OLD AGE SECURITY

A HISTORY AND ANALYSIS OF THE EVOLUTION
IN THE UNITED STATES

BY

RUTH S. FLEISCHL
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PREFACE

This study has been undertaken because of the importance and pertinence of the problem of providing security for the aged. The opinions expressed are those of the author and are independent of the views of the institution under which the work has been done.

Ruth S. Fleischl

Richmond, Virginia,
June, 1936.
CHAPTER I

THE PROBLEM OF OLD AGE DEPENDENCY

Several thousand years ago Plato engaged in a search for the meaning of "social justice." We are yet to understand the full significance of this concept. In many parts of the world today, including our own country, this ideal seems to have been lost. We are familiar with the grave social and economic problems with which we are confronted. The problem of caring for the aged is but one of many. It is especially important since it tends to become more difficult as time goes on.

The number of aged in our country has been increasing rapidly since we became an industrial nation. While in 1870 there were scarcely more than a million persons over sixty-five years of age, 1.

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in 1930 there were over six and a half millions in this age group.

Not only has the actual number of aged persons in our population been increasing, but also the proportionate number of aged in the population has been growing larger. Although in 1870 only 3 per cent of the population was over sixty-five, by 1920 the proportion had increased to 4.7 per cent, and by 1930 to 5.4 per cent. "This percentage has been increasing quite rapidly since the turn of the century, and is expected to continue to increase for several decades. It is predicted on the basis of the present population and trends, that by 1940, 6.3 per cent of the population will be sixty-five years of age; by 1960, 9.3 per cent, and by 1975, 10 per cent. In twenty-five to thirty years the actual number of old people will have doubled." 3.

In view of the economic forces operating in our society, and in view of this tendency for an increasing proportion of population in the group over sixty-five, we can see the social and economic importance of making provision for the aged.

The most important factor tending to increase the proportion of the aged has probably been the modern public health movement. Studies of ancient civilization and of primitive tribes today indicate that twenty years is the average life expectancy among these peoples. 1. When the public health movement first started in this country, the average length of life was only thirty-nine years. Since that time this has increased considerably. By 1930, it was fifty-eight years. 2. While the limits of extreme age have not increased appreciably, thousands more people reach the age of sixty-five than previously. In 1910 there were fifteen deaths per thousand population, but in 1930 there were only 11.3 deaths per thousand population. 3. The infant mortality rate has also been radically reduced, partly as a result of the work carried on in pre-natal and child welfare clinics.

2. Ibid., p. 41.
The death rates for the younger and middle age groups have likewise been substantially reduced by improved sanitary conditions and by public health measures. 1.

At the same time, declining birth rates have decreased the proportion of young persons in the population, which of course increases the proportion of old people. In 1915, there were 25.1 births per one thousand population, while in 1930 there were only 18.9 births per one thousand population. 2. This may be accounted for in part at least, by the increasing use of contraceptives and by the tendency to have later marriages.

While the birth rate has declined disproportionately since the World War, it probably began to decline in this country as early as 1810. This was offset by the heavy flow of immigration. 3. Our government's adoption of a policy of restricted immigration has been another outstanding factor leading to the proportionate increase in our aged population. Heavy immigration from foreign countries has

2. Ibid., p. 8.
3. Ibid., p. 8.
always tended to reduce the number of aged in our population. First, because the younger people emigrated, while the older usually remained at home. And second, because our immigrants tended to come from the prolific races of southern Europe and were accustomed to having large families.¹

It has been estimated that even if the birth, death and immigration rates remain constant, instead of rapidly declining as they are now, both the number and proportion of the aged will continue to increase until a permanent figure has been reached. Thereafter, the population will be stationary and the age distribution will continue to remain constant. In this ultimate stationary population, it is believed that those aged sixty-five and over will be well over twice the present proportion in the total population. ²

The social and economic significance of providing security for the aged can be understood only in view of these important facts. The aged are not only with us, but they are going to continue to be with us.

² Ibid., p. 9.
There are two different types of dependents among the aged, as among other public dependents. First, there are those who because of moral, mental or physical weakness, are unable to care for themselves; and second, those who because of social and economic phenomena, rather than individual deficiencies, are unable to remain independent in their old age.

Dependency has often been ascribed to deficiencies inherent in the individual. American individualistic philosophy teaches that we are born free and equal and that those who fail to "make the grade" have only themselves to blame. Thus, we have tended to describe drink, laziness, extravagance and immorality as causes of poverty. There is no doubt that there are always individuals unable to adjust themselves economically. We know the chronic alcoholic; we have weird mental pictures of the drug addict; we know persons unwilling to become anything but social parasites. Hence, the tendency to attribute all economic insufficiency to similar causes.

Since the advent of the present economic depression, we have witnessed the toll taken by the world-wide debacle and are less apt to attribute
poverty to personal causes and insufficiencies of the individual. But we still need to realize that even during prosperity, under the existing industrial system, poverty is largely a product of social and economic forces beyond the control of the individual. In 1929 the New York Commission on Old Age Security found that alcoholism, laziness, extravagance, drug habits, begging tendencies, irregular sex relations and all other "character" defects figured as contributing causes of destitution in less than twenty per cent of the cases of aged dependency within the state. While estimates of this nature are necessarily inaccurate, the fact that the Commission found that character deficiencies were a possible cause of poverty in less than one fifth of the cases of dependency among the aged is evidence that this factor alone in no way explains the entire problem.

While some have overemphasized "moral" deficiencies of the poor, others have stressed physical failings. It is not surprising to find that in 1929 over

fifty per cent of the aged dependents in the state of New York were suffering from physical illness, physical defect, and mental illness in one form or another. The New York Commission estimated that forty per cent of the public dependents within the state suffered from physical illness during the year; seventeen per cent were either blind, crippled or deaf; and mental illness was either apparent or suspected in five per cent of the total cases reviewed. 1.

Physical and mental deterioration is apt to prevail among persons aged sixty-five and over. We are accustomed to consider these factors as causes of destitution rather than as aspects of old age. Ill health is almost as common among the aged in the higher income groups who remain self sufficient in their old age. While ill health should not be minimized as a factor contributing to dependency, we must seek elsewhere for the fundamental causes which have created the present problem of insecurity for the aged.

Investigations show that the present problem of old age dependency was created by modern society and is an aspect of our present industrial system. In an agricultural society, men lived on the land, or worked independently. When they could no longer work, they had usually accumulated some capital, in the form of land or otherwise, which provided support in their old age. Moreover, in agriculture speed and competition are of minor importance, and experience and judgment are primary considerations. Thus the older workers possess an obvious advantage over their younger competitors.

"The country was rich in resources, and most people could, through the exercise of thrift, provide competence for their old age. Where that was not possible, old people continued at their usual work. When forced at last to quit, they could, in most cases, live comfortably and decently with their children or relatives. Old and young were bound together in close family ties, and care of the aged parent was part of the established mores. There was therefore, no serious problem of old age dependency."  

In other words, "security was attained in the earlier days through the interdependence of members of families and of the families within a small community upon each other." Where the head of the family found it impossible to put aside enough capital to provide for himself in his old age, the younger members of the family accepted, without question, the responsibility of supporting him.

With the widespread introduction of machinery into our productive system, these conditions changed. The fundamental structure of society was altered. The family, which had always been the basic unit of production, lost its economic raison d'être. Production was carried on in factories where hundreds, or thousands, of workers operated under one roof using tools no longer their own. Young men left their homes for the new cities. Men whose parents and grandparents had lived and died on the farm began to wander in search of employment in the large industrial centers. Cities around factories and mines became entirely dependent upon these economic

units for subsistence. When one area no longer
demanded labor, hundreds of workers were forced to
move to other sections of the country. Thus the
modern working class necessarily tended to become
a migratory unit.

America rapidly became a highly industrialized
country. While in 1890 only one third of our popula-
tion was living in urban communities, by 1930 well
over half the population had become concentrated in
large industrial centers. 1 within forty years
the number of persons engaged in industry tripled and
we emerged a modern capitalist society. 2

Our social structure went through a similar
transformation. The individual rather than the
family became the unit of production and as a result
homes were broken up and families separated. With
this disintegration of the family came a decline of
family responsibility. Children no longer could
support their parents in old age. Meanwhile, the
very nature of the new industrial system tended to
multiply the number who became dependent in old age.

1. "The Problem of Old Age Dependency," Metropolitan
Monograph #13, p. 8.
2. Rubinow, op. cit., p. 223.
The number of years in a worker's life when he could find gainful employment had declined rapidly. The swift pace of modern industry, the high standards of efficiency and the universal mechanization of production put a premium on speed and ability to follow routine. Specialization and the division of labor have stripped the older worker of much of the value of skill and experience. Production under these new conditions tends to wear the worker out more quickly and he loses much of his labor utility before he reaches middle age. Employers in some industries in order to insure efficiency and eliminate the burden of supporting the older workers have set up hiring age limits as low as forty-five years.

Meanwhile, our educational processes have been extended over a longer period of years and over a wider group in our population. This tends to reduce the number of the wage earner's years, at the younger end of the scale.

It is therefore not surprising to find that the number of aged persons gainfully employed has decreased rapidly since the turn of the century.
"Proportionately more old people continue to work in the rural areas than in the cities, and there are more people proportionately at work in the rural occupations than in the city occupations." 1.

The United States Census substantiated this evidence by showing that while the older workers are still holding their places in agriculture, the professions and public services, "They are practically eliminated from all the major industrial occupations." 2. Those persons aged sixty-five and over who are fortunate enough to retain an income of their own are the farmers, the lawyers, doctors, judges, retail dealers, bankers and brokers. 3. Not the lowly wage earners!

In addition to the forces operating to reduce the period during which the worker is productively employed, as we have seen, the declining death rate has increased the average span of life, thus intensifying the worker's problem of providing for old age.

The modern worker's dependence upon the wage system has likewise given rise to a great increase

in destitution among the aged of the lower income groups. Whereas workers in an agricultural society owned both the means and the products of their production, the worker in the factory owns neither. The widely diffused ownership and large scale operation of industry today has made many people wage earners. "The proportion of our population which works for a living is steadily rising," 1. and correspondingly, the number earning a living independently is rapidly declining.

With man's new economic "freedom" he has become obliged to distribute the income received during his briefer period of productivity, over his entire lifetime. 2. The wage earner is completely dependent upon his wages for existence.

"The evidence of average incomes from inheritance and income taxes gives no encouragement to the hope that most wage earners have any other forms of income to count on when wages fail." 3.

Although insecurity in an agricultural society exists only because of scarcity, modern economic insecurity

exists despite the abundance of resources. When his wages are inadequate the worker is in destitution, regardless of the cotton, wheat and corn growing in the fields.

But are wages inadequate? We boast of the high scale of earnings of the American workman and his correspondingly high standard of living. But as in the case of all generalizations, our conclusions are not entirely valid. The high salaries of a few executives tend to offset the minimum earnings of the lower income groups, so that charts of average earnings lose their significance. Even in so-called normal times, as in 1929, for example, six million families comprising 21 per cent of our national population had an average income of less than one thousand dollars a year. Moreover, sixteen million families, comprising more than 59 per cent of our total averaged less than the two thousand dollars, usually considered to be the minimum annual income necessary to a family to supply the basic needs of life. Twenty million families, making up 71 per cent of our national population averaged less than.

twenty-five hundred dollars a year. On the other hand, thirty-six thousand families in the higher income groups received an income three hundred times as great as an equal number of families in the lower economic strata. These are Senator Wagner's figures, not Senator Long's. It is not difficult to understand that that the majority of our working population necessarily lead a "hand to mouth" existence even in prosperous times. Our almshouses have always been filled with those in these lower income brackets.

Consideration of wages without a scrutiny of the cost of living is without value, since these two factors are intimately connected. Compared to the great increase in wants, real wages, that is their actual purchasing power, seems to have risen only slightly. While average wealth may be increasing, "the pressure of urbanization is increasing the number of things for which the worker must use his money." Changes in wages lag considerably

behind changes in the cost of living, and wages have always adjusted slowly to economic changes. This is no less true in times of falling prices and costs than in times of rising ones. However, during prosperous years we were impressed with the high figures to which wages rose, and tended to overlook the fact that the cost of living had risen even higher.

But even if wages were sufficient, it would still be difficult for the wage earner to make provision against the exigencies of our economic life. This is particularly true of old age after a long life of sickness, accidents, deaths, unemployment, business failures and depressions. And these, unfortunately, are the constant companions of our industrial system. 1.

There is ample evidence to show that the conditions of industrial life leading to destitution bear most heavily upon the older workers. The older worker finds it difficult to find employment even at low wages. He is often the first to be laid off in times of depression and often the last to find gainful employment when business is restored. 2. It is

the older men who are most affected by technological improvements in production. They are usually the first to be dismissed when new machinery is introduced. The New York State Commission on Old Age Security found that in 1929 almost forty per cent of the aged dependents within the state had lost all their industrial earning power. 1. Because of the recognized ill health of so many aged, it is significant that unemployment had caused dependency in more than half of the cases. "This is the one comparison where the age factor makes a really great difference in evaluating the 'causes' of dependency among the aged and among other adults. Obviously -- because of the larger extent of recognized and admitted unemployability among the aged -- unemployment and earnings problems should be less characteristic of the aged than of the other elements of the population." 2.

This situation is not difficult to understand since standards of efficiency become more rigid in industry, and the older worker's "natural" disad-

2. Ibid., p. 680.
vantage, as compared with the younger worker, continues to increase. "The large corporations develop formal rules about age and physical conditions that tend to arise in handling large groups of people... But as the number of large corporations increases, these formal rules about age and physical vigour will be extended to a larger and larger part of the population. At the same time, economies in the use of labor in factories and the effect of both labor-saving machinery and depression on the farms have created a new surplus of workers, so that managers are unrestricted in the application of any standard they choose." 1. This was the Commission's conclusion in 1929! How much more true it is today!

CHAPTER II

EXISTING PROVISIONS FOR OLD AGE SECURITY IN

SPECIAL GROUPS

Many special groups have recognized the causes of dependency in old age and have attempted to set up pension funds and retirement plans in order to meet the problem. These plans differ considerably from one another. On the one hand, we find the haphazard unsystematic schemes often characteristic of fraternal organizations, and on the other hand the systematic and scientific plans set up for civil service employees in the federal government and in many of the states. It is important to note that in most cases, these pensions are not based upon need, but rather upon years of service in the organization or other specific requirements.

Fraternal societies

Fraternal societies of one kind or another were probably the first organizations in the world to set
up systems of assistance for the aged. Even as early as the mediaeval trade guilds, some attempt was made to provide for the members of these groups in old age. 1. In the United States where clubs and brotherhoods abound, many such systems have been set up. Unfortunately, many of these have been haphazard and inefficient. They usually provide for the payment of a lump sum of money to a member who has become economically dependent in old age. The burden of supporting the older members therefore inevitably falls upon the younger ones, and in many cases works hardships upon them. As a result, therefore, many younger members drop out. This has made many of the plans financially inoperable and bankrupt. 2. Some of them, however, have survived. These unquestionably provide a certain amount of security to the limited group which makes up their membership. However, in view of the total problem, the movement among the fraternal societies has been relatively unimportant.

2. Ibid., pp. 194-196.
By far the most significant development among these orders has been "The Fraternal Order of the Eagles." This organization has been responsible for giving much publicity to the problem of old age dependency, and for supporting legislation nationally and locally in order to solve the problem. 1.

Church pensions

Church pensions for retired ministers, like the funds of fraternal orders, are obviously limited to a special group. However, they are rather extensive and since they provide this special group with some security in its old age, they are worthy of our attention. In recent years, almost all the leading churches in America have set up funds of this nature. Among these we find: the Protestant Episcopal; the Roman Catholic; the Methodist Episcopal; Presbyterian; Congregational; Northern Baptist; United Lutheran; United Brethren in Christ; Disciples of Christ; Reformed Church in America; Church of the Nazarene; and the Christian Science Church. 2.

2. Ibid., pp. 186-192.
It is difficult to generalize as to the character of these plans since they too differ widely amongst themselves. Most of the funds provide that the ministers shall contribute regularly to the fund a certain percentage of their salaries over a period of years. Sixty-five is usually taken as the age of retirement and the age at which the minister should therefore qualify for benefits. In almost all cases, the amount of the benefit is based upon the minister's previous salary or else upon his length of service. In some cases it is regulated by both of these factors.

Public School Teachers

These were the first public employees to be recognized in this country as in need of some provisions for retirement in old age. New York City responded to this need as early as 1894, by setting up a systematic retirement system for public school teachers. Other large cities have since followed this example.

There are few general principles that can be formulated which apply to all the systems.

majority of them are however of the contributory variety. In most instances the age limit is set at sixty. 1.

Unfortunately, as in the case of the plans set up by fraternal orders, few of these systems have been put on a sound financial basis. Moreover, they are extremely limited in their coverage. In 1926, for example, the combined teacher's retirement systems in sixteen different states had a total of only 17,043 pensioners. Moreover, the allowances paid them were hardly adequate and in almost all cases the individual was forced to supplement this income. The average annual allowance for that year was only $575 or less than twelve dollars a week. 2.

The Carnegie Foundation, realizing the need for providing for aged instructors in higher educational institutions as well as in the public schools, has set aside a special fund for this purpose. The money is used for retirement pensions for teachers in universities, colleges and technical schools in the United States and Canada. Although at first these

2. Ibid., p. 525.
pensions were on a non-contributory basis, since 1918 the Foundation has been forced to ask the colleges and universities to make contributions to the fund. 1.

While the pensions are extremely liberal -- the average pension being $1,630.35 in 1927 -- the number of persons aided is relatively negligible. Of the 809 allowances granted during the year 1927, only 757 were distributed in the United States; the rest were given out in Newfoundland and Canada. 2. This means that of the many retired instructors in our higher educational institutions only 757 received any aid.

**Military pensions**

Military pensions are one of the largest systems of pensions in operation in the United States. As early as 1866, there were 126,722 pensioners from the wars the country had already fought, namely: the Indian Wars; the War of 1812; the Mexican War; and the Civil War. By 1902, after the Spanish-American War, the number of pensioners was close to a million. 3.

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3. Ibid., pp. 179–184.
Because of the gross corruption in the administration of these pensions, after the World War it was decided to eliminate straight pensions to veterans. Accordingly a system of voluntary insurance was set up under the Veterans’ Bureau. Veterans were allowed to convert their war-time insurance into government life insurance. Unfortunately, this proved to be almost a total failure. On January 31, 1928, it was found that over four million of the original policies had lapsed, while there were only 678,493 policies converted into government life insurance. 1

Thus the great majority of the original policies were lost entirely, and at the same time those which were converted into life insurance left their holders without any protection in their old age.

In March of 1933, an Economy Act was passed which repealed the existing laws regarding veterans of the Spanish-American and World Wars. Under the operation of this act 579,659 veterans and almost half as many dependents, (258,533), drew pensions in 1934. For the fiscal year ending June 30, 1934, the Veterans’ Bureau paid out a total of $321,394,530.65. 2

2. "The Pro and Con Features; Congress Faces the Question of Old Age Pensions," The Congressional Digest, March 1935, p. 73.
Therefore, we can not afford to overlook military pensions since they aid many cases in old age, although most of the benefits accrue after death. Nevertheless, these pensions are not based upon need, and in a good many instances they are paid where they are needed least. "War pensions are a substantial factor in answering the problem of old age dependency, but the system is haphazard, inequitable, wasteful, and above all demoralizing because it has grown up not so much in consideration of the problem of old age as by brazen political log-rolling and wire-pulling." 1. Therefore, even if the system were effective, it is highly questionable whether it is desirable.

**Retirement pay of the army and navy officers**

This is paid entirely by the federal government. 2.

During the year 1934 there were 2,194 retired officers of the navy and 3,666 retired enlisted men, making a total of 5,860 men in this group. The retirement pay for the navy amounted to $11,407,698. For the same year, the army had 13,021 retired members including

2. *The Congressional Digest*, *op. cit.* p. 73.
officers, warrant officers, nurses and enlisted men. These received $19,345,026, making the total payments to the retired members of the army and navy over three million dollars for the year 1934. Therefore, this particular group is very well protected against the hazards of economic insecurity in their old age.

Federal Civil Service Retirement System

This system was not set up until 1920, although bills for one had been introduced into almost every Congress since the turn of the century. At that, the Sterling-Lehbbach Act, (as this bill was known), passed Congress only because of the election which confronted the President and Congress in the following fall.

The act originally provided for the compulsory retirement of all employees in the federal civil service at the age of seventy, providing they had been in the service at least fifteen years. Certain groups of employees whose work was considered particularly strenuous became eligible at an earlier age if they had served the required length of time: mechanics, letter carriers, and post office clerks at sixty-five; railway clerks at sixty-two. In addition, employees

1. The Congressional Digest, op. cit. p. 73
who had been in the service thirty years had the privilege of retiring two years earlier than the regular age of their grouping according to law. 1.

By an amendment of the act in 1926, the retirement age for laborers was reduced from seventy to sixty-five years. Sixty-two was set as the retirement age for workers in hazardous or strenuous occupations and for those in service in the tropics. This same amendment extended the original act to include several groups which had previously fallen outside the system. 2.

Under the federal civil service retirement act, (as amended), the government deducts 3-1/2 per cent of the salary of each employee. 3. These contributions by the employees themselves do not however make up the total cost of the pensions, and the federal government makes up the difference. 4.

The retirement "pay" ranges from 75 per cent of the basic salary of an employee who has been with the government for thirty years, down to smaller allowances,

which are based upon shorter periods of service. The system is therefore based upon salary as well as upon the length of service and the pensions are scaled accordingly. In no case may the retirement pay exceed $1200 per year. 1.

Since this system of contributory pensions could hardly be applied to those already retired from the service at the time the act was passed, straight pensions were set up in these cases. 2.

The federal retirement system has expanded considerably since its adoption, both in the number of persons covered and the number of persons actually receiving annuities under the system. By the end of 1934, there were 44,708 civil service employees receiving annuities under the act. The average annuity paid during that particular year was $989.89, but there were many receiving more than this: 13,772 were receiving the maximum allowable under the law, that is, $1200. 3.

In addition to these provisions, special groups in the federal government have separate retirement

1. The Congressional Digest, op. cit. p. 73.
systems of their own. Among these we find the justices of the United States Supreme Court, the "career" men in the foreign service, the Light House Service, the Coast and Geodetic Survey, the Public Health Service, and the policemen, firemen and school teachers in the District of Columbia. 1.

Certainly employees of the federal government are amply protected in their old age. In fact the additional security which these positions offer is often an inducement to entering the civil service. Thousands of persons prefer the slightly lower salaries of government positions because of the greater security which they offer both in the way of permanence and protection in old age.

The federal system for retirement has worked well and is an example of what can be accomplished with a well-planned and well-organized system of pensions. For the limited group to which it offers protection, it is fairly adequate.

Retirement Systems for State Employees

Retirement systems for state employees are not set up in the majority of states. Some states do however have excellent systems of this sort. Some of the laws provide for straight pensions which are granted through direct legislative appropriations; others have scientific contributory plans in many cases similar to the plan in the federal civil service. 1. Experience has demonstrated that the scientific retirement plan is far superior to direct legislative appropriation. Where the legislature is repeatedly called upon to grant new funds, procedural difficulties and political factors are likely to arise which impair the system and in some instances render it inoperable. In states which have adopted the direct appropriation method of retirement provision, the pensions have been almost non-existent. In 1932, for example, there were only fourteen individuals on the pension rolls of the entire state of Maine, and only fifty-eight in the state of Connecticut. In both of these states, the direct legislative appropriation method is used. 2.

2. Ibid., p. 523.
Several states pay pensions only to certain classes of employees: judges, teachers, war veterans, etc. Most of these pensions are non-contributory and must be made by the direct legislative appropriation method. The tendency in recent years has been to make these plans contributory and to extend them to most of the state civil service employees. 1.

In general, therefore, we can see that in those states where a scientific retirement system has been set up, civil service employees of the state are fairly well protected. However, in the states where the appropriation method has been chosen, they are given almost no security in old age. Since few states have set up plans of the former nature, we may assume, that by and large, most state employees are not protected adequately under existing laws.

Pension systems for public employees of municipalities

This group of pension systems preceded most other attempts at providing security for the aged. The movement first started about the time of the Civil War. As might be expected, these early systems

were unscientific and inefficient. Unfortunately they have continued grossly inadequate. 1. The plans usually cover city policemen and firemen. Many of them have been financially unsound. In 1920, however, New York City set a precedent by adopting a scientific retirement plan. Since that time, many large cities have followed her example. Among these are Chicago, Milwaukee, San Francisco, Boston, Providence and Baltimore. Nevertheless, despite this recent development, the majority of municipal employees in this country are without pension provisions for old age. 2.

In considering how adequately civil service employees in this country are protected in their old age, it is interesting to note the results of the studies of the New York State Commission on Old Age Security. In 1929, this commission attempted to estimate the extent to which the public employees within the state of New York were covered by pension systems. They reported that about 85 per cent were provided for. However, they carefully pointed out

2. Ibid., pp. 173-175.
that this was a far more extensive coverage than existed in any other state in the country. 1.

While they found that the systems were well organized and flexible, and often contained broad coverage and liberal benefits, they pointed out one universal defect. In all cases employees were covered fairly adequately while they remained in the system, but, "as soon as they leave that service . . . and enter the field of employment, they cease to be so protected. . . ." 2. Employees who leave the government service lose their contributions to the system and the annuities which they have purchased for the service rendered. Thus the employee finds himself completely unprotected once he has left the system, and he also loses the contributions he made while in the system. This does not seem just, when we recall that contributions are compulsory in almost all cases. Moreover, it means that the security provided civil service employees is indefinite and uncertain in most cases.


2. Ibid., p. 164.
CHAPTER III

PROVISIONS FOR OLD AGE SECURITY OF WAGE EARNERS

In addition to the pension and retirement provisions provided for these special groups, there are certain types of pensions designed primarily to protect the wage earner in his old age.

Workers have themselves attempted to provide pensions through trade unions. The unions hoped to use this feature as an added inducement to secure new members, and also in order to encourage long membership in the union. 1.

However, relatively few trade unions have adopted pension plans. Although there are over one hundred national and international trade unions in this country, only about ten per cent have attempted to set up retirement systems for their members. 2.

A few of the local unions have from time to time made sporadic efforts in this connection but the results

2. Ibid., p. 148.
have been negligible. Various other groups such as
the railroad brotherhoods, have also set up pension
funds for aged workers. 1.

Most of the unions require from fifteen to
twenty-five years of continuous membership in good
standing in the same union, in order to qualify for
a pension. The retirement age is set at sixty in half
of the unions, and at sixty-five in the remainder. The
amount paid out in pensions varies considerably from
one union to another. In most cases it is a flat sum
granted on a weekly or monthly basis. Usually, it
bears no relation whatever to the salary which the
worker earned previously. 2.

There is a paradox inherent in the idea of trade
union pensions. On the one hand the unions feel that
pensions attract new members, and on the other hand,
they find that the maintenance of pensions is extremely
expensive and raises assessments, thus defeating its
own purpose by discouraging new memberships. 3.

Partly as a result of this difficult situation
many of the trade union plans have been financially

1. Epstein, Abraham; *Insecurity: A Challenge to
America,* p. 517.
2. Ibid., pp. 517-518.
unsound and bankrupt. "On the whole, the conclusion seems to be unavoidable that the present union funds are in all cases technically bankrupt, that the attaining of solvency will necessitate huge increases in the contributions and that at the present time members of the unions are not prepared to stand such increased contributions. The future of the funds, therefore is distinctly uncertain with the chances of very complete failure somewhat greater than chances for survival in almost all cases." 1.

If the continuance of these pension plans could be assured, how much security would they afford? Perhaps ten per cent of American wage-earners are affiliated with a trade union, and only ten per cent of these have pension plans. Consequently, at best one per cent of the working population would be covered by the plans. But even at that, we have seen the rigid requirements for pensions, which exclude the majority of trade union members. 2.

Many private companies have adopted pension systems for older workers, partly because of the

need for retiring the older men who tend to lower efficiency standards. A systematic plan, rather than informal methods, has usually been adopted in order to avoid discrimination. Moreover, a formal plan removed the "moral" issue involved when an employer is forced to discharge an older worker because he is no longer satisfactory. Besides, systematic retirement plans enhance the reputation of the firm. Employers have also used pension plans to achieve labor stability. The prospect of comfortable old age gives the worker an incentive to remain with the company. Employers have used pension funds as a weapon in preventing strikes in some cases. Workers are not so willing to strike when it will mean losing a pension in their old age.

Industrial pension plans in this country have been confined for the most part to the very large public service industries. Other industries have set up systems but they have always been the largest corporations. A study conducted by the Industrial Relations Counselors, Inc. indicated that the average number of employees in each company maintaining a

pension plan was over ten thousand. The report stated that in almost seventy per cent of the companies, there were over twenty-five thousand employees. 1.

As in the case of most pension plans, those in private industry set up both age and service requirements. The maximum retiring age is usually sixty-five or seventy, although it is lower in a few cases. The length of service required is usually twenty to twenty-five years. It is as low as ten years in some companies. 2. In some plans the amount of the pension is proportionate to the length of service, and in some it is based upon the salary during the last years of service. There are a few plans in which both of these methods are combined. There is no general rule for the kind of fund that has been set up, and they are both contributory and non-contributory. 3.

Private industrial pensions, like civil service pensions, make no provision for workers who have not served the number of years necessary for eligibility.

2. Ibid., pp. 131-134.
"It is clear, however, that the majority of persons entering will not survive in the employment of a single company for a period sufficiently long to qualify for a pension and the great majority of those who enter under middle age, will, under existing conditions, not do so." 1.

Moreover, there is no guarantee for the continuance of a private industrial plan. . . . " all such plans can be revoked at will so far as the law is concerned. Moreover, in only a minority are the payments to pensioners guaranteed." 2. The plans rely entirely upon a continuation of company policy. A change in policy, or a change in management, may wipe out the system entirely. 3. Then too, the plans have no legal guarantee of the amount of pension. 4. Since they depend entirely upon the prosperity of the firm, they may be cut down or abandoned in times of economic distress when they are most needed.

The cost of industrial pensions has proven too high for the majority of private business firms to

2. Ibid.; p. 147.
bear. One reason for financial bankruptcy of these systems has been that they usually do not provide for setting aside funds for such purpose, but provide for paying pensions out of operating expenses, which is frequently impossible. 1.

Certainly these plans have seriously curtailed the freedom of the worker. We have already mentioned that they make strikes difficult and often impossible. In addition, employers have used pensions systems to enforce plant discipline and discourage membership in trade unions. 2.

Probably the most serious objection to private industrial pensions for the aged is the fact that they have actually intensified the problem which they set out to solve by including younger workers for whom no problem previously existed. They have led to the establishment of hiring age limits which are often set at forty-five years or less. 3.

We must not lose sight of the fact that industrial pensions are limited necessarily to industrial workers. Agricultural, domestic, and independent workers are

automatically excluded. Thus they apply to a very limited group. The President's Committee on Economic Security estimated that all told, only 150,000 people in the United States are receiving either industrial or trade union pensions. 1. "Important as are the contributions of the industrial pension idea, there seems slight possibility that it can be extended to offer security to more than a limited proportion of the industrial workers. . . ." 2.

Many have felt that insurance offers adequate protection to the population against dependency in old age. However, we shall find that life insurance policies are limited almost entirely to the higher income brackets and is therefore in a sense "class" insurance. Investigation has demonstrated that this form of security, "has not yet reached the bulk of the population." 3.

We shall, however, briefly consider the amount of protection in old age which is afforded to the small group of wage earners owning life insurance.

policies. The lapse rate on these policies is very high, and usually it is the person with the small income who is forced to allow his policy to lapse. In 1931, for every normally maturing private insurance policy, six other policies lapsed, expired or were surrendered. Usually this involved either a partial or total loss of payments already made. In the same year, for every dollar of "normal" termination through death or maturation, there were seven dollars and seventy-two cents which either lapsed, expired or were surrendered. 1.

Moreover, the number of policy holders appears to decline with advancing age. "That is significant enough of the pressure upon the incomes of the elderly people because these who have carried insurance policies to the age of sixty-five are not going to give them up afterward if there is any other expenditure which they can forego." 2.

One of the chief reasons that the worker finds it difficult to participate in ordinary insurance is that it is usually expensive. High costs in insurance

are not entirely justifiable since they are due partly to the costs of management. In 1929, the peak year of prosperity, twenty-nine cents out of every dollar paid to insurance companies went to management and dividends. Insurance executives are among the highest salaried men in the country. "While the highest public officials in the country, the President and members of his cabinet, receive a total of $225,000 per year, the eleven highest officials in the Metropolitan Life Insurance Company received in the depression year of 1931 more than three times as much -- $684,000." 

Wage earners have participated extensively in another form of insurance, namely, industrial insurance. This type of insurance has been specifically designed to meet the requirements of the mass and is for the most part carried exclusively by workers. It is important to examine industrial insurance in some detail in order to estimate the amount of protection which it affords to the wage earner in his old age.

While ordinary life insurance requires large quarterly premiums, industrial insurance demands only small weekly payments. This is an attractive

1. Epstein, Abraham, 
   Insecurity: A Challenge to America, p. 123.
2. Ibid., p. 121.
feature of the plan since many workers find it impossible to set aside the larger sums necessary for premiums on regular insurance. Because it is often difficult for wage earners to pay premiums directly to the company, the industrial policies provide a premium collector who comes to the worker's home every week. Since these policies are designed for the lower income groups, they are written in very small amounts. The New York State Law limits the maximum amount under these policies to $1,000. The actual amounts are considerably lower. They seldom provide for more than a decent burial and have come to be called "burial insurance." 1 The increase in the amount of these policies does not represent additional security to the workers so much as it "represents an increase in the cost of funerals." 2

We have already seen that in ordinary life insurance almost one third of all costs is relegated to management and stockholders. In industrial insurance, costs are considerably higher. In 1929, the three leading companies writing industrial

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2. Ibid., pp. 218-219.
insurance admitted that out of every dollar paid out to policy holders, 48.7 cents in addition went to home office salaries and commissions. The New York State Commission on Old Age Security found that, "Generally, in comparison with the cost of ordinary life insurance, it is very high. Not only have the special features added to the cost, but the characteristics of the industrial group itself have brought higher charges. In the first place, the high mortality experience among the industrial classes influences the rates. There is also a high lapse rate which helps determine the cost of insurance. The form of collection and the additional services add significant sums to the overhead to be carried by the companies." The lapse rate on this form of insurance has always been considerably higher than it is on ordinary insurance. In 1931, for example, for every dollar of normal termination of an industrial policy, $19.80 worth of policies were discontinued and lost to their holders. The lapse rate on weekly premiums for the same year was over seventy-five per cent.

These policies seldom have legal guarantee to their survivors and people are often deprived of the small sums due them, because of the technicalities and evasions in the wording of the policy. ¹.

Group insurance is another form of insurance which must be considered in estimating the wage earner's security in old age. This form of insurance has certain definite advantages over any system of individual insurance. One of the most outstanding is its economy in regard to the cost of administration, which as we have seen is tremendous in the case of ordinary life insurance and industrial insurance. It has also been found that there tends to be a smaller loss in lapse of policies since there is relative assurance that the premiums will be paid. ². However, like industrial insurance, plans for group insurance have been found practicable only for the largest and most prosperous firms. ³. The thousands of workers in medium-sized corporations and smaller business enterprises cannot be covered by this form

¹. Epstein, Abraham, op. cit. p. 135.  
³. Ibid. p. 219.
of protection. As in the case of industrial insurance, agricultural workers, domestic and independent workers are automatically excluded. 1.

Most of the group insurance plans in this country arose after the World War. They vary considerably in the nature of their provisions. Among them are both the contributory and non-contributory varieties. 2.

In general these plans have the same difficulties found in other private attempts to meet the problem of providing security to the wage earner. The long periods of service required automatically exclude considerable numbers of workers. Moreover, the lowest paid workers, who are most in need of aid, are usually the ones most irregularly employed and least likely to fill the service requirement. 3.

Group insurance, like pension plans of private industries, cease entirely when a man loses his job. This holds true whether he has lost it because of his own shortcomings, or because of the economic situation of the firm, or of the employer's personal dislike. 4. Similarly, the continuance of the plan

2. Ibid., p. 198.
3. Ibid., p. 201.
4. Ibid., p. 201.
depends entirely upon the employer's decision. He is at liberty to discontinue the plan at any time that he wishes. Obviously, this does not provide sufficient security to the worker. The details of the system are also worked out by the employer without legal restrictions as regards to the amount of benefit paid, and the requirements imposed for eligibility. He may use the system constructively, but may easily use it as a weapon against the organization of labor. Often these systems work hardships, particularly on the younger workers. 1.

Group insurance, like industrial pensions, may lead to the establishment of a maximum hiring age limit. Premiums for this type of insurance depend upon the average age of the group. Naturally effort will be made to keep this average age at a minimum in order to keep the premium down. 2. This tends to reduce the worker's period of productivity, which has already been sharply reduced by economic forces.

There is a question as to how completely wage earners are covered by this type of insurance in these plants where it has been set up. A study made by the National Industrial Conference Board in 1927 showed

that of 603 different companies with group insurance plans, having a total of 1,182,465 employees, only 825,337 were covered by the policies. This means that thirty per cent were left unprotected. 1.

Relatively few firms have systems of this character, and we can see that group insurance is relatively negligible as a factor providing security. But group insurance is even less significant for the problem of dependency in old age, rather than unemployment, sickness, accident and other forms of insecurity. Group insurance is effective only so long as the worker continues with the firm and as soon as he becomes too old to work he loses the benefit he may have derived from such protection. 2. Payments are made to wage earners upon their death. This is little security for them in old age!

Bank savings is another method of providing security which is familiar to all of us. However, saving in any form, "presupposes...a standard of earnings over and above the necessary standard of living," 3. and wages are often too low to allow

2. Ibid., p. 201.
for even the necessary standard of living. Moreover, even if saving was possible to most wage earners while and if working, "Old age still has a peculiar difficulty to face. Old age is the ultimate hazard. It comes after accidents, illness, unemployment -- even deaths in the family. It is for all these emergencies the workman must save and sometimes does, but how much must he save to be able to meet all these emergencies and still have enough left for his old age? How many vicissitudes may not his savings have to face through these long years? Even if he possesses the financial wisdom of those who are financially his betters, no assurance that his earnings will remain intact can be given him. Shall he save primarily for his old age, depriving his family of many necessities or comforts? . . . The trouble is, . . . that while an ordinary emergency can be tided over with the help of a modest savings account, old age is not a temporary emergency. . . . 1.

The figures which were obtained before the depression to show the great increase in bank savings did not tell the whole story. The averages were

heavily weighted by large deposits. Eighty per cent of all the families in the United States made less than two per cent of the savings, and the remaining twenty per cent of the families made ninety-eight per cent of the savings. ¹ ¹²

The New York State Commission on Old Age Security reported that "... the great increase in the number of accounts marked the increased sway of frugality ... less, or at least not more, real savings on the average are being accumulated in the accounts in the mutual savings banks than previously." ² Moreover, the increase in savings in banks represents more a transfer of funds from other methods of savings than any increase in total savings. ³ Such was the picture in 1929, and how much blacker in 1935!

Another form of saving which offers the worker security in his old age is the ownership of a home. In fact such an investment usually offers far greater security than any other form of saving. Yet, the number of owned homes has declined almost ten per cent even in prosperity, and, "What is still more important is the increase in mortgages. ... The proportion of mortgaged homes increased over forty per cent" in 1929. ⁴

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¹ Wagner, op. cit. p. 80.
² "Old Age Security," op. cit. 281.
³ Ibid., p. 281.
⁴ Rubenow, I. N., op. cit.
It has been found that other forms of savings such as Building and Loan Associations, Annuities, Credit Associations, etc., may offer some measure of security to the higher income groups, but the wage earner's participation in them is insignificant. 1.

It is obvious, that despite the many provisions for the care of the aged, including both private and civil service retirement systems, there was need for some public plan which would cover the many members of the lower income groups who were not protected through any existing organizations and were forced to apply for public relief.

CHAPTER IV

HISTORY AND ANALYSIS OF THE STATE OLD AGE PENSION LAWS

In recognition of the general inadequacy of the existing provisions for the dependent aged, early in the century there arose in this country a movement for the establishment of public pensions for the dependent aged. Many European countries had already taken action of this kind before the movement developed among our state governments. Old age assistance was from the start an admitted form of public relief. However, it attempted to differentiate the aged from other public dependents by setting up separate standards for them and by giving them special care.

While the movement for state pensions was at first extremely slow in getting under way, after the World War, when such laws had proved successful, more states adopted this type of legislation. The depression and the consequent problem of providing for millions of dependents gave the movement a great impetus, so that by 1933 state laws for public assistance for the aged were widespread.
As in so many other social programs, Massachusetts was the pioneer state in the field of public assistance to the aged. In 1902 the General Court of Massachusetts first seriously considered the problem. The repeated introduction of bills for old age assistance in this legislature led to an investigation by the Massachusetts Bureau of Statistics for Labor. However the investigation was strictly limited in powers and resources, and in 1907 the legislature set up a formal Commission, the first of its kind ever to be established in the United States. One of its primary purposes was to make a thorough study of the question of old age dependency and provide the legislators and the public with more factual information and exact knowledge of the subject. In 1910, the commission advocated the establishment of a state pension system and favored the creation of a permanent unpaid commission on old age pensions and insurance to carry on their work. The permanent body thus created reported in 1914 contradicting the previous conclusions of the commission. They reported that non-contributory plans for assistance to the aged were "radical" and "un-American," since they resulted

2. Ibid., p. 313.
3. Ibid., p. 313.
in a redistribution of wealth. After examining the possible cost to the public and the limitations imposed by the state constitution, they decided against such a system, for the present at least. 1.

The year 1915 marked the first legislative action taken on the subject of public old age pensions in the United States. At that time the state of Arizona passed an act which abolished all the almshouses in the state and set up a state-wide system of old age and mothers' pensions. The act was, unfortunately, drawn hastily and worded carelessly. It was severely criticized by the public and was finally pronounced unconstitutional in the state courts. The decision, however, was based on the wording of the act rather than on the constitutionality of the provisions themselves, which was not even discussed. 2. This hasty and ill-advised legislation caused a great set-back to the movement for old age pensions in Arizona, and its repercussions were felt in all parts of the country. Arizona herself did not pass another law of this nature until 1933.

Meanwhile, during the same year, the Territory of Alaska passed a law providing for public old age pensions. It therefore has the honor of being the first political unit in the United States to enact permanent legislation on this subject. The law provided for a pension of $12.50 a month to those aged sixty-five and over, providing they fulfilled certain other qualifications with regard to character, residence and need. While this law has since been amended several times, its original principles remain. 1. Many of the state laws have used the general provisions of this act as a model for their own legislation.

After the passage of the Alaska law, almost ten years elapsed before successful legislative action was taken on the subject of public old age pensions. However, during this time interest in the subject grew and eight different states appointed commissions to study the problem. Five of these groups unanimously recommended the adoption of a state old age pension law. 2. In Massachusetts, the commission reported that a non-contributory system of pensions was the most "humane" and "equitable" method of meeting the

problem of old age dependency. It also stated that "such protection is an inalienable right of good citizenship." 1. A bill was drafted by the commission and was strongly recommended for legislative adoption.

In Ohio a commission strongly condemned existing methods of poor relief and voluntary insurance and suggested a public old age pension law. 2. The Pennsylvania Commission devoted its attention entirely to the problem of the aged. It made an exhaustive study of the problem and in 1921 recommended legislative action. A law was passed providing for non-contributory pensions on May 10, 1923. However, since the state constitution contained a clause forbidding legislative appropriations for charitable and benevolent purposes, the act was declared unconstitutional. Nevertheless, the commission continued to carry on its studies and was eventually responsible for the passage of the present law. 3.

Montana appointed a commission to study the problem in 1922, which reported that such legislation was "inevitable." A law was passed during the following year. Nevada also enacted legislation providing for old age pensions at this time. 4.

2. Ibid., p. 315.
3. Ibid., p. 319.
The year 1925 witnessed a phenomenal growth of study and of interest in the subject of public old age pensions, and really marks a turning point in the history of the movement. While up to that time ten different state commissions had been appointed to investigate the question, only four states and the Territory of Alaska had passed legislation. The Pennsylvania and Arizona laws had already been declared unconstitutional. In 1925, four additional state commissions reported on the subject; nine states introduced bills on the subject into their legislatures; three states which had not previously considered the problem appointed commissions; and one state passed a law providing for old age pensions. 1.

The Indiana and Massachusetts commissions both recommended the adoption of a system of old age assistance. The Pennsylvania commission passed a resolution for a constitutional amendment to permit legislative appropriations for old age pensions. 2.

Wisconsin was the only one of the eighteen states that considered the subject during the year that successfully passed legislation. Nevertheless, the

year was significant of the awakening interest in the subject as evidenced by the wide-spread attention which it commanded. It showed marked progress in the development of the movement. From that time on there has been a steady increase in the number of old age pension laws. In 1926, Kentucky passed a pension law. Unfortunately, this was of the "optional" type and has been very ineffective. 1.

During the next seven years, old age pension bills were passed in Maryland, Colorado, Massachusetts, Minnesota, California, Utah, Wyoming, New York, Delaware, Idaho, New Hampshire, New Jersey, and West Virginia. In 1930, Massachusetts replaced her original "public bequest" law with a system of old age pensions. The New York Commission's report which we have already referred to led to the enactment of an old age pension system during the same year. 2.

Between January 1st and July 1st, 1933, old age assistance laws were enacted in Arizona, Arkansas, Indiana, Maine, Michigan, Nebraska, North Dakota, Oregon and Washington. Although the Arkansas law was later declared unconstitutional, the remaining

2. Ibid., pp. 1-2.
eight laws have continued in existence. 1. Ohio also passed a law, after failing to do so for ten years. The law was passed by a great majority in a referendum vote, although only a few years previously it had been rejected by a popular vote of almost 2 to 1. Pennsylvania and the Territory of Hawaii also passed laws during the latter half of the year, making 1933 the record year in the history of the old age pension movement, since eleven laws had been enacted. 2.

Iowa and Pennsylvania passed laws during 1934, while Alabama, Arkansas, Connecticut, Florida, Illinois, Missouri, Oklahoma, Rhode Island, Vermont and the District of Columbia had enacted legislation of this nature by the summer of 1935. 3. By August 1, 1935 thirty-five states and two territories in the United States had made some provision for public pensions for the aged. 4.

With this development of the old age pension movement in mind we can now turn to consider the contents of the various laws which have been passed. We shall

attempt to determine in how far these laws provided for the aged and solved the problem of dependency in old age.

Strictly speaking the American old age pension laws should not be known as pension laws but should be called relief measures. When assistance is given because of need we usually call it relief. When payment is made irrespective of need but as a definite reward for services rendered, it is usually known as a pension. 1.

All the state pension laws make the qualification that an aged individual seeking aid must be in need and must also be able to demonstrate this need. As a matter of fact, in New York, Massachusetts and New Jersey, the old age assistance laws are admittedly extensions of the existing public welfare laws. 2.

In all states the familiar "means" or "workhouse" test is applied. The details of this requirement vary from state to state. Some states set no specific maximum assets allowable under the laws; others set up definite amounts possession of which disqualifies an individual from old age assistance. Occasionally

2. Ibid., p. 13.
these amounts are measured in terms of annual income; more usually they are measured in terms of the total assets of the individual. A few state laws set a maximum for both income and property ownership. 1.

In addition to these absolute limitations, many of the states provide that the pensioner's property must be transferred to the state upon his death.

"The justification for this procedure is the fact that only the needy are the recipients of aid. Those who have property from which they can derive no income, and no other source of income, may be included among those eligible for aid, provided that the value of the assistance given be returned to the government, after the pensioner's death." 2.

It is almost universally true in the state laws, that although a person has no resources and his relatives are unwilling to support him, yet if they are able to provide for his support, he is ineligible for a state pension. 3. This is unfortunate since relatives who are legally responsible often refuse aid to the individual.

Old age assistance, not being ordinary poor relief, and dealing with a special class of "privileged" persons, imposes other requirements in all of the state laws.

First, certain character standards are required. Family deserters, habitual tramps, beggars, inmates of jails, prisons, insane asylums or correctional institutions, and those known to have disposed or deprived themselves of property in order to qualify for a pension, are excluded from the pensions. 1.

All the states have some specific age requirement. Most of the states have set sixty-five years as the age limit. However, thirteen of the thirty-seven states having laws in June, 1935, had a higher age requirement. In Arizona, Arkansas, Indiana, Kentucky, Massachusetts, Michigan, Missouri, New Hampshire, New Jersey, New York, Oregon, and Pennsylvania, the pensioner must be seventy. In North Dakota he must be sixty-eight. California and Montana, in anticipation of federal action on the subject of social security reduced their age limits from seventy to sixty-five during 1935.

All the state laws except that of Arkansas require that recipients of old age assistance be citizens of the United States, although some of the states do not require any specific period of citizenship. Twelve states require at least fifteen years of citizenship prior to the application for a pension. The Territory of Hawaii requires thirty years of citizenship. 1.

In addition to citizenship, most of the states require a certain period of residence either within the state, the county, or both. These provisions are designed to limit the burden of the state and discourage interstate or intrastate migration for the purpose of qualifying for a pension. They are justified in that not all of the individual counties of the states agreed to apply the law within their jurisdictions and the counties adopting the law need some protection. 2.

The requirements for residence within the state vary from five years in some states to twenty-five years in Alaska and thirty-five years in Arizona. However, most states require between five and ten years of residence. 3.

Most of the states do not demand any specific period of county residence. In October, 1935, twelve of the laws required one year of county residence, one required three years, two required ten years and four, fifteen. The rest did not stipulate any definite period.

Other than these necessary qualifications the person must do nothing except make application in order to receive a pension. Of course he must prove the above, and there must be sufficient funds for granting the assistance.

Although, as we have seen, state old age pensions in this country are admittedly a form of relief, some of our states have made a distinct effort to dissociate it in administration from relief. In Wisconsin, for example, the state supervisory body and the local administrators of the pensions for the aged are different individuals. "The state board of control is in no way connected with the distribution of other relief funds... It is the county judge who supervises the assistance systems, while the county commissioners, or town or village poor officials administer the poor relief." 2. In other

states, however, as already mentioned, the two functions are combined in order to economize in administrative costs. Old age pensions are administered by the same local organizations as poor relief. They are under the local and state departments of public welfare. 1. However, in those states which attempt to separate old age assistance from other forms of poor relief, the attempt is often compromised in actual practice. For example, the poor officers are often called upon for investigations and routine work. 2.

The county judge has often been chosen as the chief administrative officer of the state old age pensions. Probably it was believed that he would execute the laws impartially and would not be amenable to local politics. In other states a county board or the county department of public welfare administers the law. In Delaware where the state bears the cost of the entire pension system, the state commission administers the law directly. 3.

2. Ibid., p. 284.
The local administrative unit is sometimes divided into two parts, according to function. The administrative division carries the details and routine of administration. It investigates and approves applications and decides on the amount of pension. The supervisory division is usually the authority in case of appeal from the administrative division. It manages the property, determines what reports are made by the applicants, makes the necessary financial arrangements and draws up the reports required by the state. In many states, however, these two functions are performed by the same body.

The relationship between the local administrative unit and the state department varies considerably from state to state. In California and the states which follow its general plan, the state department is more than "supervisory." It watches records and methods of investigation in the local divisions very closely and makes final decisions in cases of appeal. In Wisconsin, on the other hand, final decisions are made by the county judges. This, of course, is that the people may associate the pension

laws with "justice," rather than with relief. 1.

While the early old age pension laws were usually not mandatory upon the local subdivisions of the state, more recent laws tend to be mandatory. This is because where the law was optional it tended to be entirely ineffective. In 1933, for example, it was found that in Kentucky, Nevada and West Virginia where the pension laws are not mandatory upon the counties, almost no pensions were being granted. It was shown that while the laws were 91 per cent effective in states having the mandatory law, they were only 28 per cent effective in states where the county was free to adopt or reject the system. This may be explained by the fact that in states where the laws were optional, the state contributed little if anything to the support of the system. 2. As a result of this situation, none of the laws passed since 1931 contained the optional clause. 3.

Old age assistance in this country, being entirely non-contributory, provides for the support

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1. Old Age Security," op. cit., p. 239.
of the system out of the public revenue. In some
cases the state has agreed to bear the total burden;
in other states the county must support the program,
unaided; and in the remainder of the states the
state government and the counties share the cost.
In June 1935 there were sixteen states carrying
the whole cost of the pension system; in seven states
the county paid all the costs; the other states
provided that the state reimburse the localities in
varying proportions, 1/2, 1/3, or 2/3. 1. It is
significant to note that of the seven states pro-
viding for total payment by the counties, in three
states, pensions have never been paid. These
three, Kentucky, Nevada, and West Virginia, have the
optional type of law. Usually, it will be found that
the state department's control over the local divisions
will correspond roughly to the proportion of the cost
borne by the state. The more recent state pension
laws have tended to provide for increasing state
control and participation in costs. 2.

Since the depression there has been increasing
difficulty with pension funds. While this has been

   American Association for Social Security, p. 2.  
2. Ibid., p. 2.
particularly true in regard to states where the counties bear the entire burden of support, it has also been true where the mandatory system is in operation and the state contributes to the system. The state has often refused to make any contribution, and as a result the system was not put into wide use. In some states, benefits were sharply curtailed, in others all applicants were refused, and in others the system was almost completely abandoned. 1.

In June 1935, it was found that only three of the thirty-seven states having old age pension laws did not impose some absolute limitation on the size of the pension granted. All other states set up some standard, this usually being $1 a day, $30 a month or $360 a year. The following table (page 75) shows the maximum limits upon old age pensions in the twenty-four states and two territories having old age pension laws in 1934. The pensions have been computed on a monthly basis.

### Maximum State Old Age Pension Allowances - 1934

<table>
<thead>
<tr>
<th>State</th>
<th>Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>$30.00</td>
</tr>
<tr>
<td>California</td>
<td>$30.41</td>
</tr>
<tr>
<td>Colorado</td>
<td>$30.41</td>
</tr>
<tr>
<td>Delaware</td>
<td>$25.00</td>
</tr>
<tr>
<td>Idaho</td>
<td>$25.00</td>
</tr>
<tr>
<td>Indiana</td>
<td>$15.00</td>
</tr>
<tr>
<td>Iowa</td>
<td>$25.00</td>
</tr>
<tr>
<td>Maryland</td>
<td>$30.41</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>No maximum limit</td>
</tr>
<tr>
<td>Michigan</td>
<td>$30.00</td>
</tr>
<tr>
<td>Minnesota</td>
<td>$30.41</td>
</tr>
<tr>
<td>Montana</td>
<td>$25.00</td>
</tr>
<tr>
<td>Nebraska</td>
<td>$20.00</td>
</tr>
<tr>
<td>Nevada</td>
<td>$30.41</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>$32.50</td>
</tr>
<tr>
<td>New Jersey</td>
<td>$30.41</td>
</tr>
<tr>
<td>New York</td>
<td>No maximum limit</td>
</tr>
<tr>
<td>North Dakota</td>
<td>$12.50</td>
</tr>
<tr>
<td>Ohio</td>
<td>$25.00</td>
</tr>
<tr>
<td>Oregon</td>
<td>$30.00</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>$30.00</td>
</tr>
<tr>
<td>Utah</td>
<td>$25.00</td>
</tr>
<tr>
<td>Washington</td>
<td>$30.00</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>$30.41</td>
</tr>
<tr>
<td>Wyoming</td>
<td>$30.00</td>
</tr>
<tr>
<td>Alaska</td>
<td>$35.00 Men</td>
</tr>
<tr>
<td></td>
<td>$45.00 Women</td>
</tr>
<tr>
<td>Hawaii</td>
<td>$15.00</td>
</tr>
</tbody>
</table>

While the maximum pensions are fairly "liberal," in most states the amounts actually paid out in pensions is entirely inadequate. This has been particularly true since the depression. In 1934, in sixteen states, the average pension was less than one half of the maximum allowable under the law. 1 Since most states have had neither the money nor personnel to carry on the necessary investigation of applicants, the tendency has been to divide the total available resources among the qualified applicants, entirely irrespective of their need. 2 In 1934 the average allowances paid in pensions declined from $19.35 in the previous year, to only $14.70, a sum which is obviously inadequate even for bare necessities. 3 Only five states paid over twenty dollars a month and thirteen states paid less than ten dollars a month. On the whole, the larger industrial states paid the relatively higher pensions, while the predominantly agricultural states paid the smaller pensions. 4 In individual states the monthly pensions ranged from $1.50 to $35.00 a month. 5

2. Ibid., p. 6.
3. Ibid., p. 6.
4. Ibid., p. 6.
The average monthly pensions in both 1933 and 1934 were almost twice as high in states where the county and state bore the burden of support, as in those states where either county or state alone paid the entire cost. While the average monthly allowance was only $8.60 where the county paid the cost, and only $10.87 where the state paid the entire sum, it was $18.06 where both units shared in the expense. 1.

The following table, on page 78, shows the average monthly pension paid compared with the maximum pension allowable under the law for the year 1934.

### Average Monthly Pension Paid Compared with the Maximum Allowable Under the Law for the Year 1934

<table>
<thead>
<tr>
<th>State</th>
<th>Maximum Allowed</th>
<th>Average Amount Paid 1934</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>$30.00</td>
<td>$19.57</td>
</tr>
<tr>
<td>California</td>
<td>30.41</td>
<td>20.21</td>
</tr>
<tr>
<td>Colorado</td>
<td>30.41</td>
<td>9.74</td>
</tr>
<tr>
<td>Delaware</td>
<td>25.00</td>
<td>9.91</td>
</tr>
<tr>
<td>Idaho</td>
<td>25.00</td>
<td>6.74</td>
</tr>
<tr>
<td>Indiana</td>
<td>15.00</td>
<td>4.50</td>
</tr>
<tr>
<td>Iowa</td>
<td>25.00</td>
<td>13.25</td>
</tr>
<tr>
<td>Maryland</td>
<td>30.41</td>
<td>22.64</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>No Maximum</td>
<td>24.42</td>
</tr>
<tr>
<td>Michigan</td>
<td>30.00</td>
<td>9.99</td>
</tr>
<tr>
<td>Minnesota</td>
<td>30.41</td>
<td>10.97</td>
</tr>
<tr>
<td>Montana</td>
<td>25.00</td>
<td>5.32</td>
</tr>
<tr>
<td>Nebraska</td>
<td>20.00</td>
<td>1.22</td>
</tr>
<tr>
<td>Nevada</td>
<td>30.41</td>
<td>18.48</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>32.50</td>
<td>17.51</td>
</tr>
<tr>
<td>New Jersey</td>
<td>30.41</td>
<td>14.87</td>
</tr>
<tr>
<td>New York</td>
<td>No Maximum</td>
<td>20.65</td>
</tr>
<tr>
<td>North Dakota</td>
<td>12.50</td>
<td>0.69</td>
</tr>
<tr>
<td>Ohio</td>
<td>25.00</td>
<td>6.54</td>
</tr>
<tr>
<td>Oregon</td>
<td>30.00</td>
<td>8.16</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>30.00</td>
<td>21.18</td>
</tr>
<tr>
<td>Utah</td>
<td>25.00</td>
<td>7.98</td>
</tr>
<tr>
<td>Washington</td>
<td>30.00</td>
<td>5.43</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>30.41</td>
<td>19.93</td>
</tr>
<tr>
<td>Wyoming</td>
<td>30.00</td>
<td>9.59</td>
</tr>
<tr>
<td>Alaska</td>
<td>35.00 Men</td>
<td>25.00</td>
</tr>
<tr>
<td></td>
<td>45.00 Women</td>
<td></td>
</tr>
<tr>
<td>Hawaii</td>
<td>15.00</td>
<td>7.06</td>
</tr>
</tbody>
</table>

**Total Average** | **$25.95** | **$12.72**

1. Parker, Florence E., *op. cit.* pp. 9, 22.
In the same year, 1934, states having old age pension laws paid out approximately thirty-two million dollars for this purpose. This is in striking contrast to the fifty thousand dollars paid in 1923.  

The amounts ranged from zero in Kentucky, Maine, and West Virginia, to over twelve million dollars in New York State. The total sum of thirty million dollars was divided equally between the states and counties, each paying sixteen million dollars.  

The cost of state pensions for the aged, per capita population, has been increasing steadily since the systems were started. In 1931 the average cost was only 64 cents per inhabitant; in 1932 it was 77 cents; and in 1933, it was 81 cents. In 1934, however, the cost dropped appreciably and averaged only 60 cents per capita population. 

The following table, on page 80, illustrates the per capita cost by individual states for 1934.

1. Parker, Florence E., _op. cit._, p. 22.  
2. _Ibid._, p. 4.  
3. _Ibid._, p. 11.
### PER CAPITA COST OF STATE OLD AGE PENSIONS, 1934.

<table>
<thead>
<tr>
<th>State</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>$1.07</td>
</tr>
<tr>
<td>California</td>
<td>.76</td>
</tr>
<tr>
<td>Colorado</td>
<td>1.24</td>
</tr>
<tr>
<td>Delaware</td>
<td>.81</td>
</tr>
<tr>
<td>Idaho</td>
<td>.40</td>
</tr>
<tr>
<td>Indiana</td>
<td>.36</td>
</tr>
<tr>
<td>Iowa</td>
<td>.53</td>
</tr>
<tr>
<td>Kentucky</td>
<td>.00</td>
</tr>
<tr>
<td>Maryland</td>
<td>.07</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>(no data)</td>
</tr>
<tr>
<td>Michigan</td>
<td>.02</td>
</tr>
<tr>
<td>Minnesota</td>
<td>.32</td>
</tr>
<tr>
<td>Montana</td>
<td>.46</td>
</tr>
<tr>
<td>Nebraska</td>
<td>.04</td>
</tr>
<tr>
<td>Nevada</td>
<td>.33</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>.67</td>
</tr>
<tr>
<td>New Jersey</td>
<td>.45</td>
</tr>
<tr>
<td>New York</td>
<td>1.00</td>
</tr>
<tr>
<td>North Dakota</td>
<td>.04</td>
</tr>
<tr>
<td>Ohio</td>
<td>.43</td>
</tr>
<tr>
<td>Oregon</td>
<td>.69</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>.48</td>
</tr>
<tr>
<td>Utah</td>
<td>.25</td>
</tr>
<tr>
<td>Washington</td>
<td>.37</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>.42</td>
</tr>
<tr>
<td>Wyoming</td>
<td>.45</td>
</tr>
</tbody>
</table>

**Total Average** $0.60

- **Alaska**: 1.83
- **Hawaii**: .09

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². Parker, Florence E., *op. cit.* p. 11.
As we can see, state old age pensions have been a very important factor in meeting the problem of old age dependency. In 1935, 180,000 people were receiving pensions under these laws. 1. Supporters of this legislation point with pride to the results of its operation. It has reduced the cost of caring for the aged, relieved the aged of some of the stigma of relief, and improved the general morale among the dependents. In New York State the old age assistance law not only stopped the tremendous influx of persons to the almshouses at the beginning of the depression, but also reduced the population already within the almshouses. 2. Throughout the country the old age pension system was found to have improved the conditions in private homes for the aged. 3.

Although one of the most frequent objections raised to the establishment of a public old age pension system has been in regard to the cost of such a measure, the experience of the states having old age pensions has demonstrated this fear to be

3. Ibid., July, 1932, p. 45.
unfounded. In 1933, the average cost of maintaining an individual in a poorhouse for a month was $44.23, while the average cost of maintaining him in his own home on a pension basis was only $19.00. 1.

The desirable effect which state pensions have had upon the general morale of the aged dependents is acknowledged by all. The state laws represent a tremendous improvement over previous attempts to deal with the problem of old age dependency. But in praising the system, we must point out the need for a more comprehensive and far-reaching program.

Compared with the large number of aged dependents in this country, the number of persons covered by state laws, namely, 180,000, is a small figure. However, there is no doubt that some improvements can be made in the state systems to increase their coverage and widen their application. Many have felt that the high age requirement is a defect.

"Inherent in the problem of determining at which age people should be eligible for pensions is the question as to when a man ceases to be socially useful." 2.

We have already seen that the modern wage earner ceases to be useful long before sixty-five. Some industrial concerns have set the hiring age limit as low as forty-five. State laws cannot entirely solve the problem so long as they set sixty-five as the age required for eligibility.

Citizenship and residence requirements imposed by the state laws may work hardships. The former exclude all aliens. "Where aliens have been residents of a state for many years and would in any case be eligible for public relief, it would seem reasonable to extend to them the benefits of an old age pension instead of forcing them to be recipients of poor relief, merely because they failed either through ignorance or poverty to become naturalized citizens. 1. The long periods of state residence seem unjustifiable in view of the migratory nature of the modern working class population. ". . . it is evident that this one provision makes ineligible vast masses of the aged. To attain fifteen years continuous residence calls

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for a far greater amount of security and more continuous employment than can reasonably be expected in view of the prevailing economic conditions."

Moreover, the rigid income and property requirements set up by some state laws require complete destitution before an individual is able to receive aid. Such pauperization seems to contradict the purpose for which these laws were set up.

We have already shown how inadequate is the amount of the pensions granted. Three dollars a week can hardly provide the barest necessities for an individual. Yet studies have shown that in the majority of cases these pensions are not supplemented by other income.

Pensions are admittedly cheaper and superior to the poorhouse. Nevertheless they are a great cost to the state. Moreover, they do not approach the problem preventively since they demand destitution before giving assistance. Because of their cost and the fact that they are not preventing

dependency in old age, pensions cannot afford a permanent solution to the problem. This is apparent when we recall the increasing number and proportion of the aged population.

Recognition of the inadequacy of state pension laws for the aged was expressed repeatedly in the 1934 National Conference of the American Association for Social Security:

"Visionary perhaps, but deserving of thought, is the agitation for social insurance." 1.

"Looking into the future, we are all, of course, aware of the need of a more progressive social program..." 2.

"The achievements of these systems have been very real and very great, but they must not blind us to the fact that they touch only the fringe of the problem... Old Age pensions... have been a necessary beginning, but the time has come to consider a broader program." 3.

The "broader" program must necessarily be on a national basis.

2. Ibid., p. 37.
3. Ibid., p. 36.
CHAPTER V

THE NATIONAL MOVEMENT FOR OLD AGE SECURITY LEGISLATION

The United States has been slow to meet the problem of providing security in old age. While little progress was made in legislation of this nature among the state governments until after the World War, the national government was even slower to take action. Meanwhile, many European countries had set up systems of social security. By 1909, Australia, Canada, Czecho-Slovakia, France, Germany, Great Britain, the Irish Free State, Italy, New Zealand, Poland and Switzerland had all set up some form of national legislation making provision for the aged. Between 1909 and 1932, twenty-eight other nations had taken national action on this subject. 1 so that by 1935 the United States, China, and India were the only large countries in the world without some national provision for the aged.

There are a number of reasons why the United States has been so backward in this matter. First, we are a young nation industrially. While England passed through the industrial revolution during the late eighteenth and early nineteenth centuries, we did not become a predominantly industrial nation until recently. Moreover, the American working class is one of the least organized national labor groups in the world. Social legislation against insecurity was brought about in some countries through the efforts of the working class acting through the trade unions. Such movements were also supported by radical political groups, which have been strikingly absent from our American party history. Then too, our laissez-faire philosophy has run counter to proposals for social legislation of this character. In America, all men are free and equal and therefore, "let the devil take the hindmost." Such has been the traditional American attitude toward social reform. 1.

Another outstanding difficulty with which we have been faced is our system of government. Not only have our national legislators been influenced by powerful groups, but they have been under the limitations imposed by the federal and state form of government. While there are some nations which have dual systems of government, few are so limited in their federal functions as our own government.

While we found that as early as 1903, the states had begun to take notice of the question of dependency in old age, it was not until 1907, the year when the first Massachusetts State Commission was set up, that a federal bill for old age pensions was introduced into Congress. At this time Representative William B. Wilson, later Secretary of the United States Department of Labor, moved that an old home guard be created whose members would be entitled to old age pensions. The reason for the creation of a military guard was that it was feared that only military pensions were constitutional. Wilson's proposal was ingenious but it bore little fruit since it was quickly defeated in committee.  

From this time on, scarcely a session of Congress passed when at least one bill of this character was not introduced into Congress and subsequently killed in committee. Victor L. Berger of Wisconsin, the first socialist representative to sit in Congress, was persistent in his efforts to secure national legislation providing for old age pensions. He first introduced a bill into Congress in 1911, and continued to call attention to the subject until 1928. His original bill provided for a pension of four dollars a week or less to all persons in the United States sixty years of age and over, whose income was below ten dollars a week. The bill required sixteen years of citizenship, good moral character, and a pension allowance on a sliding scale. 1.

Like many early attempts at social legislation in this country, old age pensions were viewed as radical, un-American and destructive of the fibre of pioneer spirit. Berger's efforts were not productive, but they were one further step towards the enactment of federal legislation.

Until 1921, all of the legislation proposed in Congress had been for a strictly national system of old age pensions. At that time, however, a bill was prepared by the American Association for Social Security which provided for federal aid to states to assist them in the cost of state old age pensions. Representative Sirovich introduced this bill into Congress. It was the first practical method offered for the solution of the problem and one that would be least likely to meet constitutional difficulties. The bill provided for a subsidy to each state equal to the amount of one-third of that spent by the state on old age pensions. It set up certain standards for the state, limiting the recipients of pensions to those seventy years of age and over providing that their income was less than one dollar a day, and providing that they were without other means of support. 1. The expenses of administration were to be borne by the states. 2.

Like all previous attempts, the Sirovich bill was defeated in committee. However, it was significant

in that it marked a change in the approach to the problem of enacting national legislation. From that time on, supporters of the old age pension movement concentrated on a "grant-in-aid" program for aiding the aged.

Bills continued to be introduced into Congress in rapid succession although with equally little success. Finally, the Dill-Cemmery bill was introduced in 1932. This marked a change in the attitude towards social security. It was introduced when the full significance of the economic depression had begun to be realised.

"The dominant sentiment characterizing the era of the twenties cannot fairly be described as hostile. It was worse; it was callously indifferent. There was supreme confidence that rugged individualism in the United States was above the need to provide that social security which had come to be regarded by all other modern industrial countries as basic and axiomatic . . . The significant fact was that social insurance was not even discussed." 1.

But by 1932 this traditional attitude had changed considerably. Many had come to the conclusion that social legislation was essential to the preservation

of our political and economic structure. Credit for this is partly due to the American Association for Social Security which under the leadership of Abraham Epstein worked to educate the public to this need. Other groups also attempted to organize public opinion to the same end.

An evidence of this change in attitude was seen in 1932 when the Dill-Connery bill was reported favorably by both of the congressional committees to which it had been referred. 1. This was the first time that a bill providing for social security on a national scale had been recommended for enactment by a congressional committee.

The Dill-Connery bill provided for the creation of an Old Age Security Bureau in the Department of Labor. It appropriated ten million dollars, to be apportioned among the states for a grant-in-aid system of old age pensions. The federal government was to pay one-third of the amount expended by the states for this purpose. While the administrative details of the system were left to the states, the

federal government was authorized to set up certain standards for the state laws: 1) all pensioners in the states must be sixty-five years of age or over; 2) pensioners must be citizens of the United States; 3) pensioners must be devoid of any means of support and must not own property valued at more than $5,000; 4) pension grants must not be in excess of one dollar a day; 5) the pension law must be mandatory upon all the political subdivisions within the state. 1. Congress, however, adjourned without even considering the bill. 2.

During the next two years many bills providing for national security were introduced into Congress. No action was taken as the executive and legislature were preoccupied with other matters. Later when most of the "emergency" matters had been taken care of Congress refused to take action since it anticipated that the president would recommend his own program for adoption.

On June 8, 1934 President Roosevelt first publicly proclaimed his support of a national program

for economic security. In 1929, when governor of New York state, the president had recommended the appointment of a state commission to study the subject of old age security. The commission's report led to the passage of a state old age pension law the following year. 1. The governor felt that the law was justifiable as a means of eliminating some of the most undesirable conditions which prevailed in the almshouses and poorhouses of the state, but believed that any enlargement of the system of old age pensions would "smack of the practises of a dole." 2. He believed that people should not be obliged to accept the "charity" of a pension and therefore recommended the adoption of a state system of old age insurance. In this way, the aged would be rightfully entitled "to the benefits received, since they would be earned by their own thrift and foresight. "In this way all men and women will, on arriving at a period when work is no longer practicable, be assured not merely of a roof overhead and enough food to keep body and soul

2. Ibid., p. 24.
together," as they are under existing pensions, but will also be assured enough income, "to maintain life during the balance of their days in accordance with the American standard of living." 1

Although President Roosevelt desired to act quickly when he entered the White House, he used strategy in presenting his program to the public. In his speech on June 8, he did not formulate any specific plans but laid down certain broad and general principles for the program. In this address, he attempted chiefly to establish the national government's responsibility for providing economic security. In setting up this principle, he attempted to anticipate the criticisms of the advocates of "states' rights." The president recognized that there were many who felt that expansion of the activities of the federal government was an encroachment upon local self-government, and pointed out that government authority was actually the source of individual freedom. He insisted that we had observed this fact in the past and that a national program of social security would not create "new and strange values."

It would rather constitute the finding of the way once more "to known, but to some extent forgotten ideals and values." If the means and details prove to be new in some instances, the objectives are "as permanent as human nature." 1.

The president referred to the famous "welfare clause" in the constitution and held that this grant of power clearly established the federal government's right to step into the field of social security. He emphasized however that any system must necessarily involve the close cooperation of the states and the national government, but implied that leadership must rest with the latter. The states must "meet at least a large portion of the cost of management, leaving to the federal government the responsibility of investing, maintaining, and safeguarding the funds..." 2.

The president recommended the appointment of a committee of experts to make a detailed study of the problem and draw up plans to be presented to the next Congress. This committee was soon appointed.

2. Ibid., p. 2.
The President's Committee on Economic Security
was made up of four cabinet members and the federal emergency relief administrator: Frances Perkins
Secretary of the Department of Labor; Henry Morgenthau, Jr., Secretary of the Treasury; Henry A. Wallace,
Secretary of Agriculture; Homer Cummings, Attorney General; and Harry Hopkins, the relief administrator.
The committee had a small staff of experts in the field to gather factual material. It also summarized
American and foreign legislation, presented actuarial calculations, and made detailed suggestions for legis-
lation. 1.

In addition these two bodies were assisted by the Technical Board on Economic Security which was
created by executive order. This was made up of some twenty people in government service who had special
knowledge in the field of social security. 2. This board functioned mainly through sub-committees and
worked through the entire period of the cabinet committee's existence. It deserves credit for a
major part of the recommendations submitted to Congress. 3.

2. Ibid., p. 2.
Political and Social Science, March 1935, p. 89.
A third group also appointed by the executive
was known as the Advisory Council. This body consisted
of twenty-three persons outside government service, who
were chosen to have a representation of employers,
employees and the public points of view. 1. Frank P.
Graham, president of the University of North Caroline
was chairman of the group. Others serving on the
Committee included: Gerard Swepe, president of the
General Electric Company; Walter C. Teagle, president
of the Standard Oil Company of New Jersey; William
Green, President of the American Federation of Labor;
Raymond Moley, editor of Today and former assistant
secretary of State; John G. Winant, ex-governor of
New Hampshire; and Mary Dewson representing the National
Consumers' League. 2. It was the function of this
committee to secure the views of practical men in various
"walks" of life. It met only four times during its
brief existence and then only for a few days. It was
not even constituted until the Technical Board had
already drawn up concrete recommendations for
legislation. 3.

1. "Message of the President Recommending Legislation
2. "The Social Security Bill," House of Representatives,
   Report #615, April 5, 1935, 74th Congress, 1st session,
   p. 42.
   Program," op. cit. p. 89.
In addition to these three bodies, the cabinet committee appointed seven other advisory committees to aid in drawing up a legislative program. These were as follows: Committee of Actuarial Consultants; Medical Advisory Committee; Public Health Advisory Committee; Hospital Advisory Committee; Dental Advisory Committee; Advisory Committee on Public Employment and Public Assistance; and Committee on Child Welfare. ¹ These were made up of specialists in the various fields represented.

Despite the long and impressive roster of boards and committees, it is questionable whether the best-informed and most representative individuals were drafted for this purpose. Moreover, the committee was driven on the one hand by the desire for immediate action and on the other hand by the wish to arrive at a correct solution to the whole problem of economic insecurity, thus being placed in an uncomfortable position. Other nations had spent decades, even centuries evolving systems of social security. Even then they continued to suffer from economic upheavals and were still seeking a suitable solution to the

¹ "Message of the President Recommending Legislation on Economic Security," House Document #81, p. X.
problem. Yet this small group was expected to produce a rapid and effective answer to the problem. Little wonder that the results were not entirely gratifying.

The members of the Committee on Economic Security were agreed from the start that some federal action in the field of old age security was essential. One of the basic issues was the relative role of the federal and state governments and private industry in any program. Many felt that only a national system would meet the needs. One great objection to such a system was the constitutional doubts which it raised. This plan was opposed vigorously by the advocates of states' rights. Others held that the system should be on a national basis but felt that the states and private industry should participate. Whether the national government should collect taxes to be turned over in "block grants" for administration by the states, or whether the plan should be financed by a grant-in-aid system raised innumerable questions. Similar difficulties appeared when the "tax-offset" method was proposed. 1.

There was a sharp division of opinion when the group considered the nature of security to be provided. Many favored straight, non-contributory pensions such as already in effect in many of the states; others preferred compulsory contributory insurance. Should a system of insurance be adopted, the question of providing for those already old presented difficult problems. The issue was complicated by the economic depression, which involved questions of "recovery" and "reform." 1.

Within less than six months, the Committee on Economic Security reported its findings and recommendations were submitted to Congress with the Executive's approval. A formal draft of legislation was not however presented to Congress until January 15, 1935.

On January 4, 1935 the president addressed the new Congress. In this speech he severely denounced the demoralizing effects of public relief, and emphasized the necessity for the swift adoption of a program providing social security.

"... . Continued dependence upon relief induces a spiritual and moral disintegration fundamentally destructive to the national fibre. To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human spirit. It is inferior to the dictates of sound policy.

It is in violation of the traditions of America... The federal government must and shall quit this business of relief."

1.

He went on to point out that the localities must continue to provide for unemployables but added that responsibility for other groups in the population must fall upon the government at Washington. He stressed the fact that the country was an economic unit and that no local plan providing for our needs could be adequate. 2.

As immediate objectives in the national program for economic security the president named, 1) security of a livelihood through a better use of our economic resources; 2) security against the "major hazards and vicissitudes of life;" and 3) the security of decent homes. 3.

While the president spoke of a "new economic order" rising from the old, he added that the administration had no intention of abandoning the profit system. "We continue to recognize the greater ability of some to earn more than others." 4. Nevertheless,

2. Ibid., p. 1.
3. Ibid., p. 1.
4. Ibid., p. 2.
many felt that the president's speech indicated that the Committee on Economic Security would propose a "radical" program. The conservatives began to organize opposition; and the liberals, somewhat prematurely perhaps, proclaim their support of the presidential program.

On January 15, 1935, as already mentioned, the Committee on Economic Security submitted its report to Congress. It recommended that the federal government adopt a program containing both pensions and insurance for the aged. The members of the committee felt that a system of a straight non-contributory pensions was the only way to provide for those already old and without means of support. They pointed out that many of the states would be unable to continue their pension systems unaided and therefore proposed that the federal government match equally the sums of the state governments. The report advised that the federal government should set up standards for the state laws. The national government was to match funds up to fifteen dollars a month per person. The state pension systems must be state-wide and compulsory. The states were prohibited from requiring
more than five years of residence within the state, and from setting up property qualifications of less than $5,000. The Committee specified that the pension granted must in all cases, when added to the recipient's income from other sources, provide a "minimum of subsistence." 1.

While the members of the Committee believed that the need for straight pensions would decline in future years, they did not feel that pensions could ever be entirely eliminated from the program for social security. The Committee pointed out that pensions would always be necessary for persons who were not salaried workers but who nevertheless became dependent in their old age.

"Until literally all people are brought under the contributory systems, non-contributory pensions will have a definite place in a long-time old-age security planning." 2.

The Committee felt, however, that straight pensions for all of the aged would be too great a burden for the state and national governments to bear. Actuaries estimated that if no other system was used to supplement the pensions, by 1950 the federal grants would

amount to about five-hundred million dollars a year, and by 1980, would amount to over a billion dollars annually. 1. The Committee therefore recommended a national system of contributory old age insurance, despite the many political and constitutional objections against this plan. The Committee pointed out that unless the system was established on a national scale, workers who moved from one state to another might lose their eligibility. 2.

The proposed plan was very inclusive. It covered all manual and non-manual workers earning less than $250 a month, except those already covered by the Railroad Retirement Act and by federal, state, and municipal civil service systems. It made no exception of agricultural and independent workers, nor of those employed in domestic service. The compulsory contributions were to be collected through a tax on payrolls and wages, divided equally between employers and employees. The Committee recommended that the combined tax should equal 1 per cent of the payroll during the first five years of operation and that it should increase every five years until it equaled a combined tax of 5 per cent. 3. The taxing schedule would read as follows:

2. Ibid., p. 36.
<table>
<thead>
<tr>
<th>YEARS</th>
<th>Employer</th>
<th>Employee</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1937-1941</td>
<td>0.5 %</td>
<td>0.5 %</td>
<td>1 %</td>
</tr>
<tr>
<td>1942-1946</td>
<td>1.0</td>
<td>1.0</td>
<td>2</td>
</tr>
<tr>
<td>1947-1951</td>
<td>1.5</td>
<td>1.5</td>
<td>3</td>
</tr>
<tr>
<td>1952-1956</td>
<td>2.0</td>
<td>2.0</td>
<td>4</td>
</tr>
<tr>
<td>1957 and after</td>
<td>2.5</td>
<td>2.5</td>
<td>5</td>
</tr>
</tbody>
</table>

While the president's Committee did not advise that the federal government contribute to the fund during the early years when income would exceed outgo, it did recommend that the government should guarantee contributions to maintain a sufficient reserve. The maximum reserve to be built up in the fund was to be approximately fifteen to sixteen billion dollars. This sum would be reached by 1965. From then on, the fund was to be held at a fairly stabilized level. Federal contributions would

1. Douglas, Paul K., pp. 311-313
begin somewhere between 1965 and 1970 and would amount to about $18,000,000,000 by 1980. 1.

Under the insurance system advocated by the Committee, no benefits were to be paid out until the plan had been in operation at least five years. Each annuitant must have made at least two hundred weekly contributions to the system before reaching the age of sixty-five. Should a contributor die before reaching the age of sixty-five, or before he was paid the total amount of his contributions, the difference between the amount contributed and the amount already paid out in benefits was upon his death, to be paid to his dependents plus interest at 3 per cent. 2. Initial annuities paid to those who had contributed for five years were to be equal to 15 per cent of their average wages. This sum would increase for each of the following years. The maximum annuity granted under the insurance was to be 40 per cent of the average wage. 3.

3. Ibid., p. 25.
The compulsory contributory plan was to be administered by a Social Insurance Board to be set up in the Department of Labor. The reserve funds of the system were to be invested and managed by the Secretary of the Treasury. 1.

In addition to these types of security for the aged, the Committee recommended that the government set up a voluntary system of insurance. This was to be designed especially for professional and self-employed persons not covered by the compulsory contributory system. However, it was pointed out that such a plan would also be valuable to workers covered by the compulsory system as a means of supplementing their income. It would provide an inexpensive and safe way of meeting the problem of insecurity in old age to all the lower income groups. 2.

Under the plan as drawn up by the Committee on Economic Security, the government was to sell to individuals, deferred life annuities on a cost basis, similar to those issued by the commercial companies. In consideration of the premiums paid, the government would guarantee purchasers a

2. Ibid., p. 28.
definite amount of income starting at age sixty-five and continuing through the life-time of the annuitant.

While the Committee did not outline the plan in any detail, it mentioned several basic principles which it felt should be incorporated in any voluntary insurance system which Congress might set up. These were as follows: - (1) The plan must be self-supporting and must be kept on an actuarial basis. (2) The terms of the plan should be simple and practicable. (3) The plan should be designed, primarily, for the lower income groups. Therefore, premiums and maximum annuities should be set at a relatively low figure. (4) The plan should be administered by the Social Insurance Board in the Department of Labor. (5) The Social Insurance Board should study the practicability of government contributions toward the annuities of those already old.

The president's Committee submitted its recommendations to Congress on January 15, 1935. Two days later the president himself addressed

Congress and urged them to pass the suggestions made by the Committee promptly, pointing out that forty-four state legislatures would be in session in 1935 and would not regularly meet again until 1937. While Roosevelt urged that Congress adopt the Committee's plan, he stated that in any event, Congress must observe certain fundamental principles in drawing up the economic security program. First, if any system of social insurance was adopted, it must be self-sustaining, and not supported by general taxation. Second, the management of social insurance must for the most part, be in the hands of the states, except in the case of old-age insurance. And finally, whatever program was decided upon must provide for federal government control over all funds and reserves. ¹

The president cautioned Congress that "No one can guarantee this country against the dangers of future depressions." He went on to say, "but we can... eliminate many of the factors that cause economic depressions and we can provide the means for mitigating their results. The plan... is at once a measure of prevention and a method of

alleviation."  

1. Any plan "must appeal to the sound sense of the American people" and "merit the enthusiastic support of people of all sorts." It is "overwhelmingly important to avoid any danger of permanently discrediting the sound and necessary policy of federal legislation for economic security by attempting to apply it on too ambitious a scale before actual experience has provided guidance for the permanently safe direction of such efforts. The place of such a fundamental issue in our future civilization is too precious to be jeopardized now by extravagant action. It is a sound idea -- a sound ideal."  

2.  

In response to this plea for immediate action, a bill embodying the recommendations of the Committee on Economic Security was immediately introduced into Congress. Senator Robert F. Wagner of New York sponsored the bill in the Senate, and Representatives David J. Lewis of Maryland and Robert Doughton of Georgia introduced a similar bill in the House. This bill which was supported by the administration was known as the Wagner-Lewis-Doughton Bill.

CHAPTER VI

ALTERNATIVE PROGRAMS FOR SOCIAL SECURITY

In addition to the Wagner-Lewis-Doughton Bill, many other proposed measures were introduced into Congress. Two of these plans, although defeated, received sufficient support and publicity to warrant a somewhat detailed consideration. A third plan was important enough to deserve mention.

The Townsend Plan had been suggested as early as 1934. However, the scheme received little serious consideration at that time. It was believed absurd and fantastic. It was not until the autumn of 1934, after the Dill-Connery Bill had once again been rejected by Congress, that the public, disappointed by Congress' inactivity, seized upon the Townsend Plan as the panacea for social security. The movement spread like wild fire and before long assumed a position of primary importance in activities in Washington.
Francis Everett Townsend, the lean, gaunt physician of Long Beach, California, rose from obscurity to a position of national prominence overnight. Born in Fairbury, Illinois, in 1866, he was educated in a small rural school near his home. As a young man Townsend left home and wandered about the country trying his hand at everything from farming to teaching. Having crossed the country by freight at the age of twenty-six, he suddenly decided to become a doctor, and entered the medical school of the University of Omaha. Having no financial resources of his own, he was forced to work in his spare time. He later set up a medical practice in the Bear Lodge country of the Black Hills, finally moving to California where he married a nurse. The Townsends had twin sons who died and have a son now in college. They also have an adopted daughter. 1.

As assistant health officer in Long Beach, California, Doctor Townsend led a quiet life until December 1933, when he suddenly lost his office as

1. Swing, Raymond, "Dr. Townsend Solves It All," The Nation, March 6, 1935, pp. 268-269.
a result of a change in political administration. At this time, he was over sixty-five years of age and had only about one hundred dollars in savings with which to support his wife and family. ¹

The grimness of the future suddenly disappeared when Doctor Townsend startled the country by evolving a simple scheme to solve not only his own problem of insecurity, but also the problems of the millions of aged persons in a similar predicament. At first, the California physician revealed his ingenious plan only to his intimate associates, but as time went on and the experts at Washington seemed unwilling to take action, Townsend decided to submit his plan to Congress.

At first, the Townsend Plan was sent as a petition to Congress with hundreds of signatures of supporters. By April 1, 1935, the movement had gained considerable momentum as a result of the publicity program undertaken by Townsend and his followers. At this time, Senator John Steven McGroarty, aged seventy-two, a neighbor of Doctor Townsend,

Townsend's, agreed to introduce the plan as an amendment to the administration bill. The plan had been revised considerably since it was first drawn up and the followers felt certain that it would pass Congress in its modified form. However, in Congress, the bill was rejected after a half hour of debate by a vote of 206 to 56. Nevertheless, the movement both before and after it appeared in Congress attracted so much attention and received so much publicity that it was a significant aspect of the struggle for social security.

The grandiloquent purpose of the plan was stated in the introduction to the revised bill:

"To provide for the general welfare of the United States by supplying to the people a more liberal distribution and increase of purchasing power, retiring certain citizens from active gainful employment, improving and stabilizing gainful employment for other citizens, stimulating agricultural and industrial production and general business, and alleviating the hazards and insecurity of old age; to provide a method whereby citizens shall contribute to the purchase of and receive a retirement annuity; and for the raising of the necessary revenue to operate a continuing plan therefor; . . . "

Few found cause for controversy with the objects of the bill. Whether the means to be applied for these ends were practical and justifiable was however open to question.

Money was to be raised through a 2 per cent tax on business transactions. This would be used to pay annuities to all American citizens, sixty-five years of age and over, who agreed to comply with the terms of the act. The tax was to be levied "upon the fair gross dollar value of each transaction within the United States and Territories." 1

This sales tax was to be supplemented by a tax equal to $1/10 of the tax levied on incomes, and a tax of 2 per cent on every gift in excess of $500. 2

These assessments were to be collected every thirty days and turned over to the United States Treasury. A fund known as the "United States Citizens' Retirement and Annuity Fund" was to be created in that department, in order to administer the annuities. Out of this all United States citizens, sixty-five years of age and over, were to receive monthly

2. Ibid., pp. 4-5.
benefits providing that: "(1) The annuitant shall not engage in any gainful pursuit. (2) The annuitant. . . shall expend all of each month's annuity during the current calendar month in which it is received by the annuitant. . . in and for the purchase of any services and/or commodities, and/or for the payment of any indebtedness lawfully arising for any such purchase." 1. In order to receive benefits, pensioners must agree not to spend more than 15 per cent of their annuity for charity, church or fraternal organizations. Since the plan was all-inclusive, all government pensions except those for disabled veterans of the World War were to be discontinued. 2.

The revised Townsend bill specifically stated that,

"This annuity shall not be payable to any person who directly or indirectly receives from any source a net income of any kind or nature in excess of $2,400 per year." 3.

This was a modification of a clause in the original bill which had occasioned much comment. Under the first bill, persons were to receive pensions regard-

less of need, and the cost of the pensions would obviously have been prohibitive.

The administration of the annuities was to be placed under the Veteran's Bureau, which was directed to set up and maintain boards of review within the states. The state boards were asked to review all issues arising under the act, subject to the review of the state court within the particular jurisdiction. 1.

The pension fund thus set up in the national treasury was designed to cover all the expenses of the administration. A reserve fund sufficient to provide payment of deferred annuities was to be maintained at all times. The remainder of the fund was to be distributed monthly to all qualified annuitants "in such amount not exceeding $200 per month." 2. This provision had been amended in the McGroarty Bill. Under the revision, pensions would probably have averaged around fifty dollars per month, since it was stipulated that the total amount of the fund was to be divided among annuitants entitled to share it. 3.

1. H. R. 7154, pp. 9-10
2. Ibid., p. 11.
3. Ibid., p. 11.
Doctor Townsend and his followers maintained that the plan was the best method to increase purchasing power and therefore promote recovery.

"The purchasing power provided by the Townsend Plan put into the hands of millions of our people, is absolutely the surest way yet developed to produce business activity and prosperity." 1.

The scheme was worked out in great detail. Townsend estimated that eight million persons would receive and be forced to spend sixteen hundred million dollars a month. According to the Townsendites, this was a negligible sum when compared with the thirty-three billions spent to conduct a European war, the twelve billions which we spend annually on crime, and the hundreds of millions flowing out of the national, state and local treasuries for relief. Under the Townsend Plan no public or private relief would be necessary. The future was indeed rosy. Society would be relieved of tremendous burdens of taxation. Crime would be reduced since the increase in purchasing power would tend to remove its causes. The population in our insane asylums would decline as a result of the emotional security provided by the plan. 2.

1. The Townsend Plan, published by the Old Age Revolving Pensions Ltd. p. 4.
2. pp. 5-6.
The Townsendites asserted that the plan would "provide immediate employment for all in vocations for which they are fitted and trained at a standard living wage. . . ." 1. Once older workers had been removed from the labor market and were supported by pensions, there would be plenty of jobs for all and unemployment would disappear. Increased purchasing power would also build up employment and the rapid circulation of money would bring about almost immediate recovery. 2.

Finally, the supporters of the plan argued that the aged would receive comfortable incomes and would be able to maintain a high standard of living. They pointed out, not without some sentiment, that pensions will, "make the latter end of life a delightful golden autumn instead of the bleak and fearful winter which it represents for so many. . . . Justice can be assured to all through this system and the injustice of permitting the wealth of the nation to accumulate in the hands of a few will be eliminated." 3.

1. The Townsend Plan, op. cit. p. 4.
3. Ibid., pp. 5-6.
Little wonder that such a program aroused attention and interest throughout the country. The entire population would at last be freed from facing destitution in old age. A perfect theory, stark in its simplicity, had at last been evolved!

But just how sound was Doctor Townsend’s Utopia? A sales tax because of its nature cannot be based upon the principle of "ability to pay." Consequently, it falls disproportionately upon the lower income groups. But a 2 per cent tax on all business transactions is not only "unfair," it is absurd! It would mean turning over at least half of our entire national income to the fund. Probably ten million people would apply for a pension. This would necessitate a total outlay of twenty-four billion dollars.

"Since the national income in 1934 was probably not much, if any, in excess of forty-eight billions, this would have meant turning over one half of the national income . . . to about eight per cent of the population." 1

As a matter of fact the total tax income, including all receipts from local, state and national governments, was only about eight billion dollars. The total tax income would therefore have been only about one third of the money necessary. Even then,

the tax would have been such a heavy burden on industry that it would have brought business to a standstill. 1.

But even if the tax could have been levied without strangling business, it would not have increased purchasing power. While the initial advance of money to finance the plan would have increased the total quantity of monetary buying power, it would have had the net effect of transferring, not "creating," purchasing power. The purchasing power of the group paying the tax would have been reduced by exactly the same amount as the purchasing power of those receiving the benefits had been increased. 2.

"All of us would be compelled to pay at least twice as much for everything as we do now. . . . It is silly to contend that the enlarged purchases of the pensioners would more than offset our inability to buy. . . . The high prices would so discourage sales to the majority of the population that they would buy even less than half as much as before. . . . To apply a sales tax for any purpose is unjust to those with the lowest incomes, and to do so during a depression is simple madness." 3.

An unskilled laborer who would ordinarily receive $16. would have his real income reduced to $8 or $10

a week by the Townsend sales tax. It would pauperize as many persons under sixty as it would benefit persons over sixty and would create an infinitely more serious problem than the present one. Even those over sixty would not be much better off. Due to inflation and duplicate taxation, prices would rise, decreasing the real value of the income which they received. Those under sixty would, as we have seen, be a great deal worse off.

The construction of the Townsend Plan was such that administration of it was almost impossible. The transfer tax would have to be collected from thousands of different persons. Still more difficult would be enforcement of the provision that the pensioners spend the entire sum within a month. More than six thousand local pension boards would probably have to be set up. The tremendous costs of administration would have been entirely out of proportion to the benefits of the act.

Despite the obvious fallacies and inconsistencies of the Townsend Plan, we cannot afford to pass over it lightly. The great public appeal of the bill

is an item which must be reckoned with. When Doctor Townsend stood before Congress presenting his plan as an alternative to the administration bill he was backed by forty million supporters, over one fifth of the total population in the United States.

"Nothing remotely comparable to this has ever happened before in the history of the Republic. Letters pour into Washington by the thousand. Compared to this avalanche, the agitation for payment of the soldier bonus is not even a tempest in a teapot. It isn't a whisper in a cyclone." 1.

The Townsend Plan achieved its popularity largely through the efforts of the high-powered publicity campaign which it set up. It published a weekly newspaper known as "The National Townsend Weekly." National radio hook-ups carried the campaign over the air. Thousands of local Townsend Clubs with thousands of members in each club sprang up all over the country.

Doctor Townsend had solved the problem. People did not care whether the plan was practical or feasible. They had been disillusioned by Congressional inaction and were eager to support anything which would attempt to bring them social

security. Doctor Townsend became "the incarnation of the American Utopian, . . . a salient bit of American history marching on, . . . the revelation of the submerged half of the two-fold nature of Americans, the half which sees in dreams what it cannot find in reality." 1.

"It is dissatisfaction with the attainable which leads to fanaticism and at last to social fury. . . . And when great masses are ready to believe the impossible, that is an ominous political fact. In this sense, the danger is not Doctor Townsend, who in himself is harmless as a dove, but that so many millions accept his plan." 2.

The Townsend Plan was one other factor which made it possible to enact a federal law on social security. The conservatives felt compelled to support the administration program lest the more radical plan be accepted. Moreover the high, standards set up by Doctor Townsend resulted in raising the pension and benefits provided by the federal government. To this extent, therefore, the plan was constructive and valuable.

Ernest Lundeen, Farmer Laborite of Minnesota, introduced another alternative social security.

2. Ibid., p. 270.
program. His plan was the most sweeping and radical of all which appeared in Congress. It was first brought up in 1934, and in 1935 the original bill was revised and again placed before Congress. The first bill was designed solely as an insurance measure against unemployment, but as re-drafted the bill became a general social insurance plan, designed, "to insure every worker against loss of income due to unemployment, old age or other disability." 1. The purpose of the bill was succinctly stated:

"Under modern economic conditions it is impossible for most workers to secure themselves against loss of income due to loss of work, for their earnings, during employment, are barely enough to provide for more than immediate living expenses. This loss of work, involving mass unemployment, displacement of older workers... is primarily due to the operation of social and economic forces which are beyond the control of individuals, private bodies, or individual states... It is therefore the declared policy of the Government of the United States that it is in the interest of the general welfare that Congress appropriate funds out of the Treasury of the United States for the establishment and support of a national system of social insurance for the benefit of all workers." 2.

2. Ibid., pp. 1-2
The Lundeen bill provided for a national system of social insurance, pointing out that the needs which it attempted to serve were national in scope. This system of insurance was to go into effect immediately upon passage of the bill. It was to cover all workers, farmers, professionals and self-employed individuals as well as salaried persons and wage-earners. Compensation for total or partial loss of income was to be made by furnishing the worker an income equal to his average earnings during full-time employment. In no case was this sum to furnish less than a minimum standard of living. 1.

The method of administration provided by the bill was somewhat unusual. Workers "representative of local workers and familiar with local opportunities, pursuant to rules and regulations in the social interest" were to administer the bill "democratically." 2. The bill as finally drafted provided that the president create an independent commission of sixteen members with full administrative control and supervision over the local units. This draft also set up in some detail the administrative machinery, and

1. H. R. 9680, op. cit., p. 3.
2. Ibid., p. 3.
gave specific directions as to appointment, salary, length of service, duties, etc. 1.

The federal government was to pay the entire cost of the system out of the national treasury.

"Any additional costs necessitated thereby should be derived by suitable revenue legislation, from high incomes, corporate surpluses, and other accumulated wealth, and should not be placed directly, by payroll taxes, or indirectly, by sales taxes, upon the workers of the United States, whose standard of living Congress hereby seeks to protect." 2.

In order to guard against unfair discriminations in the administration of the bill, it was specifically provided that,

"Compensation under this act shall not be denied to any person by reason of sex, race, color, religion, length of residence in any district, or affiliation or membership in any economic, political, or religious organization." 3.

Benefits were to apply to all citizens of the United States and also to aliens if they had resided in this country for five years and had declared their intention of becoming a United States citizen. 4.

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1. H. Re. 9680, op. cit. pp. 10-12.
2. Ibid., pp. 3-4.
3. Ibid.; p. 18.
At first, the Lundeen bill was officially supported by the Communist Party and by organizations like the Unemployment Council in which Communists played a leading part. 1. Later it was supported by organizations having no particular political affiliation. The bill was endorsed by six state federations of labor, 2,400 American Federation of Labor local unions, and sixty-five city councils. 2. "... many non-Communists came to support it because they believed it to be the most thorough-going and adequate proposal which had been put forward. ..." It was also supported by a number of social workers, led by Miss Mary Van Kleeck of the Russell Sage Foundation. 3.

It was little wonder that the Lundeen bill, like the Townsend Plan, received support from "liberals" as well as from "radicals" and "progressives." Its appeal was immediate; it would solve our problems at once. Moreover, it included not only the aged, but all groups of unemployed: professionals and self-employed persons as well as wage-earners. It offered a solution to future as well as present problems.

The scale of benefits was extremely liberal. It would raise both the standards of living and the wages of the lower income group. Then, too, it was financed and administered "democratically." Its costs were based on higher incomes and therefore observed the fundamental principle of "ability to pay."

The Lundeen bill differed from the Townsend Plan, the President's Bill and other proposals for social security in one important respect. It aimed primarily to raise the standards of living of the lower income groups and was not specifically concerned with the restoration of "prosperity." It sought a redistribution of wealth which would make the golden days of 1929 impossible. It avowedly aimed at a new industrial order to be effected if the redistribution of wealth proved impossible under existing political and economic organizations. In this sense, therefore, any criticism of the bill must be of its fundamental principles rather than of its specific proposals. The early advocates of the Lundeen bill cared little whether taxes levied under the plan would prove so heavy that modern industrial set-up would collapse. They argued that
if it was impossible to provide workers with a
decent standard of living under the present economic
system, we must provide a new system.

However, many persons, as we have seen, later
supported the bill who were not in favor of over-
throwing capitalism. They felt that under existing
conditions it was practical and desirable. Opposi-
tion to the bill came for the most part from indus-
trial leaders. These however were joined by many
experts in the field of social insurance who did not
feel that the bill could be put into operation.

The original bill was drawn in concise and
simple form in order that the workers could comprehend
its significance. While this had obvious advantages,
its disadvantages were disproportionately great.
The wording was so loose as to make the bill without
value for statutory purposes. Moreover it was open
to constitutional objections. ¹ While the later
drafts of the Lundeen bill were more carefully drawn,
the original constitutional objections persisted.

The bill included compensation for unemployed
or partially employed independent workers such as
farmers and professionals. Many felt that it would

¹ Stewart, Maxwell S., op. cit., p. 68.
be impossible to carry out this provision in practice. How could one say when a farmer was "partially" employed, or when a doctor or lawyer had so few patients or clients that he could not be considered as working full time? The supporters of the plan argued that the local commissions could easily solve this problem since they would be in close touch with local conditions. 1.

Moreover, it was generally felt that the administrative set-up was illogical. The government would finance the entire plan but would have practically no control over its administration. Naturally, the fear arose that the workers and farmers administering the act would take advantage of this and appropriate the funds for themselves. 2.

One of the most serious objections to the bill was the high scale of benefits. Since the compensation provided by the plan would in many instances equal, or even exceed, the prevailing rate of wages, many argued that there would be no incentive to work. Everyone would voluntarily give up employment if

2. Ibid., p. 78.
the benefits they received were greater than their income while working. Opponents of the measure pointed out that even when Soviet Russia set up a system of social insurance, it did not provide that benefits should equal prevailing wages. The advocates of the Lundeen plan replied that men would work anyway, and that if they refused, the insurance system would raise prevailing wages at least to the standards of the benefits, and would therefore guarantee a minimum subsistence level. If workers chose to remain unemployed rather than to work, this would create a scarcity in the labor market, which would result in raising wages. Then, when wages exceeded benefits men would again seek employment. Consequently, the act would operate as a check in keeping prevailing wage rates above the benefits provided, and would raise standards of living considerably in the lower income groups. 1

These objections were relatively minor considerations. The real difficulty appeared when actuaries settled down to estimate the cost of the system. They estimated that the bill would require about ten billion dollars for unemployment insurance.

and at least another ten billion for old age, sickness, etc., bringing the total cost of the plan to over twenty billion dollars. As we have seen in our consideration of the Townsend Plan such large benefits could not possibly be paid out of the existing national income. But the advocates of the bill replied: "To say that this cost is more than the nation can bear is saying in effect, that the United States does not possess the human and physical resources necessary to give every individual the equivalent of the prevailing wage, an assertion disproved by the fact that we practically achieved this between 1917 and 1918. . . ." 1 Many supporters of the bill admitted that the cost could not be paid out of the existing national income and hoped to use the measure as a means of reforming the present economic system.

The House Committee on Labor reported favorably on the bill. The Administration forces, however, prevented it from coming to a vote. Later, Lundeen introduced the measure as an amendment to the Administrations' program. It was voted down by a vote of 158 to 40, a few minutes after Doctor Townsend's Plan had been rejected. 2

1. Stewart, Maxwell S., op. cit. p. 68.
Like the Townsend Plan, the Lundeen bill had a definite effect upon the course of security legislation. Moreover, it will probably continue to exert an influence in the future. Its proposals unquestionably forced rapid legislative action out of fear that unless the president's program was accepted the Lundeen Plan, or something of its kind, would be adopted.

Should the provisions of the Social Security Act prove inadequate "we may expect the agitation for the principles of the Lundeen Bill to continue and to increase. A demand for a new organization of industry and politics may well accompany it." 1

In addition to these two plans, many others were introduced in Congress before the Administration's program was enacted into law. Huey Long was among those who supported measures opposed to that of the president. His program for the aged was one aspect of his general plan to "soak the rich," "redistribute the wealth" and make "every man a king." The Kingfish introduced his scheme as an

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amendment to the president’s bill. It provided that all persons over sixty, possessing less than $10,000 worth of property or having a net income of less than $1,000 were to receive a pension at the rate of thirty dollars a month. 1. The cost of the system was to be paid out of funds derived from income taxes which would prevent anyone from receiving a net income of over a million dollars. No person could inherit more than five million dollars, or own more than fifty million dollars worth of property. Any man who possessed more than this would be forced to turn it over to the United States Treasury. 2. A steeply graded income tax was provided which would reach 100 per cent on the ninth million.

The economics of Long’s plan were obviously unsound and his proposal was not taken seriously. It was voted down with the many other plans which had been introduced as alternatives to the President’s bill.

Meanwhile the recommendations of the Committee on Economic Security were undergoing considerable change at the hands of Congress.

2. Ibid. p. 2.
CHAPTER VII

THE PRESIDENT'S BILL BECOMES LAW

The Bill in the House

The Wagner-Lewis-Doughton bill was referred to the House Committee on Ways and Means when introduced. Many felt that it should have been referred to the Committee on Labor, and believed that the Administration had purposely failed to do this because the Ways and Means Committee was much more conservative. This, however, was done because it was necessary for the Committee on Ways and Means to pass on the bill since it was a revenue-raising measure. 1

The Committee on Ways and Means was made up of eighteen democrats and seven republicans. Robert E. Doughton, Democrat, of North Carolina was chairman of the Committee. 2

During the Committee's consideration of the bill many persons appeared as witnesses. Some


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favored passage of the bill; many others supported
the bill but recommended certain changes before
enactment; a third group opposed social security
as such. The latter included the spokesmen of
large manufacturing associations and chambers of
commerce throughout the country. 1. Actually,
however, few outside experts in the field of social
security were consulted. Congressman Treadway of
Massachusetts, in arguing against the bill later
on the floor of the House, pointed out that:

"Practically everybody who appeared had
some part in drafting the legislation.
. . . . There were not to exceed a half
dozens persons who testified who were not
part of the present 'New Deal' Administra-
tion." 2.

Treadway's statement was well founded and it does
seem unfortunate that the Committee was influenced
almost entirely by those who served on the Committee

In Committee, it became evident almost at
once, that the legal staff of the Department of
Labor had done poor work in drafting the bill.

2. Congressional Record, 74th Congress, 1st
session, p. 5788.
The provisions were arranged illogically and there was no sequence in the order of the topics discussed.  
1. 

The wording of the bill, particularly in regard to the old age annuities, was almost unintelligible.  
2. 

The Ways and Means Committee altered the wording of the bill in many ways, and in addition, made several important changes in its provisions. The original bill provided that old age assistance must be, "at least great enough to provide, when added to the income of the aged recipient, a reasonable subsistence compatible with decency and health."  
3. It further stipulated that an applicant fulfilling all necessary qualifications was not to be denied assistance if his income was "inadequate to provide a reasonable subsistence compatible with decency and health."  
4. The members of the Committee decided to strike out these minimum requirements, although they inserted a reference to "reasonable subsistence" in setting forth the general purpose of the bill. However, this left the states relatively free to set up their own standards for old age pensions.

3. Ibid., p. 3.  
4. Ibid., p. 4.
In view of the inadequate pensions in many states at the time, this change was obviously undesirable. Here, as in other sections of the bill, the federal government missed the opportunity for setting up a sound and universal system.

The two "reasonable subsistence" clauses were struck out largely because of the opposition of Congressmen representing the Southern states.

Many Southern representatives feared, "that the earlier provision might be used by authorities in Washington to compel the Southern states to pay higher pensions to aged Negroes than the dominant white groups believed to be desirable." 1. Another reason was the fear expressed by many representatives that the states would be forced to expend too much for old age pensions.

The House Committee reduced the federal standards for the states in other important respects. While it was still provided that the plans must be effective in all political subdivisions of the states, the plans were to be mandatory only if administered by these units. 2. The President's Bill had specifically stated that the plans set up

in the states must include, "substantial financial participation by the State." 1. The bill as reported by the House Committee simply stated that the state must make some contribution. 2. The original bill stipulated that the state authority should have full control over administrative details, 3. but the Committee on Ways and Means inserted an important exception to this provision. The state was to have no control whatever over the "selection, tenure of office, and compensation of personnel." 4. Thus it became impossible to include these officers and personnel under the state civil service, and the way was laid open for the corruption and graft of "political" appointments.

As recommended by the Committee on Economic Security, the bill provided that the states could not "deny assistance to any person who is a United States citizen," 5. and all citizens were guaranteed protection under the plan. Here again opposition rising

1. S. 1130 Senate of the United States, January 17, 1935, 74th Congress, 1st session, p. 3.
3. S. 1130. Senate of the United States, op. cit. p. 3.
5. S. 1130. Senate of the United States, op. cit. p. 3.
chiefly from legislators representing Southern states led to a slight but significant change in wording. The bill as reported by the Committee provided that the Social Security Board should not approve any state old age pension plan which imposed as a condition of eligibility, "any citizenship requirement which excludes any citizen of the United States." 1. This obviously might permit the exclusion of Negroes on grounds other than citizenship. 2.

The changes which the Ways and Means Committee made in regard to Old Age Assistance were relatively minor compared with those made in the old age insurance provision of the bill. As we have seen, the Committee on Economic Security recommended that the compulsory insurance plan should be financed by low initial contributions to the fund by employers and employees, which should gradually increase until 1957 when they would amount to 5 per cent of the salaries and payrolls. It also carried annuities in the upper age groups in excess of the sums provided by the contributions for the older workers. These annuities were to be advanced out of the sums.

contributed by the younger workers, who would not be eligible for benefits for a number of years to come. This was done partly to avoid building up too large a reserve. These advance payments, the government agreed to pay back to the younger workers, by itself contributing to the fund, starting some time between 1965 and 1970. 1.

During the course of the Committee hearings, Secretary Morgenthau appeared before the Committee and suggested that the government contributions be entirely eliminated and that the old age insurance system be placed on a completely self-supporting basis. To accomplish this, he proposed that the taxes on payrolls and wages start at a higher rate. This of course meant that reserves would be built up more rapidly. By 1980, there would be a reserve of fifty billion dollars in the treasury, 2 whereas under the original bill it had been stated that the reserve was never to exceed fifteen and three-tenths billions. 3

It was felt that the Secretary of the Treasury was acting for the President, and largely for this reason, the Ways and Means Committee accepted the change. 4

2. Ibid., pp. 97-99
Another alteration of the original bill tended to produce similar results. As introduced in the Committee, the bill provided that annuities were based upon a percentage of the worker's average monthly wage. These were to range from ten to forty per cent, depending upon the period during which the worker contributed to the fund, provided that in no case did the average monthly wage exceed $150. 1 In the Committee, it was decided to compute the monthly benefits on the basis of the total income received during the worker's lifetime. This was set up on a graduated basis. For the first $3,000 earned by the worker, monthly benefits were to be paid at the rate of 1/2 of 1 per cent of the total, or $15. per month; for incomes between $3,000 and $45,000 the monthly benefit was to be at the rate of 1/12 of 1 per cent of the total earnings; for incomes over $45,000 the monthly benefit would be 1/24 of 1 per cent. In no case was the benefit to exceed $85 per month. 2

This new scale provided somewhat higher benefits than the original bill. This, together with the higher tax on payrolls and wages, tended to increase the

reserves of the fund. The Committee estimated that the reserves would be easily twice those planned in the original bill. This was undesirable, since it created a serious problem of investment of the tremendous sums thus to be accumulated. Moreover it tended to invite politics and corruption in the administration of the funds. Then too, it took billions of dollars out of circulation and appreciably reduced purchasing power, a result against which this legislation had been specifically designed.

One of the most unfortunate and fundamental changes made by the House Committee was that which severely limited the scope of the old age insurance system. The President's bill, as we have already noted, included all manual and non-manual workers earning less than $250 a month, except those already covered by Railroad and Civil Service Retirement systems. As reported by the Committee on Ways and Means, the bill specifically excluded in addition to the above: 1) Agricultural labor; 2) Domestic service in private homes; 3) Casual labor not in the course of the employer's trade or business; 4) Service performed as an officer or member of a crew documented under the laws of the United States or of any foreign country; 5) Service performed in the employ of a corporation, community chest, fund or
foundation, organised and operated exclusively for religious, charitable, scientific, literary or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual." 1.

In each of these groups there was a large number of persons, and in all five of them there was a definite need for some type of protection against old age. The first four groups were probably excepted because of the obvious difficulties in applying the system to them. And yet these obstacles could have been worked out with comparative ease. Here, as in many other sections of the bill, we find a serious pitfall occasioned largely by the impulse to pass legislation at any cost.

The exclusion of all persons employed in non-profit organisations was equally unsatisfactory. It was the result of the protests of certain church groups who maintained that their ministers were already covered by private pension systems. 2. While it is true, as we have seen, that many ministers are provided for by private pensions, it is no less true that

thousands of social workers, teachers and scholars are without any provision for their old age. The exception was unwarranted and unfortunate.

Even more serious was the fact that the House Committee struck out the whole system of Voluntary Insurance of the original bill. As we noted previously, the Committee on Economic Security felt that this plan would afford safe and inexpensive protection to persons in the lower income groups not included in the compulsory insurance. It was also hoped that workers covered by the latter would avail themselves of voluntary insurance and supplement their income from the former with the latter. While it is admitted that in the past individuals have not taken advantage of most voluntary systems of insurance, it is unfortunate that in addition to excluding specifically thousands of persons from the benefits of a compulsory insurance plan, the population should have been deprived of the benefit of voluntary government protection in old age. Whatever other defects were in the bill, these would have been counteracted to some extent by the voluntary insurance system. It would have served as a reinforcement for the whole plan. Removing this protection seriously impaired the bill as a whole.
Finally, we must note one other factor which was altered by the Committee on Ways and Means. The President's bill had, "established in the Department of Labor a Social Insurance Board." It had also placed the old age assistance provisions of the bill under the direction of the Federal Emergency Relief Administrator. The House Committee decided to remove the administration of the insurance system from the Department of Labor. It set up a "Social Security Board" which was to be independent, and responsible to the President alone. This alteration was recognized as a personal attack upon Frances Perkins. Unfortunately it had a greater significance. It created one more anomaly in the federal organization adding to the complexity and confusion already existing at Washington. There was little doubt that the functions of the Social Security Board would be closely related to the activities of the Department of Labor and could therefore have been administered more efficiently and intelligently with that body's guidance and cooperation.

2. Ibid., p. 21.
laws from the direction of the Federal Emergency Relief Administrator was, however, desirable. While old age assistance is a form of relief, it is at least as closely related to old age insurance as it is to relief. Moreover, the federal government's future role in public relief was extremely uncertain, and it was necessary to provide a permanent organ for the pension provisions of the bill. By removing the assistance from the control of the relief administrator, the pensions came to be considered as forms of insurance and lost much of their undesirable connections with relief.

The Wagner-Lewis-Doughton bill with the above changes as made by the Committee on Ways and Means, was then brought before the House of Representatives. On April 12, the House resolved itself into a Committee on the Whole in order to consider the Committee's report. 1.

Discussion on the bill lasted only a week. In view of the complexity and the social significance of the measure, such a period of time was wholly inadequate for adequate consideration. Still worse, the House did not use even this brief time constructively. The

1. Congressional Record, 74th Congress, 1st session, p. 3708.
major portion of the discussion was spent in quibbling over minor details. No steps were taken to improve the many deficiencies in the bill which had already become evident. Only minor changes were made in the bill and none of the fundamental objections were removed.

The chief criticism made in the House was that the old age pension provisions of the bill were grossly inadequate. This was expressed by Democrats, Republicans and Progressives alike. Representative Treadway of Massachusetts said that by the federal government limiting its contributions to $15, matched by an equal contribution by the state, the tendency would be "to freeze the rate at not more than $30." 1 He went on to say that he could not bring himself "to believe that a $30 pension is adequate, particularly in cities..." 2. Charles Eaton, Republican representative of New Jersey, expressed similar views. 3

It was generally felt that the desired increase in the amount of pension should come from the federal government rather than the states. Congressman

2. Ibid., p. 3709
3. Ibid., p. 3302.
Martin Hull of Wisconsin stated that he believed, "The entire fund should come from the federal government. The requirement for state contribution should be eliminated." 1. He pointed out that, "... A nation that can spend billions for war preparations can and should be able to take care of the aged and infirm." 2.

Congressman Harry Sauthoff, Progressive, representing the same state, made a similar criticism of the pensions saying, "... I am not satisfied with the contribution of $50,000,000... I cannot lend myself to a program in this House, which has voted and will vote $1,500,000,000 for the Army and Navy and less than $100,000,000 for this entire social security set-up." 3. Representative Granfield, Democrat, of Massachusetts, suggested that the federal contribution be raised from $15 to $30, thus giving pensioners an allowance of $60 a month rather than $30. 4. Representative Jed Johnson of Oklahoma described the pension allowance as "mere pittance" and said that one could not call it social security measure at all unless it raised standards. 5.

1. Congressional Record, 74th Congress, 1st session, p. 5735.
2. Ibid., p. 5735.
3. Ibid., p. 5733.
4. Ibid., p. 5929.
5. Ibid., p. 6014.
Nevertheless, despite the protests against the admittedly low standards in the pensions, the administration forces were strong enough to pass the bill through the House. There seems to be little justification for this action. Some feared that if the program were "too ambitious" the entire bill would be rejected. However, since even the most conservative members of Congress believed that the standards were inadequate, the fear was unwarranted. The excuse given by the administration seems a "rationalization" in disregard of the facts. It was unfortunate that the protests had no effect and did not serve to liberalize the amount of the pensions. If the change had been made in the House the Senate would probably have accepted it and enacted a bill with adequate allowances.

Objection was also raised against the age qualification for pensions. Both Democrats and Republicans expressed the desire to reduce the age limit from sixty-five to sixty. Representative Robinson, Republican of Kentucky, pointed out that it was almost impossible for men over forty-five to procure industrial employment. He stated that this
was particularly true in the mining districts. He estimated that there were over thirteen million workers who would be excluded from pensions if the age limit was sixty-five. 1. Representatives Granfield and Knutson, both Republicans, favored lowering the age limit to sixty. 2.

During the discussion in the House, Republicans persistently maintained that the taxes levied under the old age insurance system constituted too heavy a burden for industry to bear. Representative Knutson advocated that all the insurance sections in the bill be eliminated. He held that the insurance system was "reform" and it was desirable that the Administration confine itself to "recovery." 3. Congressman Treadway expressed the same view. He pointed out that the payroll tax would indirectly decrease purchasing power by increasing the cost of living. This he stated would retard recovery. 4.

Many other questions were raised while the bill was on the floor of the House. Republicans pointed out that the old age insurance portions of the bill were of dubious constitutionality. 5. They also

1. Congressional Record, 74th Congress, 1st session, pp. 5716.
2. Ibid., pp. 5929, 5725.
3. Ibid., pp. 5724, 5725.
4. Ibid., pp. 5711, 5712.
5. Ibid., p. 5905.
insisted that the tremendous reserves which would be
built up under this system would be "an invitation
for all sorts of pork-barrel and wild-spending
sprees," on the part of the federal administrators. 1 Represntative Sauthoff objected to the creation of
an entirely independent board to administer the act
and urged that the Social Security Board be placed
within the Department of Labor as was provided in the
original bill. The House refused to support any of
the above-mentioned suggestions. 2 Thus despite
expressed desires to liberalize the pensions, guard
the insurance system against legal loop-holes, and
prevent the accumulation of tremendous reserves, the
House passed the bill in substantially the same form
as it had come to them from the Committee on Ways and
Means. 3 Both the Townsend and Lundeen bills were
easily defeated along with the other alternative
plans brought up before the House. Having passed
the House by an overwhelming vote of 371 to 33, the
revised Wagner-Lewis-Doughton bill entered the
Senate.

1. Congressional Record, 74th Congress, 1st session,
p. 5713.
2. Ibid., p. 6271.
3. H. R. 7260. House of Representatives, April 4, 1935,
74th Congress, 1st session.
The Bill in the Senate

When the President's bill as revised in the House was introduced in the Senate, it was referred to the Committee on Finance. This group was made up of fifteen Democrats, five Republicans, and Robert M. LaFollette, Jr., Progressive. After going over the bill for a month, the Committee reported on it favorably, but not however, without making some fundamental changes in its content.

As we have seen, the Committee on Ways and Means struck out two of the references made to "reasonable subsistence" in the pension clauses of the President's bill. They had inserted a clause in the section on appropriations to the effect that the aim of the old age assistance was to enable "each state to furnish financial assistance assuring, as far as practicable under the conditions in such state, a reasonable subsistence compatible with decency and health." In the Committee on Finance this entire clause was struck out and in its place was substituted: "For the purpose of

enabling each State to furnish financial assistance as far as practicable under the conditions in such State, to aged needy individuals. 1 Thus virtually all standards for the pensions were removed. A state, according to the senate committee's revision, might grant assistance to the amount of a dollar a month if it saw fit to do so. The whole object of having a federally subsidized pension system was in effect defeated, since the states were under no obligation to raise the existing pension standards. This alteration made in the Senate, along with others which were made, seriously impaired the value of the President's bill.

The original bill based on the recommendations of the Committee on Economic Security had provided that annuitants receiving benefits under the old age insurance system were at liberty to continue in employment if they chose. Since the insurance system was distinct from assistance and from relief, this was felt to be essential. Workers earned their benefits, having contributed heavily to the fund. Therefore the benefits were their own as much as any income which they might receive from regular employment.

The Senate, in disregard of the fundamental principle behind the system, inserted the following clause: "Whenever the Board finds that any qualified individual has received wages with respect to regular employment after he attained the age of sixty-five, the old-age benefit payable to such individual shall be reduced, for each calendar month in any part of which such regular employment occurred, by an amount equal to one month's benefit. Such reduction shall be made, under regulations prescribed by the Board, be deductions from one or more payments of old-age benefit to such individual." 1

It is true that this provision would have the desirable effect of removing the older workers from the labor market. This would tend to reduce unemployment by making jobs available for younger men. However, it complicated the task of administering the system. Each individual annuitant would have to be investigated monthly, to determine whether or not he was engaging in employment while receiving benefits. Moreover, there is no doubt that this clause tended to place the insurance system in the same category as the assistance sections, and even

as relief. It constituted a subtly disguised "means" test. Although the worker had himself earned annuities, he was forced to give up all regular employment in order to qualify for them. He was forbidden by law to attempt to supplement the small income from insurance with any other income. In most cases he would be forced to lower his standards of living in order to receive something which he himself owned, in part at least. As we shall see later, the scale of benefits provided in the system was inadequate, and this provision seems unjust. Unfortunately it was incorporated into the bill and became law.

Credit is due the Senate Committee for attempting to reinsert the voluntary insurance clause which was part of the original bill. The Committee's efforts were, however, in vain for the clause was killed on the floor of the Senate.

The Finance Committee accepted the recommendations of the President's Committee and placed the Social Security Board within the Department of Labor. As recommended by the House, the Board was set up as an independent body. Here again the Committee's efforts were lost, since the Senate refused to accept the change and once again set up the Board as an independent body. In reporting, the Committee had stated, "This
type of legislation the world over is almost invariably under the direction or supervision of the labor department or its equivalent. By placing the Social Security Board under the Labor Department, considerable saving in administrative costs may be anticipated. The Committee regards it as inadvisable to create new independent agencies, particularly where their functions are closely related to the functions of an existing department." 1 While the Committee is to be commended for its attempted change, the final bill did not contain its suggestion.

The bill did not come to the floor of the Senate until June 18. It passed the Senate on the following day at noon. Obviously in so brief a period of time, it was impossible to give the bill serious consideration. Several minor changes in the wording of the bill were adopted and in addition three important amendments were annexed.

Senator Borah of Idaho made an unsuccessful attempt to raise the amount which the federal government was to contribute to the pension fund. He proposed that the national government add to the

states' contribution, regardless of how large or small that might be, sufficient to bring the total amount of the pension up to thirty dollars. In no case was the pension to exceed thirty dollars. Therefore, all pensions would be at this figure so long as the state made some contribution to the fund. If the state contributed one dollar, the national government would contribute twenty-nine. 1 It became evident immediately that this would result in shifting the entire cost of the system to the shoulders of the federal government. Although Borah pleaded to the senators to have faith and confidence in the states, saying that they would not take advantage of the federal contribution, the proposed amendment was easily defeated by a vote of 60 to 18. 2

Representative Treadway of Massachusetts had attempted to secure an amendment in the House, exempting private pension plans from the provisions of the bill. He argued that many of these private systems would provide more liberal benefits than the public system could afford. However, the House failed to accept his suggestion. 3 Senator Bennett Champ Clark, Democrat of Missouri, who had served on the Committee on Finance, had introduced a similar amend-

1. Congressional Record, 74th Congress, 1st session, p. 10017.
2. Ibid., p. 10017.
3. Ibid., p. 5713.
ment without success. Although defeated in Committee, Clark introduced the proposal again on the floor of the Senate. The proposal was vigorously opposed by many Democrats who felt that such a clause would emasculate the whole insurance system. Most of the discussion in the Senate centered about this proposed amendment. When some objected to the plan on the ground that it was unconstitutional, Senator Clark replied, somewhat facetiously perhaps, "The constitutionality of the proposed act is already so doubtful that it would seem to me to be a work of supererogation to bring up the question of constitutionality with regard to the pending amendment."

A time limit had been set on the discussion of the alteration and at one p.m. on June 19th, the vote was taken. The Clark Amendment was carried by a vote of 51 to 35. Accordingly, the following clause was inserted in the bill:

"Service performed in the employ of an employer who has in operation a plan providing annuities to employees which is certified by the Board. . . if the employee performing such service has elected to come under such plan. . . ." 3.

2. Ibid., pp. 10017, 10018.
Thus private plans were not only exempted from the provisions of the insurance system but where they were in operation they were not necessarily compulsory. An employee would be covered only if he "elected" to come under the plan. The Clark Amendment unquestionably impaired the value of the insurance system. Later when the joint conference met to discuss the bill it proved to be the most serious bone of contention. As we shall see, whether or not the Clark Amendment may yet become law is still undecided.

Another fundamental alteration made in the Senate was the elimination of the provision regarding voluntary insurance. The Committee on Finance had reinserted the clause which had been struck out in the House. However, on the floor of the Senate, Senator Lenergan of Connecticut argued vigorously against it. It was well known that Connecticut was a leading insurance state and that opposition to the clause was stimulated by the interest of private insurance firms. Lenergan had failed to secure the Finance Committee's approval of the change and in the Senate produced much testimony from large insurance firms in opposition to the system. The
majority, influenced perhaps by the voice of big business men, carried the amendment by a vote of 76 to 6. 1. With these alterations the Senate quickly passed the measure. From here, the bill went to a joint conference committee where an attempt was made to reconcile the differences in the measure as passed by the House and the Senate.

The House was victorious in establishing the Social Security Board as an independent body outside the Department of Labor. 2. The Committee reached an agreement on most of the other points of difference. However, the Clark Amendment was violently opposed and rejected by the House. After much discussion, it was finally decided to set up a joint legislative committee which would consider the clause and report on it to the next session of Congress. Since the old age insurance provisions were not to go into effect until 1937, Senator Clark agreed to this. 3. Meanwhile, on August 14, 1935, the president signed the bill and the Social Security Bill became law.

3. Ibid., pp. 124-125.
CHAPTER VIII

ANALYSIS OF THE OLD AGE PROVISIONS OF
THE SOCIAL SECURITY ACT

Analysis of the Old Age Pension Provisions

The enactment of the Social Security Bill marked the end of a laissez-faire policy of over one hundred years standing and the beginning of an attempt to plan and organize the care of dependents. It was little wonder, in view of the promises of ever-enthusiastic supporters of the measure, that there arose a widespread belief that destitution and poverty were at an end. Some people felt that the Social Security Act would not only revive the prosperity of the "twenties" but would also usher in a new era in which economic depressions were outlawed. Many heralded the act as the most important single piece of legislation ever enacted by Congress. There is no doubt that the law is a significant and fundamental approach to problems of primary social and economic importance. That much
of the glorification of the measure was unfounded or premature became evident only after careful analysis and consideration of the measure.

The Social Security Act provides for a system of federally subsidized state old age pensions. This system was devised to meet the immediate problem of supporting the dependent aged. In order to cope with the future problem, the act also sets up a compulsory contributory system of old age insurance.

Under the sections of the act relating to old age pensions, provision is made to continue the state old age pensions on a federal grant-in-aid basis. The state pension systems had by experience demonstrated their superiority to unclassified public relief. They were less expensive than ordinary relief. Moreover, they removed some of the stigma of charity from the support of the aged. They attempted to set up allowances as a matter of right, although actually all the laws demanded evidence of need which virtually amounted to the "means test" used in relief.

By 1935 it had become obvious that the national government would be forced to give the states some aid. Although thirty-seven states already had old age pension laws, they were far from adequate. The laws were
totally inoperable in many of the states, where the system was optional in political subdivisions. Moreover, the states having mandatory laws were finding it increasingly difficult, after the depression, to support their systems. Pensions had been cut sharply and the number of persons covered was reduced to a minimum.

The pension laws were in many cases inadequate. Many set up age and residence requirements disqualifying large numbers of persons. A person had to be completely destitute in most states before one was eligible for a pension. The confusion of thirty-seven different state laws was intensified by the problem of the "unsettled poor," who were ineligible for pensions because they had not established sufficient residence in any one state.

During the bill's legislative history, there were many who advocated an outright national old age pension law. They pointed to other nations that had, after years of experience, found that the problem could be met only on a national scale. They stressed the fact that the country was a social and economic unit and that state legislation would necessarily be
inadequate. There were thousands in need of pensions but unable to qualify under the state laws. Many states which needed old age pensions either refused to adopt them or were unable to support them. If the national government waited for state action it would be years before the system became universal, and decades before state standards would be set at a desirable minimum. Moreover, some of the state constitutions would have to be amended to permit a state pension law.

A national law would have the advantages of any centralized administrative measure. Costs would be reduced considerably; confusion would be avoided by a uniform system throughout the country; accounts and methods would be raised and standardized. Federal support of the system would tend to place it on an ability-to-pay basis. The national government's income was derived for the most part from income taxes, while the states' income was derived in large part from gasoline and property taxes. These fell heavily on groups least able to bear them; the gasoline taxes burdened the lower income groups disproportionately; the property taxes weighed unduly upon the farmer and small landowner.
During the bill's course through Congress, however, some grave objections arose against the adoption of a national system of old age pensions. Many people felt that a national system would tend to create a bureaucracy. They argued too that the localities were in a better position to administer pensions. Wages and standards of living varied considerably from one section of the country to another and no federal law could be flexible enough to take these differences into account. Moreover, a federal law would make impossible experimentation in the states. Since we had relatively little experience with pensions, some felt that this was essential before national action was attempted. The most serious objection to a federal law was the fear that it might be declared unconstitutional. Should the Supreme Court decide that the national government had gone beyond its delegated powers, the entire movement for old age security would suffer a serious set-back.

Consequently, the Social Security Act set up a federal system of old age pensions in a modified form. It provides that the federal government
shall make appropriations to the states quarterly, "For the purpose of enabling each State to furnish financial assistance, as far as practicable under the conditions in such State, to aged needy individuals..." 1. The sum of $49,750,000 was appropriated for the fiscal year ending June 30, 1937, and a similar sum is to be apportioned among the states for each succeeding year thereafter.

In order to qualify for federal aid, a state is obliged to set up a plan which is approved by the Social Security Board. Certain specific requirements must be met by the states before the Board approves their plans. Once the plan has been accepted the federal government agrees to pay, "an amount, which shall be used exclusively as old-age assistance, equal to one-half of the total of the sums expended during each quarter as old-age assistance under the State plan with respect to each individual who at the time of such expenditure is sixty-five years of age or older and is not an inmate of a public institution, not counting so much of such expenditure with respect to any individual for any month as exceeds $30." 2.

2. Ibid., p. 2.
In addition the federal government agrees to pay, "5 per centum of such amount, which shall be used for paying the costs of administering the State plan or for old-age assistance or both, and for no other purpose." 1

Thus, the old age pension system became a "cooperative venture participated in by both the Federal and State Governments, preserving the benefits of local administration and national leadership." 2

The confusion of having many different state laws was thereby eliminated. The minimum requirements set up by the federal government would tend to raise state standards and would make methods and accounts uniform. Costs would be reduced. The poorer states would receive some aid from the wealthier states and yet the responsibility would not be entirely shifted. Part of the support of the pensions would be drawn from the national income tax where the principle of ability to pay was observed. States would be anxious to avail themselves of federal aid and would raise their standards to meet the federal requirements. Those

states not having pension laws at present would be greatly stimulated to pass laws. The dangers of bureaucracy and nullification by the courts were considerably lessened. Experimentation among the states and due regard for local conditions could be taken into account.

Theoretically, the federal-aid method was certainly sound. But the value of this type of law depends largely on the standards which the national government sets up. Here the legislators seemed to lose sight of their purpose.

From the start, the administration stressed the importance of setting up as few requirements upon the states as possible. This was partly because of the opposition of the advocates of states' rights and also because of the general fear that any regulatory national law would be nullified in the Supreme Court. In describing the pension provisions of the Social Security Act, Secretary Perkins said, "Only very necessary minimum standards are included in the Federal measure leaving wide latitude to the States." ¹ By setting up inadequate standards for the state laws the Act lost many of the advantages which would normally accrue under a grant-in-aid measure.

¹. Perkins, op. cit. p. 793.
Seven positive limitations and three prohibitions are described in the Social Security Act as requirements for the state laws:

"A State plan for old-age assistance must (1) provide that it shall be in effect in all political subdivisions of the State, and, if administered by them, be mandatory upon them; (2) provide for the financial participation by the State; (3) either provide for the establishment or designation of a single State agency to administer the plan, or provide for the establishment or designation of a single State agency to supervise the administration of the plan; (4) provide for granting to any individual, whose claim for old-age assistance is denied, an opportunity for a fair hearing before such State agency; (5) provide such methods of administration (other than those relating to selection, tenure of office, and compensation of personnel) as are found by the Board to be necessary for the efficient operation of the plan; (6) provide that the State agency will make such reports, in such form and containing such information, as the Board may from time to time require, and comply with such provisions as the Board may from time to time find necessary to assure the correctness and certification of such reports; and (7) provide that, if the State or any of its political subdivisions collects from the estate of any recipient of old-age assistance any amount with respect to old-age assistance furnished him under the plan, one half of the net amount so collected shall be promptly paid to the United States. . . . " 1.

The Board shall not approve any state plan if the plan imposes as a condition of eligibility for old age assistance:

"(1) Any age requirement of more than sixty-five years, except that the plan may impose, effective until January 1, 1940, an age requirement of as much as seventy years; or

(2) Any residence requirement which excludes any resident of the State who has resided therein five years during the nine years immediately preceding the application for old-age assistance and has resided therein continuously for one year immediately preceding the application; or

(3) Any citizenship requirement which excludes any citizen of the United States." 1.

In addition the law provides: - Any changes which are made in the state pension plans which involve age, residence or citizenship requirements or changes in administration will result in withholding the federal allotment to the states until the Social Security Board is satisfied that the prohibited requirement is no longer imposed, or that the maladministration no longer exists.

On first glance the above requirements appear to be relatively stringent, but upon analysis it is easy to see that they are a bare minimum and should have been much more precise and rigid.

By requiring that all the state laws be mandatory, the Social Security Act necessitated amendment in five of the state pension laws. Thirty-two laws were already mandatory, but Florida, Hawaii, Kentucky, Nevada and West Virginia still had the optional type of law. Experience in the states had demonstrated that unless the law was compulsory it often became ineffective. In recent years the tendency has been to pass the mandatory type of law. By requiring compulsory adoption of the system by the counties, the few states with optional laws were compelled to amend their legislation and adopt new laws of the mandatory type. The act merely gave legal sanction to a tendency already wide-spread in the states and hastened the amendment of the law in those states where it was still optional.

The Act, as we have seen, provides that the States must make some financial contribution to the

pension system. In several of the states the entire burden of the cost of the system was borne by the localities under state laws. This situation was undesirable since many of the poorer counties where pensions were most needed were unable to support the system. Moreover, dependency being state-wide, (if not national), was generally felt to be a responsibility of the state and not of the local governments. The same confusion existed in a state where each locality had a different pension arrangement. However, since some of the state constitutions expressly prohibited appropriations for this purpose, the act provided that the federal government would match funds appropriated by the localities where the state did not contribute, until July 1, 1937. ¹ While many seemed to feel that this would give a loophole through which states could perpetuate a locally-supported system, it was really necessary in order to provide for the aged in states where no financial contribution was made.

The laws of Hawaii, Idaho, Kentucky, Nevada, New Hampshire, Utah and Wisconsin had to be amended because they made no provision for financial contribution by the state. ²

¹ Public #271, op. cit. p. 1.
² "Old Age Pension Legislation in the United States," op. cit. p. 4.
Unfortunately the law provided only for "some" financial contribution. Thus the evils inherent in a county supported system were able to continue unhampered to a considerable extent. If the federal government had set a specific proportion of the cost to be borne by the state, or had provided that the state should bear the entire responsibility of support, the pensions probably would have been much more effective and adequate.

It was essential to provide for one specific state authority for the supervision or administration of the act, in order to simplify the federal-aid system. However, the standards set up for the state agency by the act proved to be relatively negligible. The state authority was denied all power of providing standards of personnel thus opening the system to the corruption of local politics. This restriction was most unfortunate and indicative of the influence which political factors had upon the act. While the state authority was compelled to submit reports to the Social Security Board, there were no definite standards set and the efficiency of administration became entirely dependent upon the Social Security Board. There was no direct supervision from the Board and the
states were left relatively free to administer the law as they saw fit.

While the act provides that every person denied old age assistance is entitled to a "fair hearing," that term is nowhere defined. Instead of having a review by the courts, the act provides that the state authority, however biased it might be, shall have the final word in such matters, and the individual has no appeal from its decisions.

The Act also provides that no state plan is to be accepted if it establishes an age requirement of more than sixty-five years. Although, ideally, in a system of this nature the age limit should be set lower, the federal law did serve to lower the age standard in fourteen states and to guarantee an age limit of not more than sixty-five in all new pension laws. Although no state had an age limit over seventy, Arizona, Arkansas, Indiana, Kentucky, Massachusetts, Michigan, Missouri, New Hampshire, New Jersey, New York, North Dakota, Oregon, Pennsylvania and Wisconsin had set up requirements above the age of sixty-five. In order to give

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these states an opportunity to amend their laws it
was provided that an age limit of seventy was to be
accepted until January 1, 1940. While here again
a dangerous precedent may have been set and the
time limit could be extended indefinitely, it was
certainly desirable to permit these states to avail
themselves of the federal funds until they were
able to change their laws to meet the new standards.
The beneficial effects of lowering the standard
five years should not be minimized as thousands fall
into this age group and old age assistance is ex-
tended considerably as a result of this provision.

The residence requirements of the act similarly
liberalized state laws and extended the benefits of
the pensions. Many states imposed severe citizenship
and residence requirements. Thirteen states de-
manded a minimum of fifteen years citizenship --
Colorado, Delaware, Idaho, Indiana, Kentucky,
Maryland, Nevada, New Hampshire, Ohio, Pennsylvania,
Utah, West Virginia, and Wisconsin. 1.

One of the most serious criticisms of the act
is that the pension standards are too low. Since the
federal government will match funds up to only

1. "Old Age Pension Legislation in the United
States," op. cit., p. 4.
fifteen dollars per month per individual, the tendency may be for the maximum pension to be thirty dollars a month and for the average pension to fall much lower than this. Obviously, this will provide only a bare subsistence level and in some instances not even subsistence. State pensions were admittedly inadequate and the federal government missed an opportunity to raise standards when it failed to set up a minimum allowance, and when it limited its own contribution to fifteen dollars a month.

The pension provisions of the Social Security Act, when viewed as a whole, are valuable because they attempt to set up a pension system on a national basis, and at least a minimum set of standards for the states. There is no doubt that a more adequate system of national non-contributory pensions could have been set up. Many, however, overlooked the shortcomings of the pension sections of the law, realizing that the pensions were a temporary measure and that the insurance sections of the act were the significant and permanent policy for meeting the problem of economic security for the aged in the future.
Analysis of the Old Age Insurance Provisions

In addition to the pension system, the Social Security Act sets up a system of old age insurance devised to supplement the pension system and eventually to replace it. The pensions are admittedly a form of relief and are designed to administer aid only where destitution has already occurred. Insurance, on the other hand, attempts to prevent the need for aid from arising by providing for the worker's old age in advance.

Under the insurance provisions of the act, a reserve fund is created in the National Treasury. This is built up by a system of taxes on salaries and payrolls. Out of this fund the Secretary of the Treasury is directed to appropriate, annually, enough money to pay benefits to insured individuals. The first appropriation is to be made for the fiscal year ending June 30, 1937. This and all subsequent allotments are to be based upon actuarial principles carefully computed by the Secretary of the Treasury. Any amounts credited to the account which are not necessary to meet current withdrawals are to be invested in interest-bearing obligations. Both
the principal and interest of these investments will be guaranteed by the federal government. Any obligations which may be incurred for the account must be on such terms as to provide a return of not less than 2 per cent per annum. The interest on and proceeds from the sale and redemption of these obligations is to be credited to the account and used for making payments to annuitants.

Only certain qualified individuals will be entitled to the benefits of the system. They must be over sixty-five. Their total earnings between December 31, 1936 and the date of their retirement must not be less than $2,000. They must have been gainfully employed for at least one day in each of any five years after 1936.

Certain occupational groups are specifically excluded from the insurance system. Among these are agricultural labor, domestic service, casual labor, seamen, employees of any political unit in the United States and employees of any non-profit organization or institution.

Every qualified individual upon reaching the age of sixty-five or on January 1, 1942 -- whichever is the later date -- shall receive benefits. These
will be based upon the individual's average annual earnings between December 31, 1936 and the date upon which the individual became sixty-five years of age. A rather complex method of computing the size of these benefits is devised. The individual will receive 1/2 of 1 per cent for the first $3,000 earned; he will receive 1/12 of 1 per cent for the next $42,000 earned; and 1/24 of 1 per cent for any amount earned above $45,000. Thus in no case will the benefits be less than ten dollars a month. The act also provides that a maximum benefit of eighty-five dollars a month shall be set up.

In order to receive benefits an individual must not engage in any regular employment. If he does his benefit is reduced by the amount of one month's benefit for every month during which he was engaged in regular employment.

If an insured individual dies before reaching the age of sixty-five, his estate will receive a sum equal to 3-1/2 per cent of his total earnings between December 31, 1936 and the date of his death. If a qualified worker over sixty-five dies, his estate will receive a sum equal to the difference between 3-1/2 per cent of his total earnings since
December 31, 1936 and the total amount which he received in monthly benefits before his death. Insured individuals who are no longer qualified for benefits, upon reaching the age of sixty-five, will receive a lump sum equal to 3-1/2 per cent of the total wages which they received with respect to employment after December 31, 1936 and before attaining the age of sixty-five. Any part of this payment which is not made to the individual before his death will be paid to the estate.

Other adjustments for over and underpayments of benefits are provided for in the Act. The benefits paid out are exempted from execution, levy, attachment, garnishment or other legal processes and are not subject to the operation of the bankruptcy or insolvency laws. Penalties for false statements as to material facts made in securing benefits are also provided.

The insurance system is financed by a system of taxes to which the employer and employee contribute an equal amount. Every regular worker in an insured occupation must pay a tax on wages received after December 31, 1936. This tax will
amount to 1 per cent for the calendar years 1937-1939; 1-1/2 per cent from 1940-1942; 2 per cent during the years 1946-1947; and 3 per cent after December 31, 1948. The tax will be deducted from the employee's wages by the employer. These amounts must however be included in the employee's income tax report to the federal government. The same provision is made for a tax on employers for all wages paid after December 31, 1936. Wages in excess of $3,000 per year are not included in the tax.

The Commissioner of Internal Revenue is directed to prescribe the method in which the taxes are to be paid. He is to decide how returns are to be filed and whether the tax is to be collected through stamps, coupons, tickets, etc. If these methods are employed the Commissioner must furnish the Postmaster General the necessary devices to be used without prepayment. They are to be distributed and placed on sale in postoffices throughout the country. All receipts from the tax are to be transferred at least once a month to the Collector of Internal Revenue. Suitable fines and penalties are provided for the unauthorized sale or purchase of the stamps or coupons.
While the old age insurance system is the first form of social insurance to be set up by the federal government in this country, the idea is not new. It dates back to mediaeval times when security against the perils of the sea was guarded against by shipowners through this method. 1. In Europe, social insurance arose largely as a result of fear of the radical socialists who attacked the economic system. In order to alleviate the conditions giving rise to social discontent, social insurance was set up.

Germany was one of the pioneers in this field and continues to have a well-organized system of social insurance today, as do most of the other industrial nations of the world, except the United States. 2.

The principle upon which social insurance is based is the same as that in any other form of insurance. It attempts to spread risks over a group in order that the group rather than the individual may bear the cost of losses. It is a sound principle derived from the precept that,

2. Ibid., p. 25.
"By the law of chance, these losses do not all happen to all individuals at once. Thus the common pool diminishes the individual burden by distributing it in a group and by providing for it in advance. Needs are measurable for a group that are not exactly predictable for the individual."¹

That the insurance system provided for by the Social Security Act is far from ideal, becomes apparent upon analysis of its contents. There are many flaws in methods and in the standards adopted. But these are insignificant as compared with several serious and fundamental blunders made by the framers of the measure.

Many have regarded the tremendous reserves which will be built up under the insurance system with apprehension, and rightly so. These funds will not only constitute an ever-present possibility for graft and corruption but they will also seriously reduce purchasing power by taking vast sums of money out of circulation. In 1937 the reserve in the fund will be one fourth of a billion dollars; by 1960 it will be ever forty-six billion dollars. These sums will be accumulated as follows:

1937     $ 253,700,000
1940     1,973,600,000
1945     6,883,900,000
1950     14,031,700,000
1955     22,115,700,000
1960     29,543,900,000
1965     35,898,500,000
1970     41,366,700,000
1975     45,368,300,000
1980     46,942,700,000

"The accumulation of these reserves will beyond doubt greatly decrease the amount of purchasing power which otherwise would be spent upon consumers goods. This will most certainly be the case for the contributions made by the workers. The contributions by the employers will in turn tend to be shifted either backward to the workers in the form of low wages or forward to the consumers in the form of higher prices. In either event, they also will decrease the real outlay on consumers goods. Since our society seems to have suffered during the twenties from too large a proportion of the national income being reinvested and too small a proportion being used for consumers goods, the withdrawal of such huge amounts from current consumption may well help to create a further state of unbalance in the future."

2. Ibid., p. 168.
While the avowed aim of the act was to increase the purchasing power of the masses (in order to restore business prosperity), its net effect will apparently be to produce the opposite effects.

Serious criticism has been leveled at the requirements set up in the act for participation in the system of insurance. As in the case of the pensions, it was decided to set an age limit of sixty-five years. This age limit as we have seen, should ideally have been set much earlier.

The exclusion of large sections of the population from the insurance system constitutes one of the fundamental deficiencies in the act. While the original bill excluded only a few groups, as the bill progressed through Congress more and more occupations were excluded. As finally passed, the act provides that farmers, domestic servants, civil service employees, casual laborers, seamen, church-workers, educators and social workers are unable to participate in the system. While civil service employees are already fairly well protected in their old age, most of the remaining groups are without any form of economic security in old age. It would have been difficult to administer such a system for these particular groups, but by making no supplementary
provisions for them the act committed a grave mistake. It barred a considerable portion of the working population from the benefits of the act. Approximately twenty-three million workers, or 47 per cent of all workers who were gainfully employed in 1930, were denied any form of protection. ¹ If the legislators found it essential to exclude these groups, they should have made some provision for a system of voluntary insurance. As already noted, the original bill which was recommended by the President’s committee set up such a system.

One of the outstanding advantages which social insurance possesses over a relief measure or a pension system is that it can provide for more than a bare subsistence level for the worker. Yet the scale of benefits which was set up by the Social Security Act provides for only a minimum of subsistence. In some cases the standards are below subsistence and will have to be supplemented by relief or pensions in order to keep the worker from starving. The following table on page 190, shows the scale of payments provided by the act:

### Sample of Old-Age Benefits

<table>
<thead>
<tr>
<th>Average Annual Earnings since Dec. 31, 1936</th>
<th>Monthly Payments to Qualified Workers Who Become 65 Years of Age -</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In 1942</td>
</tr>
<tr>
<td>$400</td>
<td>$10.00</td>
</tr>
<tr>
<td>$600</td>
<td>15.00</td>
</tr>
<tr>
<td>$1,200</td>
<td>17.50</td>
</tr>
<tr>
<td>$1,800</td>
<td>20.00</td>
</tr>
<tr>
<td>$2,400</td>
<td>22.50</td>
</tr>
<tr>
<td>$3,000</td>
<td>25.00</td>
</tr>
<tr>
<td>Over $3,000</td>
<td>25.00</td>
</tr>
</tbody>
</table>

The Senate's insertion of a clause forbidding annuitants from engaging in regular employment while receiving pensions tends to accentuate this difficulty and tends to reduce the insurance system to the category of relief. This provision actually defeats one of the primary aims of social insurance, namely, to have the worker care for his own old age. It means that a person is not entitled to benefits to which he himself has contributed heavily, unless he agrees to cease all other gainful employment while receiving an income from this source. This certainly reduces insurance to relief. The main distinction between insurance and relief is that in insurance benefits are "payable as a right to anyone fulfilling the requirements as to age and contributions made to the fund." 1. For insurance to fulfill its purpose the worker must always be "entitled to those benefits on the happening of a given event, not on proof of pauperism." 2. Upon reaching the age of sixty-five an insured individual should automatically begin to receive benefits just as he

would under a private insurance system. Moreover this provision will be extremely difficult to enforce and will give rise to many complications in attempting to prove whether or not an individual is engaging in "gainful employment."

The most fundamental objections to the old age insurance system of the Social Security Act are in regard to the taxing provisions.

From the start, the administration emphasized the necessity for placing the insurance system on a self-sustaining basis. This attitude was due to the fear that the public, already burdened with heavy taxation, would refuse to tolerate additional taxes. Moreover it became apparent that business would fight to the last against any system which placed a new burden of taxation upon it. Business would unquestionably oppose a system whereby an individual paid the cost both as an employer and as a taxpayer. Consequently, the act provided that the employers and employees should themselves support the system.

This was a serious blunder. No other system of social insurance had ever omitted contribution from the government. Government participation in
the cost had always been recognized as essential for a sound distribution of the expenses. The income taxes from which the federal government derives the greater part of its funds are the one form of taxation in which costs cannot be shifted, and in which those best able to pay are made to do so. Moreover, without some contribution from the government it is difficult to pay adequate benefits. 1 Then, too, government profits directly from the advantages of social insurance -- not only in the reduced cost of public relief but also in the indirect benefits of improvements in business, higher standards of living and better health standards. "By and large the greatest cost must always be on government; because as soon as the insurance scheme and private resources fail, provision of support immediately becomes the job of public relief agencies." 2 Government responsibility in matters of public welfare is not a revolutionary principle. As a matter of fact it has been

accepted since the days of the Elizabethan Poor Laws. But the Social Security Act fails to recognize the federal government's responsibility for any contribution to the insurance system. As a result, the entire cost will be borne by the workers. Employers can easily shift their portion of taxation by increasing selling prices and reducing wages. The workers will suffer also as consumers, for they will have to pay the increased costs which will result from employers shifting their share of the burden to the products. A decline in purchasing power will inevitably follow such a situation. Then, too, the workers will be in danger because employers will try to reduce their taxes by cutting down their labor force. The very wealthy will in this way be relieved of all support of the poor through relief or insurance, and the workers will have to carry the cost of the entire system.

While employees' contributions to a system of insurance are valuable in some respects, the burden which they will have to bear under the Social Security Act will be overpowering. By having the worker build up his own insurance fund, his right to the benefits is established and insurance
is removed from the classification of relief. Workers' contributions afford the wage earner a regular and safe method for saving and tend to encourage thrift and self-respect. Then too, the worker's participation makes it possible to have larger benefits. But despite these advantages many experts in social insurance have maintained that workers in the lower income groups should be exempted from participation because their wages are barely enough to provide subsistence. 1.

The taxation system set up in the Social Security Act, therefore, defies fundamental economic principles. By providing for a system of financing whereby the government makes no contribution, and the cost will eventually be shifted to the workers, the value of the act is seriously impaired. It is questionable whether its many advantages can offset this error in the basis of the system.

The Social Security Act sets up a Social Security Board charged with the administration of the old age pension and insurance provisions of

the act. This board is made up of three members appointed by the President, by and with the advice and consent of the Senate. Not more than two of these individuals may be of the same political party. The President designates which of the three shall serve as chairman of the board. Each member receives a salary of $10,000 a year and serves for a period of six years.

However, to provide rotating terms of office the first members will serve for a period of two, four and six years, respectively. Members of the board are forbidden to engage in any business, vocation or employment while serving in this official capacity.

The Social Security Board is directed to perform all the duties imposed under the various sections of the act and in addition, to study and make recommendations as to the most effective methods of providing economic security through social insurance. The Board appoints and fixes the compensation of officers and employees carrying out the provisions of the act and makes all necessary expenditures. Attorneys and experts may be appointed without regard to the civil service laws. All other employees directly
appointed by the Board must be chosen on the basis of competitive examination. The Board is required to make a full report to Congress regarding its administrative functions at the beginning of each Congressional session.

While there will be many administrative difficulties arising under the system as provided by the Social Security Act, it is well to remember that any system which attempted to provide for social security on a national scale would necessarily be complex and involved. The Board will have to carry on much supervisory work in connection with the old age pensions in order to insure the states' conformity to federal standards. The outstanding objection to the administrative provisions of this section of the act is that the Board has no power over the appointment, tenure of office, and salaries of state and local officials. While it should not have been desirable for the national agency to appoint these officers directly, it would have been advantageous to enable the Board to set up minimum personnel standards to which the states and localities would have been obliged to conform.
The administration of the old age insurance sections of the act will involve many difficulties. Over twenty million individual employment records will have to be kept in order to determine a worker's total earnings upon which his old age benefit will be based. These records must be maintained regardless of how often the individual changes his job or moves about from state to state. Similar difficulties will arise in connection with the payment of benefits upon death. The fact of death will have to be established, and the proper heirs certified. Moreover, since birth records are of comparatively recent origin, in many cases it may be impossible to prove that an individual is sixty-five years of age and qualified to receive benefits. There will also be the complicated checking of the death of annuitants in order to guard against payment of unearned annuities after the death of an individual. Then too, as already noted, the task of verifying that an individual receiving benefits has not engaged in any gainful employment during a given month will demand regular investigations and detailed administrative machinery. 1.

CHAPTER IX

CONCLUSION

Despite the flaws in both the old age pension and insurance sections of the Act, it is not without value. It represents a necessary, though imperfect, beginning in the field of old age security. An organized system has been set up on a national basis for the first time in the history of the country, and this in itself is significant. There is time for improvement. No country with a system of social security has yet perfected its program. Although many of the errors in the present Act could have been avoided, the Act is a tremendous improvement over our previous provisions for the aged.

Importance of State Cooperation

The value of the old age pension provisions of the Act will depend to a considerable extent upon the cooperation which is given by the states. Many
of the states have already raised their standards as a result of the law and it is hoped that many more will do so in the future.

The Constitutionality of the Act

We cannot end our study without some consideration of the constitutionality of the old age sections of the act. The fate of the Social Security Act, like the fate of all our federal statutes, will depend largely upon the decision of the Supreme Court. It is difficult to predict what the attitude of this body will be because of the many factors which will enter into the judges' decision. The outcome may depend in part upon the working of the Act and the extent to which it solves the problem of insecurity.

There is little reason to fear that the old age pension provisions of the Act will be questioned from a constitutional point of view. Federal grants-in-aid to the states have been accepted by the courts through long usage. There have been many grants for the establishment and maintenance of state agricultural colleges and for the promotion of the national guard.
Grant-in-aid appropriations have been made for various purposes including protection against forest fires, highway construction, vocational education, etc. 1. There have been several precedents in the Supreme Court upholding the constitutionality of these measures. 2.

The constitutionality of the old age insurance sections of the Act is much more doubtful. Although the sections of the Act providing for taxes and the sections prescribing benefits are separated, they are closely interrelated. The Act may very likely be attacked on the ground that it prescribes the specific purpose for which the tax is levied. Such a function is clearly outside the powers specifically granted to the federal government and may therefore be challenged. A "liberal" interpretation of the "general welfare" clause of the constitution would possibly permit such an exercise of power. Should these sections suffer the same fate as the Railway Pension Act, two separate acts could be passed, one levying the taxes, the other prescribing benefits, and in

2. Ibid., p. 309.
this way the constitutional issue could be avoided. Such a separation of functions would stand a better chance of being upheld in the courts. 1.

**General Evaluation and Conclusions**

The problem of old age security has not been solved. Even if we are, in the years to come, able to perfect the foundations of social security which are laid down in the Act, we will still be confronted with the insecurity of the aged. The causes of insecurity are deep-seated and can be removed only by a fundamental alteration in our economic organization. Pension and insurance systems are not panaceas for our economic ills. The final answer to our problems must be found in solution of our political and economic difficulties. Security for the aged is but one aspect of the problem of social security with which we are confronted. Democracy is at the cross roads. Whether or not it survives will depend to no

small extent, upon the degree of social security which we are able to provide for our people. Security is essential for social justice.
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