

RAILROAD  
SOCIAL INSURANCE

FAVORED TREATMENT  
*versus*  
UNIFORM SOCIAL INSURANCE

By  
RAINARD B. ROBBINS

*Price 50 cents*

AMERICAN ENTERPRISE ASSOCIATION  
*Incorporated*

4 East 41st Street  
New York 17, N. Y.

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## INTRODUCTION

Among the many economic and social experiments undertaken in this country during the last decade, the most far-reaching is the adoption of a national plan of social insurance, or social security as it is now called. Before many years this plan is bound to be radically transformed. The risks from which men and women seek to be protected will be added to. The rates of benefit will be raised. The period for which benefits are paid will be lengthened. Classes of persons excluded from existing arrangements will in time be covered. The authority and powers of the administrative agencies charged with interpreting and enforcing the social insurance statutes will be progressively enlarged.

What principles and policies will govern these developments in social legislation, economic practice, and the relation of citizens to their Government? How much is the program in its entirety estimated to cost and how is it to be financed? Is there to be one system for everybody or are there to be separate schemes for insuring diverse risks and different parts of the population? How is it proposed to apportion administrative functions among central and local public authorities? What considerations should Congress have in mind in fixing schedules of benefits? By what means is it possible to secure wise, sober, and far-sighted administration?

Questions like these we have not yet begun to ask, much less to answer. In the vast literature, public and private, dealing with the risks of modern life and extolling the virtues of social insurance it is virtually impossible to find a discussion of the indispensable elements of public policy. Nowhere are the claims of alternative courses of action satisfactorily examined and assessed. No one has undertaken to place next to our plans for the future the results of long experience in Europe with the same or similar undertakings. From what they can learn from official reports and the testimony of experts, it would seem impossible for public officials and private citizens to decide which of numerous proposals is calculated to do the most good and the least harm.

It is with this range of neglected issues that this essay by Mr. Rainard B. Robbins, vice-president of the Teachers Insurance and Annuity Association and formerly vice-president-actuary of the Union Labor Life Insurance Company, deals. His specific subject

is the existing separate and independent system of social insurance for railroad employes and the bill, now in Congress, which aims to extend and liberalize that system. But weighing the problems encountered in attempting to provide social insurance benefits for railroad employes involves consideration of our entire program of social insurance. Hence, Mr. Robbins undertakes to appraise the basic policies of our plans for social insurance and, by doing so, brings into the open a series of fundamental questions hitherto buried in dull official reports and monotonous tables of statistics.

The first, and perhaps the most important, question of public policy has to do with the scope of a national system of social insurance. Should it cover everybody or should there be separate systems for specified industries or groups of employes? The original Social Security Act covered railroad employes but almost immediately the Railroad Retirement Act removed railroad workers from the coverage of the old age and survivors' provisions of the Social Security Act and later legislation replaced for them the unemployment insurance provisions by the Railroad Unemployment Insurance Act. Thus, as the result of acts of Congress, railroad employes were placed in a favored category, were given a social insurance system of their own, and received benefits therefrom which are not available to their fellows in other industries.

The wisdom of the public policy involved in this step is discussed by Mr. Robbins in the broad terms of social and political policy and with a wealth of detail and illustration. He considers the technical and administrative difficulties created by the existence of what amounts to competing systems of social insurance. He gives examples to show how, of two employes with service divided in the same ratio between the railroads and other industry and alike in all respects except in the time at which the railroad service is rendered, one would bequeath to his widow and child in case of his death in 1946 survivors' benefits of \$54.50 a month, while the other would leave his surviving widow and child \$44.27 a month.

But aside from the specific difficulties and inequities of this kind, there remains the larger question of the justification for separate plans at all. If railroad workers should be separately insured, why should not other groups be treated in the same way? If this principle tends to be more generally adopted, where will it stop and what effect will such separatist policies have on the whole institu-

tion of social insurance? "When several retirement plans operate side by side so that fellow workers find themselves under different plans, the tendency is for each group to seek amendments to its plan to make it at least as liberal in every respect as the most liberal. Instance after instance can be cited to show how this tendency results in jockeying between different plans to obtain more liberal benefits. But there is no corresponding anxiety to increase the contributions."

A second question, common to railroad social insurance and to all similar systems, is concerned with their present and future cost and the way in which they should be financed. With the extension and liberalization of social insurance in the variety of directions now contemplated, probable costs become a matter of first-rate importance. As costs rise, which they inevitably will, the sources of the necessary funds are also bound to become a matter of pressing importance to all concerned, the Government, the beneficiaries and the employers. At present it is easier and more pleasant to talk about higher benefits, more liberal conditions of eligibility, longer periods of benefit payment, and more extensive protection, or greater security. But the time is not far distant when we must face these hard and troublesome issues.

In the railroad scheme of things, none of the basic problems of cost and methods of financing them appear to be clear or settled. Though the retirement plan is set up on a reserve basis, it is by no means established that the reserve principle is being observed in practice. Though it appears to be contemplated that the plan shall be operated in accordance with actuarial estimates, evidence suggests that no such procedure is being followed. "In its 1940 report," Mr. Robbins points out, the "Railroad Retirement Board reviews the first actuarial valuation as of December 31, 1938. . . . The report points out that the actuary estimated that level contributions of 11.11% of an estimated 2 billion dollar payroll would be needed to finance the liabilities. . . . In the face of this actuarial calculation, although the total being collected at the time was only 6% of compensation, the Board recommended no increase."

With respect to estimates of overall cost, the situation would seem to be in a similar state of confusion and unsettlement. What is clear is that the cost will be large—much larger than is commonly assumed. Dealing with the estimated cost of the proposed new

railroad bill, Mr. Robbins writes: "Turning to the comments in the report of the Board regarding the cost of the plan contemplated by the new bill, we find: 'the estimated cost of the new proposals is 3½% of taxable payroll'. Bearing in mind the Board's 1940 statement that disbursements under the retirement plan may reach 14% or 15% of payroll and adding 3% for unemployment and 3½% for the new proposals, we have the Board's estimate of the cost of benefits under the new bill as from 20½% to 21½% of taxable payrolls."

Turning from the railroad to general social insurance plans, Mr. Robbins concludes that "the time has come in the development of social benefit plans in this country when we should draw together the loose ends and determine on something in the way of national policy. . . . We need to ask most seriously if . . . we are ready to inaugurate social benefits for all workers that will involve as much as 20% of our payrolls. And in dealing with this question we need to bear in mind that this 20% does not cover some benefits that are being considered . . . in social planning, such as hospitalization, medical, dental and ophthalmic fees for members of the worker's family as well as for the worker himself, and the cost of work-connected disabilities."

On January 23, 1945, the President of the United States wrote to the chairmen of the Senate and House Interstate Commerce Committees, endorsing the proposed railroad retirement and unemployment insurance acts which are the subject of this essay and urging their adoption. The questions about these acts which Mr. Robbins raises and discusses must be weighed and disposed of before this country can, with safety and assurance, approve either the railway proposals or their counterpart in our national social security plans. Before Congress sanctions either of these undertakings, it would best serve the permanent interests of the potential beneficiaries of social insurance by making certain that what it does is fair, equitable, workable, and not more costly than the country can afford.

—Leo WOLMAN

*February 1, 1945*

## RAILROAD SOCIAL INSURANCE: FAVORED TREATMENT *versus* UNIFORM SOCIAL INSURANCE

### PURPOSE

This monograph undertakes: (1) To describe briefly the railroad retirement and the railroad unemployment insurance plans now operating; (2) To outline the proposals for amending these plans that appear in the Crosser Bill H.R. 1362; and (3) To discuss what seem to be pertinent questions growing out of this legislation, both operating and proposed. The final objective is a point of view regarding the adoption of the Crosser Bill. The descriptions will make no claim to meticulous accuracy and numerous qualifications that would be essential for accuracy will be omitted. However, it is hoped that none of these abbreviations will have a bearing on the merits of the discussions insofar as it bears on an attitude toward the bill.

### PRESENT RAILROAD RETIREMENT PLAN

At present railroad workers participate in a compulsory joint-contributory plan for retirement income established in accordance with (1) the Railroad Retirement Act of 1935 as amended fundamentally in 1937 and to a minor extent through several enactments of later years and (2) revenue provisions in a companion act called "Carriers Taxing Act of 1937" which replaced a similar act of 1935.

The fundamental purpose of this plan is to furnish annuities to retired railroad workers; a relatively minor benefit is usually payable at the death of an employee either before or after retirement. Of transitory interest, but nonetheless of extreme importance in making the plan palatable when operations began, pensions that were being paid by employers to individuals in the spring of 1937 were assumed by the plan to the extent of \$120 a month, and any general reductions that had been made in these pensions after the year 1930 were restored. From the standpoint of immediate effectiveness when the plan began, a most important characteristic of the retirement annuities is that they recognize service prior to the inauguration of the plan so that many employees were eligible to apply for retirement annuities almost immediately after the plan was inaugurated.

Speaking generally, the Railroad Retirement Act applies to (1)

railroads, express companies and sleeping-car companies, engaged in interstate commerce; (2) certain classes of employers engaged in closely related activities; and (3) national railway labor groups organized in accordance with the Railway Labor Act, and certain officers and employees of labor organizations who have previously been employed by "Carriers."

By amendments of 1940 and 1942, military service, either voluntary or involuntary, is creditable under conditions stated in the Act to an employee who was a railroad worker shortly before entering military service.

### *Benefit Provisions*

*Annuities.* Anyone who has been in covered employment at any time since the Railroad Retirement Act was approved on August 29, 1935 is entitled to an age retirement annuity when he ceases to be employed after attaining age 65, if he gives up any right he may have to return either to covered employment or to work for the person by whom he was last employed. It is well to note at once that an individual need not be in covered employment at the time of application for a retirement annuity; he may have given up railroad employment years before. He may draw his annuity and have a full-time job, but he cannot draw it for any month during which he receives compensation for employment covered by this Act (aside from certain emergency employment) or from his last employer before retirement. There is a provision for a minimum annuity which applies only to those in service at age 65 who have 20 years of creditable service.

Under the circumstances stated in the preceding paragraph, an individual age 60 may apply for an age retirement annuity if he has completed thirty years of service creditable under the Act but the annuity will be less than if he had attained age 65 by 1/180th for each month by which his age when the annuity begins falls short of 65 years.

If a covered individual is "totally and permanently disabled for regular employment for hire" he may apply for an annuity regardless of age after completing thirty years of service; if he has attained age 60, he may apply regardless of how short his period of service may have been; but with less than thirty years of service the annuity will be smaller than if he had attained age 65 by 1/180th for each



month by which his age when the annuity begins falls short of 65 years.

Before any reduction that may be made because of the early age of the recipient the monthly annuity payment to an employee retired for age or disability is obtained by multiplying the number of years of creditable service by the sum of 2% of the first \$50.00, 1½% of the next \$100.00 and 1% of the next \$150.00 of the employee's "monthly compensation." Remuneration in excess of \$300.00 a month is not considered part of "compensation." Of course much care must be exercised in determining just what service is creditable and "monthly compensation" is an average involving all years of service in accordance with rules that are stated in detail. Periods of service prior to January 1, 1937 are not to operate to make the total period more than thirty years and service after age 65 is not to count if rendered after June 30, 1937.

It is important to note that precaution is taken to make the annuity as large as it would be under the Social Security Act. The provision for this purpose reads as follows:

"In no case shall the value of the annuity be less than the value of the additional old-age benefit he would receive under title II of the Social Security Act if his service as an employee after December 31, 1936, were included in the term 'employment' as defined therein."

It should be added that after amendment of the Social Security Act in 1939 the Railroad Retirement Board interpreted this provision to apply to the Act as it existed at the time of the passage of the Railroad Retirement Act of 1937.

To illustrate the working of these rules, a few examples may be helpful.

An individual we shall call "A" is 65 years old and has credit for 20 years' service in employment covered by the Act. He gives up railroad work this year and applies for an annuity. Calculations from records establish that his "monthly compensation," an average for the 20 years of service, is \$200.00. The annuity available to "A," to cease at his death, is computed as follows: To get the factor to be multiplied by the number of years of service, we take

2% of \$50.00, i.e. \$1.00, plus

1½% of \$100.00, i.e. \$1.50, plus

1% of \$50.00, the remainder of his \$200.00 monthly compensation, making a total of \$3.00

"A" will be entitled to receive each month for the remainder of his life \$3.00 for each of the 20 years of his credited service, i.e. \$60.00 a month. (He may choose to receive smaller monthly benefits to be continued to his spouse if she survives him.)

But we must check this to see if the same service would have entitled "A" to a larger benefit if it had been credited under the Social Security Act. Of course he may have some credits under the Social Security Act and if so, only the extent to which the benefit they would create would be increased by the railroad service is to be considered here. Assume first that "A" has no Social Security credits. Then, without presenting the detailed calculations under that Act, his railroad service would entitle him, if creditable under the Social Security Act as it read in 1937, to an annuity, ceasing at death, of \$26.50 a month counting 7 years of service since 1936. Since this is smaller than \$60.00 a month, "A" will receive the annuity calculated by the formula for railroad service.

Suppose "B" is otherwise like "A" but has only 7 years of railroad credit—years since 1936. Then the formula for railroad service would have produced only \$21.00 a month while there would be no change in the Social Security calculation. Hence the provision that benefits shall not be less than under the Social Security Act will raise the annuity from \$21.00 to \$26.50 a month.

Suppose "C" has had the experience of "B" except that he has credits under the Social Security Act for seven years' service at an average wage of \$50.00 a month. He would be entitled under the Social Security Act as it existed in 1937 to \$16.00 a month in recognition of this credit and, since his railroad service would bring his total average pay to \$250.00 a month, the Social Security formula would produce a benefit of \$30.00 a month. Hence the railroad service has increased this calculated benefit by \$14.00 a month which is less than \$21.00 benefit calculated under the railroad formula so "C" is entitled to an annuity of \$21.00 a month under the Railroad Retirement Act and the annuity provided by the present Social Security Act in recognition of his wage credit of \$50.00 a month for seven years. This comes to \$42.40 a month bringing the total to \$42.40 a month.

If the whole of this \$250.00 a month had been earned under the Social Security Act, the benefit would have been \$42.80 a month, this, of course, being calculated according to the present act. If the

whole had been earned under the Railroad Retirement Act for the seven years assumed, the benefit would have been \$24.50 a month, except for the rule that it shall be no less than what the Social Security Act as of 1937 would have provided. This would have been \$30.00 a month and hence the railroad benefit would be \$30.00 a month after 7 years of service at \$250.00 a month as compared with \$42.80 a month for the same service under the Social Security Act as it is today.

Suppose "D" is in railroad service at age 65 and has 20 years' credit with a monthly compensation of \$100.00. The calculated annuity would be \$35.00 a month but the provision for minimum annuities would raise this to \$40.00 a month. In fact, for those with 20 years' credit who are in service at age 65, the retirement annuity will be \$40.00 if monthly compensation lies between \$50.00 and \$116.67. While, in general, the benefit is proportional to years of service, for those with monthly compensation of \$50.00 the benefit jumps from \$19.00 after 19 years of service to \$40.00 after 20 years of service for those in service at age 65, and is the same for all with monthly compensation of \$50.00 and service credits between 20 and 40 years. If employment has been fairly steady since 1936 the Social Security formula will help out some of those not in railroad service at age 65.

In general, annuity benefits are not affected by whether or not the recipient was in railroad service at age 65. But of two section-hands with monthly compensation of \$50.00 and with 20 years of service, the one in service at age 65 is entitled to an annuity of \$40.00 a month while the one who happens not to be in service at age 65 is entitled to an annuity of \$20.00 a month, except as the Social Security formula may step in to raise the benefit.

A few illustrations may help to show how the rule for disability retirements works.

Individual "E" has 30 years of service credit, monthly compensation of \$200.00 and meets the test for total and permanent disability. Regardless of his age, he is entitled to an annuity of \$90.00 a month with payments ceasing at death.

"F" has 20 years of service credit, monthly compensation of \$200.00 and has met the tests for permanent and total disability and is age 62. He is entitled to an annuity calculated as if he were 65

years old and then reduced by 36/180 to take account of the 36 months yet to elapse before he reaches age 65. This comes to \$48.00 a month.

"G," age 59, with 29 years of service credit becomes permanently and totally disabled. He is entitled to no benefit now but may receive a benefit a year hence when he reaches age 60, this to be 60/180 or 1/3 smaller than the regularly calculated retirement benefit.

"H" now age 58 was in railroad service from age 25 to age 55 when he withdrew from railroad work to become an officer in a common carrier by air. In the course of his duties he was totally and permanently disabled. His monthly compensation when in railroad service was \$200.00. He is entitled to an annuity of \$90.00 a month, ceasing at death. In other words, there is no distinction between cases "E" and "H."

Perhaps it should be emphasized that eligibility for annuity and death benefits is independent of the length of time that has elapsed since the individual left railroad employment but that payments cannot be received while an individual is employed by an employer covered by the Act or by the last employer for whom the annuitant worked before the beginning of annuity payments even if this employer had nothing whatever to do with railroad work.

*Death Benefits.* Upon the death of a participant in this plan a named beneficiary or the legal representative of the participant is entitled to 4% of the participant's compensation since December 31, 1936 less the sum of any annuity payments made to him or on his behalf.

*Pensions.* As already stated, pensions that were being paid to railroad workers by various employers in the spring of 1937 are continued through this plan after restoring any reductions that had been made in them subsequent to December 31, 1930.

*Absence of Survivors' Benefits.* It should be noted that aside from the death benefit the idea of survivors' benefits has not been mentioned. As a matter of fact a participant may voluntarily choose to accept a reduced annuity with the understanding that payments are to continue to his wife if she survives him. To make this choice within five years of the date the annuity is to begin, the participant

must establish his good health; actuarial equivalence is maintained in the calculations. Aside from this privilege and the death benefit mentioned above, the act contains no provision for survivors' benefits.

### *Sources of Revenue*

The railroad retirement acts give no inkling as to the ultimate sources of funds to support the promised benefits. But both in 1935 and 1937 companion "taxing" acts levied taxes on the employers and their employees defined in the same way as under the retirement acts, without giving any adequate reasons for the levies or explanation of their prospective use. An employer is to pay "an excise tax, with respect to having individuals in his employ" and an employee is to pay an "income tax" related to compensation from an employer. The scale of taxes is the same for the employer and the employee and applies to compensation up to \$300.00 a month after December 31, 1936 as follows:

<i>Years Compensation is Earned</i>	<i>Employee Tax as % of Compensation Up to \$300 a Month (Matched by Employer)</i>
1937-1939 .....	2 <sup>3</sup> / <sub>4</sub>
1940-1942 .....	3
1943-1945 .....	3 <sup>1</sup> / <sub>4</sub>
1946-1948 .....	3 <sup>1</sup> / <sub>2</sub>
After 1948 .....	3 <sup>3</sup> / <sub>4</sub>

The taxing act states merely that these taxes are to be paid "into the treasury of the United States as internal revenue collections."

### *Administration*

The act is administered by a board of three members, appointed by the President of the United States, one each from recommendations of representatives of employers and employees respectively and one without such recommendations. This board, called the Railroad Retirement Board, is given wide authority to see that provisions of the act are carried out and to make recommendations for improvement of the act.

### *Railroad Retirement Account*

The 1937 retirement act creates the "Railroad Retirement Account" in the treasury of the United States and authorizes annual

appropriations to it of amounts estimated by the Board to be sufficient "to provide for the payment of all annuities, pensions, and death benefits in accordance with the provisions of this act and the Railroad Retirement Act of 1935"—these to be based on mortality tables that the Board adopts and interest at 3% per annum. The Secretary of the Treasury is to invest, at the request and direction of the Board, whatever funds are not needed immediately and, in accordance with the act, special 3% government obligations are being issued for this purpose, redeemable at the request of the Board at par plus accrued interest. An Actuarial Advisory Committee is provided and an estimate of liabilities is required every three years as a part of the annual report of the Board. The Actuarial Advisory Committee is authorized but not required to recommend to the Board such "changes in actuarial methods as they may deem necessary."

#### PRESENT RAILROAD UNEMPLOYMENT INSURANCE PROGRAM

Effective July 1, 1939, the Railroad Unemployment Insurance Act excluded from the unemployment provisions of the national social security legislation and the coordinated state unemployment compensation plans the employers and employees that come under the Railroad Retirement Act, provided benefits for these employees when out of work, and levied "contributions" on their employers. This act was amended mildly in 1939 and more extensively in 1940. At present it compensates for unemployment in excess of 4 days in periods of 14 days (in excess of 7 days for the first period), totaling not more than 100 days in a benefit year.

The unemployment benefit is scaled to compensation received during the "base year" and varies from \$1.75 a day if base-year compensation is under \$200.00 and over \$150.00 to \$4.00 if it is \$1,600.00 or over. The base year is the calendar year immediately preceding the benefit year.

The contribution of the employer is 3% of compensation of each employee up to \$300.00 a month. Collection of contributions is a responsibility of the Railroad Retirement Board which administers the plan and the contributions are deposited with the Secretary of the Treasury, 90% to the credit of the Railroad Unemployment Insurance Account from which benefits are to be paid and 10% to a

fund for administrative expenses. Extremely detailed conditions and limitations are written into the legislation. This is no place to record these details but perhaps it should be stated as an essential of the present plan that to receive unemployment benefits an individual must be "able to work and available for work."

#### THE PROPOSED BILL FOR AMENDMENTS

This bill, H.R. 1362, dated January 11, 1945, would expand substantially each of the railroad plans described above. This expansion introduces substantial survivors' benefits, and sickness and maternity benefits related to unemployment benefits. Proposed tax changes involve amendment of the Internal Revenue Code. In calculating benefits for survivors credits under the Social Security Act as well as credit for railroad work are recognized, thus relating these coverages in a manner as yet entirely novel.

As part of the basis for the discussion that follows it is essential that this bill be presented in more detail than given in the preceding paragraph, but the reader will be spared attention to many complications that are necessary to make the plan operative. It is of interest to note at this point that, judging from a section of the 1943 annual report of the Railroad Retirement Board headed "Proposed Changes in the Act," this bill originated in that Board. This report states that in response to a number of requests the chairman of the board and members of the legal staff drafted a bill called, "The Railroad Social Insurance Bill"; it proceeds with a description that is not only an excellent summary of many of the provisions of the bill, but gives valuable sidelights on the reasons for proposed changes and extensions. In a statement dated February 12, 1945 the Railway Labor Executives' Association describes and advocates the proposed amendments and intimates that they are the outcome of its committee work reaching back to May 1940.

#### *Benefit Provisions of H.R. 1362*

*Coverage.* The classes of employers and employees to which the bill would apply are not essentially different from those covered by the present railroad retirement and unemployment insurance acts but some minor additions are made. Definitions seem to be more carefully worded and probably reflect experiences in interpreting those acts.

*Annuities for Employees.* The conditions for receipt of an age retirement annuity are essentially the same as under the present Railroad Retirement Act—attainment of age 65, or attainment of age 60 after completing thirty years of creditable service, discontinuance of employment and relinquishing the right to return to railroad employment or employment for the last person for whom the individual worked. As at present, the annuity is reduced in amount if claimed before attaining age 65, except that no such reduction is made for women.

The rule for calculating annuities for employees is the same as in the present act except that there is no reduction in any disability annuity regardless of how short the service may have been. The minimum annuity for one having at least five years of service and a "current connection with the railroad industry" is the least of \$50, three times as many dollars as the number of years of service, and the individual's monthly compensation. This is much simpler than the minimum of the present act for one who is in railroad service at age 65 and has 20 years of service credit.

The conditions for receipt of a disability annuity are liberalized and broadened and two different concepts of disability are distinguished. Under the present act an employee totally and permanently disabled for regular employment may receive an annuity if he has thirty years of creditable service or has attained age 60; unless 30 years of service have been completed the benefit is decreased when started below age 65 in the same manner as if no disability existed and the participant retired with 30 years of service before attaining age 65. The new bill drops the adjective "total" in describing disability and distinguishes between ability to follow one's "regular occupation" and fitness for "regular employment." It offers an annuity to an employee whose permanent physical or mental condition renders him "unable to engage in any regular employment" after ten years of service or after attaining age 60 without restriction as to whether or not the employee has recently worked for a railroad. If an individual has had sufficient railroad service in recent years to have a "current connection with the railroad industry" as defined in the bill, he is offered an annuity if his permanent physical or mental condition renders him unable to follow his "regular occupation" and he has reached age 60 or has completed a total of twenty years of service.



It seems that under the present act a disability annuity may be payable to an individual who left railroad work years before becoming disabled. The new bill is no more restrictive for those unfit for regular employment but the benefit for one *unable to follow his regular occupation* is available, as already stated, only to those who have a "current connection with the railroad industry."

It may be well to illustrate the change in the disability annuity and the conditions for its receipt.

"A" is in railroad service, is age 58 and has 19 years' service credit. He develops a disability which, it is determined, makes him unable to follow his usual occupation but does not unfit him to follow another regular employment. He is not eligible for a disability benefit. If he is continued in service for another year or, under some circumstances, if he is unemployed or even employed elsewhere, he will be entitled under the bill to a disability annuity calculated in the same manner as if he were 65 years old. Under the present act he would not be entitled to a benefit even at age 60 because it does not recognize inability to follow one's *usual occupation*. If "A" is adjudged unable to follow any regular employment, he will be entitled under the bill to an annuity without delay upon becoming disabled and this will be calculated as if he were 65 years old. Under the present act he would have to wait two years until he had attained age 60 and then the benefit would be reduced.

"B," age 56, has 11 years of service credit but left railroad employment in 1939 for other employment; he is now disabled from following any regular employment and is entitled under the bill to an annuity benefit in recognition of his 11 years of service just as if he were 65 years old. Under the present act he would qualify only after reaching age 60 and the benefit would be reduced.

"C," with 8 years' service credit, becomes unable to follow any regular employment at age 58, 6 years after he left railroad employment. He is not now entitled to a benefit but, if he continues to be disabled, two years from now he will be entitled under the bill to an annuity in recognition of his 8 years of service calculated in the same manner as if he were 65 years old. Also under the present act he will be entitled to an annuity at age 60 but it will be reduced a third from that available at age 65.

"D" is like "C" except that he is not disabled. When he reaches

age 65 he will be entitled under both the bill and the present act to an annuity in recognition of his 8 years of railroad service.

*Pensions.* The new bill carries over from the present act the provision to pay pensions that were being paid by employers in 1937 and makes a minor addition with respect to employers newly covered.

*Survivors' Benefits.* The new bill departs fundamentally from the present act by introducing annuity benefits for survivors of deceased employees. These are determined by formulae similar to those for corresponding benefits under the Social Security Act but the resulting benefits are substantially larger. In determining eligibility for benefits as well as the size of the annuity, account is taken of service credited under the Social Security Act. Annuities are payable to widows and orphans or to parents if the deceased worker had combined railroad and social security credit for employment (a) for half the quarter-years during the last three years before his death or (b) for at least 10 years or, if shorter, half the period between 1936 or his attainment of age 21 and his death or the date when he reached age 65. Tedious as this statement is, it is very crude. Pages of definitions, conditions and provisos are necessary in the bill and the Social Security Act to approach this objective in actual operation.

To understand the determination of the size of survivors' annuities, we turn to the Social Security Act because the intent of the bill is to pattern after the survivors' benefits of that act but to give advantage to those with railroad service. Under the Social Security Act a widow's benefit is  $\frac{3}{4}$  of the "primary insurance benefits" which is the benefit of a retired bachelor employee; a child's or parent's benefit is  $\frac{1}{2}$  the primary insurance benefit. The employee's annuity under the present railroad act and the new bill is determined in a manner entirely different from that used by the Social Security Act so that in order to parallel in form the survivors' annuities of the Social Security Act the framers of the bill create what they call "basic amount" similar to the "primary insurance benefit" of the Social Security Act. The basic amount is the sum of 40% of the first \$75.00 of average monthly remuneration and 10% of the next \$175.00, increased by one per cent for each year of service after the plan began; the primary insurance benefit involves in

the same way 40% of the first \$50.00 and 10% of the next \$200.00 of average monthly wage. The bill relates survivors' annuities to "basic amount" in the same manner that the Social Security Act relates them to the primary insurance benefit.

To get the full meaning of the above paragraph the reader must know that average monthly remuneration is a fraction the numerator of which is the sum of *wages* credited under the Social Security Act and *compensation* credited under the railroad act after 1936 with an upper limit of \$3,000.00 a year for the sum, and the denominator of which is the possible number of months of employment elapsed since 1936.

*Examples:* Suppose "A" dies January 1, 1946 leaving a widow and a child six years old, after having been covered continually by the Social Security Act or the Railroad Retirement Act since January 1, 1937, a period of nine years. His salary was \$175 a month throughout this period and he was covered by the Social Security Act for the first seven years and was in railroad service only for the last two years. This period is more than sufficient to make survivors' benefits available under the proposed amendment. The "basic amount" would be 40% of \$75 plus 10% of \$100, a total of \$40, increased by 9% to reflect nine years of service, making a total of \$43.60 in all. The widow would therefore receive three-fourths of this amount each month and the child one-half of it, making a total of \$54.50 a month, this to continue for twelve years if both live, the child remains in school and neither marries.

Suppose B has the same record as A with the exception that his two years of railroad service were in 1937 and 1938. Then his beneficiary would not qualify for benefits under the proposed amendments but would qualify with respect to the service under the Social Security Act and his two years of railroad service would count for this purpose. The primary insurance benefit would be 40% of \$50 plus 10% of \$125, a total of \$32.50, increased by 9% for nine years of service, making \$35.42 in all. The benefit for the widow and child together would be \$44.27 a month as contrasted with \$54.50 a month for the beneficiaries of A.

It is of interest to compare annuities for beneficiaries of deceased workers whose work records are otherwise alike but in one case conditions are met for survivors' benefits under the new railroad bill while in the other all service is under the Social Security Act.

The difference in benefits arises from the difference between the basic amount and the primary insurance benefit. If the average remuneration is at least \$75 a month, this difference, aside from the effect of length of service, is 30% of \$25, i.e., \$7.50. Percentage-wise this is greatest if the remuneration is just \$75 a month when these basic-figures are respectively \$30 and \$22.50, making the railroad benefit just one-third larger than the social security benefit.

*Benefits for Widows of Annuitants and Pensioners.* At the death of a pensioner (taken over from an employer's list) or of an annuitant whose benefit began to accrue prior to 1947 and was based on as much as ten years' service, a widow's, child's, or parent's annuity may be available, this to be related to the average compensation that is the basis of the pension or the employee's annuity, in practically the same manner that the survivors' annuities are related to "basic amount."

*Lump Sum Death Benefit.* If no one qualifies for a survivors' benefit under the Social Security Act, a lump sum is payable at death six times as large as the monthly primary insurance benefit; the new bill introduces a similar lump sum payment but makes it eight times as large as the basic amount. This alone might make it worth while for an individual to seek railroad employment.

*No Dependents' Benefits.* It is significant that the railroad bill does not suggest benefits for wives or children of retired workers corresponding to annuity benefits to such dependents under the Social Security Act. Furthermore, it would do away with the joint and survivor annuity that may be chosen under the present railroad act.

*Unemployment and Sickness Benefits.* For compensation up to \$2,000 a year the new bill provides the same scale of unemployment benefits under about the same conditions as set down in the Railroad Unemployment Insurance Act now in force but it increases the benefits for those with more than \$2,000 compensation and increases the maximum period of payment in a benefit year from 100 to 130 days; originally it was 80 days. It adds a sickness benefit of equal amount available in general under the same circumstances with, of course, the substitution of being unable to work because of infirmity instead of being able to work and available for work. In addition to this general sickness benefit the bill introduces maternity benefits for women employees for about 116 days equally

spaced before and after birth of the child, the daily benefit to be the same as for other sickness except that it is half again as large for a period of 28 days.

The unemployment and sickness benefits are payable for a maximum of 130 days each in a benefit year and the period of the maternity benefit is independent of other benefit periods. The bill would provide that in any registration period of 14 days after the first one in a benefit year unemployment or sickness benefits be paid for a maximum of 10 days, making a possible total of about 260 days and apparently this limit might be reached if benefits were paid for 130 days of unemployment and 130 days of sickness. Periods of unemployment, sickness, and maternity disability might run separately but of course the maximum for each could not be reached in a single year. With a normal maternity benefit period of 116 days a woman might be paid for unemployment or ordinary sickness during every remaining registration period of the year which would mean about 10 days during each of about 17 periods. Since 28 of the maternity days call for payments half again as large as normal the maximum benefit for a woman in a year could be about 300 times the daily benefit.

Much detail is necessary to state the disqualifying conditions. These undertake to avoid overlapping benefits, cover the effect of labor disturbances on unemployment insurance benefits, consider unfitness of particular employments for an individual, deal with Sundays and holidays.

### *Taxes*

The bill assesses the employer and the employees alike  $5\frac{3}{4}\%$  of the employees compensation (up to \$300.00 a month) during the first three years, 6% during the second three years and  $6\frac{1}{4}\%$  thereafter. With respect to military service, compensation of \$160.00 a month is to be the basis of taxes, all of which are to be paid by the government. These taxes are to be collected by the Railroad Retirement Board and deposited with the Secretary of the Treasury to the credit of the railroad retirement account.

In addition to these taxes the employer "contributions" of 3% of compensation of employees, are continued, these to be collected as at present by the Railroad Retirement Board and deposited with the Secretary of the Treasury, 90% to the credit of the railroad unem-

ployment insurance account and 10% to the credit of the railroad unemployment administration fund just as under the Railroad Unemployment Insurance Act now in effect.

## COMMENTS AND COMPARISONS

The preceding pages have undertaken an abbreviated description of what seem to be essential features of present railroad retirement and unemployment insurance plans and of the bill under discussion. Some notes regarding these features and comparisons between them and the corresponding provisions of the plan established for industry in general through the Social Security Act may help in developing a point of view toward the proposed legislation.

### *Effects of Earlier Ideas*

It is important to recall that initially each of these legislative efforts centered attention on the worker rather than his family. Benefits to workers upon retirement were of central interest and their size was independent of the make-up of the employee's family. True, a death benefit was in the picture but this received little emphasis and was apparently introduced more to preserve the idea of equity than to meet a need. The notion of a *quid pro quo* was important in early efforts, partly because early proposals were influenced by contractual arrangements in which this is essential, and partly because account had to be taken of the fact that only a minority of the working population was involved.

An important distinction between the railroad retirement plan and the social security plan is that while the social security plan provides no workers' benefit prior to age 65, the railroad retirement plan provides a reduced benefit after age 60 for those with thirty years of service and benefits for disabled workers, either after age 60 regardless of period of service or after thirty years of service regardless of age. While the Social Security Act has been criticized for the absence of disability benefits, the arbitrary limitations thrown about these benefits under the railroad retirement plan are also unfortunate from the standpoint of social usefulness.

The offer of decreased benefit to an able-bodied railroad worker who has passed age 60, merely because he has completed a long period of service, seems to be a remnant of sporadic ventures in

this field in a period when a retirement benefit was considered a "reward for long and faithful service" rather than an implement for improved social relationships. Some private plans make retirement income available only after the completion of a stated number of years of service, often with no age requirement, thus emphasizing the idea of a *quid pro quo* rather than a social need.

The recognition of two kinds of disability in the new bill is a reversion to an earlier type rather than a recognition of social need. A national plan should hardly offer a benefit merely because a man is unable to follow his usual occupation; it should expect him to try another occupation before he would be offered a benefit for idleness. In other words, the point of view of social need would justify a disability benefit only in case of inability to follow any occupation; it hardly justifies "feather bedding" merely because an individual cannot follow his usual occupation.

#### *Absence of Legislative Convictions*

A peculiarity of no great importance other than as an illustration of the absence of legislative policy is that in the earlier legislation the railroad retirement plan placed no credit limitation on service beyond age 65 while the Social Security Act did so. Then each act was amended and now the Railroad Retirement Act will not credit service beyond age 65 that occurs after June 30, 1937 while the Social Security Act will credit service after attaining age 65, if it occurs after the year 1938. Both changes were made by the same legislative bodies at dates not far apart.

To collect a retirement benefit under the Social Security Act, one must cease to work in covered employment and any substantial compensation later for covered employment will lose for the annuitant his benefit for the period of this service. A similar provision of the Railroad Retirement Act limits the annuitant with respect to service for a railroad or for his last employer outside the range of railroad employment. This peculiarity of being debarred from the service of a particular employer outside the railroad field has survived amendment of the act and persists in the bill under discussion.

#### *Survivors' Benefits Popular*

While the differences mentioned above are of interest, they are of minor importance compared with those that entered through the

1939 amendment to the Social Security Act. This amendment introduced annuity benefits for survivors and changed fundamentally the methods by which retirement benefits were to be calculated. These survivors' benefits were immediately recognized as of major importance and were noted at once by those in railroad service. In the 1940 Annual Report of the Railroad Retirement Board we find

"The enactment in 1939 of an amended Social Security Act with provision for annuities for survivors has raised the question of the advisability of providing similar benefits under the railroad retirement system. The Board is at present making a study of the relative benefits received under the Railroad Retirement Act by annuitants and survivors compared with the benefits which would have been payable to them if employment in the railroad industry were covered under the Social Security Act."

Nothing could be more natural when two plans for social benefits operate side by side and the "question" raised in the 1940 report was followed up, as indicated in the 1941 report:

"Sample studies have been made comparing the death benefits paid under the Railroad Retirement Act in cases of deaths occurring in 1940 and 1941 with the benefits which would have been received by the same survivors had the deceased employees been covered by the old-age and survivors insurance system of the Social Security Act. Although in a small percentage of cases the lump-sum payment under the Railroad Retirement Act is greater than the value of benefits payable under the general old-age and survivors insurance system created under Title II of the Social Security Act, in the overwhelming majority of cases the survivors would have received substantially more in benefits had the deceased employee been under the old-age and survivors insurance system."

When the 1942 report appeared, the Board was ready to state that: "Studies based on the following proposals are now in process:

1. That the Railroad Retirement Act be amended by liberalizing the conditions under which annuities are paid to individuals permanently unable to work.
2. That the Railroad Retirement Act be rounded out by adding annuities for surviving dependents of annuitants and employees.
3. That the Railroad Unemployment Insurance Act be extended by including benefits for temporary unemployability resulting from injury and disease arising from any causes not connected with railroad employment.



4. That the Railroad Unemployment Insurance Act be supplemented by military service credit provisions.
5. That a new disability benefit for injuries and diseases arising in the course of employment be introduced."

A little later in the same report we find convictions that seem to be reflected in the present bill stated as follows:

" . . . from the point of view of the social problem involved, benefits for survivors of employees are just as important—and perhaps even more so—as benefits for the employees themselves. Relative to the standard set by other retirement plans, the annuities payable under the railroad retirement system to persons most of whose working years are covered by the system are generous. In the future, of course, small annuities will be payable to many persons whose service in the industry is relatively brief, but most of these individuals will have employment subject to the Social Security Act and will receive other benefits under the provisions of that act. There appears to be no real need, therefore, to supplement annuities under the retirement act by payments to wives and children as the Social Security Act does. The Board, however, is now giving serious attention to the many proposals suggested for solving the problem of providing benefits for widows and orphans."

It is of interest to note the reason given for the conclusion that annuities for wives and children of retired workers are not needed—the annuitant is receiving a more liberal annuity than he would get under other retirement plans. Then in the 1943 report, "The Railroad Social Insurance Bill," prepared by the Chairman of the Board and members of the legal staff and appearing then in "Senate Print" form, is described in considerable detail and we recognize here many of the provisions of the bill that has now appeared.

Thus we have the genesis of the bill and see it as the outcome of (1) the provisions offered by another plan that was distinctly less favorable than the railroad plan when the two were originally enacted, and (2) the experiences growing out of operating the railroad retirement and unemployment insurance plans. Its proposals for more liberal disability benefits and for sickness benefits correspond to similar proposals for extensions of the social security plan that have been under consideration for some time and were incorporated in the Wagner-Murray Bill of June 3, 1943.

### *Difficulties Met by Framers of the Legislation*

To understand the difficulties met by the framers of this bill when they came to the determination of survivors' benefits, we need to go back to the original legislation. A fundamental purpose of the initial legislation was to provide immediately retirement benefits sufficiently substantial to clear the decks of many elderly workers whose jobs were protected by seniority rules. Many of these men would willingly retire if they could expect substantial incomes and younger men in the industry were glad to contribute to a retirement plan, not so much in expectation of benefits upon retirement twenty or thirty years later as in expectation of steadier work and more pay immediately. True, many of the best railroads had pension plans but their operation had not been such as to inspire the confidence of organized labor and everyone knew that there were no earmarked reserves behind them and retirement age was usually 70 years.

To meet this situation it was necessary to provide a substantial benefit for long service men and this fitted well into orthodox pension planning. Furthermore, in an industry where seniority rules were so prominent, a benefit proportionate to years of service seemed natural. Hence, the formula already stated, for an annuity: The number of years of service, up to a maximum of 30, multiplied by a factor related to average monthly compensation; this factor was the sum of 2% of the first \$50.00 of average monthly compensation, 1½% of the next \$100.00 and 1% of the next \$150.00.

When the Social Security Act was first adopted it did not provide annuities for survivors but when these were introduced in 1939 there was no difficulty in modifying the formula for the annuity of a retired worker so it could be used as the basis of annuities to survivors. As already stated, a widow's annuity is three-fourths and a child's annuity is half the so-called primary insurance benefit which becomes the employee's annuity if he lives to claim it.

But when it came to devising survivors' annuities in the new railroad bill, they could not reasonably be related to the employee's prospective annuity, primarily because his annuity is directly proportionate to years of service. It would hardly be satisfactory to allow the widow of one worker fifteen times that allowed to another simply because the husband of the first worked thirty years before death and the husband of the second died two years after service

began. This would obviously do violence to the purpose of survivors' annuities. Furthermore, a rule of this kind would not compete satisfactorily with survivors' benefits under the Social Security Act.

To meet this situation, the term "basic amount" was defined, as already stated, along the lines of the "primary insurance benefit" of the Social Security Act, and was used to determine survivors' annuities under the new bill in the same way that primary insurance benefit is used in the Social Security Act. It should be emphasized, however, that as already illustrated, the drafters were careful that the annuities produced would be distinctly larger than for the same employment experience under the Social Security Act alone.

It is important to recognize how the methods of calculating retirement benefits reflect the practical problems faced by the framers of these different plans. With the railroads the principal interest, as already stated, was to furnish substantial retirement benefits immediately. The idea of benefits proportional to years of service was already well established; records of service were available within limits. Hence the formula that was adopted, with perhaps the misfortune that it will tend to persist because of the transitional difficulties of making a change.

With the Social Security Act, on the other hand, there was no single group demanding immediate large benefits in recognition of past service and, even if there had been, the utter impossibility of tracing records of past service for participants in a plan of such wide coverage would have made the recognition of such service out of the question. It was important, however, to hold out an expectation of substantial benefits for those who would retire soon and it gradually came to be recognized that, while the whole plan was related to employment for a number of reasons, it would be unwise to relate benefits to contributions in such a way as even to approach the idea of relating an individual's benefits to taxes paid on his behalf. Hence the provision of a benefit only mildly dependent on period of service and so calculated that those of advanced age when the plan began could expect far more in relation to contributions for only a short period than can those who enter later.

*Interest in Eligibility.* These differences are clearly reflected in the legal provisions and rulings with respect to eligibility. In the early years of the Social Security Act the taxes involved were more prominently in mind than were the benefits. Hence there was a desire in

many quarters to be exempt from coverage. Only in recent years has the tide turned with a marked tendency of those outside the plan to appreciate what coverage would mean to them.

With the railroad retirement plan, on the other hand, the benefits were prominent from the beginning and almost any border-line employment was followed by a number of men near retirement age who had many years of what would be creditable service if their present employment were included. Hence the decision as to coverage became, for large numbers of workers, the difference between the prospect of no income or what was to them substantial income for life in recognition of service they had already performed. To them participation under the social security plan would have been of little interest, especially before the amendment of 1939, but the right to participate under the railroad retirement plan was often distinctly coveted by those with only short periods of probable future service, especially in the 1930's when employment was scarce at best.

*Importance of Pension Payments.* Railroad retirement legislation originated with organized labor. The employers were far from enthusiastic regarding this suggestion in the early days. The advocates of the plan had not only to devise a scheme that would furnish substantial benefits immediately, thus gaining the support of the rank and file of employees; they learned that they must overcome the opposition and allay the suspicions of the employers. By providing for benefits that took account of past service, they removed from the individual railroad companies whatever obligation they may have felt regarding the accrued liabilities of their pension plans so far as employees still in service were concerned. They finished this job in the 1937 act by providing, as already stated, that all pensions that were being paid by employers in March and June, 1937 should be paid from the newly created retirement account in the Federal treasury and, according to the 1940 Report of the Railroad Retirement Board, "*no assets were acquired in the transfer.*"\* This bill came along at a time when railroad employers must have realized that social benefits were definitely in the air and that the railroads could not hope to retain good will if they did not in some way see that their employees received the equivalent of the benefits that

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\*Emphasis supplied.

were becoming popular. Thus it seems probable that the crediting of past service toward retirement annuities and the taking over of pensions then being paid by employers went far toward winning the support of both employees and employers and thus assured the passage of the proposed legislation.

But the provision of the retirement annuities for railroad workers that are proportional to years of service tends to perpetuate a cleavage between these benefits and those of employees of industry generally as provided under the Social Security Act. From the standpoint of national social legislation, it is difficult enough to defend any special attention to railroad workers and particularly difficult to rationalize definite recognition of past service for them if this cannot be accorded to workers in other fields. To some it will seem utterly indefensible for Congress to legislate that pensions being paid by a particular set of employers to their former employees should be taken over by the United States government. The extent of this obligation is shown by the figures given by the Railroad Retirement Board for pensions already paid. Through June 1943 they totaled more than \$151,472,000. The volume of payments decreased from nearly \$35,000,000 in the fiscal year 1937-38 to a little more than \$18,000,000 in the fiscal year 1942-43. Thus the load is diminishing substantially from year to year, as should be expected since we are dealing with a closed group all of whom had already retired seven years ago. But these payments are far from complete and the point of interest is that these are of a type that our government has never undertaken to make to the workers of any other industry.

Novel and important as was the assumption of these pensions, from the standpoint of cost, this was not nearly so serious as the annuity payments that have been made and the much larger amounts that will be paid in recognition of service prior to the inauguration of the plan. In other words, the so-called accrued liability for employees who had not retired in 1937, with respect to service before that time, is immensely greater than the total of amounts paid and to be paid as pensions taken over since 1937.

#### *Combination of Social Security and Railroad Credits*

It should be emphasized that, as already stated, wage credits under the Social Security Act enter the calculation of survivors' annuities in the bill under discussion and that the periods of such

credits count in determining (a) eligibility of survivors for benefits and (b) the increase of the benefit by 1% for each year of credited service. In other words only one set of benefits is paid and this recognizes credits under both acts. At first thought one might consider this a liberalization of benefits but in many cases it is just the opposite. If the bill were enacted without mention of Social Security coverage so that survivors' benefits would be provided by each plan separately, then if survivors' benefits became payable under each with respect to a particular deceased employee, the sum of the two benefits would be larger than the benefits provided by the bill as it is and the difference would be substantial in some cases. There would, of course, be cases in which the amount of credit and its incidence under one plan alone would not produce survivors' benefits and some under which the credit under neither plan alone would do so. In these cases of minor credits the combination of credits increases the benefit if one is payable at all. Bearing on this, a statement in the 1941 Annual Report of the Railroad Retirement Board is of interest:

"By the end of 1939, about a third of all employees under 65 with earnings creditable under the railroad retirement system had also acquired some earnings creditable under Title II of the Social Security Act. While in the great majority of these cases the earnings are covered for the most part under one or the other of the two systems, the number of individuals with duplicate coverage will undoubtedly continue to grow. The problem of providing some method of eliminating duplicate benefit rights or loss of benefit rights will therefore become increasingly important."

As indicated in the above quotation, many workers will establish credits under both the Railroad Retirement Act and the Social Security Act. Many of these will show fairly low credits under each plan. Suppose, for instance, that an individual had an average monthly wage of \$75.00 under the Social Security Act and an average monthly compensation of the same size under the Railroad Retirement Act. Assume he was 55 years old on January 1, 1937 and that he had no earlier railroad experience but that he has credits for each quarter-year since that time under each act. At age 65 the social security retirement annuity for this employee alone, assuming no dependents, would be \$24.75 a month; the calculated annuity for railroad service would be \$13.75 a month, but the act states that

the annuity shall not be less than the additional benefit that would have been produced by railroad service under the social security plan had this service been creditable under that plan. As already stated, the Board interprets this to mean the Social Security Act as it was in 1937. Under that act average salary of \$150.00 for 10 years would have provided an annuity of \$27.50 a month while for an average salary of \$75.00 the corresponding benefit would have been \$20.00 a month. Thus the railroad service would have increased the social security benefit by \$7.50 a month; this service is therefore more valuable as railroad credit so the employee will receive \$13.75 a month under the railroad plan and \$24.75 a month under the present social security plan, making a total of \$38.50 a month. If all service had been under the Social Security Act, the benefit would have been \$33.00 a month and under the Railroad Retirement Act the calculated benefit would have been \$25.00 a month but would be brought up to \$27.50 to match social security possibilities under the old act. Thus this individual fares much better by dividing his time between these two coverages than he would by giving his full time to either. This relationship could have been foretold because each plan offers annuities that are larger proportions of average pay for low-paid than for high-paid workers. Hence, an individual fares better if he counts as two low-paid workers than if the same remuneration records him as a single higher-paid worker.

The bill under discussion omits the provision that railroad benefits shall not be less than those of the Social Security Act but replaces it at least in part by the minimum annuity provision which for the above example replaces \$13.75 by \$30 making the total combined annuity \$54.75 a month.

A question of policy that should be faced is whether or not this state of affairs should be changed by amendment so that, for instance, the annuitant could not get more than the more liberal of the benefits under the two schemes if all his services were recorded under it. This seems fair enough but presents complications and requires coordination of records that may be troublesome even when only two plans are considered; they would be far worse if more plans enter the coordination. The bill under discussion makes no headway at combining employee benefits if service credit exists under both acts.

Survivors' annuities illustrate this difficulty of dual coverage far

more impressively. If an employee dies after having been in employment covered by the Social Security Act for two years and his average wage is \$75.00 a month, his widow with his child in her care would receive for herself and child an annuity of \$28.68 a month. If this employee had a like credit under the present Railroad Retirement Act the lump sum death benefit would be \$72.00. If this act were extended to offer the survivors' benefits of the Social Security Act and gave no attention to the social security credits, the total benefit of widow and child would be \$57.36 a month. If all this employee's remuneration had been under the Social Security Act alone, the corresponding benefits would have been \$38.25 a month as contrasted with the total of dual benefits, \$57.36 a month. The bill under discussion would combine these credits to give the widow and child monthly benefits of \$47.81 as contrasted with \$38.25 a month, had all this service been under the Social Security Act.

To no small extent the purpose of bringing the records together in calculating survivors' benefits as provided in the railroad bill was to avoid inappropriate totals in the form of dual survivors' benefits.

The Railroad Retirement Board has been giving thought to this problem for several years. The 1940 Report contains the following:

*"Dual coverage.*—Another problem raised by the amendatory Social Security Act concerns individuals who have had covered employment under both the railroad retirement and the general old-age insurance systems. In some cases this division of employment or wage credits results in loss of annuity rights under the Social Security Act without a fully compensating increase in annuity rights under the railroad retirement system. Other individuals, particularly those with substantial prior service credit under the railroad retirement system, may receive annuities under both the general and railroad retirement systems which in combination amount to considerably more than would have accrued if the wage credits had been accumulated under a single system. Possible means of handling these two situations are under consideration by the Board in connection with a study of individuals who in the period 1937-39 were covered under both systems."

In the 1941 Report the Board comes closer to the problem as follows:

"The provision of more adequate survivor benefits not only brings up the question of the means of raising the required revenue, but also the question of avoiding the creation of situations in which



widows would receive substantial survivor annuity payments from both the railroad retirement system and the general old-age and survivors insurance system. The possibility of dual benefits arises because a substantial number of individuals have covered employment under both systems.

*"Dealing with dual coverage.*—By the spring of 1941 there were already 150 individuals receiving a railroad retirement employee annuity and a primary old-age insurance benefit under the Social Security Act. In every case in which the employee annuity under the Railroad Retirement Act was based in part on prior service, the sum of the annuities under the two acts was considerably more than the individual would have received if all of his applicable service had been creditable under either act alone. In this connection it is to be remembered that under the retirement act service on or before December 31, 1936, is creditable, whereas under the general old-age and survivors insurance system, even though service after that date only is creditable, minimums are incorporated in the formula for calculating the primary benefit. On the other hand, a few individuals with no prior service credit under the Railroad Retirement Act received less in combined annuities under the two systems than they would have received if all their earnings after December 31, 1936, had been credited under the Social Security Act, but more than they would have received if all their earnings after December 31, 1936, had been credited under the Railroad Retirement Act."

This situation is described in so much detail to show the complications that arise when only two plans are operated side by side with employees' and survivors' benefits. One can readily imagine how the complications would multiply if several such plans were operating. And it should be carefully noted that while the new railroad bill undertakes to deal with overlapping credits in computing survivors' benefits it makes no headway with the problem discussed in the above quotations regarding employees' annuities when credits exist under both plans. Thus, in proposing new benefits precaution is taken to avoid unreasonable results of divided coverage but after at least four years of study nothing is proposed to rationalize overlapping benefits that are already provided. It may be noted that nothing quoted above gives the slightest hint that the proper solution of the difficulty might be a single social insurance plan for all.

## FINANCING THE BENEFITS OF THE PRESENT ACTS AND THE NEW BILL

### *The Retirement Plan*

As already stated, the present Railroad Retirement Act makes no provision for revenue but a companion act, the "Carriers Taxing Act," levies taxes on employers and employees as has already been described and the retirement act authorizes annual appropriation

"as an annual premium [of] an amount sufficient, with a reasonable margin for contingencies, to provide for the payment of all annuities, pensions, and death benefits in accordance with the provisions of this Act and the Railroad Retirement Act of 1935. Such amount shall be based on such tables of mortality as the Railroad Retirement Board shall from time to time adopt, and on an interest rate of 3 per centum per annum compounded annually. The Railroad Retirement Board shall submit annually to the Bureau of the Budget an estimate of the appropriation to be made to the account."

This is all the act has to say about support for the benefits to be paid and it gives the reader the impression that once a year a calculation will be made of the premium needed for that year. It is, however, very indefinite from the standpoint of reserve calculations even though it mentions a mortality table and an interest rate. In fact, it is sufficiently indefinite to make defensible just about any practice that may be chosen for determining annual appropriations.

Referring to this account, we find in the 1938 Annual Report of the Board, the comment

"The context makes it clear that the appropriations for each fiscal year are to be made on a reserve basis."

A little later we find the following:

"The Retirement Act of 1937, as distinguished from the 1935 act, provides for appropriations on a reserve basis. The appropriations for the earlier years of the operation of the retirement system are to be in excess of current needs in order to provide a reserve which when invested at 3 percent would cover in part the requirements for benefits in the later years of the system's operation. At the same time it is intended that appropriations to the Railroad Retirement Account should roughly correspond in amount to the revenue received under the taxing act."

Just how the first and last sentences in this quotation are to be reconciled is not clear but a little later in the same Report we find:

“While the Carriers Taxing Act is *administered by the Bureau of Internal Revenue*,\* the legislative history of the Retirement Act indicates an intention to appropriate for the Railroad Retirement Account and for expenses of administration amounts equal to the collections under the Taxing Act.”

These quotations certainly do not present a clear picture. The law requires the Railroad Retirement Board to submit annual estimates of the appropriation to be made as annual premiums. Yet the Board writes that the legislative history, whatever that is, “indicates an intention” to appropriate amounts equal to the taxes collected. Does this mean that the Board’s annual estimates were not followed? Or does it mean that in making its annual estimates the Board followed the indications of the legislative history? It is remarkable that the annual premiums calculated as required by law should coincide with special taxes collected minus the expenses of administration. The writer has found in no report of the Board a statement of its estimate of the appropriation that it submits annually to the Bureau of the Budget.

It should be added that the retirement act makes it the duty of the Secretary of the Treasury to invest any funds of the Railroad Retirement Account that are not needed immediately for payment of benefits and provides for the issuance of special Government obligations bearing 3 percent interest for this purpose. So long as the open-market yield for Government securities is less than 3% this constitutes a Federal subsidy to the extent of the difference.

In its 1940 report, the Board reviews the first actuarial valuation as of December 31, 1938 and comments at length on the method of financing the plan. The report points out that the actuary estimated that level contributions of 11.11% of an estimated 2 billion dollar payroll would be needed to finance the liabilities, an earlier estimate having been 7.11% of a 2.2 billion dollar payroll. In the face of this actuarial calculation, although the total being collected at the time was only 6% of compensation, the Board recommended no increase. It expressed doubt as to the accuracy of experience to date as an indication of the future. Then the Board proceeded to

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\*Emphasis supplied.

discuss questions of policy in methods of financing. It pointed out that financial policies applicable to private insurance are not equally applicable to social insurance. Here is a significant statement:

"Social insurance—and the Railroad Retirement System is a form of social insurance—rests basically on the power of the State to collect and expend moneys in the public welfare."

While the Board thus claims that the railroad retirement system is social insurance, the tacit assumption at all times has been that benefits should be larger under it than for less favored beneficiaries of social insurance provided for through the same legislative body.

After surmising that a large reserve for future benefits would "give rise to substantial economic problems," the Board suggests that part of the cost of benefits should come from general taxation:

"Apart from the foregoing considerations for not levying, at present, additional taxes under the Carriers Taxing Act to the full amount indicated by the actuary's estimates, there are *good reasons* why some of the funds for the support of a social-insurance system should come from *general revenues*."<sup>9</sup>

The "good reasons" are:

1. The operation of the system saves general revenues that might otherwise be paid out as old age assistance; and

2. Contributions from general revenue are necessary if "reasonable equality" in the relationship of contributions to benefits is to be retained for employees of different ages. Without assistance from general revenue or reserves, the report states that the disbursements may ultimately become 14% or 15% of payrolls. This means that the benefits may ultimately reach this magnitude; they are objective things that know nothing of sources of funds.

Venturing into economic theory the Board adds:

"Pay-roll taxes, whether levied upon the employer or the worker, are regressive taxes and as such tend to have a harmful influence on the general economy. If existing taxes are to be raised much above the present level, some substitution of progressive forms of taxes, at least in part, would be desirable."

Then comes the inevitable comparison with the principal competing plan, that of the Social Security Act, and the recommendation

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<sup>9</sup>Emphasis supplied.

of a measure of the degree to which general revenue might support the railroad retirement plan:

"The policy of financing adopted for the railroad retirement system ought to be consistent with that adopted for the general old-age and survivors' insurance system. For the latter, Congress has definitely adopted a pay-as-you-go policy. The Board believes that such a policy is desirable for both systems. It suggests that if such contributions are provided, the contribution to the railroad retirement system should be, as nearly as can be determined, equivalent to the additional contribution which would be made by the Federal Government to the general old-age and survivors' insurance system under a policy of Federal contributions if the coverage under the railroad retirement system were included under the general system."

Thus the Board goes definitely on record in favor of the non-reserve method for both plans although it would favor railroad workers in size of benefits.

*Change of Attitude Toward Reserves.* It is well to note from the record reviewed above that while the Railroad Retirement Act still authorizes appropriations of annual premiums based on tables of mortality adopted by the Board and interest at 3% per annum, a definite change in point of view seems to have developed during the last six years. The 1938 report points out that appropriations for each fiscal year were to be made on a reserve basis and that appropriations for earlier years were to be in excess of current needs so that reserves thus created might help to pay benefits in later years. Then the 1940 report states that the railroad retirement system is a form of social insurance, that it rests basically on the taxing power of the state and that large reserves create substantial economic problems. It concludes that social insurance should be supported in part from general revenue: (a) so that the same percentage rate may apply to participants of all ages; (b) to avoid too high a "regressive tax"; and (c) to change over to the pay-as-you-go method that had already been adopted for the Social Security Act, without contemplating unreasonably large contributions.

*Actuarial Report.* In the 1943 report of the Board, the second actuarial report appears along with recommendation of the Board with reference to its findings. The actuarial report is a record of a painstaking study by a thoroughly competent actuary. The central ob-

ject shows up clearly—to marshal available facts and statistical data in an effort to estimate the size of total contributions as a level percentage of compensation that will be sufficient through the years to support the benefits provided under the Act.

The actuary bases calculations on a set of assumptions that he considers reasonable and then presents the results of two other sets of assumptions, one set to correspond to a continuing prosperous period for the railroad industry and the other to correspond to a seriously depressed condition. This method has merit in that it gives an idea of the effect of economic conditions on the cost of the retirement system and thus gives a basis for judgment as to the appropriate rate to correspond to any prospective level of economic experience. It is not the actuary's duty to forecast what level will become an actuality. Eventually, for the determination of the rate of special taxes, this is a responsibility of Congress. The three total contribution rates thus calculated by the actuary to provide the benefits called for by the act as it read at the close of 1941, are 8.1%, 10.4% and 14.5%. When the report appeared in 1943, the total contribution rate in effect for employers and employees together was 6.5%.

The actuary makes no recommendation; perhaps this is as it should be as his principal function is doubtless to give the results of his calculations with a statement of their basis. However, the report ends with a strong suggestion:

“there seems to be no question but that the rates in the tax schedule are insufficient to support the benefits provided. The short-range projections of income and disbursements indicate that receipts will very likely exceed disbursements for the next 3 or 4 years, but that in the succeeding decade this situation might be reversed. However, if this should occur, and if the excess of disbursements over receipts is drawn from the account, it is probable that no additional revenues would be necessary before 1955.”

The Actuarial Committee has “authority to recommend to the Board such changes in actuarial methods, as they may deem necessary.” Just what this means may be a question of opinion but the fact is that the Committee reviewed the actuary's work and stated its opinion that the valuation was “prepared in accordance with sound actuarial practice and is as reliable a presentation of the actual financial condition of the fund as could be produced on the

information available." But the committee made no recommendation as to what, if any, change should be made in the contribution rates.

Perhaps this was as it should be. After all, the Railroad Retirement Board must shoulder the responsibility of deciding what its recommendations to Congress shall be, with the actuary and the Actuarial Committee to give it an analysis of the facts that might guide its members in reaching a decision. The report of the Board ends its discussion of the actuary's report as follows:

"Three conclusions seem quite certain: first, that additional taxes will be necessary to finance the benefits provided; second, that income and reserves are adequate for immediate requirements; and third, that delay in changing the rates until after the next valuation will permit of better estimates and will not make a great difference in the rate of increase necessary. In view of these conclusions and of the possibility of changes in the benefit provisions of the act and an accompanying new tax structure, the Board makes no recommendation for change in tax rates at the present time."

It seems worthy of note that after each of two successive actuarial examinations, the Board admitted that rates were deficient to no minor extent but each time concluded to recommend no change. It seems particularly significant that the second decision was a divided vote with the Chairman of the Board favoring a rate increase. His dissent is stated in a footnote on the report; he recognizes some alleviating circumstances that he thinks would justify an increase to cover only a part of the deficiency indicated by the actuarial report but points out that, if increases are delayed, they are "likely to become imperative at a time when profits and wage incomes are falling and when they will bear much more heavily on both employers and employees than at present."

Among the justifications for compromise included in the chairman's statement of dissent is one of unusual significance. It has already been touched upon. In his words it is as follows:

"Congressional policy with respect to the Social Security Act has, in my judgment, made a contribution toward the support of that system from general revenues inevitable. Whatever policy in this regard may be adopted for the Social Security Act should be applied to the Railroad Retirement Act."

This thought appeared in a statement quoted earlier from the 1940 report and was among the recommendations of the Board in 1940 in its review of the report of the first actuarial investigation as follows: "We recommend further that Congress outline a definitive policy with respect to contributions from the general revenue."

### *The Unemployment Compensation Plan*

As already stated, the contributions to support this plan are 3% of compensation, paid by the employers. Soon after it began to operate, unemployment fell off rapidly due to abnormal activities growing out of the war so that as yet there has been no test whatever of the adequacy of contributions. No periodic actuarial investigation is required by the unemployment act similar to that required by the retirement act and the Committee of Actuaries has no duties with respect to this plan.

### *The New Bill*

The bill under discussion was preceded in 1944 by one similar in many respects which did away completely with the fiction of an "annual premium" sufficient to provide for the payment of benefits and therefore made no mention of mortality tables or interest rates that might be involved in the calculation of a premium. It fixed contributions and taxes to be paid by employers and employees, appropriated 100% of these to the retirement and unemployment insurance accounts and provided for the investment of amounts not needed immediately in government obligations bearing at least 3% interest. But the amendments now discussed revert to the present form in this respect.

Turning to the comments in the report of the Board regarding the cost of the plan contemplated by the 1944 bill, we find: "the estimated cost of the new proposals is 3½% of the taxable payroll." Bearing in mind the Board's 1940 statement that disbursements under the retirement plan may reach 14% or 15% of payroll and adding 3% for unemployment and 3½% for the new proposals, we have the Board's estimate of the eventual cost of benefits under the new bill—from 20½% to 21½% of taxable payrolls. With these facts before us it is of interest to recall the 1940 opinion of the Board that, if special taxes are raised much above the then total of 6% a progressive form of taxation should be substituted at least in part for wage taxes.



It is remarkable that while the new bill would liberalize unemployment benefits by increasing the maximum period for payment in a benefit year from 100 to 130 days and would add liberal sickness and maternity benefits, it suggests no increase in the contributions over 3% to cover these extensions and the Board makes no comment on this point. It also seems optimistic to estimate that the suggested survivors' benefits can be covered by 3½% of payrolls.

It is, of course, consistent with the Board's philosophy that part of the costs should be paid by general taxation to suggest increases in wage taxes that would be less than sufficient to cover the new benefits; but, for clear thinking, it is essential that we have an idea what the total cost of these benefits may be regardless of how the cost is to be met.

### *The Confused Financial Picture*

Thus we have the elements of the financial problems of these benefit schemes drawn largely from reports of the Board but we find no clear-cut convictions on anybody's part as to how heavy a load of this sort should be undertaken or where the money is to come from. The Board recommends a determination of policy by Congress, something that seems almost out of the question for a legislative body buffeted as it is by conflicting private interests and social philosophies. But the Board itself seems to vacillate when faced with clear-cut conclusions of its actuaries.

Without question, the time has come in the development of social benefits plans in this country when we should draw together the loose ends and determine on something in the way of national policy but it will be unfortunate indeed if this is undertaken in a field so circumscribed as the railroad industry alone. Perhaps rightly, the Board contends that these railroad plans constitute social insurance; but, if so, we should face very definitely the question: should we by national legislation create a social insurance scheme that is more favorable to one class of workers than to others? If we decide this in the negative, we need to ask most seriously if, with our present experience, we are ready to inaugurate social benefits for all workers that will involve as much as 20% of our payrolls. And in dealing with this question we need to bear in mind that this 20% does not cover some benefits that are being considered very seriously in social

planning, such as hospitalization, medical, dental and ophthalmic fees, for members of the worker's family as well as for the worker himself, and the cost of work-connected disabilities.

Whatever opinion one may hold as an individual about the appropriateness of national legislation for these other benefits, their prospect of acceptance by the community as a whole should have a sobering influence on one's optimism in liberalizing benefits of types already accepted.

## GENERAL DISCUSSION

### ADMINISTRATION

As already stated, the new bill would carry over the present Railroad Retirement Board of three, appointed by the President, for the administration of the new plan. Under the present acts, this Board has broad authority to establish the organization necessary for its activities. Nothing is said in the present acts or the bill as to how the Board shall go about collecting taxes and contributions. It must establish credit records for individuals and determine credits for service prior to the establishment of the retirement plan. It must be prepared to certify benefit payments under both the retirement plan and the unemployment insurance plan; of course, under the new bill these will be combined and extended to include sickness and disability benefits.

It would seem that the organization needed for these purposes would be similar in many respects to that needed by the Social Security Board. Certainly this will be true with respect to the determination of survivors' benefits since both boards must adjudicate very similar cases. Some years ago one-third of the railroad employees had social security coverage and by now this proportion must be much larger so that, if the bill were adopted, the two boards would be doing much the same kind of work so far as survivors' benefits are concerned.

To a layman it seems obvious that a single administrative authority could handle the railroad retirement plan and the social security plan much better than can two, especially if benefit provisions of the present bill are enacted. The overlapping of credits for survivors' benefits shows the weakness of the separate administrations. If precaution had not been taken to give railroad service credit advantages over social security coverage, it would have been too obvious that the simple and direct procedure is for a single board to handle the whole of the old-age and survivors provisions.

It is true that the duties of the Railroad Retirement Board in administering the unemployment provisions are of a different nature from those of the Social Security Board in its coordination with the unemployment compensation plans of the various states. This

difference will be accentuated if the present bill is enacted, thus introducing all the administrative details of sickness benefits. But if one body were at present operating the old-age and survivors' benefit plan and unemployment and sickness benefits were introduced anew, it is incredible that a new board would be suggested for their administration. The suggestion here is not that the Railroad Retirement Board or the Social Security Board be disbanded. Whether a board of three or a board of six or a single administrator is the appropriate way to set up this administration is of relatively little importance. It is more important to avoid duplication of offices, personnel and records, and to have all the records regarding John Doe together under the care of a single administrative body.

If this should come to pass, even the mechanical steps in administering the plans would bring into glaring prominence the utter nonsense of variation of benefits, both as to kind and size, with the particular classification of the worker's employment.

#### **WHY SOCIAL BENEFITS FOR A PARTICULAR INDUSTRY?**

Transcending by far in importance any question as to the nature or size of social benefits that should be included in such legislation as is proposed in H.R. 1362, is the more general question of policy: Should the United States Government create a social benefit scheme with respect to a particular private industry? This question is the basis of the discussion that follows.

#### ***How the Railroad Retirement Plan Came About***

Perhaps it may throw some light on this question to ask why Congress did impose a contributory retirement plan on the railroad industry. The answer is not far to seek and not difficult to understand. For several years beginning early in the depression of the 1930's, the organized railroad workers requested legislation of this kind, long before the Social Security Bill or its predecessor, the Economic Security Bill was proposed. The first railroad retirement act was approved June 27, 1934. Congressional hearings that preceded it went into great detail regarding benefits and cost and the burdens it would place on the railroads. Witnesses recited how many voters they represented who favored or opposed the legislation; but little if any discussion touched on the appropriateness in a

democracy of special legislation that picked out a particular industry and arranged benefits for its workers that would place them and their families in a distinctly favored position as compared with other citizens and voters who would be assuming financial obligations through the operation of the legislation.

It is natural enough that no such testimony appears. Those who objected to the bill argued that it would be harmful to the railroad companies they represented. Perhaps they would have received scant attention had they undertaken to advise Congress as to how to save our democracy. No one was particularly interested in the position in which the Government would find itself if other groups appealed for similar legislation.

And so the first railroad retirement act was adopted because the railroad brotherhoods wanted it; their voting power was more important than that of the railroad companies; and no question was raised as to the dangers of class legislation. This legislation was opposed by the railroads and was declared unconstitutional on May 6, 1935, by a 5 to 4 decision of the Supreme Court of the United States.

In the meantime, the work of the Committee on Economic Security led to the Social Security Act approved August 14, 1935, an act that makes no exception of railroad workers. This was followed fifteen days later by approval of the Railroad Retirement Act of 1935 which ends with a provision to amend the Social Security Act in order to exclude "employment" as defined in the railroad act. Of course, this legislation was being considered at the same time as was the Social Security Act and there seems to have been no legislative or committee decision as to the relative merits of a separate plan for railroads as compared with their inclusion under the Social Security Act. As before, it seems that the act was popular because of the voting strength of its proponents and because practically no one was taking an interest in this legislation other than the carriers and their employees. Doubtless, the point of view of others was that this was largely a problem for the railroads and their workers; why should others bother? Both these parties were able to take care of themselves. There was no realization that others were concerned. Unfortunately, this is still the case; there is no keen realization that the enactment of H.R. 1362 would be other than the extension of certain relationships between these two parties; and, if both parties want the extension, why should others concern themselves about it?

After the 1935 act was approved, the carriers went to court again, but, in the midst of this litigation, at the suggestion of the President of the United States, the carriers and the employees met to try to agree on a plan that neither would oppose. The outcome was the Railroad Retirement Act of 1937 the enactment of which was preceded by an agreement to avoid litigation; its constitutionality has never been tested. Needless to say, with this agreement between the parties, the bill met little opposition in Congress. Even if students of the subject may have deemed separate legislation for railroad workers unwise, they could not have interested any substantial number of legislators in considering their arguments; their possible individual personal losses, so far as they could demonstrate, would be insignificant and few were interested in any high-flown theories about the evils of class legislation.

### *Public Interest in Special Class Legislation*

And so today, the steps in almost unconscious celebration on the part of mildly interested individuals or legislators with respect to the proposed railroad bill are something like this: The bill concerns a special group of employers and their employees; we must have our railroads operating smoothly; if the proposals of the bill are approved by both parties, they will probably be good for the railroad system; the bill provides taxes from these parties to pay the cost of the proposals; both parties are ably represented and know the merits of the proposals. Who am I to question the arrangement if these parties agree?

*Shifting Employment.* The first flaw in this celebration is the assumption that the railroad workers constitute a group that "stays put." In all our thinking about social benefits, we are prone to assume that various classes of workers constitute closed groups. This is simply the way our minds work. Novel thoughts are apt to be difficult enough at best and quite unconsciously we simplify them by assuming that farmers remain farmers. We think of farm labor, railroad workers and Government employees as fixed elements in our economic set-up. Of course, as soon as someone questions our assumption, we recognize its weakness; but if the scheme of things we are discussing is at all complicated, we shall, a few minutes later, find ourselves falling into the same trick of simplification—quite unconsciously—thinking again of an employment group that we

have given a label as a fixed group. This cannot be emphasized too much; there is no hope of avoiding the consequences of this fallacy on the part of large numbers who think only occasionally about these matters, but it would seem that by dragging it out into the light and underscoring it, we should help ourselves to be more cautious.

When we appreciate keenly that railroad workers do not stay put we recognize that those outside the railroad industry are justified in taking a keen interest in this legislation even if, superficially, it seems to be self-supporting. As will be developed later, we have a common interest in seeing that all workers are protected continuously by certain modest benefit provisions. For the large numbers who move in and out of the railroad industry a special plan for social benefits in that industry alone will not furnish continuity of coverage and, regardless of how admirable might be the railroad plan for those who remain in the industry, the general public is very much interested in what happens to those who move in and out of the coverage of such a special plan. The potential benefit needs of a worker and his family and the magnitude of appropriate benefits are quite independent of the breadwinner's occupation or the industry with which he is connected.

*Sources of Support.* Another fundamental error of thought is with reference to taxes or contributions. We see the provision for substantial payments by the carriers and employees and conclude that the plan is to be supported by the railroad industry so that others need not concern themselves about the cost. This conclusion is both erroneous and short-sighted in the extreme. In the first place this legislation determines that certain definite benefits shall be paid out of the United States Treasury to individuals of certain classes under designated conditions; it does not provide that payments shall be made if there are sufficient funds in an account fed by the special taxes levied to support these payments. While perhaps no one knows whether or not special taxes will be sufficient for this purpose, the best informed opinion is that they will not; no one has expressed the opinion that they will; and the Board is of the opinion that they should not be. If they prove to be insufficient, no one knows what course a future Congress will take. This matter of policy has not been settled and probably will not be at least for a

long time to come. We have no assurance whatever but that in some future year, the combined forces of the carriers and the organized employees may lead Congress to lower the special taxes and adopt a policy of substantial Federal support for the benefits. If such a proposal is made when either political party has a comfortable majority in Congress, the voting strength of the combined railroad forces will probably have more influence than will any poorly organized opposition.

But, assuming for the moment that the special taxes will be sufficient to support the scheme, we should ask ourselves what is the ultimate source of these taxes? Certainly they must come from the employers' gross revenue and we have distinctly more than an interrogative aphorism in the question, "Who pays the freight?" And so, whether we like it or not, we must face the question, do we want a society in which railroad workers or those of any other special class are favored above all others with respect to what we have come to call "social benefits" *arranged through national legislation?*

Perhaps none of us will accept an affirmative answer to this question. In our vaunted democracy, we cannot see ourselves legislating to place workers in any one industry on a pedestal. We recognize that the family is the fundamental unit of our democracy. The social benefits that we arrange through national legislation are aimed to no small extent to preserve the family. We know full well that when the income of a worker is interrupted or destroyed, the needs of the family are independent of the worker's employment; our sense of social equality rebels at the thought of more liberal treatment being meted out to some than to others *as a matter of national legislative policy.*

If this legislation were adopted without the levy of special taxes, the public would pay for the benefits through general taxation; if the special taxes are sufficient to pay the benefits, then the users of the railroads are the ultimate payers. There is no evidence whatever that as a result of the present plans the standard of living of railroad workers is lower than that of others doing similar work. The difference between these methods of taxation may not be as great as we at first assume. When, in order to get Federal legislation for such benefits, employers and employees need only agree, they may learn to agree on wage scales, as well as the size of special taxes, at the expense of the general public.



Perhaps those interested in the railroads would contend that they seek no special advantage and that they are merely looking after their own interests. Thus we meet the question, should we try to provide the benefits suggested in this bill for all classes of workers? The answer to this question must involve both kinds and size of benefits and an offhand opinion would be worthless. Certainly no one is going to determine ex-cathedra the kinds and scale of social benefits that are desirable and practicable in this country. Perhaps some of the suggested benefits are too liberal. Perhaps some kinds are omitted entirely that deserve serious consideration. But whatever kinds and sizes of benefits may gain popular favor as worthy of adoption by Federal legislation, it is very doubtful if they should appear through sporadic legislation for particular employment groups. And the time to consider this question of method is when a bill like this one is under discussion; the difficulties of making a change later will be much greater if the suggested plan actually begins to operate.

#### *Other Special Classes*

Doubtless railroad employment has seemed a reasonable field for Federal legislation because the employers are engaged in interstate commerce; but how about common carriers by air, water, or motor vehicle? Surely these are engaged in interstate commerce. If those interested in air transport should desire to establish a social benefit plan and should ask for legislation similar to that creating the railroad retirement and unemployment insurance plans, could Congress be less accommodating than it had been to the railroad industry? And, recognizing the frequent transfers of employees between industries engaged in air transport, rail transport and employment covered by the Social Security Act, should it hesitate to establish a three-way combination of credits for survivors' benefits, similar to the two-way combination of the bill in question? If the air transport formula for a retirement annuity should resemble that of the Social Security plan it would be desirable to combine credits for employees' benefits as well as survivors' benefits between these two systems although railroad workers could not be brought into this combination without substantial change.

Then comes the communication industry with its development of radio and television on a national and international scale in addition to the present telephone and telegraph systems. Would this

group be less entitled to special Federal legislation to inaugurate special benefit plans? If so, would it not be appropriate to establish a four-way combination of credits to determine some or all the benefits, this to include the communications industry, carriers by rail, carriers by water, as well as social security coverage? Is there a reason why Congress should be more solicitous of railroad workers than of telephone, telegraph or radio workers? Is transportation any more essential in an emergency than communications?

But we have only started on the groups that might seek Federal legislation if by so doing they can have their special brand of social security, a little better in this particular or that than is the protection furnished for the common herd. The Supreme Court has recently declared that the business of insurance operating across state lines is interstate commerce. What is to prevent a well organized group of the many people engaged in this business from pleading with Congress to be excluded from social security coverage in order to organize their own pet benefit scheme? They would be willing to pay taxes somewhat higher than those of the Social Security Act in order to get the special benefits desired, but they would want to retain their credits under the Social Security Act, the Railroad Act, the Communications Act and the Air Transport Act, and a combination of credits would be essential to avoid abuse of rights under the various Acts. Congress would then need to arrange for five administrative boards to agree on rules for adjudication of benefit applications and for transfer among themselves of information, in order to determine the benefits of a particular claimant. Then, of course, there would be a transfer of money between the five funds so that each one would bear its fair share of the cost of the total benefit.

Nothing has been said about the Civil Service Retirement and Disability Fund becoming a partner in this growing family but it is significant that it and the railroad plan cover more employees than any others besides the social security group. Transfers between it and the other groups mentioned are very numerous; like the present railroad plan it provides no survivors' annuities for those who die in service. We can confidently expect amendment to the Civil Service Retirement Act reflecting the fact that in some respects that plan is less liberal than the social security plan although in many ways it is far more liberal.

Without any doubt, when several retirement plans operate side by side so that fellow workers find themselves under different plans, the tendency is for each group to seek amendments to its plan to make it at least as liberal in every important respect as the most liberal. Instance after instance could be cited to show how this tendency results in jockeying between different plans to obtain more liberal benefits. But there is no corresponding anxiety to increase the contributions.

Thus, we are driven to the conclusions that:

(1) It is utterly undemocratic for the people of the United States through Federal legislation to create social benefits for the workers in particular industries and their families. Since the needs of families when incomes of workers are interrupted or destroyed are unrelated to the sources of those incomes, there is no defense for the people of a democracy, acting through representative legislative bodies, to place the members of a particular industry in an advantageous position as compared with that of other citizens.

(2) If class legislation of this type is started there is no place to stop. Cooperation between two administrative boards is complicated enough but there is no reason to stop at two. No one can tell today when other groups will present claims no less meritorious than those of the railroad workers and it is obvious that this could readily lead to complication of operations that would be utterly impractical even if theoretically defensible.

### *No Conflict with Private Plans*

It should be emphasized that there is no conflict between these conclusions and the provision of additional benefits in a particular industry. We all hope that our government will continue to encourage individual enterprise. Social benefits arranged through Federal legislation should be held to such a modest level that they constitute a force for general economic stability; they should operate just as widely as practicable with special favors to none.

If the railroad industry, carriers and labor forces together, wish to arrange for additional benefits, that should be left to them just as is done with other industrial groups. When this method is used the government will accept no more responsibility with respect to benefits for railroad employees than for any other workers; to produce whatever benefits are desired over and above those common to all

groups of workers, the employers and the employees would then make their own arrangements and be responsible for carrying them out. There is every reason why "we, the people" should force the railroad industry to participate in whatever social benefit scheme is adopted for other gainfully occupied persons. But there is no defense for us to force the railroad industry to go further than this; and it is distasteful in the extreme to think of allowing any coalition of employers and their workers to take advantage of an uninformed if not listless public and a legislative body supersensitive to voting power in order to saddle on the public purse the responsibility of placing their workers and their families in a more comfortable position than that of the mass of voters whom the legislators represent.

A bit of history is here in point. Even before the Social Security Act was approved the so-called "Clark Amendment" was introduced to allow employers who so desired to substitute private plans for the old-age benefits of the Social Security Act. The first reaction of many legislators, was "Why not?" If an employer is ready to operate a plan that is more liberal than that of the Social Security Act why should he be regimented into uniformity with his less liberal competitors?

Looking back on this contest it is interesting to note how slowly we came to realize the essentials that were involved in the issue. A fundamental hidden fallacy in thought was the one already mentioned—we thought of the ABC Company and its employees as a small group separate and apart from the remainder of society, while in fact there is a constant flow of individuals in and out of the employees' group of a particular employer or industry and only too well do we know that the mortality of industrial organizations themselves is far from insignificant. If the ABC Company had a prospect of continuing in business forever, and if each employee would stay with it until he dies or retires, it might be satisfactory for it to have its own scheme for social benefits that require long range planning, approved as to adequacy and soundness by Federal authorities. To state these conditions shows that they cannot be met, even waiving the fact of experience that a large proportion of industrial concerns would, sooner or later, be unable to meet the deferred obligations of their plans with much consequent suffering. The large normal volume of shifting of employees between employers

makes it altogether impractical to assure continuity of prospects for many social benefits to immense numbers of workers through the operation of separate private plans.

### *Objectives of Public and Private Plans*

Putting this conclusion in other words, we emphasize a distinction that perhaps most of us have in mind. When the officers of an employing institution formulate their own employee benefit plan they quite rightly have in mind the welfare of their institution; they may even be far-sighted and base their plan on the long run success of the institution; too often this is not the case. But generally, and perhaps properly, their attention is on the institution rather than the individual. On the other hand, when through our representative government we build for ourselves a nationwide social benefit system, we center attention on the welfare of individuals and families regardless of how they make a living.

We choose the employment relationship as a tool that seems likely to continue to be at hand for the indefinite future and use it as a device to assure that social benefits will be made available in a healthy manner and in quantities that make for stable society. But, since these plans are to function principally when employment relations are so disturbed as to interrupt or terminate income, they must be set up to bridge all ordinary gaps in employment and transfers from one employment to another. Hence, with them the long term or short term interests of a particular employer do not enter the picture. They are for the purpose of smoothing out, for individual families, breaks that occur in returns for gainful occupation. They rest on the general principle that what is consumed by those outside of gainful production must to a large extent be produced currently by those in gainful occupations; they are devices for modest transfers of goods from those in the occupied group to those in the unoccupied group. They should avoid interference with normal incentives to be in the occupied group and are devised to help only those who would be in the occupied group if opportunity presented and their physical conditions permitted; but they should consistently avoid any pressure to keep an individual worker with a particular employer or in a particular industry.

### *National Favor for the Railroad Industry*

The suggestion has been made from time to time, although it has

not been frankly and openly defended, that because of their key position, railroad workers should be handled more tenderly than others in national planning, simply as a matter of national self-interest. We must have the railroads; our common national interests dictate that the railroads must always be in first-class condition. We must therefore have a group of superior workmen operating them and we are justified in doing whatever may be necessary to maintain this standard of efficiency.

While this lacks the ring of sincerity that we should expect of any plea for favoritism, perhaps it should be analyzed. Let it be stated at once that there is a distinct loyalty for railroad work among many of these employees. Frequently we hear the expression "Once a railroader, always a railroader." Where this point of view exists it is all to the good; it gives the individual a conviction of the importance of his work and this is a distinct asset to the industry. It gives the individual a personal satisfaction in what he is doing that makes for contentment and happiness and therefore for the best service. But these qualities are not limited to railroad workers; those engaged in many other occupations that are charged with a public interest might well contend that their efforts are just as essential as those of the railroad workers.

In this connection a brief classification of railroad workers may be helpful. Employees of Class I railroads for 1941 could be grouped as follows:

	<i>Percentage</i>
Laborers	40.7
Skilled in maintenance of way and equipment	11.5
Helpers	7.5
Clerical	7.9
Executives, professional and supervisors	4.7
Station agents and telegraphers	2.8
Engineers and conductors	5.4
Firemen, brakemen and switchmen	12.8
All others	6.7
	100.0

A moment's scrutiny of this classification will probably dispel some of the hazy impressions that superiority, not needed elsewhere, is essential for most railroad work. As to length of service, it may be enlightening to know that of the 2,005,000 persons in railroad service in 1941, more than 600,000 had no record of such service in 1940, and that of the 2,469,000 in railroad service at the end of 1942 there were 820,000 who were in the service for the first time that year.

Going a little further with this study, we can well imagine that the nature of the work, the requirements for satisfactory service, and the wages, for considerably more than half the railroad workers are indicated roughly by the classification of their service and are much the same as for corresponding service with other employers. Furthermore, the skills of those in special work carrying unusual responsibilities are reflected in higher compensation and more favorable working conditions—again very much the same as in other industries.

Hence the need claimed for special treatment of railroad workers in social benefit legislation fails to stand even superficial analysis. We can go further and note that the retirement benefits provided by the present railroad retirement plan will not be satisfactory for a small proportion of the workers in the higher income brackets. The railroads will not find it practicable to retire higher paid employees and officers on annuities as small as the present-day maximum of \$120 a month. Without a supplementary arrangement, the result will be expensive inefficiency due to superannuated men holding key positions, men who are receiving full salary and attempting to carry responsibilities for which younger minds are essential. The railroad companies will need supplementary arrangements just as will other employers to retire a small percentage of higher paid employees, but there is no more reason why Congress should interest itself in this problem for the railroads than for any other employers.

## SOCIAL SECURITY COVERAGE FOR ALL

### *An Accepted Objective*

It seems safe to say that the American public has pretty generally accepted the thought that all workers should have the protection of social benefits at least as liberal as those of the Social Security Act.

Discussions of the desirability of this legislation and of its detailed provisions rarely include a claim that those connected with any particular employment are free of its need. In thinking through the application of benefit provisions we invariably visualize the family quite apart from the particular employment of the worker. The act itself suggests the ideal of all-inclusiveness by defining employment as any service performed "by an employee for the person employing him" and then proceeds to make exceptions of agricultural and casual labor, domestic service, public service, employment for non-profit organizations and a few relatively minor groups. As amended in 1939 the act excludes railroad employment. Several of these exclusions were made on the practical ground that methods of administration had not been devised that seemed workable with respect to them. The point of view has been very definitely that all workers and their families should have the protection of the benefits involved just as soon as feasible.

It is well to consider why there is this widespread acceptance of, if not insistence on, fundamental social benefits. Doubtless different individuals will give different reasons for their acceptance of this philosophy and many would say that a self-respecting community must see that all have at least this minimum of protection. But there is a substantial number whose convictions are more deep-seated.

There is a growing realization that the welfare of each is a matter of enlightened self-interest to all; that the greatest asset of any community is its residents; that a community is richest and strongest when the largest possible proportion of its residents are in good health, have good habits, and are best fitted to be useful members of the community.

Not as charity but rather as a matter of good repair, good house-keeping and being best fitted to do its part and hold its own with other communities in the larger whole, every community owes it to itself to bring its citizenry to the highest development that is within their native abilities. Keeping this ideal uppermost at all times will go far toward emptying jails, preventing crime and minimizing prolonged disability although perhaps increasing the amount of hospitalization for corrective purposes, and attaining a maximum of intelligent and energetic activities with the greatest amount of happiness and sense of well-being as the objective.

With such a point of view and the control of power that we have



already achieved, a prolonged period of peace will enable us to reach heights undreamed of in enjoying the arts and various activities for pleasure and recreation, with a minimum of time spent in earning our daily bread. We should be able to eliminate indigence and to raise immensely the average of our individual well-being.

Despite the evidence of widespread acceptance of this philosophy it is unfortunately true that neither the railroad workers, Federal employees covered by the Civil Service Retirement and Disability Fund, nor any other group of public employees of which the writer has knowledge, has the minimum protection of the Social Security Act in every respect. The railroad workers and many public employees have benefit provisions more favorable in some respects than those of the Social Security Act but none, it seems, has provisions for widows and orphans that compare with those of that act. There is good ground for considering these provisions more important than any other from the standpoint of family needs and, under the Social Security Act, while they are modest they are timed to be payable under conditions that adapt them better to presumed family needs than are survivors' payments under the other acts. The Social Security Act provides benefits to a widow and children until the children are 18 years old while most other acts provide only lump sum settlement, usually related to the contributions that the employee has made under the plan rather than to the needs of the family. Certainly a monthly income while children are young is more important to a family than is the equivalent lump sum; and with a single child of tender age the annuity to widow and child will usually be of far greater value than the lump sum payable under other acts. True, at the death of a middle-aged or older worker no annuity benefit may be payable under the Social Security Act because there may be no minor children; and it will be in just such cases that the benefit under the railroad act and some of the public employee plans may be greater. From a social standpoint it is far more important that larger sums go to widows with young children than it is that lump sums go to widows with no dependents. This is an illustration of the difference in degree of social adjustments to be found by examining these acts.

Survivors' annuities were written into the Social Security Act by amendments of 1939 and before very long both the railroad board and those interested in the civil service retirement plan began con-

sidering extensions of their plans to match these benefits—thus illustrating the tendency already mentioned of every retirement plan to seek to be as liberal as the most liberal. However, neither of these groups seems to have favored for a moment the suggestion that their exception from Social Security legislation be removed.

### *Insurance Nature of Survivors' Annuities*

But we must guard against concluding that the remedy for present defects in social benefit plans is merely to see that each plan provides certain agreed upon minimum benefits. The fundamental weakness of having a variety of mechanisms to furnish these benefits for particular employment classes is a lack of continuity in the provision of the benefits as individuals move from one employment to another.

To appreciate fully the difficulties introduced by transfers of employees from the coverage of one social benefit scheme to that of another some technical details must be considered. The Social Security Act provides widows' and orphans' benefits in case of death of a worker who has been in covered employment for at least six of the last 12 calendar quarter-years before his death or of a worker who has been in covered employment for 10 years or during half his possible quarters of coverage since December 31, 1936 and for not less than six quarters.

It is entirely reasonable to ask, why such complicated requirements? If we are trying to meet family needs, isn't the need just as great if the worker dies after one day of coverage as if he dies after 18 months or 10 years of coverage? Indeed the answer is distinctly affirmative and we must face the fact that as yet only a little more than half our employees are covered by the Social Security Act at any one time. What has this to do with benefits for those who are covered? Just this: John Smith is a railroad worker and has a wife and two children under age 6. His doctor tells him today that he can not hope to live long and that he will be able to work only a short time, although he can still go on for a while. If he can get employment covered by the Social Security Act for this short time it might make the difference between extreme poverty for his family and an income of about \$35.00 a month for the next 12 years if no preliminary service period were required before these benefits would

apply. Multiply John Smith by a few million and we can see the disturbance that would be caused over a period of years by those who would shift employment to take advantage of such situations if there were no limits placed on the application of survivors' benefits.

If, on the other hand, all employment were covered by this act, the kind of limitation mentioned would be of importance only with respect to the self-employed and the small group who do not normally work regularly.

Another peculiarity of the survivors' benefit should be mentioned. The reader may have wondered what happens when the worker leaves the coverage of the Social Security Act. The details become somewhat complicated but are the consequence of the conditions for benefits already stated and a peculiarity about the calculation of the annuity. If an employee has been covered for at least 10 years (this cannot happen until after the year 1946) or if he has been covered for six calendar quarter-years and for at least half the possible quarters of coverage since 1936 and after he attained age 21, a benefit is payable to a qualified widow or children or both upon his death, regardless of whether or not he is in covered employment at the time of his death. If he does not meet these service conditions, an annuity is payable in case of his death if at that time he has been in covered employment for at least 6 out of the last 12 quarter-years. This means that, if an employee had been in covered employment steadily for at least 6 quarters and then left covered employment for other work or was unemployed, without having coverage for 10 years or half the possible quarters since 1936, a benefit would be payable in case of his death any time within the following six quarters. But if he were out of covered employment for as much as the six quarters next preceding his death, no benefit would be payable.

The peculiarity in the calculation of the annuity involves the calculation of average monthly wage. This is obtained by dividing the total of credited wages in covered employment since the plan began operating on January 1, 1937 by three times the number of quarter-years that the employee could have been in covered employment after attaining age 21, regardless of whether or not he was in such employment during all those quarters. The reader is reminded that the annuities are related to the "primary insurance benefit" which is the sum of 40% of the first \$50 of average monthly wage and 10%

of the next \$200 of this average, increased by 1% for each year of covered employment. The widow's annuity is  $\frac{3}{4}$  of this primary insurance benefit and the child's annuity is  $\frac{1}{2}$  of it, with the limitation that the total payments for a month with respect to an employee shall not exceed 80% of average monthly compensation, twice the primary insurance benefit, or \$85, whichever is least. From this information we can deduce that, if an employee withdraws from employment covered by the Social Security Act, the possibility of survivors' annuities does not usually disappear immediately; in other words, the employee does not immediately cease to be "insured"; but the size of the possible annuity payments to survivors begins to decrease with the first calendar quarter during which the employee is away from covered employment. The availability of survivors' benefits may disappear after the worker is away from covered employment for a single quarter-year because the employee may then cease to have been in covered employment for half the last 12 calendar quarters. This could occur because of irregular employment.

Again we may ask why so many complications and the reply is because of the shifting in and out of covered employment. It would be unfortunate to have a simple rule that survivors' benefits should disappear immediately when a worker leaves covered employment although this is just the situation in many private employee-benefit plans. If the rule went to the other extreme it would only be necessary to be in covered employment for 6 quarters and survivors' benefits would be available indefinitely thereafter regardless of employment status. Then it would be distinctly worth while to seek covered employment for a year and a half, whatever might be one's intentions for later years. The remedy is, of course, widespread social security coverage; when this act applies to practically all employment, need for these limitations will largely disappear as will also their application.

Briefly then, this is the situation:

(1) We seem agreed that modest widows and orphans benefits should be available to families of all workers; if pinned down we agree that of course they should be available *continuously*, regardless of shifts of employment, but we hadn't thought about that.

(2) Separate social benefit or employee-benefit plans for different groups of employees cannot be expected to offer such benefits with-

out very definite limitations to avoid their unfair use and excessive cost.

(3) These limitations will almost inevitably decimate the social value of any such plans with respect to participants who move from one employment to another; the benefits cannot be made available continuously; and the unfortunate fact of today will probably continue—that the bulk of those who move out of covered employment have no conception of the values for their families that they may be sacrificing through the move.

(4) Today only the social security plan offers annuities to widows and orphans related to presumed need; when other plans introduce similar benefits—and they most certainly will—the confusion will probably be so great that we can no longer hope for understanding of the plans on the part of the participants or else the sacrifices that will accompany transfers from one plan to another will be no less serious than at present.

The new bill meets this problem in part so far as the railroad plan and the social security plan are concerned but it can go no further because other plans do not offer survivors' annuities. In doing so it favors railroad work; otherwise it would be a glaring argument for merely extending social security coverage to railroad service. In other words, the new bill recognizes the importance of survivors' benefits and of continuity in their availability; but it meets this problem in a manner that is quite indefensible and will be utterly unworkable when the method is extended to a number of other plans.

Perhaps the ingenuity of man is such and the powers of the English language are sufficient that we can have many social benefit plans with sufficient interchangeability of credits as to preserve continuity of benefits equivalent to those of the Social Security Act for an individual whose working years are divided between the coverage of the various plans. This is conceivable but the utter nonsense of pyramiding complications and the cost of operations in order to retain the separate plans is beyond comprehension. We have a mere taste of what these complications will be in the efforts of the railroad bill to combine credits under just two plans. What this would be with a number of other plans in the picture makes one shudder to contemplate.

### *Magnitude of Shifting Employment*

To clinch this argument it is of course necessary to establish that the turnover of employees in various employments is substantial. Certainly there is no point to the discussion if changes in employment are insignificant. As already stated, a related phenomenon is simultaneous employment that would come under separate social benefit plans. This is important because many plans now operating favor the low-paid employee and, for those whose credits are low under different plans because their services are divided, independent operation of the plans would result in unintentionally large combined benefits unless limitations were written into the various plans to avoid this. Again the way to avoid the complications is to have one plan.

We recognize that war needs make employment statistics of recent years quite unreliable as peacetime guides. Hence, most of the "turnover" data given below are for years preceding the war. But it is of interest to note a few remarkable figures taken from the 1943 report of the railroad board. Approximately 4,000,000 individuals had compensation credits under the Railroad Retirement Act at the end of 1942 while the total number of employees during that year was 2,469,000 of whom 820,000, more than 1/3 of the total, were in railroad service for the first time that year. Quite obviously, heavy reduction in the needs of the railroads after the war and the return to railroad service of large numbers now in military service will cause enormous shifts in the active participants in the railroad retirement plan.

From the 1940 report we learn that of 2,343,000 who had compensation credits at the end of 1939 there were 457,000 who were not in service during 1938 or 1939. The 1939 report states that of the 1,995,000 employees of the year 1937 only 1,370,000 were in service in 1938 and estimates that close to 560,000 had withdrawn voluntarily or been laid off because of the sharp reduction of traffic and in maintenance operations that began late in 1937 and continued through most of 1938.

Since these data illustrate the impracticability of a number of social benefit plans because of large shifts in employment it is interesting to look at figures outside the railroad field.

In his testimony before the Senate Special Committee to Investigate the Old-Age Pension System, Mr. Altmeyer, Chairman of

the Social Security Board, stated on July 21, 1941, that while about 47 million persons "have some earnings in covered employment . . . as few as 32 million persons may work in such covered employment" in any one year, and that during 1941 it was estimated that nearly 40 million would be so employed.

At the end of 1943 there were about 66.6 million persons with wage credits under the old age and survivors' insurance sections but about 31.8 millions of these have so little credit that survivors' annuities would not have been available in case of the worker's death.

In a paper by Merrill G. Murray and Michael T. Wermel, entitled "Movement of Workers Into and Out of Covered Employment, 1937 and 1938," published in the February, 1941 number of the *Social Security Bulletin*, we find that of 36.8 million persons for whom taxable wages were reported under the old-age insurance program during some part of the first two years of its operation, 1937-1938, about 26 per cent had credit for such wages in only one of these two years. Of course, this percentage reflects a variety of causes of interruption in coverage, but major among these is transfer between covered and uncovered employment. The authors remark: "The tendency of workers to move into and out of covered employment presents an important problem in the operation of the old-age and survivors insurance program."

The "Retirement Report" of the United States Civil Service Commission for the year ending June 30, 1940, tabulates, with respect to the Civil Service Retirement and Disability Fund, the number of members who withdrew from the fund during each of these two years. Of course, this percentage reflects a variety of in this period was 100,627, and the number of contributing members at the end of the period was estimated by the Board of Actuaries at 645,000. Thus the number of persons who withdrew from service in twenty years was about 80 per cent of the recent membership and more than five times the number who retired from service.

Perhaps the most comprehensive compilation of data on this subject with respect to teachers retirement plans is a Research Bulletin of the National Education Association dated January, 1941, entitled "Status of Teacher Retirement." This gives careful analyses of these retirement plans and among the valuable statistics is a record of

present members and withdrawals, deaths and retirements since the plans were established. Figures are given for 52 different systems. From these the following have been extracted with respect to some of the largest of those state-wide teacher plans that have been established for a good many years.

For our present discussion it is of interest to note that for these six large plans averaging slightly more than 20 years in age total withdrawals from service have been considerably larger than the total of the present memberships and more than nine times as large as the number of retirements for both disability and superannuation. In fact withdrawals have been more than five times as numerous as retirements plus deaths in service.

#### Membership Statistics of State Teacher Retirement Systems

State	Year Estab.	Year of Report	Active Members	Separations Since Beginning		
				With- drawals	Deaths	Retirements
Maryland	1927	1939-40	6,429	5,265	180	520
Massachusetts	1914	1939	20,817	28,860	1,408	3,409
New Jersey	1919	1939-40	29,329	27,611	1,459	3,118
New York	1920	1939-40	48,193	53,064	1,796	5,985
Ohio	1920	1939-40	44,180	69,243	4,365	7,560
Pennsylvania	1919	1939-40	77,834	88,569	10,125	8,472
TOTAL			226,782	273,152	19,333	29,064

Compared with the railroad figures and with the turnover data of many industrial employers these figures show unusual stability in employment but they surely indicate the importance of laying our plans for social benefits in such a way as to reach those who move from one employer to another and from one employment to another, especially with respect to benefits for members of the employee's family.

Just one of the above-mentioned statistical facts will be emphasized. More than thirty million people who have done some work in industry during the past seven years have credit for less than a year and a half during the past three years, or less than three and one-half years during the past seven years. Doubtless a large majority of these people are gainfully occupied most of the time. No very large proportion of our workers can remain idle for long. These thirty-million persons are doubtless extremely varied as to age, sex and occupational status but, after making all possible allowances, we can



rest assured that, if we had one social security plan that covered all gainful occupations, the families of many millions of them would have the protection of survivors' annuities and the prospect of retirement benefits.

### *Why Vary Benefits with Occupation?*

Not only does the use of a variety of plans for social insurance fail to offer continuity of coverage insofar as the coverages are alike; they inevitably lead to indefensible variations in kind as well as amount of benefits available to different groups of workers and their families. There is no reason to expect private employee-benefit plans to be identical; each group may be expected to establish a plan that reflects its ideas of what are most valuable or desirable for its members. But when social insurance benefits are determined by national legislation, it is not so easy to defend substantially different provisions for different employment groups.

Why should the railroad plan provide for disability retirement while the Social Security Act does not? Why should the Social Security Act provide survivors' and dependents' annuities while the railroad plan does not? And if the new bill were enacted, why should the Social Security Act provide dependents' annuities, payable concurrently with annuities to corresponding retired workers, while the new railroad plan would not? Why should the railroad plan provide a retirement benefit for a man past age 60 just because he has completed thirty years of service while the Social Security Act requires attainment of age 65? Why should one set of conditions prevail for disability retirement under the railroad plan and another set under the civil service retirement plan? Why should the Government have accepted responsibility for the payment of pensions to former railroad employees when it has never done so with respect to workers in any other industry? Why should one method be used to determine employee retirement annuities under the Social Security Act, a second under the railroad plan, and a third under the civil service retirement plan? Why should the railroad plan make this benefit directly proportional to period of service while the Social Security Plan gives much less attention to period of service? Why should formulae be used by two social benefit plans so different that, save for an arbitrary rule that railroad annuities shall be as large as the service credits would produce under Social

Security, it would be advantageous for an older worker without previous railroad service to seek social security coverage and for a younger one to seek railroad service? Under many circumstances the civil service retirement plan is more favorable than either. Why should an arbitrary provision bring railroad benefits up to social security benefits but not vice versa?

All three of these plans favor the low-paid employee in determining retirement benefits. In each case, the annuity is a larger percentage of average compensation for low-paid than for higher-paid employees. Perhaps this is a sound social policy but, if it is, why should the first \$50 of average compensation count four times as much as equal amounts in excess of \$50 under the social security plan and only  $\frac{4}{3}$  as much up to \$150 under the railroad plan. Why should thirty years of service result in a benefit six times as large as that for five years of service under the railroad plan and only 24% larger under the social security plan.

Why should public employees, and government employees in particular, have no provision for unemployment compensation? When this war is over, will the extra public employees find their way into private employment without disturbance of incomes? With the high normal turnover of government employees, is there some reason to think these people are free of the hazard of unemployment? If the Railroad Retirement Board should be merged with the Social Security Board would the surplus employees have no need for unemployment insurance coverage?

The Social Security Board has advocated survivors' annuities for years and the Railroad Retirement Board is now doing the same. Why should the employees of these boards—those who have advocated and administered these benefits—be excluded from this coverage?

Why should employees of one group pay 5% of their salary for social benefits and those of another receive liberal pensions after having made no contributions whatever? Why should one individual find himself separated from his employment when he is past middle age with no accrued prospect of retirement income whatever, while another is handed a substantial cash settlement, and a third must retain intact a modest provision for old age? Why should an effort be made to keep one large government fund on an actuarial basis while pensions for millions of other government em-

ployees, notably war veterans, remain entirely unfunded and the government operates a plan for industrial employees on a pay-as-you-go basis? All these situations and many others that show the absence of any particular convictions or any organized study of what is reasonable in the way of retirement legislation are illustrated by retirement plans created by federal legislation.

When we recognize that the needs of a worker and the family if employment ceases are independent of what the employment was while it lasted, how can we justify the basing of social benefit plans enacted by our one representative legislative body on such obviously varied convictions as to what those plans should be?

### *Why Substantial Omissions?*

But difficult as it is to defend a variety of social benefit plans created by Congress for compulsory participation of workers in different fields, what possible reason can we give for the omission of large groups of employees from participation in any of these plans? Heretofore one answer has been acceptable—that we were experimenting in a new field and some employments like farm labor and domestic service presented problems which it was hoped we could handle more readily after some years of experience with employments that yielded more readily in administration. Now we have had sufficient experience to encourage administrators of the Social Security Act to suggest extension to these employments. Furthermore there are other employments for which administrative difficulties were never an excuse for exclusion, chief among which are public employment and service for non-profit-making institutions. Large numbers of both classes of employees today have no social benefit protection and it is extremely difficult to defend the continuation of this state of affairs.

In a single residential section of almost any city we find families whose breadwinners are municipal employees, Federal employees, railroad workers, industrial workers, employees of non-profit institutions, the self-employed such as doctors and lawyers, and perhaps farm laborers and domestics. These people have similar home problems; their children go to the same schools and establish their friendships without regard to employment of parents. When employment ceases for any reason the needs of the family are the same in kind, regardless of which of these employments was fol-

lowed before the break in employment. Yet the fate of the worker and members of his family vary widely according to the particular brand, if any, of social benefits that apply to the worker's employment. This situation seems utterly indefensible unless insurmountable difficulties are met in remedying it.

### *A Fresh Approach*

It may have been excusable to legislate for railroads alone ten years ago. We knew little then in this country about social benefit plans. The depression aroused us to the fact that we had welfare problems that did not yield to the social mechanisms we had developed up to that time. We practically plunged into social legislation and probably did as well as could be expected under the circumstances; now we see definite shortcomings in what we have undertaken. Hence, there are good reasons to seek amendment.

But in formulating amendments, we are prone to be impressed by the magnitude of the developments to date and feel that we must disturb them as little as possible in our plans for modification. On the contrary, the writer would suggest that we recognize we have made a bare beginning in this field; that what we have done to date is quite insignificant compared with what we should hope to develop in the future; and if we now have evidences that our original foundation is inadequate for the superstructure we contemplate, we should be ruthless rather than tender about modifying it.

There are doubtless situations in which it is the part of wisdom to build the new on to the old; this is the case when the old is significant compared with the new that we contemplate. But we shall show a distinct lack of foresight and imagination if we allow ourselves to be bound by our developments to date in the social benefit field. This is not to say we should scrap what we have, but that in perspective we should recognize that what we have may be relatively unimportant compared with what we may hope for.

In the consideration of any problem it is good policy to ask what we should do if we were starting afresh, perhaps knowing full well this is impossible. With our present problem we should ask this question with conviction that if the answer is in conflict with what we already have, we should be willing to undergo much discomfort in transition to get to what would seem to be better.

In both old-age and survivors' and unemployment compensation plans, we started in relatively piece-meal fashion; whatever else may be said of our experiences, they have taught us some of the a b c's of the operational problems of such plans in a country so large and so varied economically and socially as is ours. We learned, among other things, that we could not transplant bodily the experiences of Great Britain along these lines, partly because the population of Great Britain is far more homogenous than is ours and partly because its range of economic variations is much smaller.

It is fair to ask, if we were to start all over again and had no Social Security Act, Railroad Retirement Act or Unemployment Insurance Act, no Civil Service Retirement Fund, no free pensions for a number of Federal services including military service, but did have the information that our experiences of the last ten years have furnished, whether we would set up the variety of arrangements we now have. And would we contemplate multiplying their number knowing as we now do that they are bound to compete with each other so long as legislators will listen to the appeals of separate groups merely because they are not opposed by comparable political strength?

Without doubt, many will agree that, if we were starting afresh, it would be best to have one basic system for all, participation in which would be automatic for gainfully occupied people of all classes. The claim that this perfection cannot be attained is not to the point; the point is that we have not yet attempted to approach it. If all or a very large percentage of our workers were in one such plan, most of the various limitations and artificial barriers that enter our present plans could at once be eliminated and, even if they were not eliminated, they would have little reason to function. We could introduce disability benefits without the requirement of arbitrary periods of service, and thus more nearly meet a social need. *We would need* no fancy methods of calculating average pay; we would need no distinction between wages and compensation; we would not worry about the relative size of benefits calculated in half a dozen different ways; there would be no problem of fairness between treatment of different groups leading to endless pressure by particular groups to get more for themselves. It seems that the bulk of the opposition to a uniform plan comes from those who fear they would get less for them-

selves in this way than under a plan they now have or contemplate. This in itself should be the best argument for uniformity.

Consider for a moment the simplicity of operation. Had we had a single plan when our war disturbances began, there would have been no question of discontinuance of this coverage or that because of the millions of shifts in employment that have been made during the past few years. A worker could change from industrial employment to a military assignment, or to a government job, with full assurance that his rights and the rights of his family to social benefits would be undisturbed. And when the changes are in the opposite direction, as they will be during the next several years,—perhaps with far less optimistic and more cataclysmic changes in economic status—the availability of social benefits would again be undisturbed and every worker would have the peace of mind of knowing that it would be undisturbed.

Think of the saving of effort, the absence of red tape, the freedom from complications, from borderline situations, from misunderstanding, from errors in records, from temptation to increase benefits by choice of job or jobs and the absence of any need to complicate laws and regulations to avoid such possibilities.

## SUMMARY AND CONCLUSIONS

The early part of this study is an effort to outline with a minimum of technical detail the provisions of the plans for retirement benefits and unemployment compensation that apply to employees of railroads engaged in interstate commerce and related organizations, and those resulting from the plan proposed in the Crosser bill, H.R. 1362. This outline will be of little value to a student who seeks clear-cut, accurate information. Perhaps only the acts themselves will help him; they are necessarily extremely detailed and any effort to describe them accurately would run into more pages or be more difficult reading than the acts themselves.

The outlines given here are studiously abbreviated in the hope of simplifying the reader's task of evaluating the different plans, the single purpose being to form an opinion, first, as to whether the bill in question should be adopted and, second, as to whether a plan similar to that of the bill would be appropriate to apply far more widely than to railroad workers alone. For this purpose the voluminous detail of the 60-page bill is merely confusing. It will, however, be regrettable if any of the contractions or omissions in these outlines lead the reader to different conclusions on the points in question than would more exhaustive examination. That this danger has been kept in mind is the basis of the writer's hope that it has been avoided.

Following these outlines, this study undertakes to compare the social benefit plans under consideration and to give something of their evolution as a background for an understanding of present problems and as a guide to intelligent legislation to meet the present situation.

Prior to the economic depression of the 1930's, we had paid little attention in this country to legislation for social benefits, other than workmen's compensation acts to cover work-connected disabilities. The railroad workers were first to make a start and they centered attention on retirement—doubtless to clear the decks for promotions. When the social security legislation came along, in addition to various plans for relief payments it arranged insurance schemes for old age benefits and unemployment compensation, the latter being operated through state laws. Until July, 1939 railroad workers came under the unemployment insurance plans

of the various states; then the special plan herein described for railroads replaced the state plans. A much earlier act of Congress, the Civil Service Retirement Law contains elements of plans for social benefits in that the retirement annuities favor the low-paid worker and a subsidy enters through interest accumulation at rates now higher than earned on investments.

The time element of these various enactments has been important in the past and has a distinct bearing today on what shall be done for the future. Railroads were not flourishing in the early 1930's and the unfunded pension plans of the separate carriers did not encourage older workers to retire. There was no prospect that separate carriers would put these plans on a substantially better basis in the foreseeable future. There were too many men for the jobs and a goodly proportion were slipping along in years. Hence the labor leaders asked for national legislation to uniformize provisions for retirement and income after retirement.

Although motives are always mixed and often inscrutable, we may as well be liberal and assume that the framers of this legislation had in mind only legislative sanction to bring into existence a compulsory plan that would apply uniformly, with every expectation that contributions from employers and employees should pay the whole cost. But there was no provision of law either that benefits should be scaled if funds ran low or that contributions should be increased, if necessary, to make sure the scheme would pay its way. From the beginning, the legislation has made the payment of benefits an obligation of the United States Government.

It seems likely that, insofar as attention was paid to this legislation outside of railroad circles, the assumption was made that only legislative cooperation to get the plan operating was involved and that otherwise the Government was undertaking no obligation. Furthermore, there was probably considerable sympathy for this effort to "save the railroads" and little direct opposition to it. In short, a combination of circumstances worked together to dull our sensibilities to the danger of legislation of a novel type devised to serve what seemed to be a laudable purpose, even though this was clearly class legislation.

Can we safely legislate nationally with respect to social benefits in a particular industry? Is it consistent with the principles of our democracy to require particular actions by employers and em-



ployees of a particular industry with respect to benefits, the need for which is unrelated to the employment? Can we maintain our democratic principles of equal rights to all and special privileges to none if we create obligations on the part of our Government to see that workers in a particular industry and members of their families receive benefits, when earned income is interrupted or destroyed, that are greater in amount or different in kind from what would be available to workers in a different industry?

The immediate question is on the passage of the bill H.R. 1362. Its passage would tend to perpetuate the error of ten years ago, made perhaps under such circumstances that it was excusable. With the opportunity we have had to reflect on these matters in the last decade and with the changes in conditions that have taken place during this time, there is no longer any excuse to go further in this thoroughly indefensible class legislation.

Let no one say it is too late to change. Any student of social planning knows better. Of course, transitional adjustments would be appropriate to correct this error but the inconvenience that these adjustments would cause pales into insignificance compared with the difficulties that lie ahead and the utter confusion if not complete chaos to which class legislation may lead. We are simply on the wrong road if we seek progress under democratic government. There is no compromise; the error can be corrected in only one way: we must set our faces resolutely against class legislation.

Perhaps this is the place to add that class legislation can be negative as well as positive. While it seems particularly flagrant that Congress should have singled out railroad employment for special taxes and special social benefits, even to the point of the Government becoming responsible for company pensions, it is equally indefensible for the social security legislation to have exempted particular employments from its coverage. Of course, we must temporize here with practicality and it was doubtless wise to postpone temporarily coverages that would have introduced serious administrative problems. Among these were the self-employed, casual labor, domestic service and employment for states and their subdivisions. But there were no administrative difficulties with respect to United States Government employees nor with respect to employees of educational, religious and charitable institutions and other non-profit organizations.

Congress indulged just as distinctly in class legislation by exempting employment for non-profit organizations and the United States Government as it did by adopting special legislation for railroad employment. Perhaps there was a lack of clear thinking all around at that time. Certainly the idea prevailed initially in many quarters that national social security legislation was really legislative sanction of participation in a retirement plan that did not seem particularly attractive and many of those who asked for exemption would probably blush at being accused of urging class legislation for their own benefit.

The next most important date in our time chart is 1939 when the Social Security Act was amended to bring in survivors' annuities. Destruction of family income is far more serious than its interruption and it was natural enough that our early social benefit efforts should have given attention to retirement income. We had made some progress in this field privately and it is interesting to note how our early social efforts were directed and sometimes hampered by our difficulty in grasping the differences between rules of the game that were essential for private sporadic undertakings and those that might better apply to nation-wide social schemes.

The amendment of 1939 introducing survivors' annuities was a fundamental step forward in recognizing that a social insurance scheme should furnish benefits under conditions of presumed need and benefits related to that need. Thus a widow with two children gets more than a widow with one child and some with no children receive nothing, despite the fact that the deceased and his employer may have contributed the same in cases of all three classes. Of course, this amendment was also a recognition of the fact that from the social standpoint benefits to widows and orphans may be far more important than benefits to normally retired workers. One may well wonder why these benefits were not offered in earlier legislation and the answer seems to be that we as a people simply needed the added years to mature our social thinking to this point. We should carefully avoid the assumption that we have finished the job.

No sooner had the survivors' benefits begun to operate under the Social Security Act than the Railroad Retirement Board began to question if these benefits should be offered to dependents of railroad workers. This Board was by no means alone. The same

thought came to administrators of the Civil Service Retirement Act and the boards in charge of many plans for public employees all over the country. Furthermore, the officers of non-profit organization that had begged to be excluded from the Social Security coverage began far more seriously to wonder if they had made a mistake. And, doubtless, all these organizations have wondered what next? When a retirement benefit was the principal item of interest in social legislation some thought it was to their advantage to run their own shows but will this still be the case if our people accept the idea that an employer has a responsibility to see that modest benefits are made available continuously to the worker and his family in case of almost any serious interruption of employment income for which the worker is not responsible?

The bill under discussion is the result of the cerebation of the Railroad Retirement Board and the Railway Labor Executives Association on these questions and, in many respects, it is admirable. But, granting that railroad workers and their families should have every kind of social insurance that Congress provides in connection with other industries, we should not go further with this special class legislation and as rapidly as possible we should get away from what we have.

It would be indefensible to repeal the Railroad Retirement Act without careful attention to the transitional arrangements. For instance, while it was contrary to all our democratic instincts for the Government to take over the pensions that were being paid by different railroads, these should under no circumstances be repudiated. They should be continued until the death of each recipient; no change should be made in their charging. Furthermore, while it was indefensible to arrange past service credits for railroad workers by national legislation, none of these should be repudiated. All newcomers in railroad service should have, through national legislation, all the expectations of other industrial workers under the Social Security Act—no more and no less. For those already in the service, transitional arrangements would be appropriate that would result in practically no decrease in expectation for those nearing retirement age and practically the same expectations as under the revised Social Security Act for those with only short service behind them. It should be carefully noted that such a transitional arrangement need not be unduly difficult, because railroad work-

ers are contributing much more heavily than other workers and, at present, have no expectation of survivors' annuities in case of death in service.

With a definite negative as to the enactment of this bill for railroad workers, a conclusion that the writer could reach without detailed analysis of the provisions of the bill, we may well ask what should be our attitude toward the provisions of the bill if they were to apply to all employments.

Emphasis is placed in this study on the thought, not only that the benefit and contribution provisions determined by national legislation should apply alike to all employments, but also that this application should be through a single plan. Stated thus, this thought seems too elementary for further attention and doubtless varying benefits have usually appeared through a variety of plans. To illustrate the point here at issue, the new bill would parallel the methods of the Social Security Act in determining survivors' annuities but would retain the two plans calling for close cooperation of the two administrative boards. It is quite likely that before long a similar extension calling for similar cooperation of administrative bodies will be proposed for the Civil Service Retirement Law and it should not be surprising if a number of plans for state and municipal employees should be interested in survivors' annuities. Furthermore, there are several employments in interstate commerce that might seek exclusion from social security coverage and establishment of social benefit plans of their own. If coordination of government boards is sought even for only a few such plans, the administration will certainly be complicated, and to no good end.

The preceding paragraph assumes acceptance of the principle of uniform benefits, a fundamental that is not, of course, accepted in the bill under discussion. If these plans continue to have varying benefits, the barriers to making social benefits available continuously to a worker and his family as he moves from one employment to another seem insurmountable. These have been discussed in preceding paragraphs and furnish a most telling argument for a single national plan for social benefits. Certainly no more impressive figures for the need of a single plan covering all occupations can be found than that out of 66 million workers with social security credit, more than 31 million have so little credit for covered employ-

ments that from it alone they and their families can expect no benefits. This must be remedied.

Aside from the utter nonsense of the pyramided cost involved in a variety of plans separately administered to furnish a single set of benefits, perhaps mention should be made of the reason for coordinating the records of the railroad plan and the social security plan discussed in earlier paragraphs. So long as many plans exist, when we determine widows' and orphans' benefits it is important that these be substantial after fairly short periods of service and that they shall not disappear suddenly when covered service ceases. Hence, without coordination of the different plans offering such benefits, the survivors of a deceased worker might receive combined benefits out of all proportion to the income loss through the death of the worker. The bill in question faces this difficulty in part, so far as the railroad and social security plans are concerned, if one ignores the unnecessary labor and complications involved in duplication of records and in the cooperation between administrative bodies. A difficulty it did not solve grows out of the fact that employee benefits are usually scaled to favor the low-paid employee so that one who has credit in several plans, and thus appears as a low-paid employee in each, may receive benefits out of all proportion to his total compensation.

#### *How Far Should We Go?*

Assume now that we have just one social security plan that covers all occupations and that it offers the benefits of the present Social Security Act coordinated with a state unemployment insurance plan of fair liberality according to present standards. If the additional benefits of the bill in question were proposed, what should be our attitude?

With the very limited experience that we have had to date in the operation of social benefit plans, are we ready to pick out a limited set of benefits and arrange a national scheme for their provision which, according to estimates based on admittedly unreliable statistics, will take between one-fifth and one-fourth of our earned income, knowing full well that later we shall probably have just as good reason to add other benefits that would push the total well above a fourth of this earned income?

Certainly we should contemplate very seriously whether it is

feasible to operate social benefit plans to this extent and still retain the profit motive as the basis of our economy. And in contemplating the cost of social benefit plans, we should keep clearly in mind the limits of our knowledge. The plain fact is that we do not know what these benefits will cost because we cannot know what to expect in the way of economic stability.

If we could look forward with confidence to full employment in constructive activities, we should have nothing to fear from liberal social benefits. The load of unemployment compensation would be light and retirements, whether due to untimely disability or to the ravages of advanced age, would be light compared with their size under the same legal provisions in periods of economic disturbance with large numbers unemployed.

Perhaps we have reason to hope that these plans will help to stabilize employment by smoothing out the demand for consumption goods; but only confirmed optimists should fail to realize that we are distinctly in the pioneer stage in the development of these schemes. If we should experience another depression like that of the early 1930's with production less than half of what we might consider normal, it would take a very substantial part of earned incomes to pay unemployment benefits; retirement benefits, both for age and disability, would be abnormally high; and there would be far more than a normal amount of sickness to be compensated. At the same time, contributions would be far below normal. Perhaps in years to come we shall find that a well-rounded scheme of social benefits applying to practically all gainfully employed people will be at once our best safeguard against such a catastrophe and our most valuable asset in times of economic disturbance.

If we make any such extension and expansion of social benefits as that proposed in the Crosser bill, we should do it with our eyes wide open. We should recognize that, while each of us is engaged in productive enterprise, at least one-fifth of the results of his labor may be expected to go to those who at the time are not so engaged. We should recognize that our estimate of this fraction is very unsatisfactory and that it may vary from a figure half as large to one twice as large. We should not allow ourselves to become confused about the source of these payments or sidetracked by any theory of reserves established to lighten the load. The all-important consideration is the proportion of the results of productive effort that

we think best to transfer *by national legislation* to non-productive elements in our population. If we try through long-range planning to make this proportion larger than seems desirable to later generations, they will find ways, perhaps unconsciously, to defeat our purpose. They may not repudiate the legislation we are considering; pension legislation is about the least reversible of any. But, even if promised benefits continue to be paid in full as measured in dollars, an unwise social benefit policy may go far toward depreciating the value of the dollar.

It seems the part of wisdom to go very slowly about liberalizing social benefits until we have had a sufficiently varied experience with the benefits now contemplated to know their effect in bad times as well as good. We must frankly admit that we have not yet had this experience—our plans are all too recent.

### *Changes We Should Make*

While our experience has not yet taught us the economic cost of our social benefit plans, there are a few lessons that suggest amendment. Outstanding among these is that the exclusion of substantial employments from social security coverage is not only troublesome but indefensible. We have better data than ever before about the degree to which workers shift from one employment to another and how they divide their time between jobs. We thought the amount of shifting was large; now we know it is enormous. So long as social benefit coverage is limited, it is elementary that great care must be taken to "bound" the favored groups. When we are impressed with the fact that employments are merely convenient mechanisms in our effort to get benefits to families that need them and in amounts that are reasonable, it seems incredible that we should establish a system that uses arbitrary classifications to determine that of two families whose breadwinners do similar work side by side for different employers, one shall receive substantial benefits and the other shall receive nothing at all. It is unfortunate that thousands, if not millions, of workers can change employers without realizing that their shifts may affect most seriously the expectations for themselves and their families whenever wages are interrupted or disappear. Shifts of employment should have no effect on benefit expectations.

Another change that seems fundamental is to introduce some

means of recognizing that a normal breadwinner's productive ability may disappear prior to his attainment of age 65, the age arbitrarily chosen in the Social Security Act as the earliest age at which benefits shall be available. Recognition of the need for something of this sort is reflected in many private plans, the railroad retirement plan, and many plans for public employees through provisions of benefits in case of permanent total disability. Such disability leaves the individual as much in need as if he were retired and leaves his family at least as much in need as if he were dead. Hence the defense of an employee's annuity plus survivors' benefits.

### *Conclusions in Brief*

And so the writer's conclusions are:

(1) That increased liberality and wider extension of national benefit plans for railroad workers are indefensible from a democratic standpoint and that, as rapidly as practicable, we should eliminate currently existing special legislation that provides more favorable social benefits for railroad workers and their families than are available with respect to other industrial workers through social security legislation.

(2) That social security coverage should be extended to include as nearly all gainfully occupied persons as possible including the self-employed, farm and casual labor, domestic servants, employment for non-profit organizations and for the United States Government and all local governments. It should cover military as well as civilian Government employees.

(3) Chronic and permanent physical inability to earn a living should be recognized to be at least as serious socially as retirement or death.

(4) That no increase in the size of benefits should be made until we have had sufficient experience in the operation of social benefit legislation to justify the conviction that larger benefits will not be harmful to our economic system. Certainly many additional years are needed for this.

(5) There is no reason to think that we have hit upon the only kinds of benefits that need recognition; additional kinds may be fully justified but they must be modest in amount.



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