Explorations in Economic History 47 (2010) 1–27

Contents lists available at ScienceDirect

Explorations in Economic History

journal homepage: www.elsevier.com/locate/eeh

Welfare spending and mortality rates for the elderly before the Social Security era

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ARTICLE INFO

Article history:
Received 1 September 2008
Available online 23 May 2009

Keywords:
Mortality rates
Old-age assistance
Social Security
Elderly

ABSTRACT

We analyze the impact of the original means-tested old-age assistance (OAA) programs on the health of the elderly prior to the first Social Security pension payments. Before 1935 a number of states had enacted their own OAA laws. After 1935 the federal government began offering matching grants and thus stimulated the adoption of OAA programs by the states. A new panel data set of 75 cities for each year between 1929 and 1938 combines mortality rates for older age groups with three measures of the OAA programs, spending on non-age-specific relief and a rich set of correlates. The data are analyzed using difference-in-difference-in-difference and instrumental variables methods. Our results suggest that old-age assistance in the 1930s had little impact on the death rate of the elderly. Our sense is that the OAA programs in the 1930s transferred the elderly from general relief programs without necessarily increasing the resources available to them.

1. Introduction

During the Great Depression, the Roosevelt Administration faced substantial pressure to make special provisions to aid the elderly poor. The elderly tended to have the highest poverty rates among age groups, and several advocates received extensive publicity and support in opinion polls when they lobbied for expansive programs to help the elderly.[2] When the Roosevelt Administration turned to the issue in late 1934 and 1935 they faced a set of choices. One was to help the states expand their old-age assistance programs that paid benefits to the elderly poor. A second was to provide an old-age pension plan for all workers, who would pay taxes into a fund while working and then receive benefits based on their contributions after age 65. The Social Security Act of 1935 chose both, an old-age assistance (OAA) matching-grant program that aided the states in paying benefits to the needy elderly and the national Old Age Security Income (OASI) old-age pension for the working population.

The problems with funding OASI pensions, widely known as Social Security, have led to a variety of debates over restructuring the OASI tax and benefit structure to favor lower income retirees. In the debates, few people mention that the U.S.

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[2] The most famous of these plans was the Townsend Plan, which called for $100 per month to be paid to the elderly, who were then expected to spend the entire sum as a stimulus to the economy. This plan essentially called for a transfer of 40% of annual GNP to the elderly for this purpose.

0014-4983/$ - see front matter
doi:10.1016/j.eeh.2009.05.005

presently has means-tested old-age assistance programs under the Supplemental Security Income system, which is based on the original state old-age assistance programs. The debates over the OASI program raise a question about government action for old-age security. What would have happened had the federal government never adopted the OASI old-age pension and the U.S. had just continued forward with the state-based old-age assistance programs? In hindsight, it may seem odd to rely on the states, but it should be remembered that workers' compensation, unemployment insurance, aid to children, and aid to the blind still remain state-based programs.[3]

Prior published work on OAA focused on labor force participation and living arrangements. Parsons (1991) found that OAA benefits account for about half of the decline in the elderly work force between 1930 and 1950, while Friedberg (1999) showed that labor force participation would have risen slightly in the absence of OAA programs. Costa (1999) found that the 27% increase in average OAA benefits between 1940 and 1950 explains about 80% of the decrease in the proportion of older non-married women living with family members. Further, states that disallowed benefits to women with family who could care for them and states with lien requirements increased the share of women living with relatives.

We examine the impact of the old-age assistance state programs on elderly mortality rates during the period from 1929 through 1938 before the first OASI payments were issued.[4] The state programs made cash payments to the *needy* elderly to allow them to live on their own rather than among the needy population in almshouses provided by local governments.[5] Between the late 1920s and 1934 more than half the states adopted old-age assistance. After the Social Security Act of 1935 offered matching grants, all of the states eventually began paying old-age assistance benefits.

We take advantage of the timing of the implementation of old-age assistance programs across states and the different benefits offered in the programs to assess their impact on the mortality rates of the elderly.[6] We create a new panel data set for 75 cities with annual data for the years 1929 through 1938 that combines data on mortality rates for different age groups and information on OAA benefits and other forms of government relief spending. To avoid confounding effects, we stop the analysis before the national Social Security pension system started to pay benefits. The relationship between old-age assistance and mortality is estimated using three measures of the program, several specifications, and multiple procedures ranging from difference-in-difference to difference-in-difference-in-difference analysis to instrumental variables. The results suggest that other relief programs did not reduce elderly mortality. After investigating several hypotheses about differences in the types of deaths experienced, the findings lead us to believe that the introduction of OAA in the 1930s was primarily an administrative shift that moved the elderly who most likely to be at risk of dying from the general relief rolls to the OAA relief rolls without changing the access to resources for the elderly poor.

2. Old-age assistance programs

Local governments in the United States held the primary responsibility for providing benefits to the poor through the first decade of the 20th century. The states became more heavily involved with the introduction of mothers' pensions, workers' compensation, and aid to the blind during the 1910s and 1920s.[7] Specific legislation targeted at the elderly was first passed in several Western and Midwestern states during the 1920s, as seen in Table 1 for the states covered in our city sample. Details of the initial state laws are shown in Table 2. The early laws gave the option to local governments to create county-financed programs specifically targeted at the elderly. As the country sunk into Depression, studies in New York in 1930 and Connecticut in 1932 found that nearly 50% of the populations aged 65 years or older had less than an estimated subsistence income level of $25 per month. The share of elderly individuals with less than $300 per year in income and property valued at less than $5000 exceeded 46% in Connecticut and 74.5% in New York City (Old Age Security Staff Report, 1935).

Over half of the states responded to the problems of the elderly by passing old-age assistance programs intended to "give aid to each applicant in his or her home or in some other suitable home in preference to placing him or her in an institution (Florida, 1935 Bill)." Essentially, the elderly poor were to be moved from the existing poor law system into their own categorical assistance programs. Over half of the states in Table 2 prevented the OAA recipients from receiving any other form of

[3] There is no federal involvement in workers' compensation, the federal government handles administrative costs for unemployment insurance and offers matching grants for aid to children under the Temporary Assistance for Needy Families and for aid to the blind.

[4] Balan-Cohen (2007) independently in an as yet unpublished paper has been addressing the same issue with a different data set for states covering the period 1934–1955. We compare our results to hers later in the paper.

[5] Although the state programs have often been described as old-age pension programs, they in no way resembled the modern OASI pensions because they were not based on payments of taxes in advance of old-age in return for payments upon reaching age 65. The elderly needy with property did contribute some resources. In many states OAA recipients who had property often had to sign over their property or allow the government a first lien on the property to receive benefits.

[6] OAA is among several New Deal programs included in the 1930s relief programs examined by Fishback, et al. (2007) in their analysis of the demographic impact of relief spending for 114 cities in U.S. between 1929 and 1940. They find a negative relationship between relief spending per capita and infant mortality, suicide rates, and several major causes of noninfant deaths.

[7] The federal and state governments in the United States struggled with the issue of specific relief to the elderly later than in many other western countries. In 1889 Germany was the first country to provide a general OASI-style old-age pension plan through compulsory contributory insurance. Other European and Latin American countries followed suit over the next 30 years. Most of the systems covered only employed workers and provided benefits for both invalidity and old age, although Switzerland and Latin American countries limited the coverage to workers of different categories. Denmark in 1891 and several other countries opted instead for OAA-style assistance targeted at the elderly people with insufficient means. Great Britain started in 1908 with a system of non-contributory means tested benefits for the elderly but then switched to a compulsory contributory OASI pension program in 1925 (Committee on Economic Security, 1935, Tables A, B and C).