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SIGNIFICANCE
of
SOCIAL SECURITY

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Significance

of Social Security

THE willingness, and even eagerness, on the part of our Government to expand the present Social Security system is in direct proportion to the cost. The greater the benefits which the Government is willing to give to the people, the smaller the attention it is willing to give to the question of cost.

On Page 8 of the Delano Report, which is captioned "After the War—Toward Social Security," we find the following quotation:

"We have passed the stage when 'financing the program' need be more than a technical problem. If we measure the physical and intellectual stature of our people and our vast national resources, financial problems need be of no hindrance. Their complexity need not stand in our way. We require only the will and the courage to make full use of our national resources."

No Basis of Cost

Thus unconcerned about the cost of its own Social Security program, the National Resources Planning Board proceeds to go into the non-financial details. While this may be an entirely satisfactory and seemingly proper procedure for the economist and sociologist who graze in the green pastures of theory, this will hardly do to convince the man who foots the bill. And how high should we estimate the cost of the Delano Plan?

The learned authors themselves admit their unwillingness to hazard a guess. How much less should we be prepared to make an estimate of our own! Even if we felt competent to pass judgment on the financial burden which the Delano Plan would entail, we should find little in the report to supply a basis for an itemization of the cost. Drawn up along general lines, the report is in many respects vague. It advances broad proposals but fails to hammer them into statistical form. It waxes sentimental over the plight of the common man but evades the ques-

tion of how many, how much, how often, how far, and at what time. Hence, if you want to know how much Social Security is going to cost, don't turn to the Delano Report. There is a far more specific and tangible document available.

Beveridge vs. Delano

It is the Beveridge Report which, like its American counterpart, proposes security for all on a minimum subsistence level. In some respects, it even goes beyond the Delano Plan. In other respects, however, the American plan goes Sir William one better, and this is very likely so with regard to the amount of old-age and survivors' benefits, to cite but one instance. If Americans start improving conditions, they tend to do so on a generous scale.

It would hardly be fair, though, to draw a parallel between the Beveridge and the Delano Plan. While

Few things worry the businessman more than the uncertainty of the future. A new investment would not be so blind, a new enterprise so hazardous, the selling of a new product so speculative, if we only knew what the future held in store.

In contrast, there is little uncertainty about the Delano Plan (American Beveridge Plan). The National Resources Planning Board has set forth in ample detail what this plan will do for us. Beyond that, we have a fairly good idea of what would happen economically if such an all-inclusive plan of Social Security were put into effect. Although we do not know exactly how much it will cost, we may be sure it will be substantial and while it has not been specified exactly who is going to pay for it, it stands to reason that the people cannot be expected to bear a major share. Finally, from historical precedent we know that its eventual collapse is inevitable and can foresee in general outline how it would come about.

The facts which prove these statements are the exclusive property of no one and, with the exception of the cost of an American Beveridge Plan which has been estimated by the author, are, and have been, available to any interested party. In the accompanying article these facts have been brought together and speak for themselves.

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the objects are much alike, the differences in population, in standards of living, in economic characteristics, in social conditions are pronounced.

And certainly, one should not commit the mistake one encounters only too often. It is to take the cost of the Beveridge Plan and convert it at the rate of exchange of \$4.04 per pound. The rate of \$4.04 applies to foreign trade and other international transactions. It has no more to do with the minimum subsistence level of the Messrs. Delano, Beveridge & Company than the cow has to do with the telegraph pole though both are utilizing the same meadow.

Minimum Subsistence Level

Instead of comparing foreign exchange, let us compare the cost of the minimum subsistence level in the United States with that of Great Britain. For a family of four, Sir William fixes this minimum at 46/- a week, and one would hardly violate the bounds of extreme modesty by assuming that a comparable minimum for an American family of similar size would not be less than \$15 a week, fixing the rural rate at \$12.50 and the urban rate at \$17.50. Dividing 46/- into \$15, we obtain a rate of 33¢ per shilling, or \$6.60 per pound. We have taken this ratio and applied it to the benefits granted under the Beveridge Plan, with due consideration of the fact that we have a population three times as large as that of Great Britain. Thus, the following comparison between the original and the American Beveridge Plan is obtained:

SOCIAL INSURANCE BENEFITS:

	Beveridge Estimate	American Equivalent
Retirement Pensions (*)	£190,000,000	\$3,700,000,000
Widow's & Guardian Benefits	29,000,000	590,000,000
Unemployment Benefits	110,000,000	2,025,000,000
Disability Benefits	72,000,000	1,365,000,000
Maternity Grants & Benefits	7,000,000	140,000,000
Marriage Grants	1,000,000	20,000,000
Funeral Grants	4,000,000	80,000,000
Cost of Administration (5%)	18,000,000	400,000,000
TOTAL	£431,000,000	\$8,320,000,000
NATIONAL ASSISTANCE:		
TOTAL	47,000,000	940,000,000
CHILDREN'S ALLOWANCES:		
Cost of Administration (3%)	£110,000,000	\$2,400,000,000
	3,000,000	72,000,000
TOTAL	113,000,000	2,472,000,000
HEALTH SERVICES:		
TOTAL	170,000,000	3,365,000,000
GRAND TOTAL	£761,000,000	\$15,097,000,000

(*) In view of the progressive accumulation, the 1955 rate is used while all other items are taken from the 1945 estimates.

It would, therefore, be no surprise if a comparable plan, such as is envisaged in the Delano Report, would cost the American people in the neighborhood of \$15 billion a year.

Until a broad Social Security system is actually put to the test, there is no way of telling exactly what its cost would be. But there are a number of indications that \$15 billion is probably not an exaggerated estimate. One of these is the amount of retirement pensions which is estimated by Sir William at the half-way point of his twenty-year program, that is in 1955, at £190 million out of a total expenditure under the Beveridge Plan of £764 million, or about 25 per cent. In our own country, old-age and survivor's benefits, once they reach the top of the graduated scale, are estimated by various authors* to reach at least \$4 billion a year, or over 25 per cent of our estimated total expenditure of \$15 billion. If the Delano Plan keeps close to the Beveridge pattern, as it does, it will also closely resemble the proportionate distribution of benefits.

Another indication is furnished by a recent estimate made by Mr. Herman A. Behrens, Chairman of the Board of the Continental Casualty Company, who makes a guess of well over \$15 billion, although the estimate is made on a basis entirely different from that chosen by the author.

* One of these is M. Grant in "Old-Age Security," Page 193.



For over twelve years Mr. Hirschfeld has written on economic and social problems for Barron's, Annalist, New York Journal of Commerce, Vanity Fair, and other publications. Out of his research experience he developed in 1933 an information service called "Facts" and later on a special service for newspaper editors called "Editors' Service." For two years beginning in 1936 he was employed by Henry R. Luce of Time magazine in a special research capacity, and in 1938 he assumed a research assignment with the Phelps-Dodge Corporation.

There is little reason to doubt that a broad Social Security system, that means a system which would include all kinds of social services, from children to farmers, and from motherhood to old age, once it is fully operative, would require in the neighborhood of \$15 billion annually. At its beginning, its cost would

be perhaps two-thirds of this figure, or \$10 billion.

To those who are inclined to consider these estimates gross exaggerations, it should be pointed out that at present the Federal Government is spending on all kinds of social services already in the neighborhood of \$4 billion a year, as follows:

PWA	\$620,000,000
Veteran's Aid	552,000,000
Agricultural Aid	1,092,000,000
Youth Aid	250,000,000
Social Security	497,000,000
Work Relief	937,000,000
	\$3,948,000,000

Taken from the actual budget expenditures of the Federal Government during the fiscal year of 1942, these expenditures do not include the considerable sums spent by the states, the counties, the municipalities, and the smaller communities on account of social services, as they also probably exclude certain social service items contained in the departmental budgets of the Federal Government.

In the light of these figures, the arguments advanced by the proponents of the Delano Plan, that the whole affair is not going to cost us more than 10 per cent of the national payroll, which would mean between \$6 and \$7 billion a year on a national income of about \$100 billion, expects too much from the credulity of the public. We are spending today on account of social services not \$2 billion, as the Gov-

ernment spokesmen would have us believe, but \$4 billion and we are going on \$5 billion. If the benefits proposed under the Delano Plan are so superior to what we have at present in the way of social services, few will doubt that the future expenditure, too, will be far superior to what we are spending now.

A program, such as the National Resources Planning Board has proposed to give to the American people, would cost in the neighborhood of \$15 billion a year.

Minimum Social Needs

Before we take up the question of who is going to pay for it, we would like to give brief attention to an argument that is often heard. It runs like this:

Do we have to go the full distance on Social Security, including benefits for everyone at every critical stage of his career? Can we not provide benefits simply to cover the permanent needs and such catastrophic things as jobless old age, orphaned childhood, chronic invalidism, and similar needs?

If we could confine ourselves to these permanent social needs, it would cost far less, the administration would be much simplified, and the entire Social Security program would be reduced to a size where much of the opposition would disappear.

Social vs. Political Interest

If possible from the viewpoint of social needs, it seems impossible from the premise of the political interest. To get a clear line upon the merit of the cradle-to-the-grave provisions of the Delano Plan, we must make a distinction between what are social needs and what is political interest.

The true social needs are of those who, regardless of good or bad times, must depend upon outside help; the lame, the crippled, the unfortunate, the poor.

These are the true claimants of Social Security and they are those to whose needs humanity has always catered to an extent; in olden times, through the Church; in more recent times, through the Church as well as charitable institutions; and in still more modern times, increasingly through the communities and

HOW THE BRITISH REGARD BEVERIDGE



Vicky in The London Daily News-Chronicle

through the state authorities. No one doubts that these people will and must be helped, and no one ever tried to evade this obligation.

Temporary Insecurity

One step up the ladder of social needs we find those people whose fortunes are temporarily upset and whose security is temporarily dislocated by reason of local depressions, industrial changes, seasonal influences, crop failures, occupational shifts, and other causes. This group, too, is in need of public help, but it should not be forgotten that this help is only temporary and mostly confined to a community or regional area. In the past, these people have probably helped themselves by migrating to more fertile grounds, or have been aided by their families, or by the community, or by the state. Rarely have they become charges of the Federal Government. Even the most fervent advocates of Social Security will find it difficult to make out of this group's temporary needs a case for permanent, all-inclusive, cradle-to-the-grave security.

At the top of the ladder we find an enormous demand for Social Security in periods of profound depression when large-scale unemployment, widespread loss of savings, and insecurity throughout the nation converge in a powerful demand for political action.

It is at this point that the originally justified demand for social help turns into a vast political issue.

Note that the demand for help on the part of millions of people is temporary. But note also that those to whom the people turn are interested in a system of Government subsidy which would assure them of permanent political control.

The demand for Social Security, such as we are facing today, is of fairly recent date. We did not have it in 1923-29. We did not have it in 1915-18. There was no such demand in 1901-7, or in 1886-93. In the economic history of our Republic, we have had perhaps three times as many years of prosperity, with not even a faint echo of a demand for Social Security, as we have had years of depression, during which that demand grew to a powerful crescendo.

Politics Uppermost

The answer to the question of why we cannot have a reduced system of Social Security lies in the fact that a broad plan, such as is advocated by the National Resources Planning Board, has for its ultimate aim not the satisfaction of genuine social needs of a small, under-privileged, handicapped, and disabled part of our population, but the perpetuation of a political interest which wants to identify itself with the personal life of every citizen and every family throughout the nation.

Social Security under Federal sponsorship, once it gets rolling, tends to assume the characteristics of an avalanche. It gathers speed along with volume. You can take

any Social Security system, except that of the Soviet Union, and you will find that in its initial phase it covered one or perhaps two types of need.

New Zealand started with old-age pensions in 1898, and with sickness insurance in 1911, and today owns about the most elaborate and most expensive system of Social Security that can be found anywhere in the world.

Germany started with state insurance early in the nineties and also developed a system of Social Security which, up to the first World War, was perhaps the best organized of any.

Great Britain began with a system of health insurance in 1911 and is now about to arrive at the complex and all-inclusive system of social protection set forth in the Beveridge Plan.

Ever-Expanding Systems

It is inconceivable that in all these cases the fortunes of the people should have grown progressively worse. It is much more likely that certain interests found it to their advantage to press for an ever-expanding system. It is hardly a coincidence that, as the social plans developed in Germany, Great Britain, and New Zealand, the conservative influence in the Government made room increasingly for the more liberal factions pressing in from the Left. Today, New Zealand has a farmer-labor government. In Great Britain, the Laborite interest is very strong. And as for Germany, it is only too well known what became of liberalism and the interests of the workers.

All this is brought up in this discussion of Social Security not in a spirit of prejudice but rather for the purpose of pointing out the strength of the political interest. Wherever Social Security has gained, it has done so not in the garb of a social measure but as an instrument of a political transition which did not stop before the basic economic interest of the nation.

If the Administration would offer a Social Security plan based on truly social needs, we should never have occasion to consider as gigantic an

outlay as \$15 billion a year. But, as long as the program is such as to serve political concepts rather than social needs, there is little question but that the cost to the nation will be about three times as large as would otherwise be required.

Who Will Bear the Burden?

Who, then, is going to pay for Social Security?

As stated above, the Federal Government is paying for all kinds of social services at the present rate of \$4 billion a year, and the taxes that we are paying today are already considerable. For old-age and survivor's insurance, the Government collects 2% of the payroll. For unemployment insurance, 3%. In addition, we pay, as our contribution to the winning of the war, 5% for Victory Tax, and most of us take 10% of our wages and salaries to buy War Bonds.

For income taxes, we pay perhaps 15%, and perhaps more. On indirect taxes charged on the goods and services we buy every day, from cigarettes to movies, we pay an undetermined, though by no means an insignificant, sum. Add to this the share of the \$10 billion which the American Beveridge Plan would cost in excess of present charges, and we have a substantial share of wages and salaries going for taxes.

Most of the present taxes go for the war effort, of course. But it is well to keep in mind that taxation after the war hardly promises relief. On the contrary, we should rather be prepared for added taxes to meet the interest on the national debt; to furnish the extra funds required for readjustment, resettlement, and reconstruction; and last but not least, to pay for the cost of Social Security.

Beveridge Cost Allocation

With such heavy taxation the people cannot pay for much of the Social Security expense. Even Sir William Beveridge, who can hardly be accused of under-estimating the people's contribution, makes it clear that the insured can be expected to supply scarcely more than about 25% of the total cost as seen from

the comparison set forth on Page 206 of the Beveridge Report:

CONTRIBUTIONS FROM:	1945 Per Cent	1955 Per Cent	1965 Per Cent
Insured Persons	28	25	22
Employers	20	18	15
Interest on Existing Funds	2	2	2
Government	50	55	61
TOTAL	100	100	100

Normal Standards

What is true of Great Britain applies with perhaps even greater force to our own country. Today, we are living under artificial, war-created conditions of abundant prosperity where millions are earning incomes far beyond those of more normal periods. In contrast, in a year of so-called normalcy (we owe the following figures to a survey made by the National Resources Committee in 1935-36), we have twenty million families out of thirty million receiving about 6.6% of the national income, and we have six million single persons out of ten million receiving about 2.3%, or a total for these two groups, totaling twenty-six million earning units, receiving about 9% of the nation's entire income.

Out of this 9% comes food, shelter, clothing, and all the requisites of living even on a subsistence basis, such as medical care and recreation. How, then, can we expect this major part of the population, among whom we find the chief beneficiaries of a Social Security program, to contribute out of their 9% a major share toward the 15% of the national income which Social Security would eventually cost?

We shall have to look for other groups of the population and for different parts of the national economy if we want to find out who is going to pay for Social Security.

To Tax or Borrow?

The Government has two ways of financing a broad program of Social Security, such as is outlined in the Delano Report. It can tax or borrow. The borrowing program would be made difficult by two considerations. For one, the Federal debt at

the end of the war promises to be so high as to discourage fresh borrowing. For another, the advocates of all-out Social Security prefer taxes to borrowing, holding that heavy taxation will help to redistribute wealth. Therefore, the taxes should fall most heavily upon those best able to absorb them.

But even without benefit of the theory of the confiscation of wealth, it is easy to see that, if the Government wants to raise from \$5 billion to \$10 billion a year, the easiest and most prompt, if not the wisest, way to raise it is where money is most plentiful. There is no richer field for the Government to crop than that of private enterprise, private savings, and private investment activity.

Wealth Creates Wealth

While the Government pays a great deal of attention to the wealth-owning class, it pays much too little attention to the fact that this class is at the same time the wealth-producing class. The savings of business are much smaller than the income of the wealthy and the well-to-do. Between 1922-27, the entire savings of American business are estimated at a little over \$13 billion, but during the same period the income of persons receiving more than \$25,000 a year (after Federal income taxes) is estimated at nearly \$22 billion. Assuming that they spent about one-half their income and saved the other half, the investment-seeking funds from this source alone were almost \$11 billion.

The importance of the growth of capital from this source alone can hardly be over-estimated. In one of the most successful periods in recent American history, that is, 1880-1920, the net capital formation, mostly from private sources, averaged more than 10% of the national income.

The taxing of this source of wealth would mean the taxing of enterprise itself. In a recent speech, Prime Minister Winston Churchill broadcast an epigram worth repeating:

"There is no use in doing business at a loss."

In the same way, the Government cannot expect success from a scheme

which would place a confiscatory tax on wealth, and still expect enterprise, ingenuity, and hard-headed determination to produce the fruits which have made America the wealthiest nation on earth.

Venture Capital

It cannot be too often repeated that the chief promoter of industrial progress is venture capital, the kind that is willing to risk much for the promise of a big return. The chief source of venture capital is the plowed-back earnings of business enterprises. Wherever there was industrial expansion, these earnings and this venture capital were in the vanguard. Their success was the prerequisite for drawing in funds from the outside.

Venture capital is waiting for encouragement from no one. It will go out on its own initiative and face its own risks. But on the other hand, it does not sit around and wait for a law which means its practical confiscation. Long before such a law is enacted, venture capital will dive under ground as soon as the scare is big enough and real enough. We only have to compare the behavior of venture capital in the twenties with that in the thirties to obtain our evidence. Here are a few examples:

In the prosperity decade ended in 1930, the annual average amount of publicly-offered new equity securities was \$1.6 billion. In the subsequent New Deal decade, it fell to one-tenth that amount.

From 1922-29, more than eighty cents was spent by business enterprise on plant, i.e. chiefly on enlarged production capacity, for every dollar spent on equipment. But from 1933-39, less than forty-five cents was spent on plant.

In 1923, undistributed profits and depreciation of non-financial corporations was \$5.3 billion; in 1936, only \$2 billion.

Those who advocate the expansion of our present Social Security system maintain that it is possible to have an expensive system of social insurance and at the same time a

freely-functioning and profitable system of private enterprise. This theory is contradicted by all historical experience. Moreover, the Government spokesmen fail to point out in detail how this laudable aim is to be achieved.

Great Britain has developed the social services but it has abandoned the gold standard and its century-old policy of free trade. It has lost much of its monopolistic position in the Empire trade and has been compelled to divert much of its new enterprise from the world market to its home grounds. True, Social Security in Great Britain has developed, but there is no proof of a freely-functioning and highly profitable system of private enterprise. On the contrary.

Again, in the case of New Zealand, we see a broadly developed and highly expensive system of social services. What we do not see is great industrial development, the evolution of a strong nation, a high birth rate, economic self-sufficiency, or growing financial independence from the Motherland. On the contrary. After a century of national existence, New Zealand is still a predominantly agricultural country, owing a tremendous financial debt to Great Britain, and with a birth rate typical of a highly industrialized and highly urbanized country like our own rather than of a young and largely agricultural country like New Zealand.

Freedom of Enterprise

In contradiction to Miss Frances Perkins, there is only one lesson we are able to draw from all these facts. Boiled down, it goes like this:

A broad Social Security system on a compulsory basis and under federal control ties up the financial resources of the nation so effectively that there is small room and little attraction for private enterprise.

The four freedoms pronounced by President Roosevelt have little practical meaning unless a fifth freedom is added: Freedom of Enterprise. But free business enterprise and expanded industrial production will find it difficult to operate at full tilt, with a broad system of Social Security siphoning off from \$10 billion to \$15 billion each year.