

The First Two Years of Social Insurance in Mexico

By Wilbur J. Cohen*

MEXICO'S COMPREHENSIVE Social Insurance Act was signed by President Avila Camacho on December 31, 1942, and promulgated on January 19, 1943. Contributions became effective in the Federal District on January 1, 1944; in March 1945 the law was extended to the municipality of Puebla, State of Puebla, and in August 1945 to the municipality of Monterrey, State of Nueva León. This year has seen a further extension to the municipality of Guadalajara, State of Jalisco, under decree of March 1, 1946, and arrangements are now being made for the inclusion of other industrial communities.

In its first 2 years of operation the program has made remarkable progress. Contributions are being collected currently from 31,000 employers and 288,000 employees in the 3 areas of operation (table 1). Approximately 750,000 persons, dependents included, are insured for health benefits. The Mexican Social Insurance Institute owns and operates the great majority of its medical facilities. In the Federal District it has 14 clinics, 5 sanatoria, 107 factory medical posts, 5 analysis laboratories, 5 pharmacies, and other facilities, including special laboratories. In addition, a maternity hospital of 260 beds is nearing completion, and plans have been prepared for several additional hospitals. A few private units still provide health insurance benefits through contract with the Institute, but these services in December 1945 represented only 3 percent of all services provided.

By the end of 1945, approximately 8.6 million medical and pharmaceutical services had been furnished. The Institute employed 808 doctors, 215 pharmacists and laboratory techni-

cians, and 615 nurses, midwives, and medical social workers. These, with 1,521 administrative employees and 62 serving in an executive capacity, made a total personnel of 3,221 in the Federal District.¹

Under the capable leadership of Ignacio García Téllez, Director General of the Institute, great progress has also been made in obtaining the cooperation of employers, employees, the medical profession, and the public in the administration of the law.

The Mexican law provides cash sickness, maternity, and disability benefits; medical services (including hospitalization, drugs, dental care, and laboratory services) for the insured individual and his wife and dependent children; old-age and survivor benefits; and workmen's accident compensation. Contributions totaling 12 percent of wages are collected for these benefits, exclusive of workmen's accident compensation, as follows: 3 percent from employees, 6 percent from employers, and 3 percent from the Federal Government. In addition, the employer pays the entire cost of workmen's compensation, which is determined separately.

Administrative Organization

Chart 1 shows the general administrative organization of the Mexican Social Insurance Institute. An outstanding feature of the Mexican law, as of other social insurance laws in Latin America and in certain European countries, is the autonomous character of the Institute. In the United States the Social Security Board is a regular agency of the Federal Government. The Mexican Social Insurance Institute has a somewhat different status, difficult to define but apparently designed to give it all the advantages of both a Government and a private agency, though actually it is neither.

It is an autonomous corporation operating under the legislation by which

it was created to carry on a "public national service"—as social insurance is defined in article 1 of the law. Its governing body, the General Assembly of 30 members serving terms of 6 years, is composed equally of representatives of labor, management, and the Government. So, too, are the Technical Board of 9 members (in addition to the Director General) and the Supervisory Committee of 3 members, all elected by the General Assembly. The President of the Republic appoints the Director General of the Institute and one-third of the members of the General Assembly. Organizations of workers and those of employers appoint their own members of the Assembly. However, in accordance with a transitional provision under the Social Insurance Act, the President named the labor and management as well as the Government members of the Technical Board. The law conferred on this Board the powers of the General Assembly and Supervisory Committee for the first 2 years of the program's operation.

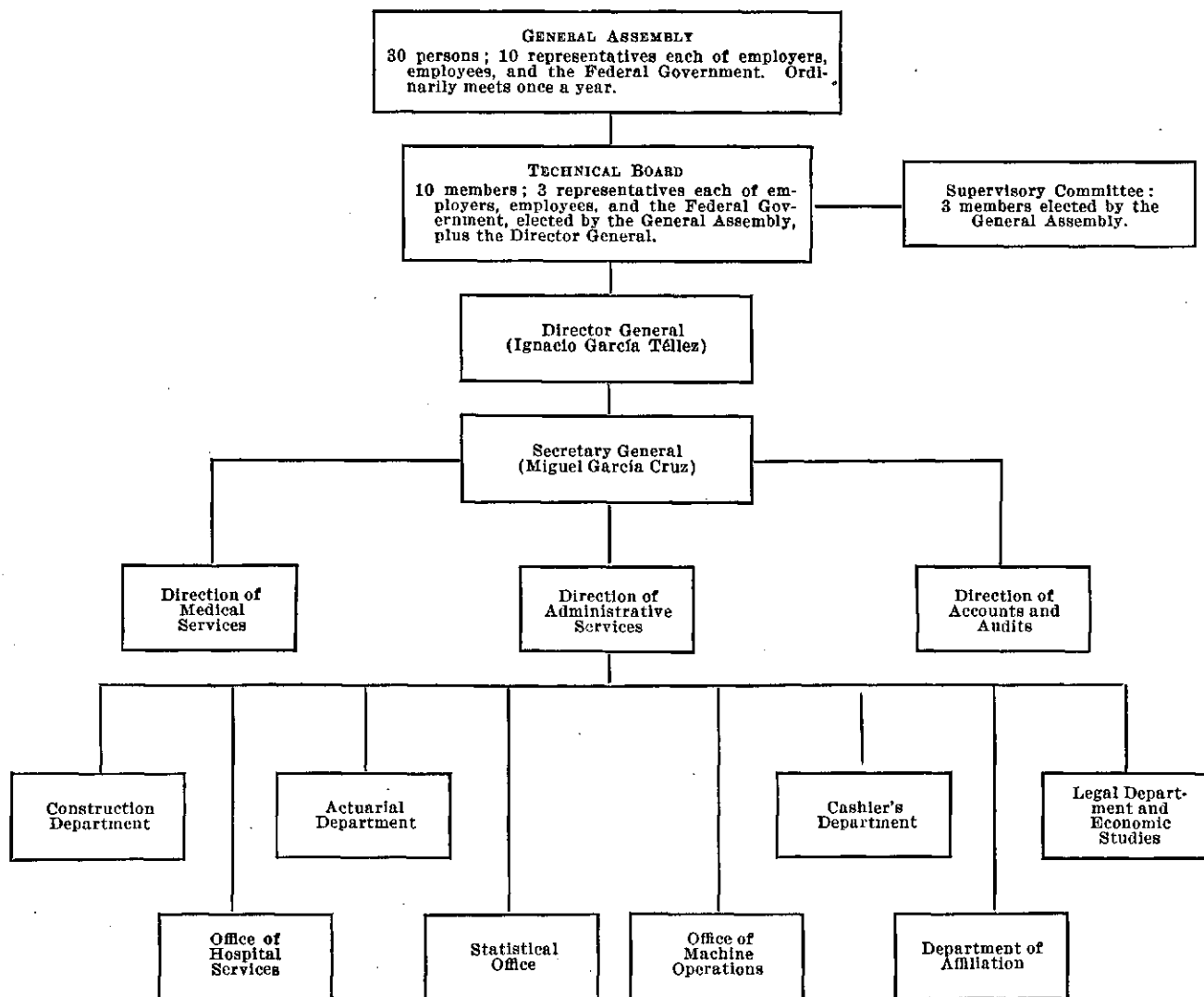
The Institute is completely autonomous in such matters as selection of personnel, general administrative policies, and—subject to the general legal provisions on investments and other matters—the management of its funds. While the Social Insurance Act sets forth penalties for failure of employers and members of the staff of the Institute to abide by the law, the Institute has wide latitude in issuing regulations on numerous substantive matters not spelled out in the law. For instance, the Institute may enter into contracts for voluntary and additional insurance, subject to such special conditions and scales as it may establish, provided that these are approved by the Ministry of Labor and Social Welfare.

The major significance of this autonomy is considered to be the separation of the Social Insurance Institute from politics. It is pointed out, for example, that the social insurance organization can employ doctors without getting involved in the question of "state medicine," since such doctors are not Government employees but, rather, employees of a corporate body, just as if they were employed by a corporation, business, university, hospital, or research center.

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¹ The personnel at Puebla and Monterrey totaled 227 and 155, respectively.

Chart 1.—General Organization of the Mexican Social Insurance Institute, January 1, 1946



Occupational Injuries

Another outstanding feature of the Mexican law is that compensation and medical care for occupational injuries are included as a part of the social insurance program. The Social Insurance Institute not only collects the contributions for this program but also administers the benefits—both medical and cash. Private insurance companies have no connection with the program.

The primary reason for integrating workmen's compensation in the social insurance system, according to the Director General, Señor García Téllez, was the failure of the former system

to protect the rights of the worker, his family, and the community as a whole. Under a system in which the employer and private insurance companies are responsible for providing the insurance protection, the Director General holds, major emphasis is placed on reducing benefit costs rather than on the care and cure of the injured workman. Moreover, controversies inevitably develop as to whether an injury, accident, or disease is "work connected" or not. When medical care for both industrial and nonindustrial accidents and disease is provided under the same administrative set-up, the workmen are

assured of prompt care irrespective of the cause of the injury or illness.

The Mexican authorities are firmly convinced that this provision of their law will prove to be sound in practice and will be adopted by other nations. Venezuela, Paraguay, and Ecuador have already integrated their workmen's compensation laws with the social insurance program, Brazil has issued regulations for the early achievement of that objective, and Costa Rica is considering such action.

Coverage

The Mexican law provides that the President of the Republic, on recom-

mendation of the Institute, may put all or any part of the benefits into effect on a given date and may determine the geographic area in which the act will apply. The Institute took the bold step of recommending that the entire law be put into effect in the Federal District, instead of introducing the several parts of the program one at a time.

At the end of November 1945, more than 287,000 workers were covered in the Federal District and by the Regional Funds of Puebla and Monterrey. Table 1 shows the distribution, by industrial group, of employers and currently insured workers. Earlier information on the sex and age of workers registered in the Federal District in December 1944 showed that 76 percent were men and 24 percent women, while approximately two-thirds were under 33 years of age. The total numbers of covered persons on November 30, 1945, in the three regions of operation were:

Region	Total	Workers	Dependents
Total.....	744,207	287,856	456,411
Federal District.....	606,250	233,173	373,077
Puebla.....	60,996	22,591	38,405
Monterrey.....	77,021	32,092	44,929

The following tabulation shows the number and percent of covered employees by wage classes up to the end of 1944:

Class	Daily wage (in pesos)		Number	Percent
	More than	Not more than		
Total.....			286,690	100.0
I.....		1	3,780	1.3
II.....	1	2	16,190	5.6
III.....	2	3	69,440	24.3
IV.....	3	4	67,803	23.7
V.....	4	6	61,446	21.4
VI.....	6	8	27,261	9.5
VII.....	8	10	15,467	5.4
VIII.....	10	12	6,015	2.3
IX.....	12		18,679	6.5

Approximately 30 percent of all registered workers received daily wages of not more than 3 pesos (60 cents); about 55 percent received not more than 4 pesos (80 cents); and 75 percent, not more than 6 pesos (\$1.20). Unpublished data for 1945 indicate that in the second year of operation only about 7 percent of

Table 1.—Number of employers and employees under the Mexican social insurance program, by type of activity, November 30, 1945

Type of activity	Employers					Employees				
	Total		Federal District	Puebla	Monterrey	Total		Federal District	Puebla	Monterrey
	Number	Percent				Number	Percent			
Total.....	31,281	100.0	26,815	2,167	2,299	287,856	100.0	233,173	22,591	32,092
Agriculture, forestry, stock raising, and fishing.....	206	.7	161	45		2,599	.9	2,402	197	
Mining, petroleum, and natural gas.....	80	.3	80			2,518	.9	2,518		
Industry.....	9,557	30.5	7,964	845	749	163,186	56.7	125,888	17,729	19,569
Communication and transportation.....	4,844	15.5	4,505	214	125	27,083	9.4	24,809	874	1,400
Commerce.....	15,894	50.8	13,567	1,005	1,322	90,685	31.5	76,199	3,633	10,853
Professions and liberal occupations.....	698	2.2	536	58	104	1,780	.6	1,352	158	270
Other.....	2	(¹)	2			5	(¹)	5		

¹ Less than 0.05 percent.

Source: *Breve Compendio Estadístico*, No. 2, January 1946, pp. 10-11.

the registered workers received daily wages of 3 pesos or less, almost 80 percent earned from 3 to 8 pesos, and 14 percent received 8 pesos or more. The minimum daily wage in the capital is 3.65 pesos.

Benefits

The striking characteristic of the Mexican benefit formula for old-age, survivor, and permanent disability insurance is the heavy weight given, in determining the amount of benefit, to the length of time during which insurance contributions have been paid. Every weekly contribution beyond 200 paid by the Mexican worker increases his annual old-age or invalidity benefit by an equal amount. With continued insurance coverage—assuming 50 weekly contributions per year—the increment would result in doubling the basic benefit in about 18 years. Under the old-age and survivors insurance provisions in this country by contrast, the basic benefit is increased by 1 percent for each year of covered employment, that is, each year in which \$200 or more of wages under the system was earned. After 40 years of coverage, this increment would represent less than one-third of the total benefit amount.

Both systems have a basic benefit that is weighted in favor of the low wage earner. The Mexican act specifies a minimum old-age and invalidity benefit of 30 pesos monthly, or 40 percent of the first 75 pesos of monthly earnings. Under our Social Security Act, the first \$50 of average

earnings makes the retired worker eligible for a benefit equal to 40 percent of his wages (but not less than \$10 a month). The basic benefit above the minimum under the Mexican law is about 20 percent of the wage; each full year of contributions after the first 200 weeks results in an increment averaging about 7 percent of the basic benefit. In the United States, the person earning wages of \$75 a month receives a basic benefit of 30 percent (plus the increment), and the person earning \$250 per month receives 16 percent (plus increment).

An important difference between the laws of the United States and Mexico is that in this country the retirement benefit is increased by one-half when the insured individual has a wife 65 years of age or over. No such dependent's benefit is provided in the Mexican law. Thus, in the United States the retired worker with a wife would receive a basic benefit (exclusive of the increment) of 45 percent of his wages if he had been earning \$75 per month, and 24 percent if he had been earning \$250 per month. Significant aspects of the cash benefits of the Mexican system are summarized in table 2. Benefits are expressed as a proportion of basic wage to permit comparison with plans of other countries.

Eligibility Conditions

Under the health insurance provisions of the Mexican law, mere possession of a social security account number entitles a worker and his

family to medical care, including surgery, hospitalization, and medicines. No period of contributions or employment is required. Eligibility for cash benefits during temporary disability requires only 6 weekly contributions during the 9 months immediately preceding the sickness. Cash maternity benefits are paid after 30 weekly contributions during the 10 months immediately preceding confinement.

For the longer-run risks, 200 weekly

contributions are required for permanent disability and survivor benefits, and 700 for old-age benefits. Benefits for permanent disability and survivor insurance can become payable, therefore, at the end of 1947, and old-age benefits in 1957. The eligibility requirement for old-age benefits is equivalent to 14 years of contributions, a rather long time in comparison with the period required under Federal old-age and survivors insurance in the United States. Here,

the original eligibility period (for workers then near retirement age) was only 1½ years when payment of benefits began in 1940; the maximum requirement of 10 years will be effective in 1957 and thereafter.

The eligibility conditions under the Mexican law may be summarized as follows:

Program	Weekly contributions to establish eligibility
Medical service.....	None.
Cash sickness benefit....	6 during the 9 months immediately preceding sickness.
Cash maternity benefit....	30 during the 10 months immediately preceding confinement.
Old-age benefit.....	700.
Permanent disability....	200.
Survivor benefits.....	200.

Table 2.—Benefits as percent of basic wage and duration of benefits, Mexican social insurance system

Type of benefit	Benefits as percent ¹ of basic wage (unless otherwise stated)	Benefits for dependents	Duration of benefits
Occupational injuries			
Worker:			
Temporary total disability.	75.....	None.....	During disability up to 52 weeks.
Permanent total disability.	66½.....	None.....	During disability.
Permanent partial disability.	According to schedule in Federal Labor Code. ²	None.....	During disability.
Survivor:			
Widow.....	24.....	20 percent of total disability benefit for each half orphan. ³	Life or until remarriage for widow; ⁴ to age 16 for child. ⁴
Children (whole orphans).	20 ⁵		To age 16. ⁶
Parent (paid only if no wife or children qualify).	22 ⁶		Life.
Funeral grant.....	1 month's salary.....		Lump sum.
Sickness (nonoccupational) and maternity			
Temporary disability.....	40 ⁷	None ⁷	26 weeks (from 7th day).
Maternity (insured woman).	40.....	None.....	42 days before and after confinement.
	100.....	None.....	8 days before and 30 days after confinement (if woman abstains from paid work).
Nursing benefit (insured woman). ⁸	20.....	None.....	Up to 6 months.
Funeral grant.....	120 pesos.....		Lump sum.
Invalidity, old-age, survivor			
Permanent disability.....	20 plus 1.5 percent of basic wage for fifth and subsequent contribution years. ⁹	None.....	During disability.
Old-age.....	20 plus 1.5 percent of basic wage for fifth and subsequent contribution years. ⁹	None.....	Life.
Unemployment, ages 60-64.	Not yet specified ¹⁰		
Survivor:			
Widow ¹¹	8 plus 0.6 percent of basic wage for fifth and subsequent contribution years.	20 percent of benefit payable or paid for each half orphan. ¹²	Life or until remarriage for widow; ⁴ to age 16 for child.
Children (whole orphans).	6 plus 0.45 percent of basic wage for fifth and subsequent contribution years.		To age 16.

¹ Approximate; most benefits based on wage classes.

² Amount based on percent of disability sustained; if less than 16 pesos monthly, a lump sum equal to 5 times the annual benefit is paid.

³ Sum of survivors' pensions may not exceed amount of permanent disability pension.

⁴ In case of remarriage, lump sum is paid equal to 3 times the widow's annual benefit.

⁵ Or beyond age 16 if child is totally incapacitated.

⁶ Divided equally among dependent parents.

⁷ Benefits suspended if insured is hospitalized; half benefit amount paid wife and children.

⁸ In cash or kind; if cash, may not exceed half normal maternity benefit.

⁹ Minimum benefit 30 pesos monthly.

¹⁰ Will be specified in regulation later.

¹¹ May include common-law wife.

¹² Sum of survivors' benefits may not exceed the amount paid or payable to the insured principal.

Old-age and permanent disability benefits are by law suspended during any period when the insured person performs work covered by the social insurance system. The law does not contain any similar provision for survivor benefits.

Financing

Contributions for the social insurance system (exclusive of workmen's compensation) have been allocated under the Mexican law as follows:

Source	Total	Old-age and survivor disability insurance	Health ¹
Total.....	12.0	6.0	6.0
Employer.....	6.0	3.0	3.0
Employee.....	3.0	1.5	1.5
State.....	3.0	1.5	1.5

¹ Includes cost of medical care and of cash benefits for temporary disability and maternity.

Contributions are collected by means of a pay-roll reporting system. Contributions for workmen's accident compensation are collected along with other social insurance contributions.

A review of financial developments during the first 2 years (table 3) shows a total income for the period of 99.6 million pesos. Of this amount, 36.8 million pesos was spent and 62.7 million pesos represented accumulated reserves. The Government contribution totaled 21.4 million pesos, as compared with employer-employee contributions of 75.4 million, and interest and other income amounted to 2.8 million pesos. Total employer-employee contributions exceeded all disbursements by 38.6 million pesos in the 2 years. In the second year

Table 3.—Income, disbursements, and reserves under the Mexican social insurance program, January 1944–December 1945 and January–December 1945

(In millions of pesos)

Item	January 1944–December 1945	January–December 1945
	Income, total.....	99.6
Employer-employee contributions.....	75.4	40.4
Sickness and maternity.....	32.5	17.4
Old-age, survivor, and disability.....	31.8	17.0
Workmen's compensation.....	11.1	6.0
Government contribution.....	21.4	11.5
Interest and incidental income.....	2.8	2.2
Disbursements, total.....	36.8	24.5
Benefits in kind.....	24.7	16.9
Cash benefits.....	3.7	2.3
Administrative expenses.....	8.5	5.3
Reserves, amount transferred to.....	62.7	29.6

alone, the margin of employer-employee contributions over expenses was 15.9 million pesos.

The legal provisions governing reserves make safety, liquidity, and income fundamental. They also emphasize the desirability of an investment policy designed to promote works of social utility. The following uses for reserves are prescribed: (1) purchase, construction, and maintenance of hospitals and other needed buildings; (2) workers' settlement programs (not to exceed 20 percent of total reserves); (3) mortgage loans, particularly for workers' houses; (4) bonds issued by the Federal and State Governments to finance public services, such as roads, electric power, sanitation, and other projects (not to exceed 20 percent); and (5) bonds issued by national credit institutions and Mexican industrial undertakings, provided these securities are the subject of frequent transactions (not to exceed 30 percent).

Educational Program

A major problem in initiating any social security program is to acquaint employers, employees, and the public with their rights and obligations under the program.

Shortly after contributions became payable under the Mexican law, there were sit-down strikes, protests, and street demonstrations against the collection of the contributions. This outbreak was due partly to the fact that many large industrial and commercial firms had contracts with

unions under which the employer was making contributions to the union for covering risks similar to those covered under the Social Insurance Act. Under the new law, however, the employee himself had to contribute, and the employer's social insurance contributions were substantially less than his previous contributions to the union. Another cause of discontent was the fact that sufficient medical facilities and personnel had not yet been organized, although most of the large firms had well-organized clinics operating under their contracts with the unions.

These early difficulties were successfully surmounted through discussions with employers and employees. The Social Insurance Institute leased the clinical facilities and personnel of the private employer clinics and thus was able to meet its responsibilities. The prompt provision of medical services—including drugs and medicines supplied through pharmacies set up by the Institute—was a concrete indication to the insured worker and his family that he was getting something valuable in return for his contributions.

The problems still facing the Social Insurance Institute, however, are formidable, and their solution will demand a long and intensive educational program. One basic problem is the high death rate, which 10 to 15 years ago was several times that of the United States at that time (table 4).

Experience in administering the medical provisions indicated almost at once that malnutrition is a basic obstacle to early and complete recovery. The Institute is, therefore, starting a widespread campaign to inform the public—particularly mothers—of the important nutritional needs which can be met from available foods. At the same time the Mexican Government is undertaking a general campaign against illiteracy.

The fundamental difficulty, however, lies in the low wages of the working population. As already pointed out, about 75 percent of all insured workers in 1944 received not more than \$1.20 a day.

The visitor to Mexico is struck by the pertinence of Sir William (now Lord) Beveridge's statement that "social insurance should be treated as one part only of a comprehensive policy of

Table 4.—Death rates per 1,000 persons, by specified ages, in Mexico, 1929–33, and in the United States, 1929–31

Age	Mexico, 1929–33 ¹	United States, 1929–31 ²		Ratio of Mexican to U. S. rates	
		White males	Negro males	White	Negro
All ³	26.7	11.7	17.4	2.3	1.5
Less than 1.....	192.8	62.3	87.3	3.1	2.2
1.....	70.1	9.9	16.6	7.1	4.2
5.....	9.2	2.7	3.0	3.5	3.1
10.....	4.8	1.5	2.1	3.3	2.3
20.....	9.8	3.2	8.6	3.1	1.2
40.....	16.1	6.8	13.0	2.4	.9
65.....	54.2	38.6	50.7	1.4	1.1

¹ G. Mortara, *Estadística*, March 1944. Data are for both sexes combined.

² Bureau of the Census, *U. S. Life Tables, 1929 to 1931*, tables 1-A, 1-C.

³ Crude death rates per 1,000 in 1930.

social progress. Social insurance . . . is an attack upon Want. But Want is only one of five giants on the road of reconstruction and in some ways the easiest to attack. The others are Disease, Ignorance, Squalor and Idleness."

The Mexican Social Insurance Institute has formulated a brief statement to guide its personnel in administering the program and to serve as an outline of objectives to the Mexican people. It is as follows:

The supreme wealth of nations is the health of the people.

Work is the emancipator's lever; sickness, a link of slavery.

Science and medical techniques are a human fight for the safeguard of useful lives.

The medical profession is not an instrument of profit but the task of a noble social service.

In the fight against sickness, each physician is a benefactor of humanity and a heroic soldier.

Medicines are articles of primary necessity. Social insurance places them above everything.

Social insurance sanatoria are homes for the health of the workers.

The protection of the home is the goal of social insurance.

Protection of the aged, the mothers, and the children is a safeguard for the past, the present, and the future.

He who earns more, pays more, for him who is suffering more.

The contributions to social insurance are returned to the city in the form of public works, such as hospitals, medicines, housing projects for the workers, schools . . .

The triumph of health leads the way to the betterment of the workers.

Those who fight against social insurance are enemies of their own community.

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age payment to Negro and to white families.

Income from payments of other types of public assistance and public aid programs was not significant. Only 9 percent of the families had such income, and it represented only 3 percent of the total cash income of all families.

Nonmonetary Income

More than half the families assisted by aid to dependent children had some nonmonetary income from public aid, most often surplus food through the stamp plan or direct distribution; WPA-processed clothing was occasionally given. Very little medical care was provided families through the assistance payment. Only in the District of Columbia did voluntary agencies provide medical services to any considerable extent.

About two-fifths of the families had nonmonetary income from private sources. This income usually took the form of free living quarters and food and had a value of at least \$5 for somewhat more than one family in four. Such income, as would be expected, was more prevalent in the rural States than in urban areas.

In the postwar labor market, earnings may be a much less important source of income for families assisted by aid to dependent children. Under such conditions, families will have to depend to a greater degree on the assistance payment. Regardless of the extent to which it is possible for families to add to their incomes with earnings, however, the welfare of the dependent children depends largely on the adequacy of the assistance payment. The objectives of the program can be increasingly achieved only as assistance is made available to needy children who are now denied aid be-

cause of restrictions in policy or practice and as the amount of assistance provided is sufficient for the family to live on. Since this study was made, considerable gains have been made toward these goals. Some States have liberalized their policies governing the determination of eligibility. Many of the States making the study have removed or made some adjustment in their maximums so that they could provide more nearly adequately for needy people. During this period of rising living costs, average assistance payments in most of these States have increased substantially—in some States to a marked degree. In some cases these increases have more than offset the rise in living costs and represent an improved level of living. These adjustments in the programs indicate efforts by the States to meet the needs of children under rapidly changing social and economic conditions.