Committee On Finance

Max Baucus, Ranking Member

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Floor Statement of U.S. Senator Max Baucus Regarding the History of Social Security

(WASHINGTON, D.C.) U.S. Senator Max Baucus delivered the following speech on the history of Social Security during today's Senate session. The floor statement follows:

Floor Statement of U.S. Senator Max Baucus
The History of Social Security

"The ancient text teaches: 'Honor your father and your mother . . . so that you may live long and that it may go well with you in the land the Lord your God is giving you.' And Paul noted that 'Honor your father and mother' . . . is the first commandment with a promise — 'that it may go well with you and that you may enjoy long life on the earth.'

That's what Social Security is about. It's about honoring our fathers and our mothers. And like the commandment, Social Security also carries with it a promise. Social Security benefits not just our elders. It also benefits their children, and us all.

Families throughout history have faced uncertainties: old age, disability, and death of the breadwinner. Before Social Security, the extended family provided what economic security they had.

President Franklin Roosevelt described those times:

'In the early days of colonization and through the long years following, the worker, the farmer, the merchant, the man of property, the preacher, and the idealist came here to build, each for himself, a stronghold for the things he loved. The stronghold was his home; the things he loved and wished to protect were his family, his material and spiritual possessions. His security, then as now, was bound to that of his friends and his neighbors.'

In the 18th and 19th centuries, most Americans lived and worked on farms. Before 1840, 9 out of 10 Americans lived in rural areas. And as late as 1880, 7 in 10 did. Life was hard, and often short. A boy born in 1850 could expect to live just 38 years. By 1900, male life expectancy rose only to 46 years.

Things changed with the industrial revolution. America changed from an agricultural to an industrial economy. People moved away from the family farm and into the city. By 1920, most Americans lived in urban areas. The extended family and the family farm failed to provide the security that they once did.

At the same time, the people of a more prosperous nation began to live longer. Around 1930, a baby boy could expect to live 59 years — 13 years longer than in 1900. And a 60-year-old man could expect to live to age 75. More and more Americans had to address the challenges of living into old age.

Senator Robert Wagner of New York described how the burdens of supporting those growing numbers of seniors fell heavily through a patchy safety net and onto their grown children. He said: 'In truth . . . every civilized community does and must support its old and dependent people in some way. In this country, we have been doing it largely by inefficient relief methods, by shabby pension systems, and by imposing burdens upon millions of younger members of families, with consequent impairment of their industrial efficiency, their morale, and their own opportunities for future independence.'

And President Roosevelt looked back on those times, saying: 'Long before the economic blight of the depression descended on the Nation, millions of our people were living in wastelands of want and fear. Men and women too old and infirm to work either depended on those who had but little to share, or spent their remaining years within the walls of a poorhouse. Fatherless children early learned the meaning of being a burden to relatives or to the community.'

President Roosevelt saw America's social changes as grounds for a change in government's role. In his June 1934 message to Congress, he said: '[S]ecurity was attained in the earlier days through the interdependence of members of families upon each other and of the families within a small community upon each other. The complexities of great communities and of organized industry make less real these simple means of security. Therefore, we are compelled to employ the active interest of the Nation as a whole through government in order to encourage a greater security for each individual who composes it.'

The Great Depression triggered government's response. As this chart shows, the American economy in 1933 produced barely more than half the output that it did in 1929. And as this next chart shows, by 1933, a quarter of the American labor force was unemployed. Look at this next chart. From its 1929 high of 381, the Dow Jones Industrial Average fell to a trough of 41 in 1932. That's nearly a 90 percent drop in the Dow, in just 3 years.

Lifetimes' worth of private accounts evaporated into thin air. Senator Royal Copeland of New York recounted: '[T]here are thousands of families, I suppose millions, who thought they had prepared for the rainy days, but by reason of the Depression, and the circumstances involved in it, they have come to be almost as bad off as many who were born and have lived all their lives in poverty.'

State governments found themselves under an increasing burden. Senator Daniel Hastings of Delaware said, '[T]he individual States are laboring under a strained financial condition; with many of them believing that they cannot take care of their own.'

As with economic hardship throughout history, the Depression hit widows and orphans particularly hard. Congressman William Sirovich of New York painted the picture, in 1935: 'Death, through the loss of the breadwinner, has broken many a home. For centuries the widows, orphans, and dependent children have cried aloud for help and assistance in their tragic periods of economic insecurity. In the past the only recourse for orphaned children was the poorhouse, almshouse, and the orphan asylum. The twentieth century of civilization has awakened our citizens to the duty and obligations they owe to these unfortunate orphans.'

And Congressman Fred Crawford of Michigan spoke of children with disabilities: 'One only needs to come in contact with a home which is unable to provide any means of relief for a little child who has been stricken with paralysis to appreciate what this will mean to those homes so darkened with the suffering that follows such a catastrophe.'

President Roosevelt sought a comprehensive solution. To that end, in June of 1934, he issued an Executive Order creating the cabinet-level Committee on Economic Security. He charged them to, quote, 'study problems relating to the economic security of individuals.'

Labor Secretary Frances Perkins chaired the committee, which also included the Treasury Secretary, the Attorney General, the Agriculture Secretary, and the Federal Emergency Relief Administrator. Secretary Perkins relied heavily on her assistant secretary, Arthur Altmeyer, who would become the first Social Security Commissioner.

And to address the need, President Roosevelt and other leading thinkers turned to the idea of "social insurance." President Roosevelt said of social insurance: 'This is not an untried experiment. Lessons of experience are available from States, from industries and from many Nations of the civilized world. The various types of social insurance are interrelated; and I think it is difficult to attempt to solve them piecemeal. Hence, I am looking for a sound means which I can recommend to provide at once security against several of the great disturbing factors in life — especially those which relate to unemployment and old age.'

Social insurance programs began in Europe in the 19th century. By the time America adopted Social Security as a national social insurance program in 1935, 34 European nations and several states in the Union already operated some form of a social insurance program.

My home state of Montana played a leading role, when, in March of 1923, it enacted its old-age pension law. Montana's was the first state law to stand the test of constitutionality. Its sponsor, Lester Loble of Helena, was a young attorney who won election to the Montana House of Representatives in 1922. Here's a picture of Lester Loble. He had been a delegate to the 1921 national convention of the Fraternal Order of Eagles, which had devoted a special focus to pension laws for seniors.

Mr. Loble's old-age pension bill provided that each county's fund would pay a modest monthly income — up to $25 a month — to the poorest of Montana's seniors, those earning less than $300 a year. In a legislative session torn by a struggle over taxes on mining property, the bill passed. Governor Joseph Dixon signed it into law, saying: 'You Eagles have planted this seed and you can no more stop the progress of old age pensions than you can stem the tide of the Pacific Ocean.'

In November of 1934, on behalf of President Roosevelt's Committee on Economic Security, Secretary Perkins invited Mr. Loble to Washington, saying: 'We are extending this invitation to you because you have the honor of having been the author of the first old age pension law in this Country.'

And the Committee set to work on the idea of social insurance. Like all insurance, social insurance protects against a defined risk. The insurance pays beneficiaries when they need to bear a large expense, often at times when they would otherwise not be able to provide for themselves. Like all insurance, social insurance spreads the burden of the risk broadly across a large pool of those who may encounter the risk. When the risk does occur to one particular beneficiary, the sharing of the risk makes it easier to bear.

Social insurance spreads those risks over the largest possible pool of potential beneficiaries — the society as a whole. And social insurance is shaped by broader social objectives, helping to promote the nation's overall economic security.

President Roosevelt's Committee on Economic Security made its recommendations to Congress in January of 1935. The Committee reported: 'At least one-third of all our people, upon reaching old age, are dependent upon others for support. . . . There is insecurity in every stage of life.'

They went on: 'Children, friends, and relatives have borne and still carry the major cost of supporting the aged. . . . [T]his burden has become unbearable for many of the children . . . .'

They responded to that challenge with the proposal for Social Security. And they concluded: 'The measures we suggest should result in the long run in material reduction in the cost to society of destitution and dependency, and we believe, will immediately be helpful in allaying those fears which open the door to unsound proposals.'

The Finance Committee held hearings on the proposal. At one hearing, Senators watched as several elderly gentlemen, who were totally blind, were led into the committee room by their guide dogs and told of their life of need, before Social Security. Finance Committee Chairman Pat Harrison of Mississippi said, 'I do not know of any committee that was ever moved more that was the Finance Committee.'

During the Senate's floor debate on the bill, Senator Wagner said: 'The social security bill embraces objectives that have driven their appeal to the conscience and intelligence of the entire Nation. We must take the old people who have been disinherited by our economic system and make them free men in fact as well as in name. We must not let misfortune twist the lives of the young. We must tear down the house of misery in which dwell the unemployed. We must remain aware that business stability and prosperity are the foundation of all our efforts. In all these things we are united, and in this unity we shall move forward to an era of greater security and happiness.'

In signing the Social Security Act in August 1935, President Roosevelt said: 'Today a hope of many years' standing is in large part fulfilled. The civilization of the past hundred years, with its startling industrial changes, has tended more and more to make life insecure. Young people have come to wonder what would be their lot when they came to old age. The man with a job has wondered how long the job would last.

'This social security measure gives at least some protection to . . . millions of our citizens who will reap direct benefits through unemployment compensation, through old-age pensions and through increased services for the protection of children and the prevention of ill health.

President Roosevelt continued: 'We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age.'

The law established two social insurance programs on a national scale to help meet the risks of old-age and unemployment: a federal system of old-age benefits for retired workers and a Federal-State system of unemployment insurance.

President Roosevelt saw the 1935 Social Security law as an economic foundation. He said: 'This law . . . represents a cornerstone in a structure which is being built but is by no means complete. It is a structure intended to lessen the force of possible future depressions. It will act as a protection to future Administrations against the necessity of going deeply into debt to furnish relief to the needy. The law will flatten out the peaks and valleys of deflation and of inflation. It is, in short, a law that will take care of human needs and at the same time provide the United States an economic structure of vastly greater soundness.'

President Roosevelt justly concluded: 'If the Senate and the House of Representatives in this long and arduous session had done nothing more than pass this Bill, the session would be regarded as historic for all time.'

President Roosevelt's prophecy that Congress would build on Social Security was soon proved true. The Old-Age Insurance Program had not yet come fully into operation when Congress enacted significant changes. In 1939, Congress added benefits for dependents of retired workers and surviving dependents of deceased workers. And Congress made the first benefits payable in 1940, instead of 1942, as originally planned.

In the 1950s, Congress broadened Social Security to cover many jobs that previously had been excluded. In 1956, Congress added disability insurance. Benefits were provided for severely disabled workers aged 50 or older and for adult disabled children of deceased or retired workers. In 1958, Congress provided benefits for dependents of disabled workers similar to those already provided for dependents of retired workers. In 1960, Congress removed the age 50 requirement for disabled worker benefits. In 1967, Congress provided disability benefits for widows and widowers aged 50 or older.

There used to be a nearly annual ritual in Congress to provide cost-of-living increases to Social Security beneficiaries. This sometimes happened right before an election. In 1972, Congress did away with this uncertainty and provided for automatic cost-of-living increases in benefits tied to increases in the Consumer Price Index. The 1972 amendments also increased benefits for workers who retire after the full retirement age.

In 1977, Congress changed the method of benefit computation to ensure stable replacement rates over time. Earnings included in the computation were to be indexed to account for changes in the economy from the time they were earned.

In 1983, as a consequence of the Greenspan Commission to strengthen and extend the life of Social Security, the Congress made coverage compulsory for employees of the federal government and nonprofit organizations. State and local governments were prohibited from opting out of the system once they had joined. The amendments also gradually increased the age of eligibility for full retirement benefits from 65 to 67, beginning with persons who reach age 62 in 2000. For certain higher income beneficiaries, benefits became subject to income tax.

In 1996, Congress relaxed earnings limits for seniors who have reached the full retirement age. In 1999, Congress reformed certain provisions under the disability program to create stronger incentives and better supports for individuals to work. And in 2000, Congress eliminated the earnings limit for seniors who have reached the full retirement age.

What we now know as Social Security touches almost every American. Social Security covers 96 percent of all American workers and their families. In 2003, Social Security provided $471 billion in benefits to 47 million people. One in six Americans collects Social Security benefits.

In my home state of Montana, 164,000 of our 927,000 residents — or 18 percent of all Montanans — receive Social Security benefits. Nearly 7 percent of all Montana personal income comes from Social Security payments. Montana ranks fifth among the 50 states in terms of the share of our state's income that comes from Social Security.

Social Security is in effect three programs: an earned retirement benefit, a disability insurance policy, and a life insurance policy. Most people think of Social Security as a retirement program, but 3 in 10 beneficiaries collect survivors' or disability insurance benefits.

Of today's 20 year olds, 28 percent will become disabled. 17 percent will die before reaching retirement age. Look around the room in any college classroom. 3 in 10 students will become disabled. 2 in 10 will die before retirement.

But if a young worker should experience a period of disability, Social Security will provide for the worker and the worker's family. Similarly, Social Security will provide for the worker's family if the worker experiences an untimely death. For a young married worker with two children, Social Security provides the equivalent of a $400,000 life insurance policy and a $350,000 disability policy. Only about 3 in 10 workers have access to long-term disability benefits, aside from Social Security.

And Social Security provides retirement benefits for retirees who have worked at least 10 years. President Roosevelt said: 'There are other matters with which we must deal before we shall give adequate protection to the individual against the many economic hazards. Old age is at once the most certain, and for many people, the most tragic of all hazards. There is no tragedy in growing old, but there is tragedy in growing old without means of support.'

Social Security provides the primary source of income for two-thirds of seniors. And for one-fifth of seniors, it provides the only source of income. The average retiree benefit is $882 per month, or $10,584 a year, in Montana, and about $930 per month, or $11,160 a year, nationally.

That's hardly a king's ransom. But as President Roosevelt said on the third anniversary of the law's enactment: 'The Act does not offer anyone, either individually or collectively, an easy life — nor was it ever intended so to do. None of the sums of money paid out to individuals in . . . insurance will spell anything approaching abundance. But they will furnish that minimum necessity to keep a foothold; and that is the kind of protection Americans want.'

Before Social Security, poverty and dependency threatened all who could no longer work. But with its guarantee of benefits to seniors for life, progressive benefit structure, spousal and survivors benefits, and annual cost of living adjustments, Social Security provides a solid foundation of economic security for all workers and retirees.

Look at the effects on this chart. Because of Social Security, poverty among American seniors has fallen from roughly half of seniors in 1935, to roughly a third of seniors in 1959, to 1 in 10 seniors now. But without Social Security, nearly half of seniors nationwide — and more than half of Montana's seniors — would be living in poverty now.

Social Security provides a guarantee of economic security for America's workers, current and retired. Social Security protects all Americans, whether they are fortunate in living a long and healthy life, or unfortunate in facing early disability or death. Social Security benefits are adjusted for inflation, so that the buying power of beneficiaries does not erode over time.

Social Security benefits increase with family size and are progressive to insure that even low-wage earners have sufficient income. Beneficiaries cannot outlive their benefits. Social Security uses a common system to administer all three programs — retirement, survivors, and disability — resulting in administrative costs of less than 1 percent. These unequaled benefits make Social Security invaluable for individual workers, for retirees, and all Americans.

In future statements, I hope to go further into other aspects of the Social Security issue. I hope to address how the President's plan would cut benefits, and what benefit cuts would mean to Americans. I hope to address the concerns caused by mounting debt, and how the President's plan would make them worse. And I hope to address why we should be concerned about savings, and what changes we should be considering to increase saving.

Yes, Social Security faces long-term challenges. We should work together to strengthen Social Security for the long term. But we need to do it right. We should not endanger the valuable legacy that we have built over so many years.

Privatization plans would cut Social Security's funding, weaken the program, and make its problems worse, not better. Plans like option 2 of the President's Social Security commission would cut benefits by one-third or more for future retirees, even for those who choose not to have a private account. Those investing in privatized accounts would be hit twice, as their benefits would be subject to a substantial privatization tax. Cuts of this magnitude would leave many seniors in poverty, requiring more taxpayer assistance.

And the President's privatization plan would cause the government to borrow $5 trillion in additional debt in its first 20 years. That is not the legacy that we should want to leave to future generations.

We should address Social Security. We should stop using Social Security surpluses for other government purposes. We should save more as a nation. We should address the government's record budget deficits by restoring fiscal discipline and avoiding massive new debt. We should reinstate enforceable budget restrictions, like the pay-as-you-go rules. And we should work to develop new and innovative ways to help Americans save, separate and apart from Social Security.

But we should honor the words of Congressman Joseph Monaghan of Montana, who said in April of 1935: 'When the sun of life begins to set upon the aged of our country, the . . . Government should extend to them a relief from the weary toils of the day and to bring relief, comfort, and security to them when the burdens of life are hardest to bear and when the darkening shadows of approaching night begin to fall across his path to make further toll impossible, to make further travel insecure, a just reward which their toll has merited; an adequate old-age pension, and not a pauper's dole.'

We should honor the words of President Roosevelt, who said to Congress in 1934: 'We must dedicate ourselves anew to a recovery of the old and sacred possessive rights for which mankind has constantly struggled: homes, livelihood, and individual security. The road to these values is the way of progress. Neither you nor I will rest content until we have done our utmost to move further on that road.'

And we should honor our fathers and our mothers. We should honor this important social insurance protection that keeps our fathers and mothers from those darkening shadows of approaching night. We should do so not just for them. We should do so also because it will help their children. It will help the economy to go well for us. And it will help us to live better lives, all the days that we are on this good land that the Lord has given us."

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