

SOME COMMENTS ON OLD-AGE INSURANCE AND ASSISTANCE

Despite the fact that the largest part of the increase of GNP from 1940 to 1950 is explained not by inflation but by the rise of productivity and increased numbers on the labor market, the record of benefits under old-age insurance is not a good one. Until 1950 the benefits lagged far behind the rise of prices, even more so behind that of income. But the old-age assistance program responded much more effectively to both the rise of prices and the rise of income. This fact is explained in part by the peculiar financing mechanism. With the Federal Government agreeing to pay some part of the total and increasing its contribution under each change in legislation, the States and local governments tended to increase their benefit levels in order to obtain the largest possible contributions from the Federal contribution.

Since the Federal income rises much more with an increase in prices and income per capita than State and local revenues, there is a strong case for the Federal Government continuing to contribute a large part of the total assistance benefits. It was the increased willingness of Congress to appropriate Federal funds that made possible the rather good record for old-age assistance from 1940 on. The amounts available even today are not adequate but they are much more nearly adequate as compared to earlier years than could have been achieved without the help of the Federal Government. In view of the serious problems of State and local finance with their revenues rising by 300 percent and debt by 300 percent since the end of the war, it is very important that the Federal Government continue to contribute generously to the old-age assistance program if benefits are to respond to rising average wages and to rising prices.

If the resources are not available—and this is the more likely to be true the larger the burden put upon State and local government—then all that we can hope for is that assistance would continue to match the rise in prices, and the relative economic status of those receiving assistance would tend to decline relative to the improving standards of the rest of the Nation. On the whole, this is not a desirable outcome.

We can also say much against the financing of old-age insurance and the actuarial arrangements made for this program. In the 1930's quite rightly the Government tended to postpone the increase in payroll taxes on the theory that the accumulation of reserves was a depressing factor upon an economy which was already being deflated. But this does not excuse the failure to increase benefits though in 1939 a change in policy was noted. In the 1939 amendments the policy was acknowledged that it was proper to pay larger benefits to the present old despite their small contribution, on the theory that they had not had sufficient time to accumulate credits. Even the 1939 amendments were most inadequate and, therefore, in real dollars the benefits tended to decline, reaching a minimum of one-third below the 1940 level by 1948. The great fear of putting a fiscal burden on the economy in later years accounted in part for this determination to keep benefits rather low in the 1940's. This was a great mistake for another reason, for this was an inflationary period and there was no excuse for postponing the increase in payroll taxes in the 1940's and keeping these