benefit purposes, was $3,000. At the time, 97 per cent of the workers covered by the program (and 95 per cent of those in covered employment in each of the four quarters of the year) had total covered earnings of less than $3,000 a year. Benefits, in other words, were related to the total earnings (in covered employment) of all but the very

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amounts involved would be small and would be partially counterbalanced by the smaller number of valid claims for survivor benefits at low than at high employment levels.

highest-paid group. To achieve a similar result in early 1954, the taxable wage base would have had to be $7,500 rather than the $3,600 set by the then-existing law or the $4,200 adopted under the 1954 amendments.

Because the 1950 amendments changed the benefit formula, the benefits paid in 1953 and early 1954 covered a larger proportion of the worker's previous average earnings, and those payable under the 1954 amendments will also cover a larger proportion, than the above comparison alone would suggest. The benefit formula has from the beginning provided compensation at a higher rate for the lower-paid workers. Under the 1939 act the maximum old age benefit (worker alone) would have been about 23 per cent of his previous average earnings for a worker with the maximum creditable earnings when the program reached maturity (the 1939 act provided a small increment in the benefit for each year of coverage and contributions; this was eliminated in 1950 and there is now no such differential). Under the law in effect in 1953, a worker with maximum earnings credits ($3,600 a year) could receive a benefit equal to 28 per cent of his earnings. But 44 per cent of all four-quarter workers (about 40 per cent of all workers) now earn considerably more than $3,600. For the $7,500-a-year worker, the proportion of previous earnings compensated was 13.6 per cent. Where a beneficiary has a wife who is aged sixty-five or over, the family situation and the total wage loss compensated are somewhat better, since the wife will receive a benefit half that of her husband's.

The 1954 amendments both increased the taxable wage base to $4,200 and modified the benefit formula. The new maximum individual old age benefit of $108.50 a month represents 31 per cent of the previous earnings for a worker with the maximum wage credits ($4,200) and 17 per cent for a person with earnings of $7,500 a year.[8]

Had the original Administration proposals been adopted to go

[8] One qualification must be noted with regard to all of the figures on percentage of earnings loss compensated. The figures given are strictly the percentage of computed average monthly wage. Since the average monthly wage is computed by dividing total wage credits by total elapsed time since 1951 (or 1937 for most of those now on the rolls), it is likely to be lower than actual average earnings when the worker was engaged in covered employment or than such earnings in the five or ten years prior to retirement. This would be particularly true in periods when earnings levels were rising. The 1954 amendments improve the correspondence between actual and computed earnings for all except the newly covered group (and for those in this group who are regularly employed after 1954), by dropping out of the computation up to five years in which the individual's earnings were lowest (or non-existent).

into effect by January 1, 1955, aggregate benefit payments in 1955, 1956, and 1957, under the same employment conditions as were assumed above, would amount to:

AGGREGATE BENEFIT PAYMENTS

(*billions of dollars*)

	Relatively High Employment	*Lower Employment Levels*	*If All Eligible Aged Retired*
1955	4.5	4.5	5.9
1956	5.0	5.2	6.5
1957	5.6	5.9	7.2

As was indicated earlier, the 1954 amendments enacted by Congress liberalized benefits a little more but extended coverage to somewhat fewer persons than the original Administration proposals. The retirement test, under the amendments, does not apply beginning with age seventy-two rather than age seventy-five, and the test itself is somewhat easier to meet. Aggregate benefit payments in 1955, 1956, and 1957 under the act as now amended and under the assumed economic conditions would be slightly but not significantly larger than the estimated amounts shown above.

Other proposals for the modification of old age and survivors' insurance which have been advanced by various groups would result in larger increases in benefit payments than those effectuated by the 1954 amendments. It has not been possible, nor would it be particularly useful, to attempt similar estimates for all the proposals that might be reviewed in an analysis of the program aspects of old age and survivors' insurance.

Some mention should perhaps be made, however, of the magnitude of the benefit payments that would result if the old age and survivors' insurance program were expanded to provide monthly long-term disability benefits, similar to the benefits now provided under the railroad retirement program and most retirement systems for government employees. Such benefits are generally more sensitive than old age retirement benefits to fluctuations in economic conditions and employment levels. Depending on the precise specifications, long-term disability benefit payments under old age and survivors' insurance might, on the average, amount to as little as .01 per cent of taxable payrolls (as estimated for the proposals of the 1949 Advisory Council on Social Security to the Senate Committee on Finance) or up to 1 per cent with more liberal provisions, after the program had been in effect long enough so that most disabled persons had had time to acquire insured status before becoming disabled. In terms of present payroll levels and the coverage and taxable earnings base provided in the 1954 amendments, this would mean payments in an average year of up to about $2 billion. At the outset of any such program expansion, the aggregate disability benefits paid would be considerably smaller, since many persons already disabled would presumably not be able to qualify for benefits.

CONTRIBUTIONS AND BENEFIT PAYMENTS

The contribution income of the old age and survivors' insurance fund is at present larger than the benefit outlays, at least at high levels of employment (Table 5).

TABLE 5

Old Age and Survivors' Insurance Contributions and Benefit Payments under Alternative Assumptions as to Employment Conditions and Provisions of the Program, 1953 and 1955–1957

(billions of dollars)

	CONTRIBUTIONS COLLECTED [a]		BENEFIT PAYMENTS LESS (—) OR MORE (+) THAN CONTRIBUTIONS	
CALENDAR YEAR	*Relatively High Employment*	*Lower Employment Levels*	*Relatively High Employment*	*Lower Employment Levels*
		Program in Effect in 1953		
1953	3.9		—.9	
1955	5.7	5.5	—1.9	—1.6
1956	6.1	5.5	—1.9	—1.1
1957	6.3	5.3	—1.9	—.5
		Expanded Coverage, Somewhat Liberalized Benefits		
1955	6.3	6.0	—1.8	—1.5
1956	7.2	6.5	—2.2	—1.3
1957	7.6	6.4	—2.0	—.5

[a] The contribution rate in 1953 was 1.5 per cent each for employers and employees and 2.25 per cent on earnings from self-employment; in 1955, 1956, and 1957 the rate in the 1953 law and under the 1954 amendments is 2 per cent each for employers and employees and 3 per cent on earnings from self-employment.

Under the program in effect in 1953, total contributions in 1957 would have been about $1.9 billion more than aggregate benefit payments if economic conditions were good, but only about $.5 billion more under conditions in which 10 per cent of the labor force were unemployed.

Under an expanded program with coverage and benefit provisions such as those proposed by the Administration or embodied in the 1954 amendments, the net excess of total contributions would be somewhat smaller in 1955 and larger in 1956 than under the law in effect in 1953, because the benefit increases would take effect in 1955 while the increased contribution income from expansion of coverage to self-employed groups would not show up in collections until 1956. With unemployment of about 10 per cent of the civilian labor force, the total benefit payments under the Administration's program in 1957 would amount to about $5.9 billion, and contributions collected to about $6.4 billion, resulting in the same net difference as under the program in effect in 1953. Because of the more limited coverage provisions actually adopted in 1954, contributions under the assumed economic condition would be slightly less than shown in Table 5.

OTHER RETIREMENT PROGRAMS, 1955–1957

Neither the railroad retirement program nor the government employee retirement programs as a group are growing at the same rate as old age and survivors' insurance. Many of the larger government retirement systems were established thirty or more years ago and have thus had time to reach relative maturity. The railroad system began by taking over the pensioners on the rolls of the private railroad pension plans and crediting past railroad employment and thus covered a large proportion of the current aged railroad workers immediately.

By 1957, with present statutory provisions and present price levels, aggregate benefit payments under these programs might be in the neighborhood of $1.6 billion if employment conditions were relatively good, or $1.7 billion if something like 10 per cent of the civilian labor force were unemployed. The Railroad Retirement Board estimates that at the end of 1951 there were more than 150,000 persons working in railroad employment who could have retired and drawn benefits. Had all eligible persons retired, benefit payments under the railroad act in 1953 might have been about $.2 billion higher than they actually were. There are probably relatively fewer persons in government employment who could retire on a full age annuity if they so wished than persons eligible for old age and survivors' insurance but still at work. On the other hand, most retirement systems for government employees as well as the railroad retirement system pay monthly disability benefits. Because persons with disabling conditions have difficulty holding jobs when employment conditions are bad, aggregate disability benefit payments are likely to increase as unemployment becomes more serious.

If old age and survivors' insurance coverage were extended to all employments and the railroad and government systems made supplementary, payments under these special programs would eventually be less than they would be under present law. Since present annuitants would not be affected, however, any such change would make very little difference in the amounts paid under the special systems in 1957, and for present purposes this kind of program change can be disregarded.

Veterans' benefits will probably be considerably larger in 1957 than they were in 1953, with no changes in existing veterans' legislation and assuming no wartime service between now and then. The largest increases to be anticipated are in the non-service-connected pensions, as more and more World War I veterans reach the age of sixty-five. (On June 30, 1953, the average age of the 3.3 million World War I veterans was fifty-nine.) By 1957, total compensation and pension benefits for veterans will probably be somewhat over $3 billion if employment is at a high level and still larger if employment declines.[9] Since the non-service-connected pensions are subject to an income test (at present $1,400 a year for a single veteran, a widow without children, or for the child of a veteran; $2,700 for a veteran who is married or has minor children or for a widow with a child), the aggregate benefits paid are likely to increase rather substantially if there is a serious drop in employment.

The number of persons receiving private pensions is also increasing. By and large, however, private pensions are paid only to persons who have remained with a single employer for a considerable period of time, and in many plans, particularly the large collectively bargained plans, these persons must be in that employer's pay at the time of retirement. As a result, many of the persons who at one time or another are covered by private plans will never qualify for pensions. Many plans, furthermore, do not give credits for service prior to the time the plan was initiated and will therefore pay no benefits or very small benefits to workers now approaching retirement age. A very rough estimate might place the aggregate amount of private pensions in 1957 at between $.5 and .6 billion.

The rate of fund accumulation is much greater under private pension plans than under old age and survivors' insurance. At present, employer contributions to pension plans are about $2.3 billion a

[9] See statement of Phillip S. Hughes, Bureau of the Budget, on "Veterans Benefits in Relation to Old-Age and Survivors Insurance," in *Hearings* before the Subcommittee on Social Security of the Committee on Ways and Means, House of Representatives, 83d Cong. 1st sess., November 12 and 13, 1953, Part 2, 1953.

year and employee contributions about $.5 billion. Thus at present, aggregate private pension payments (under $.4 billion) are still less even than employee contributions and, of course, very much less than total contributions. Total private pension fund reserves have been estimated to be about $17 billion (the old age and survivors' insurance reserve at the end of 1953 was $18.7 billion).

Total contributions under the railroad retirement program in 1953 amounted to $.6 billion. Benefit payments in that year were $150 million less than total contributions. The most recent estimates of contributions under all government employee retirement programs are for 1952. In that year, when aggregate benefit payments were $1.0 billion, employee contributions to federal, state, and local retirement programs amounted to $.9 billion, and earmarked government (employer) contributions to these retirement systems were $.9 billion; in addition, the general revenues were drawn on to provide the $.35 billion of benefits paid by the federal noncontributory retirement systems. Veterans' benefits are, of course, financed directly from general revenues.

3. *Public Assistance*

It is perhaps debatable whether the public assistance programs should be included among the built-in stabilizers, since the size of the payments is not specified in law and the amounts appropriated are subject to budget and debt limitations just when there is most need for their expansion. Nevertheless, the institutional weight of public assistance is such that it would seem to deserve some consideration in a discussion of this kind.

At the end of 1953 there were about 5.4 million persons receiving public assistance—2.6 million aged persons, 1.5 million children and .5 million parents or adult relatives of such children, .1 million blind and .2 million permanently and totally disabled, and about .6 million persons receiving general assistance. The total amount of public assistance paid in 1953 was $2.5 billion. The number of persons sixty-five and over in need of assistance should decrease fairly steadily as old age and survivors' insurance expands over the next decade—assuming that old age and survivors' insurance benefit levels keep up with any increases in prices. It is more difficult to predict what will happen in the other programs.

The size of the public assistance rolls is influenced by economic conditions. Not only can some older persons, some disabled persons, some widows and other women in families in which the normal breadwinner is absent or incapacitated, and some children get jobs when conditions are good who would not otherwise be able to do so. In addition, contributions from relatives are more frequent when earnings are high, and less assistance is needed to maintain the same level of living for the recipients. Indeed, one way in which families adjust to wage loss when economic conditions are bad is to shift part of the support of parents or other relatives to public assistance.

The compensatory effect of public assistance is sharply limited, however, by the unavailability or inadequacy of general assistance in many states. In a number of states general assistance is not given to persons regarded as employable. This limitation might be swept away under the pressures of a severe depression. It is also somewhat modified by the existence of general assistance programs in practically all large cities where industrial unemployment tends to concentrate. These programs tend in most instances to be adjusted to urgent local needs. But in the continued absence of federal grants-in-aid, it is unlikely that the necessary changes would come quickly enough to have any significant effect in a moderate recession. In the 1949–1950 recession, general assistance payments increased from about \$16 million a month in October 1948 to a high of \$33 million in March of 1950 and then dropped slowly until by the end of 1950 they were again near the 1948 levels. Over the entire two-year period, aggregate general assistance payments were only \$180 million larger than they would have been had each month's payment been the same as the amount paid in the same month of 1948.

Federal grants-in-aid now provide about 55 per cent of the old age assistance payments, 57 per cent of the aid to dependent children, and 49 and 51 per cent respectively of the payments under the programs of aid to the blind and aid to the permanently and totally disabled. On a nationwide basis, but with great variation from state to state, about 39 per cent of the old age assistance payments and more than a third of the payments under the other federally aided programs are financed from state funds, with only 6 per cent coming from local funds in the case of old age assistance and 11 per cent or less in the case of the other three. For general assistance, however, almost half the funds come from local revenues, with local funds carrying the entire burden in fifteen states and 80 or 90 per cent in several more. The heavy reliance on local financing of general assistance seriously limits the potential importance of that program in a depression. It is partly in recognition of this problem that a number of states have taken over all or a large share of the financing of general assistance. One state, New York, increases the proportion of state funds available for general assistance when unemployment is heavy.

While the existing federal grants for public assistance are not related directly either to the relative economic capacity of the states or to the level of employment, they do nevertheless provide a broader basis of financial support than would be available in many states from state and local funds alone. The flexibility of the federally aided assistance programs would be greater if—as has frequently been proposed—the extent of federal matching were directly related to the states' fiscal and economic capacity, with proportionately more federal funds going to the states with lower than average per capita incomes.

It is probable that in any serious depression the federal government would be forced to provide financial aid for general assistance and on condition that such assistance be available to employable as well as unemployable persons. Such emergency extension of aid would be much more easily accomplished today than was possible in the early 1930's, when very few states had state welfare departments and the whole machinery for federal grants and for the distribution of assistance had to be improvised. The administrative mechanism is now available; the fiscal arrangements that would make public assistance a more reliable built-in stabilizer are still to be adopted.

4. Conclusion

An established social security system is a stabilizing factor in the economy because of the assured income provided to large segments of the nonworking population, the compensatory expansion of aggregate benefits when employment falls off, the probably wider effect on consumer spending of the knowledge that unemployment benefits or old age benefits will be available; and the institutional mechanism the system provides for any desired emergency measures. The quantitative importance of these several factors will depend not only on the scope of the program actually in existence at any time, but also on the circumstances and timing of economic change. Social security programs are particularly vulnerable to the erosion of inflation. The extent of their contribution in a period of economic decline may be greatly affected by the degree to which benefits have been kept in line with rising prices and with rising wage levels. This is a problem which has received too little attention.

The quantitative analysis of the operation of unemployment insurance in the 1949–1950 recession and of potential old age and survivors' insurance and related benefit payments in 1955–1957 presented in this paper is intended to do no more than illustrate the general magnitude of the direct economic effects of our existing social security programs. It may finally be useful—again only for illustrative purposes—to summarize the magnitudes involved by relating them to the wage loss that is implied in the second alternative set of economic assumptions used above in projecting old age and survivors' insurance benefit payments and contributions. The pattern of economic change illustrated is one of a decline from only moderately high levels of employment in 1954 and early 1955 to fairly substantial unemployment in 1956 and 1957.

The loss in total earnings in employments covered by old age and survivors' insurance over the three-year period when measured from 1954 levels is about $20 billion. The difference between total covered earnings under the relatively high employment of alternative I and those under the lower levels of alternative II over the three-year period is $93 billion.[10]

Against these earnings-loss figures one may set certain program data. If the additional depression-induced unemployment benefit payments compensated for 20 per cent of the wage loss measured from 1954 levels, such additional unemployment insurance benefits during the three years would aggregate $3.1 billion. This is perhaps too high a proportion to assume unless one also assumes some liberalization of the duration provisions of existing state laws. On the other hand, both wage loss and hence the computed additional unemployment benefits would be higher if measured on a monthly or quarterly basis. If legislative changes were extensive enough and rapid enough to result in compensation of as much as one-third of wage loss in covered industries in 1956 and 1957, the aggregate additional unemployment insurance benefits over the three-year period could be closer to $5.2 billion.

One dilemma that arises in short-run projections of payments under any social security program is how much weight to give to existing program provisions and how much to proposed or possible

[10] Gross national product is asumed to be $380 billion in 1955 and $420 billion in 1957 under alternative I; $357 billion in 1955 and $346 billion in 1957 under alternative II.

modifications. On the one hand, it should be recognized that the built-in stabilizing effects of the program are only those which are already in existence and that changes in legislation take time. However, the stimulus of an emergency situation may result in much faster action than would otherwise occur.

Total old age and survivors' insurance benefit payments during the three years with the assumed lower levels of employment would amount to $13 billion under the program in effect in 1953 and to about $16 billion under an expanded and liberalized program such as that brought into effect by the 1954 amendments. While old age and survivors' insurance contributions would exceed benefit payments over the three years by perhaps $3 billion, the excess would be at least $2.5 billion smaller than would have occurred at relatively high levels of employment.

Payments during the three years under the railroad and federal, state, and local government employee retirement systems might be close to $5 billion, private pensions about $1.5 billion, and veterans' pensions about $9 billion. Total long-term benefits plus additional unemployment insurance benefits might thus aggregate close to $35 billion under existing programs or $37 billion were the unemployment insurance program further expanded and liberalized.

It may be noted that the two alternative estimates on which these figures are based do not carry through to an upturn and renewed high levels of employment. The story is left incomplete. It is perhaps sufficient to suggest, however, the great actual and the greater potential importance of social security programs not only to the millions of individuals and families for whom they are the main source of income but to the functioning of the economy.