



# REPORTS AND ENQUIRIES

## First Annual Report of the United States Social Security Board

The Social Security Act was signed by President Roosevelt on 14 August 1935. Ten days later the Senate ratified the appointments of the three persons who constitute the Social Security Board, the body charged with the main responsibility for the administration of the Act. The Board has recently issued its first annual report <sup>1</sup>, which relates, in principle, to the fiscal year ended 30 June 1936, but the record was continued down to 15 December 1936, in so far as the information was available. The Board has since published a "Summary of Progress" giving the principal statistics for 1 May 1937.

The purposes of the Act may be brought under five heads :

- (1) to establish a Federal scheme of old-age benefits for persons employed in industry and commerce (Federal old-age benefits) ;
- (2) to encourage the States to establish schemes of unemployment benefits (unemployment compensation) ;
- (3) to assist the States to maintain schemes of non-contributory old-age, blind persons', and mothers' pensions (public assistance) ;
- (4) to assist the States to develop their maternal and child welfare work and their work for the rehabilitation of cripples ;
- (5) to carry on research in all branches of social insurance.

Of these purposes, only the first and fifth are to be effected by Federal means alone ; the remainder all involve State administration with Federal subventions and supervision.

During 1936, a beginning was made in the application of all these chapters of the Act.

A brief outline of the problems set by each chapter and of the organisation created to meet them is given below, together with some figures illustrating the results achieved.

A final paragraph summarises the expenditure incurred for each of the purposes of the Act.

### FEDERAL OLD-AGE BENEFITS

The Federal scheme of old-age benefits is designed to attain the same ends as a scheme of compulsory old-age insurance, though, in order that the Federal Constitution may not be contravened, benefits and financial resources are kept totally separate in law.

---

<sup>1</sup> *First Annual Report of the Social Security Board. Fiscal Year ended 30 June 1936. With Supplementary Data for the Period 1 July 1936 - 15 December 1936.* Washington, 1937. vii + 129 pp. 34 statistical tables, bibliography.

The scheme applies to all persons employed in industry and commerce. It makes provision for the grant of monthly pensions at the age of 65, the rate of the pension being dependent on the total wages earned by the worker from 1937 until his retirement. Pension payments will begin in 1942. For persons outside the scheme, and for those covered by it who are already elderly, parallel and supplementary provision is made by way of State schemes of old-age assistance.

The same persons and their employers are required to pay taxes proportional to the wages received and paid by the two parties respectively. The proceeds of these taxes are paid into the United States Treasury. The taxes are calculated to be sufficient to pay for the pensions, but legally the cost of pensions is chargeable to the general revenue, and not to the wage taxes, which are not earmarked for the service of pensions. Tax collection begins in 1937. Though pension payments do not begin until 1942, the Federal Government is required from the outset to make an annual appropriation for the purpose of building up a reserve fund. For the fiscal year 1936-1937, this appropriation amounts to \$265,000,000.

The administrative task consists, on the one hand, in maintaining records of the wages received during their working lives by employed persons and paying pensions to them, and, on the other, in collecting the taxes imposed on employers and employed. Only the first half of this task is entrusted to the Social Security Board, the second being undertaken by the Federal Bureau of Internal Revenue, as an extension of its normal functions.

The Social Security Board has established a Bureau of Federal Old-Age Benefits with the duties of maintaining wage records and paying pensions. In preparation for the first of these duties, which will be the main function of this department during the period 1937-1942, the operation of registering the workers who come under the scheme was carried through in the closing months of 1936. For every worker a wages account must be kept, and an identification number had to be assigned to him for this purpose.

This operation was a vast one, for the number of workers covered by the scheme was estimated at 26,000,000, but it was successfully accomplished with the collaboration of the Post Office Department and its network of 45,000 local offices. First of all every industrial and commercial establishment was required to return, on forms distributed by the post office, particulars of its business and the size of its staff. These data serve to identify the firm for the purposes of wage and tax records; they also facilitated the second step. The postman then delivered at each establishment blank applications for account numbers, one for each member of the staff. The applications, when completed by the worker, were returned to the post office, either directly or through his employer or trade union. The local post offices transmitted the bundles of applications to the larger post offices, where special employees were engaged to notify the applicant of the number allotted to him and to type the contents of each application on permanent cards. These cards were then passed to the wages record office of the Bureau of Federal Old-Age Benefits at Baltimore.

The Baltimore office is equipped with automatic accounting

machinery, capable of dealing rapidly with millions of cards—recording particulars by punching slots in the cards, and then sorting the cards in any desired manner.

By the end of 1936, over 22,000,000 applications had been received and dealt with, and at 1 May 1937 this number had risen to 27,051,976.

The Bureau of Federal Old-Age Benefits is dependent on the co-operation of the Bureau of Internal Revenue for the figures needed for its wages accounts. The Bureau of Internal Revenue collects monthly from employers the taxes payable by them and their staffs, and, once a quarter, calls for a report of the wages received by each worker, as identified by his number. It is from these reports that the Bureau of Federal Old-Age Benefits posts the individual wages accounts.

While the accountancy is centralised, contact with employers and workers is maintained by a network of "field offices" or local agencies, of which 108 had been established at the end of 1936, and 123 by 1 May 1937; the opening of further offices is contemplated as the need arises.

These field offices are grouped under the supervision of 12 regional offices, which are concerned to facilitate the administration, not only of Federal Old-Age Benefits, but of unemployment compensation and public assistance as well, and to that end are endowed with staffs of expert administrators and statisticians.

#### UNEMPLOYMENT COMPENSATION

During the twenty years prior to 1935 more than 250 Bills dealing with unemployment compensation had been introduced in State legislatures, but up to the passage of the Social Security Act the State of Wisconsin was the only one which had enacted such a measure.

The Social Security Act does not set up a system of unemployment compensation. It merely provides a framework within which States may enact such unemployment compensation laws as they consider most suitable to their needs.

Title IX of the Act levies a payroll tax on employers of 8 or more workers in certain fields of employment, amounting to 1 per cent. in 1936, 2 per cent. in 1937, and 3 per cent. thereafter. Employers who make contributions required by States under laws approved by the Board may credit against the Federal payroll tax the amount of their contributions up to 90 per cent. of the Federal payroll tax. The amount of the Federal payroll tax after deducting credits when allowable is paid directly to the Federal Treasury. The Social Security Board determines the cost of proper administration of the State Act and makes grants for this purpose. Title III of the Act authorises an annual congressional appropriation of not more than 49 million dollars.

The States determine the rate and type of contribution, the rate of compensation, the length of the waiting period, the duration of benefits, and the type of fund. The State laws enacted up to 1 May 1937 (45 in addition to those of the District of Columbia and Alaska) vary widely in their provisions, and many theories are being tested. At the above date all but three of these Acts had been approved by the Social Security Board and 18,520,000 workers were covered. Under

all the State laws contributions from employers represent a definite proportion of wages, usually amounting to 90 per cent. of the Federal tax. Some States have provided for contributions from employees also. Most State Acts base benefits on full-time weekly wages.

The first unemployment compensation law to be approved was that of the District of Columbia, on 15 November 1935, and in March 1936 the first grants were made for the administration of State unemployment compensation laws. In accordance with the terms of the Social Security Act, no benefits are to be payable in any State until two years have elapsed from the date of the first contribution. On 17 August 1936 an unemployed worker in Madison (Wisconsin) received the first unemployment compensation payment under a State law.

The Bureau of Unemployment Compensation of the Social Security Board (with the assistance of the General Counsel's Office, the Bureau of Research and Statistics, and the Bureau of Accounts and Audits) is responsible for making recommendations to the Board concerning the conformity of State laws with the general principles outlined in the Act. It also examines the estimates of administrative expenses and recommends the amounts for grants. If requested, it gives assistance to the States in formulating their legislation and co-operates in other ways in developing general policies, accounting procedures, statistical reports, etc. It acts as a clearing house for information requested by the States. The Board maintains in each of the twelve regional offices an attorney and a staff of statisticians and other experts to aid States requesting such services.

The Federal-State system of public employment offices is the agency through which, as a rule, unemployment compensation benefits will be paid.

State laws show a wide variation in the type of agency designed to administer unemployment compensation. In some States administration has been assigned directly to the Department of Labour, the Industrial Commission, or some other existing State agency. In other States an independent commission has been appointed, but in every case the agency is related to the State Government in many ways, particularly through the appointment of administrative officials by the Governor and through the State's financial controls. In most States the State Treasurer is custodian of the unemployment compensation fund and the funds for administration. Most State laws provide for direct representation of employers, employees, and the public on the State commissions, or advisory councils.

There are no moneys appropriated by the Federal Government towards the Unemployment Trust Fund of the United States Treasury; the sums are deposited by the States and are held in separate State accounts on which interest is paid at the average rate borne by all interest-bearing obligations forming a part of the public debt, and drawn upon as needed by the States. The Government may, under certain restrictions, invest the money either by buying Government or Government-guaranteed bonds in the open market or by turning over to the Trust Fund certain obligations. The responsibility of the Federal Treasury is limited to handling, investing, and liquidating portions of the Trust Fund as requisitions by the States for benefit

payments make liquidations necessary. By 15 April 1937, the State deposits in the Unemployment Trust Fund in the United States Treasury plus accrued interest amounted to \$219,803,451.77. This represented deposits by 33 States and the District of Columbia.

Most States provide for the selection of staff on a competitive basis. In a number of States it is subject to the provisions of the State Civil Service law. Since unemployment compensation is a new development in the United States, the selection of a skilled technical staff is one of the greatest problems of the State administrators. Special training for the administration of unemployment compensation is essential, and the report suggests that a training programme should include an examination of the problem of unemployment and past methods of dealing with it, the development of unemployment compensation in the United States and other countries, the history of the Social Security Act, and events which led up to its enactment, together with an analysis of the Act and of the various State laws.

The Social Security Board is prepared to co-operate with the States at their request in developing standards of qualification and in setting up training centres, as well as in other matters relating to efficient administration. The purpose of the Federal-State arrangement is to safeguard the national interest without infringing the freedom of the States.

The close relationship between unemployment compensation and the employment service makes it necessary for the staff of each agency to have some familiarity with the methods and objectives of the other, and knowledge is also necessary of the problems which may be expected to arise in the administration of the law.

Among the outstanding technical problems are those of determining wages within the meaning of the Social Security Act and defining coverage under the State laws, particularly in certain employments where the employer-employee relationship is not clear. There is a considerable lack of uniformity in the provisions of the various State laws regarding inter-State employees, and the report states that, regardless of the definition of inter-State employment in the State laws, it is the responsibility of each State to determine where contributions are to be paid for those workers who perform services in more than one State. Uniformity of treatment by the various State agencies is considered essential, so that employers may know in advance in which State the tax is due, and the employee in which State benefits are payable. Much study has been given to this subject and it is now believed necessary that the State laws should contain a general provision for reciprocal agreements with the Federal Government and with other State Governments, in order to provide for payments to inter-State employees.

#### PUBLIC ASSISTANCE

The only head of the Social Security Act under which benefits were paid in 1936 was that of public assistance, but these benefits have been considerable, and the progress resulting from the passage of the Act very marked.

For the purpose of the Act, "public assistance" comprises State

schemes of non-contributory pensions payable, subject to a means test, to the aged, for dependent children, and to the blind.

Prior to 1935, laws to provide assistance of these kinds were in existence in many States (old-age assistance in 30 States, aid to dependent children in 45, and aid to the blind in 25), but were applied only in a fraction of their areas. Application was, in most instances, left to the counties, which had to raise part at least of the resources, and between one-third and one-half of them were unable to give effect to the laws for lack of funds. Moreover, the award of pensions was generally subject to a highly restrictive condition as to length of residence (e.g. 15 years).

The public assistance provisions of the Act set out to remedy this situation by offering large subsidies to States which would bring their legislation and its administration up to prescribed standards.

By the terms of the Act, the Federal Government offers to contribute to each State one-half of its expenditure on assistance to the aged and the blind and one-third of its expenditure on aid to dependent children.

The main conditions for the grant of these subsidies are that the schemes shall operate throughout the area of the State in question, shall be financed at least in part by the State, and shall be administered by, or under the supervision of, the State. Furthermore, the Act requires that the qualifying period of residence in the State for the grant of old-age and blind persons' pensions shall not exceed five years, that persons refused assistance shall have a right of appeal, and that the pensionable age shall be fixed at 65 (though it may be maintained at 70 until the end of 1939). In general the Act encourages the establishment of non-contributory pension schemes on a more liberal basis than that commonly adopted before its enactment.

With respect to public assistance, the functions of the Social Security Board are those of ascertaining whether the legislation of States applying for subsidies reaches the prescribed standards, and advising States as to the best methods of administration. These functions are carried out by the Bureau of Public Assistance and by the regional offices of the Board, which are equipped to furnish expert advice.

The progress achieved by the public assistance provisions of the Act may be illustrated by the increase in the number of schemes approved, in the number of beneficiaries, and in the average rate of benefit.

TABLE I. NUMBER OF STATE PUBLIC ASSISTANCE SCHEMES APPROVED FOR FEDERAL SUBSIDIES

Date	Old-age assistance	Aid to the blind	Aid to dependent children	Total
31 Dec. 1935	15	11	10	36
30 June 1936	34	22	20	76
30 Sept. 1936	40	24	26	90
15 Dec. 1936	42	28	27	97
1 May 1936	43	29	28	100

The growth in the number of schemes approved from quarter to quarter in 1936 is an index of the effort made by the States to enact or amend legislation in conformity with the standards of the Social Security Act. (Table 1). In fact, out of a total of 51 jurisdictions, 35 States and 3 Territories passed new laws or amended old ones in 1935, while 22 jurisdictions took similar measures in 1936.

TABLE II. NUMBER OF BENEFICIARIES UNDER STATE PUBLIC ASSISTANCE SCHEMES APPROVED FOR FEDERAL SUBSIDIES

Date	Aged persons	Blind persons	Dependent children	
			Families	Children
Feb. 1936	245,430	12,058	26,568	68,638
June 1936	602,672	17,585	68,993	173,491
Oct. 1936	974,383	27,999	105,413	268,903
May 1937	1,323,000	34,000	139,400	359,900

The number of recipients of the three types of public assistance has certainly grown rapidly in 1936, but in reading table II it must be remembered that in the earlier part of the year there were certain schemes actually operative but not yet approved; at the end of 1935, there were already 408,502 aged persons in receipt of pensions.

TABLE III. AVERAGE MONTHLY PAYMENT PER BENEFICIARY UNDER STATE PUBLIC ASSISTANCE SCHEMES APPROVED FOR FEDERAL SUBSIDIES

Date	Aged persons	Blind persons	Dependent children	
			Families	Children
	\$	\$	\$	\$
Feb. 1936	15.18	23.77	22.69	8.78
June 1936	15.99	24.09	23.37	9.29
Oct. 1936	18.50	25.14	26.46	10.35
March 1937	18.77	25.41	29.02	—

The Social Security Act does not define the need which justifies the grant of assistance nor does it indicate any standard which the benefits should attain; these are matters which are left to each State to determine in accordance with its own circumstances. Nevertheless it cannot be doubted that the effect of the payment of Federal subsidies has been to increase not only the number of beneficiaries, but also, to some extent, the level of benefits.

Tables IV and V show the rapid rise in the public assistance expenditure of the States on the one hand, and the corresponding Federal subsidies on the other.

TABLE IV. BENEFIT EXPENDITURE UNDER STATE PUBLIC ASSISTANCE SCHEMES APPROVED FOR FEDERAL SUBSIDIES

(\$ 000's)

Period 1936	Aged persons	Blind persons	Dependent children	Total
Feb.-March	8,029	595	1,239	9,863
April-June	25,654	1,208	4,329	31,191
July-Sept.	44,369	2,000	7,279	53,648

TABLE V. FEDERAL SUBSIDIES PAID OR PAYABLE TO APPROVED STATE PUBLIC ASSISTANCE SCHEMES

(\$ 000's)

Period 1936	Aged persons	Blind persons	Dependent children	Total
Jan.-March	5,855	419	684	6,958
April-June	15,567	705	2,121	18,393
July-Sept.	26,323	1,133	2,959	30,415
Oct.-Dec.	32,966	1,028	3,841	37,835
Total	80,711	3,285	9,605	93,601

Between February 1936 and 1 May 1937, the amounts paid to the States totalled \$123,991,458 for aged persons, \$305,040 for blind persons, and \$15,642,534 for dependent children.

#### WELFARE SERVICES

Under the heading "Welfare Services" may be grouped the remaining contributions made by the Social Security Act towards the improvement of social conditions.

#### *Maternal and Child Welfare*

The Act provides money for assisting States in the development of their maternal and child health services, child welfare services for neglected children, and work on behalf of crippled children. Generally speaking, funds are allotted to States to the extent of half their expenditures for these services, but subject to maxima depending on their needs as indicated, e.g., by the number of births or the number of crippled children in the State. The State schemes have to fulfil



certain requirements in the matter of administration in order to be approved for the grant of subsidies. Special funds are set aside for the development of maternal and child health services in rural areas.

The Children's Bureau of the Federal Department of Labour is responsible for the administration of the provisions of the Act which concern mothers and children.

By the end of 1936, 47 jurisdictions (States and Territories) had qualified for subsidies in respect of maternal and child health services, 41 in respect of child welfare services, and 39 in respect of services for crippled children. For the five-month period 1 February to 30 June 1936, the sums allotted to the States were as follows :

	\$ 000's
Maternal and child health services	1,252
Child-welfare services	228
Services for crippled children	733
	<hr/> 2,213

### *Vocational Rehabilitation*

Vocational rehabilitation is a service which consists in preparing persons suffering from permanent physical disablement for employment and in finding employment for them. All persons so disabled who are of working age are eligible for the benefits of this service, which include vocational guidance and training, the supply of surgical appliances, placement, and after-care.

The national programme of vocational rehabilitation was inaugurated under a Federal Act of 1920, providing for financial aid to the States in carrying on this work. At the present time, 45 States and 3 Territories receive subsidies under this Act.

The Social Security Act places on a permanent footing the co-operation of the Federal Government with the States in this field and increases the amount available for subsidies. For the fiscal year 1936-1937, the sum of \$841,000 was appropriated for this purpose.

The distribution of Federal subsidies is controlled by the Office of Education in the Federal Department of the Interior. According to statistics supplied by the co-operating States, 10,388 disabled persons were equipped for, and placed in, employment during the fiscal year 1935-1936, and at the end of that year some 40,000 persons were in process of rehabilitation.

### *Public Health*

The Social Security Act puts at the disposal of the Federal Public Health Service an annual sum, amounting for the fiscal year 1936-1937 to \$8,000,000, for the purpose of assisting States to establish and maintain adequate sanitary services. An annual appropriation is also made to enable the Federal service to extend its research work, especially on industrial hygiene and venereal disease.

## SOCIAL INSURANCE RESEARCH

The Social Security Board is entrusted with wide powers to conduct research on social insurance problems, and already studies have been begun on many questions which may be classified under the heads of administration, unemployment, and financial management.

The administrative studies concern the functions of employment offices in relation to unemployment compensation, proposals for State unemployment compensation legislation, methods of inter-State co-operation in social security schemes, and methods of control over grants made to States in aid of their administrative expenses.

Research is being conducted into the amount and duration of unemployment in different industries, and also into long-term trends in markets, technology, and business organisation, and their effect on employment.

Other studies deal with matters affecting the finances of the Social Security Act: relation between national economic resources and size of benefits, effect of the business cycle on sources of funds, effect of the investment of reserves on the national economy, and economic effect of various forms of taxation. Finally, an actuarial division has been organised to study the basic factors of the Federal old-age benefit scheme: mortality, interest, benefit scales, and financial system, and such secondary questions as transfer between employment covered by the scheme and uncovered employment, and wage rates by age and occupation.

## FEDERAL EXPENDITURE UNDER THE ACT

To meet the liability imposed on the Federal Government by the different titles of the Social Security Act, Congress appropriated for the first fiscal year the sum of \$41,935,000 exclusive of funds for vocational rehabilitation. By the end of that year (30 June 1936), disbursements had been made to the amount of \$28,445,293. The comparatively large balance remaining arises from the fact that, although the response of the States to the Social Service programme was widespread, there were inevitable delays in some cases in the passing of legislation and the framing of plans before grants could be paid. For the first year, then, expenditure was very much lower than that expected in future years.

Appropriations for the second fiscal year ending 30 June 1937 amounted to \$467,269,000, exclusive of funds for vocational rehabilitation. A large part of the increase over the first year is accounted for by a first payment of \$265,000,000 to the reserve fund for Federal old-age benefits. The sum of \$142,170,000 for subsidies to State public assistance, health, and welfare schemes reflects an anticipated expansion of this work. The appropriation for grants to meet the cost of administration of State unemployment compensation measures also shows a marked increase—from \$2,250,000 for the first year to \$29,000,000 for the second.

To meet the administrative expenses of the Social Security Board, \$1,000,000 was appropriated for the first year. For the second year

the appropriation rose to \$30,800,000, but this includes the large non-recurrent item of \$12,400,000 for the work of establishing 26,000,000 wage accounts.

The following table shows the appropriations made for the second fiscal year, ending 30 June 1937.

TABLE VI. FUNDS APPROPRIATED UNDER THE SOCIAL SECURITY ACT  
FOR THE YEAR ENDING 30 JUNE 1937

(\$ 000's)

Object	Appropriation
Administrative expenses	
Social Security Board :	
Salaries and expenses	18,400
Wage records	12,400
Department of Labour (Children's Bureau)	299
Department of the Interior (Office of Education)	74
Treasury Department (Bureau of Internal Revenue) :	
Collection of employment taxes	5,802
Administration of old-age reserve account	32
Treasury Department (Public Health Service) :	
Research and administration	1,320
Total	38,327
Grants to States	
Social Security Board :	
Old-age assistance	85,000
Unemployment compensation administration	29,000
Aid to dependent children	35,000
Aid to blind persons	8,000
Total	157,000
Department of Labour (Children's Bureau) :	
Maternal and child health	2,820
Services for crippled children	2,150
Child-welfare services	1,200
Total	6,170
Department of the Interior (Office of Education) :	
Vocational rehabilitation	841
Treasury Department (Public Health Service) :	
Public health work	8,000
Total	172,011
Old-age reserve account	265,000
Grand total	475,338