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## *8 Social Insurance and Public Housing*

As noted in Chapter 5 and set forth in Table 5-1, the series developed by Mrs. Merriam under the title "Social Welfare Expenditures Under Civilian Programs" has been used here as a general guide or universe of domestic public philanthropy. She grouped her many categories of these expenditures into the following major classes: social insurance, public aid, health and medical service, other welfare services, veterans' program, education, and public housing. This chapter will be devoted to the eight items under social insurance and the one item of public housing. The latter would not seem to require any particular discussion to warrant placing it under public domestic philanthropy as the term is used herein. It is part of the public sector of the American economy. On the other hand, each of the eight items which she lists under social insurance will be examined separately to determine whether the particular item conforms to our concept of public domestic philanthropy.

In order to examine the nine items quantitatively, the calendar-year data for 1959 have been set forth in Table 8-1 in dollars and in percentages of GNP. (Following Mrs. Merriam's suggestion, the calendar-year data for 1959 were developed by a moving average of the data for the two fiscal years involved. Other source data for some of these separate items are, in some instances, not quite as comprehensive as her fiscal-year data.) The 1959 expenditures for the first item, OASDI, were \$10,324

Table 8-1

*Social Insurance and Public Housing Expenditures, 1959*

Item	Million Dollars	Per Cent of GNP
1. Old-age, survivors, and disability insurance	10,324	2.139
2. Railroad retirement	852	.177
3. Public employee retirement	2,456	.509
4. Unemployment insurance and employment service	3,280	.680
5. Railroad unemployment insurance	208	.043
6. Railroad temporary disability insurance	63	.013
7. State temporary disability insurance, total	338	.070
8. Workmen's compensation, total	1,264	.262
Total social insurance	18,785	3.893
9. Public housing	166	.034
Grand total	18,951	3.927

Source: *Social Security Bulletin*, November 1962, Table 1, p. 4. Calendar-year data derived by moving average of fiscal-year data.

million, or 2.1 per cent of GNP. Thus the first item is by far the largest of the nine, which total \$18,951 million, or 3.9 per cent of GNP. In turn, the grand total of all her items in 1959 was \$50,766 million, or 10.5 per cent of GNP, and these nine items were 37.3 per cent thereof.

#### CLASSIFICATION OF TAX-WELFARE ITEMS

Some students of insurance and social insurance would not call all of Merriam's eight items types of social insurance. It means different things

to different people. We are more concerned here with whether or not a particular item should be classified as public philanthropy. The following brief comments present our decision on excluding or including each of Merriam's social insurance items in public domestic philanthropy.

The first and largest item is old-age, survivors, and disability insurance. As will be shown later, we estimate that about 95 per cent of these expenditures, or transfer payments, should be classified as public domestic philanthropy during our period of study. Item 2, railroad retirement, is really a branch of OASI; 95 per cent of these expenditures are also classified in this quadrant.

Items 3, 5, 6, and 7 can be grouped together because they do not cover the public. But only item 3, public employee retirement, is excluded from the quadrant. State temporary disability insurance, item 7, operates in just four states. Items 5, 6, and 7 involve payments from public funds and are included here. A controlling factor in excluding public employee retirement is our attempt throughout this study to avoid discussion of pension plans and fringe benefits arranged for employees by their employers, with or without the process of collective bargaining, and the large windfall benefits that are involved in some of these programs. The employer-employee relationship may lead to programs which provide very substantial benefits. The actuarial deficit in the Federal Civil Service Retirement funds exceeded \$30 billion in 1959. Just what will be done about this deficit in the future is problematical; it may increase. But to consider public employee retirement as a type of public domestic philanthropy or to consider it even as social insurance is, in our opinion, not careful classification.

Item 4 combines the costs of employment service and unemployment insurance, making a rather large total for 1959, \$3,280 million and 0.68 per cent of GNP. The term "unemployment insurance" does not appear in the Social Security Act of 1935, as amended; rather the term is "unemployment compensation." Here again the term social insurance does not seem fitted to cover this item.

During the years preceding 1936, a large portion of the suffering and distress which brought forth the philanthropic activities, already described in Chapter 7, was certainly traceable to unemployment. It is not possible to separate out of the data the exact amounts of relief of many kinds which were occasioned by unemployment, but it certainly was a significant part of the total. The unemployed were fed, clothed, and

housed and their daily wants were satisfied in whole or in part by means which were unquestionably philanthropic. The Social Security Act of 1935 produced a systematic program of providing certain benefits during unemployment. The employer paid the cost of these benefits through a new system of payroll taxes. This new system gradually displaced the older and traditional philanthropic activities on behalf of the unemployed. If the years 1929–36 were excluded from all parts of our study, the chain connecting the new system with the old would be largely severed. The fact that the new system gives the unemployed a legal right to monthly benefits is not a unique feature of public philanthropy, as old-age assistance also involves a legal right; and such public assistance is a part of a long tradition reaching back in time to the poor laws of England—an earlier form of public philanthropy.

Item 8, workmen's compensation, is a large item and important in the total. We would again raise the question in the first instance whether this should be called social insurance. Admittedly, workmen's compensation laws in some states do provide that the insurance must be carried in public funds. Nevertheless, this item should be excluded primarily for historical reasons. It would be pointless to review the long history of employers' liability preceding workmen's compensation laws which were widely established before 1929. These laws, of course, are subject to change as to benefits and coverage so that prior to the establishment of workmen's compensation acts in all of our states, and even after some of them were established, the need for philanthropic funds to supplement the family income has continued well into our period. Yet, on the whole, it seems that this new system was so well developed by 1929 and the costs were so widely recognized as a business charge, not a philanthropic one—and on industry rather than on the employees—that, in our judgment, this item is largely outside the scope of domestic public philanthropy.

Doubtless our reasoning will not meet with universal approval. It may seem to critics that we are using a very broad concept of philanthropy and applying it too narrowly. Nevertheless, workmen's compensation will be excluded, and \$1,264 million, or 0.26 per cent of GNP, removed from the total of the nine items for 1959. This is the second large reduction in the totals for Table 8-1. The data for the entire period, 1929–59, could be reworked to include workmen's compensation by those who think it should not be excluded.

In summary, seven items in Table 8-1 will be included because they conform to our concept of public domestic philanthropy. Only public employee retirement (3) and workmen's compensation (8) are excluded—\$2,456 and \$1,264 million, or \$3,720 million, which was 0.77 per cent of GNP in 1959.

## WHY 95 PER CENT?

The evidence available indicates that at least 95 per cent of the OASI benefits during our period were public philanthropy receipts. To this extent, from the standpoint of the recipient, OASI resembles old-age assistance in the social security area.<sup>1</sup> While no specific study precisely states that an average of only 5 per cent of the benefits have been pre-paid by the employer and the employee, there are published and unpublished studies and statements which provide very strong support for this figure.

The 95 per cent figure is based upon three solid sources.\* The first is a staff report, entitled "Social Security after 18 years," made by Carl T. Curtis, Chairman of the Subcommittee on Social Security of the Committee on Ways and Means of the House of Representatives; it established a 96 per cent figure. The following quotation, taken from pages 69 and 70 of that report, explains the situation at the end of 1952:

*As a group, today's aged on OASI will receive in benefits almost 50 times the amount they paid in OASI taxes.*

As of December 31, 1952, there were 2,644,000 persons currently drawing OASI primary benefits. They themselves had paid \$356,470,000 in OASI taxes. They already had drawn \$3,665,400,000 in benefits—or more than 10 times the amount of their own tax contributions.

<sup>1</sup> Disability, the "D" in OASDI, has not been considered extensively in this study because it came so late in the period and was first applied only to persons 50 to 65 years of age. The amounts for disability, as distinguished from OASI, could have been separated for 1957-59. The use of 95 per cent as the non-prepaid portion is on the low side and is not specific enough to warrant the separation. It did not seem sufficiently important to try to determine a separate percentage of public philanthropy involved in this benefit.

\* A fourth "solid source," which supports the above estimate, is "Studies on the Relationship of Contributions to Benefits in Old-Age Benefit Awards," by R. J. Myers and Bertram Oppal of the Division of the Actuary, Social Security Administration, *Actuarial Note No. 20*, June, 1965. [Footnote by Solomon Fabricant]

These same 2,644,000 primary beneficiaries can expect to receive, under existing law, an additional \$13,500 million in benefits before they are removed from the rolls by death or for other reasons, according to actuarial estimates of the Bureau of Old-Age and Survivors Insurance. Thus, the total of past and future benefits for this group will be approximately \$17,165 million—or a ratio of benefits as compared to taxes of 48 to 1.

If OASI taxes previously paid by employers on the past wages and salaries of the 2,644,000 primary beneficiaries at the end of 1952 are taken into account, the total OASI benefits ultimately payable to them will be equal to approximately 24 times the amount of taxes paid by and for them.

The second source is really summarized in several letters to the author from Robert J. Myers, Chief Actuary of the Social Security Administration. It is unfortunate that the Social Security Administration itself has never made a thorough study of the type reported to the House Ways and Means Committee, which describes the situation as it was in 1952. But Myers' letter of March 24, 1961, which follows, provides strong support for our use of 96 or 95 per cent.

In response to your letter of March 21, you are quite correct in the figures that you have developed as to the total OASDI benefit disbursements in 1959, namely, about \$10.3 billion. You could readily apply a factor of 4% or 5% to this figure to indicate the proportion of this that was "purchased" by the contributions of the insured worker (and his employer) on whose earnings these benefits are based.

It would be very nice if we could make a full-fledged actuarial study of this matter but, as you may realize, the earlier study was based on very extensive nonroutine tabulations and could not be repeated without a considerable expenditure of money and time.<sup>2</sup>

<sup>2</sup> As Myers states, a full and complete actuarial analysis of the percentage of prepayment by employees and their employers—which we have approximated at 5 per cent for our period—would be most welcome. For example, it could examine the percentage of prepayment of benefits made by those who die before reaching retirement age. Their lives are, so to speak, cut short; also their OASDI taxes, along with their employers, are less. If they die without survivors, as the term is defined in the Social Security Act as amended, no survivorship benefits are paid. At the other extreme are the persons who pay taxes a relatively few years and leave a number of survivors who will draw large benefits. It is believed that the percentage of prepayment for survivorship benefits of persons who do not live to retirement age is considerably below 5 per cent. But students must wait and hope that the definitive actuarial study of the percentage of benefits prepaid will be forthcoming.

The results of an incomplete study by W. R. Williamson, who preceded Myers as the Social Security Actuary, was summarized in a letter dated November 1,

The third piece of evidence was published in 1964, a work manual by the Social Security Administration entitled *Work Book—Special Training for Technical Employees Office of Employment Development*. On page 45 of this manual the following sentences are pertinent:

The benefits that a new entrant gets are not equal in value, over the long run, to the contributions that he and his employer pay. Present older employees and people now on the beneficiary rolls have paid far less in contributions—even including employer contributions paid on their behalf—than the value of the benefits that they will get. For those now on the rolls, it is likely that they would have paid, at most, for about 10% of the benefits actually payable to them.

The fact is that people retiring today have by no means “purchased” their benefits. Accordingly, if the system is to pay far more to the present retirants and those coming up to retirement age in the next few decades than their contributions could buy, and if it is to be self-supporting from worker and employer contributions, then some people necessarily will be getting less than the value of the combined employer-employee contributions.

Congress is obviously free to select any terms in describing legislation. Congress chose words or terms (OASI and OASDI) which were thought to be more acceptable than alternative language which would correctly describe the system as a tax-welfare program. So the fact that we consider 95 per cent of these OASDI benefits as public charity or social charity or, more precisely, “private public” philanthropy is merely a question of classification. The point of language is of less importance than the concept of prepayment. OASI or OASDI has obviously involved what economists call transfer payments. In this case, the transfer payment is made by younger persons in many income classes to older persons in all income groups receiving benefits. Moreover, the survivorship benefits are not restricted to the poor.<sup>3</sup>

1965, as follows: “My study showed survivals of all years from 1940 onward in the granting of awards—but all of these very well justify your (and my) idea of 95% ‘public philanthropy’ for OASI—to date! I had long said ‘dollars for nickels’ even as early as the 1953 study. . . .”

<sup>3</sup> Elsewhere I have elaborated on these points and related matters concerning some of the peculiar features of what we commonly call “social security” but should more precisely call OASDI: (1) “The Social Security Principle,” *Journal of Insurance*, December 1960, pp. 1–13. (2) This article was criticized by three actuaries—W. R. Williamson, the first Social Security Actuary; Robert G. Myers, the present Social Security Actuary; and Ray M. Peterson, Vice-President and Associate Actuary of the Equitable Life Assurance Society. These three comments

## SOCIAL EVOLUTION AND SEMANTICS

Social evolution is a powerful but slow-moving force. He who tries to peer into the future must recognize that he cannot circumscribe completely the inventiveness of the future. Indeed, if one had the perspective of the entire twentieth century, he could look back from that vantage point over the thirty-one years covered in this study—the Great Depression, the great increase in the number of older persons, urbanization, and so on—and it is quite possible that he might think it was wise for federal officials and many private citizens to call OASI and OASDI by the high-sounding title of insurance; declare that the benefits had been prepaid by the individual and his employer and belong to the beneficiaries. Or he might take a milder point of view and refer to the windfall benefits of 95 per cent as “philsurance.”<sup>4</sup> But the task in this study is to state the case as it actually appeared in the three decades covered, frankly admit that prophecy is still an exclusively divine gift, and that the final evaluation of a great social program must, for some purposes, await the verdict of history. In this study, therefore, OASDI must be considered as about 95 per cent public domestic philanthropy regardless of reappraisals made decades later.

## TOTALS FOR SOCIAL INSURANCE

Each of the seven items included in public domestic philanthropy are shown in dollars and percentage of GNP (Table 8-2). The amounts for 1938 and 1939 for OASDI were small, so the important part of columns 1 and 2 really begins with 1940 and extends through 1959. The grand total through 1959 of 95 per cent of OASDI benefits was \$50,747 million. The use of the heading OASDI implies that the last three years of the period involved the disability program. For the relevant years (1938–

and my rebuttal were published also in the *Journal of Insurance*, June 1961, pp. 111–127. (3) My statement before the Committee of Finance, United States Senate, 89th Congress, First Session, on H. R. 6675 (Social Security), pp. 1241–1248.

<sup>4</sup> See “Highlights of the Conference” in *Philanthropy and Public Policy*, Frank G. Dickinson, ed., New York, NBER, 1962.

Table 8-2  
*Social Insurance and Public Housing, 1937-59*

Year	95 Per Cent of OASDI		95 Per Cent of Railroad Retirement		Unemployment Ins. and Employment Serv.		Railroad Unemployment Insurance	
	Million Dollars (1)	Per Cent of GNP (2)	Million Dollars (3)	Per Cent of GNP (4)	Million Dollars (5)	Per Cent of GNP (6)	Million Dollars (7)	Per Cent of GNP (8)
1937			40	.044	50	.055		
1938	9	.011	91	.107	286	.336		
1939	20	.022	107	.117	535	.587	10	.011
1940	57	.057	114	.113	530	.527	20	.020
1941	108	.086	123	.098	479	.381	16	.013
1942	149	.094	128	.080	366	.230	8	.005
1943	187	.097	130	.067	227	.118	4	.002
1944	230	.109	133	.063	195	.092	4	.002
1945	297	.139	142	.066	1,242	.582	14	.007
1946	392	.186	158	.075	2,374	1.127	38	.018
1947	487	.208	192	.082	2,047	.874	44	.019
1948	579	.223	242	.093	1,748	.674	43	.017
1949	686	.266	279	.108	2,038	.790	85	.033
1950	1,117	.392	297	.104	1,627	.572	74	.026
1951	1,727	.525	338	.103	1,126	.342	27	.008
1952	2,272	.655	407	.117	1,166	.336	42	.012
1953	2,888	.790	454	.124	1,508	.413	79	.022
1954	3,705	1.020	506	.139	1,976	.544	130	.036
1955	4,713	1.186	560	.141	1,852	.466	109	.027
1956	5,772	1.377	608	.145	1,733	.413	74	.018
1957	7,071	1.597	667	.151	2,572	.581	132	.030
1958	8,473	1.906	715	.161	3,517	.791	188	.042
1959	9,808	2.032	809	.168	3,280	.679	208	.043

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Year	Railroad Temp. Disability Ins. Total		State Temp. Disability Ins. Total		Public Housing		Total Expenditures	
	Million Dollars (9)	Per Cent of GNP (10)	Million Dollars (11)	Per Cent of GNP (12)	Million Dollars (13)	Per Cent of GNP (14)	Million Dollars (15)	Per Cent of GNP (16)
1937							90	.099
1938					2	.002	388	.455
1939					4	.004	676	.742
1940					6	.006	727	.723
1941					12	.010	738	.587
1942					14	.009	665	.418
1943			3	.002	14	.007	565	.293
1944			5	.002	12	.006	579	.274
1945			5	.002	10	.005	1,710	.801
1946			11	.005	9	.004	2,982	1.415
1947			25	.011	8	.003	2,803	1.196
1948	30	.012	41	.016	6	.002	2,689	1.037
1949	32	.012	61	.024	9	.003	3,190	1.236
1950	30	.011	106	.037	22	.008	3,273	1.150
1951	28	.009	159	.048	33	.010	3,438	1.045
1952	37	.011	188	.054	40	.012	4,152	1.197
1953	46	.013	204	.056	56	.015	5,235	1.433
1954	50	.014	214	.059	77	.021	6,658	1.834
1955	53	.013	225	.057	100	.025	7,612	1.915
1956	52	.012	251	.060	115	.027	8,605	2.053
1957	53	.012	286	.065	127	.029	10,908	2.464
1958	56	.013	315	.071	145	.033	13,409	3.016
1959	63	.013	338	.070	166	.034	14,672	3.040
Total <sup>a</sup>	530	.012	2,437	.045	987	.016	95,764	1.568

*Notes to Table 8-2*

Note: Detail may not add to total because of rounding.

<sup>a</sup>See note a, Table 2-1.

Source: Correspondence with Ida C. Merriam, Asst. Commissioner for Research and Statistics, Social Security Administration.

59), this grand total was 0.84 per cent of GNP; it rose from 0.06 per cent in 1940 to 2.03 per cent in 1959.

Expenditures for unemployment insurance and employment service, as Mrs. Merriam uses the term, totaled \$32,474 million, or 0.53 per cent of GNP, for the years 1937-59; it rose from 0.06 per cent of GNP in 1937 to 0.68 per cent in 1959. This is the second largest of the three items of public domestic philanthropy treated in this chapter.

The grand totals for the seven items are presented for each year in Table 8-2, columns 15 and 16. The total for 1937-59 was \$95,764 million, or 1.57 per cent of GNP. The percentage of GNP rose from 0.1 per cent in 1937 to 3.04 per cent in 1959.