THE SOCIAL SECURITY ACT OF 1935 AND THE GREAT DEPRESSION: A RETROSPECTIVE

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ABSTRACT

The conditions in the 1930s surrounding the consideration and passage of the Social Security Act have been invoked in the debate and discussion of the current health care legislation. We take a historical look at the passage of Social Security including economic and political arguments and make comparisons with the current situation.

INTRODUCTION

A major political and economic issue at the present time is the passing of a major piece of social legislation—health care—in the middle of a major recession. This attempt is often compared to the passage of Social Security legislation during the great depression of the 1930s. This paper will provide a retrospective on the Social Security Act of 1935 in relation to society and the economy with the objective of providing some insight into the present situation. We shall attempt to discover if there was adequate justification for the passing of H.R. 7260. This will not be an attempt to justify the act in terms of present day knowledge and experience, but in terms of what the people at the time of the drafting of the bill knew and had experienced. Today, as in the 1930s with Social Security, the arguments for and against the passage of the health care legislation largely depend upon forecasts and conjecture. With a hind sight of seventy-five years with Social Security, perhaps we can provide some insight into the current debate.

We shall look at the context in which Social Security was enacted, and its effect once it became law. The context consists primarily of the years of Franklin Roosevelt's first term. It will include a look at the then prevailing economic conditions in terms of the relevant indicators. The economic aspect will be a presentation of the views of the writers of the time on the effects of the Social Security Act as a stabilizing device, and, the effect of the reserve funds on the economy with some comments by post-war writers.

It must be remembered in reading this paper that the writers referred to are writing in the pre-war period before national income analysis gained much of the sophistication it claims to have today. Some of the assumptions of the writers were different from those we accept today. But for the purpose of this paper, their assumptions must be accepted, for we wish to examine if they were justified in terms of the current ideas and opinions. The other is to see if the debate over social security legislation can shed some light on the current debate over health care reform.

THE THEN CURRENT ECONOMIC CONDITIONS

This section will be divided into two main parts. The first will be an analysis of the economic conditions in the period from 1929 to 1936 as indicated by various statistics. The second will cover the problem of security at this time as seen by the authors of the times.

Table 1: Selected Economic Indicators, United States, 1929-1936.
(Statistical Abstract, 1940)

	1929	1930	1931	1932
National Income ($) in millions	$82,885	$68,901	$54,310	$40,074
National Income (1929=100)	100.0	81.3	65.5	48.3
Cost of Living Index	100.0	97.5	89.1	80.2
Real National Income	$82,885	$70,668	$60,954	$49,968
Population in thousands	121,526	123,091	124,113	124,974
Production 1935-39=100	110	91	75	58
Employees in thousands	35,563	33,122	29,715	26,222
Per Capita Income ($)	$682	$559.70	$437.50	$320.60
	1933	**1934**	**1935**	**1936**
National Income ($) in millions	$42,430	$50,347	$55,870	$65,165
National Income (1929=100)	51.2	60.7	67.4	78.6
Cost of Living Index	76.2	79.1	81.1	82.1
Real National Income	$55,682	$63,650	$68,890	$79,373
Population in thousands'	125,770	126,626	127,521	128,429
Production 1935-39=100	69	75	87	103
Employees in thousands	26,133	28,402	29,725	31,858
Per Capita Income	$337.30	$397.60	$438.10	$507.40

The Indicators

The purpose of these statistics will be to point out the economic conditions leading from 1929 up to the time of the passage of the Social Security Act. The statistics are taken from several different sources, so may differ in detail. In addition to the statistics found in the sources, some others have been derived from these statistics. The derived statistics in Table 1 are those for real national income and per capita income. These were derived by dividing national income by the cost of living index and population respectively.

In Table 1, the national income figures indicate that the low point was reached in 1932 when it had shrunk more than 50 percent in nominal terms and to about 60 percent of its 1929 level in real terms. By 1935, when the Social Security Act was passed, it had risen to 67.4 percent of its 1929 level in nominal terms and 83.1 percent in real terms. Production hit its low point in 1932, and the number of employees hit bottom in 1933 (showing that then, as now, employment tends to be a lagging indicator). Per capita income also hit a low in 1932. These figures perhaps give some indication of why most of the emergency programs were proposed by the administration in the two years of 1932 and 1933. They also show that as bad as the current recession is perceived to be, its 2.4 decrease (2008-09) in national income is relatively minor compared to the so-called “Great Depression.”

Table 2 contains population, employment and earnings data. As the population figures indicate, population increase slowed considerably from 1930 to 1931. Even after the other indicators showed the economy to be on its way to recovery in 1935, population was slow to begin increasing once more at an increasing rate. The labor force also continued to expand, giving the unemployment figures a slight bias, but since an expanding labor force is a normal condition, it is not a bias that causes the statistics to give a false impression. The unemployment figures reached a high point in 1933 in terms of total unemployment, unemployment as a percentage of the total population, and as a percentage of the labor force. But in 1935, unemployment was still 19.96 percent of the labor force. This indicates that although unemployment was still a major problem and was far above its low point of 1929, it seemed as though the problem was beginning to being corrected. This is in comparison with the present recession when unemployment peaked at just above 10 percent. The same situation can be seen with the average weekly earnings. The low point was reached in 1933, but recovery was under way in 1935 when the Social Security Act was passed.

The figures presented in both tables all seem to point to one thing in relation to the Social Security Act. The low point in the depression was reached before any move was made by the administration to consider such a bill. By the time it was considered, the economy seemed to be on its way to recovery. Thus, in terms of the economic indicators, there was minimal justification for passing the Social Security Bill in 1935, if one assumes it was a measure designed to assist recovery. On the other hand, the fact that the economy was recovering was justification in the minds of some for passing the bill at that time since the country could now afford a major spending initiative.

Looking at all of the figures in relation to each other, however, it seems clear that by 1935, the date of the passage of the Social Security Act, the economy showed signs of being well on its way to recovery. Thus, if the act is considered an emergency recovery program, any justification for its passage on these grounds was not as strong as it would have been two or three years previous to its passage. Strong is, of course, a relative term since there were still nine million unemployed.

Table 2. Selected Economic Indicators, United States, 1929-1936.

	1929	**1930**	**1931**	**1932**
Population (millions)	121.8	123.1	124.0	124.8
Population Increase		1.3	.9	.8
Labor Force (millions)	49.4	50.1	50.7	51.3
Unemployment (millions)	1.5	4.3	8.0	12.1
Unemployment (%)	3.03	8.58	15.77	23.58
Gross Avg. Weekly Earnings	$24.76	$23.00	$20.64	$16.89
	1933	**1934**	**1935**	**1936**
Population in millions	125.6	126.4	127.2	128.1
Population Increase	0.8	0.8	0.8	0.9
Labor Force (millions)	51.8	52.5	53.1	53.7
Unemployment (millions)	12.8	11.3	10.6	9.0
Unemployment (%)	24.71	21.52	19.96	16.75
Gross Avg. Weekly Earnings	$16.65	$18.20	$19.91	$21.56

The question does arise, however, of whether or not the Social Security Act was indeed a program for recovery. As will be seen, most congressmen felt the bill was one of reform, not recovery. Several significant differences can be seen between the Social Security Act and the other programs passed as emergency measures. Most of the other programs consisted of injecting money into the economy, while the initial effect of the Social Security Act was to remove it. Most of the other programs were made effective for a period of two to five years, while the Social Security act was effective for a theoretically infinite period of time.

There are also similarities, however. The unemployment compensation title of the act was designed as an emergency measure to maintain purchasing power in a downswing. The emphasis in the act was on security, although it was more long-run security than short-run. A judgment as to whether or not there was justification for the act on the basis of the context in which it was passed must be reserved until after the next section when the imagined effects of the act on the economy are described.

THE ECONOMICS OF THE SOCIAL SECURITY ACT

This discussion on the economics of the Social Security Act will be divided into two main sections with a shorter third section as a conclusion. The first section will deal with the more general effects of the act on the economy and business cycle. This will include its role in stability and will cover both short-run and long-run effects. The second section will deal with the effect of the reserve fund on the economy. The three areas in which the analysis will be concentrated will be income distribution, inflation and deflation, and investment. The third section will look at the act as a general fiscal tool to be used with other available fiscal tools. It is unfortunate that this important debate on the economic aspects of the act came after its passage. Little consideration was given to these issues while the bill was being drawn up and during debate on the bill. In the wake of the passage of the so-called 'Obamacare', it appears that the political process has changed little since then.

There will also be no attempt to determine the validity of the arguments presented by the proponents of the various viewpoints. There will not be a complete lack of comment, but the arguments will be presented essentially as the authors intended them to be.

Effects On the Business Cycle

This section will be divided into three headings: the role of the act in stability, its short term effects, and its long term effects. Some more recent views of the effect of the act on stability will be presented at the end of the section.

The Role In Stability

George A. Renard, Secretary-Treasurer of the National Association of Purchasing Agents pointed out that the social security legislation would help business conditions by stabilizing employment. Employers would be less anxious to hire many workers when the season is busy, and then lay them off when things are slack. Production would be on more of a long-run, consistent level which would lower cost and thus prices. (NY Times, 1935)

Meriaro, on the other hand, states that a formal social security system is a minor factor in achieving economic stability. His elaboration, however, indicates that he means it should play a minor role. The function of the social security is to provide a minimum standard of living for those who benefit under the system. The maintenance of this level with constant benefits presumes a constant price level. If inflation occurs, however, it is the duty of the politician to increase benefits and maintain real income. Rather than contributing to economic stability, social security is dependent upon it. (Meriam, 1947)
Short and Long Range Effects On Stability

Eleanor L. Dulles claimed that the immediate effect of passage of the act would be a deflationary one. This is because the main influence of the program is through its payroll taxes, which have a greater effect on spending than do more progressive taxes. (Berridge, 1938) The last phrase was left unexplained. To prove that social security and unemployment taxes are deflationary, the critics of the time pointed to the 1937 depression following on the heels of the passage of the act. The Chairman of the Federal Reserve System, Marriner S. Eccles, stated that the 1937 depression was caused in part by the deflationary effects of the withdrawing of consuming power through social security taxation. (Parker, 1942)

According to H. V. Roelse, the accumulation and paying out of unemployment funds would have little if any effect on business fluctuations. Any effect it would have would most likely be in the direction of stability rather than toward accentuation of the business cycle. (Berridge, 1938) As one can see from Table 3, there were definite signs of a down swing in 1938. Eccles claimed this down turn was caused in part by the implementation of the Social Security Act, and Roelse claimed the act should cause the economy to 'be more stable. The elements in this debate will be pursued further.

Table 3.

Selected Economic Indicators Compared with Social Security Contributions
United States, 1936-1939

	1936	**1937**	**1938**	**1939**
National Income ($ millions)	65,165	71,172	63,610	69,378
Nat’l Income (1929=100)	78.6	85.9	76.7	83.7
Production (1935-39=100)	103	113	88	108
Employees (thousands)	31,858	33,768	31,239	32,419
SS Contributions ($millions)	299	950	1,119	1,196

Statistical Abstract of the United States, 1940

Looking to the long-run effects of the act, Dulles said that while the old age benefits would maintain their level in times of deflation, at the same time the taxes for this program decrease. "There is some reason to think it will be a healthy and constructive influence in booms and depressions.” (Berridge, 1938) It might be pointed out here that there are two reserve funds in the Social Security Act--one for old-age benefits and one for unemployment. They are financed in similar ways and the payments fluctuate in similar ways, although the fluctuations for unemployment compensation may fluctuate a little more from good times to bad, since unemployment is usually more prevalent in bad times than good. In the meantime, it is valid to refer to their effects interchangeably as has been done with Roelse and Dulles.

According to Gerhard Colm, social security provides an important anticyclica1 device. As the economy turns downward, benefits automatically increase and contributions decrease. The system thus creates a floor which keeps the economy from dropping to the depths it would reach in the absence of the system. (Colm, 1947) This effect has been noted in the current economic downturn. More people are retiring early and drawing social security at age 62 than would do so normally, and fewer people are delaying drawing security beyond full retirement age. (msnbc, 2009)

For optimum effectiveness as a stabilizer, social security payments should be increased in times of deflation, and decreased in times of inflation. This is actually what happens to the real income level of these payments during these times, so the pressure from groups of beneficiaries is to increase the payments in times of inflation. This gives social security expenditures the tendency to move upward only, and to accentuate the cycle. (Millikan, 1953) This tendency can be seen in 2009 when the cost of living increase for social security payments should have been negative because of deflation, but was pegged at zero (the law does not allow for decreases). Because of political pressure from senior voters, the Obama administration and Congress decided to distribute $250 to each recipient to compensate for the lack of an increase. (Bloomberg, 2009) The next year, however, the Senate voted against the proposal. (*Blade*, 2010)

The Effects of the Reserve Fund

Although in its initial incarnation, Social Security was intended to operate on pay-as-you-go basis, the intent was to have a trust fund with significant reserves. Money paid in taxes would be kept in the fund and used to pay future benefits. This approach had to be abandoned in the 1950s and 1960s with the sharp increase in claimants, benefits, and life expectancy. Taxes are now used to pay current beneficiaries with a limited trust fund invested entirely in U.S. government bonds. It is interesting, however, from a historical perspective, to look at some of the debate with regard to the reserve fund.

We shall look at the debate on three main topics: the effects of the reserve fund on income distribution, on inflation and deflation, and on investment. This topic was regarded with considerable interest by the writers of the time. The law required the reserve fund to be invested in government bonds only. This led to considerable speculation as to what would happen as the government bought and sold bonds on the market, particularly in relation to the state of the economy at the time the bond transactions took place. The views were widely divergent on this point; and as was stated before, it is unfortunate that this debate took place after the passage of the bill rather than before. If it had taken place before, the writers of the bill could have taken the points more into consideration when the bill was formulated.

In one writer's opinion, social security, by the nature of the reserve fund, will tend to redistribute income from the lower to the higher income groups. Lower income groups will be forced to save. Their money will be used to buy privately held bonds which puts the money in the hands of the wealthy investors. If it is not invested, the money is spent on luxury items. This will be the case because outgo will not match income until 1965, and this is where the excess goes. Thus, the effect is the opposite of the intended redistribution effect. It will be this way as long as the system is kept on an actuarial basis. (Stewart, 1937) Of course, it was not kept on an actuarial basis and the system was later changed to a tax and entitlement system. In boom times interest rates are held down by the excess of investment money caused by the retiring of the federal debt. This accentuates the boom. This assumed, of course, that the federal government would have a surplus in good times, an assumption which did not prove to be true.

In times of depression, bonds are sold in the market to finance the deficit, and because of the large amount involved, counteracts the open-market operations of the Federal Reserve Board. This adds another element of instability to the already depressed economy. A way to make the reserve fund a counter-cyclical device would be to either deposit the money in the Federal Reserve Banks or to buy the bonds from the Federal Reserve. Money would thus be withdrawn in boom times and recirculated in depression times. Even greater economic balance could be achieved by depositing part of the funds in ordinary savings banks, protecting against dampening a boom too soon. But neither measure was permitted under the act. (Stewart, 1937)

Inflation and Deflation

There were fears also of the reserve fund having inflationary influences. These fears grew out of the possibility that the fund would be used to retire debt held by private investors. This assumes that much of the newly released funds will be used for investment and expanded production to the point where inflation occurs. In arguing against the possibility of inflation, Parker bases his argument on the assumption that inflation generally follows a period of unbalanced federal budgets. He goes on to show that the existence of the reserve fund will make for a smaller total federal debt in both a time of deficits and of surpluses, and thus inflation will be less likely to occur. The social security taxes should tend to be deflationary in the short run. The money that is diverted from current consumption is eventually returned to the consumer, balancing the ledger in the long run. (Parker, 1942)

Basing the system on the contributory principle does not mean that all funds should come from that source, assuming that source *is* deflationary to some degree. Only in times of full employment should direct contributions be allowed to approach benefits. When benefits increase as the economy moves away from full employment, the necessary funds should be obtained from other less deflationary sources through general revenue. (Eliot, 1947)

Effect on Investment

The reserve fund, according to George A. Renard, will buy up government bonds, removing a large portion of these tax-exempt securities from the private investment market. These released funds will have to go elsewhere, and thus private investment will be stimulated. (NY Times, 1935) The effect on investment, however, of the 1iquidation of unemployment insurance reserves depends on the methods used. In general, it will not have a depressing effect on investment. Firstly, because the amount to be liquidated at any one time is not too great, contrary to what Stewart says, and secondly, when liquidation is necessary, there is likely to be a greater demand for government bonds. It has been seen from experience that in such times, private business will have a desire for liquidity preference. (Berridge, 1938)

Commenting on the sale of bonds, Eleanor Dulles said in the first few years, the income under the program would be greater than the outgo. This would allow the government to retire part of the federal debt and release funds for private investment. Continuing her discussion, she said the act is primarily a savings program, but the government use of these savings is confined to a monetary influence. There is no control over the use of these savings in either the factor or consumer goods market. It depends on how the government influences the money market and where private industry chooses to invest the funds. There is the possibility of government enterprise, but this is regarded as a purely theoretical possibility. (Berridge, 1938)

In the same discussion, Edison Bowers said the government may use the reserve to meet current expenditures and avoid raising current taxes, while increasing the federal debt. (This is, in fact, what has happened.) Investment may be encouraged and facilitated by the avoiding of taxes; but, may be hindered by the rising debt. If the funds are used by the government for investment, investment will increase, unless the government action discourages private investment. Properly timed, government investment may stimulate private investment. (Berridge, 1938) Although such a conclusion does not seem strange to us today, Bowers arrives at his conclusion primarily through intuition, and does not handle it well.

Stewart interjected a more pessimistic note. Since the reserve fund is to be invested in government securities, the reserve will be used to retire the debt held by investing institutions and individuals. These will then seek other types of investment. But continued investment is dependent upon a continuous expansion of consumer buying power. The payroll tax, however, causes a contraction of buying power and the investment markets would fail to develop. It can only be counteracted by an expansionist monetary policy to keep up buying power. (Stewart, 1937)

According to Roelse, there is a danger that social security in its present form may tend to curtail consumer and business spending. Consumer spending is directly curtailed through the taxes on payrolls. Under a balanced budget situation, which is assumed by the writer, it is unlikely that banks will invest in corporate securities to the extent that the public debt is retired. Therefore, the supply of capital for private investment as a result of the accumulation of social security reserves will at most be increased only to a limited extent. As the funds are paid out of the reserve fund, one result of old-age insurance and death benefits will be a decline in saving in the lower income group. This will make less funds available for investment through insurance companies, savings banks, and other similar channels. (Berridge, 1938)

As can be seen, there are two sides to the argument--those who claim the reserves will help investment, and those who claim investment will be hindered by the reserve funds. In the middle ground is the distinction between short and long run effects. Whether one side was right and the other wrong is a question beyond the scope of this paper.

As we have pointed out in this section, there was much opinion on the topic of the economic effects of the act, although not all of the writers were in agreement by any means. As far as the receipts and payments are concerned, it was generally agreed that the act would have a depressing effect on the economy in the short-run, and a stabilizing effect in the long-run. This is mainly because receipts (to the government) began in 1937, and benefits did not begin until 1942.

As far as the reserve funds were concerned, however, there was much disagreement. The disagreement revolved around the question of the effects of government bond transactions on the economy. The disagreement arises, however, because each writer makes certain assumptions about factors such as the size of the transactions and proceeds to build his case from there. A little empirical research probably could have cleared up much disagreement. The entire argument was largely moot, however, since social security taxes have been used to support deficit spending and the reserve fund is simply a future claim on tax receipts.

As we have been stated previously, it is unfortunate that this discussion and disagreement took place after the act was passed. If the writers had done their research, and had presented their cases to the Committee on Economic Security which drew up the original bill, some of the undesirable effects the writers saw might have been avoided. As will be seen in the next section, congressional debate might also have been considerably improved by such a move.

THE LEGISLATIVE HISTORY OF THE SOCIAL SECURITY ACT

The formation of the Committee on Economic Security was foreshadowed in the president's Message to Congress on June 8, 1934. (Witte, 1962) His message contained the idea that along with recovery there must be reconstruction; and reconstruction means setting up certain goals. The goal of highest priority is "…the security of the men, women and children of the Nation." One of the three ways to promote the security of each citizen is through a program of social insurance. He stated that such a program would be presented the next winter. One can notice his emphasis on security, which was also characteristic of other writers of the time. He continues in this vein by saying that since one of the duties of the federal government is "to promote the general welfare," it is the duty of the government to provide the security which is the basis for that welfare. Social insurance is one of the means for furthering that security. (Roosevelt, 1938)

In the executive order setting up the Committee on Economic Security, the duties of the committee were set forth as follows:

> The committee shall study problems related to the economic security of individuals, and shall report to the President not later than December 1, 1934, its recommendations concerning problems which in its judgment will promote greater economic security. (Witte, 1962)

As the main motivating force behind the bill, the president relied heavily on the need for more economic security to provide a justification for his proposing such a bill. He did not refer to the economic conditions or the possible economic effects in his public statements. Security was the keyword in the depression years, and the keyword in the formation of the social security legislation.

Congressional Debate

Paul Douglas, the senator from Illinois and an economist, summarized the quality of the congressional debate on the bill by saying that the debate on the floor of the House on the bill was not on a very high level. (Douglas, 1936) Very little substantive debate took place, and most of the opposition centered on the form of the bill.

The bill was drafted almost entirely by the counsel of the Committee, Thomas Eliot. There was much criticism in the congressional committee hearings on the draftmanship of the bill, but it had never been done before in this form, he had to please many people, and it was done in a hurry. (Witte, 1962) This last point recalls to mind Homan's criticisms of the New Deal administrators, two in particular. One is the lack of clearly defined guiding principles, and the other is sloppily drafted legislation. (Homan, 1936) These comments are certainly reminiscent of the criticisms of the process of passing health care legislation by the Obama administration. For example, House Speaker Nancy Pelosi was quoted as saying, "…we have to pass the bill so that you can find out what is in it…" (Pelosi, 2010) On January 17, 1935, President Roosevelt sent a special message to Congress recommending legislation on economic security. He urged immediate action, for supplemental state legislation was also required for some titles in the bill, and forty-four state legislatures were either in session or were soon to be. In his message, he summarized the recommendations of the Committee on Economic Security. (Witte, 1962)

When the program was first presented in the president's message, it was praised by the leaders of both parties in Congress as "sound and conservative." Most of the critics said it did not go far enough. (Witte, 1962) This, however, was about as profound as the debate and discussion ever got.

The following summations of debate were all taken from the Congressional Record (1935). The party and state of each Representative come from the World Almanac and Book of Facts for 1936. (World Almanac, 1936) The attempt has been made in these summaries to include only that debate which has any substantive value. Much opposition to the bill was based on the fact that the bill had several distinct titles and purposes, and these were presented at one time for consideration. Those in opposition wanted the different titles presented separately, since they claimed to favor some and oppose others. Much of the debate time was also taken up with more than the usual banter between congressmen. It seemed as if nearly every congressman wanted to get his glowing approval of the bill on record. (Again, the political process apparently has not changed much since then.) The debate summaries will be divided into three parts--the theoretical, current conditions, and the economic.

Representative Southof, Prog. Wisconsin, decided he would start things off right. He favored the bill because it represented "a beginning of a new era for the less fortunate and the under priviledged. It is a splendid forward step in the march of progress, in social security." Representative Ford, D. Mississippi, displayed a greater knowledge of the theoretical aspects of social insurance. He stated that "it is a duty of humane civilized government to care for those citizens who have spent a lifetime in promoting their country by being good citizens." The bill "will guarantee our aged citizens relief from the mental and physical torture of poverty in old age." This bill would remove a vast amount of economic uncertainty in old age which the majority of the people are not able to control.

Stephen M. Young, representing Ohio in the House, continued this emphasis on the duty of the government to provide social insurance. His contention was that "the need for old-age security legislation is largely due to the congestion and intensity of modern industrial processes." The needy aged must turn to either government or private charity. It is the duty of the government to provide relief for the needy aged. These people have earned the right to live out their remaining years in relative security. In his argument, one can again see the argument that a person earns the right to old-age security through having contributed to the nation's productivity. In contrast, the current healthcare legislation will cause a redistribution of benefits from the older, retired population to the younger population. (Adamy, 2010) The implications of this feature are still unfolding.

Representative David J. Lewis, D. Maryland, went one step further by feeling that the federal government owed to the workers the right to make a living; and if this right were to be taken from them, they deserved to be compensated. Representative Truax, D. Ohio, summarized the feelings of those basing their arguments on the theoretical aspect by identifying the act as "a milestone in the battle for human rights."

Then there were those whose arguments had their roots in the prevailing economic conditions. Harry I. Harriman, President of the United States Chamber of Commerce, appealed to Congress to defeat the bill on the grounds that the time was not ripe for action. Consideration of the bill should be postponed until business conditions had improved. Proponents of the bill refuted this argument by saying that when prosperity had returned, the driving force of public sentiment would have faded and no action would be taken at all. (Douglas, 1936) These arguments are, again, reminiscent of arguments for and against the current healthcare legislation.

Returning to the Congressional scene, Representative Thomas H. Cullen, D. New York, considered the bill as promoting both recovery and reform. It included steps to shake off the lingering remnants of the depression and to safeguard against suffering in future depressions. He made these assertions as flat statements, with no rationale for having arrived at such conclusions. On the other hand, Representative Harold Knutson, R. Minnesota, opposed the bill because it was a bill of social reform while the pressing need was for recovery legislation. Although he was sympathetic toward social reform, he felt nothing must be allowed to impede business recovery. Had the arguments presented in section three been available at the time the bill was being considered, arguments such as those just presented might have taken on more meaning, and the topic could have been more deeply explored instead of just being mentioned in passing, and having no real effect on the consideration of the bill. Committee hearings might have also been devoted more to these aspects of the bill rather than to the structure of the bill.

In all the searching done through Congressional Records, only one spark of really meaningful discussion on the economic effects of the bill was found. This was provided by Rep. Samuel B. Hill, D. Washington. Even this small amount had to be brought out under the questioning of Rep. William Sirovich, D. New York. Representative Hill expressed the belief that the purchase of privately held bonds with reserve funds would force this money into investment and thus help commerce and industry. If it were not invested, it would then be liable to income taxes.

Representative Allen T. Treadway, R. Mass., gave several arguments against parts of the bill which contain traces of sound economic reasoning. He approved of Titles I, IV, V, and VI of the bill granting aid to the states for old age pensions, care of dependent children, maternal and child welfare, and public health. He opposed Titles II, VIII, III, and IX dealing with old-age insurance and unemployment on the grounds that they were not emergency measures. They would be a short-run drag on the economy and would not become effective in time to speed recovery. In other words, they were not recovery measures.

He then expanded on his arguments. The unemployment aspects of the bill would cause more unemployment because employers would cut back on workers in order to maintain costs. Secondly, it would put a millstone around the neck of business which was trying to stage a recovery. He was not too specific concerning the makeup of this millstone. 'The six percent tax would undoubtedly force many businesses out of business. This would mean more unemployment. In other words, the act would retard recovery rather than help it. The effect of reducing the purchasing power of workers $900 million to $280 million annually would also be felt by business.

In reference to the old-age titles, Representative Treadway claimed the payroll tax would increase the cost of living in a manner similar to a turnover tax. This cost would be passed on to the consumer. It would also cause employers to cut employment. He attacked the reserve fund on the grounds that by 1970, the cost of the interest would be nearly a billion dollars a year at three percent on a thirty-two billion dollar reserve fund. He merely states this last fact without trying to determine what the effects of such a cost would be. As with many Congressmen of that day, however, as with many of the present day, the cost would be sufficient reason for opposing a measure.

It is most unfortunate that the debate on the bill was not of a more profound and serious nature. Of course, there are those who would claim that Congressional debate is not now and never has been of a profound and serious nature. The main influence, it seems, in initiating the bill was a need for security. This was brought out in the debate in relatively empty phrases echoing the president's words. This is amply illustrated by Senator Harrison who described the bill as follows:

> It is not intended as emergency legislation, to cope with an emergency situation, but rather it is designed as a well-rounded program of attack, on principal causes of insecurity which existed prior to the depression and which we may expect to continue in the years to come. (NY *Times*, 1935)

Perhaps one reason for the poor quality of debate is that the congressmen did not realize the significance of the bill they were considering, or perhaps the debate reflected the unusual willingness of Congress at that time to cooperate with the president. Or perhaps the congressmen had been faced with so much legislation of a revolutionary nature in the preceding few years, that a bill of the significance of the Social Security bill did not seem to be greatlyout of proportion to them. Whatever the reason for this lack of meaningful debate, many good substantive arguments both for and against the bill went to waste and were never used. One can even say that Congress was not justified in passing a bill of such significance and designed for such a long period of time without studying the arguments which have been presented in the first three sections more carefully. Whether they were justified or not, they passed the bill, and it is with us today.

CONCLUSION

There was no lack of historical precedent in drawing up the bill, for the United States was one of the last major countries to adopt such legislation. And as in the cases of the other countries, the United States law did not improve significantly upon the German model. The drafters of the United States plan also had choices regarding the bases for the plan. As it turned out, it was decided to make the United States program compulsory and contributory. The lack of success of any major voluntary program was probably the deciding factor in making the American program compulsory. The workers may have also been believed to feel that income would be redistributed in their favor with a compulsory program. And despite the simpler administrative requirements connected with a non-contributory plan, the designers of social security probably made their decision for a contributory plan on the basis of the psychological factors explained in the first section. If they had decided to make social security non-contributory, all of the discussion concerning the reserve fund and the effect of the withdrawing of funds on the economy would not have come about in the form it did. There would undoubtedly have been discussion as to where the money was to come from. Such a program probably would have been more beneficial for the economy at the time, since the raising of additional funds could have been postponed until the economy had fully recovered.

Much of the discussion about the reserve fund became moot in the 1950s and 1960swhen Social Security switched to a pure tax and entitlement system. Although the so-called reserve fund was retained, it became simply a method of financing the deficit in the federal budget. When Medicare was passed in the 1960s, they retained the tax and entitlement structure of Social Security, but did not bother with the façade of a reserve fund. The current health care reform moves entirely to a non-contributory system with the proposed funding for the entitlements to come from a variety of tax and benefit modifications. The current discussion, as a result, centers on three issues: the social insurance arguments (i.e. it is the government's responsibility to insure that all citizens have adequate health care), the structure of the system (e.g. public option or not), and the cost and financing aspects, including whether or not such a system should be implemented in a recession. All three were issues in the original social security debates, and the level of the debate does not appear to have improved much since the 1930s.

The stated intent at the beginning of the paper was to explain the areas in which a justification for passing the Social Security Act could be found, and to determine if a justification really existed. In terms of the economic conditions the issues were not clear. If the Social Security Act was intended to be a recovery program, it came a little late, unless one wishes to hedge and claim it was intended to promote full recovery. It was, however, more of a reform program than a recovery program. The keyword of the times was security, and the act was intended to prevent the insecurity which had accompanied the depression. In considering the economic effects, one wonders if the administration was even justified in promoting a reform program of this nature at this time. The initial effect of the act was to withdraw large sums of money from the economy at a time when the upward trend of the economy needed to be encouraged. Business had not recovered fully, and unemployment was high. Placing this additional burden on the economy probably did have something to do with the downturn of 1937-1938, although other factors are also involved (such as the tightening of the money supply by the Federal Reserve). If the program had been passed during World War II, it would have aided the anti-inflationary program by siphoning off some of the excess funds. And it would have been feasible to pass it at that time, contrary to those who claimed the impetus would no longer have been there, for the makeup of Congress had not changed significantly from 1935 to 1943.

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