

AN APPROACH TO A PHILOSOPHY OF SOCIAL INSURANCE

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Webster defines a philosophy as an integrated and consistent personal attitude toward life or reality, or toward certain phases of it. That is another way of saying that a philosophy is a set of intelligent opinions about a phase of living, based on observation, sound reasoning, and common sense. A philosophy of social insurance consists of a set of intelligent opinions about social insurance—about its purpose, its possibilities, its limitations; about the relative advantages and disadvantages of alternative forms of social insurance; and most important of all, about the relationship of social insurance to our daily life as a whole.

The principles of the Atlantic Charter are here to stay. Any questions about social insurance involve only the method of achieving the highest degree of security for the individual. Individual security is not itself an issue; no advocate of any special method of attaining social security has any monopoly on the desire to improve the welfare of the less fortunate members of society. Our problem is not merely to answer the question, "Is social insurance a good thing to have?", but also to determine the place of social insurance in our daily life. It is not enough to have experts put social insurance under a microscope, to analyze it and discuss it in order to be able to say, "This is good" or "That feature is bad." It is not enough to consider social insurance as though it were something entirely independent and separate from the other aspects of our daily life. The expert's study must be made, and the specific opinions must be formed; but in addition we must also have informed opinions about the relationship of social insurance to the other social and economic and cultural values which together make up our life. A complete philosophy of social insurance includes opinions not only on the absolute merit of specific proposals but on the worth of such proposals compared to other values which we want to have as a part of our daily living.

The people who make up a democracy can exercise their free power of choice. They can have social insurance if they want it. Subject to practical limits, they can have as much or as little of it as they want, but in making the choice they must recognize that no magic of government can give something for nothing. If the American people want a broad program of social insurance they will most assuredly have it, but in deciding how much social insurance they want they must recognize that it may not be a question of having social insurance *in addition* to other things which they want. It may be necessary to make a choice between social insurance and something else

on which they set great store. The question is not, "Is social security a thing worth having," but rather "Do we want social insurance enough to pay the price, or would we rather use our labors to buy something else?"

WHAT IS SOCIAL INSURANCE?

A Committee Report from the American Association for Social Security includes the following statement: "The underlying basis for social security is not a new-fangled theory of governmental pampering of the individual, but part and parcel of the deeply rooted primitive desire for social preservation. The undersigned . . . regard social security not as a system negating free enterprise but, on the contrary, as a prerequisite to the healthy functioning of our existing economy."¹

We are living in a complex economic society in which the direct connection between production and consumption is not always apparent. Man must still labor to produce his food, his shelter, his clothing, and his means of enjoying leisure time. In our modern society few of us work directly to grow our own food or weave the cloth from which our clothes are made—we work at jobs for which we are trained, and we receive payment for that work in the form of money with which we can buy the product of other men's labor. When anything happens to prevent us from working at our jobs, our only sources of money to pay for those things which we need are our own savings or someone else's donations. The savings may be in the form of accumulated capital or they may take the form of payments under a plan of insurance; and the contributions are either direct charity or governmental relief.

The most common causes of loss of income are disability, old age, unemployment, and in the case of those unable or unaccustomed to work outside the home, the loss of the income producer upon whom they are dependent. Our society has developed the device of insurance whereby numbers of people facing a given hazard share among themselves the agreed cost of those individuals for whom the hazard materializes. To an individual, cost is measured in terms of dollars and cents, but for a nation real cost is measured in terms of its standard of living—its hours of work, its hours of leisure, and the material and intangible values which determine the level of life. The cost of the social hazard arises out of the loss of the productive capacity of those who are unable to work, and from the necessity of providing them and their dependents with the elements of decent living, plus an intangible element of cost resulting from the adverse effect on the morale of the unproductive individuals who are forced to rely on relief or charity. Voluntary insurance methods have been established for distributing the social

¹ "Can We Stop a Post-War Depression Now? Social Security in Wartime and After." American Association for Social Security, New York, 1942.

costs resulting from the disability or death of the income producer—and life insurance and disability insurance have firmly established themselves in our society. Insurance, however, requires setting aside current income against current and future contingencies rather than for present enjoyment. Our salesmen of automobiles and radios have been so efficient and our credit facilities so easily available that many people spend their entire income for current enjoyment and fail to make the provision which they can afford to make against the day when the income producer will be too sick or too old to work. The result is that when disability or old age comes the family must look for support to charity or relief, with the corresponding impairment of self-respect and morale which goes hand in hand with dependence on charity.

Disability, unemployment, old age and death will always be with us, together with their accompanying social costs. In order to avoid the discontent and demoralization bred by the omissions and discriminations resulting from haphazard methods of distributing these social costs, compulsory insurance is proposed as a means of budgeting for the costs on a national scale. Social insurance does not necessarily mean free insurance or subsidized insurance. Social insurance is essentially a budgeting device whereby insurance methods are used to enable an entire nation to share the cost of social losses. A social insurance program would compel a minimum level of insurance so that we as individuals would be forced, to the extent of that minimum, to refrain from spending for current enjoyment and to apply the requisite portion of our current income toward meeting our share of the insured hazard, whether it be disability, unemployment, old age or death. If we are compelled to make insurance provision against these hazards, the occurrence of the hazard will not find us destitute and will not force us to apply for relief, save in cases of exceptional need. Income provided by insurance has the advantage that being given as a right it does not produce the relief complex and the impaired morale that goes with providing support in the form of relief. Many advocates of social insurance believe that the federal government itself should undertake to provide and administer this means of national budgeting of the cost of these hazards.

There can be little question that the goal of fair and equitable sharing of the cost of these social hazards is a desirable thing. The questions which arise in connection with social insurance do not concern the goal, but the methods proposed for reaching that goal; whether those methods will in the long run actually produce the desired result, how much they will cost us, and to what extent the probable attainment may be worth the price which must be paid.

Social insurance is distinguished from private insurance by the part which government plays. In private insurance the role of government is limited

to general regulation and supervision, to protect the public against possible abuses and to guard the financial stability of the insurance company. Insurance against these hazards becomes social insurance when the government's role is extended beyond the regulatory function, either by making the purchase of insurance compulsory on certain classes of citizens or by actually underwriting and assuming the risk, or both. Actual assumption of the risk by government is not a necessary characteristic of social insurance. Workmen's compensation insurance, for example, is written in this country primarily by private companies, but it is social insurance because most employers are effectively compelled to arrange the insurance for the benefit of their employes. Any form of insurance against these social hazards becomes social insurance when it is accompanied either by compulsion or by government administration.

Use of the term "social insurance" does not deny the broad social value of the other insurances with which the word "social" is not used, nor does it question the usefulness of voluntary private insurance in distributing the social cost of hazards threatening the economic security of individuals. The word "social" is used in recognition of the part which society, through organized government, plays either in compelling its citizens to make use of the insurance facilities, or in providing those facilities itself.

The most widely known social insurance in this country is that established by the Social Security Act and covering, in the main, only the employes of non-municipal, non-charity, non-agricultural establishments. Agricultural workers, employes of municipal and charitable corporations, self-employed people and unemployed people are not covered. The Old Age and Survivors Insurance section of the present Social Security program provides in effect that those to whom it applies must contribute toward old age annuities underwritten by the federal government. Provision is also made for benefits to widowed mothers and dependent children, and to certain other dependent types of individuals. The Unemployment Compensation section of the program promotes a form of compulsory unemployment insurance underwritten by state governments.

Many advocates of social insurance propose that unemployment insurance be transferred completely to the federal government and that the Social Security program be enlarged to provide federally administered compulsory insurance against long-term disability, against the costs of hospitalization and medical care, and even against occupational injury, thereby replacing workmen's compensation insurance as we now know it. They also propose that the number of people compelled to buy such insurance be increased to include a far greater proportion of the population than is affected by the present law.

The premium for this insurance would be paid in the form of taxes which

might be equal to 15% or 20% or more of the individual's income. Any program so comprehensive and costly, and so full of forces which can make the most tremendous and far-reaching changes in our every day living conditions, puts on its sponsors a responsibility too great to be borne unless the program has the intelligent support and critical understanding of our entire people. Proposed methods of administering the program may be more costly than an alternative method of providing the same benefits. The cost of the entire program may be greater than our people are willing to bear, or even able to bear, if the administrative methods are not efficient. Every citizen has the responsibility of constructive criticism to help define the goal and of honest thought and advice as to how extensive a program we want to pay for. Our leaders have a responsibility to advise us honestly and fully so that as a nation we may better understand the decisions which we must make and what the results of our decisions may be.

The fundamental issue in considering the adoption of social insurance methods for any social hazard is whether insurance against that hazard should be compulsory up to some level or whether we should rely entirely upon voluntary insurance, supplemented by charity and relief, to distribute the cost of providing incomes to the victims of the hazard. A second issue is whether the conduct of the insurance is a proper matter for government administration or whether it should be handled by private enterprise. A third question involves jurisdiction; that it, if the answers to the first questions indicate a desire for social insurance, how should the responsibility for the program be divided between the federal government and the state governments. The answers to these questions may be different for various social hazards.

THE ISSUE OF COMPULSION

The issue of compulsion requires consideration of the extent of the social need, of the availability of effective methods of meeting the need, and of the relative cost of alternative methods. There can be little doubt that if we can find effective methods of obtaining the advantages of social budgeting of the cost of an expensive hazard, those advantages are worth paying a fair price. Only if the price is too great in terms of reduced living standards or impaired freedom would we hold back from a reasonable attempt to obtain those advantages.

Life insurance, annuities, disability and hospitalization insurance, all on a voluntary basis, have a recognized place in our economy. Group insurance reaches a very large number of our employed citizens, and it has been suggested that it is a short and logical step from group insurance to social insurance. In a very real sense social insurance is simply compulsory group insurance. There is no area of need, however, in which compulsion would

initiate the purpose to provide support for those in want. The purpose is already firmly established. Those income producers who have not made voluntary provision for need must rely on charity or relief when a social hazard strikes, but these sources of support already exist. Compulsion would not create support; the effect of compulsion would be simply to require the use of insurance methods so that the support is provided as a contractual right rather than by charity. There can be no doubt that there is more mental and emotional satisfaction in receiving a check for insurance benefits than in receiving a relief payment of the same amount. For that very reason, however, benefits provided by insurance as a guaranteed right will result in greater social cost than relief benefits, even though the average payment might be identical. Every increase in the level at which society supports its currently unproductive members requires a corresponding contribution from its productive members, and every such increase alters the balance between the incentive to continue working and the temptation to fall back on the benefits which society will provide. If the receipt of benefits is not attractive there will be greater incentive to avoid the condition which qualifies for benefits; but when a not-unattractive benefit is given as a right there is less incentive to continue working. This is an important reason why budgeting of social costs by insurance methods is more expensive than relief in terms of the proportion of the national wealth required to support the social loss.

Advocates of social insurance have urged that if there is only a small proportion of cost to which insurance methods are not already applied, it will make little difference if the insurance is made compulsory, but that if there is a great area of cost to which insurance methods have not been applied, then we need compulsory insurance. If for any hazard voluntary insurance were actually doing most of the cost distribution, then we would have already paid most of the price of introducing insurance methods, and making those methods compulsory would add little in terms of cost—provided that the methods which were made compulsory were efficient and would not themselves bring a further increase in cost. On the other hand, if there is a substantial part of the social cost to which insurance methods have not been applied—and such is quite generally the case—then we must consider not only whether the proposed compulsory methods would be efficient, but also to what extent the mere extension of efficient insurance methods would increase the cost of the hazard. It is a job for experts to estimate the cost of applying compulsory methods to these risks; and it is the obligation of our national leaders neither to overstate the need for the insurance nor to underestimate the cost, but to tell the nation candidly and to the best of their ability the actual facts upon which the decisions must be made. History will deal most kindly with the leader who takes us into

his confidence and guides us down the paths of truth; and our people will not deal kindly with leaders who attempt to persuade us with unsound and over-optimistic appraisals of cost and who refuse to face publicly the possibility of higher cost.

If we decide that we want to pay the price of compulsion we must still make sure that we can feasibly follow through with enforcement. The payment of benefits presumes, first, the establishment of a right to the benefits, and second, the payment, somehow, by someone, of the cost of the benefits. Under some assumptions the establishment of the right to receive the benefits may not be difficult whatever the status of the individual. The payment of the cost, however, presumes either a premium or a tax; and before any right to benefits is established we must be sure that the premium or tax can be collected. Our experience with compulsory insurance has been limited almost entirely to the people from whom the premium or tax can be collected most easily and efficiently by withholding at the source through the use of the formal payroll accounting facilities of employers. The machinery for collecting premiums is relatively simple under these circumstances. Any broad extension of coverage to other groups in the population could not use this collection device. The collection of a premium from every household worker and from every farm laborer, from every doctor, every lawyer and every independent salesman—from all persons whose income is not subject to payroll accounting—would require more costly and elaborate methods of collection and enforcement; and before the entire population could be covered the point might be reached where every additional dollar of tax collected would cost more than a dollar to collect. If this problem can be solved, compulsion can be effective, but unless the problem is solved we must face the possibility that such social insurance as the nation may choose cannot be made available to everyone.

THE ISSUE OF ADMINISTRATION

Any estimate of the added cost of social insurance must be based upon stated assumptions as to methods, and the cost of similar benefits may be quite different depending on whether the insurance is administered by government or by private enterprise. Some advocates of government administration have argued that government does not require a profit, and so can provide the insurance more cheaply; and at the Havana Conference² the opinion was voiced that social insurance should not be administered by profit-making insurance organizations. The existing Social Security legis-

² Second Labor Conference of the American States which are Members of the International Labor Organizations. Havana, Cuba. December, 1939.

lation relies on government administration of the benefits which it established, and the recent proposals for extension of Social Security have assumed government administration.³

When should any government extend its activities into the actual administration and conduct of any function? To most Americans it seems that two conditions must exist before any such extension can be justified. First, the function must be considered to be essential to the general welfare; and second, it should be established beyond reasonable doubt that it is not in the public interest to restrict the conduct of the function to private enterprise. If both tests are not recognized in every case then there is no barrier to the government's entering any necessary phase of human economy in competition with private individuals—or to their complete exclusion. Unless both conditions are satisfied in connection with any hazard for which a governmental program of insurance is proposed, then the government can with equal reason enter, or even monopolize, the fields of dairy farming or automobile repair service, or of grocery stores or of labor union management. Unless both conditions are satisfied, the assumption by government of the administration of any insurance becomes socialism and should be entered upon only after full national understanding of that fact, and only if it is the will of the American people that our way of life hereafter include the philosophy of socialism.

Proposals for government's entry into any field may presume originally a very low level of government participation, above which the field would be restricted to private enterprise. This process might prove to be akin to the coming of inflation or the creation of a drunkard. A small inflationary shot, or a first drink, may make the subject feel better without doing noticeable harm—and so with the second and the third. Inflation and alcoholism come when "just one more" so impairs the subject's control that the barriers are lowered and the harmful aspects become acute. The insidious gradual onslaught may be called the "disease" of inflation or of alcoholism; and similarly "just a little socialism" can develop unexpectedly the disease of socialism.

One of the major issues of post-war reconstruction will be whether, for a people capable of self-government, the highest degree of human welfare can best be obtained under socialism or by the operation of enlightened self-interest in a society which allows reasonable scope to private enterprise. A recent publication of the International Labor Office⁴ set forth a broad statement of social insurance policy as a part of a program of economic

³ For example, the so-called Eliot Bill, HR 7534, introduced September 9, 1942; see also "Formulating a Disability Insurance Program," A. J. Altmeyer, published by the Inter-American Committee to Promote Social Security, Montreal, January, 1942.

⁴ "Approaches to Social Security," Studies and Reports, Series M (Social Insurance), No. 18, International Labor Office, Montreal, 1942, p. 93.

adjustments aimed to stabilize employment and raise living standards, with the clear implication that the entire program is a responsibility of government. There can be no serious doubt that the promotion of employment, industry, living standards, and so on, is a general goal greatly to be desired. There is serious question, however, of the extent to which direct action by government is either desirable or effective in attaining this goal. Attainment of the ideals suggested by the statement in the pamphlet depends on a program of planning by government, which in turn requires a general surrender of economic freedom and private initiative—for planning is not effective unless the plans are carried out, and state planning can be carried out only if individual freedom of economic action is surrendered in favor of compulsory application of the government's plans.

Our recent high standard of living, and our hope for future higher standards, depend on efficient development and organization of economic endeavor—for only by efficient organization of commerce and industry can we use our natural and human resources to create a high volume of economic values within working periods short enough to leave time for the enjoyment of these values. Less efficient organization would mean either the production of a smaller volume of economic values in the same working time, or else longer hours to produce the same volume—if, indeed, the same high volume can be produced at all with less efficient organization. Either way, living standards are lower; for in the one case there are fewer things to enjoy, and in the other case there is less time left for enjoyment. During the war, and for some time thereafter, we will have a problem to find working-time enough to do the job which must be done—for we have a war to be won and thereafter a peace to be implemented. We have a big stake, therefore, both in the long run and in the short run, in keeping our economy at a high peak of efficiency. The wealthiest man on earth, if he labors sixteen hours a day, does not find in life as much pleasure and reward as a much poorer man with time to enjoy what he has.

Any action which decreases the efficiency of our economic organization automatically lowers the level of the living standard which our economy is capable of maintaining. It does not necessarily follow that every reduction of efficiency is undesirable; for if the economic status of a significant group of our population can be made respectable, or even bearable, only by some sacrifice of the general level, we may prefer to make that sacrifice. To that extent social insurance may itself be a part of the living standard. There is no value, however, in making such a sacrifice if an alternative procedure would improve the status of the less fortunate members at a lower cost in terms of the living standard of the people as a whole; and it would be unfortunate indeed if the desire to eliminate social insecurity led us to adopt measures which so impaired the efficiency of our economy that we

could not longer afford even the systems of charity and relief which today are criticised as inadequate.

Agencies of democratic governments have not been and cannot be truly efficient, if only because there is no way to compel them to be efficient. Unless we are to have a dictatorship we must have "a government of laws and not of men." A government of laws is necessarily relatively inflexible. Routine and red tape take the place of individual judgment, but the organization of an economy will always produce situations which require judgment and not treatment by rule. Even after making every allowance for the difficulties of improvization, our current experiences with wartime rationing and regulation show the extent to which government is forced to sacrifice efficiency to rule and routine—and necessarily so, for absence of rule and routine would open the door to political pressure and abuse of position. Furthermore, however well conceived a program may be, capable administrators are vital to its actual operation. Government has not shown itself capable of attracting and holding such men in sufficient numbers; and often political expediency or jealousy has shackled the abilities of able men who have entered government service. Too often the bureaucrat's primary interest comes to be the nurturing of his own job. To say that government agencies cannot create an economic value as cheaply and efficiently as private enterprise is not a criticism of democratic government, but rather is a recognition of a necessary characteristic of such governments which must be considered in weighing any proposal to extend their functions.

Private industry, on the other hand, must be relatively efficient, for an inefficient concern cannot long exist in the same market with much more highly efficient competitors. Recognition of the profit motive is not protection of special privilege for the selfish benefit of a favored few. With proper safeguards, the profit motive⁵ can be an irresistible and socially valuable force to compel a high practical degree of efficiency, which in turn will produce a higher standard of living than could otherwise be possible. The highest values of democracy are attained not by forcing people to act but by recognizing natural incentives so far as possible in such manner that the desired result is obtained by voluntary action. If the welfare of the people is the real aim of government we should allow proper scope to the constructive forces at our disposal and not let any misunderstanding cause us to deny to ourselves the advantages which sound and proper recognition of the profit motive can bring to us. No misunderstanding should be allowed

⁵ "Profit," properly defined and understood, is not a residual income made possible by exploiting other agents of production, but is itself an essential cost of production representing primarily the wages of efficient management. The phrase "profit motive" reflects the beneficial effects of such a reward in stimulating the development and maintenance of an efficient economy and full production, which alone can make possible the highest standard of living and the fullest degree of employment.

to be the cause of instituting a degree of control under which the benefits would be outweighed by impaired efficiency and lowered capacity to support our standard of living.

It is true that so long as human nature is what it is the profit motive can result in abuse of economic power and in injury to the rights of others. The system of private enterprise necessarily places a high degree of economic power in the hands of those responsible for organizing and managing industry, and there can be no denial that there have been flagrant cases of abuse of that power. It is a proper responsibility of government to exercise whatever degree of regulation is necessary to curb the abuse which might accompany untrammelled economic freedom. It is also, however, a responsibility of government to serve as an impartial arbiter between the major forces of production. The resolution of the Havana Conference reflecting against the profit motive, and the economic philosophy of the International Labor Organization, seem to be strong evidence of a compelling need for better understanding between labor and management in general, and as such they represent a challenge and an opportunity not only to management but also to our political leaders. If we can avoid misunderstanding and mistrust between labor and management we can rely on the natural desires of each to act as positive incentive toward the creation of the highest possible standard of living, but if we stifle natural incentive the result may be a standard of living so much reduced that the reasonable support of currently unproductive members of society becomes an impossible luxury rather than an accepted fact. It would be naive to assume that the profit motive, alone and unregulated, could be capable both of creating values and distributing them equitably, but it is even more naive to assume that, because a minimum of government regulation is necessary to assure full recognition of social and moral responsibilities, a maximum of government action would be more effective than private enterprise in providing everyone with the highest possible standard of living.

It has been suggested that mutual insurance companies are not subject to the profit motive and that the efficient job which has been done by such companies weakens the argument that the profit motive is necessary as a disciplining force to attain a high degree of efficiency. In actual practice the ownership and control of mutual companies by policyholders rather than by stockholders does not mean that the management of such companies is free from the discipline established by the profit motive. Mutual companies compete directly on the insurance market with stock companies which are unquestionably subject to the profit motive. The buyer of insurance wants value for his money, and inability to compete with the more efficient companies would force an unreasonably inefficient mutual company out of the market just as quickly as any other company operating at too high cost.

The necessity of meeting competition forces efficiency on the management of mutuals just as it does on the management of stock companies, and this result of competition is but one expression of the socially sound operation of the profit system.

The conditions for justification of government operation can be tested against an actual example of social insurance administered by private companies—workmen's compensation insurance, which is this country's oldest major form of social insurance. Legislation effectively compelling employers to provide insurance against occupational injury has been in force for over thirty years, and throughout that period most of the insurance has been underwritten by private companies, although there are also a small number of state insurance funds.

In applying the tests for justification of government operation there can be little question that for insurance against occupational injury the first condition exists—that it be considered essential to the general welfare. Before the days of workmen's compensation insurance the economic responsibility for occupational injuries was governed by the legal rules of negligence. These rules proved inadequate in distributing the social cost of industrial accidents, and it came gradually to be accepted that in most cases of occupational injury there is a significant degree of unquestioned social obligation to the injured employe. That obligation seems to justify legislation fixing arbitrary amounts of compensation for specific injuries and holding the employer responsible for arranging to provide such compensation. With some exceptions, workmen's compensation legislation has been considered a function of state government, and the risk has with few exceptions been underwritten by private insurance companies.

The second test for government operation—that restriction of the function to private companies be either inadequate or against public interest—should not be difficult to apply to workmen's compensation insurance with its long history of administration by private companies. During those years private companies have conducted workmen's compensation insurance efficiently and well, and it would be hard to justify a charge that such operation has been either inadequate or against public interest. There have been charges, made by some advocates of federal insurance, that the companies have centered too much attention on the mechanical aspects of administration and have failed to appreciate the social viewpoint and the social insurance background without which workmen's compensation cannot realize its highest possibilities. This is no proper indictment of private insurance. The immediate concern of the companies is to underwrite and administer the insurance as efficiently as possible, and they are peculiarly well equipped to do this job because of the discipline which the profit motive holds over them. The responsibility for implementing the social viewpoint lies directly

with the policy makers rather than with the administrators—with the government which enacted the legislation defining the risk rather than with the companies which have carried out the economic and accounting distribution of the cost of the risk.

There is a place and a responsibility for both parties. Private enterprise is especially fitted to create economic values and to administer economic services, but it is not as well equipped to define social aims and to police the maintenance of social responsibility. Government, on the other hand, is organized for the particular purpose of policing social responsibilities, but cannot be expected to administer economic functions with as great efficiency as private enterprise. In carrying out any program, government and private industry should each be charged with responsibility for those functions which each is best fitted to perform. If government has not been fully successful in implementing the social viewpoint in the private administration of workmen's compensation insurance, the solution is to be found not in removing from private enterprise the function which it can perform best, but rather in reawakening government to the responsibility which it may have failed to recognize.

Disability insurance provides an extreme example of the difference which may exist between government operation and private operation. Disability insurance—especially insurance against long-term disability—is subject to an extremely high moral hazard. There is not, in practice, any definite line between disability and good health such as there is between life and death. Disability benefits are paid not for an absolute, unquestioned condition, but for whatever condition the claimant is successful in calling disability. For this reason disability claim experience, in practice, is in very large measure a function of the methods of administration. An efficient organization can keep the moral hazard under reasonable control, but every relaxation of efficiency results in the payment of socially unjustified claims. A sound social viewpoint will not allow avoidance of proper claims, but only a highly efficient organization can avoid payment for a very large amount of alleged disability for which the social justification is, at best, doubtful.

For private insurance companies the profit motive, properly safeguarded, can provide the discipline necessary to sustain the socially desirable and practically essential degree of efficiency, but no democratic government can be expected to sustain that degree of efficiency. Government operation could easily lead to a cost of disability tremendously greater than might be expected. A level of benefits so low as to be quite inadequate in meeting the social need might be administered by a government agency without developing too highly exorbitant disability claim experience, but a program with benefits high enough to provide even a minimum floor of protection would—in the opinion of men familiar with disability insurance—be far

more costly over the long run than may seem possible to those without intimate acquaintance with successful disability insurance. Inefficient operation of a private disability insurance company leads to bankruptcy, which is an effective but socially costly way to force the issue. Government, with its taxing power, is not subject to the same conditions of solvency, and the high cost of inefficiency could accumulate until the burden on our national income forced a politically disastrous modification of the program.

Other countries have established government programs providing cash benefits during disability, and this fact has been put forward to support the possibility of government administration of disability benefits in this country. Before accepting this argument we should be sure that the programs of other countries have actually received an adequate testing. We must recognize also that benefits in other countries have quite generally been set at such a very low level that the moral hazard has been relatively less important. And finally, we should consider whether there is a significant difference in the temperament of the people. In a country most of whose citizens are accustomed to view the government as a superior power whose actions are not subject to question the experience might be quite different from that of a country in which the custom of "writing to the Congressman" is firmly established.

The question, therefore, is really not whether disability insurance should be conducted by government or by private enterprise, but whether government can conduct the insurance at all. If men with a background of practical and theoretical experience in disability insurance question seriously the possibility of successful government operation, then the burden is on any supporter of government operation to prove the experts wrong. Any supporter of federal disability insurance who disregards this opinion may literally be trifling with the stability of our government itself. It would be a major tragedy to set up—even with the highest ideals and intentions—a program designed to improve the welfare of our people and have that program actually produce precisely the opposite result.

The risk of unemployment, on the other hand, is tied rather directly to the business cycle and there is no known method—actuarial or otherwise—of predicting with sufficient accuracy what the expected losses would be under any employment insurance policy. It would be impossible to administer this insurance without the power to compel the payment of premiums, amounting in effect to the taxing power of government. This fact makes unemployment an uninsurable risk except on a compulsory basis, and there has been no unemployment insurance in private companies. The Social Security program of government insurance was the first attempt in this country to apply insurance principles to this risk.⁶ It is now, therefore,

⁶ Wisconsin and New York had state programs which were incorporated into the Social Security program.

a matter of only academic interest whether private insurance or public insurance against this risk would be more effective; and except for the jurisdictional question discussed below, most of the problems in this field involve technical aspects which are the province of experts.

Although direct medical care was not a part of the Eliot bill and has not been mentioned in connection with specific current proposals of members of the Social Security Board, this country has seen serious proposals for the establishment of nationalized systems of medical care, and the cost of medical care has been one of the subjects to which proponents of social insurance would apply compulsory national budgeting. Compulsory insurance of the cost of medical care would require some method of guaranteeing that the services of a competent physician be available in every case of need, and some method of guaranteeing to the physician an adequate compensation for his services. The suggestions have involved the creation of what has come to be known as "socialized medicine." Medical authorities have severely criticised proposals for socialized medicine on the ground that it would interfere with medical progress and that it would cause actual deterioration of the quality of medical care. That criticism must receive serious consideration, although it is not the part of this paper to discuss the pros and cons of socialized medicine. It is part of the purpose of this paper, however, to point out that the substitution of compulsory insurance and other methods of providing medical care will result in an increase in the total cost. Medical care for sickness has been subject to such a high degree of moral hazard that attempts of private companies to provide insurance protection against the risk have almost universally failed because of excessive claim cost. Conceivably this moral hazard could be curbed by a high degree of government control and regulation of medical practice. There remains, however, the serious question whether such control is desirable—the question of the effect of such control on the quality of medical care, and whether even such control could prevent a very substantial increase in the social cost. A decision on any proposal for government control of medicine requires recognition of the certainty of increased cost, and should be based on consideration of whether the disadvantages and cost are too high a price to pay for the benefits to be gained.

THE ISSUE OF JURISDICTION

In the social insurances which we already have there are several different ways of distributing the jurisdiction between the state and federal governments. Workmen's compensation insurance has so far been considered to be entirely within state jurisdiction, with the exception of certain inter-state

and maritime risks governed by federal law. Jurisdiction over Old Age and Survivors Insurance is assumed entirely by the federal government. Unemployment Compensation is provided by state laws enacted under the incentive of a federal statute.

The major argument for federal jurisdiction is that unified responsibility gives us the best chance of developing sound and effective progress. The history of workmen's compensation legislation indicates that wholly independent state plans result in low and irregular development of the possibilities which might make social insurance a valuable instrument. If we are to make the most of the possibilities inherent in social insurance, it seems clear that there must be uniform direction. Social insurance is most easily conceived as a long-range national plan, and the budgeting possibilities can most effectively be realized if it is national in scope.

One of the most impelling reasons for conceiving a plan on a national basis results from the high degree of mobility of labor. If there are forty-nine different independent social security systems, each stopping at state boundaries, John Doe may be fully qualified for benefits in New York where he has been living and working for several years, but upon moving from New York to work in the California shipyards he may have to sacrifice his eligibility for New York benefits without acquiring immediately a similar insurance status in California. The problem of mobility would presumably be very much less in peacetime than today, but at any time a system which penalized reasonable mobility of labor would be unfortunate.

In spite of these arguments for federal jurisdiction there is question whether in actual practice complete centralization would produce the highest attainment of social insurance values. The organization of social insurance under federal jurisdiction *could* be more simple than under state jurisdiction, but it does not necessarily follow that it *would* be so in the long run. Centralization of responsibility and authority means concentration of power, with its long run danger to political stability. The question of federalization hangs directly on the broad issue of state's rights. That issue is too big to allow a serious effort to discuss it here, but probably the strongest argument against complete centralization was stated by President Roosevelt when he said, "We have created powers which in other hands would be dangerous." All history shows that eventually power does change hands, and concentration of power is itself an attraction to men who may abuse that power.

In the short run federal jurisdiction could get results and get them quickly. Social insurance, however, must be conceived in terms of the long run, not of the short run. It would be a tragedy if impatience for quick results produced a situation which in the long run would develop a serious threat to the permanence of the system itself. The major argument for undivided federal jurisdiction is the efficiency which theoretically could be obtained

in that way. Efficiency is also—in theory⁷—one of the attributes of Hitler's government. Sincere advocates of states' rights are not merely jealous of the position and the authority of state governments, but honestly fear the political dangers of too great concentration of power. The dangers are matters of opinion, not subject to definite proof, but they cannot be dismissed lightly. It is not a question merely of safeguarding the rights of the states, but of choosing the best possible means of safeguarding the permanence of our democratic hopes and plans. We who prefer democracy have long recognized that the highest values of democracy can be obtained only by the sacrifice of some measure of political efficiency.

Social insurance, viewed in its broadest aspects, includes not only the budgeting of certain social costs but also measures to keep those costs at a minimum. Prevention and rehabilitation are important aspects of a broad program of social insurance. These aspects have their greatest opportunity in education to help forestall industrial accidents, in public health measures to reduce the chances of becoming disabled, in the direction of job placement for the unemployed, and in the vocational training and rehabilitation of the disabled. There are unquestioned social benefits to be gained if these functions can be performed effectively without offsetting disadvantages. It is possible that this type of activity, if effectively organized, might actually reduce social costs by a greater amount than the cost of the activities themselves. These possible benefits, however, are not in themselves arguments for either complete federal jurisdiction or federal administration of the insurance aspects of a social program. It should be possible to co-ordinate as broad a program as the American people want to afford, utilizing for each phase of the program the functions which federal government, state government and private enterprise are each best fitted to perform, and obtaining a reasonable and practically effective balance which sacrifices some of the possible short-run effectiveness of federal jurisdiction in exchange for a greater prospect of enduring success.

SUMMARY AND CONCLUSION

This paper constitutes a plea to study thoroughly the cost of social insurance proposals as well as their benefits, to consider such proposals against the background of the whole pattern of the way of life we want for America and for the world, and to use the best means at our disposal in our efforts

⁷ *Theory* should properly be a clear statement of what is possible in practice. If it is so understood, the word "theory" is misused here. All too often, however, "theorists" overlook certain very real aspects or deficiencies of human nature or morale, so that their "theories" fall short of being statements of what actually is possible in practice. This second meaning—less desirable but more commonly recognized—is behind the usage here. The distinction between the two usages is the distinction between "sound theory" and "unsound theory."

to attain the highest welfare and the greatest degree of security for all people. The paper is written not for the expert but rather for the man who is forming his opinions about the place which social insurance is to have in our way of living. It discusses the background of the three broad questions: "Should insurance methods be made compulsory as a means of distributing the social cost of disability, hospitalization and medical care?", "If so, should government or private enterprise be the insurer?", and "What is the relative place of federal and state governments in a social insurance program?"

In discussing the first of these questions the paper asks for an honest estimate of the cost of substituting insurance methods for relief methods of sharing the cost of social hazards, so that we may make the decision with full recognition of what is involved. The discussion of the second question sets forth the authors' opinions that we cannot attain the highest welfare and the greatest degree of security for all except by using the most efficient tools available to us, and that private enterprise has possibilities of efficiency which government can never be expected to approach. The discussion includes an appeal for better understanding between representatives of management and labor, and of government, so that no misunderstanding or mistrust may prevent our taking full advantage of the powerful incentive to efficient operation which the profit motive—properly regulated—supplies for private enterprise. The paper questions whether disability insurance, with its high moral hazard, can be successfully underwritten by any government agency because of the lack of any powerful disciplinary force such as the profit motive. It would be a major tragedy to set up—even with the highest ideals and intentions—a program designed to improve the welfare of our people and have that program actually produce precisely the opposite result.

In the issue of state versus federal jurisdiction the major argument for centralized federal administration is that unified responsibility gives us the best chance of developing sound and effective progress. In spite of the arguments for federal jurisdiction, however, there is question whether in actual practice complete centralization would produce the highest attainment of social insurance values. Centralization of responsibility and authority means concentration of power, with its long-run danger to political stability. It would be a tragedy if impatience for quick results produced a situation which in the long run would develop a serious threat to the permanence of the system itself. We who prefer democracy have long recognized that the highest values of a democracy can be obtained only by the sacrifice of some measure of theoretical efficiency. It should be within the scope of our ingenuity to devise an effective way of having the advantages of federal leadership in conceiving a national plan without having to embrace at the same time the long-run dangers of too great concentration of power.

The principles of the Atlantic Charter are here to stay. Any questions

about social insurance involve only the method of achieving the highest degree of security for the individual. Individual security is not itself an issue; no advocate of any special method of attaining social security has any monopoly on the desire to improve the welfare of the less fortunate members of society. Our problem is not merely to answer the question, "Is social insurance a good thing to have?", but also to determine the place of social insurance in our daily life. A complete philosophy of social insurance includes opinions not only on the absolute merit of specific proposals but on the worth of such proposals compared to other values which we want to have as a part of our daily living.

Social insurance, despite its unquestioned values, is not an economic cure-all but is only one possible device available to us in our striving for the highest standard of living for all. We must decide on the place which it will have in relationship to other valuable factors; and we must not expect any program of social insurance to do a job beyond its powers. For example, the fullest employment of our people and the most efficient development of resources cannot be attained without a free and full world trade; and a broad social insurance program without a substantial world trade may leave us actually farther from the goal of individual security than a less ambitious social insurance program combined with emphasis on the full development of world trade. We must evaluate both the benefits and the cost of each separate factor in its relationship to the whole before we can make an intelligent decision on any one factor alone.

In striving for the highest welfare and the greatest security for all people, the most important consideration is full and efficient employment—for if the factors of production are efficiently and fully employed, the costs of social hazards will be low and our ability to bear the costs will be high, but every decrease in full, efficient employment decreases our ability to bear the costs at the same time that it increases the costs themselves. Our first concern, therefore, is to create conditions in which employment and productivity can have the best chance of attaining and sustaining the high level which will permit us to afford not only a reasonable social insurance program but also the multitude of other desirable values which only an efficient economy can give us. If the limits of our current productivity and resources make it necessary to choose between an immediate extension of social insurance and an immediate investment in economic reconstruction or in the development of world trade, the welfare of all people will be best served in the long run if we choose first to improve our possibilities of productivity and employment.

Social insurance, like every other valuable commodity, is costly. The complete program of benefits envisioned by the Social Security Board might cost as much as six or eight extra hours of work every week—and more if

their cost estimates are not conservative. The amount which we must pay depends on the amount and kinds of social insurance which we adopt, and on the methods we set up to administer the benefits, and we must recognize that whatever social insurance we decide upon, we must be willing to work these extra hours to pay for it. The major question, therefore, is not whether social insurance is desirable. There can be no denial that social insurance—properly defined and effectively organized—can be intrinsically a valuable addition to social organization. The real question is whether—after honest consideration of the cost and of the relationship to our social and economic structure as a whole—we want social insurance enough to pay for it, and if so how much of it we are willing and able to pay for.

When this war is over the country will have a national debt many times greater than ever before. Whether this debt is to be paid off, or whether—as some economists say—it should be carried without repayment, we will still have at least the interest payments to recognize in our national budgeting. The interest burden alone will require, in effect, that every one of us work several hours more each week. When this war is over the American people will have to decide on their relationship to the other peoples of the world. If we accept the responsibilities of political and economic leadership which will be thrust upon us, the investment in reconstruction and in the establishing of world trade will require extra hours of work each week. It will require extra hours of work to pay for any agricultural program, and for any soil conservation program, and for any flood control program which the people may want. After the war there will be new opportunities for improvement of housing and of transportation—new and better airplanes and automobiles, radios and household comforts—new possibilities for increasing the enjoyment of our leisure time. All of these things must be paid for in terms of working hours if we are to realize the possibilities. We can have them if we want them, but if we are to have any major part of them we must give up, at least for the time being, any thought of a thirty or forty hour work week. The more of these things we want the more of our time must be devoted to working for them and the less of our time will be left for the leisurely enjoyment of them.

The American people must decide in effect how many hours a day they are willing to work, and must buy only those things which that amount of time can pay for. We as a people must recognize that we can have social insurance if we want it, and as much social insurance as we want, but we must first ask ourselves how many of all the valuable choices offered to us we can afford to have, and how much of each. After considering both value and cost, we must decide which of those things we consider most desirable, and if we cannot afford them all we must decide which to buy now and which to forego until we can afford them; just as a family may have to

decide between buying a radio and driving the old car a while longer, or buying a new car and postponing the purchase of the radio. Our leaders must help us to make realistic appraisals of the cost as well as the benefits, so that we may never find ourselves as a nation in the position of a family which bought a new house and a new car and a new radio—all on the installment plan—only to end up poorer than before because the family income was not enough to keep up the payments.

And having decided what we want, we must use the best means at our disposal for production and administration. We want the best that we can get, and as much as we can afford. Our highest hopes can be realized only if we recognize the limits to what we can afford *currently*, and then administer our current program in the most efficient way; for only by today's efficiency can we prepare tomorrow's plenty. If our goal is really the highest degree of economic welfare and social security for all people, social insurance must be recognized as being subordinate to the maintenance of an economy of full employment and efficient production. A man wants a job first. Social insurance itself is not a short cut to social security and must not be allowed to interfere with the conditions which will best bring about true economic and social security. And finally, whatever social insurance we may adopt should make use of the most efficient administrative methods which can be found.

If the American people, under able leadership, consider and decide these problems as a whole and in a way which over the long run will produce the best good for all people, we shall have fulfilled the promise and the responsibility of a democratic nation.