

Old-Age and Survivors Insurance for Small Businessmen

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ONE GROUP WHICH HAS FELT keenly the impact of the war is the independent small business proprietors. Shortages of labor, unavailability of many kinds of goods, rationing, price ceilings, and rising costs have made it more and more difficult for the small operator to stay in business. Thousands have already closed their doors. By the end of this year, a net loss of more than 300,000 establishments has been estimated for the retail field alone.

Many who have been forced to give up the struggle to keep their businesses going are now too old to begin again in a new occupation. Often they have meager resources. The remaining assets of the business and the savings of its proprietor are seldom sufficient to pay the outstanding debts and leave something over for retirement. Even in peacetime, the small business group has little more security than the majority of wage earners. It has been estimated that in 1935-36, the period just after the depth of the depression, more than a third of all small business operators had incomes of \$1,000 or less, and almost half were living on less than \$1,250 a year. Probably three-fourths of the independent retailers, taxicab and truck operators, and garage owners cleared less than \$1,000, and about a third of them less than \$500. The proprietors of restaurants, cleaning and pressing shops, beauty parlors, and similar "personal service" businesses were at about the same income level.

With such low incomes, it is difficult for small enterprises to accumulate the additional capital needed for expansion, except by borrowing from outside sources at high interest rates. Consequently, small businesses are usually on an insecure financial footing, and failures among them are frequent. The Small Business Committee of the Senate reports¹ that, in the retail field, one out of three new concerns fails in the

first year, and two out of three close their doors within 6 years. The fear of business failure haunts the independent man quite as much as the fear of unemployment does the wage earner.

While the independent professional group generally has higher incomes than the majority of small business proprietors, the proportion who have low incomes is much greater than commonly supposed. More than 10 percent of the physicians, 13 percent of the dentists and attorneys, and 20-30 percent of the other professional groups had incomes of less than \$1,000 in 1935. Even among those earning much more than this, the onset of old age, with its accompanying decline in skills and earning capacity, is an ever-present source of worry. Premature death or permanent disability before reaching retirement age are also very real threats to the economic security of most professional men and their families.

Men in independent trades and professions are generally older and more likely to have dependents than are wage earners. More than half of them are over 45 years old, and only 14 percent are single. By contrast, only about a fourth of all employed persons in this country are over 45, and 28 percent are single. Protection against the premature death of the family breadwinner is therefore needed by the self-employed at least as much as by those who work for others.

One unhappy consequence of limiting the coverage of the old-age and survivors insurance program is that persons shifting in and out of covered employment make contributions as employees without getting the protection granted those more constantly in covered jobs. This anomaly occurs frequently in the case of the self-employed. Most small businessmen begin work as employees of others, in order to acquire skill and experience or to accumulate capital for an independent venture. Seldom, however, can adequate benefit rights be acquired under the program when the individual has long or frequent periods of unemployment or noncovered employment. Letters received by the

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¹Special Senate Committee to Study Problems of American Small Business, *Small Business Problems: Small Business Wants Old-Age Security* (Senate Committee Print No. 17), 1943, 30 pp.

Social Security Board from the self-employed show that they are keenly aware that the benefit rights they have accumulated as employees will be lost or reduced when they enter independent business. They plead for a chance to continue contributing, so as to maintain whatever level of potential benefits they have to their credit. While the income and resources of small business are limited, they could, by making small regular contributions, provide substantial social insurance protection for themselves. Through the pooling of small regular contributions it is possible to provide more comprehensive protection than each individual could provide separately.

Still more vocal is the demand of independent employers for the same protection they help provide for their workers. Grocers, blacksmiths, plumbers, printers, hardware merchants, jewelers, painters, druggists, undertakers, engineers, doctors, lawyers, manufacturers, and accountants have written to the Board, or to their Senators and Representatives in Congress, urging that some way be found whereby they too can be included in the program. Frequently they express an eagerness to contribute at the combined rate payable by the employee and his employer and to accept any reasonable basis for calculating their income.

The growing demand for inclusion of small businessmen under the old-age and survivors insurance program reflects their increased sense of insecurity under wartime conditions. It also indicates a wider realization that social insurance protection is an essential part of a more general program to safeguard small enterprise in the present and post-war world. The plight of small business, and measures to alleviate it, have received careful study by the Senate Small Business Committee. As one of a series of reports on the difficulties faced by small business, the Committee recently published a monograph² examining the reasons for excluding small business from the old-age and survivors insurance program, and considering suggested methods for overcoming the problems that have thus far been a bar to coverage.

Because many small businessmen are not used to reporting their incomes to the Government and do not keep the necessary records, some plan was

² See footnote 1.

needed to facilitate income-reporting in such cases. A plan has now been developed which would require the minimum of detailed records or reports. Income-tax payers, for example, might use the same report for social security contribution and income-tax reporting. Employers might add their own names to the quarterly wage returns they make for their employees. The self-employed who have no employees and who are exempt from the income tax could value their services on some simple basis, such as the cost of hiring a substitute to do their work. To relieve certain marginal groups—the housewife, for example, who rents out a few rooms or keeps a boarder or two—from the burden of contributing on very small earnings which could hardly affect possible future benefits, an exemption of very small business incomes might be permitted.

The sort of plan mentioned above makes it readily feasible to bring the self-employed into the old-age and survivors insurance program and provide the same protection for them as for employed persons. Some adjustment might have to be made to compensate for the period in which small businessmen were not included in the program, so that, as latecomers into social insurance, they would not be at a disadvantage in comparison with persons who have been in the system from the beginning. Several alternatives, all of them workable, have been suggested for making these and other needed changes in the technical details of the program.

Old-age and survivors insurance protection cannot of course solve all the problems of small business. Many of these have to do with financing, credit facilities, and the competitive struggle between small and large concerns. Yet, in securing him against some of the important risks to which he is now exposed, social insurance coverage would give the man who runs a small business a better chance for survival in our free enterprise system. This would be particularly true if other hazards, such as permanent disability and sickness and hospitalization costs, could also be covered. Studies are going forward on methods of providing such protection for wage and salary earners. These studies are also keeping constantly in mind the inclusion of small business under a comprehensive social insurance plan.