

Resource Sheet #7

“Social Security” Under the New Deal *The Nation*, September 4, 1935 by Abraham Epstein

1. The social-security bill was with signed by the President on August 14 with a succession of pens and under flood lights--as if to make up for the previous lack of publicity accorded it. Never before in the history of this or any other country has a bill of such great scope and import been passed with public opinion in such a daze about the issues. Unfortunately the present law seems doomed from the start by its complex, slovenly, and mangled character. The subject of social insurance, in which economics, politics, statistics, social policy, trade unionism, wages, and industrial production are intertwined, was barely discussed in tile United States prior to the President's message to Congress in June, 1934, when he promised to undertake "the great task of furthering the security of the citizen and his family through social insurance." For more than half a century social-insurance programs have been keen political issues throughout Europe, but here there has not been even academic interest; our newspapers gave the subject no notice until a year ago and have given it very little since. Everywhere abroad social-insurance measures have been championed chiefly by organized labor. Our labor movement has either opposed them or given half-hearted and uninformed support.
2. No wonder, therefore, that the President's speech of June 8, 1934, fell like a bombshell on the country. The most ardent advocates of social insurance in America were bewildered by its boldness and political audacity. Even more deluding was the almost universal approval which greeted the speech. Everybody jumped on the social-security bandwagon. Governors made it their campaign issues. Congressmen spoke for it. Candidates for state legislatures made it a plank in their platforms. Even candidates for city councils and sheriff's offices felt compelled to declare themselves in favor of social security. And when, on November 6, 1934, the American electorate gave the President the most Democratic Congress in two generations, hopes were raised sky-high.
3. Like all nine days' wonders, it was too good to be true. The President spoke of "social security," and who could be against that? True, he did mention "social insurance," but why bother to discover the meaning of so strange a term? Of several hundred articles and newspaper stories on social security appearing during the past year, less than a score attempted an analysis of social insurance Social security was identified with old-age pensions, for an ardent twenty-year campaign for old-age security had brought about a tremendous popular demand for old-age protection. More than half the states had actually adopted pension laws. This movement had gained such popularity that it attracted a galaxy of nondescript promoters ranging from the Fraternal Order of Eagles to the messianic Dr. Townsend. The country was thus clamoring for old-age pensions. But the Administration, symbolized by Madame Secretary Perkins, seemed for a while almost totally unaware of this uproar. Miss Perkins had been principally concerned with the problem of unemployment insurance. As late as November 14, 1934, there was an attempt to confine the federal program to unemployment insurance. At that

time the President, in a speech admittedly prepared under Miss Perkins's supervision, said, "I do not know whether this is the time for any federal legislation on old-age security."

4. This conflict in basic objectives marked only the beginning of the confusion. Difficulties were inherent in the very make-up of the President's Committee on Economic Security. For in creating a committee to study this subject and prepare legislation, the President, instead of setting up an expert commission, entrusted the subject to five of his busiest Cabinet members, already driven to distraction by the many tasks of the New Deal program. The responsibility for formulating the concise and comprehensive legislation fell naturally upon the chairman of the committee, Miss Perkins. For one reason or another Miss Perkins ignored the recognized American students of the problem. A one-day circus was staged in Washington on November 14 with over 300 "experts" in attendance and with the formal speeches so arranged as to frustrate one another. A staff composed largely of complete novices in social insurance or of persons connected with some fringes of the problem was recruited to advise the Cabinet committee. There were also a Technical Advisory Committee of office-holders, government office-holders, some fourteen other committees, and an Advisory Council of prominent representatives of the public, employers, and workers.
5. The direction of the committee's staff came exclusively from the chairman of the Cabinet committee. Since Miss Perkins had no particular panacea for old-age dependency, the staff was comparatively free to work out this phase of the program. Had their recommendations been followed, we might have had a constructive method of meeting the problem of old-age dependency. But Miss Perkins had a palliative for unemployment. Early in 1934 she sponsored the Wagner-Lewis bill providing for the encouragement of unemployment insurance through the tax-offset method. This involved a federal tax on employers' payrolls throughout the nation, to be remitted to employers who paid a duplicating tax under state unemployment-insurance systems.
6. When, after the nation's reaction to the President's speech of November 14, it became clear that action on old-age security could not be postponed, old-age pensions were added to the-security program. Since the old opponents of labor legislation were busy fighting the NRA and other New Deal activities, their opposition to the measure was palsied. They were also convinced that it was useless to fight the swelling tide of enthusiasm for old-age pensions, and they were not much worried about the cumbersome tax-offset method proposed, since they felt this would either be held unconstitutional or prove so complicated and irksome as to nullify itself. There remained only the question of health insurance. Here the reactionary American Medical Association got busy at once and succeeded in suppressing any suggestion for health insurance made by the Cabinet committee, as well as the committee's staff report on health insurance, promised for March 15, 1935.
7. The Administration had probably never dreamed that it would have to do more for old-age security than establish a system of federal subsidies to states enacting standardized pension laws. Such bills had been before Congress for many years, and committees in two successive Congresses had reported them favorably. This legislation would have passed the Seventy-third Congress had not the President

- promised a more comprehensive program for 1935. But when the Cabinet committee learned of the future expense involved--considerably exaggerated by the staff because of unfamiliarity with the problem--it indorsed the logical plan of instituting simultaneously a system of contributory compulsory old-age insurance. Although handicapped by a total lack of information on a subject requiring years of study, the staff did draft a reasonable plan, which was approved by the Cabinet committee and incorporated in the original bill.
8. This plan provided for payroll contributions from employers and employees to reach 2 1/2 per cent each within the next twenty years. Pensions to all insured were to begin in 1942 out of money borrowed from the accumulated fund. After thirty or thirty-five years the federal government was to reimburse the loan. But when the President learned that the federal government would owe the fund more than a billion dollars by 1970 he ordered his Secretary of the Treasury--a member of the Cabinet committee, who apparently had approved this scheme before it was introduced--to insist that under no circumstances would the federal government assume any financial responsibility. The plan must be made self-sustaining.
 9. Under White House pressure the House committee stepped up the contributions to a total of 6 per cent within twelve years. This transfers the entire burden of old-age dependency after 1942 to the backs of the young workers and their employers, to the exclusion of the well-to-do, who have shared in the maintenance of the aged poor since the establishment of the Elizabethan poor-law system three centuries ago. Since industry will make every effort to pass on its levy to the consumers, it means that the young employees--in their dual role of workers and consumers--will bear the major cost of the accumulated problem of old-age dependency. No other nation has ever put into operation a plan of this nature without government contributions derived from the higher-income groups.
 10. The old-age contributory insurance plan is fraught with many other dangers. Enormous reserves, estimated at more than \$10,000,000,000 by 1948 and at more than \$40,000,000,000 in 1980, are contemplated. These will create a stupendous problem of investment. Experience everywhere indicates that politicians will hardly be able to keep their hands off such easy money. The cold-storing of so much sorely needed purchasing power not only frustrates the expressed aims of the New Deal but may definitely hamper recovery. The constitutionality of the entire scheme is also extremely doubtful.
 11. In the matter of unemployment insurance the staff's task was even more onerous. Despite violent criticism no other plan except the tax-offset method was countenanced. When the staff's expert on unemployment insurance opposed this plan as ineffective, he was promptly dismissed. His report was never published. Every effort was artfully made to have the Advisory Council endorse the tax-offset method. This body also was ignored and dismissed as of no further use when, after careful deliberation, all the representatives of the employers and of organized labor and some of the outstanding members of the public decided by majority vote against this plan. Only the clumsy, duplicating tax-offset method permitting individual company reserves and making possible a miscellany of forty-eight contradictory state laws with grave constitutional difficulties was permitted to emerge.

12. The work of the Cabinet committee was shrouded in mystery until the day the bill was introduced. It was prepared in great haste by an inexperienced young Harvard graduate without consultation either with students of the problem or the experienced Congressional draftsmen. It is even doubtful whether all the members of the Cabinet committee examined it. So incompetently and loosely drawn was the bill that its introduction caused a sensation. Although it was completely unintelligible, Administration impatience rushed Congressional hearings at which official spokesmen attempted to explain away the meaninglessness of the drafted bill. Administration spokesmen consumed more than 1,000 of the nearly 2,500 pages of testimony in both houses. Only after these spokesmen were through were others who persisted in their attempts allowed to speak. The House Ways and Means Committee attempted to limit all outside witnesses to five minutes and on one occasion forcibly ejected a Communist spokesman when he overstepped the time limit—a procedure unknown in Congress in many years.
13. The House committee could not proceed with the bill as presented and ordered its draftsmen to make it intelligible. The latter, unable properly and constitutionally to retain the unemployment-insurance provisions permitting all kinds of individual schemes, limited all state plans to the pooled fund. Angered by the slipshod job presented to it, the committee took the Social Security Administration Board out of the Department of Labor and made it independent. Outside of the contributory old-age insurance plan insisted upon by the White House and the questionable tax-offset scheme the House bill was sound in its federal grants to states for the aged, dependent mothers, and child welfare.
14. The proponents of social insurance were encouraged by the improvements made in the House. They looked forward to the removal of other faulty features in the Senate. But this was not to be. The Administration was insistent, and few members in either house had time to master the lengthy and complicated bill covering ten different subjects. Convinced that the Administration's choice was "all or nothing," they made up their mind to vote for all. Thus during five full days of Senate discussion not even half a column of the *Congressional Record* was devoted to the prodigious and unprecedented scheme of unemployment insurance, outside of explanatory remarks by the committee chairman and Senator Wagner, the sponsor of the bill. The economically unwise and socially menacing contributory old-age insurance plan was given less than a column in the hundreds of pages of Congressional debate, and that only toward the very end. Only its constitutionality was thoroughly discussed. Senator after Senator declared that this part of the bill is unconstitutional but no one made an effort to amend it to avoid nullification. During the debate on the Clark amendment to exempt private pension schemes from contributory insurance a number of Senators pointed out that this would further complicate the constitutional difficulties. To this Senator Clark replied in typical vein: "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 in regard to the pending amendment."
15. The Senate bill not only differed much from the original proposal but destroyed every improvement made in the House. The Clark amendment further ruined the old-age contributory plan. The House improvements on unemployment insurance were wiped out by restoring most of the original questionable provisions. Even the

simple subsidy plans were undermined by the Russell amendment granting federal pensions in states which have no pensions as yet, thereby pitching the entire subject into the political arena and halting state action for old-age security. At the insistence of the House conferees the Clark amendment was eliminated and the Social Security Board, which the Senate had reinstated in the Department of Labor, was again made independent.

16. The United States thus possesses a new Social Security Act, just as a short while ago it also possessed a National Industrial Recovery Act and a Railroad Retirement Act. Its fate now lies with the courts. The federal grants for pensions in old age, to dependent mothers, to the blind, and to varied child-welfare and public-health activities are sound and constitutional. They mark truly advanced steps and genuine progress. The unemployment-insurance and old-age contributory insurance plans, however, are administratively and socially unwise.
17. The effect this bill may have on the American social-insurance movement is of vital importance. Social insurance is recognized today as offering the only practicable instrument for meeting the problem of insecurity arising from modern industrial development. It is used in communist as well as capitalist and fascist countries. Its chief asset lies in its power to distribute the cost over all groups in society--the rich as well as the poor. But in placing the entire burden of insecurity upon the workers and industry, to the exclusion of the well-to-do in the nation, the present social-security bill violates the most essential modern principles of social insurance. There is also grave danger that the administrative perplexities inherent in the bill, to say nothing of possible court nullification, may deal a death blow to the entire movement in the United States.

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