

SUPPORT OF THE ELDERLY BEFORE THE DEPRESSION: INDIVIDUAL AND COLLECTIVE ARRANGEMENTS

Carolyn L. Weaver

Introduction

Before the Great Depression, the care of the poor of all ages was a responsibility assumed primarily by the private sector, generally through the extended family, friends and neighbors, and organized private charity.¹ As late as 1927, when welfare expenditures by all levels of government amounted to less than \$200 million, nearly all of which was state and local spending on indoor relief, private philanthropy was estimated to exceed a billion dollars (see Bureau of Census 1975, pp. 1120–28). There were no federal programs (other than veterans programs) to assist the poor, whether young or old, disabled or unemployed. The role of the government in preventing poverty through the provision of pensions and insurance was even more limited.

With the onset of the Great Depression, all of this changed. As unemployment rose and the federal government stepped in to provide assistance, the number of people receiving government relief climbed to 15 million in 1933. Two years later, President Franklin Roosevelt signed into law the Social Security Act—a comprehensive piece of legislation authorizing social insurance for the aged, compensation for unemployed workers, and federal matching funds for old-age assistance, maternal and child welfare, public health, aid to dependent children, and assistance for the blind. Public welfare expenditures by all levels of government jumped to \$1 billion in 1938, one-third of which was federal money, and most of which was

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¹This paper draws on Weaver (1983); see also Weaver (1982).

in the form of cash assistance. By 1940, a quarter of a million people were receiving cash support under the insurance titles of the Social Security Act financed by a compulsory tax on more than 30 million workers.² This expansion by the federal government was not to be reversed.

Apart from profoundly altering the role of government, the Depression helped forge—for better or worse—a lasting impression about how the world works, one that may have more to do with the perpetuation of government programs than any particular act of Congress. Consider the words of Thomas P. O'Neill, Jr. (1985, pp. 482–85), former Speaker of the House, describing life in America 50 years ago:

This country is a desperate place. Half the people live in poverty. Twenty-five percent of the workforce are unemployed. Life is little better for those working. . . . Life for the elderly is filled with uncertainty, dependency and horror. When you get old, you are without income, without hope. Only the lucky few have pensions. Social Security does not exist.

It is but a short step to the conclusion that if it were not for Social Security, conditions today would be like they were in the 1930s. In O'Neill's words,

Social Security has made it possible for people . . . not to have to live in fear and dependency. Without such protection, half of those people living on Social Security would be living in poverty.

A snapshot in time, during the greatest economic calamity in this nation's history, is taken as the measure of how the world worked before federal government intervention. In turn, the proper role of the federal government today is defined by the role it assumed then.

This paper is an attempt to take a fresh look at the support of the aged prior to the Great Depression and to question what is now taken for granted: that private financial institutions, in combination with public and private assistance for the poor, were unable to accommodate the retirement income needs of the elderly. In seeking to shed light on this issue, the following questions are explored: How extensive was poverty among the elderly, and what were the prevailing methods, both public and private, for alleviating it? How was society organized to handle the problems of the aged, either the *ex post* problem of poverty or the *ex ante* problem of retirement planning? What arrangements were available to pool risk and redistribute

²Bureau of Census (1975, pp. 1120–28); see also U.S. Committee on Economic Security (1934), U.S. Social Security Board (1940, p. 6.), and Social Security Administration (1985).

income over one's lifetime? How might these institutions have evolved in the absence of federal intervention? Finally, is there evidence of an unmet need that could be satisfied only by compulsory, federal social insurance? I begin this investigation with a review of early views on the problems of the elderly and the proposed remedy, social insurance.

Early Views on the Problem of Old-Age

Social reformers in the early decades of this century had a view of the elderly and their plight that was not unlike O'Neill's. The "problem of old-age"—variously described as the "tragedy," the "universal problem," and the "haunting fear in the winter of life"—was poverty resulting in dependency on others, whether private or public charity, or ultimately the public almshouse.³ The source of the problem was said to be the modern industrial state and the worker's complete dependence on wage income. According to Abraham Epstein (1938, p. 3) of the American Association for Old-Age Security,

The challenge facing us in the twentieth century is that of economic insecurity, which weighs down our lives, subverts our liberty, and frustrates our pursuit of happiness. . . . Our modern system of industrial production has rendered our lives insecure to the point of despair. The wage system has made economic security depend entirely on the stability of our jobs.

Because wages were low and insurance and pensions were costly or unavailable to industrial workers, the argument continued, saving was a "practical impossibility," and the interruption of earnings in old age was cataclysmic. The only resolution to the problem of old age, said Barbara Armstrong (1932, p. 381), a leading figure in the social insurance movement, was "to leave this world early before the period of superannuation set in."

While it might have been reasonable to conclude that the outlook for the elderly would improve over time, social insurance advocates argued just the opposite. Industrialization would combine with rising life expectancies to produce the "iron law" of old-age dependency. A growing proportion of the aged would be dependent and, as a group, the aged would live in dependency for a longer period of time.

Social reformers of the day advocated two types of programs to deal with the problem. As a temporary measure, they sought a federal program of old-age assistance, or means-tested welfare. As a permanent solution to the problems of the aged, they sought a compulsory,

³See, for instance, Armstrong (1932), Epstein (1938), and Rubinow (1916, 1932).

federal program of old-age insurance. Under such a program, industrial workers would be provided a pension in old age, subsidized from the general fund of the treasury. Programs such as these had been introduced in Europe in the 1880s and 1890s and were prevalent by the 1920s.

The concerns raised by the reformers were given a serious hearing in the 1920s. By then, the care of the aged was a leading social issue, and the various proposals for government action were subject to intense public debate and inquiry. With the prompting of the American Association of Labor Legislation and the American Association for Old-Age Security, 13 states commissioned studies on the financial condition of the elderly and the desirability of government action. Proposals to aid the elderly were debated in most state legislatures.⁴

The growing concern over the aged coincided with important economic and demographic changes at the turn of the century. The movement of the population from the farm to the city and the change in employment from the agricultural sector to the industrial threatened the foundations of income support in old-age: continued employment and the extended family. Between 1880 and 1920, the proportion of men employed in agriculture dropped 31 percent among those under 65 and 39 percent among the elderly. Overall, the proportion of elderly men employed fell from 73 percent to 60 percent (Latimer 1930). In addition, there were growing numbers of the elderly with whom to contend. Between 1880 and 1930, the proportion of the population 65 and older rose from 3.4 percent to 5.4 percent, and life expectancy at birth (for white males) jumped from 41 to 61 years. The odds that a 20-year old would live to age 65 first exceeded 50:50 at the turn of the century.⁵

Evidently, new ways of caring for the aged and providing for retirement were appropriate. Whether or not there was a role for the federal government remained to be demonstrated.

Demise of the Social Insurance Movement

The idea that compulsory old-age insurance was “the solution” to “the problem” of old age was given a fair hearing during the 1920s and it was rejected. At a time when poverty relief was predominantly a private activity supplemented by local government assistance and when the insurance industry was thriving, proposals for compulsory,

⁴See New York Commission on Old-Age Security (1930), U.S. Committee on Economic Security (1934), “Status of Old-Age Pension Legislation in the United States” (1929), and Johnson (1935, pp. 39–740).

⁵See Bureau of Census (1975), and Darby (1979, p. 23).

federal action were denounced in the strongest terms possible. Samuel Gompers (1917, p. 198), president of the American Federation of Labor, rejected social insurance as “in its essence undemocratic.” In 1916, he vowed to assist in the “inauguration of a revolution against compulsory insurance.”⁶ The response of business groups was no more favorable. In language common at the time, the Pennsylvania Chamber of Commerce in 1924 described compulsory public schemes to aid the elderly (including welfare) as “un-American and socialistic and unmistakably earmarked as an entering wedge of communist propaganda.”⁷ Of the 21 reports prepared by state commissions, only one endorsed social insurance. At the federal level no bills for compulsory old-age insurance were even introduced into Congress.

As the 1920s came to a close, the social insurance movement in the United States was an acknowledged defeat—“practically untouched, irrelevant and meaningless, a mirage in a sunlit sea of prosperity,” as one supporter admitted.⁸ The situation here stood in sharp contrast with that prevailing in Europe and other parts of the world, where national schemes to aid the elderly had become widespread.

A More Realistic Assessment of the Elderly

What killed compulsory old-age insurance in this country was the failure of advocates to define a problem that could withstand careful scrutiny and to offer resolutions that contained more promise than the evolving system of income support. How, after all, could social insurance reverse the process of industrialization, raise wages, improve family solidarity, or be less subject to financial difficulties than state and local pension systems? Furthermore, the picture of the elderly portrayed by social insurance advocates was not borne out by the evidence.

Based on the available evidence, a snapshot of the elderly in the 1920s might look something like this: There are 5.8 million people aged 65 and older, about 5 percent of the U.S. population. Most of them live in their own homes, most are self-supporting, and among those who are not, the vast majority are cared for by family members. The primary source of support in old-age is earnings from continued employment; most elderly men work. Other sources of support in retirement or upon the death of the breadwinner are life insurance,

⁶Cited in Lubove (1968, p. 16).

⁷Cited in Lubove (1968, p. 139).

⁸Leifer Magnusson, International Labor Office, cited in Lubove (1968, p. 113).

pensions, and annuities, not to mention family members and friends. Public pensions for teachers, firemen, and policemen are provided by most cities; military and civil service pensions are provided by the federal government; and private pensions are emerging. There are some benevolent homes for the aged and the public almshouse is still in use, but reliance on organized private and public charity is rare. For those in need, the family is the "safety net."

More important, things are very much in a state of flux. In the private sector, pensions are becoming more prevalent; life insurance and pension arrangements are improving; and benevolent homes—the precursors to modern nursing homes—are sprouting up around the country. In the public sector, opposition to cash assistance for the elderly poor is withering, and the states are beginning to adopt old-age assistance programs. The ability of private and local public institutions to respond to the problems of the aged is striking.

The Pattern of Support and the Extent of Poverty

Because of the very limited role played by the federal government in providing poverty relief prior to the Depression (and the absence of a federal income tax prior to 1913), there are no extensive national statistics on the income and assets of the elderly in the 1920s.⁹ The most detailed information I have been able to locate is contained in a series of reports prepared by the state commissions created to study the economic circumstances of the elderly. Particularly useful are the reports of the Massachusetts Commission (completed in 1925) and the New York Commission (completed in 1929). Both were large studies judged to be useful in evaluating old-age dependency in other areas.¹⁰ Surveys conducted by the National Civic Federation are also informative. A careful examination of these studies along with other known facts about financial institutions provide valuable insights

⁹Beginning in 1902, the Bureau of Census was prohibited from enumerating and investigating the poor other than those in almshouses.

¹⁰Measuring poverty with precision and determining the causes of poverty are always difficult tasks. They were particularly difficult in the 1920s because the elderly had been raised before the day of the federal income tax and before payment in cash wages was the rule. Recurring problems in then-current studies were the treatment of individuals in couples and the treatment of individuals without their own sources of income. In some studies the total income of a couple was attributed to both individuals. In others, the total income of the couple was attributed entirely to one person (in the case of earnings, to the person who worked) and the other person was assumed to have no income at all. Some of the major studies of the period used this latter technique, thereby counting most wives as "dependent" on their husbands. Under either technique, an elderly couple living comfortably with its children, would, if it did not have its own source of income, be counted as poor and dependent.

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into the nature of the problem of old age and political sentiments toward its resolution.

Table 1 summarizes the pattern of support among the aged in New York.¹¹ As shown, of the 603,700 elderly people residing in the state in 1929, an estimated 90 percent were self-supporting or supported by friends and family. Of these, most were self-supporting on the basis of earnings, pensions, or other income. (Actually, an estimated 43.6 percent of the aged were self-supporting, but this figure counted as "dependent" all wives without their own sources of income.) The primary source of support among the aged was earnings. Less than 4

TABLE 1
SURVEY FINDINGS ON SUPPORT OF AGED POPULATION
IN NEW YORK

Class	Persons Sixty-Five and Older		Persons Seventy and Older	
	Number	Percent	Number	Percent
Estimated Total	603,700	100.0	350,400	100.0
Self-Dependent	263,507	43.6	126,535	36.0
Public Pensions ^a	50,390	8.3	38,478	11.0
Private Pensions	10,937	1.8	10,557	3.0
Current Earnings (excluding housewives)	172,000	28.5	60,000	17.0
Income	30,180	5.0	17,500	5.0
Dependent on Friends and Relatives (including housewives):	303,753	50.4	199,802	57.1
Dependent on Organized Charity:				
Public	12,924	2.1	9,095	2.6
Private	8,421	1.4	6,740	1.9
Confined by Government ^b	15,104	2.5	8,228	2.4

^aFederal civil and military retirement pensions, state and local retirement pensions, and military homes.

^bIncludes inmates of mental institutions and prisons. Those in almshouses are placed under "dependent on organized public charity."

SOURCE: New York Commission on Old-Age Security (1930, p. 39).

¹¹The New York study was the last major study prior to the Depression. Amounting to 700 pages, it provides an exhaustive and informative look at conditions and institutions prevailing in New York. See New York Commission on Old-Age Security (1930).

percent of the state's elderly were found to be dependent on organized public or private charity: 2.1 percent were in public almshouses and 1.4 percent received private charity. The balance, 2.5 percent, were confined in mental institutions or prisons. The Massachusetts Commission on Pensions reported similar findings.

There was poverty among the elderly, of course, just as there was poverty among people of all ages. According to surveys conducted in New York and Massachusetts, 10–20 percent of the elderly were in need of assistance, as evaluated by the standards of the time. These were people who had inadequate property (less than \$5,000) and inadequate income (less than \$400 annually) and who were without financially responsible children. Ignoring family status, the proportion was closer to 20–25 percent (see *New York Commission 1930*, pp. 48–78).

By and large, the elderly were a heterogeneous group, and their problems and circumstances differed from state to state. The proportion of elderly men who worked in 1930, for example, ranged from 47 percent in the Midwest to 75 percent in the South. In the Northeast, 48 percent of the elderly in public institutions were foreign born, whereas in the South, 30 percent were black. The proportion of the elderly in the overall population varied widely as well, from just 2–3 percent in many states to more than 8 percent in some New England states.¹²

Recognizing this diversity, there was little evidence to suggest that the cause of poverty in old age was the failure of short-sighted people to plan for retirement or the failure of financial institutions to meet the demands of foresightful workers. Instead, poverty in old age seemed to result from low earnings during working years and the consequent inadequacy of savings with which to weather a reduction or interruption of earnings; it was concentrated among people with few, if any, relatives. In the New York almshouse population, for example, 80 percent of the aged had never owned a home, 37 percent were illiterate or without formal education, 90 percent were widowed or single, 73 percent were without living children, and one-third had no living relatives. In New York's overall population, three-quarters of dependent elderly men had been unskilled farm or general laborers. In California, 70 percent of the needy aged were widowed or single, two-thirds had no living children, and more than two-fifths had neither living children nor other relatives.¹³

¹²"Care of the Aged" (1930), "Extent and Distribution of Old-Age Dependency in the United States" (1934), and Bureau of Census, *Paupers in Almshouses: 1923* (1925, p. 42).

¹³*New York Commission on Old-Age Security* (1930, pp. 415–17), and California State Department of Social Welfare (1929, pp. 34–38).

Equally important, it was not at all clear that the magnitude of the problem would increase over the years. Industrialization and the economic growth it fostered were bringing forth real wage gains for workers as well as innovations in financial markets, and the ability of workers to make advance provision for retirement was improving. As the New York Commission (1930, p. 21) reported in 1929:

There is a great deal of evidence which indicates that the people of this state are from generation to generation in a better economic situation . . . also that provision for the future is being made through the accumulation by individuals of large economic resources.

Private Savings, Insurance, and Pensions

Alongside the growth of real incomes in the late 19th and early 20th centuries, there was rapid growth in savings and a realignment of saving toward pensions, annuities, and life insurance. As illustrated in Table 2, the share of total personal saving accounted for by life insurance reserves and retirement pension funds rose from 7.3 percent in the period 1900–1908 to 12.1 percent in the period 1922–1929. As of 1929, total life insurance reserves stood at \$17.5 billion and pension funds (public and private) stood at \$2 billion.

Even more was going on than can be inferred from these aggregate figures, however. In the area of pensions and insurance, there were marked improvements for buyers in the terms of contracts, the net cost of policies, and the financial condition of providers that increased the overall attractiveness of these saving and insurance forms, particularly for low income workers.

As shown in Table 3, in 1929 there were 123 million life insurance policies in force representing \$102 billion, and, in that one year alone, about \$2 billion were paid out to policyholders.¹⁴ Each of the major forms of insurance known today were in existence, providing financial protection for the elderly in a variety of ways. Policies could be purchased to provide income for the policyholder in old age, for survivors of the policyholder, or for some mix of the two. Depending on the desired mix of savings and insurance, there were term policies, whole life policies, endowment policies, and annuities. Both individual and group policies were available, and virtually no policy was too small to be written.

At the turn of the century, fraternal societies provided the dominant source of insurance protection for wage earners. Their membership

¹⁴Bureau of Census (1975, p. 1058). See, generally, MacLean (1935), Davis (1944), Henderson (1909), Stalson (1942), and Keeler (1963).

TABLE 2
PERSONAL SAVING AND ITS PENSION AND INSURANCE COMPONENTS, SELECTED YEARS, 1900–1929

Year or Period ^a	Total Personal Saving ^b	Increase in Assets			
		Pension and Retirement Funds			Life Insurance Reserves
		Federal Government	State and Local	Private	
Amounts (millions of \$)					
1900	1,270	—	—	—	110
1908	2,000	—	—	—	180
1914	2,550	—	—	—	200
1920	6,570	20	20	—	520
1929	11,490	160	70	160	1,120
Shares (%)					
1900–1908	100	—	—	—	7.3
1909–1914	100	—	—	—	7.1
1922–1929	100	1.6	—	0.5	10.0

^aNormal periods exclude war years and recessions.

^bIncluding consumer durables.

SOURCE: Bureau of Census (1975, vol. 1, pp. 266–67); Munnell (1974, pp. 39, 107).

TABLE 3
LIFE INSURANCE POLICIES IN FORCE, 1900-1929

Year	Number (millions)	Value (billions of \$)				Average Size of Policy (\$)		
		Total	Ordinary	Group	Industrial	Ordinary	Group	Industrial
1900	14	7.6	6.1	— ^a	1.5	2,160	—	130
1915	41	21.0	16.7	0.1	4.3	1,800	830	130
1920	65	40.5	32.0	1.6	6.9	1,990	960	150
1925	97	69.4	52.9	4.2	12.3	2,270	1,340	170
1929	123	102.1	75.7	9.0	17.4	2,470	1,590	190

^aLess than \$500,000.

SOURCE: Bureau of the Census (1975, vol. 2, p. 1056).

was estimated at 5.3 million, and life insurance coverage amounted to \$6 billion. Societies were operated along the lines of mutual-life insurance companies and they offered low-cost insurance to members through the local lodge system. While the financial condition of fraternal life insurance was not always good, these plans were generally operating on the same reserve basis as commercial life insurance companies by the 1920s. In 1923, the assets of fraternal life insurance stood at a half billion dollars.¹⁵

Industrial insurance, introduced in the late 1800s, was a more recent development, and it too caught on quickly among industrial workers.¹⁶ Policies were small, averaging \$190 in 1929, and could be taken out on the life of family members at any age without medical examinations. Premiums, as low as \$2 or \$3 annually, could be paid on a weekly or semiweekly basis and were collected at the home of the insured. Because of the group insured (industrial workers had relatively high mortality and forfeiture rates) and the features offered, these policies were relatively expensive. Industrial insurance met a need, however, and was adopted rapidly. As of 1929, there were 82.9 million policies in force amounting to some \$17 billion. Small industrial policies were even common among the elderly poor.¹⁷

Finally, there was group life insurance, which emerged in 1911. Group insurance allowed risks to be pooled, mitigating the problem of adverse selection and reducing screening and administrative costs. The net cost of insurance for the average worker could be reduced accordingly. During the two decades that group life insurance was available prior to the Depression, the amount in force grew at twice the rate of ordinary life insurance (see MacLean 1935; Mehr and Cammack 1976). As of 1929, group life insurance in force stood at \$9 billion.

By the time social insurance was advocated in the 1920s, the life insurance industry was entering a "golden age" in which "all conditions affecting the business were good and kept getting better" (MacLean 1935, p. 497). Rising interest rates and declining mortality rates raised dividends and reduced the net cost of insurance to an all

¹⁵Goldsmith (1969, vol. 1, p. 462), and MacLean (1935, p. 357). See also Nichols (1917), Landis (1904), Lubove (1968, pp. 19–22), Tishler (1971, p. 23).

¹⁶See Stalson (1942, pp. 462–81), Davis (1944, pp. 1–11 and 318–19), McGill (1967), and MacLean (1935, pp. 385–400).

¹⁷In New York City, for example, an estimated 63 percent of the elderly poor had life insurance policies. Industrial life insurance policies were small, it should be noted, not only because of the market they served, but also because of legal maximums. In New York, the largest policy was \$1,000 (New York Commission on Old-Age Security 1930, pp. 67, 189).

time low. Between 1919 and 1929, the total amount of life insurance in force tripled, and both the annual amount of new insurance purchased and admitted assets doubled.¹⁸ By this time, most states regulated the investments and reserve positions of insurance companies and controlled the essential features of their contracts.

Although a later development than life insurance, private pensions emerged around the turn of the century and grew at a rate comparable to that of life insurance. A viable market for pensions had awaited economic, demographic, and legal changes that lengthened life spans, shortened work lives, and increased returns relative to ordinary savings. As these preconditions were met in the early part of this century, the market for private pensions expanded rapidly. Workers and their employers (or unions) both stood to gain from the long-term relationship implied by pensions.

For low income workers, the important developments were in industrial pensions.¹⁹ Introduced by the American Express Company in 1875 and the Baltimore and Ohio Railroad Company in 1880, industrial pension plans became prevalent in the railroad, public utility, iron and steel, oil, and banking industries by the 1920s. The details of plans differed, of course, but under a typical plan workers with 20–25 years of service could retire with a pension at age 65. Pension amounts generally were based on earnings, with supplements for longer service. The average pension in 1927 was \$605 annually (about a third of average earnings in industrial employment). Plans were typically non-contributory, meaning employees made no direct contributions. Whereas in 1900 there were fewer than a dozen industrial pension plans, there were 440 plans by mid-1929. During the 1920s alone, the assets of private self-insured pension funds rose from \$50 million to \$500 million (see Goldsmith 1969, p. 468).

As shown in Table 4, there were some 5 million workers covered by private pensions in 1928, of whom 4 million were covered by industrial pensions and about 1 million were covered by union pensions. Since these plans were still quite new, relatively few people were actually collecting payments—just over 100,000 people as of 1928, as compared to over a half million beneficiaries of public pensions. In total, some 6.4 million persons, or 14 percent of the labor force, were covered by a major public or private pension plan (other than fraternal).

¹⁸MacLean (1935, pp. 495–99), and Bureau of Census (1975, pp. 1056–60).

¹⁹The best single source is Latimer (1933).

TABLE 4
PENSION SYSTEMS IN THE UNITED STATES, 1928

Classes	Number Covered	Number of Beneficiaries
Government Employees		
Federal Executive Civil Service	568,715	14,119
State Employees	34,500 ^a	1,397
Municipal Employees	93,374 ^b	4,619
Teachers		
State	317,835	13,094
City	54,776	3,949
Carnegie Fund (including teachers' widows)	—	922
Policemen and Firemen	67,765	20,327
U.S. War Pensioners	—	491,194
Industrial Pensions (including railroads)	4,000,000	80,000
Trade Union Benefits		
Pensions	640,000	11,509
Disability for Old Age	352,000	—
Superannuation Benefits	143,000	—
YMCA and YWCA Secretaries	4,707	312
Ministers	—	28,319

^aFigures for Connecticut, Massachusetts, New Jersey, and New York. Maine and Pennsylvania also granted pensions to state employees.

^bFigures for Baltimore, Boston, Chicago, Detroit, Minneapolis, New York City, Pittsburgh, and San Francisco. Philadelphia also had a municipal employee pension system, but figures are not available.

SOURCE: National Industrial Conference Board (1931, p. 25), and "Care of Aged Persons in the United States" (1929, p. 3).

Proponents of social insurance were not impressed with private sector developments. They criticized private pensions for not giving workers contractual rights to future benefits, for paying benefits that were too low, and for being a financial long-shot.

It would be futile to argue that there were no problems with private pensions; there were. But the problems were not intractable and progress was being made. For example, most of the early pension plans were noncontributory and did not include explicit contract terms defining individuals' rights to future payments. Indeed, in such cases, the courts established that workers had no contractual rights to future benefits. The trend, however, was toward contributory pensions with regular vesting of contributions, and among noncontri-

butory plans, the trend was toward explicit benefit guarantees. Also the large majority of plans adopted in the 1920s were underwritten or reinsured by private insurance companies (see Latimer 1933, pp. 44–49, 681–738). Under these newer plans, the security of future benefits was less dependent on the solvency and good intentions of the pensioning firm.

It should be noted that the rate of failure of industrial pension plans was never high. Companies apparently went to great lengths to avoid renegeing on the implicit pension contract; even failing firms continued to make pension payments as a matter of course.²⁰ As recent research bears out, pensions have proved to be remarkably resilient over the years, with the capacity to “survive and even thrive under all kinds of economic conditions” (Ippolito 1986, p. 8).

Trade union pensions proved to be considerably less resilient than industrial pensions. Pension arrangements between unions and their members were notoriously underfunded and ill-equipped to handle economic downturns. Assessments were levied against members to finance payments to retired members, generally on a pay-as-you-go basis. Only as long as membership and wages grew—and grew fast enough to finance rising benefits—could plans such as these sustain themselves without sharp (and counterproductive) increases in assessments. As the New York Commission assessed the situation in 1929:

The trade unions maintaining [pensions] are faced on the one hand with a desire to retain them for purposes of attracting new members and on the other hand with a growing burden of payments necessitating assessments so high as effectively to discourage entrance by young men. Their future is indeterminable, with the chances strongly toward discontinuance.²¹

Of course, had pension-plan solvency, as opposed to income redistribution, been the real concern of social insurance advocates, proposed remedies would have been far less sweeping. The government presumably could have mandated that firms insure their pension plans or meet minimum funding standards.

With respect to the adequacy of private pensions, payments were already in the upper ranges of what would be offered under the Social Security Act, and they were rising with the growth of wages and the general expansion of pension systems. There was every reason to believe that this upward trend would continue.

²⁰See Latimer (1933, pp. 652–53, 677), and New York Commission on Old-Age Security (1930, p. 146).

²¹New York Commission on Old-Age Security (1930, p. 154). See also Latimer (1932).

The availability of private pensions in the early decades of this century is noteworthy given that tax incentives, often identified as a critical determinant of more recent pension growth, were largely absent. The favorable treatment of pension contributions relative to ordinary savings did not become a feature of the U.S. tax code until 1921. Even then, most people (over 80 percent) did not yet owe any federal income tax, and among those who did, the median marginal tax rate was just 4 percent. For large companies, the marginal tax rate was only 10 percent. In 1945, by contrast, when pension coverage was about to explode, most people were taxpayers and the median marginal tax rate for individuals was 23 percent, and for corporations it was 40 percent (see Ippolito 1986). With rising marginal tax rates, the favorable treatment of pension contributions would make pensions an increasingly attractive outlet for retirement savings.

Special Programs for Veterans and Public Employees

Not all workers had to await the expansion of the private pension system. Veterans—in a class of their own in terms of public support—and public employees had long enjoyed a variety of government programs providing income support in old age.

Homes, pensions, and other privileges had been available to veterans since the colonial period, and they flourished in the early decades of this century.²² According to one estimate, in 1910, Civil War pensions provided aid to two-thirds of the native white aged population in some Northern states; as of 1913, military pensions accounted for 18 percent of federal spending.²³ Although not restricted to the elderly, the federal pension system for soldiers and veterans was the “largest pension system in America and probably the most expensive in the world,” spending more than \$260 million annually during the 1920s (Epstein 1938, pp. 520–30). State and local spending on relief and pensions for soldiers and veterans amounted to \$80 million annually (see Bureau of Census 1926a, 1926b).

Public employee retirement systems were a more recent development. State and local retirement plans emerged in the 1890s for police, firemen, and teachers, and between 1911 and 1915 for most other public employees. The federal civil service retirement system

²²See Glasson (1968), Studensky (1917), “Public Service Retirement Systems: U.S., Canada, and Europe” (1929), and “Public Service Retirement Systems in the United States” (1929), “Care of the Aged by the Federal Government” (1929), “The Cost of Existing Retirement Systems” (1935), Epstein (1938, pp. 520–30), Bureau of Census (1914), Achenbaum (1978).

²³Tishler (1971, p. 89), and Achenbaum (1978, pp. 84–85).

was adopted in 1920. In 1927, the federal government was spending \$10 million on civil service pensions, and states and cities were spending \$55 million on pensions for former employees.²⁴

Public pensions had their own set of problems, of course, stemming from the ever-present political pressures and temptations to increase benefits while keeping taxes low. For present purposes, it is simply worth noting that for a segment of the aged population, government support was a significant part of the prevailing income support system. According to the studies commissioned in New York and Massachusetts, 10–12 percent of the aged population (70 and older) received public pensions during the late 1920s; counting pensions and relief, approximately 15 percent received some form of government assistance (see New York Commission 1930, p. 40).

Private and Public Charity

The development of new arrangements for redistributing income over time, particularly private insurance and pensions, would facilitate retirement planning and promote financial independence among the elderly in future years. But there remained the issue of those who were already old. What were the various means by which the elderly poor were being assisted?

Private Charity

The private sector had long retained the dominant role in the care of the poor of all ages, both in the realm of individual and family efforts and through more formal charitable efforts, such as those involving churches, nationality groups, and fraternal societies. Virtually all of the elderly who were not living in their own homes were living in the homes of family members (see Tishler 1971; Achenbaum 1978). The vast majority of benevolent institutions (other than almshouses) were private (see Bureau of Census 1905), and private philanthropy dwarfed government welfare spending.

As demonstrated throughout history, private charity had the capacity to respond quickly to the changing needs of the poor and to changing conceptions of the best way to provide assistance. An important innovation in this century was the private benevolent home for the aged, the forerunner of today's nursing home. Prompted,

²⁴In a 1927 study of states and cities, public retirement systems were found to exist for police and firemen in almost every city, and were very common for teachers. There were statewide systems for all public employees in six states, citywide systems in nine large cities, and twenty-one states had systems covering all teachers. See "Public Service Retirement Systems: U.S., Canada, and Europe" (1929), "Public Service Retirement Systems in the United States" (1929), and Achenbaum (1978, p. 121).

no doubt, by rising standards of living and increasing (labor market) mobility of family members, homes for the aged sprouted up throughout the United States in the second and third decades of this century. These homes offered private or semiprivate rooms, recreation, amusement, medical attention, and small burial allowances. In some cases, accommodations were made for surviving family members. According to the Bureau of Labor Statistics, there were 1,200 homes in 1929 housing about 63,000 elderly people. Most of the homes were run by religious and fraternal organizations, although trade unions and nationality groups also sponsored homes.²⁵

The Public Almshouse

Standing in stark contrast to the private benevolent home was the county almshouse, which as late as 1929, was still the only form of permanent public assistance in most states.²⁶ Except in its capacity to provide food, shelter, and some degree of medical attention, the almshouse was decidedly not tailored to meet the needs of the elderly. Since before the days of asylums, hospitals, and reformatories, the almshouse was designed to serve all classes of “defectives” unable to care for themselves. Most almshouses were very old, lacking modern sanitation and electricity. While in some states almshouses had effectively become free hospitals for the poor and there had been some effort to segregate the elderly from others, typically inmates were not segregated on the basis of health, age, or sex.

Fortunately, reliance on the almshouse was very limited. According to the Bureau of the Census, 42,000 of the nation’s elderly, or less than 1 percent, resided in almshouses in 1923. This proportion was virtually unchanged since the earlier census in 1880.²⁷

All signs indicated that the almshouse was a thoroughly outdated institution in the 1920s, about to be replaced by greater reliance on cash assistance and, in time, the public hospital and the modern nursing home. The people who had once dominated the almshouse population—people under 65 who were blind or deaf, or who had epilepsy or mental disorders, for example—had been removed to new institutions specifically designed to meet their needs. The remaining almshouse population was disproportionately aged (54

²⁵“Care of the Aged in the United States” (1929a, pp. 1–21), and “Care of Aged Persons in the United States” (1929).

²⁶U.S. Committee on Economic Security, cited in Stevens (1970, p. 20), and Armstrong (1932, pp. 394–97). For more on almshouses, see Bureau of Census, *Paupers in Almshouses*, 1904 and 1923 editions, “The Cost of American Almshouses” (1925), “Cost and Conduct of American Almshouses” (1927), and Bureau of Census (1914).

²⁷Bureau of Census, *Paupers in Almshouses: 1923*.

percent in 1923 as compared to 26 percent in 1880). The fact that many counties had been left with institutions not designed for what had become their primary use naturally focused attention on new ways to care for the elderly poor.

Outdoor Relief

Throughout the years, local governments supplemented institutional care with some outdoor relief, whether in the form of payments for groceries or medical services, for example, or outright cash. Although sharply curtailed in the late 1800s, outdoor relief was reviving in the early part of this century. Between 1915 and 1928, outdoor relief by state and local governments grew at twice the rate of overall government spending, and it rose as a share of charity spending as well.²⁸ It was still not the rule, however. In the late 1920s, just 9 percent of state charity spending and 36 percent of local charity spending was in the form of outdoor relief (see Bureau of Census 1926a, 1926b). Some major cities, such as San Francisco and New York, were legally prohibited from dispensing outdoor relief.

The role of government was changing, though. Beginning in this century, categorical assistance programs emerged, making welfare payments available to all persons meeting certain eligibility criteria. The first programs, all at the state and local level, were for mothers of dependent children, but old-age assistance followed soon thereafter. Beginning in 1914 and continuing through 1929, old-age assistance programs were authorized in Arizona, Montana, Nevada, Pennsylvania, Wisconsin, Kentucky, Washington, Colorado, Maryland, California, Utah, Minnesota, and Wyoming. Designed to provide a steady, subsistence level of income for the elderly poor who were without family, these programs typically provided for a small monthly payment (not to exceed \$25–\$30) to people 70 years of age and older with very low incomes (below \$300 annually) and assets (less than \$3,000).²⁹

The new old-age assistance programs did more to signal a change in the role of the government than they did to actually improve public support for the elderly poor. The adoption and implementation of old-age assistance programs were fraught with constitutional, financial, and political obstacles. Laws were vetoed, found unconstitu-

²⁸See Bureau of Census (1926a, 1926b); also Weaver (1982, pp. 22–23), Clarke (1940), Warner (1908), Warner et al. (1930), Trattner (1974), and Abbott (1966).

²⁹On the trend toward old-age pensions, see Douglas (1939, pp. 5–10), Epstein (1938, pp. 532–50), National Industrial Conference Board (1931, pp. 44–65), “Old-Age Pensions and Relief” (1927, 1929), and New York Commission on Old-Age Security (1930, pp. 220–70).

tional, repealed, and amended. Prior to the Depression, the rate of county participation and the number of pensioners remained very low. Under the new laws, the localities were empowered to collect and dispense public funds for the care of the elderly poor; they were not required to set up assistance programs and generally were not subsidized to do so. Nevertheless, a structure was in place to handle the cash needs of the elderly, a structure that would be put to the test during the Depression.

Old-age assistance was an idea whose time had come. Social reformers had gained the support of the fraternal societies and trade unions, two long-time opponents of government action, in the push for old-age assistance. Most of the states investigating the problems of the aged concluded that old-age assistance was preferable to prevailing public arrangements for the poor.

On the Eve of the Great Depression

As the 1920s drew to a close, the family and voluntary associations remained the bulwark of support for the needy of all ages. Yet, political sentiments were crystallizing around proposals for direct cash assistance for the elderly poor. Old-age assistance laws had been passed by a quarter of the states and legislation was under consideration in most others. Very likely, the trend toward cash assistance provided by state and local governments would have continued even in the absence of the Depression.

Proposals for compulsory social insurance, by contrast, were unable to generate any popular support. By and large, the elderly who were poor tended to have been poor or to have had low incomes as younger people; workers who had sufficient resources to save for retirement found outlets for their savings in a well-developed market for life insurance, a developing market for private pensions, and a variety of other financial arrangements. The available evidence suggests that private financial institutions, in combination with public and private assistance for the poor, accommodated the retirement income needs of the elderly. As those needs changed, private institutions were responding and the basis for compulsory insurance was weakening.

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