

DIARY

Book 184

Social Security - Part I

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C O P Y

October 29, 1938

To: Mr. Haas

From: Mr. Reagh

Subject: Proposed social security legislation under consideration by the Advisory Council of the Social Security Board.

The Advisory Council of the Social Security Board has under consideration a plan which is referred to by the Board as AC-13. The proposed plan would have little effect on the average annuity payable to single individuals retiring during the next ten or twelve years, but thereafter the annuities to such individuals would be substantially reduced. On the other hand, the annuities payable to married individuals would be considerably greater than those payable under the existing law unless the wife was gainfully employed and entitled to an annuity in her own right.

The benefit formulae of the existing law and AC-13 are shown below.

Existing law:

- 6 percent of the first \$3,000 of wages, plus
- 1 percent of the next \$42,000 of wages, plus
- $\frac{1}{2}$ percent of all wages in excess of \$45,000.

AC-13:

- 6 percent of the first \$3,000 of wages, plus
- 1 percent of the next \$12,000 of wages, plus
- $\frac{1}{2}$ percent of the next \$30,000 of wages, plus
- $\frac{1}{2}$ percent of all wages in excess of \$45,000.

Under AC-13 the annuity is increased 50 percent if the individual has a wife who is not eligible for an annuity in her own right, i.e., the combined annuity of a married couple is guaranteed to be at least 50 percent greater than that of the husband alone. The above formulae produce identical benefits to those retiring after accumulating wage credits of \$15,000 or less. Single individuals retiring with wage credits in excess of \$15,000 would receive

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smaller annuities under AC-13. Married couples would always receive higher benefits under AC-13 unless the wife had substantial credits of her own, that is, wage credits which would entitle her to an annuity at least half as great as that of her husband.

AC-13 would provide insurance benefits payable in the form of temporary annuities in case the husband died and left minor children. On the death of the husband the widow would receive credit for one half of her husband's wage credits and thus would eventually become entitled to an annuity. Disability benefits are also included in the plan, but have not yet been approved by the Advisory Council.

The original social security plan proposed by the President's Committee on Economic Security included domestic servants, casual laborers, and farm laborers. The Treasury Department objected to the inclusion of these groups because it was not considered possible to administer the tax provisions of Title VIII. The Treasury Department also insisted that the taxes levied under Title VIII should be sufficient to cover the full cost of the benefits of Title II. The limited coverage of the plan made it essential that the system be self-supporting, for otherwise general taxes would have been necessary to pay benefits to the limited group covered under the benefit provisions. In attempting to work out a system of tax collection which would apply to domestic servants, casual laborers, and other excluded groups, the stamp method of tax collection was given careful consideration.

AC-13 does not appear to be any more capable of extension to domestic servants, casual laborers, etc., than is the existing law. The Social Security Board has mentioned the possibility of a stamp system for such groups, but the practicability of this device appears as doubtful as under the present law.

Any benefit formula which provides benefits greatly in excess of the accumulated tax contributions is certain to provide a dangerous incentive for overpayment of tax. Both the existing law and AC-13 are defective in this respect and therefore would encourage individuals excluded from benefit provisions because of occupation to enter the insured group at a time when they would receive large benefits in proportion to the tax contributions. Under

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AC-13 the benefits payable in respect to earnings in excess of \$15,000 have a value less than the corresponding taxes and therefore there would be a powerful incentive for underpayment of taxes after the individual had accumulated \$15,000 of earnings credits.

Even though it were possible to extend the coverage of AC-13 to domestic servants, casual and farm laborers, it does not seem possible that the coverage of such a plan could ever be extended to the self-employed. Any system which provides powerful incentives for either overpayment or underpayment of taxes would be particularly impracticable in the case of the self-employed, because of the difficulty of determining income for tax purposes.

In my opinion, AC-13 would not correct any of the important defects of the existing law. All that can be said in its favor is that it liberalizes the benefits payable in respect to married couples and thereby offers additional protection to housewives. The plan also would add desirable social benefits in respect to widows left with minor children. On the other hand, it increases, rather than decreases, some of the financial difficulties inherent in the existing law.

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October 29, 1938.

To: Mr. Haas
From: Mr. Reagh
Subject: Cost aspects of the present Social Security Act
(Title II. Old-age insurance).

The Committee on Economic Security submitted detailed cost estimates with its original old-age insurance plan. These cost estimates were based upon specific assumptions in respect to mortality, average earnings, etc., and showed clearly that the proposed scale of tax rates would not produce the revenues required to support the benefit plan. Thus the original plan would have required the general taxpayer to carry a substantial portion of the tax burden although only about 60 percent of the gainfully employed population was covered by the benefit provisions of Title II. At the insistence of the Secretary of the Treasury, the tax rates were adjusted to the extent necessary to meet the year by year disbursements as estimated on the basis of the assumptions set forth in the Committee's report.

On pages 51 and 52 of the Annual Report of the Secretary of the Treasury for the Fiscal Year 1937, there is a statement showing the actuarial status of the Old-Age Reserve Account as of June 30, 1937, and the valuation assumptions on which the estimates were based. At the bottom of page 52 it is pointed out that if "no action is taken to reduce the benefits to those entering the covered group in the future at high ages, the cost of the system may substantially exceed the amount of Title VIII taxes." Thus attention is called to a characteristic of the present law which is likely to upset the self-supporting relationship of Title VIII taxes with Title II benefits.

The valuation assumptions, although fairly conservative in most respects, probably fail to take into account the full effect of even normal migration between the covered and uncovered groups. The relatively high annuity in respect to the first \$3,000 of earnings provides a great incentive for those in the excluded group to enter the covered group for a period sufficient to obtain an earnings credit of at least \$3,000. Therefore the normal migration between covered and uncovered groups may be expected to increase. The following example illustrates the value of the annuity in relation to taxes when the aggregate amount of earnings is within the 6-percent bracket (up to \$3,000).

Consider an individual who was 60 years of age on January 1, 1937. He will be eligible for an annuity on January 1, 1942. Suppose he earns \$600 per year, so that his total wage credits at age 65 will amount to \$3,000. His annuity will be \$180 per year and such an annuity would cost \$1,700 if purchased from an insurance company at net cost. During his five contributory years he will contribute \$36 in the form of Title VIII taxes and his employer will contribute a like amount in his behalf. An individual entering the covered group at age 60 in 1949 or thereafter, with an average annual wage of \$600, will contribute \$90 for an annuity worth \$1,700 and his employer will contribute a like amount.

Many of those excluded from the provisions of the Social Security Act because of their present occupation will in the natural course of their working lives become temporarily or permanently employed in covered positions. Many housewives work in covered employment for at least a few years prior to their marriage, and most women are probably employed in covered positions for some period before they reach age 65. Many more will undoubtedly seek such employment for a short period in order to obtain the relatively high annuity in respect to the first \$3,000 of earnings. These partially covered groups will always receive benefits worth far more than the accumulated value of the Title VIII taxes payable by them or in their behalf, because a greater portion of their earnings will fall in the 6-percent bracket of the benefit formula. Several years of experience will be required before the effect of this migration on the cost of the system can be measured with reasonable accuracy. In the meantime the law will almost surely be amended in a manner which will at least partially eliminate this and other defects of the present law. It does not appear practicable to adjust the present tax rates or the annual appropriations to the Account in the face of almost certain and early changes in the law.

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November 3, 1938

To: Mr. Hanes

From: Mr. Haas

Attached are three memoranda, as follows:

- (1) Memorandum entitled "Survey of the Principal Issues Involved in a Revision of the Old-Age Provisions of the Social Security Act";
- (2) Two memoranda, prepared by Mr. Reagh who is the Government Actuary and an Assistant Director of Research and Statistics, entitled:
 - (a) "Cost Aspects of the Present Social Security Act (Title II. Old-Age Insurance)";
 - (b) "Proposed Social Security Legislation Under Consideration by the Advisory Council of the Social Security Board".

The above will be followed by other memoranda, two of which are now in the course of preparation, including one dealing with the monetary and general economic implications of any attempt to provide a system of old-age security by the "reserve" plan of financing.

C O P Y

November 3, 1938

To: Mr. Hanes

From: Mr. Haas

Subject: Survey of the Principal Issues Involved in a Revision of the Old-Age Provisions of the Social Security Act.

I. General Background

It now appears probable that the old-age provisions of the Social Security Act will come up for very serious discussion, and perhaps drastic revision, at the next session of Congress.

The Social Security Advisory Council, appointed jointly by the Senate Finance Committee and the Social Security Board in May 1937, in order "... to assist in studying the advisability of amending Titles II and VIII of the Social Security Act", expects to complete its report by the end of the year. The issuance of this report is bound to stimulate popular and congressional interest in the revision of the old-age provisions of the Act.

More important, the President has already placed himself on record in favor of an early liberalization of the old-age benefit provisions of the Act and has indicated the general lines along which he believes that it should take place in a letter to Chairman Altmeyer of the Social Security Board, dated April 28, 1938, of which the concluding paragraph reads as follows:

"I am particularly anxious that the Board give attention to the development of a sound plan for liberalizing the old-age insurance system. In the development of such a plan I should like to have the Board give consideration to the feasibility of extending its coverage, commencing the payment of old-age insurance annuities at an earlier date than January 1, 1942, paying larger benefits than now provided in the Act for those retiring during the earlier years of the system, providing benefits for aged wives

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and widows, and providing benefits for young children of insured persons dying before reaching retirement age. It is my hope that the Board will be prepared to submit its recommendations before Congress reconvenes in January."

The recommendations of the Board, submitted pursuant to the President's request, will probably also be made public somewhere around the year-end and, according to our present understanding, may differ in important respects from those of the Council. These two reports, coming so close together and possibly differing in important respects, are bound to stimulate further the already widespread popular and congressional interest in the subject; and, taken in conjunction with the President's expressed hope for an early liberalization of the old-age provisions of the Act, it will be surprising if the subject does not receive extended consideration at the next session of Congress.

This memorandum is devoted to a general survey of the principal problems arising in connection with the old-age provisions of the present Act and with the attempt to provide old-age security in general, and does not contain specific recommendations for action. In general, it may be said to raise issues rather than to solve them. It will be followed by other memoranda, including two now in the course of preparation, dealing respectively with the cost of the present system of contributory old-age benefits and with the monetary and general economic implications of any attempt to provide a system of old-age security by the "reserve" plan of financing.

The next section of the present memorandum is devoted to a brief summary of the old-age provisions of the Social Security Act as they now stand, and the succeeding sections to a discussion of the main issues which appear to be involved in any general revision of these provisions, namely, the issues of: Coverage (section III), Provision for Present Aged and Aging (section IV), Scope of Benefits (section V), and Method of Financing (section VI).

II. Summary of the Old-Age Provisions of the Social Security Act

Titles I, II, and VIII of the Social Security Act, approved August 14, 1935, taken together set up two systems of old-age security - one dependent upon a "means test", and so a form of relief, and the other given "as of right" regardless of the needs or financial status of the recipient, provided only that he has retired from gainful employment.

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A system of "old-age assistance" dependent upon a means test is set up by Title I of the Act. This title provides that the Federal Government will match dollar-for-dollar any sums which States, in accordance with approved plans, see fit to expend for the assistance of "needy individuals" (outside of institutions) over 65 years of age, provided that the Federal grant with respect to any such individual shall not exceed \$15 a month. A supplementary grant of 5 percent of the Federal contribution actually disbursed to the aged is provided for administrative purposes, and the Social Security Board is given wide powers to see that the State plans are administered in accordance with the Federal Act.

Federal disbursements for grants to States under Title I of the Act amounted to \$20 millions in the fiscal year 1936, \$125 millions in the fiscal year 1937, and \$182 millions in the fiscal year 1938, and \$214 millions has been appropriated for this purpose for the fiscal year 1939. Total disbursements, Federal, State and local combined, pursuant to approved State plans for old-age assistance under this title of the Act, are, of course, somewhat more than twice the amount of the Federal disbursement, since some States pay some of their needy aged amounts in excess of the maximum which the Federal Government will match.

Titles II and VIII of the Act between them set up a system of contributory "old-Age benefits" paid as of right. Title II provides for the payment of such benefits (in no case to exceed \$85 a month) according to a graduated scale based upon total wages received in "covered" employments, the lowest brackets of such wages, and particularly the first \$3,000 (received during an entire working lifetime) being weighted much more heavily than the higher brackets. Wages in excess of \$3,000 received in any one year are ignored entirely. No old-age benefits are to be paid under this title prior to January 1, 1942. Domestic servants, agricultural laborers, employees of State and local governments, and all categories of the self-employed, as well as groups already provided for by Federally sponsored pension plans, such as Federal Government employees and railroad employees, are among those excluded from coverage under this title.

An "Old-Age Reserve Account" is set up in the Treasury, from which the benefits are to be paid, and there is "... authorized to be appropriated to the Account for each fiscal year ... an amount sufficient as an annual premium, to provide for the payments required under this title, such amount to be determined on a reserve basis in accordance with accepted actuarial principles." The Secretary of the Treasury is to submit annually to the Bureau of the Budget an estimate of the appropriation to be made to the Account, and is to include in his Annual Report "the actuarial status of the Account."

Title VIII provides for the levy of "taxes with respect to employment." These taxes upon wages, levied in equal amounts upon employers and employees, commence with respect to employment during the calendar year 1937 at the rate of 1 percent each on employers and employees, and gradually rise to 3 percent each on employers and employees with respect to employment after December 31, 1948, the first increase in the rates of tax being from 1 percent to 1-1/2 percent each on employers and employees and occurring on January 1, 1940. The employments with respect to which such taxes are levied are, in fact, the same employments as those with respect to which credit is given toward old-age benefit payments under Title II, although this is accomplished by identical definitions rather than by cross reference between the two titles. Wage payments in excess of \$3,000 in any one year from a single employer to a single employee are exempt from both the employer and the employee tax.

III. Coverage

Only about 32 millions* out of 51 millions, or about 63 percent of the total number of gainfully employed persons in the United States were covered under the provisions of Title II in 1937. The persons so covered comprised only about 42 percent of the total population between ages 20 and 65, although they included a substantial number of women whose total working period will be short and whose ultimate pensions will consequently be very low.

The proportion of the total aged population which will ultimately benefit from contributory old-age annuities is, to be sure, substantially larger than the proportion just cited, as many of the uncovered persons will be wives of annuitants, and because a large proportion of all old people

* Probably several millions of these were in covered employment for only a portion of the year.

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will have been covered during a part of their working lifetime, though many of them not continuously. No pensions are provided, however, for wives (or widows) of annuitants as such, and their husband's annuities are no larger because of their marital status.

The most important objection to the low coverage under Title II of the Act is, of course, its social inadequacy, which is given additional point by the fact that the poorest segments of the population - domestic servants and agricultural workers - are among those excluded from coverage. In addition to this obvious objection, however, the limited coverage under Title II gives rise to two very important technical difficulties.

In the first place, the limited coverage makes it clearly inequitable that the system should receive any support from general taxes which are raised in large part from the uncovered population, part of which is distinctly worse off economically than the covered population for whose benefit such taxes would be levied. It is, therefore, necessary, if equity is to be maintained, that the system be made entirely "self-supporting", and this has been attempted in the present law. The "self-supporting" character of Titles II and VIII, however, as will be subsequently developed, is largely formal rather than substantive in character, and the attempt to secure even formal self-support involves such serious difficulties that it seems well-nigh impossible to revise the present system - so as to make effective provision for the present aged, for example - without abandoning it completely. If coverage under Title II could be widely extended - or, better yet, made universal at least on a voluntary basis - the equitable necessity for self-support would be removed and the entire problem made much more susceptible to solution.

The second of the two technical difficulties just referred to, while less fundamental than the first, is yet sufficiently important to threaten seriously the solvency of the present system. It may be described as follows: The extremely high rate of annuity paid with respect to the first bracket of wages received in a covered employment, combined with the limited coverage, constitutes a powerful inducement to a much greater than normal migration between covered and uncovered employments, and consequently results in a great increase in liability for benefits under Title II, without

any nearly commensurate increase in tax receipts under Title VIII.* It is now quite generally agreed that the Committee on Economic Security did not give this factor sufficient weight in the preparation of its underlying assumptions, upon the basis of which it was estimated in 1935 that tax collections under Title VIII would be sufficient to provide in full for benefit payments under Title II.

The President places the matter of extending coverage first on his agenda of things which he requests the Board to consider.

The difficulties likely to arise from the limited coverage of Title II were, of course, in large part known at the time the Act was originally passed, but were at that time considered less important than the administrative difficulties of extending it. This position was highly defensible in 1935 when the main problem, after all, was to secure a formal recognition of the Federal Government's responsibilities with respect to the problem of old-age security.

With the benefit of the additional experience which we have gained since that time, it may now be possible greatly to extend the coverage of the contributory plan without alteration of the present arrangement of a benefit geared to wages and financed partly by an employer-tax and partly by an employee-tax. The administrative difficulties would be greatly reduced by the elimination of the employer-tax; and, of course, would be almost completely eliminated if we abandon the idea that the benefit should be geared to wages, and should be financed in whole, or in part, by a tax somewhat in the nature of an insurance premium. Waiving entirely the question of the absolute desirability of the present arrangement, it seems

* The strength of this inducement and the inadequacy of the Title VIII taxes to pay the Title II benefits "earned" by short periods of coverage is indicated by a comparison of the taxes and benefits, respectively, accruing from the first \$3,000 of wages received in covered employments. A life annuity of 6 percent of such wages (\$180 a year) is paid under Title II. At the present rates of tax this means that the annuitant receives back his own Title VIII taxes in full (without interest) during his first two months as a Title II annuitant, and receives his own and his employers' taxes combined during his first four months as an annuitant. When and if the rates of tax actually levied reach the maximum provided for in Title VIII (3 percent each on employees and employers after December 31, 1948), the periods required for complete recovery of such taxes will be six months and a year respectively.

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clear that it must sooner or later be adjusted administratively to a widespread extension of coverage or else abandoned. It does not seem credible that America's aged can be kept permanently half pauperized and half in receipt of pensions as-of-right merely upon the plea of administrative difficulties.

IV. Provision for Present Aged and Aging

Title II does not provide for the payment of any old-age annuities prior to January 1, 1942, and the annuity which would be due at that time to an individual who had earned an average of \$100 a month in covered employments during the preceding five-year period would amount to only \$17.50 a month. This payment is, of course, irrespective of marital status, and would in the majority of cases have to be applied to the support of an aged couple rather than to that of a single individual, amounting in this case to only \$8.75 apiece. Even after fifteen years of continuous employment in covered occupations at an average monthly wage of \$100 (e.g., for a person entering the system in 1937 at age 50 and retiring in 1952 at age 65) the monthly pension would amount to only \$27.50, or \$13.75 apiece in the case of a married couple where the wife had not been employed in a covered occupation. Specimen rates for other average wages and periods of employment in covered occupations are as follows (the rates are, of course, per annuitant irrespective of marital status):

Average monthly wage	Years of employment in covered occupations		
	5	10	15
\$ 50	\$15.00	\$17.50	\$20.00
100	17.50	22.50	27.50
150	20.00	27.50	35.00

These rates of contributory benefits compare very unfavorably with the maximum monthly payment (subject to a means test) of \$30 per month per person, toward which the Federal Government will make a contribution of 50 percent

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under Title I of the Act. The actual average payment for old-age assistance under Title I, Federal, State and local funds combined, in July 1938 amounted to \$19.23 per recipient for the median State.*

Irrespective, however, of any comparison with the level of benefits provided for in Title I, it is clear that the benefits provided in Title II make no contribution whatsoever to the old-age security of persons over 60 in 1937, even if employed in covered occupations; and are so inadequate for all persons now over 50 that they will probably have to be supplemented by old-age assistance based on a means test -- thereby destroying their supposed special value as contributory annuities. In other words, Title II of the Social Security Act makes no real contribution toward solving the problem of security for the present aged and aging, and it is doubtless with this in mind that the President suggested in his letter to Chairman Altmeyer that the Board give earnest consideration to plans for:

"... commencing the payment of old age insurance annuities at an earlier date than January 1, 1942, paying larger benefits than now provided in the Act for those retiring during the earlier years of the system, ..."

The financial magnitude of the problem involved in making provision for the present aged and aging is staggering. The annual disbursement in billions of dollars required to pay monthly pensions of various amounts to every individual in the country over 60, 65, and 70 years, respectively, is shown in the following table:

* In some States a single grant of old-age assistance is made to cover the needs both of the recipient and of a spouse, also eligible for old-age assistance, living in the same household as the recipient. We are advised, however, that adjustment for such cases would not change the order of magnitude of the figure cited in the text, which may be considered roughly as on a per person basis.

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**Annual Disbursement Required for Universal Old-Age
Pensions Present Population, not Adjusted for
Future Changes in Age Distribution**

(Billions of dollars)

Required: attained: age :	Monthly pension					
	\$10 :	\$15 :	\$20 :	\$25 :	\$30 :	\$50
60	1.6	2.4	3.2	4.1	4.9	8.1
65	1.0	1.5	1.9	2.4	2.9	4.8
70	0.6	0.8	1.1	1.4	1.7	2.8

These amounts do not tell the whole story, however. They are based on our present population in which - as a result of past growth and immigration - the aged form a smaller component than will ultimately be the case after our total population has stabilized. Adjusting for the factor of age distribution only - assuming, that is, that any growth in the total population will be accompanied by a corresponding increase in ability-to-pay, and so can be disregarded - the annual disbursements necessary to pay old-age pensions of the same amounts as given in the previous table will be as follows:

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Annual Disbursement Required for Universal Old-Age
Pensions Present Population, Adjusted
for Ultimate Age Distribution*

(Billions of dollars)

Required: attained: age :	Monthly pension					
	\$10	\$15	\$20	\$25	\$30	\$50
60	2.4	3.6	4.8	6.0	7.2	12.0
65	1.6	2.5	3.3	4.1	4.9	8.2
70	1.0	1.5	2.0	2.6	3.1	5.1

* Based on United States white male life tables for 1930, making no allowance for possible advances in medical science other than those required to bring the entire population up to the longevity standard for white males. The ultimate age distribution is not expected to be reached until sometime after the year 2000, but the major portion of the change between present and ultimate age distribution is expected to take place during the next thirty or forty years.

The above tables show that an old-age pension of \$15 a month to every person over 65 would require an annual disbursement of \$1.5 billions on the basis of present population, unadjusted, and of \$2.5 billions on the basis of the same population adjusted for ultimate age distribution. Such a pension would doubtless be supplemented in needy cases by most of the States and for all cases by some of them. The Federal share alone, however, would amount to 24 percent of total Federal receipts in the fiscal year 1938 (\$6.2 billions), based upon present age distribution, and to 40 percent based upon ultimate age distribution.

Assuming that such pensions had constituted the only Federal disbursements for general old-age security (i.e., expenditures under the Railroad Retirement Act and the Civil Service Retirement and related Acts being undisturbed), and

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that total Federal receipts in the fiscal year 1938 had been larger by an amount sufficient to balance the budget (exclusive of public debt retirements, but including the amounts necessary to pay the pensions), the cost of the pensions would have absorbed in that year 17 percent of such enhanced Federal receipts, on the basis of present population, unadjusted, and 26 percent of such Federal receipts on the basis of present population adjusted for age distribution.*

* The percentages given in the text are computed as follows:

(Billions of dollars)

Total Federal receipts, fiscal year 1938	6.2
Plus: Deficit (excluding public debt retirements) ..	<u>1.5</u>
Receipts necessary to balance budget	7.7
Less: Actual "expenditures" for old-age security	
Old-Age Assistance, Title I2
Old-Age Reserve Account, Title II	<u>.4</u>
	7.1
Plus: Amount necessary to pay pension of \$15 a month to every person over 65, unadjusted basis	<u>1.5</u>
Total amount necessary to "balance budget" under assumed conditions	8.6
Percentage old-age pensions (unadjusted basis) of total receipts	17 percent
Amount necessary to pay pension of \$15 a month to every person over 65, present population, adjusted for ultimate age distribution	2.5
Total amount necessary to "balance budget" under assumed conditions, amount necessary to pay pensions adjusted for age distribution	9.6
Percentage old-age pensions (adjusted for age distribution) of total receipts	26 percent

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Compared with these figures the total Federal disbursement of a little less than \$0.2 billions (3 percent of total receipts) for old-age assistance (Title I) in the fiscal year 1938 and the appropriation of a little more than \$0.2 billions for the same purpose in the fiscal year 1939 seem insignificant. The magnitude of the figures would in itself explain in large part the hesitancy of both Congress and the Administration to make effective provision for the present aged and aging, even had there been no complicating factors.

The problem of making provision for the present aged, however, has, in fact, been greatly complicated by the unreasonable hopes which have been raised in the minds of the old folks (and those on whom they are dependent) by the extravagant amounts which have been proposed for old-age pensions in the various popular proposals running chronologically from the Townsend Plan (still very much alive) to the present \$30-every-Thursday movement in California. The hopes raised by these movements have been such that many of the aged would consider a pension of the modest size which would be within the ability-to-pay of the Federal and State governments an insult and a provocation rather than an honest recognition of the social responsibility of Government with respect to the aged.

So far we have succeeded in avoiding a show-down on this issue by concentrating our attention upon a supposedly "self-supporting" annuity system with a limited coverage. Such a system simply leaves untouched, except through Title I with its means test, the problem of the present aged, and with it all of the embarrassing questions of the conflict between fact and fiction with respect to the size of old-age pensions which it is possible to pay. It is highly desirable, however, as soon as possible, that provision be made for the present aged in a realistic manner.

V. Scope of Benefits

The present contributory system covers only the risk of old age for the annuitant personally. (The only exception to this is the death benefit equal to 3-1/2 percent of total wages received in covered employments, less the amount of benefits paid the living annuitant. This benefit is erratic in amount; and, of course, non-existent in the case of annuitants who have received benefits for any considerable period prior to death.) It has been proposed that the scope

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of the benefits be increased to provide protection against hazards other than that of destitute old age and to give greater recognition to the claims of wives not themselves "gainfully employed". The principal extensions of the system which have been advocated by important groups are as follows:

- A. Benefits for aged wives of annuitants as such, or increased benefits to married annuitants because of their marital status.
- B. Benefits for widows of annuitants.
- C. Benefits for young children of insured persons dying before reaching retirement age.
- D. Death benefits for all insured persons and their wives and widows at least sufficient to permit their burial without recourse to charity.
- E. Benefits for annuitants becoming permanently or quasi-permanently disabled before reaching retirement age.
- F. Benefits for temporary disability because of sickness or accident.

A broadening of the scope of benefits to the full extent just outlined would insure every family against contingencies arising from the inability of its breadwinner to take advantage of such opportunities as the current employment situation afforded - although it would leave untouched the problem of difficulties arising from the inability of able-bodied workers to obtain employment at a living wage. The unemployment insurance titles of the Act, of course, make a start toward the solution of the latter type of difficulties.

The last of the suggested extensions - that of insurance against temporary disability due to sickness or accident - would involve a large increase in the total cost of the system and a much larger increase in the proportion of administrative to total costs. Unlike most of the other types of benefits suggested, it would involve a substantial amount of policing in order to avoid fraud, and could probably be administered in practice only in conjunction with a compulsory system of medical care. The risk of temporary disability because of sickness or accident, furthermore, is one which can be borne

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by the individual resources of the worker much better than the other risks. Any consideration of an extension of the scope of the system in this direction probably ought, therefore, to be deferred until the system has been made more adequate in other respects and the administrative and other problems arising in connection with such extensions have been at least partially solved.

The next to the last of the suggested extensions - that involving permanent disability benefits - would probably involve a much smaller cost and meet a more pressing need than the temporary disability benefits just discussed. If we could be sure that the benefits would administratively be confined to cases of genuine disability, the total cost of this part of the system would probably be quite small, and it would probably bring a greater feeling of security to the worker and probably alleviate more actual suffering per unit of cost to the Federal Government than any other part of the system. For this reason, it seems inevitable that permanent disability benefits will ultimately become part of our social security program if the program itself continues down the years. The payment of such benefits, however, involves very difficult administrative problems which, unless solved, can increase the total cost of the benefits to many times the amount required for cases of genuine disability. It appears, therefore, that the incorporation of such benefits into the old-age security program ought to be postponed, if possible, until we have made better progress in the solution of other administrative problems, particularly that of coverage.

The other suggested extensions ought all to receive serious consideration at the earliest opportunity. The first three are specifically listed by the President in his letter to Chairman Altmeyer. The remaining one - that with respect to minimum death benefits - would be of substantial social value, presents no administrative problems, and could be adopted with very small additional cost, or at a substantial net saving, depending upon whether the flat amount of death benefit was given in lieu of the present refund feature, guaranteeing that total benefit payments for the account of each annuitant will amount to at least 3-1/2 percent of total wages received in covered employments, or whether it was made a minimum guarantee with respect to such amount. The former (resulting in a substantial net saving) is much superior

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theoretically; but, unfortunately, it lacks the psychological appeal of a "money-back" guarantee, which may be necessary - at least as long as the social security program is supported in part by quasi-earmarked payroll taxes.

VI. Method of Financing

Most of the discussion of the contributory old-age benefit system set up by Titles II and VIII of the Social Security Act has centered around the method of financing. This is natural since the process of financing is the only thing which is, or seems to be, going on in the present and immediately following years - the payment of the benefits themselves being a matter for the future. It is somewhat less apparent, however, that that aspect of the method of financing adopted in the Social Security Act which has been the source of so much controversy - the Old-Age Reserve Account - is itself principally a consequence of the limited coverage of Title II of the Act and of the postponement of substantial payments under it to the more or less distant future.

It is clear, as far as the general economy is concerned (apart, that is, from the fiscal position of the Government), that it will be no easier to disburse large annual sums for old-age pensions 50 years from now than it is today merely because the Old-Age Reserve Account may in the meantime have been built up to astronomic proportions. Each year's pensions must be taken from the national income of the year in which paid; and the wherewithal to pay them must, furthermore, be raised by the Government in taxation or borrowed year-by-year as the pensions are paid, although part of the money so raised may be apportioned to pay the interest on bonds held in the Old-Age Reserve Account rather than to the payment of pensions directly, and so may be in lieu of, rather than in addition to, taxes which it might otherwise have been necessary to levy - provided, of course, that a corresponding amount of privately held public debt has been retired in the meantime.

The Old-Age Reserve Account as at present constituted, however, serves several logical purposes. First, it is a more or less necessary consequence of the limited coverage of Title II of the Act, permitting as it does the segregation from other Federal funds of the proceeds of taxes levied upon prospective annuitants and their employers. It has previously

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been pointed out that only about 63 percent of all gainfully employed persons were covered under this title in 1937, and that only about 42 percent of the total population between ages 20 and 65 were then making contributions which would ultimately entitle them to annuities in their own right under this title. It therefore appeared very reasonable to the framers of the Act, as finally adopted, that the system of old-age benefits set up by Titles II and VIII ought to be self-supporting; that is, that it should require no subsidy from general tax revenues, since so large a proportion of the population - and mostly the poorer portion at that - were not to share in its benefits. It is to be noted in this connection, however, that the original report of the Committee on Economic Security did not provide for a completely self-supporting system.* The rates of taxation provided for in Title VIII of the Bill as originally introduced did not purport to be sufficient to support actuarially the benefits proposed to be paid under Title II, and were increased by the House Ways and Means Committee upon the request of the Secretary of the Treasury to the level incorporated in the Act as finally passed.

In considering this aspect of the question, it is first necessary to note that the concept of self-support, as applied to the contributory old-age benefit system, applies only to the participants in the system and their employers as a whole, as compared with the non-participating population. As between participants, costs and benefits are very unevenly apportioned - as, indeed, they must be if adequate pensions are to be paid to the lower income groups and to persons entering the system at high ages. Furthermore, not all of the ultimate burden of the taxes levied under Title VIII falls upon participants in the system, as at least a substantial portion of it is probably passed on to non-participating consumers in the form of higher prices. These considerations deprive the concept of "self-support" of a great deal of the clarity which it might otherwise have, but still leave it with a great deal of force as long as the coverage of the system is limited. If, however, the coverage of the

* The report of the Committee, however, also recommended a considerably larger coverage than that provided by the Act as finally passed.

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system could be widely extended or made universal - or, as a compromise, made as broad as possible on a compulsory basis and universal for all who desired to participate - the reasons for the Old-Age Reserve Account based upon the limited coverage of the system would disappear.

The Old-Age Reserve Account also serves a number of purposes in addition to those involved in the limited coverage at present provided by the Act. First, it accustoms us to the appropriation of large annual sums, at least nominally for the benefit of the aged, and creates at the same time a sort of vested interest on the part of the contributors to the fund in the pensions proposed to be paid. It thus serves the useful purpose of cementing the Federal Government's relationship to the problem of old-age security and making it ever less likely that the Federal Government will finally abandon the social responsibility which it has so recently assumed.

Furthermore, it places some mathematical bound upon the promises which we may make with respect to the distant future by expressing them in terms of a present annual premium, and so assists in preventing us from making impossible commitments. This bound is rather elastic, however, since the annual premium so appropriated for is not level, but is affected by the legal contemplation with respect to the increased rates of payroll taxes to be levied under Title VIII in future years, as well as by that with respect to future benefits to be paid under Title II. The level annual premium necessary to discharge our obligations under Title II, assuming that the payroll taxes under Title VIII were to continue indefinitely at their present rates rather than be stepped up as contemplated in the law, would be approximately \$1.5 billions rather than the \$360 millions actually appropriated to the Old-Age Reserve Account for the

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present fiscal year.* In general terms, it may be said that the principal weakness of the annual appropriation to the Old-Age Reserve Account as a mathematical bound to our generosity in wishing large benefits to the future aged is that it may be so easily circumvented by imposing correspondingly heavy taxes, the collection of which is likewise deferred until the distant future.

Finally, the Old-Age Reserve Account provides a sort of special sinking fund for the retirement of the public debt. This, it is argued, is a desirable prelude to the commencement of the payment of old-age annuities since, if the Federal Government is to undertake large and continued future annual expenditures for a new purpose such

* Appropriations to the Old-Age Reserve Account are currently being made upon the basis of tax collections under Title VIII, less administrative expenses. This has been done by varying one of the actuarial assumptions (average age of retirement) so that the annual premium as determined ". . . in accordance with accepted actuarial principles . . ." as required by Title II of the Act, will be equal to estimated tax collections, less administrative expenses. The average age of retirement required for such balance in the actuarial evaluation of the account as of June 30, 1937, was 66-3/4 years, more conservative than that (67-1/2 years) assumed by the Committee on Economic Security. The present method is, of course, tenable only as long as the balancing assumption is itself reasonable. Certain other of the present assumptions, however, - based on the studies of the Committee on Economic Security - probably make a very inadequate allowance for migration between covered and uncovered employments. This is discussed in the Annual Report of the Secretary of the Treasury for 1937, pp. 49-54.

Title VIII tax collections for the current year were estimated in the budget at \$500 millions, and the recommended appropriation to the Reserve Account for this year would, therefore, have been about \$475 millions (subtracting 5 percent for administrative expenses) upon the basis of expected collections for this year alone, but was further reduced to the amount stated in the text, in order to adjust cumulatively for the excess of appropriations in prior years over actual tax collections, less administrative expenses. The \$1.5 billions figure referred to in the text would not have been affected by these adjustments.

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as old-age security, it ought first to reduce as much as possible other prospective annual expenditures, such as interest on the public debt.

There is no impelling reason, however, why the money now expended as interest on the public debt should be particularly seized upon as the only fund available for the payment of old-age benefits, and the payment of pensions in substantial amount therefore deferred until the public debt can be materially reduced or transferred to the beneficial interest of the prospective annuitants. If the problem of old-age security were really indissolubly tied up with that of reducing the public debt, it would follow that we have been getting further away from its solution ever since 1930, which is plainly not the case. Interest on the public debt absorbed during the fiscal year 1938 about 15 percent of the total revenues of the Federal Government and about 1-1/2 percent of the national income accruing during the same period. If we consider the problem of old-age security sufficiently important, it is clearly possible to take care of it without prior reduction of the public debt.

The use of the Old-Age Reserve Account as a sinking fund has the special difficulty, furthermore, that it operates rigidly in good and bad years alike, whereas an ideal sinking fund ought to be geared to changes in economic conditions so as to balance, as nearly as possible, disparities between savings and investment in the economy as a whole. The operation of the Reserve Account as at present constituted might have an important influence in intensifying booms and depressions, particularly the latter. This problem, which we consider very important, will be treated more fully in our subsequent memorandum on the monetary and general economic implications of the reserve method of financing. It is apparent from the present discussion, however, that the problem of old-age security and that of reducing the public debt are quite separate analytically, and should be tied together only if, and to the extent that, this makes the solution of each problem easier.

To summarize the considerations with respect to the Old-Age Reserve Account, it is clear that, aside from the question of the public debt, the apparent need for the Account arises merely from the limited coverage of Title II

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of the Act and the tremendous disparity between present and contemplated eventual annual expenditures on account of this title - a disparity between nothing at all at the present time* and over \$3.5 billions in 1980. The Reserve Account is a device for enabling us to keep accounts as between contributors and non-contributors to the system, and to feel a portion of the ultimate annual burden without actually making any present disbursements to pensioners. Its practical necessity would disappear if we should greatly extend the scope of the system and commence immediately the payment of benefits to the present aged without a means test on a worthwhile scale - reaching, say, a billion dollars a year within the next five years - financing such benefits from taxes not considered to be in the nature of quasi-premiums.** The payment of such benefits would not only cement the relationship of the Federal Government to the problem of old-age security in a more effective way than would any contributions to a Reserve Account, but would also acquaint us with its costs and burdens in a more immediate way, and so prove a more effective check to extravagant promises than would any accounting mechanism.

It is, of course, an inevitable corollary of all of this that if we are going to balance the budget, to reduce the public debt, and to make effective provision for the present and future aged we must have a more effective tax system than that at present in force. From the longer-run point of view this issue dominates all others, since the Federal Government must eventually choose between abandoning the social responsibilities which it has assumed during the present Administration or making effective financial provision for them through current revenues.

* More accurately, \$5.4 millions expended for lump-sum benefits during the fiscal year 1938.

** The mathematical case for the Old-Age Reserve Account would not disappear as long as present disbursements to pensioners were less than the contemplated ultimate annual level, per capita of the total population.

C O P Y

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November 8, 1938

To: Mr. Hanes
From: Mr. Haas

Attached is a memorandum, prepared by Mr. Reagh, which includes a brief discussion of a plan designed to remedy some of the defects in the present Social Security Act. The proposal is not a perfect solution of all the present difficulties, but it has considerable merit and may be of value in suggesting remedies to you.

Upon reading the memorandum, several questions will, no doubt, immediately occur to you which have not been dealt with fully, or at all, in the discussion. One of these is the "reserve" problem. It was felt desirable to keep the memorandum brief, and, if the proposal interests you, to handle by oral discussion questions which you may raise.

C O P Y

November 4, 1938.

Mr. Haas

Mr. Reagh

Subject: Some general conclusions regarding old-age insurance and a proposed plan designed to remedy some of the defects in the existing law.

1. Any system of old-age insurance providing annuity benefits as a matter of right (no means test) which does not apply to substantially the entire population should be supported by special social security taxes levied only against those covered by the benefit provisions. Federal subsidies with limited coverage mean inequitable taxation of those excluded from the benefit provisions of the plan.

2. A self-supporting system of payroll taxes applied to a limited group cannot possibly be levied on the "current cost" or progressively increasing rate basis because the rate would ultimately be so high that all new entrants would be required to pay several times as much for their annuities as they would have to pay an insurance company for the same benefit. This same principle caused the breakdown of the old fraternal (step-rate) insurance organizations. The number of individuals who would be required to pay exorbitant tax contributions would ultimately be so large that they would probably vote the system out of existence at the expense of the then aged.

3. From (1) and (2) it follows that an equitable system of old-age insurance with limited coverage requires earmarked taxes at rates far in excess of immediate cash needs and therefore large reserves. The practical necessity of collecting tax revenues far in excess of immediate cash needs, and of therefore accumulating large reserves, would be eliminated, however, if the coverage of the system were made substantially universal.

4. Universal coverage would remove the inequity of a substantial Federal subsidy. However, if benefits are to be paid largely from Federal subsidies, as a matter of right, to those retired in the early years, there seems to be no possible justification for excluding those who are already

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past the age of 65 and unemployed. Can there be any justification for providing individuals who will reach 65 within the next 5 or 10 years with deferred annuities, the major part of which will be paid out of general tax revenue, and at the same time denying all annuity rights (except on a means test) to the present aged?

5. Any system which offers powerful incentives for overpayment or underpayment of taxes will be extremely difficult if not impossible to police and this would be especially true as applied to the self-employed and to those who receive an important portion of their earnings in the form of board, lodging, tips, etc. Such incentives are embodied in the existing law and to an even greater degree under AC-13 now under consideration by the Social Security Advisory Council. Any system which provides free benefits in proportion to earnings or which requires taxes greatly in excess of the value of the corresponding benefits is open to sharp practice and fraud at the expense of the general taxpayer.

6. It would be exceedingly difficult, if not impossible, to enforce the collection of payroll taxes from the employers of domestic servants, farm laborers, and casual laborers.

7. The above considerations lead to the conclusion that a satisfactory solution to the old-age insurance problem requires a radical change from the existing law. The longer such changes are deferred, the more difficult it will become to effect them, because the public will acquire an increasing feeling of vested rights in the benefits of the present law.

Many of those who are studying the old-age insurance problem appear to believe that there is no practicable solution to the difficulties outlined above because of administrative and political considerations. Perhaps a perfect solution could never be found, but it appears likely that a relatively simple plan could be devised which would remedy many of the defects in the existing law and at least partially solve many of the administrative problems involved in universal coverage. Attached hereto is a tentative outline of a plan which seems to be capable of universal coverage and which would greatly reduce many of the administrative difficulties embodied in the existing law and the proposed AC-13.

The plan outlined in the following pages retains as many of the principles of the existing law as seem possible -- that is, it is a contributory plan under which benefits bear a definite relationship to earnings. If this principle could be discarded the obvious solution to most of the problems would be a flat benefit scheme having no relation to earnings, and financed with general rather than specifically earmarked social security taxes. Many students of social security believe that a flat benefit would lack much of the appeal of a contributory plan under which the beneficiaries are made to feel that they are somehow paying for their annuity as they pay for life insurance. Another objection often made against the flat benefit scheme is that while the benefit may be adequate in certain areas where the cost of living is relatively low, the same benefit would be far from adequate in other areas. The various proposals which have been seriously considered by the Social Security Advisory Council have been of the contributory type with benefits geared to earnings.

preliminary outline of an old-age insurance plan designed to eliminate incentives for either overpayment or underpayment of tax and which would be administratively feasible with universal coverage.

Old-age Retirement Benefits.

1. Old-age annuity. Every individual who has reached the age of 65 and is not regularly employed shall be eligible for an "old-age annuity" computed on an annual basis as follows:
 - (a) \$108 plus 90 percent of average annual income 1/ in excess of \$120 and not in excess of \$200; plus
 - (b) 1.00 percent of taxable income 2/ reported prior to age 25; plus

.85	percent	of	<u>taxable income</u>	reported	between	ages	25-30;	plus
.70	"	"	"	"	"	"	30-35;	"
.55	"	"	"	"	"	"	35-40;	"
.45	"	"	"	"	"	"	40-45;	"
.35	"	"	"	"	"	"	45-50;	"
.30	"	"	"	"	"	"	50-55;	"
.25	"	"	"	"	"	"	55-60;	"
.20	"	"	"	"	"	"	at age 60 and over.	"

Part (a) of the benefit formula provides minimum annuities of \$9 per month to all individuals above the age of 65 who are not regularly employed, including the present aged.

Average annual income is equal to the aggregate amount of income limited to \$200 in any tax year - as shown by the individual's social security tax return - divided by the number of years that the individual was subject to the Act. For this purpose each individual will be considered as subject to the Act during the period beginning on January 1st of the year immediately following the tax year for which he filed his first social security tax return and ending with December 31st of the year immediately preceding the year in which he is retired; provided, however, that years prior to the year in which the individual attained the age of 25 will be excluded from the calculations. In order that periods of unemployment will not cause too severe a reduction in the annuity, it might be further provided that one year out of each ten-year period, or fraction thereof, could be excluded from the calculations.

Taxable income for any tax year shall not exceed \$3,000 for a single individual or \$6,000 for a married couple. The amount of such taxable income shall include first all wages and salaries from regular employment (up to the limit specified). Taxable income up to the limit specified as a total shall also include all other income (except investment income) in excess of \$120 (\$240 for a married couple), such as commissions, wages received from irregular employment,

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2. Allowance for widows. Married women will be given credit for one half of the combined earnings of husband and wife. The system thus provides automatically for widows benefits without complicated survivorship annuities.

Disability Benefits.

Disability benefits may be incorporated into the plan if found desirable. However, it is suggested that such benefits should be postponed until other important changes have been made and the system is operating smoothly. When and if such benefits are provided, the tax rates should be adjusted to cover the additional cost.

Death Benefits - Widows and Orphans Benefits.

The 2-percent tax rate provides, in addition to the annuity benefits under (b), a death benefit equal to 2½ percent of aggregate taxable earnings. The scale may be adjusted so that a 2-percent tax rate will provide additional benefits for widows with minor children.

Taxes

There will be no payroll taxes levied against employers. Employees will pay an individual income tax of 2 percent on taxable income as defined in the footnote on the preceding page.

The following tables compare the annuities payable under the existing law with the proposed plan AG-13 and the alternative proposal described above.

or net income derived from a business enterprise. In the case of married couples the income credit (for annuity purposes) is divided equally between the husband and wife. It is suggested that employees who receive wages in kind might, at their option, report a reasonable amount of income in respect to such allowances and that employees who receive compensation in the form of tips should report such income as wages. As a further suggestion the tax form might contain a printed schedule showing fairly broad brackets of net business income and the corresponding amount of the tax. The taxpayer would be permitted to estimate his net business income within these broad brackets. (This definition of taxable income is merely suggestive; the important point to be made is that regardless of how taxable income is defined or reported, the system would be sound from a cost standpoint.)

Illustrative Annuities Under Various Social Security Benefit Formulas

Annuities to Married Couples 1/

Average monthly taxable earnings 2/	3 years' coverage 3/				5 years' coverage				10 years' coverage				15 years' coverage						
	Existing law		AC-13		Proposed 4/		Existing law		AC-13		Proposed 4/		Existing law		AC-13		Proposed 4/		
\$10	*	\$	*	\$18.06	\$	*	\$	*	\$18.10	\$	*	\$	*	\$18.22	\$	*	\$	*	\$18.38
15	*		*	18.09		*		18.15		*		*		18.34		*		18.56	
20	*		*	18.12		*		18.20	12.00	18.00		*		18.45	15.50	23.25		18.75	
30	*		*	27.18		*		27.30	15.50	23.25		*		27.68	17.00	25.50		28.12	
50	*		*	30.30	15.00	22.50		30.50	17.50	26.25		*		31.12	20.00	30.00		31.88	
75	*	20.25	*	30.45	16.25	24.38		30.75	20.00	30.00		*		31.69	23.75	35.62		32.81	
100	*	23.25	*	30.60	17.50	26.25		31.00	22.50	33.75		*		32.25	27.50	39.38		33.75	
150	*	25.50	*	30.90	20.00	30.00		31.50	27.50	39.38		*		33.38	35.00	45.00		35.62	
200	*	27.75	*	31.20	22.50	33.75		32.00	32.50	43.12		*		34.50	42.50	50.62		37.50	
250	*	30.00	*	31.50	25.00	37.50		32.50	37.50	46.88		*		35.62	50.00	56.25		39.38	
300	*	30.00	*	31.80	25.00	37.50		33.00	37.50	46.88		*		36.75	50.00	56.25		41.25	
400	*	30.00	*	32.40	25.00	37.50		34.00	37.50	46.88		*		39.00	50.00	56.25		45.00	
500	*	30.00	*	33.00	25.00	37.50		35.00	37.50	46.88		*		41.25	50.00	56.25		48.75	

Average monthly taxable earnings 2/	25 years' coverage				35 years' coverage				45 years' coverage			
	Existing law		AC-13		Proposed 4/		Existing law		AC-13		Proposed 4/	
\$10	\$15.00	\$22.50	\$18.78	\$16.00	\$24.00	\$19.40	\$17.00	\$25.50	\$20.32			
15	16.25	24.38	19.16	17.75	26.62	20.10	19.25	28.88	21.49			
20	17.50	26.25	19.55	19.50	29.25	20.80	21.50	32.25	22.65			
30	20.00	30.00	29.32	23.00	34.50	31.20	26.00	38.25	33.98			
50	25.00	37.50	33.88	30.00	41.25	37.00	35.00	45.00	41.62			
75	31.25	42.18	35.81	38.75	47.82	40.50	46.25	53.43	47.44			
100	37.50	46.88	37.75	47.50	54.38	44.00	53.75	59.07	53.25			
150	50.00	56.25	41.62	57.50	61.88	51.00	65.00	67.50	64.88			
200	56.25	60.93	45.50	66.25	68.43	58.00	76.25	75.00	76.50			
250	62.50	65.62	49.38	75.00	75.00	65.00	85.00	75.00	88.12			
300	62.50	65.62	53.25	75.00	75.00	72.00	85.00	75.00	99.75			
400	62.50	65.62	61.00	75.00	75.00	86.00	85.00	75.00	123.00			
500	62.50	65.62	68.75	75.00	75.00	100.00	85.00	75.00	146.25			

* Not qualified for annuity.

See page 8 for footnotes.

Illustrative Annuities Under Various Social Security Benefit Formulas

Annuities to Single Individuals

Average monthly taxable earnings:	3 years' coverage 3/4				5 years' coverage				10 years' coverage				15 years' coverage			
	Existing law		Proposed AC-13		Existing law		Proposed AC-13		Existing law		Proposed AC-13		Existing law		Proposed AC-13	
	2/	4/	2/	4/	2/	4/	2/	4/	2/	4/	2/	4/	2/	4/	2/	4/
\$10	•	\$ •	\$ 9.06	\$ •	\$ •	\$ 9.10	\$ •	\$ •	\$ 9.22	\$ •	\$ •	\$ 9.38	•	•	•	•
15	•	•	13.59	•	•	13.65	•	•	13.84	•	•	14.06	•	•	•	•
20	•	•	15.12	•	•	15.20	12.00	12.00	15.45	15.50	15.50	15.75	•	•	•	•
30	•	•	15.18	•	•	15.30	15.50	15.50	15.68	17.00	17.00	16.12	•	•	•	•
50	•	•	15.30	15.00	15.00	15.50	17.50	17.50	16.12	20.00	20.00	16.88	•	•	•	•
75	•	13.50	15.45	16.25	16.25	15.75	20.00	20.00	16.69	23.75	23.75	17.81	•	•	•	•
100	•	15.50	15.60	17.50	17.50	16.00	22.50	22.50	17.25	27.50	26.25	18.75	•	•	•	•
150	•	17.00	15.90	20.00	20.00	16.50	27.50	26.25	18.38	35.00	30.00	20.62	•	•	•	•
200	•	18.50	16.20	22.50	22.50	17.00	32.50	28.75	19.50	42.50	33.75	22.50	•	•	•	•
250	•	20.00	16.50	25.00	25.00	17.50	37.50	31.25	20.62	50.00	37.50	24.38	•	•	•	•

Average monthly taxable earnings:	25 years' coverage				35 years' coverage				45 years' coverage				
	Existing law		Proposed AC-13		Existing law		Proposed AC-13		Existing law		Proposed AC-13		
	2/	4/	2/	4/	2/	4/	2/	4/	2/	4/	2/	4/	
\$10	\$15.00	\$15.00	\$ 9.78	\$16.00	\$16.00	\$10.40	\$17.00	\$17.00	\$11.32	•	•	•	•
15	16.25	16.25	14.66	17.75	17.75	15.60	19.25	19.25	16.99	•	•	•	•
20	17.50	17.50	16.55	19.50	19.50	17.80	21.50	21.50	19.65	•	•	•	•
30	20.00	20.00	17.32	23.00	23.00	19.20	26.00	25.50	21.98	•	•	•	•
50	25.00	25.00	18.88	30.00	27.50	22.00	35.00	30.00	26.62	•	•	•	•
75	31.25	28.12	20.81	38.75	31.88	25.50	46.25	35.62	32.44	•	•	•	•
100	37.50	31.25	22.75	47.50	36.25	29.00	53.75	39.38	38.25	•	•	•	•
150	50.00	37.50	26.62	57.50	41.25	36.00	65.00	45.00	49.88	•	•	•	•
200	56.25	40.62	30.50	66.25	45.62	43.00	76.25	50.62	61.50	•	•	•	•
250	62.50	43.75	34.38	75.00	50.00	50.00	85.00	56.25	73.12	•	•	•	•

* Not qualified for annuity.

See page 8 for footnotes.

Footnotes:

- 1/ Annuities under the existing law are based on the assumption that the indicated earnings are credited entirely to one member of the married couple. Annuities under AC-13 are equal to 150 percent of the annuities determined by the indicated earnings, if credited entirely to one individual. Annuities under the proposed plan are based on the assumption that one half of total earnings is credited to each member of the couple. The illustrations in these tables do not take into account earnings in excess of \$3,000 per year, except in the case of married couples under the proposed plan.
- 2/ The schedules apply only to individuals having no income other than wages derived from regular employment, no part of which is exempt from tax.
- 3/ Applicable to benefits first payable in 1940.
- 4/ Annuities under this plan are computed on the assumption that the entry age is equal to 65 minus the period of coverage.

General Reasoning Behind Benefit Formula

In sharp contrast to the existing law, the proposed plan provides for universal coverage. It would include the self-employed, and even the unemployed, as well as wage earners, salaried workers, and housewives. It would also include the present aged.

The system would be virtually self-policing. No substantial incentive is provided for either underpayment or overpayment of taxes. Those who never paid a tax, including the present unemployed aged, would receive a minimum benefit of \$9 a month. Those with taxable incomes who fail to file returns would be automatically penalized through a reduction in the value of their benefit payments greater than the amount of tax avoidance. It is probably true that those who file returns at all are apt to use considerable care in reporting. Only those who have a taxable income of less than \$200 are offered any incentive for over-reporting their earnings.

An important characteristic of the proposed benefit formula, and one of its chief advantages over that of the existing law, is its automatic provision for wives, widows, and divorcees.

The proposed plan, if adopted, would in effect provide for a \$9 monthly old-age benefit payment as a matter of right (without a means test) to all unemployed persons now aged 65 or more. Title I of the Social Security Act now provides that the Federal Government match dollar for dollar all payments made by State and local governments for old-age assistance, subject to the means test, up to a total amount of \$30 per month per recipient. If the present proposal were adopted, the pension provided as a right under the proposed plan (a minimum of \$9 per month) could be substituted dollar for dollar for the Federal share of any grant-in-aid under Title I. This would mean that the maximum Federal grant per individual recipient under Title I would be reduced from \$15 to \$6 and would only be applied to matching State and local contributions in excess of an amount equal to the pension received as a right from the Federal Government. When this amounted to \$15 a month or more, no payment would be made with respect to such recipient under Title I. It will readily be seen that Federal grants-in-aid under Title I of the Act would rapidly be reduced to negligible proportions.

C O P Y

December 22, 1938

Mr. Hanes

Mr. Haas

Subject: Proposed Revision of the Social Security Act.

I. Old-Age Insurance.

Mr. Reagh and Mr. Murphy, who have been attending the conferences of the Social Security Board with technicians of other departments, report to me that Chairman Altmeyer has asked them that the Treasury determine, as soon as possible, its position with respect to certain issues in connection with the proposed revision of the old-age insurance system.

1. The Board expects to recommend to Congress that the schedule of benefit payments under Title II of the Social Security Act be revised so as to commence payments in 1940 rather than on January 1, 1942, and to step up payments in the earlier years very materially. The Board expects to recommend, however, that the ultimate level of benefit payments as a percentage of covered payroll remain unchanged. The step-up in benefit payments during the earlier years is to be brought about principally by changing the basis of payment from cumulated earnings to average earnings, and by allowing a supplement to married recipients of old-age benefits with respect to their aged wives. The first of these changes is very costly in the earlier years of the system, but is estimated by the Board to result in some net saving in the later years. The latter is very costly in the earlier years, but not very costly in the later years.

It should be noted (1) that the present value of the contemplated benefits, even as a percentage of covered payroll, is stepped up very materially, since the increases in payments in the earlier years are not offset by decreases in subsequent years; and (2) that the ultimate level of payments, taken either as absolute amounts per year or as percentages either of national income or of total Federal revenues, will be materially increased, since coverage will be greatly extended and the criterion, according to which the ultimate level of payments is to be not increased, is covered payroll and not national income or Federal revenues.

The Board also has under consideration a plan for adding disability benefits to the scheme for old-age insurance.

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Considerable disagreement exists with respect to this, and it may or may not be incorporated in the Board's final recommendations, but in any event it is likely to come up for active consideration in Congress. Estimates of cost vary widely, but it is recommended in the Advisory Council's report and agreed by the Board that, if disability benefits are to be included in the Act, their cost should be additional to those of the remainder of the program -- i.e., that the ultimate annual cost of the program, even as a percentage of covered payroll, will be increased by the cost of the disability benefits.

2. The rates of payroll tax, as at present set forth in Title VIII would, according to the estimates of the Board, be adequate to finance contemplated benefits until sometime during the 1950's if disability benefits are not included, or during the 1940's if they are. Cost estimates under different assumptions, of course, vary widely.

The Board proposes that the payment of the benefits be financed entirely from the proceeds of the payroll taxes as now scheduled, as long as the annual proceeds of the tax collections exceed the annual cost of the benefits. At such time (when the reserve would be anywhere from about \$2 billions to about \$9 billions, depending upon the assumptions used in estimating and upon whether disability benefits were or were not included), the Board contemplates that the reserve would be stabilized at its maximum amount and a Federal subsidy would be introduced sufficient to maintain the reserve at that level thereafter.

3. The Board is convinced that a "fully financed" plan in which taxes are collected in advance of benefits in sufficient amount to build up a large reserve, the interest upon which should later serve as or in lieu of a Federal subsidy to the system, is impracticable. Mr. Altmeyer states that, if the Treasury desires to insist upon such a system, the Board would be willing to remain silent upon the point, which is properly one of Treasury jurisdiction, but would not be willing to incorporate a recommendation in line with the Treasury's view in its own report.

4. Assuming that the Treasury will not insist upon the creation of such a reserve, the Board is willing to recommend,

Mr. Hanes - 3

if the Treasury so desires, that the plan be "fully financed" in the sense that taxes sufficient to pay all of the benefits should be "levied" here and now, but to take effect only in distant years as the benefits themselves become payable. They are anxious to find out how the Treasury feels on this matter as soon as possible.

II. Public Assistance.

The Board also proposes to recommend the following principal changes in the public assistance program:

(1) The maximum amount of old-age assistance for any individual which may now be taken into consideration in determining the amount of the Federal contribution is \$30 a month. The Board proposes to recommend that this maximum be removed.

(2) The maximum amount which may now be taken into consideration in making Federal grants-in-aid to dependent children is \$18 a month for the first child and \$12 for other children in the same family. The Board proposes to recommend that these maxima be also removed.

(3) The amount of the Federal grant-in-aid for dependent children is now one-third of the total cost, whereas it is one-half in the case of the needy aged. The Board proposes to recommend that the proportions be the same in each case.

(4) Finally, the Board proposes to recommend that the amount of the Federal grants-in-aid for both the aged and dependent children be changed from a flat percentage of total cost to a varying percentage, differing between States in accordance with their "fiscal capacities", as determined by an interdepartmental agency, upon which the Treasury Department would be represented.

Hanes
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Social Security

SOCIAL SECURITY BOARD
WASHINGTON

ARTHUR J. ALTMAYER, CHAIRMAN
MARY W. DEWSON
GEORGE E. BIGGE

December 22, 1938.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

At the request of Mr. Hanes, I am sending you the original of the rough draft of recommendations regarding amendments to the Social Security Act which the Board has prepared. At a meeting on December 15 proposed changes were discussed with the old Committee on Economic Security. Those present at the conference were Works Progress Administrator Hopkins, Secretary Wallace, Secretary Perkins, Under Secretary Hanes, and Mr. Holtzoff representing the Attorney General. At another meeting of the old Committee held on December 22, Secretary Wallace, Secretary Perkins, Aubrey Williams (representing Mr. Hopkins) and Mr. Holtzoff were present.

This draft of changes was intended to include the maximum program which the Board would recommend, and was presented with a view to determining whether or not there should be elimination or modification of certain items. However, those present at the second meeting of the old Committee approved of the entire program in principle.

The substantive changes recommended may be briefly summarized as follows:

FEDERAL OLD AGE INSURANCE

The Board undertook to make a rearrangement of the present pattern of benefits so as to start the payment of benefits sooner and in more liberal amounts during the early years of the system without increasing the eventual annual cost when the system reaches maturity. In rearranging the pattern of

benefits the Board has recommended payment of a larger old age monthly benefit to married persons than to single persons. The Board has also recommended payment of monthly benefits to aged widows and to younger widows with children, as well as to orphans. The Board also presents tentatively the possibility of including benefits for permanent total disability, but without making a definite recommendation.

It is possible to pay the more liberal benefits to married persons and benefits to widows and orphans without increasing the eventual cost because lump sums payable to estates are eliminated (with the possible exception of payment of funeral expenses) and benefits payable to single persons who have been in the system for a long time and who have had high earnings are somewhat reduced, although no one would obtain smaller benefits than he could purchase with his own contributions from a private insurance company.

While the Board recommends that the system continue to be fully financed in the sense that provision be made at this time for future liabilities, it impliedly recommends going on a contingency reserve basis. However, since this is a phase that concerns chiefly the Treasury Department, the Board would want its report to be in accord with Treasury policy. The Board does, however, specifically recommend that when annual benefit disbursements begin to exceed annual payroll tax collections (plus the interest earnings on the small contingency reserve), which would be 15 or 20 years hence, the difference be financed out of taxes other than payroll taxes.

The Board recommends that benefits be calculated on an average wage basis rather than an accumulated earnings basis. This would bring the monthly benefit in closer relationship with the past monthly wage of the recipient. Moreover,

by introducing a percentage increase in the basic monthly benefit for each year in the system and a percentage decrease for each year not in the system it would be possible to recognize years of contribution while protecting the system against those who might enter for a very short period of time.

The Board recommends extension of the system to include groups now excluded, farm laborers and domestic servants being of chief importance.

UNEMPLOYMENT COMPENSATION

The Board recommends no change in the present pattern of a cooperative federal-state system. However, it recommends an extension of the coverage of the system to coincide with that of the old age insurance system. At the federal level this could be brought about preferably by combining the taxes payable under Titles VIII and IX which would eliminate the necessity of a separate report from employers for the unemployment compensation tax.

The Board recommends the unification of the United States Employment Service and the Bureau of Unemployment Compensation in order to promote proper integration of functions at the federal level and proper relations with state agencies, which, with one exception, already unite both functions.

PUBLIC ASSISTANCE

The Board recommends a change from the present system of a flat percentage grant to a system of variable grants to the states based upon their relative fiscal capacities. The Board also recommends that the top limit of \$30 per individual per month in the case of old age assistance, which the federal government takes into consideration in matching state disbursements, be removed. With the introduction of variable grants the richer states would be restrained from paying too liberal allowances because they would get a smaller percentage

federal grant, and the poorer states would not be able to grant too liberal allowances even with the greater federal grant they would receive.

The Board recommends that the federal grants for aid to dependent children be raised from the present 33-1/3 per cent to the same level as in the case of the needy aged and needy blind and subject to the same maximum limitation.

The Board recommends that the federal government pay the entire cost of assistance to Indians who are still wards of the government.

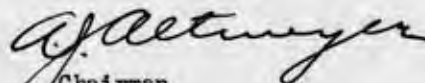
HEALTH

The Board generally endorses the National Health Program and specifically suggests that if the federal government undertakes to encourage the passage of state disability compensation laws it do so by allowing a small offset against a federal payroll tax, which might or might not be a tax additional to the payroll taxes now being levied.

COST OF AMENDMENTS

The changes in the federal old age insurance system, which would provide insurance benefits in 1940 to approximately 2,000,000 men, women and children aggregating perhaps as much as \$500,000,000, need not affect the general budget at all. The other changes would cost about \$65,000,000.

Sincerely yours,


Chairman

RECOMMENDED CHANGES IN THE SOCIAL SECURITY ACT

A Report of the Social Security Board to the President
and to the Congress of the United States

RECOMMENDED CHANGES IN THE SOCIAL SECURITY ACT

A Report of the Social Security Board to the President
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The Social Security Board under Section 702 of the Social Security Act is charged with "the duty of studying and making recommendations as to the most effective methods of providing economic security through social insurance, and as to legislation and matters of administrative policy concerning old-age pensions, unemployment compensation, accident compensation, and related subjects." In accordance with this congressional mandate and specific instructions from the President of the United States, the Social Security Board since its creation in August 1935, has continuously appraised the operation of those provisions of the Social Security Act for which the Social Security Board has administrative responsibility. In addition the Board has carried on extensive studies as to ways and means of developing increasingly effective methods of providing social security for the people of this country. Naturally the possibilities of improving and extending the provisions of the Social Security Act become more apparent as actual experience is acquired in the administration of the Act, as more data become available, and as a better understanding of the needs of the American people develops. However, the Social Security Board has found that the general approach to social security contained in the present Social Security Act is fundamentally sound.

The present Social Security Act undertakes to provide some measure of protection for present needs of the people arising out of past neglect, at the same time that it makes provision for future protection against the economic hazards which cause insecurity. To accomplish these purposes the Social Security Act sets up, in the main, a system of federal-state cooperation whereby the

financial resources of the Federal Government are made available to the states to enable the states themselves to provide for their citizens. In this way it has been possible to attack nationwide problems on a nationwide front, and at the same time keep administration flexible, realistic, and close to the people.

The only part of the Social Security Act which is wholly administered by the Federal Government is the old-age insurance system. The reason for this is that the movement of population between the states makes it impossible to set up such a system, which necessarily operates over a long period of time, on a state by state basis. Although this Federal old-age insurance system is the largest ever put into operation, it has proved to be administratively sound and simple. Also, the system is financially and socially sound. It makes definite provision for financing the costs, not only for the present but in the future; it provides greater proportionate benefits for the low-wage earner, and short-time wage earner, than for the high-wage earner and long-time wage earner; and yet it is so constructed that every person covered will always receive more protection than he could purchase otherwise with the contribution which he makes.

The changes recommended relate to the following subjects: Federal old-age insurance, unemployment compensation, public assistance, health, and general administration. It is the judgment of the Board that these recommended changes would liberalize the benefits payable under the present provisions of the Social Security Act, extend the protection of these provisions to a much larger proportion of our people, and greatly improve the administration of the present provisions of the Social Security Act.

FEDERAL OLD-AGE INSURANCE

The Federal old-age insurance system is separate and distinct from the

federal-state plan of providing old-age assistance. Under the Federal old-age insurance system benefits are payable as a matter of right irrespective of need and in some proportion to past earnings and contributions in the form of taxes. Under the federal-state plan for old-age assistance payments are only on the basis of the established need of the individual. As the Federal old-age insurance system becomes more and more fully operative, fewer persons will need to be aided under the federal-state plan for old-age assistance.

The basic problem is to make the Federal old-age insurance system more immediately and fully operative without destroying the reasonable relationship which must exist between benefits payable and past earnings and contributions. Such a relationship must exist under any system of insurance whether social insurance or private insurance, unless the term, insurance, is to lose all of its meaning. For the protection of future beneficiaries and future taxpayers it is essential that this reasonable relationship be maintained; just as in the case of old-age assistance it is likewise necessary to maintain a reasonable relationship between assistance granted and the needs of the individual. The Social Security Board is convinced that unless a system of old-age security is related either to past earnings or to individual needs, it is bound to lead to disaster both for the beneficiaries and for the general taxpayer.

The present old-age insurance system, while maintaining a reasonable relationship between past earnings and future benefits, does recognize that the low-wage earner and the short time wage earner needs greater protection. In other words, it recognizes presumptive need as an essential element in any social insurance system in order that it may be socially adequate. However, presumptive need must be distinguished from specific individual need, which would require investigation of the financial circumstances of the individual beneficiary

and which is an essential element in any plan of public assistance, including old-age assistance (popularly called state old-age pensions).

Under the Federal old-age insurance system much greater weight is given to the first \$3,000 of accumulated earnings than is given to subsequent earnings, so that it is possible for a person retiring in the early years of the system, and for a low-wage earner retiring at any time, to receive very liberal benefits in proportion to past earnings and contributions. However, no worker, regardless of his level of earnings, or of the length of time during which he has contributed, will ever receive less by way of benefits than he could have purchased with his own contributions. In other words, the system also incorporates, in a measure, the principle of individual equity. The reason that these two seemingly contradictory circumstances can both be true is because a larger proportion of the employer's contribution is used to pay benefits to those retiring in the early years, and to low-wage earners. This is also true under private pension plans which, when they are initiated, recognize that it is necessary for the employer to contribute more liberally in the case of the older workers in order to afford them sufficient income to retire.

The Social Security Board does not believe that it is possible to bring under the Federal old-age insurance system persons who have already retired from gainful employment. Even though it were considered reasonable to pay benefits regardless of the fact that no past contributions had been made either by these individuals or by their employers, it would be impossible to obtain adequate wage records upon which to compute benefits. However, the Social Security Board does believe that it is possible to commence the payment of benefits under the Federal old-age insurance system in 1940 instead of beginning January 1, 1942, as provided at present, since by 1940 there will have

been wage records built up under the system for a period of at least three years.

The Board is also of the opinion that the monthly benefits payable for those retiring in the early years can be increased in such a way as not to increase the eventual cost of the system. The cost of any system of benefits will increase rapidly with the passage of time, because an increasing proportion of the population will be of pensionable age. Consequently, a scale of benefits, the cost of which might be altogether reasonable now, might be unduly burdensome at the end of a generation. Therefore, in making increases in benefits, particularly in the early years of a system, it is essential that the ultimate financial cost be kept in mind. It is impossible under any social insurance system to pay benefits that provide much more than a minimum degree of social security—upon the basis of which the individual, through his own efforts, will have a better chance to develop a more desirable degree of individual security. Any attempt to pay benefits affording ideal security rather than minimum security is bound to lead to disaster not only for the taxpayer, but for the beneficiary.

In the opinion of the Board one of the ways in which benefits should be increased is to allow a retired worker who has an aged dependent wife an additional percentage related to his basic benefit. Since it is not economically feasible to provide for every individual an annuity sufficient to care for possible dependents, it seems desirable to provide such additional benefits in those cases where an aged dependent wife is present. In this way the greater presumptive need would be taken into account without the necessity for investigating individual need. An aged wife should be given the right to claim benefits based upon her own past earnings in lieu of such additional benefit payable to the husband, if such benefits are greater. Since in the course of time aged

wives would have developed greater and greater benefits based upon their own past earnings, the cost of allowing the husband an increased percentage for his dependent wife would become less and less, thus bringing the eventual additional cost down to a nominal amount. At first thought such a proposal would seem to be unfair to unmarried persons. However, while the Board recommends that the benefits payable to the more highly paid long-time unmarried worker be somewhat lower than provided in the existing act, the benefits payable to unmarried persons would still be more than they could purchase with their own contributions. Therefore, greater social adequacy would not be achieved at the expense of individual equity.

After careful consideration, the Board is of the opinion that benefits should be calculated upon the basis of average wages earned in the past, rather than upon the total accumulated wages earned. Such a change in the basis of calculating benefits would not only make it possible to relate benefits more closely to the previous normal wage income of the individual, but would also make it possible to relate the benefits to wages in such a way as to eliminate, as the years go by, the large bonus given those who have had only a small amount of earnings taxed prior to the date when they retired. Under the present law the large credit for the first \$3,000 of accumulated earnings continues to exist regardless of whether a worker retires in the early years of the system or in the remote years of the system. There is considerable justification for this large credit in the early years, since workers and their employers have had no opportunity in the past to make contributions. However,

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as the years go by it is necessary to protect the system against the payment of relatively large benefits to those who enter the system just as they are reaching retirement age.

The Board believes that it is essential that persons covered under the old age insurance system should receive a benefit related not only to the average wages earned in the past, but also related to the number of years the person has been employed in covered employment and has made contributions. Therefore, the Board recommends that an insured individual, upon retirement, receive a basic annuity related to his average earnings, and that for every year he has earned a small specified sum in covered employment his basic monthly benefit be increased by a certain percentage. The Board also recommends that for every year a person does not earn the small specified sum the basic monthly benefit shall be reduced by the same percentage. In calculating the number of years not in covered employment, only those years since December 31, 1936, when taxes first became payable, should be counted. If a person was not 21 years of age on that date, then only the years since he became 21 years of age should be counted.

The Board is of the opinion that a percentage decrease for each year not covered is more equitable than the provisions of practically every foreign old age insurance system which require that a person be in covered employment during a specified number of years immediately prior to the date of retirement. Under such foreign systems a person might have been in covered employment a considerable proportion of his working life, but if he had left covered employment during the last few years of his working life he would be ineligible for a monthly old age benefit. The Board believes that such a provision would be too harsh for those who have left covered employment during the latter

period of their life and too liberal for those who enter covered employment during the last few years of their working life. In the opinion of the Board a percentage increase for every year in covered employment and a like decrease for every year out of covered employment represents a more flexible and equitable arrangement, which not only protects individuals who have been in covered employment during a considerable portion of their working life, but also protects the system as it matures against those who are in covered employment only a short period.

The Board is further of the opinion that the present old age insurance system should be expanded to include survivors' insurance as well. The Board believes that the payment of benefits to survivors would furnish much more significant protection at very little additional cost than does the present provision for a lump sum payment equal to $3\frac{1}{2}\%$ of the total recorded wages now payable on the death of those insured individuals who die before having drawn benefits equal to this amount. Under a social insurance system the primary object should be to pay benefits in accordance with the presumptive or probable needs of the beneficiaries, rather than to make payments to the estate of a deceased employee regardless of whether he leaves any dependents. However, the Board recognizes that regardless of whether a person covered under the system leaves dependents, it may be desirable to provide a minimum death benefit related to his past earnings record to help defray the expenses of his last illness and funeral expenses.

The two chief classes of dependent survivors are, of course, widows and orphans. The Board believes that aged widows and younger widows with dependent children should receive benefits, and that benefits should be paid on behalf of children at least until they reach 16 years of age, and until they reach 18 years of age if they are attending school full time.

The Board has given much consideration to the feasibility and desirability

of payment of benefits to widows under 65 years of age who have no children. The Board is of the opinion that only a temporary monthly benefit, covering the period immediately following the husband's death, should be paid in such cases since, normally, young widows without dependent children can be expected to enter gainful employment. However, the Board believes that all widows of persons who would have been qualified for old age benefits if they had lived to be 65 years of age should be entitled to a deferred monthly benefit payable upon their reaching age 65. Such benefit should bear some reasonable relationship to the benefit that the deceased husband would otherwise have received.

It is recognized that middle aged widows find it more difficult to become self-supporting. However, they are likely to have more savings than younger widows and most of them have children who are grown and able to help them until they reach 65 years of age, when they would be entitled to a widow's benefit under the plan proposed. Permitting such widows to qualify for a widow's benefit at a younger age than 65 would introduce anomalies. Any age selected would be rather arbitrary, excluding some widows just below that age. Moreover, the question would arise as to discrimination against unmarried women who would still be required to wait until they reached 65 years to draw an old age benefit. If the retirement age for women generally were lowered, this would involve a substantial increase in costs, and the question would then arise as to discrimination against men.

The present lump sum benefit provision already mentioned applies not only in the case of workers who die, but also in the case of workers who reach 65 years of age without having worked enough to qualify for an old age benefit. Such workers are not now permitted to continue in employment and increase their earnings in order to qualify for annuities. The lump-sum payment is all that is available to them. The Board believes that such workers should receive credit for any time that they work after age 65 so that they may qualify for an old age benefit upon retirement at a little later date. This would automatically eliminate the necessity

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for the small lump-sum payments now being made in such cases, and at the same time would provide a much greater degree of protection for these older workers.

The Board has given much thought to the question whether the present old age insurance system should be expanded to include provision for benefits to workers who become permanently and totally disabled, before reaching age 65, and to their dependents. Every country in the world that has adopted a system of old age insurance, with the one exception of Spain, has included provision for permanent disability. One of these countries, Great Britain, includes provision for permanent disability in its health insurance system, others relate it directly to old age insurance. The Board recognizes that the administrative problems involved are difficult, although it does not believe that they are insuperable. It must also be recognized that the inclusion of provision for permanent and total disability will increase the cost of the system both now and in the future. For these reasons the Board is not making any recommendation on this matter at this time. However, it should be pointed out that the extent to which costs will increase will depend upon the definition of disability which can be made effective. If a fairly rigid definition were adopted, the Board believes that the additional costs could be kept within reasonable limits. Later, as experience develops, the definition can be made more liberal if it appears socially desirable to do so.

The Board believes that in connection with any permanent total disability program adequate provision should be made for hospitalization and other institutional care, and vocational rehabilitation for those who can be again restored to working capacity.

The eventual cost, when the system is fully matured, of the changes recommended by the Board, and which the Board believes will furnish far greater protection, would be somewhat less than the cost of the present system. If the cost of permanent and total disability insurance is included the eventual cost, when the system is fully matured, would be somewhat more than the present system. The cost of paying benefits in the early years would be greatly increased.

The present tax provisions, which provide for an increase in the tax rate every three years until a maximum of 3% payable by employers and 3% payable by employees is reached in 1949, would probably cover the annual cost for the first fifteen or twenty years in addition to providing for a small reserve. This small reserve would be invested and would earn some interest. But when future annual benefit disbursements exceeded the annual tax collections plus the interest earnings on such a reserve, it would be necessary to do one of two things to cover the deficit: either increase the payroll taxes, or pay the deficit out of other general taxes.

The present old-age insurance system is a fully financed system for all time to come. That is to say, it takes into account from the very beginning all future probable liabilities and sets up a sufficient reserve so that the

earnings on the reserve plus the tax receipts at the rates prescribed in the law are intended to be sufficient always to cover annual benefit disbursements. The Social Security Board is not making detailed recommendations relative to the financing of the insurance system since the Treasury Department is charged with primary responsibility in this regard. However, the Board believes it is absolutely essential that any method of financing that is proposed should take into account, and make provision at the beginning for sufficient revenues to cover all probable future disbursements. Consequently, the Board believes that whether or not the recommendations made by the Board are adopted by Congress, it will be advisable to retain the present payroll tax provisions. The Board believes that it is only by making proper financial provision at the outset that the interests of both the prospective beneficiaries and general taxpayers can be safeguarded properly.

As already stated, if the recommendations of the Board are adopted, early payments under the system will increase substantially. This will mean that sooner or later additional taxes must be levied to provide funds which, under present arrangements, would be secured from interest on accumulated reserves. These future taxes could be in the form of higher payroll taxes or in the form of other general taxes. The Board is of the opinion that it is sound public policy to pay part of the eventual cost of the benefits proposed out of taxes other than payroll taxes, preferably taxes such as income and inheritance taxes levied according to ability to pay. The Board believes that the portion of the total costs which should be met by taxes other than payroll taxes should depend upon the proportion of the general population which is covered by the insurance system. Even with the present limited coverage of the system, which it is estimated includes at any one time only 50% of the gainfully occupied persons in this country, protection is already being furnished to two-thirds of the

gainfully occupied persons. This is true because of the fact that a great many persons usually in uncovered occupations, work in covered occupations during some part of the time. It is estimated that eventually even without any change in the coverage of the present system, 75⁷⁰ or 80% of the gainfully occupied persons in this country would have some protection. However, since the protection afforded depends to a considerable extent upon the length of time a person is actually working in employment covered by the system, it is highly desirable that the coverage of the system be extended as rapidly as administratively feasible. This extension of coverage would also be necessary in order to protect the financial soundness of the system if the present benefit provisions in the law granting such proportionately large benefits to persons who have been in covered employment only a short period prior to retirement are retained.

The Board does not believe the Federal government should pay any of the costs out of taxes other than payroll taxes until the annual benefit disbursements begin to exceed annual payroll tax collections plus the interest earnings on the small reserve that will be accumulated. The Board is of this opinion for the following reasons. Those retiring in the early years of the system are receiving much greater benefits in proportion to taxes paid on their behalf than those retiring in the later years of the system. The Federal government is already making an annual contribution out of general taxes of almost a quarter of a billion dollars for old age security, in the form of grants to the states to help finance their old age assistance programs. The exact future costs of benefits under the insurance system cannot be determined with any desirable degree of accuracy until more data are available, especially those which come with the actual payment of benefits to large numbers. However,

it is certain that the costs will be great and it is important that government finances should not suffer through reduction in revenue from taxes levied to pay the cost of future benefits.

The foregoing recommendations of the Board regarding old age insurance would result in the substitution of a system of old age, and survivors' insurance for the present old age insurance system. The main provisions of a plan which the Board recommends for consideration may be summarized as follows:

A. OLD-AGE RETIREMENT BENEFITS

1. Old-Age Benefit—Each qualified individual who has reached the age of 65 shall be eligible for an "old-age benefit," computed on an annual basis as follows:

- (a) A "basic benefit" computed by adding
 - 40 per cent of the first \$600 of average annual wages, plus
 - 20 per cent of the next \$600, plus
 - 10 per cent of the next \$600, plus
 - 5 per cent of the next \$1200; plus

- (b) (1) The amount of the "basic benefit" shall be increased by 2% for each year of coverage (\$300 or more wages).

- (2) The amount of the "basic benefit" shall be decreased 2% for each year in which the individual earned wages of less than \$300 for covered employment from December 31, 1936, (or from December 31 of the year in which the individual became 21 years of age, whichever is the later date), to the date of retirement or age 65, whichever is the later date.

2. Supplement for Dependent Wife (and Disabled Dependent Husband) of Old-Age Beneficiary—In addition to the "old-age benefit," each beneficiary with a dependent wife age 65 or over, or with a disabled spouse, irrespective of age, shall be eligible for a "dependent spouse supplement" of one-half of the "old-age benefit."

3. Widow's Old-Age Benefit—The widow (or disabled widower), age 65 or over, of a qualified individual shall be eligible for a "widow's old-age benefit," of three-quarters of the "old-age benefit" of the spouse, or her own old-age benefit, whichever is greater.

4. Supplement for Dependent Children of Old-Age Beneficiary—In addition to any "dependent spouse supplement," each beneficiary shall be eligible for a "dependent child's supplement" of one-half of the "old-age benefit" for each dependent child.

B. WIDOWS' AND ORPHANS' CURRENT BENEFITS

1. Widows' (and Disabled Widowers') Benefits—(a) Any widow of a qualified or currently insured individual shall be eligible for a "widow's benefit" payable for a period of twelve consecutive months following the month in which the husband died. The "widow's benefit" shall be equal to three-quarters of the "old-age benefit." (b) Irrespective of age, a widow who has in her care one or more dependent children of her deceased husband shall be eligible for a "widow's benefit" if the deceased spouse of such widow was a currently insured individual at the time of death. The "widow's benefit" shall be equal to three-quarters of the "old-age benefit."
2. Orphans' Benefits—Each dependent child of a currently insured individual upon his death shall be eligible for an "orphan's benefit," equal to one-half the "old-age benefit."

C. MINIMUM DEATH BENEFITS

In the case of the death of a qualified or currently insured individual, an amount equal to six months "old-age benefits" shall be payable in a lump sum in addition to any other monthly benefits paid or payable.

If disability benefits were to be included, this could be done by adding provisions as follows:

D. DISABILITY BENEFITS

1. Disability Benefit for Disabled Individual—Each currently insured individual who has become disabled prior to age 65 shall be eligible for a "disability benefit" equal to the "old-age benefit."
2. Supplement for Dependent Wife (and Disabled Husband) of Disabled Beneficiary—In addition to the "disability benefit" each currently insured individual who has become disabled shall be eligible for a "dependent spouse supplement" for the dependent wife, age 65 and over, or disabled spouse, irrespective of age, computed at one-half of the "disability benefit."
3. Allowance for Dependent Children of Disabled Beneficiary—In addition to any "disability benefit" (and "dependent spouse supplement," if any), each currently insured individual who has become disabled shall be eligible for a "dependent child's supplement" of one-half of the "disability benefit for each dependent child."

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It will be noted that old age retirement benefits relate to "qualified" individuals and that orphans' benefits and benefits for widows under 65 years of age, as well as the disability benefits mentioned, relate to "currently insured" individuals. It is contemplated that a "qualified" individual must have been in the system longer and have had more earnings to his credit than a "currently insured" individual. This is considered reasonable and necessary since old age is a future risk against which the individual has an opportunity to protect himself during his working life, whereas death and permanent total disability are immediate or current risks which affect the young worker as well as the old. On the other hand, it would not be reasonable to continue to insure indefinitely against the risk of death or permanent total disability an individual who at some time in the remote past had worked sufficiently to acquire a right to an old age benefit. Therefore, while an individual should acquire a "currently insured" status sooner than he acquires a "qualified" status, he should lose his "currently insured" status after he has been out of covered employment a certain length of time.

EXTENSION OF COVERAGE

The Board is of the opinion that, with two exceptions, it would be administratively feasible and in accordance with sound social policy to include all of the employments that are now excluded from coverage under the old age insurance system. The Board is also of the opinion that the definition of "employee" should be strengthened in such a way as to cover persons who furnish primarily personal service and who do not have a separate place of

business where they serve the public generally. The intention of such an amendment would be to prevent the exclusion of persons who are for all practical purposes employees, but who have been converted into independent contractors or lessors in order to avoid the payroll tax.

The two excluded employments that the Board believes will need to continue to be excluded are: (1) casual labor not in the course of the employer's trade or business; (2) service performed in the employ of a state, a political subdivision thereof, or an instrumentality of one or more states or political subdivisions. The Board believes it is necessary to exclude casual labor not in the course of the employer's trade or business because of the administrative difficulties involved, with no considerable compensating social advantages. It should be noted that this exclusion is negligible because the labor must be not only casual, but also unrelated to the employer's trade or business. As regards the exclusion of service performed in the employ of a state, this exclusion must continue until ways and means are found of overcoming constitutional difficulties. A number of state and municipal officials have indicated a desire that their employees be covered under the old age insurance system and it may be that further study will develop a method of voluntary coverage which will be not only constitutional, but mutually advantageous to the states and the old age insurance system.

While maritime employment is one of the present excluded employments which the Social Security Board is now recommending be included, it will still be necessary to exclude certain types of maritime employment, chiefly the following: (1) Service performed as an officer or member of the crew of a vessel documented under the laws of any foreign country; (2) service performed upon a vessel documented under the laws of the United States pursuant to a

contract of service entered into outside of the United States, if during the performance of such service the vessel does not touch at any port in the United States.

The Board recognizes that the inclusion of agricultural labor is fraught with great administrative difficulties, but believes that these difficulties can be overcome if a reasonable time is allowed to elapse before such inclusion becomes effective. The Board believes that the administrative difficulties of including domestic service in a private home, while of no small magnitude, are not so great as in the case of agricultural labor. Again the Board believes that these difficulties can be surmounted if a reasonable time is allowed to elapse before such inclusion becomes effective. As regards the inclusion of service performed in the employ of non-profit organizations the Board anticipates no administrative difficulties. As regards the inclusion of service performed in the employ of the United States or of an instrumentality of the United States, the Board sees no administrative difficulties. However, it would be necessary to give consideration to the effect on other retirement systems for Federal employees with a view to excluding employees under these systems or adapting these systems to take account of the basic protection which would be afforded under the old age insurance system.

If the recommendation of the Board to bring under coverage all employees of the United States or instrumentalities thereof is not followed, then the Board recommends an amendment to bring under coverage instrumentalities of the United States except those which either are wholly owned by the United States or are exempt from the taxes levied under the Social Security Act by

virtue of some other act of Congress. The principal federal instrumentalities which would be brought under the Act by such an amendment are national banks and state banks which are members of the Federal Reserve System and building and loan associations which are members of the Federal Home Loan Bank System.

The possibility of including self-employed persons under the coverage of the old age insurance system has been given considerable study. However, the Board is not prepared at this time to recommend what it considers a practicable method for extending coverage to such persons.

CONTRACTION OF COVERAGE TO PREVENT COLLUSION

Until a practicable means is found for including self-employed persons the Board recommends that the following exclusion already appearing in Title IX of the Social Security Act relating to Unemployment Compensation be incorporated in the old age insurance system because of the possibility of collusion: "Service performed by an individual in the employ of his son, daughter, or spouse, and service performed by a child under the age of twenty-one in the employ of his father or mother." For the same reason the Board is of the opinion that an employee of a corporation where a majority of the stock is owned by the employee or members of his immediate family should also be excluded.

ADMINISTRATIVE CHANGES

The Board recommends a number of changes to improve the administration of the present provisions of the law, as follows:

1. Permitting an individual to qualify for monthly benefits and to secure a larger benefit or death payment because of employment after age 65, but still to require retirement as a condition of receipt of benefit.

2. Inclusion of a new section under Title VIII requiring employers to furnish employees at the time of wage payment a statement, which they may retain, showing the amount of taxes deducted from their wages under the Federal old age insurance system.

3. Elimination of nominal wages paid to employees of non-profit organizations already exempted under section 101 of the Revenue Act. Many non-profit organizations, particularly fraternal organizations, that have employees and officers drawing a nominal wage are now required to make reports and pay taxes although the amount of the taxes and prospective benefits involved are negligible.

4. Exclusion from the definition of wages of all payments made by an employer to or on behalf of an employee under a plan or system providing for retirement benefits, dismissal wages, disability benefits, and medical and hospital expenses. The purpose of such an amendment would be to avoid the discouraging of plans of the nature described.

5. If the substantive changes recommended by the Social Security Board are not made, then the Board recommends that the present provisions relative to payment of lump sums in case of death be simplified. The present law permits direct payment to survivors, of amounts up to \$500, but leaves entirely to the respective state laws the question of how the money should be distributed. The Board recommends that it be authorized to make payment (without limitation of amount) directly to certain close classes of relatives - the widow or widower, children, parents, brothers and sisters - in that order of priority. However, the provision should

be so worded that the Board would be required, where the deceased has left a will, to make payment to the executor. The Board suggests that this amendment also provide that if none of the above designated relatives survive there be provision for reimbursement up to \$100 to any person who has paid the funeral expenses of the deceased. The Board recommends that the lump sum payment be exempt from claims of creditors.

6. Requiring application for death benefits to be filed within two years after date of death.

7. Simplifying the procedure for payment to infants or other legally incompetent persons.

8. Clarifying the provisions relative to recovery by the United States of overpayments to individuals.

9. Authorizing the Board to regulate the practice of attorneys and agents in preparation or presentation of claims for benefits before the Board.

10. Incorporation of more detailed administrative provisions relating to the payment of claims, following in general the provisions under which the Veterans Administration operates.

11. Provision that there may be an audit of the Board's records but no review of the Board's decisions by the General Accounting Office. The exclusion of the General Accounting Office from jurisdiction to review the Board's decisions follows the precedent of the World War

Veterans act, 1924, and of other legislation with respect to agencies similar to the Board which handle a large number of small claims, such as the United States Employees' Compensation Commission. The present law provides that the Board may certify to the Secretary of the Treasury payment of claims prior to audit or settlement by the General Accounting Office.

12. Clarification of the language excluding state instrumentalities by providing for the exemption of any instrumentality which is wholly owned by the state or political subdivision, as well as those which would be exempt under the Constitution.

13. Clarification of language to avoid any possible interpretation that railroad workers are under the coverage of the Federal old age insurance system.

14. Insertion of language clarifying the application of the law to services of an employee engaged in both excluded and included occupations by providing that the determination shall be made on the basis of whether the excluded or included services are preponderant.

15. Amendment of the penalties for non-payment of taxes under Title VIII.

UNEMPLOYMENT COMPENSATION

The present unemployment compensation provisions of the Social Security Act have created a cooperative federal-state system. This has been brought about by reason of the imposition of a uniform tax payable by employers regardless of whether they operate in a state that has an unemployment compensation act or whether they operate in a state that does not have an unemployment compensation act. However, against this tax they are entitled to offset the contributions they make under a state unemployment compensation law up to 90% of the amount of the Federal tax. The history of the legislation indicates that Congress intended that the 10% net proceeds of the federal tax should cover the cost of state administration and the cost of federal administration as well. The present law also provides that the Social Security Board shall make grants to state unemployment compensation agencies to cover the entire necessary cost of proper administration of the state unemployment compensation laws.

The unemployment compensation provisions of the Social Security Act and the public assistance provisions of the Act constitute the most comprehensive attempt that has ever been made to solve national problems through a federal-state cooperative system. Thus, they represent an attempt to utilize and to strengthen our present system of federal-state government. The adjustment of Federal-state relations at best is a difficult and delicate task, particularly in the field of social legislation. However, the experience so far indicates a large measure of success.

The recommendations of the Social Security Board relative to unemployment compensation deal with extension of coverage, improvement of the federal-state relationships, and certain technical changes rather than any fundamental

change in the federal-state pattern now set forth in the law. The present provisions of the law have proved completely effective in facilitating the enactment of state unemployment compensation laws. The state laws enacted and the character of their administration have on the whole been reasonably satisfactory. The inevitable administrative difficulties involved in the inauguration of any large scale undertaking were accentuated by the fact that benefit payments commenced in January 1938 at a time of unexpectedly large unemployment. In spite of these difficulties the thirty-one jurisdictions that have been paying unemployment compensation benefits during the present calendar year have paid out \$395,000,000 in benefits which have averaged over \$10 per week per person, and they are currently paying benefits to approximately one million unemployed persons. The most pressing problem in the field of unemployment compensation at the present time is improvement and simplification of the laws themselves as well as improvement of their administration in the light of the actual experience that has been developed.

The Board is aware of the suggestion that was made at the time the Social Security Act was under consideration that instead of allowing an offset on the Federal tax, the Federal government should collect the entire Federal tax and make grants-in-aid to the states in lieu of the offset. It was argued that such a method would relieve employers of the necessity of making tax reports to the states in addition to making the tax report to the Federal government. This, of course, would be of particular advantage in the case of employers operating in more than one state. However, the state unemployment compensation agencies need detailed information concerning the past working history

of persons claiming unemployment compensation benefits. Therefore, it would either be necessary for the Federal government to furnish the necessary detailed information to the states, or it would be necessary for the state agencies to develop benefit procedures to eliminate the necessity of employers making detailed reports. The experience of the Federal government and the state governments is not yet sufficient to warrant expressing an opinion as to whether it would be feasible to make such a drastic change.

EXTENSION OF COVERAGE

The Board recommends that the old age insurance tax provisions, as they relate to employers, and the unemployment compensation insurance tax provisions be combined. The advantage of such a combination would be that employers would be relieved of making a separate tax return in the case of unemployment compensation. Such a combination would of course not affect the present offset provision or the present use of the proceeds of the two separate taxes. Regardless of whether such a combination is made the Board recommends that the coverage of the unemployment compensation provisions be made similar to the coverage already recommended for the old age insurance provisions with the exception of agricultural and domestic employees, and employees of the federal government and wholly owned instrumentalities thereof. The reasons for exempting these groups will be discussed later. Even though the unemployment compensation and old age insurance compensation tax provisions were not combined there would be great advantages in making their provisions identical with respect to employers affected by both, since it would then be possible for employers to simplify their record keeping and reporting to the federal government, as well as to the states which

undoubtedly would adjust their state laws accordingly.

The Board is also of the opinion that the definition of "employee" should be strengthened in such a way as to cover persons who furnish primarily personal service and who do not have a separate place of business where they serve the public generally. The intention of such an amendment would be to prevent the exclusion of persons who are for all practical purposes employees, but who have been converted into independent contractors or lessors for the purpose of avoiding the payroll tax.

Just as in the case of old age insurance the Board believes that, with a few exceptions, it would be administratively feasible and in accordance with sound social policy to include all of the employments that are now excluded from coverage under the unemployment compensation provisions of the Act.

The employments which the Board does not recommend at this time be included are: employment in agriculture and domestic service in private homes, family employment, employment by a state government or an instrumentality thereof and employment by the federal government or wholly owned instrumentalities thereof. In the case of agriculture employees frequently stand in a different relationship to the employer than do most other employees. Employees on farms are frequently owners of small farms themselves, or they live in homes provided by the employer, and have the use of land and equipment to produce a part of their subsistence. In the case of old age insurance it would not be too difficult to collect contributions and establish records on the basis of which benefits may be paid in old age. For the purpose of unemployment insurance, however, it would be extremely difficult in many cases to determine whether such persons are unemployed, or whether they should be expected to work for themselves. While foreign systems have been

extended to cover employees in agriculture, it must be recognized that in this country we have a much less well defined wage earning group in agriculture. For the present it appears inadvisable to attempt to extend unemployment insurance to cover this field. However, the Board will continue to study the problems involved in an effort to develop practical ways and means of bringing about such extension.

In the case of domestic service in a private home the difficulties are much less than in agriculture. The fact of unemployment is much easier to determine. The chief difficulty here relates to the determination and collection of contributions. If old age insurance provisions are extended to such workers, the Board believes such employees may well be covered by the unemployment insurance provisions of the Act.

The Board believes it necessary to continue the exclusion of family employment in order to prevent collusion for the purpose of obtaining benefits. It is necessary for constitutional reasons to exclude employment by a state government or an instrumentality thereof. The Board does not believe that there would be any advantage in including Federal employees under the unemployment compensation provisions since civil service employees, for the most part, are already protected against the hazard of unemployment, and it would be more feasible to take care of non-civil service employees through some form of dismissal wage rather than through the creation of a special nationwide unemployment insurance system. However, the Board does believe that so-called instrumentalities of the Federal government which are not wholly owned, such as national banks, should be included. As regards the inclusion of service performed in the employ of non-profit organizations the Board anticipates no administrative difficulties.

The Board's recommendations would not only have the effect of extending the coverage to include certain categories of employers not now covered,

but would eliminate the present restriction to employers who have employed 8 or more employees in twenty or more weeks so that the unemployment compensation provisions would cover employers of one or more employees. There are already twenty-four states that cover smaller employers than those covered by the provisions of the Federal Act. Of these twenty-four states ten cover employers of one or more. The Board does not believe that the broadening of the unemployment compensation provisions (with the exception of maritime employment) should become effective before January 1, 1941, since it is necessary to give the states ample opportunity to amend their laws accordingly. This would also give the state unemployment compensation agencies sufficient time to perfect their administrative organization and procedures.

CONTRACTION OF COVERAGE

In the case of old age insurance the Board has recommended the exclusion of an employee of a corporation where a majority of the stock is owned by the employee or his immediate family in order to reduce the possibility of collusion to acquire benefit rights. The Board recommends the same exclusion in the case of the unemployment compensation provisions so that the states may similarly change their provisions. If the coverage of the unemployment compensation provisions is extended to include employers of one or more the Board believes it will be necessary to exclude casual labor not in the course of the employer's trade or business, because of the administrative difficulties involved with no considerable compensating social advantages. It should be noted that this exclusion is negligible because the labor would have to be not only casual, but also unrelated to the employer's trade or business.

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The Board also recommends that the payroll tax in the case of unemployment compensation be limited to the first \$3,000 of wages paid, if that maximum limitation is retained in the case of the old age insurance tax provisions. The Board recognizes that such limitation will reduce slightly the revenue to be derived. However, the Board believes that this disadvantage is outweighed by the advantages to be derived from making the unemployment compensation and old age insurance tax provisions identical.

UNEMPLOYMENT COMPENSATION FOR SEAMEN

Under the Constitution it is impossible to confer upon the states jurisdiction over maritime employment with the possible exception of maritime employment which is incidental to employment on land. Therefore, in order to afford unemployment compensation protection to seamen it would be necessary to pass a federal act. Such an act should cover all maritime employment except that which can be covered under state unemployment compensation laws.

STATE MERIT SYSTEMS

Under the present law before the Board may make a certification for payment of a grant to a state unemployment compensation agency to administer its law, the Board must find that the law includes provisions for "such methods of administration (other than those relating to selection, tenure of office, and compensation of personnel) as are found by the Board to be reasonably calculated to insure full payment of unemployment compensation when due." In another section, the Board is required in making a grant

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to determine the amount "necessary for the proper administration." The Board believes that proper administration must necessarily include adequate provision for the selection, tenure of office, and compensation of personnel. Therefore, there is a conflict in the present provisions of the law which the Board believes should be resolved by repealing the parenthetical language quoted above. The Board believes that it is sound policy for the state unemployment compensation agencies to have the entire authority and responsibility for the selection, tenure of office, and compensation of individual employees. However, the Board believes that this authority and responsibility should be exercised in accordance with a systematic merit system for the establishment and maintenance of desirable personnel standards. Therefore, the Board recommends that in lieu of the parenthetical language already quoted, there be substituted language requiring that methods of administration shall include methods relating to the establishment and maintenance of personnel standards on a merit basis. About 40 states operate under a general civil service law or in accordance with a merit system established for or by the unemployment compensation agency itself. Therefore, the effect of this suggested amendment would be to make more universal personnel practices already put into effect in the large majority of the States. The Board believes that requiring the state agencies to establish a merit system would place federal-state relations on a more stable and automatic basis and that the suggested requirement, rather than constituting an encroachment of federal authority in state operations, really constitutes a protection to the states against undue interference

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with their administrative functioning. The actual experience has been that the establishment of a proper personnel system eliminates the necessity for detailed scrutiny of operations and the possibility of misunderstanding and conflict in federal-state relations.

The Board believes that the establishment of a merit system is also a protection to the taxpayers and beneficiaries of a state against the hazard of administration becoming so unsatisfactory that the law can no longer be certified by the Board as containing "methods of administration reasonably calculated to insure full payment of unemployment compensation when due." Such inability to certify means that employers in a state would be required to pay 100 % instead of 10% of the federal tax, in addition to paying their full tax under the state unemployment compensation law. So far, the Board has not found it necessary to withhold certification in the case of unemployment compensation although that has been necessary in the case of public assistance. The Board believes that effective safeguards should be set up so as to eliminate the possibility of such a penalty being inflicted upon innocent citizens of a state because of the derelictions of their public servants.

The Board believes that as a part of a merit system there should be prohibition against political solicitation and political activity, just as in the case of federal civil servants, since the entire salaries of unemployment compensation personnel are paid out of federal funds.

ADMINISTRATIVE CHANGES

The Board recommends a number of changes to improve the administration of the present provisions of the law:

1. The Social Security Board recommends that the administration of unemployment compensation and the administration of the United States Employment Service be unified in a single Bureau in such a way that the specialized functions of each are not only protected but strengthened. In every country in the world that has unemployment compensation a single government agency administers both the placement function and the insurance function. This has been found to be necessary because of the close relationship that exists between the proper carrying out of these two functions. In this country there are two separate Federal agencies although in the states, with one exception, there is a single state agency administering the unemployment compensation law which includes the operation of a state employment service.

The Social Security Act provides that unemployment compensation may be paid through public employment offices or such other agencies as the Social Security Board may approve. The Board recognized the desirability of paying claims through public employment offices, in order to afford the unemployed worker full opportunity to find new employment and to reduce the amount of unemployment compensation claims to a minimum. It has, therefore, not approved of payment of unemployment compensation claims through any other agencies than employment offices.

The Social Security Board, recognizing the necessity for an efficient employment service as a part of the proper administration of a state unemployment compensation law has made grants to the states for the administration of an employment service. The Board realized that it would be uneconomical,

undesirable, and infeasible to have two employment services, one for workers covered under the unemployment compensation laws and one for workers not covered under these laws. Therefore, it has encouraged the states to affiliate with the United States Employment Service and to match the funds available in connection with that service, which funds have been largely augmented by grants from the Social Security Board. The result has been that all of the states have affiliated with the United States Employment Service. Of the total funds that are now being expended for the operation of the expanded federal-state employment service that has resulted, approximately 80% is provided by grants from the Social Security Board, 10% by grants from the United States Employment Service, and 10% by the states themselves.

The Social Security Board has recognized from the outset the necessity for the coordination and integration of its functions with the functions of the United States Employment Service in order that the state unemployment compensation agencies would not be faced with the dilemma of being obliged to deal with two Federal agencies having conflicting standards and policies. The Board, therefore, negotiated an agreement with the Secretary of Labor whereby the United States Employment Service and the Board's Bureau of Unemployment Compensation would act as if they were a single agency. This joint agreement has promoted a considerable degree of coordination and integration. However, complete integration is necessary in the interests of economy, efficiency and good will. The day to day activities of the local employment offices, through which unemployment compensation claims are paid, are closely interrelated and vary in such a way that it is necessary for a considerable portion of the employees to be available for transfer from one function to another function as the needs require. Only unified supervision and direction can properly protect and integrate the various necessary

functions that must be performed in order that unemployed workers and employers may be served adequately.

2. Increasing the authorization for the appropriation of funds to assist the states in the administration of their unemployment compensation laws increased from a maximum of \$49,000,000 to \$80,000,000. An authorization of this increased amount would still be covered by the probable net proceeds of the Federal tax relating to unemployment compensation. The present maximum of \$49,000,000 is clearly insufficient to cover the necessary cost of proper administration.

3. Imposing the payroll tax on wages paid instead of wages payable, thus making the basis the same as in the case of the old-age insurance taxes.

4. Permitting employers to offset against their Federal tax all contributions made under state unemployment compensation laws, regardless of whether or not they are made with respect to employment as defined under the Federal law, up to a maximum of 90% of the Federal tax.

5. Elimination of nominal wages paid to employees of non-profit organizations already exempted under section 101 of the Revenue Act. Many non-profit organizations, particularly fraternal organizations, that have employees and officers drawing a nominal wage are now required to make reports and pay taxes although the amount of the taxes and prospective benefits involved are negligible. A similar change has been recommended in the case of the old-age insurance tax provisions.

6. Exclusion from the definition of wages of all payments made by an employer to or in behalf of an employee under a plan or system providing for retirement benefits, dismissal wages, disability benefits, and medical and hospital expenses. The purpose of such an amendment would be to avoid the discouraging of plans of the nature described. A similar change has been recommended

in the case of the old age insurance tax provisions.

7. Provision that employers who have paid their taxes on time, but paid them to the wrong state unemployment compensation agencies shall be given more time within which to claim credit under the Federal taxing provisions when proper adjustment has been made.

8. An amendment authorizing the states to make their unemployment compensation laws applicable to persons employed upon land held by the Federal Government, such as employees of hotels located in National Parks. Congress has already enacted a statute giving the states authority to apply their workmen's compensation laws to such employees.

9. Clarification of the language excluding state instrumentalities by providing for the exemption of any instrumentality which is wholly owned by the state or political subdivision, as well as those which would be exempt under the Constitution.

10. Clarification of the application of the law to services performed for an employer covered by the act, by an employee engaged in both excluded and included occupations, by providing that determination shall be made on the basis of whether the excluded or included services are preponderant, and that all the wages of such employee shall be considered as excluded or included as the case may be.

11. Clarification of the provisions relating to so-called "merit rating" or "experience rating" under state unemployment compensation laws.

PUBLIC ASSISTANCE

The Social Security Board administers the provisions of the Social Security Act providing for Federal grants-in-aid to the states to cover a portion of the cost of old-age assistance, aid to dependent children, and aid to the needy blind.

The result of this system of grants-in-aid has been that all of the states and territories and the District of Columbia have adopted measures for old-age assistance, and 40 states, the District of Columbia and Hawaii have adopted measures for aid to dependent children and aid to the needy blind. Under these measures 1,738,000 old people, 626,000 children, and 41,000 blind are being aided. The total amount of Federal and state aid given during the present fiscal year will approximate half a billion dollars. There can be no question that the passage of this Federal legislation has been most effective in providing more systematic, humane, and equitable relief to these dependent men, women, and children. The Board recommends no fundamental change in the federal-state relations. However, the Board does believe that certain substantive and procedural changes can be made which will greatly strengthen and improve the protection now afforded by the present provisions.

In the case of old-age assistance and aid to the needy blind, the maximum amount of monthly assistance which can be taken into consideration in granting the states 50% reimbursement, is \$30. The Board recommends that this maximum be removed. This will enable the states to receive full matching in those cases where it is found necessary and desirable to make a monthly assistance grant of more than \$30.

The Board strongly recommends that the grants-in-aid to the states for dependent children be placed on the same basis as in the case of the needy aged and the needy blind. At the present time the Federal grant is one-third of the payments made by the states to dependent children, as compared with fifty per cent of the payments made by the states to needy aged and needy blind. The result has been that fewer states have enacted laws to grant assistance to dependent children and that the assistance granted to

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dependent children in the states that have passed laws is less adequate than in the case of the needy aged and the needy blind. The Board is of the opinion that while the number of dependent children now being aided through federal grants is only one-third of the number of the needy aged being aided, the actual number of dependent children is fully as large as the number of needy aged.

At present the maximum amounts which may be taken into consideration in making federal grants is \$18 for the first child and \$12 for other children in the family. In the case of the needy aged and needy blind, the maximum amount which may be taken into consideration is \$30 per individual. The Board is of the opinion that the present maximum limitations in the amount of assistance given dependent children for which the states can be reimbursed through federal grants should be raised to the same maximum as that now provided in the case of needy aged and needy blind. If that maximum is removed in the case of the needy aged and needy blind, the Board recommends that it also be removed in the case of dependent children. The Board also recommends that the age limit for children be raised from 16 to 18 when the child is attending school full time. This would recognize the present desirable tendency for children to finish high school before going into permanent employment.

At the present time, in addition to reimbursing the states for 50% of the assistance they grant needy aged and needy blind there is added to the amount of the federal grant a flat 5% to help cover the cost of administration. The Board believes that this flat 5% is inadequate for proper administration, and, therefore, recommends that the law be amended so as

to reimburse the states for 50% of the necessary cost of proper administration. In the case of dependent children the law already provides that the cost of administration shall be reimbursed by the federal government in the same proportion as the cost of assistance to the children themselves.

A number of the states have a considerable Indian population, some of which consists of Indians who are still wards of the federal government. The Board believes that the federal government should pay the entire cost of granting aid to the needy aged, needy blind and dependent children in the case of these federal wards. The Board believes that if such an amendment is made it should permit the Board to negotiate cooperative agreements with the proper state agencies so that aid to these ward Indians can be given in the same manner as to other persons in the state, the only difference being in the amount of reimbursement by the federal government. The Board believes that it should also be given authority to grant funds to the Office of Indian Affairs for this purpose if that appears more desirable in certain circumstances.

VARIABLE GRANTS

The amount of the federal grants-in-aid under the public assistance provisions of the Social Security Act will total approximately a quarter of a billion dollars during the present fiscal year. These grants are made on the same percentage basis in the case of every state regardless of the varying fiscal capacities of the states to bear their portion of the cost. The result has been wide differences in the number of persons aided and the amount of aid given in the individual case. Thus, in the

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case of old age assistance the number of persons being aided varies from 54% (?) of the population over 65 years of age, to 7% of the population. The average amount granted to needy aged persons varies from \$32.39 per month to \$6.37. While some of this variation may be explained on other grounds, in general there is no question that it is due to the varying fiscal capacities of the individual states. The Board believes that it is essential to change the present system of a flat percentage grant to a system whereby the percentage of the total cost met through a federal grant varies in accordance with the fiscal capacity of the state. The Board suggests that there be a minimum and maximum limitation to the percentage of the total cost which will be met through federal grants. The Board believes that the present system of a flat percentage grant results at best in an unnecessarily large amount of money flowing in and out of the Federal Treasury, and at worst it results in increasing the disproportion in the relative fiscal capacities of the states. If the poorer states are able to meet adequately their proportion of the cost which is partially financed through federal grants it means that the richer states will get back no more, and probably less, than they have paid in increased federal taxes. If the poorer states are unable to meet adequately their proportion of the cost which is partially financed through federal grants it may mean that instead of assisting these poorer states they will be worse off through having been taxed more than they have received in grants.

The Board believes that with such large sums involved it would be essential to establish an interdepartmental agency consisting of representatives of the various governmental departments which collect and analyze economic data having a bearing on the relative fiscal capacity of the various states. Among the government departments that possess such data are the Treasury Department, Commerce Department, Agriculture Department, Labor Department, and the Social Security Board. This Board could be given the responsibility of determining the relative fiscal capacity of the various states upon the basis of which the varying percentages of federal grants would be computed.

STATE MERIT SYSTEMS

As in the case of unemployment compensation, the Board believes that it is sound policy for state administrative agencies to have entire authority and responsibility for the selection, tenure of office, and compensation of individual employees. However, the Board believes that this authority and responsibility should be exercised in accordance with a systematic merit system for the establishment and maintenance of desirable personnel standards. Therefore, the Board recommends that the provisions relating to methods of administration in the case of old age assistance, aid to dependent children, and aid to the needy blind be amended to require state agencies to establish and maintain personnel standards on a merit basis. Already 19 states operate under a systematic merit system and in varying degrees all have set up objective standards of some sort for the selection of personnel. Therefore, the effect of this suggested amendment is to make more universal personnel practices already put into effect in a large number of states.

As already stated, the Board believes that requiring states to establish a merit system would place federal-state relations on a more stable and automatic basis and that the suggested requirement, rather than constituting an encroachment of federal authority in state operations, really constitutes a protection to the states against undue interference with their administrative functioning.

DISCLOSURE OF CONFIDENTIAL INFORMATION

The Board recommends that among the conditions for the receipt of federal grants it be required that the state plan include reasonable regulations governing the custody, use, and preservation of its records designed to protect their confidential character. The Board believes that such a provision is necessary not only for efficient administration, but in order to protect beneficiaries against humiliation and exploitation which has resulted in some states because of unrestricted access of the public to official records. Efficient administration depends to a great extent upon enlisting the full cooperation of applicants for assistance and other persons interviewed in relation to the establishment of eligibility, and this cooperation can only be assured where there is complete confidence that the information obtained will in no wise be used to embarrass or jeopardize the interests of the person involved. Similar considerations are involved in affording protection to the names and addresses of individual recipients and the amount of assistance they receive. Publication of this information does not serve its avowed purpose of deterring ineligible persons from applying for assistance; instead it is apt to lead to serious administrative

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difficulties and may result in subjecting recipients to humiliation and exploitation. The public interest is amply safeguarded if this information is available to official bodies.

ADMINISTRATIVE CHANGES

There are a number of minor technical changes which the Board recommends to clarify and simplify the present provisions of the law. The most important of these is to provide for a different method of settlement with the states for amounts recovered from the estates of deceased recipients of old age assistance. There is no present requirement that the states make collections against the estates of deceased recipients and the Board does not propose that any such requirement now be set up. However, the present method of settlement between the states and the federal government creates needless administrative difficulties which can be readily eliminated by permitting the federal government to offset its pro rata share of the amounts recovered against the next payment made by it to the state.

HEALTH

The Chairman of the Social Security Board is a member of the Inter-departmental Committee to Coordinate Health and Welfare Activities which has presented to the President a long-range National Health Program. The Board is of the opinion that the enactment of the National Health Program would not only result in meeting more adequately the needs of those now receiving aid under the present provisions of the Social Security Act, but would have a material effect in reducing the future cost of public

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assistance under the Social Security Act. Recommendation 5 of the National Health Program calls for insurance against loss of wages during disability not arising out of employment. The Board believes that adoption of this recommendation would go a long way toward completing the protection afforded workers against loss of wages. The present state workmen's compensation laws protect the workers against loss of wages resulting from injury arising out of employment. The state unemployment compensation laws furnish some protection against wage loss due to unemployment. The federal old age insurance system will furnish protection against permanent loss of wage due to old age. However, no comprehensive protection now exists against unemployment due to disability not connected with the worker's employment. A limited number of workers do have some protection through voluntary insurance schemes, but they are a small minority of the total.

As already indicated in a discussion of amendments to the Social Security Act, the Board believes that if protection against wage loss due to permanent total disability is provided it should be linked with old age insurance since most disability occurs mainly among older workers and since the permanently disabled worker leaves the labor market in the same sense as does the aged person. Another reason for linking permanent total disability with the old age insurance system is that the old age insurance system is on a federal basis which would result in evenly distributing the load among the states, whereas if permanent total disability were administered on a state by state basis some states would have an unduly large benefit load

since some states have higher proportions of older persons, and, as already stated, invalidity occurs more frequently among older workers.

As regards temporary disability compensation, the Board believes that this can be placed on a state basis just as has already been done in the case of unemployment compensation. The Board recommends that if such a program is inaugurated the same taxing and grant-in-aid arrangement be provided as in the case of unemployment compensation; that is, provision for a uniform, federal payroll tax of a small amount against which employers would be permitted to offset 90% of their contributions under state temporary disability compensation laws. If the Congress did not wish to levy an additional payroll tax at this time, this offset could be allowed against the present tax levied against the employer under the old-age insurance system although such offset would of course reduce the proceeds available for old-age insurance. The Board estimates that a system of temporary disability compensation would involve a cost of approximately one per cent of wages. If the state levied a tax of one per cent payable equally by employers and employees, allowance to employers of an offset against their Federal tax of four-tenths of one per cent would be sufficient to enable the states to enact temporary disability compensation without fear of unfair competition on the part of employers in states that fail to pass such legislation. In order to afford the states ample opportunity to enact the necessary legislation the Board recommends that any Federal action in this regard should not be made effective prior to January 1, 1941.

GENERAL

The Board recommends the following amendments of a general character, which to a large extent are self-explanatory:

1. An amendment to prohibit the disclosure of information obtained by the Board or its employees except under certain restricted conditions related to proper administration. The provisions which the Board recommends are similar to those already applicable to the Veterans' Administration.

2. An amendment to confer upon the Social Security Board the power to issue subpoenas, administer oaths and examine witnesses and the like in connection with its administration of the provisions of the Social Security Act. The Board recommends powers in this case similar to those given numerous other administrative agencies such as the Veterans' Administration, the Federal Trade Commission, and the Securities and Exchange Commission.

The Board has not undertaken to present extensive data or a detailed description of the amendments which it recommended for the consideration of the President and Congress. However, it is prepared to furnish any data or technical assistance that may be desired in connection with any of the recommendations which Congress may wish to consider.

January 4, 1939

To: Mr. Hanes
From: Mr. Haas
Subject: Proposed Changes in the Old-Age Insurance Provisions of the Social Security Act.

I:

The Social Security Board proposes the following principal changes in the old-age insurance provisions of the Social Security Act:

(1) Benefit payments should commence in 1940 instead of on January 1, 1942.

(2) Benefit payments in the earlier years should be stepped up very materially. The ultimate level of benefit payments as a percentage of covered payroll should remain unchanged, however.

It should be noted (1) that the present value of the contemplated benefits, even as a percentage of covered payroll, is stepped up very materially, since the increases in payments in the earlier years are not offset by decreases in subsequent years; and (2) that the ultimate level of payments, taken either as absolute amounts per year or as percentages either of national income or of total Federal revenues, will be materially increased, since coverage will be greatly extended and the criterion, according to which the ultimate level of payments is to be not increased, is covered payroll and not national income or Federal revenues.

(3) The increase in benefit payments in the early years should be brought about principally by changing the basis of payment from cumulated earnings to average earnings and by allowing a supplement to married recipients of old-age benefits with respect to their aged wives. The first of these changes is very costly in the earlier years of the system, but is estimated by the Board to result in some net saving in the later years. The latter is very costly in the earlier years, but not very costly in the later years.

Mr. Hanes - 2

(4) The old-age insurance system should also be supplemented by benefits for aged widows of annuitants or of currently insured persons, by benefits for the dependent children of deceased annuitants or currently insured individuals, and by benefits for young widows when, but only when, such children are in their care.

(5) It is proposed that the death benefit of 3-1/2 percent of total reported wages, less the total amount of benefits received by the living annuitant, should be replaced by a minimum death benefit related to past earnings, but designed merely "to help defray the expenses of his last illness and funeral expenses". The savings effected by this change would, in the opinion of the Board, provide for most of the cost of the survivors' benefits discussed in the preceding paragraph.

(6) It is uncertain whether the Board will or will not recommend adding disability benefits to the old-age insurance scheme. Considerable disagreement exists with respect to this, but the proposal to do so is vigorously supported by organized labor and is likely to come up for active consideration in Congress whether or not it is incorporated in the Board's final recommendations. Estimates of cost vary widely, but it is recommended in the Advisory Council's report, and seems to be agreed by the Board that, if disability benefits are to be included in the Act, their cost should be additional to those of the remainder of the program -- i.e., that the ultimate annual cost of the program, even as a percentage of covered payroll, would be increased by the cost of the disability benefits.

(7) The Board proposes that the payment of the benefits be financed entirely from the proceeds of the payroll taxes as now scheduled, as long as the annual proceeds of the tax collections exceed the annual cost of the benefits. At such time (when the reserve would be anywhere from about \$2 billions to about \$9 billions, depending upon the assumptions used in estimating and upon whether disability benefits were or were not included), the Board contemplates that the reserve would be stabilized at its maximum amount and a Federal subsidy would be introduced sufficient to maintain the reserve at that level thereafter. While the Board does not state definitely the proportion of Federal subsidy contemplated, the Advisory Council has recommended in its final report that the eventual cost of the old-age insurance system should be met "by means of approximately equal contributions by employers, employees, and the Government", and the Board seems to think in these terms.

Mr. Hanes - 3

The rates of payroll tax, as at present set forth in Title VIII would, according to the estimates of the Board, be adequate to finance contemplated benefits until sometime during the 1950's if disability benefits are not included, or during the 1940's if they are. Cost estimates under different assumptions, of course, vary widely.

(8) The Board proposes that coverage under Title II of the Act should be extended to include practically all of the now uncovered groups, except casual labor in a rather narrow definition of that term, employees of State and local governments, and the self-employed. Domestic servants and agricultural laborers, it should be noted, would be included under this recommendation, but owner- and tenant-farmers would continue to be excluded, being classified as self-employed.

II.

If it may be assumed that the Administration is definitely committed to a program of advancing the date for the commencement of annuity payments under Title II and of paying larger amounts in the earlier years*, and that the Treasury will not

* The final paragraph of a widely publicized letter, dated April 28, 1938, from the President to Chairman Altmeyer of the Social Security Board reads as follows:

"I am particularly anxious that the Board give attention to the development of a sound plan for liberalizing the old-age insurance system. In the development of such a plan I should like to have the Board give consideration to the feasibility of extending its coverage, commencing the payment of old-age insurance annuities at an earlier date than January 1, 1942, paying larger benefits than now provided in the Act for those retiring during the earlier years of the system, providing benefits for aged wives and widows, and providing benefits for young children of insured persons dying before reaching retirement age. It is my hope that the Board will be prepared to submit its recommendations before Congress reconvenes in January."

The final report of the Advisory Council on Social Security, subscribed to by all members of the Council, recommends the adoption of all the changes listed in the above paragraph.

Mr. Hanes - 4

take the initiative in urging a fundamental change in the relationship of taxes and benefits, such as that proposed, for example, in the accompanying memorandum prepared by Mr. Reagh, we should make the following suggestions for Treasury policy with respect to the recommendations of the Social Security Board:

(1) We do not believe that the Treasury should oppose the virtual abandonment of the reserve method of financing which is implied in the Board's recommendations. Neither do we believe that the Treasury would do well to request that the type or rates of taxation by which it is proposed to supplement the yield of the payroll tax in future years should be enacted or determined at the present time. We do believe, however, that the Treasury should vigorously oppose any proposal that the step-rates specified in the existing law should be altered at the present time.

(2) We do not believe that it is practicable for the Treasury to request that the present value of Title II benefits be held within the limits of existing law. We do believe, however, that the Treasury should endorse and adopt as its own the principle of the Board that the ultimate level of benefit payments as a percentage of covered payroll should not be increased. This concession, of course, "costs us \$50 billions", in the sense that approximately that amount of money which would otherwise have been accumulated as reserve and presumptively applied to public debt reduction would instead be disbursed in benefit payments during the next fifty years. It is probably \$50 billions, however, that we never had a very good chance of getting anyway.

There is considerable doubt that the schedule of benefits most recently proposed by the Board would not actually increase the ultimate level of benefit payments, and the Treasury should reserve the right to oppose any schedule of benefit payments which, in its judgment, does not fully implement the principle just set forth.

(3) We believe that the Treasury should vigorously oppose any attempt to insert permanent disability benefits in the old-age provisions of the Act at the present time.

C O P Y

January 4, 1939.

To: Mr. Hanes
From: Mr. Haas
Subject: Proposed Changes in the Public Assistance Provisions
of the Social Security Act.

I.

The Social Security Board proposes the following principal changes in the public assistance provisions of the Social Security Act:

(1) Title I should be amended to remove the maximum from the amount of old-age assistance for any individual which may be taken into consideration in determining the Federal contribution toward such assistance. This maximum is now \$30 a month, payable half from Federal and half from State or local funds, which amount may be received by each of the members of an aged couple, provided that each is able to qualify for it separately.

(2) Title IV should be amended to remove the maximum from the amount of aid to dependent children which may be taken into consideration in determining the amount of the Federal contribution toward such aid. This maximum is \$18 a month for the first child and \$12 a month for each additional child in the same family, payable one-third from Federal and two thirds from State or local funds.

(3) Title IV should also be amended to place the amount of the Federal contribution with respect to aid to dependent children upon the same basis as the amount of the Federal contribution with respect to old-age assistance.

(4) It is further proposed that the amount of the Federal contribution with respect to both the needy aged and dependent children be changed from a flat percentage of total cost to a varying percentage, differing between States in accordance with their "fiscal capacities", as determined by an interdepartmental agency, upon which the Treasury Department would be represented.

II.

It is urged by the Board that the total cost of removing the maximum from the Federal contribution with respect to old-age assistance will be small, since few States will be willing to pay many pensions over \$30 a month in any event, while, on the other hand, the maximum now imposes some hardship upon persons in exceptional need. We believe, however, that it would be very dangerous to remove, or even to increase, the maximum now specified in the law.

The maximum "basic annuity" proposed under the Board's most recent plan for contributory old-age insurance is \$40 a month for a single annuitant. This basic benefit is increased by 2 percent for each year of coverage, and the amount as so increased may be increased by a further 50 percent in case the annuitant has a dependent wife aged 65 or over, and may be yet further increased if the annuitant has one or more dependent children. The maximum amount which may be paid, however, to any married couple with respect to the husband's earnings -- no matter how great these earnings or how long the period of coverage -- is \$80 a month. This amount may be increased only in case the wife's earnings are sufficiently great to entitle her to receive in her own right an annuity greater than the supplement allowed her husband because of his marital status. Cases where the total annuity payable to a married couple will exceed \$80 a month because of this contingency will be quite rare, and the excesses over \$80 relatively small. Most married couples, of course, will receive annuities of far less than \$80 a month under the Board's plan.

The maximum payment to a married couple under Title I, pursuant to a means test, toward which a Federal contribution may be made is now \$60 a month. This maximum fixed by existing law with respect to means test assistance is, thus, already 75 percent of the maximum proposed to be established in a liberalized system of contributory old-age insurance!

One of the major problems of the existing system of old-age insurance is that it is in many respects more niggardly than the means test assistance offered by Title I. The proposed revisions in the old-age insurance plan are designed in part to remedy this difficulty. The proposal of the Board to remove the maximum from the present amounts of Title I old-age assistance would recreate the problem anew in a more objectionable form than ever. Complaints would be heard in due

course that persons on the means test were receiving more than persons in receipt of contributory old-age insurance, so creating a new drive to place the contributory benefits above the means test benefits. There is no limit to this hand-over-hand process of upping benefits by competition between Titles I and II, and we recommend that the Treasury take a firm stand in favor of retaining the present maximum on Title I Federal grants for old-age assistance.

While many of the considerations just advanced are not relevant to the proposal to remove the maximum limit from the amount of aid to dependent children, we believe that the Treasury should, in general, oppose the removal of maxima on grants of this type and do not believe that the amounts specified in the Act for this particular purpose should be increased at this time. We do not believe, however, that the Treasury should oppose increasing the Federal share of aid for dependent children from one-third to one-half of the total amount of such aid.

Finally, we believe that the Treasury should vigorously oppose the proposal for variable grants in accordance with the "fiscal capacity" of the several States. This means, in effect, subjecting the States themselves to a means test. We do not believe that a suitable objective criterion for the determination of such capacity could be worked out and generally agreed to, but believe rather that political pressures of all sorts would enter into the final determination of "fiscal capacity". Last, and of great importance to the Treasury, it is likely that, in order to avoid reducing the grants now received by any State, allowances, in accordance with "fiscal capacity" would be graduated upward from 50 percent rather than centered around that figure, and that, consequently, the drain on the Treasury would be greatly increased.

C O P Y

January 5, 1939

Mr. Haas

Mr. Reagh

Subject: Summary of objections to changes in the old-age insurance provisions of the Social Security Act as recommended by the Social Security Board, and an alternative plan designed to meet these objections.

1. The proposed changes recommended by the Social Security Board would materially increase the cost of benefits. 1/ The only practicable safeguard against making future commitments which may be far beyond the capacity of future generations to pay is to increase taxes and benefits at the same time.

2. The Board recommends that approximately one third of the cost of old-age insurance should be met from general revenues, despite the fact that only about fifty percent of the gainfully employed population is included under the benefit provisions.

3. The proposed plan would offer extremely strong incentives for overpayment of taxes. If the plan were extended to the self-employed it would be almost impossible to prevent many individuals from, in effect, purchasing annuities at bargain prices and therefore at the expense of the general taxpayer. 2/

1/ According to Social Security Board estimates, the proposed plan would cost about 40 percent more than the existing law. During the next 40 years, the amounts paid out in benefits would be about \$50 billion more than under the existing law. (The actual annual benefit payments payable in 1980 and thereafter are estimated to be about the same as under the existing law.)

2/ For example: A married man now aged 55 and earning \$1,800 annually would have to set aside about one third of his annual income at 3 percent compound interest to purchase the annuity and death benefits provided under the proposed plan.

In a previous memorandum I outlined a plan which I believe would overcome many of the difficulties inherent in the existing law and which would be even more serious with the changes recommended by the Social Security Board. This alternative plan might be varied to produce almost any desired scale of annuity benefits. The basic principles of the plan are:

1. A benefit formula which provides a relatively high percentage of the first increment of from \$200 to \$500 of average annual wages. (This portion of the benefit to be paid for out of general revenues.)
2. An additional benefit approximately equivalent in value to the individual's accumulated Social Security taxes with interest.
3. Women would receive credit for one half of the combined earnings of husband and wife. (This method provides a basis for widow's benefits without inequities due to marital status, and would remove any advantage which might be gained under the present law through placing the wife on the husband's payroll.)
4. Since part (1) of the benefit is to be paid entirely from general revenues, it is only fair that this benefit should be paid to everyone, including the present aged. In lieu of an earnings record, the individual should be permitted to claim a minimum benefit of, say, \$10 per month as a matter of right. Such a benefit could be substituted for the present Federal benefit under Title I (Old-age Assistance). 3/

Under the alternative plan suggested above the portion of the benefit which is actuarially equivalent in value to the individual's tax contributions could not be increased without a proportionate increase in the tax rate. Also, since the remaining benefit is paid for entirely from general revenues, the individual acquires no vested right and therefore it probably could be lowered with less serious consequences as long as there was no default in respect to the "purchased" portion. If the present aged should be included for at least a minimum benefit, any "increase" in this "free" benefit would increase the immediate cost and it would be apparent that additional revenues would be necessary. Consequently the alternative plan could be kept within reasonable bounds with much less difficulty than a plan under which future benefits may be promised with great liberality without the restraining necessity of immediate increases in taxes.

3/ It is not essential to the plan that the old-age insurance be applicable to those who are now aged and have no earned income.



SOCIAL SECURITY BOARD
WASHINGTON

*Social
Security*

January 9, 1939

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Honorable John W. Hanes,
Member,
Fiscal and Monetary Advisory Board,
Treasury Building,
Washington, D. C.

Dear Mr. Hanes:

I am enclosing copy of report on proposed changes in the Social Security Act. I have marked page 2, and pages 11, 12, and 13 as probably being of particular interest to you in considering the financial implications.

I am also sending copies to Mr. Eccles,
Mr. Delano and Mr. Bell.

Sincerely yours,

W. A. Rorer
Chairman

SOCIAL SECURITY BOARDARTHUR J. ALTMAYER, *Chairman*

ELLEN S. WOODWARD

GEORGE E. BIGGE

Washington, D. C., December 30, 1938.

The PRESIDENT,
The White House.

DEAR MR. PRESIDENT: The Social Security Board has regarded as one of its most important responsibilities under the Social Security Act that imposed by the section of the law which charges the Board with "the duty of studying and making recommendations as to the most effective methods of providing economic security through social insurance, and as to legislation and matters of administrative policy concerning old-age pensions, unemployment compensation, accident compensation, and related subjects."

In accordance with this congressional mandate and specific instructions received from you, the Board, since its creation in August 1935, has continuously appraised the operation of those provisions of the act for which it has administrative responsibility. In addition, the Board has carried on extensive studies as to effective methods of providing greater social security for the American people.

The Social Security Board's report, based on these studies and on practical experience in social security administration during the past 3 years, is submitted herewith for your consideration and that of the Congress.

The Board has not undertaken to include in this report the extensive data on which its recommendations are based. However, the Board is prepared to furnish such data and technical assistance as may be desired in connection with any of these recommendations which the Congress may wish to consider.

Respectfully submitted.

ARTHUR J. ALTMAYER, *Chairman.*

(111)

Confidential !

PROPOSED CHANGES
IN THE
SOCIAL SECURITY ACT

**A Report of the Social Security Board to
the President and to the Congress
of the United States**



JANUARY 1939

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IN THE
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UNITED STATES
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PROPOSED CHANGES IN THE SOCIAL SECURITY ACT

Through the Social Security Act the people of the United States have established their first Nation-wide and organized system of protection against prevailing economic hazards. To accomplish this purpose, both the Federal Government and the States have cooperated in these provisions for social security. It has been possible, therefore, to attack Nation-wide problems on a Nation-wide front, and, at the same time, to keep the program practical, flexible, and close to the people.

Possible ways and means of improving and extending the present provisions of the Social Security Act naturally become more apparent as administrative experience increases, as more data become available, and as a better understanding of actual needs develops. Though the Board recognizes that such growth is a continuing essential, it believes that the general approach to social security embodied in the existing act is fundamentally sound.

Through the Social Security Act the people of this country have attacked the problem of insecurity upon two fronts: The act undertakes to provide some measure of protection against present needs arising out of past neglect, and it establishes at the present time basic protection against economic hazards which would otherwise cause future insecurity. To accomplish these purposes the act sets up, in the main, a system of Federal-State cooperation whereby financial resources of the Federal Government are made available to the States to enable them to safeguard their citizens. The only part of the act wholly administered by the Federal Government is the old-age insurance system. Since such a system necessarily operates on a long-term basis, movement of population among the States precludes setting it up on a State-by-State basis.

The changes in the Social Security Act recommended by the Board are designed to promote the objectives of the

(1)

present law, as regards all the programs under the Board's direction—old-age insurance, unemployment compensation, and public assistance. In addition, the Board makes certain recommendations with regard to general administration and suggests certain considerations relating to health protection. It is the judgment of the Board that these recommended changes represent practicable next steps toward the goal of adequate security for the American people by liberalizing the benefits payable under the act, by extending its protection to a much larger proportion of our people, and by greatly facilitating administration.

FEDERAL OLD-AGE INSURANCE

Although the Federal old-age insurance system is the largest ever put into operation, it has proved to be sound from both the administrative and financial standpoint. In considering the development of this plan, it should be borne in mind that it is separate and distinct from the Federal-State program of old-age assistance. Under Federal old-age insurance, benefits are payable as a matter of right irrespective of individual need, and in relation to past earnings. Under Federal-State old-age assistance, payments are made only on the basis of individual need as determined by the State.

Our present system of old-age security thus embodies two principles: the insurance program related to the individual's past earnings and the assistance program related to his present need. The Social Security Board is convinced that a system of old-age security which attempted to operate on any other principles would be bound to lead to disaster both for the beneficiaries and for the general taxpayer.

The basic problem of old-age insurance is to make the system more immediately and fully operative without destroying the reasonable relationship which must exist in such a program between benefits payable and past earnings. Such a relationship must exist under any system of retirement insurance, whether social insurance or an industrial pension plan, unless the term "insurance" is to lose all its meaning. For the protection of future beneficiaries and future taxpayers it is essential that this reasonable relationship be maintained; just as in the case of old-age assistance it is necessary to maintain a reasonable relationship between assistance granted and the needs of the individual.

The present old-age insurance system, while maintaining a reasonable relationship between past earnings and future benefits, provides proportionately greater protection for the low-wage earner and the short-time wage earner than for those more favorably situated. In other words, it recognizes *presumptive* need as an essential consideration in any socially adequate old-age insurance system. But the presumptive need toward which social insurance is directed must be distinguished from the specific need, as established by investigation, which public assistance is designed to meet. To allow for presumptive need, the old-age insurance system gives much greater weight to the first \$3,000 of accumulated earnings than to subsequent earnings. It is thus possible for a person retiring in the early years of the system, or for a low-wage earner retiring at any time, to receive very liberal benefits in proportion to his past earnings.

But every worker, regardless of his level of earnings or of the length of time during which he has contributed, will receive more by way of protection than he could have purchased elsewhere at a cost equal to his own contributions. In other words, the system recognizes the principle of individual equity, as well as the principle of social adequacy. It has been possible to incorporate in the system both these aspects of security by utilizing a larger proportion of employers' contributions to pay benefits to those retiring in the early years, and to low-wage earners. A similar procedure is also followed in private pension plans. Such plans recognize that the employer must contribute more liberally in behalf of older workers if they are to have sufficient income to retire.

Benefits

Starting Monthly Benefits in 1940.—The Board believes that the payment of monthly benefits should commence in 1940 instead of on January 1, 1942, as scheduled in the present law. This will be practicable, in the opinion of the Board, since by 1940 a considerable body of administrative experience will have been accumulated, and wage records will have been built up for a period of 3 years.

Because of its nature as an *insurance* program, the Social Security Board does not believe that it is possible to bring under this system all persons who have already retired from gainful employment. Even though it were

considered reasonable to pay benefits regardless of the fact that no past contributions had been made either by these individuals or by their employers, it would be impossible to obtain adequate wage records upon which to compute benefits.

Increasing Benefits Payable in Early Years.—The Board also believes that the monthly benefits payable to those retiring in the early years can be increased without increasing the eventual cost of the program.

The cost of any system of benefits will mount rapidly with the passage of time as a larger proportion of the population reaches retirement age. Consequently, a scale of benefits, the cost of which would be altogether reasonable now, might be unduly burdensome at the end of a generation. Therefore, in making increases in benefits, particularly in the early years of a system, it is essential to keep the ultimate financial cost in mind. It is impossible under any social insurance system to provide ideal security for every individual. The practical objective is to pay benefits that provide a minimum degree of social security—as a basis upon which the worker, through his own efforts, will have a better chance to provide adequately for his individual security.

In order to increase benefits for those retiring in the early years, the Board recommends two measures: first, supplementary benefits for aged wives, and second, the use of "average wages" instead of total accumulated wages for the computation of benefits.

Supplementary Benefits for Aged Wives.—The Board suggests that a supplementary benefit be paid for the aged dependent wife of the retired worker which would be related to his old-age benefit. Such a plan would take account of greater presumptive need of the married couple without requiring investigation of individual need. An aged wife would of course be entitled to benefits based upon her own past earnings in lieu of the supplement, if her own benefits were greater. Since in the course of time many women will have developed substantial benefit rights based upon their own past earnings, the cost of providing the supplement for dependent wives would gradually decline, and eventually the additional cost would be reduced to a relatively small amount. In order that greater social adequacy may not be achieved at the expense of individual equity, the Board recommends that the benefits payable to unmarried persons continue to be at least as much as

they could purchase from a commercial insurance company with their own contributions.

Utilizing "Average Wages" as Benefit Base.—The Board recommends that benefits be calculated upon the basis of average wages, rather than, as at present, upon total accumulated wages.

This change would make it possible to increase early benefits and to relate benefits more closely to the previous normal wage income of the individual. It would also eliminate, as the years go by, the large bonus which present provisions would afford those who have had only a brief period of participation prior to the date of retirement. Under the existing law the large credit for the first \$3,000 of accumulated earnings remains in effect regardless of whether a worker retires in the early years of the system or later. This large credit is justified in the early years, since workers and their employers have had an opportunity to make contributions for only a short period of coverage under the system. But it is advisable to safeguard the system against disproportionately large withdrawals in the future in behalf of those who have paid taxes only a short time.

While the Board believes that benefits should be related to the average wage, it recognizes that benefits should also be related to the number of years the individual has been in covered employment and has made contributions. The Board therefore recommends that an insured individual, upon retirement, receive a basic benefit related to his average wages; and that, for every year he has earned more than some small specified amount of wages in covered employment, his basic monthly benefit be increased by a specified percentage. Conversely it recommends that for every year a person does not earn this specified amount of wages, the basic monthly benefit be reduced by the same percentage.

The Board is of the opinion that a percentage decrease for each year not covered is a more equitable approach than that found in most foreign old-age insurance systems which usually require that a person be in covered employment during a specified number of years immediately preceding the date of retirement. As a result, an individual who had been in covered employment a considerable proportion of his working life but not during the last few years before retirement would be ineligible for monthly benefits. Such a provision would, in the Board's opinion,

work undue hardship on those who had left covered employment during their later years and would offer undue advantages to those who entered covered employment only during their last few working years. The system which the Board recommends represents a more flexible and equitable arrangement. It not only protects individuals who have been in covered employment during a considerable portion of their working life, but also safeguards the system as it matures against disproportionate payments to those in covered employment for only a short time.

Benefits for Widows and Orphans.—The Board is of the opinion that old-age insurance should be expanded to include survivors' insurance. The law now provides for single lump-sum cash death payments equal to 3¼ percent of the worker's total recorded wages provided he has not during his lifetime drawn benefits equal to this amount. Under a social insurance system the primary purpose should be to pay benefits in accordance with the presumptive needs of the beneficiaries, rather than to make payments to the estate of a deceased employee regardless of whether or not he leaves dependents. The payment of monthly benefits to widows and orphans, who are the two chief classes of dependent survivors, would furnish much more significant protection than does the payment of lump-sum benefits. Such monthly benefits could be provided and still kept within the eventual costs of the present system. There is ample precedent for such provision, since 15 out of 22 foreign old-age insurance systems make provision for survivors' benefits.

The Board is of the opinion that aged widows and younger widows with dependent children should receive benefits, and that benefits should be paid on behalf of children at least until they reach 16 years of age, and until 18 while they are regularly attending school.

Some measure of the need for this protection as it affects children is indicated by experience under the present Federal-State program of aid to dependent children. In 43 percent of these cases the children have become dependent because of the father's death and in an additional 25 percent of the cases, because of the father's disability.

The Board has given much consideration to the feasibility and desirability of providing benefits for widows under 65 years of age who have no young children in their care. The Board believes that only a temporary monthly benefit, covering the period immediately following the

husband's death, should be paid in such cases. However, the Board does recommend that all widows of persons who would have been qualified for old-age benefits, if they had lived to age 65, be entitled to a deferred monthly benefit payable at age 65. Such benefits should bear some reasonable relationship to that which the deceased husband would have received.

Normally, young widows without children can be expected to enter gainful employment, but middle-aged widows frequently find it more difficult to become self-supporting. On the other hand, they are likely to have more savings than younger widows and many of them have children who are grown and able to help them until they reach 65 years of age, when they would be entitled to a widow's benefit under the plan proposed. Though their problems are fully recognized, provision for commencing benefits to widows under 65 with no children would present certain serious anomalies. Any age selected for benefits to begin would appear arbitrary, excluding some widows just below that age. Moreover, the question would arise as to discrimination against unmarried women, who would not receive benefits until they reached 65. Yet if the retirement age for women generally were lowered, the effect would be to discriminate against men and at the same time substantially to increase the cost.

Disability Insurance.—The Board has given much thought to the question of whether the present old-age insurance system should be expanded to include provision for benefits to workers who become permanently totally disabled, before reaching age 65, and to their dependents.

With the single exception of Spain, every other country which has a system of old-age insurance has made provision for permanent disability. One of these countries, Great Britain, includes this provision in its health insurance system; others relate it directly to old-age insurance.

The Board recognizes that the administrative problems involved are difficult, although it does not believe them insuperable. It also recognizes that provision for permanent total disability would increase the cost of the system both now and in the future. For these reasons it is not making any positive recommendation on this matter at this time. It should, however, be pointed out that the extent to which costs would increase would depend upon the definition of disability which could be made effective. If a fairly strict definition were adopted and maintained,

the Board believes that the additional costs could be kept within reasonable limits. Later, as experience developed, the definition could be made more liberal if this appeared socially desirable. In connection with any permanent total disability program, adequate provision should be made for hospitalization and other institutional care, and for vocational rehabilitation.

Coverage

Extending the Coverage of the System.—The Social Security Board is of the opinion that it is sound social policy to extend old-age insurance to as many of the Nation's workers as possible. It believes that it is administratively feasible to provide this protection for large numbers of people who are not yet covered.

Even with its present limited coverage—estimated to include at any one time only 50 percent of the Nation's gainfully occupied population—at least some small measure of protection is already being furnished by the old-age insurance program to two-thirds of those gainfully occupied. This is due to the fact that a great many persons, usually in excluded occupations, work in covered employment from time to time. It is estimated that, even without any change in the present coverage, 75 or 80 percent of the gainfully occupied persons in this country would eventually have some protection. However, since the adequacy of this protection depends to a considerable extent upon the length of time the individual actually works in covered employment, it is highly desirable that coverage be extended as rapidly as administratively feasible. Extension of coverage would also be necessary in order to protect the financial soundness of the system if the present benefit provisions in the law granting such proportionately large benefits to persons who have been in covered employment only a short period prior to retirement are retained.

Agricultural Labor.—The Board believes that the "agricultural labor" limitation on coverage should be modified. It is, of course, apparent that the problem of covering the independent farmer cannot be finally solved, except as part of a general program to cover the self-employed. It is also recognized that the complete inclusion of employees engaged in agricultural labor is fraught with great administrative difficulties. However, the Board believes that the inclusion of large-scale agricultural operations, often of

a semi-industrial character, probably would reduce rather than increase administrative difficulties.

At present it is almost impossible to delimit the field of "agricultural labor" with anything like the certainty required for administration and for general understanding by employers and employees affected. The extent of the exception is shadowy indeed where the producer also engages in processing and marketing.

The Board recommends that the language of the present exception relating to "agricultural labor" be modified to make it certain that this exception applies only to the services of a farmhand employed by a small farmer to do the ordinary work connected with his farm. The Board further recommends that, with a reasonable time allowed before the effective date, the "agricultural labor" exception be eliminated entirely.

Domestic Service.—The Board recommends that the exception of domestic service be eliminated, with a reasonable time allowed before the effective date. It is believed that the principal administrative difficulties with respect to domestic service will be overcome, just as they will be in the case of agricultural labor, when the individuals affected become generally informed as to the benefits and obligations incident to coverage.

Maritime Employment.—There is at present an exclusion of "service performed as an officer or member of the crew of a vessel documented under the laws of the United States or of any foreign country." The legislative history indicates that this exclusion was made because of the administrative difficulties of covering foreign crews on American vessels engaged in foreign trade. The Board recommends that the present exception be redrawn so that exclusion of employment on American vessels be limited to this type of situation.

Nonprofit Organizations.—The Board recommends the inclusion of service performed for religious, educational, charitable, and similar nonprofit organizations. The Board foresees no serious administrative difficulties in such inclusion.

Services Performed for the Federal Government or Its Instrumentalities.—The Board recommends the inclusion of service performed in the employ of the United States or its instrumentalities. The Board anticipates no administrative difficulties in such inclusion. However, in extending old-age insurance to all employees of the Federal Government, it would be necessary to give consideration

to the effect on other retirement systems for Federal employees, with a view either to excluding employees already covered by these systems or to adapting these systems so that they would take account of the basic protection afforded by the old-age insurance system. In any event, the Board recommends an amendment to bring under coverage employees of instrumentalities of the United States, except those which either are wholly owned by the United States or are exempt from the taxes levied under the Social Security Act by virtue of some other act of Congress. The principal "Federal instrumentalities" which would thus be brought into old-age insurance are national banks and State banks which are members of the Federal Reserve System, and building and loan associations which are members of the Federal Home Loan Bank System.

Services Performed for States and Their Instrumentalities.—A number of State and municipal officials have indicated a desire for coverage of State and municipal employees. However, no method has yet been devised which would overcome constitutional difficulties and also protect the old-age insurance system against adverse selection. It is hoped that further study will develop a method which will be constitutional and which will prove mutually advantageous to the States, their employees, and the old-age insurance system. The Board confines its recommendation at this time to the suggestion that the present exclusion of the act be modified so that it applies only to services performed in the employ of a State or a political subdivision or instrumentalities wholly owned by the State or whose functions are such as to raise constitutional barriers to Federal taxation.

Allowing Benefit Credits for Wages Earned After 65.—The Social Security Act as it now stands does not permit workers to gain benefit credit for wages earned after age 65. The taxes paid by employer and employee also stop when the wage earner reaches this age. Lump-sum cash benefits are provided for workers who reach 65 years of age without having worked enough to qualify for a monthly benefit. Such workers, even though they continue in employment, cannot under the present law qualify for annuities. The lump-sum payment is all that is available to them. The Social Security Board recommends that such workers receive credit for any time that they work after age 65 so that they may qualify for monthly benefits upon retirement at a somewhat later date. This would

automatically eliminate the occasion for lump-sum payments at age 65, and at the same time would provide a much greater degree of protection for older workers.

Employer-Employee Relationship.—Old-age insurance coverage is at present limited by the undefined terms "employer" and "employee." The Board recommends that this provision be expanded to the extent feasible to cover more of the persons who furnish primarily personal service. The intention of such an amendment would be to cover persons who are for all practical purposes employees, but whose present legal status may not be that of an employee. At present, for example, insurance, real estate, and traveling salesmen are sometimes covered and sometimes not; the Board believes that all such individuals should be covered.

Casual Labor.—The Board believes it is necessary to retain the existing exclusion of casual labor not in the course of the employer's trade or business, because of the administrative difficulties which otherwise would be involved, with no considerable compensating social advantages. It should be noted that this exclusion is numerically small since labor so excluded must be not only casual but also unrelated to the employer's business.

Self-Employment.—The Board has given considerable study to the possibility of including self-employed persons under the old-age insurance system. However, the Board is not prepared at this time to recommend what it considers a practicable method for extending coverage to such persons.

Contracting Coverage to Prevent Collusion.—Until a practicable means is found for including self-employed persons, the Board recommends that the family employment exclusion, appearing in title IX of the Social Security Act relating to unemployment compensation, be incorporated in the old-age insurance provisions. The Board further recommends that the act be amended so that old-age insurance benefits will not be paid where there has been a contract of employment for the purpose of securing benefits without the performance of bona fide service.

Financing

The Social Security Board is not making detailed recommendations relative to the financing of the old-age insurance system since the Treasury Department is charged with primary responsibility in this regard. However, the Board believes it is essential that any method

of financing that is proposed should take into account all probable future disbursements so that the interests of both the prospective beneficiaries and the general taxpayers may be properly safeguarded.

When the system is fully matured, its eventual cost with the changes here recommended—which the Board believes will furnish far greater protection—would be somewhat less than the cost of the present system. The cost of paying benefits in the early years would, however, be greatly increased if the proposed changes were put into effect. If permanent total disability insurance should also be included, the eventual cost, when the system is fully matured, would be somewhat more than the present system.

The existing law contemplates a fully financed system for all time to come. That is to say, it requires that probable future liabilities be taken into account from the very beginning and that a sufficient reserve be set up so that the earnings on the reserve, plus current pay-roll tax receipts, will be sufficient always to cover annual benefit disbursements.

As already stated, if the recommendations of the Board relating to benefits are adopted, early payments under the system will increase substantially. The tax provisions embodied in the present law would probably cover the increased annual cost for the first 15 years. They would also probably provide a small reserve, which would be invested and earn some interest. But when future annual benefit disbursements exceeded annual tax collections plus interest earnings, some other provision would have to be made for the funds which, under the existing plan, would be secured from interest on accumulated reserves. It would then be necessary to do one of two things: increase the pay-roll tax, or provide for the deficiency out of other general taxes.

The Board is of the opinion that it would be sound public policy to pay part of the eventual cost of the benefits proposed out of taxes other than pay-roll taxes, preferably taxes such as income and inheritance taxes levied according to ability to pay.

The portion of the total costs to be met by taxes other than pay-roll taxes should depend upon the proportion of the general population covered by the insurance system. The wider the coverage, the more extensive this contribution from other tax sources might properly be.

Although the Board believes that contributions to the old-age insurance program should eventually be made out

of Federal taxes other than those on pay rolls, it does not believe that such taxes should be substituted for any part of the present pay-roll taxes, or that such other taxes should be used until annual benefit disbursements begin to exceed annual pay-roll tax collections, plus the interest earned on the small reserve which would be accumulated. The Federal Government is already making an annual contribution out of general taxes of almost a quarter of a billion dollars for old-age security, in the form of grants to the States to help finance their old-age assistance programs. Substitution of other taxes for any portion of the pay-roll taxes now provided would increase the disparity between taxes paid and benefits payable in the early years of the system. Those retiring in the early years in any event will receive much greater benefits in proportion to taxes paid on their behalf than those retiring in the later years. Furthermore, while the exact future costs of benefits under the insurance system cannot be determined with any degree of accuracy until more data are available (especially those which will come with the actual payment of benefits to large numbers of people), it is certain that the costs will be great and it is important that Government finances should not suffer through reduction in revenue from pay-roll taxes.

Administrative Changes

The Board recommends a number of changes to improve administration of the present law:

1. Inclusion of a provision requiring employers at the time of wage payment to furnish employees a statement, which they may retain, showing the amount of taxes deducted from their wages under the old-age insurance system.
2. Exclusion of any nominal wages paid to employees of all nonprofit organizations now exempted from the Federal income tax. Many nonprofit organizations, particularly fraternal organizations, with employees and officers drawing a nominal wage, are now required to make reports and pay taxes for these employees, although the amount of the taxes and prospective benefits involved is negligible.
3. Exclusion from the definition of wages of all payments made by an employer to or on behalf of an employee under a plan or system providing for retirement benefits, dismissal wages, disability benefits, and medical and hospital expenses. The purpose of this proposal is to avoid discouraging plans of the nature described.

4. Simplification of the present provisions with respect to lump-sum payments on death (in case the substantive changes recommended by the Board are not made).
5. Provision that applications for death benefits must be filed within 2 years after date of death.
6. Simplification of the procedure for payment to infants or other legally incompetent persons.
7. Provision making more equitable the recovery by the Federal Government of incorrect payment to individuals.
8. Provision respecting the practice of attorneys and agents before the Board.
9. Provision that findings of fact and decisions of the Board in the allowance of claims shall be final and conclusive. Such a provision would follow the precedent of the World War Veterans Act and of other legislation with respect to agencies similar to the Board which handle a large number of small claims.
10. Clarification of the law regarding services of an employee performing both excluded and included employment.

UNEMPLOYMENT COMPENSATION

The unemployment compensation and public assistance provisions of the Social Security Act constitute the most comprehensive attempt yet made to utilize a system of Federal-State cooperation for the solution of national problems. To promote State action in unemployment compensation the Federal law establishes a uniform tax payable by employers regardless of whether the State in which they operate has an unemployment compensation law; it then permits employers to offset their contributions under a State unemployment compensation law up to 90 percent of the total Federal tax. The act also provides that the Federal Government shall make grants to the States to cover the entire necessary cost of proper administration of their unemployment compensation laws.

The recommendations of the Social Security Board relative to unemployment compensation deal with extension of coverage, improvement of Federal-State relationships, and certain technical changes, rather than any fundamental change in the present Federal-State pattern now set forth in the Federal law. Though the adjustment of Federal-State relations is at best a difficult and delicate

task, particularly in the field of social legislation, experience so far indicates a large measure of success. The present provisions of the Federal law have proved completely effective in facilitating the enactment of State unemployment compensation laws. These laws and the character of their administration have on the whole been reasonably satisfactory. The inevitable administrative difficulties involved in the inauguration of any large-scale undertaking were accentuated by the fact that in 22 States benefits became payable in January 1938, at a time of unexpectedly heavy unemployment. In spite of these difficulties, the 31 jurisdictions that had begun paying benefits by the end of 1938 have paid out about \$400,000,000 in benefits to approximately 3½ million unemployed workers. The most pressing problem in unemployment compensation at the present time is improvement and simplification of the State laws themselves and of their administration, on the basis of increasing experience.

Employers' Tax and Reporting Procedures

The Board is aware of the suggestion made at the time the Social Security Act was under consideration, that the Federal Government should collect the entire Federal tax and make grants-in-aid to the States, instead of allowing an offset on the Federal tax. It was argued that such a method would relieve employers of the necessity of making tax reports to both the State and the Federal Government. It is true that this would be of some advantage, particularly to employers operating in more than one State. However, at present, the State unemployment compensation agencies need detailed information concerning the past working history of persons claiming benefits in order to determine the amount due them. If employers did not report directly to the State agencies, it would either be necessary for the Federal Government to furnish the State agencies the required information, or it would be necessary for the States to develop benefit procedures which would eliminate detailed reporting. Neither the Federal Government nor the States have had sufficient experience to warrant an opinion as to the feasibility of such a drastic change.

The Board, however, does recommend that the Federal unemployment compensation tax provisions be combined with those for old-age insurance which relate to employers.

Such a combination would have the advantage of relieving employers from making two separate Federal tax returns. This arrangement would, of course, not affect the present offset provision or the present use of the proceeds of the two separate taxes.

Extension of Coverage

Regardless of whether the two taxes are combined, the Board recommends that the coverage of unemployment compensation be made similar to the coverage already recommended for old-age insurance, with certain exceptions to be discussed later. Even though the tax provisions were not combined, there would be great advantages in making the provisions of the two programs identical with respect to employers affected by both. Such a change would make it possible to simplify employers' record-keeping and reporting to the Federal Government, as well as to the States, since the latter would undoubtedly adjust their State laws accordingly.

The suggested combination of the unemployment compensation tax provisions with the old-age insurance tax provisions or any broadening of Federal unemployment compensation provisions (with the exception of maritime employment) should not become effective before January 1, 1941, since it would be necessary to give the States ample opportunity to amend their laws accordingly. This would also give the State unemployment compensation agencies sufficient time to perfect their administrative organization and procedures.

In unemployment compensation as in old-age insurance, the Board believes that it is administratively feasible and in accordance with sound social policy to include the employments not covered by present Federal provisions, with the exceptions hereafter discussed.

Problems Relating to Agricultural Employment.—The situation of agricultural employees is frequently different from that in most other occupations. Farm employees often either own small farms of their own, or live in homes provided by the employer with the use of land and equipment to produce a part of their subsistence. While it seems feasible to cover such persons in old-age insurance, in unemployment compensation there are unusual problems. For example, in many cases it would be extremely

difficult to determine whether the individual should be considered "unemployed," or whether he is normally working for himself. While some foreign systems have been extended to cover agricultural employees, it must be recognized that the agricultural wage-earning group in this country is much less clearly defined. It therefore appears inadvisable to recommend at this time the extension of unemployment insurance to cover all agricultural employees. However, just as in the case of old-age insurance, the Board recommends that the language of the present exception relating to "agricultural labor" in any event should be modified to make certain that this exception applies only to the services of a farmhand employed by a small farmer to do the ordinary work connected with his farm. The Board will continue to study the problems involved and will make every effort to develop practical ways and means of bringing about extension to all agricultural employees.

Problems Relating to Domestic Service.—In the case of domestic service in a private home, the difficulties of extending unemployment compensation are far less serious than in agriculture. The fact of unemployment is much easier to determine. The chief problem here relates to the determination and collection of contributions. The Board believes domestic employees can and should be covered by the unemployment insurance provisions of the act, provided sufficient time is allowed for the States to perfect their administrative procedures.

Problems Relating to State and Federal Employment.—Employment by a State government or its instrumentalities must continue to be excluded from Federal unemployment compensation provisions for the reasons cited in connection with old-age insurance. The Board does not believe there would be any great advantage in including Federal employees under the unemployment compensation provisions. Civil-service employees are, for the most part, already protected against the hazard of unemployment, and it would probably be more practical to provide for non-civil-service employees through some form of dismissal wage rather than through establishing a special Nationwide unemployment compensation system.

However, the Board does believe that so-called instrumentalities of the Federal Government which are not wholly owned by it—such as national banks—should be

brought into State unemployment compensation as well as under old-age insurance.

Nonprofit Organizations.—The Board recommends the inclusion of service performed in the employ of nonprofit organizations. The Board anticipates no serious administrative difficulties in such inclusion.

Family Employment.—In order to avoid serious administrative difficulties in the payment of unemployment compensation benefits, the Board believes that the exclusion of family employment should be retained.

Including Employers of One or More Employees.—The Board recommends that the present Federal restriction to employers who have had 8 or more employees in 20 or more weeks during the year be eliminated so that the unemployment compensation provisions would cover all those having one or more employees, just as in the case of old-age insurance. Twenty-four State unemployment compensation laws already cover smaller employers than those included in the Federal act as it now stands; of these, 10 cover employers of one or more.

Employer-Employee Relationship.—The Board recommends that the changes to broaden and clarify these terms, already described in connection with old-age insurance, be also incorporated in the Federal provisions for unemployment compensation.

General.—The Board recommends that the Federal payroll tax in connection with unemployment compensation be limited to the first \$3,000 of annual wages, if that maximum is retained in the old-age insurance tax provisions. Though the Board recognizes that such a limitation would reduce revenue somewhat, it believes that this disadvantage would be counterbalanced by the advantages to be derived from making the Federal tax provisions identical for both programs.

If unemployment compensation coverage is extended to employers of one or more, the Board believes it will be necessary to exclude—for the same reason as in old-age insurance—casual labor not in the course of the employer's trade or business.

Unemployment Compensation for Seamen

Under the Constitution it is impossible to confer upon the States jurisdiction over maritime employment to the extent necessary to meet the needs of unemployment compensation. Therefore, in order to afford such protection to

seamen, it would be necessary to pass a Federal act. The Board recommends that such an act be passed covering all maritime employment which it is not possible or practicable to bring under State laws, with the exceptions noted under old-age insurance.

State Personnel

Under the present Federal law, before a grant to a State for unemployment compensation administration may be certified, the Social Security Board must find that the State law includes provisions for "such methods of administration (other than those relating to selection, tenure of office, and compensation of personnel) as are found by the Board to be reasonably calculated to insure full payment of unemployment compensation when due." In another section, the Board is required, in making such grants, to determine the amount "necessary for proper administration" of the State law.

The Board believes that proper administration must necessarily include adequate provision for the selection, tenure of office, and compensation of personnel. Therefore it may be argued that a conflict exists in the present Federal provisions. The Board believes this should be resolved by repealing the parenthetical language quoted above.

In the opinion of the Board it is sound policy for the State unemployment compensation agencies to have entire authority and responsibility for the selection, tenure of office, and compensation of individual employees. But this authority and responsibility should be exercised in accordance with a systematic merit system for the establishment and maintenance of desirable personnel standards. The Board therefore recommends that for the parenthetical language already quoted, there be substituted language requiring that methods of State administration shall include procedures for the establishment and maintenance of personnel standards on a merit basis.

Such merit systems should include, as does the Federal civil-service law, prohibition against political solicitation and political activity, since the salaries of State unemployment compensation personnel are paid entirely out of Federal funds.

Thirty-nine State unemployment compensation agencies already operate under a general State civil-service law or in accordance with a merit system established for or by the

agency itself. The effect of this suggested amendment would simply be to make personnel practices already put into operation by a large majority of States more general.

The Board believes that requiring the State agencies to establish a merit system would place Federal-State relations on a more stable and automatic basis. In actual experience the result of establishing an adequate State personnel system has been to eliminate the necessity for detailed Federal scrutiny of operation, and the possibility of misunderstanding and conflict in Federal-State relations. The suggested requirement thus constitutes not an encroachment of Federal authority in State operations, but rather a protection to the States against undue interference with their administrative functioning.

The establishment of a merit system also protects taxpayers and beneficiaries within the State, inasmuch as it materially reduces the hazard that administration will become so unsatisfactory that the State law can no longer be certified by the Board as meeting the administrative standards of the Federal act. Such inability to certify means that employers in a State would be required to pay to the Federal Government 100 percent instead of 10 percent of the Federal tax, in addition to paying their full tax under the State unemployment compensation law. Up to the present the Board has not found it necessary to withhold certification in the case of unemployment compensation, although it has been necessary to take such action regarding public assistance grants. Effective safeguards should be set up, in order to eliminate the possibility that the derelictions of their public servants may bring such a penalty upon innocent citizens of a State.

Unification of Unemployment Compensation and Employment Service

In order to promote effective administration, the Board recommends that the administration of unemployment compensation and of the United States Employment Service be unified in a single Federal bureau, in such a way that the specialized functions of each are not only protected but strengthened. In all other countries having unemployment compensation systems, a single governmental agency administers both the placement function and the insurance function. This has been found necessary because of the close relationship essential to the proper carrying out of these two functions. In this country each is under a separate Federal agency, although in all the

States but one a single State agency administers the unemployment compensation law and operates the State employment service.

The Social Security Act provides that unemployment compensation may be paid through public employment offices or such other agencies as the Social Security Board may approve. The Board has fully recognized the desirability of paying claims through public employment offices, in order to aid the unemployed worker in finding new employment, and to reduce the amount of unemployment compensation claims to a minimum. It has, therefore, not approved of payment of unemployment compensation claims through any agencies other than employment offices.

Recognizing the necessity for an efficient employment service as a part of the proper administration of a State unemployment compensation law, the Board has made grants to the States for the administration of their employment services. The Board has realized that it would be uneconomical, undesirable, and impracticable to have two employment services—one for workers covered under the unemployment compensation laws and one for workers not so covered. Therefore, it has encouraged the States to affiliate with the United States Employment Service and to match the Federal funds available in connection with that service. All the States have taken this action. The Federal funds available to them from this source have been substantially augmented by grants from the Social Security Board. Of the total funds now being expended for the operation of the expanded Federal-State employment service, approximately 80 percent is provided by grants from the Board, 10 percent by grants from the United States Employment Service, and 10 percent by the States themselves.

From the outset the Board has recognized the necessity for coordinating and integrating its unemployment compensation functions with those of the United States Employment Service, in order to avoid the dilemma in which the State agencies would be placed if obliged to deal with two Federal agencies having conflicting standards and policies. The Board, therefore, negotiated an agreement with the Secretary of Labor whereby the United States Employment Service and the Board's Bureau of Unemployment Compensation would act as if they were a single agency. This joint agreement has promoted a consider-

able degree of coordination and integration. But complete integration is necessary in the interests of economy, efficiency, and good will. The day-to-day activities of the local employment offices, through which unemployment compensation claims are paid, are closely interrelated and vary in such a way between unemployment compensation and placement work, that it is necessary for a considerable portion of the employees to be available for transfer from one function to another as occasion requires. Only unified supervision and direction can properly protect and integrate the various functions that must be performed if unemployed workers and employers are to be served adequately.

Other Administrative Changes

The Board recommends a number of other changes designed to improve the administration of the present program:

1. Increasing the authorization for the annual appropriation of Federal funds to assist the States in the administration of their unemployment compensation laws. The present maximum of \$49,000,000 is clearly insufficient to cover the necessary cost of proper administration. The Board recommends that the maximum be raised to \$80,000,000. The history of this legislation indicates that Congress intended that the 10-percent net proceeds of the Federal tax should cover the entire cost of administration. An authorization of this increased amount would still be covered by the probable proceeds of this tax.

2. Supplementary provisions authorizing the Social Security Board to enforce requirements that expenditure by State officials of Federal funds be in accordance with the purposes authorized by the act.

3. Changing the base of the pay-roll tax from "wages payable" to "wages paid," thus making it the same as that for old-age insurance taxes.

4. Permitting the employers to offset against their Federal tax, up to the 90-percent maximum, all contributions made under State unemployment compensation laws, regardless of whether or not the latter are made with respect to employment as defined under the Federal law.

5. Exclusion of nominal wages paid to employees of nonprofit organizations, as already recommended under old-age insurance.

6. Exclusion from the definition of wages of all payments made by an employer to or in behalf of an employee

under any benefit plan or system, as described in the identical recommendation made with regard to old-age insurance.

7. Extending the time within which credit may be claimed under the Federal taxing provisions in cases where the employer has paid his State tax on time, but has paid it to the wrong State.

8. Authorizing the States to make their unemployment compensation laws applicable to persons employed upon land held by the Federal Government, such as employees of hotels in national parks. Congress has already enacted a statute giving the States authority to apply their workmen's compensation laws to such employees.

9. Clarification of the language excluding State instrumentalities to indicate that the exemption applies to any instrumentality wholly owned by the State or political subdivision, as well as to those which would be exempt under the Constitution.

10. Clarification of the law as regards services of an employee performing both excluded and included employment. The same recommendation is made in connection with old-age insurance.

11. Clarification of the provisions relating to so-called "merit-rating" or "experience rating" under State unemployment compensation laws.

PUBLIC ASSISTANCE

The Social Security Act offers the States Federal aid in providing public assistance for three groups of the needy—the aged, the blind, and dependent children. The Nation-wide development of these programs since the passage of the act leaves no question as to the effectiveness of this Federal legislation in promoting more systematic, equitable, and humane assistance to these needy men, women, and children.

As a result of the Federal grants-in-aid which the act makes available, all the States and Territories and the District of Columbia have joined in the Federal-State old-age assistance program. Forty States, the District of Columbia, and Hawaii are taking part in the program for aid to dependent children, and the same number in aid to the needy blind. By the close of 1938 some 1,771,000 old people, 636,000 children, and 42,000 blind were thus being aided from combined Federal and State funds. The total amount

of Federal and State aid given during the current fiscal year will approximate half a billion dollars.

The Board recommends no fundamental change in Federal-State relations as regards public assistance. It believes, however, that certain substantive and procedural changes can be made which will greatly strengthen and improve the protection now afforded.

Old-Age Assistance and Aid to the Blind

At the present time, in addition to reimbursing the States for 50 percent of their assistance payments to the needy aged and needy blind (subject to a maximum of \$30 a month for each person aided), the Federal Government makes an additional grant of 5 percent which the State may apply to administration. This flat 5 percent does not represent an adequate Federal contribution for proper administration; and the Board, therefore, recommends that the law be amended so that Federal grants may reimburse the States for 50 percent of the necessary cost of proper administration.

Aid to Dependent Children

The Board strongly recommends that grants-in-aid to the States for aid to dependent children be placed on the 50-percent matching basis already in effect for the other two programs. At the present time the Federal Government contributes only one-third of the payments made by the States to dependent children. As a result, fewer States are participating in this program, and in many of the States that are participating, the level of assistance for dependent children is lower than that for the aged and the blind. The number of old people now being aided through Federal grants is three times as large as the number of dependent children. But the actual number of dependent children in need of assistance and eligible under Federal and State standards is probably fully as large as the number of needy aged now receiving assistance.

At present the maximum amounts which may be taken into consideration in making Federal grants are \$18 a month for the first child and \$12 for each additional child in the family. The Board recommends that these maximum limitations be raised to the same maximum as that provided in the case of needy aged and needy blind.

In addition to these changes in the basis of Federal matching, the Board recommends that the age limit for

dependent children should be raised in the Federal law from 16 to 18 when the child is regularly attending school. This would recognize the present desirable tendency for children to finish high school before seeking permanent employment.

For aid to dependent children the Federal law already provides that the cost of administration shall be reimbursed by the Federal Government in the same proportion as the cost of assistance. This should be retained in placing Federal grants for this program on an equal matching basis.

Public Assistance for Indians

A number of States have a considerable Indian population, some of whom are still wards of the Federal Government. The Board believes that, with regard to certain Indians for whom the Federal Government is assuming responsibility in other respects, and who are in need of old-age assistance, aid to the blind, or aid to dependent children, the Federal Government should pay the entire cost. If this provision is made, the Board should be authorized to negotiate cooperative agreements with the proper State agencies so that aid to these Indians may be given in the same manner as to other persons in the State, the only difference being in the amount of the Federal contribution. The Board believes that it should also be given authority to grant funds to the Office of Indian Affairs for this purpose, if that appears more desirable in certain circumstances.

Variable Grants

Federal grants-in-aid under the three public assistance provisions of the Social Security Act will total approximately a quarter of a billion dollars during the current fiscal year. These grants are made to all States on the same percentage basis, regardless of the varying capacity among the States to bear their portion of this cost. The result has been wide difference between the States, both in number of persons aided and average payments to individuals. Thus, in the case of old-age assistance the number of persons being aided varies from 54 percent of the population over 65 years of age in the State with the highest proportion to 7 percent in that with the lowest proportion. Similarly State averages for payments to needy old people

range from about \$32 per month to \$6. While these variations may be explained in part on other grounds, there is no question that they are due in very large measure to the varying economic capacities of the States.

The Board believes that it is essential to change the present system of uniform percentage grants to a system whereby the percentage of the total cost in each State met through a Federal grant would vary in accordance with the relative economic capacity of the State. There should, however, be a minimum and maximum limitation to the percentage of the total cost in a State which will be met through Federal grants. The present system of uniform percentage grants results at best in an unnecessarily large amount of money flowing in and out of the Federal Treasury, and at worst in increasing the inequalities which now exist in the relative economic capacities of the States.

The Board believes that, with such large sums involved, it would be desirable to establish an interdepartmental agency representing the various governmental departments which collect and analyze economic data having a bearing on the relative economic capacity of the various States. Such an agency could be given the responsibility of determining the relative economic capacity of the various States, upon the basis of which the varying percentages of Federal grants would be computed.

State Personnel

With regard to requiring States to establish merit systems for the selection and maintenance of personnel, the Board makes the same recommendations for public assistance as for unemployment compensation. These—and the reasons therefor—have already been set forth. It should be noted that in 19 States public assistance agencies already operate under a systematic merit system and that in varying degrees all the States have set up objective standards of some sort for the selection of public assistance personnel. In public assistance, as in unemployment compensation, this provision would strengthen State administration, safeguard taxpayers and beneficiaries, and place Federal-State relations on a more stable and automatic basis.

Disclosure of Confidential Information

The Board recommends that State public assistance plans be required, as one of the conditions for the receipt of Federal grants, to include reasonable regulations gov-

erning the custody and use of its records, designed to protect their confidential character. The Board believes that such a provision is necessary for efficient administration, and that it is also essential in order to protect beneficiaries against humiliation and exploitation such as resulted in some States where the public has had unrestricted access to official records. Efficient administration depends to a great extent upon enlisting the full cooperation of both applicants and other persons who are interviewed in relation to the establishment of eligibility; this cooperation can only be assured where there is complete confidence that the information obtained will not be used in any way to embarrass the individual or jeopardize his interests. Similar considerations are involved in safeguarding the names and addresses of recipients and the amount of assistance they receive. Experience has proved that publication of this information does not serve the avowed purpose of deterring ineligible persons from applying for assistance. The public interest is amply safeguarded if this information is available to official bodies.

Administrative Changes

The Board recommends a number of minor technical changes to clarify and simplify existing Federal public assistance provisions: Of these the most important is provision for a different method of settlement with the States for amounts recovered from the estates of deceased recipients of old-age assistance. At present the States are not required to make collections against the estates of deceased recipients; nor does the Board propose that any such requirement be set up. However, a number of States do make such collections in accordance with their own plans. The present method of settlement between the States and the Federal Government in such cases creates needless administrative difficulties which can readily be eliminated by permitting the Federal Government to offset its pro rata share of the amounts recovered against the next payment made by it to the State.

HEALTH

The Chairman of the Social Security Board is a member of the Interdepartmental Committee to Coordinate Health and Welfare Activities which has presented to the President a long-range National Health Program. The Board is of the opinion that the enactment of the National Health

Program would not only result in meeting more adequately the needs of those now receiving aid under the Social Security Act, but would also have a material effect in reducing the future cost of public assistance under the act.

Recommendation V of the National Health Program calls for insurance against loss of wages during disability not arising out of employment. The Board believes that adoption of this recommendation would go far toward completing the protection now afforded workers against loss of wages. The present State workmen's compensation laws offer protection against loss of wages resulting from injury arising out of employment. The State unemployment compensation laws furnish some protection against wage loss due to unemployment. The Federal old-age insurance system will provide protection against permanent loss of wages due to old age. But, though a few workers have some protection through voluntary insurance, no comprehensive protection yet exists against unemployment due to disability not connected with employment.

As already indicated in the discussion of old-age insurance, the Board believes that if protection against wage loss due to permanent total disability is provided, it should be linked with that program since permanent disability is most likely to occur among older workers, and the permanently disabled worker leaves the labor market in much the same sense as does the aged person. Another reason for linking permanent total disability with old-age insurance is that the latter is on a Federal basis. The load would thus be more evenly distributed among the States, than would be possible if permanent total disability were administered on a State-by-State basis, since some States have higher proportions of the older persons among whom disability more frequently occurs.

As regards temporary disability compensation, the Board believes that this can be placed on a State basis following the precedent of unemployment compensation. The Board recommends that if such a program is inaugurated, it incorporate taxing and grants-in-aid provisions like those in operation for unemployment compensation—that is, provision for a uniform, Federal pay-roll tax against which employers would be permitted to offset a substantial percentage of their contributions under State laws for this purpose. If Congress should not wish to levy an additional pay-roll tax at this time, this offset might be allowed against the present tax levied upon the employer.

under the old-age insurance system. But it should be realized that this would materially reduce the proceeds available for future old-age insurance benefits. The Board estimates that a system of temporary disability compensation would involve a cost of approximately 1 percent of wages. If a State levied a tax of 1 percent payable equally by employers and employees, allowance to employers of an offset up to 90 percent of a Federal tax of one-half of 1 percent would be sufficient to enable the States to provide temporary disability compensation, without the risk of unfair competition on the part of employers in other States that fail to pass such legislation. In order to afford the States ample opportunity to enact the necessary legislation, the Board recommends that any Federal action in this field should not be made effective prior to January 1, 1941.

GENERAL

The Board recommends the following amendments of a general character. These are to a large extent self-explanatory:

1. An amendment to prohibit the disclosure of information obtained by the Board or its employees except under certain restricted conditions related to proper administration. The provisions which the Board recommends are similar to those already applicable to the Veterans' Administration.

2. An amendment to confer upon the Social Security Board the power to issue subpoenas, administer oaths, and examine witnesses and the like in connection with its administration of the Social Security Act. This recommendation is in line with the authority conferred on numerous other administrative agencies, such as the Veterans' Administration, the Federal Trade Commission, and the Securities and Exchange Commission.

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RE: SOCIAL SECURITY LEGISLATION

January 10, 1939.
2:30 P. M.

(Held in the Secretary's Office. H.M.Jr. Absent.)

Present:

- Mr. Eccles
- Mr. Altmeyer
- Mr. Hanson
- Mr. Young
- Mr. Blaisdell
- Mr. Currie
- Mr. Taylor
- Mr. Hanes
- Mr. Brown
- Mr. McReynolds
- Miss Dulles (Social Security)
- Mr. Blough
- Mr. Murphy
- Mr. ~~Ray~~ ^{Rough}
- Mr. Delano, Frederic
- Mr. Bell

Eccles: I guess we are all here.

In the absence of the - Mr. Morgenthau, the President asked me to get together the Fiscal and Monetary Committee, of which Mr. Morgenthau is the Chairman, and consider from a fiscal and monetary aspect, the Social Security report that had been submitted to him by the Social Security Board.

This report was received by me and I think also Mr. Delano, last evening or this morning. I think possibly the Treasury, and Mr. Bell, the Budget, had access to it a little longer than - prior to that time. So that we haven't had any - very long to go into it in detail except we are somewhat familiar, in a general way, with the developments.

It seems to me that the - this Board has to consider what affect the Social Security taxes and payments are going to have on the economy in 1940, in particular, because it is, as I understand it, that 1940, when the increased benefit payments and also the increased contribution, will become effective largely.

The - ah - the President has indicated, in line with the views of the Fiscal and Monetary Committee, that a national income of eighty billion dollars should be the objectives of the Administration; that that should be met; only by getting such a national income can the country expect to have a balanced budget, without substantial increases in taxes; that an eighty billion dollar income would, at the approximate present tax rates, would bring about, without substantial, material cuts in expenditures, a balanced budget.

Now, the findings of the Committee, also - that is, the findings of the experts of the Committee, also to the effect that we could spend this year, a national income of not less than sixty-five, and possibly as high as sixty-eight billion dollars, taking the year as a whole. That would indicate that by the end of the year, if an average of sixty-eight is reached, taking the year as a whole, that the current income, national income, would likely be seventy billion dollars the latter part of the year, if recovery continues. Therefore, if recovery for 1940 is to continue, the matter of fiscal policy is of paramount importance, and in that connection, I've got a little statement here I'd like to read as bringing to what to my mind is the problems for this Committee to consider, in line with their action that they have taken in the past with reference to fiscal policy.

"It appears that there is a distinct likelihood of payroll tax collections exceeding benefit payments on both old age and unemployment insurance accounts of a maximum of a billion and a half dollars in 1940. In 1937 the increase in payroll taxes, on the decline in W. P. A. expenditures, were contributory factors in the decline in consumption that preceded the down-turn in business activity. An increase in payroll taxes in '40 is scheduled under the proposed law, and there is a strong likelihood that W. P. A. expenditures will be cut in that year. Hence, there is a danger of a repetition of the 1937 experience."

Which means, of course, the ultimate eighty billion dollars is nipped before you get close to it.

"We recommend, therefore,...."

I am - I am merely giving you this as a tentative outline of my views of the thing as a result of what little study that I have had a chance to give to it.

".... that the probabilities of lessening the disparity between payroll tax collections and benefits in 1940 be explored, and where feasible, adopted. In default of this, expenditures elsewhere in the Budget will have to be expended; hence, resulting in a larger deficit to compensate for the deflationary affects of the present Social Security insurance program, and to avoid the danger of a down-turn.

"A. Lessening of the disparity between tax collections and benefit payments would first lessen the danger of a decline in consumer buying power in 1940.

"B. Mark a return to the general principles of the plan recommended by the Committee on Economic Security in 1934, which envisioned a gradual stepping up of tax rates so that a three per cent rate was not to be reached until 1947.

"C. Strengthen the whole Social Security program against attack by lessening the disparity between current costs and current benefits.

"D. Not increase the budgetary expenditures or bookkeeping deficit."

Now, those are the four outstanding effects that a lessening of the disparity of the tax collections and the benefit payments would have, and it would seem to me that a fiscal committee should explore the possibilities of reducing that disparity if a program of a continued recovery is to be expected in '40. If we want to avoid the dangers of '37 by collecting a possible billion and a half dollars more than is disbursed, thus making it necessary for a larger expenditure to be made, and larger budgetary deficit to offset the affect of these collections, to avoid a down-turn.

Now that - that is just - it seems to me - I tried to make a general statement of what seems to me to be the problem, and the considerations that the Committee should take into account. I merely stated those as my views and I would like to hear from other members of the Committee with reference to - with reference to this matter, and we have Mr. Altmeyer with us, so that he might state a case for the Social Security people.

Mr. Delano, have you any thoughts on this matter?

Delano:

Thank you. Mr. Hanes, I have not talked with Mr. Eccles about this matter, but the Advisory Committee of the Social Security Committee was in session Saturday, Sunday, and Monday, and we had a good many things to go over, and it was during that meeting that something was said that the President would, in a day or two, make a message to Congress on the subject of his Social Security payments. I think we, all of us, came to the conclusion, perhaps not reasoning just the way Mr. Eccles has, but coming to the same conclusion, that it would be very unfortunate to - to build up a fund of a billion, a billion and a quarter, or a billion and a half, which would not be expended just at a time when we were trying to raise our national income.

And my colleague, Mr. Ruml, was very much agitated; Dennison, also, who has been a student of this, was very much agitated on the question. Ruml would have been here this afternoon, but the doctor put him to bed and told him he had to stay there two or three days; he's been burning the candle at both ends. But I confess, I have not read Mr. Altmeyer's report, which came to my desk this morning. I thought I'd get a half or three quarters of an hour off to do it, but I haven't been able to, and I am not criticizing - criticizing the report at all.

is for

What I - what I would like/him and other students of this question, to see what we are up against; that we are all after the same object. We want to - we want to tax that which will do the least harm, and we want to also to distribute the money where it will result in the biggest turnover, and, of course, I don't pretend to know the whole

story of the Social Security, but it would seem to me, and I have been thinking this way for two or three years, that I assumed the Government was not in the position that an insurance company is in; that is, it isn't the actuarial problem of having to set up a reserve against each individual case. In the case of the Government there is an army of men marching along, ^{at} one end of the army the men are twenty years of age; at the other end of the army they are sixty-five years of age, and they are dropping off at the old age end, while they are coming in at the youthful age. And that - it ought not to be - it seems to me there is a problem in mathematics - it ought not to be necessary to build up the fund that is big enough to take care of all those men, and I suppose that was conceded; I suppose that that had been found the experience in England and in Germany, and that the people who were talking about building up a huge fund, which we would turn around and invest in our own Government obligations, thought it was a fantastic piece of machinery that needn't be set up.

Now, I may be all wrong, and I am ready to sit corrected. At any rate, what I did think, and I am awfully sorry Secretary Morgenthau isn't here; I do hope that - that matters are not so urgent in Congress that the President has got to issue a message on this before this important question has been thought over and debated and considered by the experts.

- Bell: How much time have we got?
- Eccles: Well, the information I got, they were in a hurry.
- Bell: Does that mean this week?
- Eccles: There wasn't a question of a deadline; it was a question of giving immediate consideration.
- Hanes: I think it is this week, isn't it, Mr. Altmeyer?
- Altmeyer: Yes.
- Eccles: But there seemed to be pressure and

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- Delano: I do understand that one of the urgent reasons for this thing is that there is such a large number of men in Congress and I won't say I hope they are not in the majority, but there are such a large number that want to jump the extreme of the Townsend plan in some form, that that is what is making it urgent. But it is too bad if we let one unsound plan force our hand into recommending another unsound plan - less unsound plan, I'll put it - but still, as I see it, either is unsound.
- Eccles: This week is, you say - the White House thought this should be the deadline. Is there any particular reason for that except the one that Mr. Delano mentions, the getting it up to Congress to offset other schemes that were being proposed. That is the principal reason, is it not?
- Altmeyer: Well, I talked with the President a couple weeks ago about it and he wanted to send it up this week - send his message up this week - and I have talked with the Committee Chairmen in the House and Senate, and they are expecting it this week, and on the House Ways and Means Committee particularly - it's arranging its calendar to take it up as soon as they finish with a code of some sort or other; I don't know whether it is some sort of a code - something of the Treasury's.
- Hanes: Internal Revenue Codification.
- Altmeyer: They thought that would take just a few days. If you have looked at this report, I think you will find that the record does not preclude very extended consideration of the exact plan that the Government may recommend. It was worded in such a way as to permit us considerable variation, freedom, in deciding what sort of a plan we would finally recommend; and, secondly, the President's message accompanying the report, I would imagine, would not undertake to commit him or the Administration on the details or on this particular point that you have been discussing - the disparity between payroll tax collections and benefit payments.
- So, from the standpoint of the message going up this week, and our report going up this week, I don't think your Committee is precluded from giving further consideration to the problems.

Now, I might explain, in a general way, what our thinking is, relative to the plan that we are recommending in the report, in general, and which we would recommend more specifically when called upon.

We recommend, commencing the payments of benefits under the old-age insurance system, in 1940 instead of 1942. We are recommending the liberalization of the early benefit payments so that the net affect of both of those recommendations conceivably would be - could be - that there would be no disparity between the tax collections and the benefit payments in 1940, particularly if there were a dip in the industrial activity curve, because your payroll tax collections would decline, whereas your benefit payments would be likely to increase, for the reason, of course, it is obvious that the payroll tax collections would decline, but the reason why the benefit payments would increase, is that it's been the experience under the Railroad Retirement system that the rate of retirement is geared very closely to industrial conditions. That is when unemployment - when employment is scarce, why there is a more likelihood of retirement taking place than when there is full employment and the men can make good wages by staying on the job. Now, I take it you are most concerned about this old-age insurance system. You are not - you didn't

Eccles: Well, the unemployment end of it. I don't suppose there is very much that can be done, and it would be more difficult, at least to do anything about that.

Altmeyer: On that unemployment end, if our calculations are right, there would be no more reserves building up after all the states are in operation, to any considerable extent at any rate, and if you ran into a period of depression, the payments out ought to exceed the payments in, so from the standpoint of your Committee, I don't think there is any great problem involved in the unemployment compensation features.

Now, on this old-age insurance system, I think that we have to bear in mind that it is a program of old age security that we are speaking about,

and we shouldn't, therefore, rivet out attention entirely upon the Federal old age insurancy system, but we must, and should, take into account the state old age pensions as well, because they are part of the same program, providing old age security. In fact, at one time, the recommendation was made that the payroll taxes be used to finance the state old - the Federal share of the state old-age pensions. We have opposed that and continue to oppose that. We feel that the old age insurance system ought to be kept separate from the state old-age pension plan.

But, from the standpoint of your Committee, take - which is concerned with the income and outgo, as I understand it, of the Government in a period of depression, certainly you should take in account the income under both the state old age pension and the Federal old age insurance, the cash income and the cash outgo. Now, if you take into consideration - first, I might say that at the present time the Federal Government is paying about ah - at the rate of about two hundred fifty million dollars a year to the states; a quarter of a billion dollars as its share of the state old age pensions that are being paid.

Our estimates submitted to the Budget Bureau indicate that there will be a continued increase in those expenditures on the part of the Federal Government. We have made recommendations in this report for further liberalization of the state old-age pension, which would increase the expenditures still more.

Eccles: This comes out of the Budget, however?

Altmeyer: This comes out of the Budget, but I think it must be taken in account in figuring the cash outgo on the part of the Federal Government. It certainly enters immediately into the stream of purchasing power.

Eccles: From our point of view here, I don't think so; I think all we've got to consider here - you might say W. P. A. also does that - the thing we've got to confine our consideration to here is the effect of the Social Security program so far as it creates a fund is concerned, in excess of what

it pays out, as on the Budget.

Bell: Well, that is part of it; what he mentions is part of it.

Eccles: What he means is, as I understand, it has to be especially appropriated by Congress for - for - for a contribution to the states old age funds, and it doesn't come automatically out of the fund as a result of an old age pension law, that after it is passed works automatically.

Bell: It comes out of the general funds just the same as the appropriation.

Eccles: But it doesn't show like the other does. If you pay it out of the fund you have accumulated, then it is different than where you contribute to the state, such as Mr. Altmeyer means. In one case it increases the budgetary deficit; in the other case it does not.

Altmeyer: From the business cycle, it is exactly the same.

Eccles: I think we should get all we could from that standpoint, but it seems to me as I get it, the thing we've got to consider in this particular program here is, "What portion of the taxes come into this fund that are not paid out of the fund?" The thing that is outside of the Budget, we ought to consider this outside of the Budget, because when you get into what is going to be put into the Budget, you could - it seems to me it is outside of the particular consideration that is here. Maybe I'm wrong, but it just appears to me that if you want - naturally, if you want to put enough in the Budget, to offset the accumulation in the fund, then you compensate entirely for the accumulation in the fund.

Altmeyer: That is right.

Eccles: And I think we should point that out to the President, because that is a question of whether or not he - he - he might want to consider increasing his deficit, increasing his Budget to a point sufficient to off set a billion, or a billion and a half or whatever the case may be, accumulation in the fund. It is up to him to decide that issue,

but I think this Committee should point out that - that - that -

Altmeyer: One has an effect on the general budget and the other does not.

Eccles: That is right; just point it out to him; that is all.

Altmeyer: Now, turning specifically to the Federal old age insurance plan, I think in giving consideration to that, we have to bear in mind that we are dealing with a long range program. We are not just dealing with 1940. We are dealing with a program that will not reach its maturity for forty-five years. Secondly, we have to bear in mind that there are very delicate relationships between tax payments or contributions, as they are called abroad, and benefit payments, and we can not disassociate one from the other. We have spent three years at the Social Security Board, a large staff of technical people, studying these relationships and they are not at all simple, and not at all easy to reconcile.

Now, from the standpoint of the actual disparity that exists now, I think those figures you have are not in accord with the Budget estimates. The figures I have before me indicate that the probable payroll tax receipts for the old age insurance system in the fiscal year 1940 is five hundred ninety-eight million dollars, if the one and a half per cent goes into effect on January first.

Eccles: You are speaking of the fiscal year?

Altmeyer: I'll take the calendar year, 1940. If we take the calendar year, the payroll tax receipts under the Federal old age insurance system, with the one and a half per cent tax, would amount to about seven hundred fifteen million dollars. The payroll tax receipts under the unemployment insurance system would amount to about eight hundred forty million dollars. This is calendar year, 1940, making a total of a billion five fifty-five million. If we run into a period of business depression, as I said, I think it is fair to assume that the collections under the unemployment insurance system

will not exceed the payments out of cash under that system, leaving you a figure of seven hundred fifteen million dollars to consider. Now, of that seven hundred fifteen million dollars, approximately a half billion dollars would be collected at the present tax rate, so what we are talking about now, when we are talking about the stepup from one per cent to one and a half per cent is a figure of about two hundred twenty-five million, or at the most two hundred fifty million dollars.

Now, I think that figure must be kept in mind in its relationship to the whole Federal Budget, which, as I remember, is about nine billion dollars at the present time, and in determining what the effect of these taxes are, disassociating them entirely from the Social Security system, I think it is fair to bear in mind their proportionate relationship to the whole Budget, but as I say, from our standpoint in the Social Security Board, we are much more concerned about maintaining the proper relations within the Social Security System, and we would feel that to destroy these relationships under the Social Security System, because of a disparity, would be unsound.

Now, that is not saying that we do not recognize, from your standpoint, the effects - economic effects of that disparity, but we are - we are saying that at the worse, if that disparity could not be corrected through an adjustment of the Social Security System, without test tries of essential relations under the Social Security System, then it ought to be neutralized through other financial relations, receipts of a regressive character, or an increase of Governmental disbursements, sending money into the stream of purchasing power, rather than to concentrate upon that Social Security item, disassociated from the relationship with our whole Social Security program.

- Bell: You are speaking of relationship; are you referring now to the relationship under the present law or what might come out of the new law?
- Altmeier: Under the present law. I am speaking of the present law.

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Now, what we have been trying to do is to devise a plan that would reduce that disparity under the Social Security System, and so to that extent we are in complete accord on - no - no disagreement at all.

Eccles: Of course, you are arguing for the principle of building up a reserve.

Altmeyer: No, I don't care anything about the reserve.

Eccles: Well, if you eliminate

Bell: Well, he takes away the reserve later on another way, do you not?

Altmeyer: The reserve is a reducible element in this Social Security; it is something none of us has ever hooked on to, for it's own sake. It's got book-keeping elements; if you speak of it as it represents tax conditions, it's got economics. We have always looked upon it as an assidual element - get a pattern of taxes that is reasonable and then devise a financial plan that will take care of those benefits in a reasonable fashion, and then determine how much the Federal Government may want to contribute out of the general tax revenues, and then after you have decided that, your reserve takes care of itself.

Eccles: Well,.....

Bell: I was wondering if you had made any estimates of the probably benefit payments in 1940 if your Act is amended to advance the payment date.

Altmeyer: Yes.

Bell: That would reduce your seven fifteen by some figure.

Altmeyer: It is entirely probable that the benefit payments under a liberalized plan which we feel would still be reasonable within the framework of our Social Security program, would amount to a half billion dollars.

Bell: A half billion.

Altmeyer: A half billion.

Bell: Does that include what is now under grants?

Altmeyer: No, that just includes payments under the old age insurance system itself. If you're continuing in the grants made to the states, or old age security, there would be an excess of payments over and above the collections under the old age insurance system.

Bell: What I am getting at is you are going to collect under the present Act, about seven fifteen million; you are going to pay out five hundred million in new benefits, leaving two hundred fifteen million the Treasury will collect. We are paying out at the present time, one fifty million dollars in grants. Under your proposed scheme the amount of those grants, annually, will increase. How much over two fifty will they increase?

Altmeyer: We estimate, in 1940, about three hundred fifty million dollars.

Bell: That is an increase of three fifty? Does that include all grants?

Altmeyer: Only old age pensions.

Eccles: As I understand your report, you don't, in your report, and I think that it possibly should be in your report, if there is this difference of estimate as to just what your estimates are as to the expected receipts and resources and disbursements.

Altmeyer: No. No, we don't want to put any figures in this report. This is a general report to Congress. If we get into figures we just get into all kinds of trouble.

Eccles: Then, of course, if we don't have - if there is no figures in the report, then, naturally, all this Committee could do, and it doesn't seem to me that it is our prerogative to go into the merits of the type of system - that isn't the point here, because you made a statement with reference to - a while ago, with reference to the type of the system itself, which I don't think that we want to discuss the merits of, that it is merely the question of its fiscal and monetary relationship.

Now, in order to get at that, it is absolutely essential, from our point of view, that we have some very accurate - as nearly accurate as it is possible to get - estimates of what the income is going to be and the sources of the income, and we don't want to under estimate it for our purpose, and it seems also on the other side, that we should have some very accurate estimates as to the way the disbursements are going to be, so that we can then point out to what extent the operation of the fund is going - I mean, the operation of the Social Security plan, is going to add to the reserve fund. And if it adds to the reserve fund, a given amount, it seems to me that what we, as a committee, could do, is merely point out to the President that it adds that to the fund and to that extent that it takes in more than it pays out. Then it may well be necessary to increase the Budget disbursements.

- Bell: Cut down on the deficit if they are going to pay out.
- Eccles: That is right; cut down on the deficit, and on the other hand, cut
- Bell: That is what I was trying to bring out - if these recommendations of the Board were adopted, the chances are we would pay out more in 1940 than we would collect in taxes. Under the unemployment fund there we would pay out more, so the outgo of the Treasury would be more.
- Eccles: Our whole group over there disagrees very, very much with these estimates here, and Mr. Hanson too. I'd like these two men that have been giving some thought to this, to discuss this briefly, at least this aspect.
- Curry: The whole question really turns on this technical problem: If we accept one basis, as Mr. Bell said, you can expect an estimate of overpayment. The estimates we have worked out in addition to research and outside experts, indicates a different picture, entirely different from one billion three to one billion five of overpayments in 1940.
- Eccles: In the two fields?

- Curry: Breaking that down a bit, we estimate the tax collections on old age account in 1940 at nine hundred million dollars.
- Bell: That is different from the Budget estimate.
- Curry: That is the calendar year, 1940. That is assuming the Budget is as the Board recommended - that assuming increase..... Payrolls in 1940 will average the same as in 1937. We assume those are the main assumptions of how those estimates were arrived at. The old age, on the unemployment accounts - there is an estimate here of a billion tax collections in 1940 - same assumptions.
- Eccles: That is on the '37 payroll?
- Curry: Yes.
- Bell: Well, you haven't used then, the Budget estimates of receipts.
- Curry: You didn't give Budget estimates of receipts for the calendar year.
- Bell: You haven't used the Budget one; I don't see how this Committee - the Committee for the President - can take anything but his official estimates. After all, the ink isn't dry on them yet.
- Curry: That is true, but naturally you are conservative on this increase of two per cent on the payrolls for the second quarter of 1938.
- Bell: But Social Security Board and Treasury is in agreement on it. I certainly don't think this committee can revise the President's estimates.
- Curry: Then I don't see, Mr. Chairman, if there is no case, if those are the figures of estimate, then there is no point at issue.
- Eccles: Well, it seems to me that this committee then should report to the President that based upon these figures that Mr. Altmeyer - I think we should say we have considered this report and that based upon the figures that Mr. Altmeyer gives us, that the income of seven hundred some odd, the disbursement of five hundred some odd, that it leaves only two hundred million in the fund. I mean, after all,

if it gets down to a question of where we can only point out what the fiscal effect of this is on either some assumed figures that we've got to make ourselves, or upon figures that we are willing to accept from the Social Security Board - either one or the other.

Bell: Still,.....

Eccles: Now, of course, the report doesn't give necessary figures. Therefore, if we simply take the report that the President has asked us to consider, and then - then we are obliged, on the basis of that report, to make our own estimates. On the other hand, if you supply us with supplementary estimates, supplementary to the report, then we could make a report, based upon your estimates, and make a report based upon our own estimates. I am just trying to get at what seems to me our job is.

Bell: Uh huh.

Eccles: Johnny, what was your view as to what our job would be in this instance here?

Hanes: Well, I was waiting for Mr. Altmeyer to get before us all the recommendations that you are going to make, which have any affect on the fiscal or monetary side that this committee is called upon to submit a recommendation. Now, as I get it from you now, the two things that you have only mentioned - two things so far, is that as far as - in other words, there is nothing else this committee has to consider.

Altmeyer: Well, I don't know. There are other recommendations in it.

Hanes: Nothing else.

Altmeyer: Yes, there are other recommendations that we are making, that might cost forty million dollars additional.

Hanes: Well, there was about a total of sixty-five.

Altmeyer: That includes the old age security; I have mentioned the twenty-five million dollars for old age security, leaving forty million dollars for the other.

- Hanes: A figure of five hundred million should really have an additional sixty-five, which actually does come out of the Treasury. That actually effects upon the Budget; it has an actual effect upon the figures, so that it is a legitimate figure.
- Altmeyer: That would be the increased disbursement; in addition to that you have to add the two twenty-five million, or two fifty million dollars already being granted to the states, making a grand total of around seven fifty to eight hundred million dollars.
- Hanes: And that is as far as you can see the sum total of the outgo, which you are recommending - which you are recommending has an increase of seven fifty million dollars.
- Altmeyer: Now, of course, I am saying, as regards this five million dollars under this old age insurance, I would consider that that was a maximum figure. It might be less than that; I don't know what Congress will do.
- Eccles: It is assuming that Congress accepts your report.
- Altmeyer: No, our report is not specific; we didn't want to spell out a detailed plan for Congress. We have made general recommendations; beginning payments in 1940, we have outlined how we think it could be done, but we don't say we recommend you start with a minimum payment of twenty dollars, and go up to forty.
- Eccles: But there is a possible maximum and possible minimum within your recommendation?
- Altmeyer: That is right.
- Hanes: And your five hundred million was arrived at by your maximum figure, is that right?
- Altmeyer: Yes.
- Eccles: What would be the minimum amount?
- Altmeyer: The present, which is about twenty-five million dollars being spent, so - or maybe it's fifty by the time we get to 1940. Anyway, it's a thousand per cent increase involved.

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- Eccles: Your maximum estimate of income was what, seven hundred?
- Altmeyer: We are taking the Budget figures; we accepted the Budget figures.
- Dulles: At least an assumption was made in the Board, but I think you have done the work with relation to the 1940.
- Bell: I think the Treasury and Social Security is together.
- Dulles: If we are together on it, all right.
- Bell: We are together.
- Eccles: Wouldn't this be a good way to get at it? If the Committee could agree on what our job is in making a report, then it seems that we might well appoint a committee here, today, of the experts to - to - to get together on what some of these facts might be. So, otherwise, it seems to me we haven't even got a place to start.
- Hanes: You see, the position I think which we've got to maintain so far as the Treasury is concerned at this particular moment is this: This is a departure from the principle laid down by the Secretary as his thought in the matter. He said to the President that he hoped he wouldn't commit himself until he had had the opportunity for stating his viewpoint. I wrote Mr. Altmeyer a few days ago that the Secretary being away, we were not willing, in his absence, to commit him to something we didn't know quite what the details involved were, and since this did involve a change from a policy which he himself had laid down, why we were - our hands were tied, momentarily, and we'd have to wait until he came back.
- There is one other thought which I'd like to state just for your information. Harry White, who has been working with the Fiscal and Monetary Committee, asked me, before he went away for a few days' rest, if he would have an opportunity of expressing his viewpoints to this Committee, and I told him he certainly would, as far as I could guarantee; so, he being away, I called him on the phone last night

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and told him this meeting was going to take place, and if he did not wish to come back and attend the meeting, if he would tell me what his viewpoints was, I'd state it. He gave me this message over the telephone, which I would like to read to you.

He says that he agrees with the recommendation of the Social Security Board that benefit payments should be moved up to 1940, and increased in accordance with their recommendations. That he calls "A".

"B" He is in favor of postponing the increase of one half of one percent, both on employers and on the employee. He said, further, that if he had to make a choice between A and B he would choose A but he still felt that the Committee ought to consider seriously recommending to the President the postponement of this increase in tax. That is for the Fiscal and Monetary Committee, and I told him I would state his views for him.

Altmeyer: Do I understand he would prefer A.

Hanes: No, no. He said if he couldn't get - if it came down to a point where he'd have to decide between the merits of A and B he'd choose A. He thought payment ought to be moved up to 1940 and ought to be increased in accordance with your recommendations, but he went one step further than you were willing to go in your recommendation; apparently. He is willing to recommend postponement of the increase in this tax.

Altmeyer: I might point out the reason, the one specific thing in our report that your Committee, I think, would be concerned about, is that we definitely recommend that no other taxes be substituted for the present payroll taxes, and that when the present payroll taxes become insufficient, then the Government should decide whether there should be a further increase in the payroll taxes or subsidy from other forms of taxes. That is the only specific thing that I think affects this Committee in the report that we are making. We feel very strongly that the payroll tax rates should be increased from one to one and a half per cent.

It's # we think, from the standpoint of business employer attitude and employee attitude, that it is very essential that we give some impression of long range planning in this thing, and a gradual development, and if we are going to zigzag these these payroll taxes back and forth, it will go - the psychological effect is much greater than the two hundred fifty million dollars that may be involved.

Now, specifically - specifically, if the tax rate is not raised from one to one and a half per cent in 1940, it is very likely that by 1943 it would have to be raised that year, and then another half per cent each, or a total of one per cent the following year, and I don't know what the next year, but as a substitute for this gradual three year interval step-up, you would likely run into a situation where you would have to have annual adjustments of the payroll tax rates which we think is very bad from all standpoints.

Bell: And probably much more drastic than you have in the gradual step.

Hanson: I'd like to emphasize that point. In many discussions during the last three years with both employers and employer groups, the one thing reiterated is that they would like to know what the taxes were to be so they could count on them, so there could be economic and mental adjustment to that program of taxes, and the large progressive employer group very distinctly feels that from what I gather, it would be a mistake to hold out to alter the step-up to one and a half in 1940. I might say, from the social insurance point of view, we are dealing here with a very new program in Government, and it is in its very earliest stages, and the American people had to learn a very new thing when they accepted social insurance, and I think that one of the most important things is that there be an atmosphere of planning, an atmosphere of some degree of gradualness, and at the same time, a respect for the fact that the American workman has accepted that contributory social insurance as a wise thing, and that if in the very same year, benefits were considerably expanded and a change made to keep the tax rate from increasing, as was planned, that it would be rather a serious reaction in social psychology.

That is, that there must be some sacrifice involved in a contributory insurance program if its benefits are a matter of right, and I think the matter of labor and the American employers have some to accept that. If, however, the tax rate is changed at the very time the benefits were expanded, that amount of public education might be reduced.

Eccles: Dr. Hanson, what - you have been giving an awful lot of thought to this whole subject; you haven't said anything.....

Hanson: Well, let me say that as far as suggested figures are concerned, I know absolutely nothing about that, so I don't want to comment on that. It does seem to me that it is only fair to this Fiscal Committee that they have the estimates of some sort for them, because without that it doesn't seem to me how they can intelligently act on essentials. It does seem to me the Fiscal Committee can hardly act intelligently at all unless it has estimates as to what the probable income and outgo will be on old age insurance in the year 1940, and I should think it ought to be on the calendar year - to begin with the calendar year. If the Fiscal Committee has no estimates of this sort at all, then it acts entirely in the dark in - in - in making any sort of recommendations to the President.

If it is estimated that on the old age insurance the income will be equal to the outgo, obviously it has a profound influence on what the Fiscal Committee would say. On the other hand, take the other string, of what Mr. Altmeyer mentions, only fifty million dollars outgo; then you have quite a different problem before you, so that is a crucial thing. The Committee can't act without having estimates before you. This thing should be in the President's mind when he makes his own report.

Now, with respect to the point that Mr. Brown has just made, the argument he makes, I think, rests on the assumption that we are going to continue the accumulation of a considerable fund. It doesn't seem to me that it is a - if you are going to adopt something that approaches pretty close a pay-as-you-go policy, you have to do one of two things, or both; you've got to increase

benefits or you've got to keep the taxes from going up. Now, to do both these things is only a recognition of the fact that the American people believe, or the Congress believes the President, or whoever it is we are at the moment talking about, believes that we ought to change the present plan. That is all it is - the recognition we have come to the conclusion we ought to change the present plan toward, approximately, as a pay-as-you-go basis. There is some leeway as to how we actually define that. We can only approximate that by stepping up the benefits materially or else by actually reducing taxes, or you can approximate it by doing something of both. To do so is merely an out and out recognition of a change in policy and in my own judgment that is a change in policy that the American public demands. That much has come out of the discussion, and I am convinced in the press and before the public, so that it doesn't seem to me a dangerous thing to attack this problem from both ends; it is merely a recognition that we have changed our view with respect to this whole plan.

Now, one other - only one other point I would like to make. I have, all the time, stood in the work of the Advisory Committee for the view that you must rigorously consider the old age insurance scheme by itself alone, because only in that way can you see what the impact is on the deficit, on the actual fiscal deficit, if you drag in some other expenditure, and say, "Well, that off-sets it." There is no stopping place in this situation. Every expenditure you do drag in, it does raise the deficit that much. There is no way of getting around that whatever expenditure you bring in. If you want to approach the eighty billion dollar income and balance the Budget as soon as possible, it is important not to increase the deficit whether P. W. A., W. P. A. or anything else, and I do hold it is important to keep this thing absolutely separate because only in that way can you see what the effect of the deficit is. If you begin to offset it, there is no limit to where you can go.

And that is the important thing; it does seem to me that is the important thing the President has to consider. You can't offset the thing if you are going to be accumulating, impounding a fund. That is - that - that, I think, can not be controverted.

Brown: Mr. Hanson, you mentioned my position there; I know that we agree entirely as to the long run matter of reserves. I think, in many discussions in the Council on the part of many of us, I think the change from one to one and a half in 1940, I feel, in the recommendation of the Advisory Council, that there were very definite concessions to the Fiscal and Monetary position in regard to the large reserve.

Hanson: That is true, definitely true.

Brown: At one point where we disagreed was where the impact of going the whole way of holding down to one per cent to my mind, affected the whole program as a social insurance program. I feel very strongly in the development of social insurance on a contributory basis. It is important to keep in mind that you are dealing with tax collections from forty million people, and from two million employers, and there is a very important element of public education involved, and, therefore, it is all the more necessary to plan on a longer range view than to develop in them the acceptance, you might say, by gradual stages, the acceptance of a tax both by the employer and employee, and that you can not have an element of flexibility to the degree that you may have income taxes or certain other taxes.

Hanson: It seems to me, Mr. Chairman, that is a development of a simple matter. The mere plan to adopt a three-way - equal three-way contribution itself sets forth not the precise schedule which all depends, of course, upon the scale of benefits, and when they come in, and when they are introduced, and so on. It does set up the general principle, and in a broad way it states definitely what the obligations of employees and employers and the Government will be. And, moreover, I should think that the President might well recommend that before January, 1940, progress be made at any rate in setting forth the more definite scheme of how the three-way contribution will probably, according to various assumptions, be stepped up so that employers and employees and the public will know what their obligations will be under the scheme.

At any rate the general principle is clear, what their obligations would be if that were the plan adopted. That is the recommendation at least of the Advisory Council, of the equal three-way contribution.

Bell: Well, a three-way contribution doesn't come in, does it, until about fifteen years?

Hanson: In the present that doesn't come in at all.

Bell: I mean in the program.

Hanson: Mr. Brown will correct me here if I am wrong in the Advisory Council's recommendation; at least there is nothing clear at all in the recommendation as to when the Federal Government would come in. I would interpret, I think, the recommendation to be that of the majority, at least, that the tax rates be stepped up in 1940 to one and a half per cent, and that in a year or two, I forget the dates, there would be a study made from there on the three-way contribution.

Brown: Not later than 1942.

Hanson: Whereas, the minority view opposed the stepping up of the taxes, would, I think - I am not absolutely sure - this would be the view of all this minority, but I think they favor at once the introduction of the Federal Government when it becomes necessary, in view of the benefit payments.

Bell: I see.

Blaisdell: You would not recommend the increase of the tax until it becomes necessary to use the Government?

Hanson: That is right; that is definitely the statement of several members that were a minority of the Advisory Council.

Eccles: Wayne, you haven't said anything on this.

Taylor: Well, probably because I don't know very much, Marriner. I don't think you can possibly do anything without estimates. It seems to me before you look those estimates over, this kind of a Committee can't express an opinion without them. From the standpoint of the Treasury, why, the Treasury position has been for the full reserves, as I understand, Dan?

Bell: Sure.

Taylor: Until the Treasury alters that position, why, we can't comment about the various other aspects of it. I wasn't here in the Treasury when the full reserve system was established, and expressing my personal opinion, if I would have been here, I would have been opposed to the full reserve system, but that is beyond the point.

Eccles: Well, it would seem then that if we, in making - either we make - tell the President that we are in no position to make a report on this thing or to say the Treasury, in the absence of the Secretary, are unwilling to take any position with reference to it, and the other three members make a report upon certain assumed or certain estimates. The estimates seem to me must be for the calendar year because it is the effect of the changes of the law that go into effect for the calendar year 1940. In other words, this report deals with it in 19- - the first impact of it will be in the year 1940, the calendar year, and the benefit payments would commence in 1940, and, therefore, it seems to me that that there is from now until the end of the year, the present law applies, and there isn't anything to be done about it, but the report - the - the - the report would only have a fiscal effect, commencing with 1940, and thereafter, it would seem that we should make estimates as to what the contributions, maximum and minimum, may be under the proposed changes in the calendar year, 1940, and what the minimum and maximum estimated revenue would be in the calendar year, 1940, pointing out that the difference would, of course, be at 1940 funds, and what the impact of the fund is, unless the Budget takes care of that by greater contributions than may be otherwise necessary.

Now, that seems to me to be the fiscal implication of this thing, and as to where I don't think we are asked to make recommendations as to what should be done about it. It is merely pointing out what - what the fiscal effect, maximum and minimum may be, if the - if the recommendations in this report go into effect in the calendar year, 1940.

Altmeyer: I might point out that so far as the immediate job of the Committee is concerned, it is narrower than that, because, as I said, our report is not a specifically spelled out plan. As I see it, there are really only two questions. Now, all these things, as you say, I believe should be explored by your Committee, but I don't think it is necessary to wait until you have explored those until you have decided on two things. The only two things, first, that benefits commence in 1940; secondly, that the present scale of tax rates remain in effect.

Now, as I understand the discussion so far, there is general agreement that benefit payments should start in 1940 instead of 1942, so it leaves only the second point open, and there is - the Treasury does not wish to commit itself at this time, and there is difference of opinion, and whether that difference of opinion can be reconciled in the light of estimates, no one knows right now.

So far as the full reserve question, Mr. Taylor, that is not - that is not affected by our report. You could stay on the full reserve system or you could go off it, so far as our report is concerned, so you don't have to cross that bridge now; but the two bridges, I think the President would like to have you cross now are first, are you in accord with commencing payment benefits in 1940 instead of 1942, and, secondly, what's your opinion as regards the present payroll tax stepups? And if you can't express yourselves on that second one, I think that you might say so, and then he can decide whether he wants to send the report up at this time. Our report, I think, would stand anyway. And the President's message will not be specific in this in any of these regards that we have mentioned.

Taylor: The only place I disagree with this/^{is} in relation to the full reserve, because each change you make or altering the amount of the program - bringing in other groups, has to affect your reserve picture.

Altmeyer: But it does not affect whether you stay on the full reserve.

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- Taylor: It just means you delay the period slightly in which you recognize you are not on it; but I don't see
- Altmeyer: No, I don't see.
- Bell: Well, the maximum you are talking about, you will use up the reserve estimate after fifteen years, won't you? And then go to the Treasury, if I understand the report. That still doesn't keep you from going on with the reserve if it is decided by Congress.
- Altmeyer: I mean our - our report would permit you to stay on the reserve if you wanted to, or permit you to go off if you wanted to. We are only expressing ourselves as far as payments of benefits are concerned, and tax rates. At the beginning, consideration ought to be given to the long range costs in law. When you say consideration should be given or taken into account, that still leaves in the air, how those long distance costs will be taken into account.
- Eccles: Mr. Altmeyer, are you prepared to give to the Committee the maximum and minimum estimates of receipts for the calendar year, '40, and the maximum and minimum benefit payments for the calendar year, 1940?
- Altmeyer: Yes.
- Eccles: It would seem to me that if we could have those figures, then we could make a report to the President as to what the fiscal problem would be created as to the result of the application of this law. And with reference to recommendations, I - I don't know that the Committee would - may want to make them and may not. If there was a fund accumulated of five hundred million, we point out that it would be deflationary to the extent that that wasn't taken care of out of the Budget; it seems to me it would be up to the President to determine whether or not he wanted to take care of it out of the Budget, or whether he wanted to delay the tax or something else. If we point out the problem to him, then if he wants a very large fund to accumulate and to take care of it out of the Budget, it seems to me that, after all, is his problem.

- Altmeyer: The point I was trying to make is that that bridge doesn't have to be crossed now.
- Eccles: Doesn't it have to be crossed before he sends up - if he sends up his message and the implication of his message is that the tax should go into effect in 1940.....
- Altmeyer: I don't think he will write that kind of a message.
- Eccles: I don't know, but if - of course a message leaves a thing wide open, so far as ~~what~~ the benefits may be or what the taxes may be, then of course there is no immediate hurry on the matter.
- Delano: I'd like to ask Mr. Altmeyer - I am not sure that I understand, because I haven't read this - just skimmed through it. You recommend that we advance the payments of benefits to two years, but you do not recommend that any - any tax be imposed?
- Altmeyer: No changes.
- Delano: You leave the inference then that you are taking in enough on the present tax. You want to leave that inference?
- Altmeyer: We say later on the present tax rates, we think, would take care of the current payments-out for the next fifteen or twenty years.
- Delano: Well, that is a long time, isn't it?
- Altmeyer: The present scale of taxes, with the three-year step-ups.
- Delano: I thought you meant they wouldn't have to be raised at all.
- Altmeyer: I made the point a little while ago that you probably would have to step it up later.
- Delano: Yes, I did hear that.
- Altmeyer: On the reserve, if we have reserves in excess tax collections, I think it can be spoken of in two different senses, as a bookkeeping mechanism, or tax collections. If we speak of it in the sense of excess tax collections, the maximum reserve might be as little as one billion nine hundred

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million dollars, and at the most, not more than nine billion dollars. That nine billion dollars would be reached about 1958, but we think that that nine billion is less of a probable figure than the one billion nine hundred million, in the light of additional factors as regards costs that have come to light since we have been in operation.

- Delano: Now, as I understand it, Mr. Brown, I don't mean Mr. Brown - Mr. White's point was that if he had two decisions to make, he was in favor of advancing the payment of premiums by two years, and he'd prefer not to put on the half per cent tax. Is that right? Is that what he said?
- Eccles: Yes, that is.
- Delano: If you are going to take that attitude, oughtn't you to tell Congress how soon you think that step-up will have to be made on the tax? I mean, you give the impression - I get the impression, reading this hurriedly, you are going to advance the payments and not advance the tax.
- Brown: If the half per cent were held back, sir, it would involve a much more rapid increase in payroll taxes. My point is that payroll taxes are a type of tax effecting, as I say, forty million wage earners and two million employers, and should not be altered rapidly.
- Delano: I think you are sound - I think that is sound. I think the two ought to go together or the implication should be the half per cent added to the tax will have to follow very soon.
- Altmeyer: Here is what we say, Mr. Delano, on page 12: "As already stated, if the recommendations of the Board relating to benefits are adopted, early payments under the system will increase substantially. The tax provisions embodied in the present law would probably cover the increased annual cost for the first 15 years. They would also probably provide a small reserve, which would be invested and earn some interest. But when future annual benefit disbursements exceeded annual tax collections plus interest earnings, some other provision would have to be made for the funds which, under the existing plan, would be secured from interest on accumulated reserves." It would then be necessary to do one of

two things: increase the pay-roll tax, or provide for the deficiency out of other general taxes."

Delano: Yes, I see.

Eccles: Well, I don't think there is any disagreement as to the mechanical effect of this thing. It is just a question so far as we are concerned of pointing out to the President that you may get here an addition to the existing reserve, depending upon whether or not you put the tax into effect in '40, and to the extent that you increase the benefits, you could get an addition to the reserve of from two hundred million to six or seven hundred million dollars.

Now, if you get that increase in the reserve you are taking it out of consumption; certainly you may well have to - your Budget deficit would be larger by that amount than otherwise would be necessary. It may well be that he would prefer to have the Budget larger by that amount than otherwise, but it does seem to me that it certainly should be pointed out that to the extent that you accumulate in the calendar year, 1940, a given sum, that the deficit will likely be that much larger than otherwise would be necessary.

Now - ah - I would like to suggest that we ask the Committee to, in the light of this discussion today, to get these - get some estimates here and maximum and minimum and submit it to the Fiscal and Monetary Committee, a report based upon those estimates as to what the fiscal effect of certain actions will be in 1940.

Curry: And the assumptions on which the estimates are based.

Eccles: That is right. I think you've got to have your assumptions and your estimates. I think the Committee might well, on their own account, make their own assumptions and estimates. Then you have the assumptions and estimates of the Committee and the assumptions and estimates of the Social Security, and we might submit both. I don't know what else we can do.

Altmeyer: Am I right in my assumption that the Committee is in general agreement in commencing the payments in 1940?

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- Eccles: I personally wouldn't be in favor of it unless it can be shown that the fund needs that in order to take care
- Altmeyer: No, no; I said benefits.
- Eccles: As far as I am concerned, I would be very much in favor of it. I don't know how - how about you Dan?
- Bell: I don't think I'd oppose that.
- Altmeyer: You'd oppose or propose?
- Bell: Oppose.
- Eccles: You in favor of that Mr. Delano?
- Delano: I am in favor of that, but I would like to accompany it by indicating that - that you've got to increase the payroll tax, perhaps not that year, but the year after, but something like that quarter per cent or half per cent, or whatever it may be; I think Mr. Brown is right; I think you mustn't fool the payroll people by thinking that this can be done without any change in it.
- Hanson: Mr. Chairman, might I just make a statement there. In the deliberations of the Advisory Committee, their proposals were set up on the proposition that the ultimate load on the payroll tax would not be greater by reason of the recommendations they have made, with respect to benefit payments, that is true of the present Act, the reason being the benefits starting in 1940 and certain supplemental benefits paid to widows and dependents. On the other side, the benefits paid to a single individual would be less than under the present Act, so the assumption of the Council is the ultimate load would not be greater.
- Dulles: Still greater than earlier estimates which^{we} have been using up to date.
- Hanson: In the earlier periods; the payments are later. In the ultimate load, let's say in 1980, the ultimate load is presumed to be - the plan is based on the assumption that the load at that time would be something like the load under the existing Act -

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somewhere around ten per cent of payroll. That approximately is what it is under the present Act.

- Blough: May I suggest, however, that does not mean the payroll taxes would not need to be higher than under the existing law.
- Hanson: Under our recommendation they suggest they need not be higher because we suggest a three-way contribution. Under our recommendations they need not be higher.
- Blough: Somebody's taxes will have to be higher.
- Hanson: Certainly, but not the payroll taxes, and I understood you to say payroll taxes.
- Blough: I did.
- Eccles: That is along the line of most of the foreign countries - the British?
- Brown: (Nods "Yes.")
- Eccles: As I understand, the Social Security Board - the recommend that too, but it is at a fifteen year period; it is after the present increase of the tax would make it necessary without further increases to get a Government contribution. In other words, all you are doing by putting off - by increasing the tax needs - the Government contribution fifteen years, is building up in the meantime a reserve.
- Altmeyer: Yes, because you have adjusted your pattern of benefits to conform to the increasing tax rates, so by adjusting your pattern of benefits you have automatically eliminated almost entirely you might say, this large reserve. When using the sense - the term "reserve" in the sense of existing tax collections, I again say that doesn't mean you wipe out the reserve if you want to keep the bookkeeping system. We are silent on that. That is entirely a matter, we feel, for the Treasury to decide what the bookkeeping would be.
- Bell: Your reserve you contemplate in the next fifteen years would amount just about to the interest, wouldn't it?

Altmeyer: Say that again.

Bell: Wouldn't your total amount of reserve, say at the end of fifteen years, the difference we have - that would be just about the interest accumulation. I understood you to say we might have as much as a billion nine hundred million dollars. The difference would be the interest for thirty years; it would be almost all the interest, so there is no cash one way or the other. It is merely a transfer on the books.

Eccles: Didn't you say a minimum, but with a possibility of nine million, depending on what the payments are to be made.

Altmeyer: And depending on these cost factors that nobody knows anything about at this time.

Eccles: Johnny, I got - do you feel that - feel that the Treasury is not in a position to make no statement?

Hanes: Not officially, in view of the fact that the Secretary has written so definitely to ask the President that he have a chance to state his viewpoint, and I am not prepared to state his viewpoint because I don't know it.

Eccles: Yes.

Hanes: For that reason, I think the Treasury better stay out of this discussion so far as the Treasury officially is concerned.

Eccles: Yes. Ah - what do you want to do, Mr. Delano; as a member of the Committee, what?

Delano: I - I don't know. I hope it will be studied further.

Eccles: Of course the report, as I understand it, has got to go this week.

Delano: Before the Secretary gets back?

Eccles: I understand they expect to send it up this week. Or do you want me to report to the White House that we are unable to make a report on it at this time, pending the return of the Secretary?

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- Taylor: And also pending the submission of some estimates.
- Eccles: Well, yes, but I am assuming we can get estimates here pretty quickly; certainly these estimates must have already been made.
- Hanes: I don't see any reason, Marriner, why you shouldn't go ahead and maybe you three members of that Committee might be able to agree on a program and go ahead and submit it. Leave the Secretary out and let him submit his own report when he comes back if he chooses to do so.
- Bell: Maybe, after we see the estimates there may be no problem.
- Eccles: I'd like to suggest then, that we might appoint a committee and ask that Mr. Altmeyer furnish to that Committee these estimates, and then the three of us can meet with the committee whenever they are ready and we then can determine whether or not we may want to make a report to the President on the basis of the estimates, and merely stating that the Treasury, due to the Secretary's absence, doesn't care to join in any report at this time.
- Altmeyer: Do I understand that the only point that this committee is concerned about is this step-up in the tax rate from one to one and a half per cent in 1940?
- Eccles: No, no; it's a question of the whole fiscal effect of this thing. That is one factor. There is the question of stepping up the tax; there is also, of course, the extent to which the benefits are stepped up.
- Altmeyer: But we don't state that in the report. What I am trying to get at is what is the present thing that affects this report to Congress?
- Eccles: Well, if we can - if we can - it seems to me - say to the President, the possibilities under this report are a maximum anticipated revenue to the fund, and a minimum to the fund, depending upon whether the tax is put in or it isn't put in, based upon certain assumptions of national income, and that the minimum benefit payments, based upon, of course, certain assumptions are so much, and the maximum are so much. That would

mean then, that the additions to the fund would be a minimum and a maximum; that - that - and therefore, that would have a certain budgetary effect.

Altmeyer: But what I mean, the only specific thing in this report that I understand that your committee is concerned about, then, if you are in general agreement on beginning benefit payments in 1940 instead of 1942, is whether you concur or do not concur with the Social Security Board's recommendation that the present step-up in tax rates take place.

Eccles: Well, as I understand it, the question of the benefits vary very, very greatly.

Altmeyer: If you are in agreement that the benefit rates should start in 1940.

Eccles: To what extent?

Altmeyer: Our Board is silent as to that extent.

Curry: The difficulty is on taking instant action on the tax until we know what extent the taxes are.

Altmeyer: This question then focuses on this step-up from one to one and a half per cent, and you will need to know what the income and outgo, in order to resolve your mind on that. What I am trying to find out is whether, in our report, there is anything besides this specific statement we make relative to the maintenance of the President's tax step-up your committee wants to consider.

Curry: I think, Mr. Chairman, there was another point; that is the point of the extension of coverage, bringing in additional people whose tax begin immediately, and under the present proposal benefits would not begin until after a lapse of three years.

Eccles: Oh yes. As I understand it the report contemplates bringing in additional people if the tax - don't go into effect there for three years. It would build up a large amount that would be included in the total taxes of 1940.

- Curry: As I understand it, you also had - I don't know whether you want to go into, in this Committee or not - you mentioned it to me.
- Eccles: Of course, if you want to pay out, if you bring in a large group of people that are not now under and subject them to the tax, it means an addition to this fund, unless they also come under the benefits. Now to bring them under the benefits, of course, they haven't contributed, and therefore you have a problem so long as you don't make any exception with reference to the contributory aspect of the system. It seems to me that is something that should be, of course, pointed out to the President - the deflationary effect of collecting, I don't know how many - I don't know what the amount involved would be, but whatever it is, it would be collecting that much that is not being disbursed; it would, therefore, affect the Budget to that extent.
- Altmeyer: Well, our report is not - again, is not specific as to what qualification should be, or should not be required of these new people brought under. I've got an immediate problem. I'd like to know whether the report, as it stands now, what parts of it are concerned by this Committee. We recognize it is a complicated problem and we have deliberated in our report to sketch the broad outline and leave the details for further discussion.
- Eccles: You mean with Congress.
- Altmeyer: And with the Government; we haven't cleared with the Budget Bureau. I might tell you what the plan is about presenting this to Congress. The plan is, our report goes up with no draft of a bill whatsoever, and that the House Ways and Means Committee will hear these various proposals that are made from outside the Government and then hear a representative of the Social Security Board on this report, and on the basis of those hearings, will evolve a bill of its own, and at that time our technical people, and the Treasury's technical people, and the other technical people in the Government can work with the Committee in the development of the details. We felt, to present

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a cut and dried program, with the details worked out, would be unrealistic, because we aren't sure about it in our own minds. Second, it would be an attack on the fundamentals. The House Ways and Means Committee is in agreement on that, and Senator Harrison is in agreement on that. So it does leave us a breathing spell to discuss these things we have discussed today, but whether there is anything in the broad presentation of the subject in our report that should be corrected....

- Curry: The only point, Mr. Altmeyer, not so much with your report but the President's message. If he just gives a general report it is going to be typical to come up in a month or two and suggest the tax rate be increased.
- Altmeyer: I am sure the President's message will not endorse the report.
- Bell: It is more a transmittal message.
- Altmeyer: It is more a transmittal message, pointing out certain problems of old age security and other forms. I recommend that he not underwrite the report; I think it leaves him and the Administration in a bad position to underwrite the report. He recommends that action be taken - I imagine he will recommend action be taken on the report, and point out certain problems he feels Congress should consider. I certainly don't think he'd want to touch on the step-up or no step-up of the tax rate.
- Curry: If it is just a formal letter of transmittal, I don't think that would prejudice the issue.
- Hanson: It doesn't apply in any way, any criticism of the report of the Social Security Board. Of course, it is their business there what sort of reports they are going to make. From a purely logical standpoint, it would seem to me it would follow that if this report were framed in this very general way, that it would follow from that that also the tax proposition should be left in a very general way.
- Altmeyer: We have reached a conclusion on the tax problem, and we feel very definitely and very strongly about the tax rate schedule.

- Bell: But you have made no recommendation on it.
- Altmeyer: Yes, that is the one recommendation.
- Hanson: You have made the recommendation? It seems to me that is precisely the thing raised. If the recommendation is made on this, then you've got to know certain other things, and a report that is vague on all the other things is a report which in no way enables one to judge this specific recommendation. If a specific recommendation is made on the taxes, then other things must be known, and if you are vague on that, it logically follows you should be vague on the tax issues and leave that up to Congress also.
- Altmeyer: I'd say this, that we have an Act on the statute books that's been on the statute books three years now, and it's a question of amending that Act.
- Hanson: Then your report might mention nothing about it at all.
- Altmeyer: I'd say the Social Security Board has a responsibility in this matter, and have given three years' consideration to it, and we feel very definitely that the present tax rates should stay in and be stepped up every three years, as it would appear. Whether this Committee agrees or does not agree, our position will be the same on that because we have thought that through very carefully.
- Hanson: That is the thing that puts this Committee on the spot; how they can advise the President, knowing nothing of the recommendation of the Board on the other points.
- Eccles: Except, we may do this. Point out to the President that the whole matter is being submitted to Congress; that the only recommendation is with reference to the tax; the other matter is open. Our suggestion is, so far as he is concerned, at least, that the whole matter be left open for further consideration, and then in the meantime this Committee has a chance to give further consideration to it.
- Altmeyer: You mean that his message be such that at this particular point

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- Eccles: That he doesn't get committed on the question of tax, so the whole thing on the question of the receipts and disbursements is left open for consideration by Congress.
- Blaisdell: That is a repetition, Mr. Altmeyer.
- Delano: There is a big liberalization recommended beginning the payments two years early.
- Eccles: Yes, but as to the amount, it is pretty wide open.
- Curry: It would be pretty wide open in that particular. We'd have more of an idea of what you have to recommend specifically to the House Committee, and what would be met with the Board's approval.
- Altmeyer: Well, I say
- Curry: Because otherwise, you are going to deal with an enormous range.
- Altmeyer: The range doesn't come in, in what we are going to recommend. It comes in in the evaluation of cost factors which, in times, are so indefinite that you get a range of four hundred per cent, perhaps. Now, you wouldn't get that much; you get a range of forty to fifty per cent, perhaps. But so far as the reserve is concerned, you get excess tax collections; you get a range of five or five hundred per cent.
- Curry: Yes, but specifically, if we had more of an idea of what you intended to recommend later on the question of eligibility, who should qualify for benefits in 1940, that would narrow down the difference a good deal among experts.
- Altmeyer: It would effect the cost estimates, but to a minor extent. The big variation, depending on our guess as to these various cost factors, is that we have not sufficient information now.
- Curry: Which is a question of how many men will qualify.
- Altmeyer: In the retirement age and average earnings.

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Eccles: If it has all this leeway, which it has, of course, with reference to taxes, they could either not be increased at all or a quarter or a half of one per cent or whatever the case may be. It's wide open, as far as Congress is concerned. The question of benefits is also wide open. Why couldn't -- it seems to me the issue to be determined is whether or not we are going to adopt more or less a pay-as-you-go basis, or whether or not we are going to operate upon the system of accumulation of the reserve. That is what it gets right down to.

Taylor: Sure.

Eccles: Now, if the President in - in submitting this thing to Congress could state so far as he is concerned that - that he could state the general principle of having a wide coverage, bringing more people under it and moving the benefit payments so that the benefits are - get the benefits in '40, and then - ah - ah - leave the question of detail as to taxes and the question of the detail as to benefits up to Congress, but state whether or not he wants to put this thing on a pay-as-you-go basis, or whether he wants to put it on a reserve basis, knowing that to the extent it is on the reserve basis it affects the Budget to the extent of making a deficit.

Bell: You mean he ought to state that in his report?

Eccles: He might indicate whether or not he wants to see it put on a pay-as-you-go basis. I don't know whether he has any preference whether he wants to take that kind of a position, or whether he has any kind of a position, but that is what the issue is when you get right down to it, and - ah - if it is going to be put up to Congress, and Mr. Altmeyer proposes, with the exception that there is a definite recommendation as to this tax, then so far as the President is concerned, if he sends the report up that he has received, without recommendation, and merely state - could merely state in his message whether or not he favors a pay-as-you-go basis or a reserve basis.

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- Bell: He might state that is one of the problems for Congress to determine.
- Eccles: He may do that. He may do that. That seems to me, if he should do that, I don't know why this Committee should make any report to him, insofar as this report is indefinite and should be left up to Congress.
- McReynolds: I was going to - I am willing for the President to transmit it. It seems to me that if the President is merely going to transmit it and recommend it be given study, which, as I understand it ...
- Altmeyer: No, he's going to recommend action.
- McReynolds: Action, of course, but not recommend what action specifically should be taken. I should think it would be entirely safe to have it so transmitted, but if, on the other hand, he was going to recommend pay-as-you-go or reserve basis, then it requires, I think - the President would want a very definite report from his Fiscal and Monetary Committee before he made such a commitment.
- Altmeyer: I think it would be half way between; I think he'd probably recommend that the old age security problem be considered from the old age insurance and also the state old age pension aspect, and point out it can be attacked from those two directions. It should be attacked from those two directions. But that doesn't underwrite the report.
- McReynolds: I don't see how anybody can object to his laying the problem before them as specifically as he might do. The only thing that might get him into difficulty, or he might change his mind later, unless given a further study, would be a definite recommendation as to some particular factor, and if he's satisfied to transmit it by just laying the problem before them and recommend a study of action, I see no reason why it should be delayed, and I don't believe the Secretary of the Treasury would think it should be delayed over those conditions. The only thing the Secretary said in his letter was, he would like an opportunity to discuss it with the President before he had committed himself on any of these recommended changes.

Now, if he isn't going to commit himself, I see no reason - no basis on which the Secretary would object to the transmission, do you Dan?

Bell: No.

Altmeyer: But he may commit himself on certain broad approaches.

McReynolds: Well, if it's a question of coverage, everybody that's ever considered the thing knows that it's a question of coverage. It is a question of the Social Security problem. Of course, that is a broad problem that everybody would be willing to cover it, but

Eccles: Well, if it's a question of bringing the benefit payments up to 1940, I mean, he might want to take that position - broad coverage - but when it gets to it, we have the extent of the benefits, and get to the question of whether or not you're going to tax more than what the benefit will be, that - that - that matter could, it seems to me, be well left open to Congress to determine to what extent they want to put this on a pay-as-you-go basis in case the President may not want to take a position as to whether or not he'd want to put it on this basis. It may well be that the President would - well, would prefer - maybe it would be better for him to put that thing up to Congress as to whether or not they want to consider this thing on a reserve basis or a pay-as-you-go basis.

Altmeyer: You can have a reserve and pay-as-you-go and - or have that kind of system and not have a reserve.

Bell: We have already got that.

Altmeyer: It's a very complicated question and you get bookkeeping implications as well as economic complications. I don't think you can put it up to Congress because nobody knows what you mean.

Blaisdell: Mr. Altmeyer, at the risk of repetition, to get your position perfectly clear, as I understand it, it was having considered the possibility of their being a difference during the calendar year of 1940 of even as much as four hundred million dollars in the amount of collections and the amount

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of out payments. The Board's position was, even with those collections, it was still advisable to step up the payments?

- Altmeyer: No, that isn't, quite. We say that if Congress acts upon this liberalization plan of starting payments in 1940, more liberal amounts, and bringing in widows and orphans, we do not believe the present step-up should be disturbed. That is our definite recommendation; and we reach that conclusion after much discussion, and I am sure wouldn't want to change, regardless of the monetary or fiscal implications, because we feel that this is a Social Security system and that any monetary system, for financial implications of the magnitude of two hundred fifty million dollars, which is the only thing showed us here, is inconsiderable as compared with the Social Security.
- Curry: If you felt it was a magnitude of several hundred million, you would reconsider?
- Altmeyer: Yes.
- Eccles: I would suggest we might appoint a committee here that could get from Mr. Altmeyer such estimates for 1940 as he is able to furnish, and the committee could study the thing from their own angle, and then, us meet with them again and determine, after that information, what report we may make to the President. I don't know what else we can do at this time. We've been here for two hours, and I would suggest that Mr. Delano maybe appoint someone, and Mr. Bell, and I will appoint someone, and then if the Treasury wants to appoint one to participate.
- Hanes: Could we do that? I think we ought to.
- Eccles: Sure. And then, if we could do that, I think we ought to have a Committee of four get together and see what they could give us, and if we could meet tomorrow again. I think it's important.
- Bell: Can the estimates be made in that time?
- Altmeyer: Yes, except, I want to be perfectly free, so far as benefit estimates are concerned - who knows, you don't know what Congress is going to do, and if you did, your cross factors are so indefinite now.

Delano: I'd like to have another meeting, so I could really read this report carefully; that would clear up a good many points.

Eccles: Would it be convenient for this meet, when?

Delano: Thursday.

Eccles: We ought to meet tomorrow, if we can. I am afraid if this report is going up this week, we ought to get busy. It was indicated they ought to know in a couple days; we ought to be prepared to say we can't make a report in that time. I think if we meet tomorrow.....

Curry: If we meet Thursday, Governor, we can get a recommendation in Friday.

Eccles: The indication I got, the bill was going up Friday. They wanted it in tomorrow. I don't think we should wait beyond tomorrow. I think the Committee should - they might have to meet tonight, and in the morning, and that we meet again tomorrow afternoon - if that is agreeable.

Delano: I'll agree to that.

Altmeyer: Then if you could have your people meet in the Board Room over at our place, say ten o'clock tomorrow morning, we'll have our people there and we'll try to give you some estimates.

Eccles: Would that be all right?

Curry: Hanson, would you be here tomorrow too?

Hanson: (Nods "No.") No, I expect not.

Eccles: Well, whatever committee we have, we'll arrange to be over there at ten in the morning, then, to get these estimates from you. I don't know whether it will be necessary - we may want to get in touch with you tomorrow; you'll be available if we do?

Altmeyer: (Nods "Yes.")

Eccles: We appreciate your coming over and bringing your staff, and for the information you have given us.

If there isn't anything more, why, we can go.

It will be all right to meet here again tomorrow?

Hanes: Yes, indeed. What time?

Eccles: Two thirty tomorrow afternoon.

RE: SOCIAL SECURITY LEGISLATION

January 11, 1939.
2:30 P. M.

(H.M.Jr. Absent)

Present: Mr. Eccles
Mr. McReynolds
Mr. Curry
Miss Dulles
Mr. Bell
Mr. Ray
Mr. Hansen
Mr. Delano, Frederic
Mr. Taylor
Mr. Murphy
Mr. Blaisdell
Mr. Young
Mr. Blough

Eccles: Now, I haven't had an opportunity to get over these figures from the Committee. We just - the experts went over to the Board this morning.

Bell: Do we want to proceed without Mr. Altmeyer?

Eccles: Mr. Altmeyer wasn't coming unless we called for him. This was pretty well the job of our Committee, deciding what our report was going to be, and our Committee is

Bell: What about Mr. Hanes?

McReynolds: He's up on the Hill; he isn't coming.

Eccles: That's as I understood it.

Did you (Mr. Curry) give copies of this - have you got copies of this?

Curry: No. Just the members of the Committee have copies - the members of the sub-committee only.

Eccles: It was just finished; I haven't had a chance to - got it five minutes ago. Will you give Mr. Delano a copy. Have you got enough to go around in here?

(Copies distributed)

Eccles: I'll ask Dr. Curry to report on the work of the committee this morning in making these estimates.

Curry: "Report of the Sub-Committee on the Social Security Board's Statements Relating to Tax Collections and Benefit Payments in the Calendar Year 1940."

(To Reporter): I'll see that you get a copy of this later.

"The estimates are as presented by the Social Security Board, with the bases and assumptions indicated by them.

I - Unemployment Insurance

(a) Deposits in Unemployment Trust Fund 749,000,000"

This part goes into it direct
(Title IX tax collections) 91,000,000
making a total of 840,000,000.

"Based on budget estimates for fiscal year 1940.

These estimates are approximately equal to the rate of collections in the latter months of 1938.

(b) Benefit payments 760,000,000
Administrative expenses 80,000,000
making a total of 840,000,000

"Assumes sufficient liberalization of state laws relating to benefit payments to equalize income and outgo."

Eccles: Just what do you mean by that?

Curry: This figure of benefit payments of 760,000,000, more or less arbitrarily arrived at, in view of moves to liberalize state laws relating to benefit payments.

Eccles: The estimates are - then there will be no fund in the unemployment insurance?

Bell: There will be an increase in the unemployment.

Curry: Increase in the unemployment insurance for the calendar year.

- Eccles: This says "fiscal year."
- Blaisdell: Mr. Eccles, it might be well to point out there, the estimate wasn't what we would call an estimate in a budget sense; it was simply a rough judgment that in the light of the temper of state legislatures, as shown in the Social Security Board, they feel that there would be a sufficient liberalization to take up everything that is collected.
- Eccles: That all depends on
- Hanson: May I point out that there is one other thing that must be considered there, I think, and that is, you must consider not merely the liberalization of the state acts, but also the probable state of business and unemployment in 1940 when you arrive at a judgment that the benefit payments will equal the tax receipts, so it involves some judgment about what the state of business in 1940 will be, also. That is not so very clear what the judgement is, about that.
- Eccles: Yes. In other words, if the state of business is good, the amount collected would be very much more than the amount paid out.
- Hanson: Certainly very much more than would be if the state of business is bad. There'd be a profound difference.
- Eccles: You'd collect little and pay out more.
- Dulles: There are times when, with a good business and high benefit rights, you'd pay out a good deal. I think it would be fairer, quoting the Board on this - it refers it to past experience and subjects it to the future. There are compensating conditions.
- Hanson: I am saying a good year and bad year will show different results and, therefore, it must include some judgment about what kind of a year it is.
- Bell: There, Doctor, they will assume a normal year will see all of the receipts into the unemployment trust fund paid out. Think that assumption is made here?

- Hanson: I am not clear what the assumptions are; I am merely pointing out the figure must include some judgement about what the kind of a year is.
- Blaisdell: That was my understanding of the Board's representatives at the meeting this morning.
- Bell: You are looking upon '40 as a normal year, and in any normal year, all the revenue will be paid out of this fund?
- Blough: I didn't get quite the same understanding, thought a representative of the Board here should probably answer. My understanding was that the representatives of the Board were by no means sure that the unemployment compensation laws were going to stand up in depression years when the legislatures had finished liberalizing them, and that, accordingly, 1940, even though it might be better than the normal year, you might still have an outgo equal to the income.
- Bell: Because of the liberalization.
- Dulles: That is right.
- Eccles: That is all based on an assumption that the legislatures, meeting in '40, will pass laws that would - that would result in a paying out of the revenues collected. It seems to me to be a very far-fetched assumption, because the legislatures don't meet until after the first of the year, and legislation that may be passed - it will be likely after the legislatures meet before it becomes effective, before it - even before it has application to the unemployed benefit.
- Blaisdell: The legislatures are meeting now, Mr. Eccles.
- Dulles: They are composing it now.
- Eccles: You are speaking of this year?
- Blaisdell: Yes. How many are meeting this year?
- Delano: Most of them are bi-annual.
- Dulles: Most of them have proposals.

Eccles: If that is the case, of course, it would apply next year. It seemed to me that if the - if the national income was up to - say a billion, or we had a condition of reasonably full employment, that then an accumulation in the fund would tend to be compensating, just as it would - it would, without question, put some kind of a restraint on at a time when some kind of a restraint was desirable. Likewise, as the income began to go down, it would accumulate a cushion. It seems to me the whole idea of the fund, accumulating when you have a condition of reasonably full employment and paying out when employment becomes less - it is an automatic compensatory mechanism, and I think it is fine. The great difficulty is that when in a state of recovery, such as you are in now, and you're attempting to get up to your eighty billion dollars and to accumulate a fund during that period, tends to be a drag on recovery unless the budgetary deficit is sufficiently large to offset that, the drag of the tax on consumer buying power. As long as we recognize that and will appropriate sufficient funds where the problem comes in, to - to cause the increase - the deficit to offset this - ah - then it doesn't make any difference, but the - the - the real difficulty is to the extent of these funds - unemployment insurance funds - are accumulated; they become a real drag on recovery, and unless the legislatures do what they have indicated that there is some expectation they will do. But as I get it, there isn't very much any way that can be done about this because it is largely in the hands of the states, isn't that true?

Dulles: (Nods "Yes.")

Eccles: And let me ask this: Is there any effort made on the part of the Social Security Board to influence or to deter the states in a policy of greater liberalization?

Dulles: The Board has taken steps to advise the states in regard to certain rather technical conditions in paying benefits. Now, I understand that those include a lengthening of the duration of benefits, but I wouldn't want to report on that officially because I don't know the detail of it, and we don't

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know how the states will act on it. There are, occasionally, points at which they would change the eligibility requirements. I don't know in dollar terms anything about how it would work out; it is too vague.

Bell: Did any of the members of the Sub-Committee feel there might be a substantial increase in the funds during this period?

Curry: We didn't really discuss that; we didn't try to arrive at any agreement on the thing, and it was only after the first fifteen minutes that we knew there would be no agreement, so we devoted the rest of the time trying to get the estimates and assumptions that Mr. Altmeyer presented yesterday, underlining the figures he presented yesterday. That is really what this report is on. This report doesn't present my views at all; it is a report relating to the Social Security Board figures. I feel that this figure for seven hundred sixty million for unemployment, figures in 1940, is a gross exaggeration.

Eccles: All right, let's take Number Two.

Curry: "II - Old Age Insurance.

(a) Tax Collections -

On present coverage, 2 per cent
rate 560,000,000"
of the next calendar year. In
actual collections there is a lag.

"Additional 1 per cent rate" will only be applicable to three quarters of the year. That figure was mentioned by Altmeyer yesterday. Then with the additional \$165,000,000, making a total of \$715,000,000. That additional coverage did not include domestic servants or agricultural labor, but just the instrumentalities of Government and non-profit organizations, and seamen.

"On proposed coverage 40,000,000
755,000,000

Figures for present coverage based on budget estimates for fiscal 1940.

"These estimates are approximately the same taxable base as prevailed in the last half of 1938."

- Eccles: Let's take (a) there. These estimates are based upon an assumption that there will be no improvement in business? If they are based upon the last half of 1938, it would be on the payrolls, of course, as they existed in the last half of 1938.
- Blough: I think that the situation can not be expressed in exactly those terms. I am not too clear about the method of making budget estimates, but I think it is quite clear that they were not based on any current collection figures at all. If there is an identity, or coincidence, that is one thing and that is all that's being stated here.
- Curry: We have alternative estimates on that; assuming that payrolls in 1940 approximate the payrolls from 1937, which would coincide with the national income of around 170 million, assuming a full year's rate at the higher tax rate rather than the three quarters, put on the accrual basis.
- Eccles: That is what it is on.
- Curry: Then, we come out with the figure of 910 million with an extension of coverage again of forty million - 870 without the coverage, 910 with an extension of coverage as charged with the 755.

"(b) Benefit Payments.

"The outstanding fact with respect to old age benefit payments in 1940 is the tremendous range - from \$48 to \$515 million - of possible variation that would arise from the adoption of plans that have been under discussion. Until a definite set of provisions is adopted by Congress, estimates are bound to be attended by the greatest uncertainty. It appears, moreover, impossible to say at the present time which of several sets of provisions is more likely to be adopted. All that can be done now is to set forth the conditions under which the minimum and maximum amounts would be paid.

- "1. Minimum - \$48 million, which would consist of the lump sum payments under the present law.

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"2. The Maximum - \$515 million. In order to reach this total (or anything like it) extensive changes would have to be made in the existing law."

And then we list the various changes on which this figure, \$515 million is based.

"1. Payment of monthly benefits in 1940.

"2. Eligibility for benefits would have to be extended to every one over 65 who had worked in a covered occupation and had earned at least \$300 a year since January 1, 1937. This would mean including people who had never paid any taxes under the act at all as well as those who had received lump sum benefits and ceased contributing. If the administrative difficulties in checking wage records, etc., could be satisfactorily solved as many as 1,000,000 persons might become eligible for benefits in 1940.

"3. Adoption of an average wages formula for calculating benefits. It is estimated that this would raise the benefit payment for a single beneficiary * to at least \$30 a month.

"4. Adoption of various supplementary benefits for wives over 65, widows, dependent children, etc.

"5. Immediate inauguration of disability benefits.

"An approximate idea of the relative importance of these various proposals, assuming average monthly benefit payments of \$30 per annuitant, may be derived from the following table:

1,000,000 qualified annuitants....	\$361,000,000
Dependent aged wives.....	48,000,000
Aged widows.....	2,000,000
Young widows and orphans.....	22,000,000
Minimum death benefits.....	52,000,000
Disability.....	25,000,000
Accrued death claims.....	5,000,000
making a total of	<u>\$515,000,000"</u>

Dulles: * May I make a correction? I think it is typographical. It shouldn't be "at least \$30 a month," but "average \$30 a month." It the text - about three lines from the bottom.

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1-11-39

January 11, 1939.

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REPORT OF THE SUB-COMMITTEE ON THE SOCIAL SECURITY BOARD'S
STATEMENTS RELATING TO TAX COLLECTIONS AND BENEFIT PAYMENTS
IN THE CALENDAR YEAR 1940

The estimates are as presented by the Social Security Board, with the bases and assumptions indicated by them.

I - Unemployment Insurance

(a) Deposits in Unemployment Trust Fund	749,000,000
Title IX tax collections	<u>91,000,000</u>
	840,000,000

Based on budget estimates for fiscal year 1940.

These estimates are approximately equal to the rate of collections in the latter months of 1938.

(b) Benefit payments	760,000,000
Administrative expenses	<u>80,000,000</u>
	840,000,000

Assumes sufficient liberalization of state laws relating to benefit payments to equalize income and outgo.

II - Old Age Insurance

(a) Tax Collections -

On present coverage, 2 percent rate.	560,000,000
Additional 1/2 percent rate (3 quarters)	<u>165,000,000</u>
	715,000,000
On proposed coverage	<u>40,000,000</u>
	755,000,000

Figures for present coverage based on budget estimates for fiscal 1940.

These estimates are approximately the same taxable base as prevailed in the last half of 1938.

(b) Benefit Payments

The outstanding fact with respect to old age benefit payments in 1940 is the tremendous range - from \$48 to \$515 million - of possible variation that would arise from the adoption of plans that have been under discussion. Until a definite set of provisions is adopted by Congress, estimates are bound to be attended by the greatest uncertainty. It appears, moreover, impossible to say at the present time which of several sets of provisions is more likely to be adopted. All that can be done now is to set forth the conditions under which the minimum and maximum amounts would be paid.

1. Minimum - \$48 million. Lump sum payments under the present law.
2. Maximum - \$515 million. In order to reach this total (or anything like it) extensive changes would have to be made in the existing law.

1. Payment of monthly benefits in 1940.

2. Eligibility for benefits would have to be extended to every one over 65 who had worked in a covered occupation and had earned at least \$300 a year since January 1, 1937. This would mean including people who had never paid any taxes under the act at all as well as those who had received lump sum benefits and ceased contributing. If the administrative difficulties in checking wage records, etc., could be satisfactorily solved as many as 1,000,000 persons might become eligible for benefits in 1940.

3. Adoption of an average wages formula for calculating benefits. It is estimated that this would raise the benefit payment for a single beneficiary to at least \$30 a month.

4. Adoption of various supplementary benefits for wives over 65, widows, dependent children, etc.

5. Immediate inauguration of disability benefits.

An approximate idea of the relative importance of these various proposals, assuming average monthly benefit payments of \$30 per annuitant, may be derived from the following table:

1,000,000 qualified annuitants	\$361,000,000
Dependent aged wives	48,000,000
Aged widows	2,000,000
Young widows and orphans	22,000,000
Minimum death benefits	52,000,000
Disability	25,000,000
Accrued death claims	<u>5,000,000</u>
	\$515,000,000

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- Curry: Oh, I see. In number 3.
- Bell: How should it read?
- Delano: An average.
- Bell: Oh, an average, huh?
- Curry: Just cross out the "at least and make it read, "on the average."
- Eccles: If, therefore, your contentions - your assumptions, are correct, Curry, that 1938 would give us an average national income of seventy billion dollars, which, in figuring the additional rate for the four quarters, which is the way you'd have to figure it for the purpose here, so far as consumers are concerned, it is collected monthly and then it is paid into the Treasury quarterly, but so far as its effect on consumption is concerned, you'd have to figure four quarters. You would, therefore, have - what is it, nine hundred?
- Curry: On the old age, nine hundred ten instead of seven fifty-five; on the unemployment insurance you'd have a billion and thirty instead of eight forty.
- Eccles: Yes. Well, I was getting away from the unemployment insurance.
- Curry: It is the same point on the higher payroll basis; it is the same point.
- Eccles: I see. Assuming that the - taking the old age, then you've got nine, what?
- Curry: Nine ten.
- Eccles: And if the most liberal, the most liberal system of benefit payments are adopted, as enumerated here, you would then have found hundred million excess accumulation.
- Curry: (Nods "Yes.")
- Eccles: Which is a hundred million more than - the tax amounts to about three hundred million, doesn't it?

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Curry: Tax increase.

Eccles: Yeah. Even assuming the tax wasn't put into effect, you would still collect a sufficient amount on a seventy billion dollar income to pay all of the additional benefits that are -if all of them were adopted, and have approximately a hundred million left over, assuming you only had seventy billion dollars national income in 1940. Is that correct?

Bell: I don't see how you get it.

Eccles: Well, in this way. The tax collections here are based - I am taking it on the Federal Reserve payments of payrolls. In other words, on the 1937 national income, assuming that 1940 gave you a national income approximating the national income of 1937, assuming that the payrolls would compare, approximately the same relationship to the national income they did in '37, your staff figures a tax coverage, or collection, on the basis of such a national income of - what are the figures that you had there, six?

Bell: Nine ten, old age.

Eccles: I am speaking, before you get to the additional taxes; I am speaking of the two per cent rate.

Hanson: Six hundred three.

Eccles: Six three; there is a difference there of forty-five million. Now, in the case of the additional taxes, the additional taxes, of course, would be applied to the same payroll, but you would figure four quarters instead of three quarters, from the standpoint of the economic effect, which would be three hundred - what is that, three hundred million?

Curry: Yeah.

Eccles: Figure three hundred million, so you have nine hundred, and plus the forty million as covering additional coverage, you'd have nine hundred ten million as against seven fifty-five million of collections. If that's the case, assuming then that the figures on disbursements are the maximum

amount anticipated, assuming that everything is adopted and the maximum amount is disbursed, you disburse five hundred fifteen million, which is approximately four hundred million less than you'd collect, on the assumptions that Curry makes here with reference to 1938. I said that - if that is the case, and then if you didn't increase the tax by the one per cent, which accounts for three hundred of the amount, you would still collect enough at the present tax rates to take care of all of the disbursements, and you already have in the fund four years of reserves, so you'd have an amount in the fund equal to

Hanson: Three and a half years.

Eccles: the disbursement of between three and four years on the five hundred and some-odd basis. So it would appear that even on this basis you are adding substantially to the fund if you put that tax into effect.

Anyone have any questions we want to ask these experts here before we consider it?

Delano: I wonder if we couldn't hear - this subject is all pretty new to me. I have read this report with a great deal of interest, but as I understand, in preparing this report, there was an Advisory group that sat in, and I don't know to what extent they were taken into confidence by them in preparing the report, but I do assume that Advisory group influenced the report in some respects. Is there anybody here who could tell us how the Advisory group felt about some of these things that we are discussing? That was a pretty able group.

Taylor: Dr. Hanson is a member of it.

Hanson: Well, the Advisory Committee - Miss Dulles will correct me if this statement is not correct - was appointed as a result of a resolution introduced by Senator Vandenberg, I believe is right, is it not?

Dulles: (Nods "Yes.")

Hanson: Was appointed for the purpose of advising the Senate Finance Committee, and, I believe, the resolution required that the Committee be appointed

for the joint consultation of the Finance Committee and Social Security Board. That is right, is it?

Dulles: Yes, it is.

Hanson:

And this Advisory group of twenty-five set up from employers, Mr. Swope, Mr. Stettinius, Mr. Folsom and so on, and representatives of employees, and there were representatives of the A. F. of L. group and of the C. I. O. group, and representatives of the public which consisted to some extent of university professors, Mr. Douglas, of Chicago, for instance; Haber, of Michigan; Stocking of Texas; myself, and others - and certain others. I think Dr. Linton represented the public, did he not? He is the head of an insurance company. I am not sure whether he was public or employer. It presented a report to the Finance Committee, so it has presented a report of its own. In the deliberations of the Advisory Council, the members of the Federal Reserve Board sat with the Advisory Council and the Advisory Council drew continuously upon the technical staff of the Federal Reserve Board - I mean of the Social Security Board - I am sorry - taking the staff of the Social Security Board in preparing various factual data upon which they might arrive at judgments so that the Board and the Advisory Committee worked in the numerous meetings we had - we had all told, I think, about eight meetings - something like that. The Advisory Committee and the Federal Reserve Board and the technical staff worked very closely all the time.

Now, as I say, the Advisory Board issued a report and the Federal Reserve Board - I mean Social Security Board issued their report, so there are two separate reports. Our report went to the Finance Committee, and the - of course, the Social Security Board's report went, presumably to the President. There is, in general, a good deal of similarity, I should say, between the two reports, and now, on this specific question that's, perhaps, most involved here with respect to whether the tax rates should be stepped up in January, 1940, the majority of the Advisory Council agrees with the Federal Reserve - with the Social Security Board. I don't know why I make this mistake all the time. The majority of the Advisory Council agrees with Social Security Board that the step-up should take place.

There was a minority to which I belonged, which recommended that the step-up in wage rates should not take place, and there is a statement in our printed report to that effect, and we stated it in something like this way: That we think that the tax rates should not be stepped up until it appeared that the benefit payments currently being made exceeded the tax rates currently being made and that in particular, since the reserve fund would amount to somewhere between a billion and a half and two billion dollars, there is ample time to adjust the rates if it is found necessary.

That point was made. Now, perhaps, you have a copy of the report.

Murphy: I can read that if you like.

Hanson: You might read that.

Murphy: The note is as follows: "Several members of the Council feel that the increase of 50 per cent in the tax rate from 2 per cent to 3 per cent now provided by the law to be made in 1940 should be reconsidered. Unless the cost of the benefits payable in 1940 and 1941 shall exceed current income from the present 2 per cent payroll tax, and in view of the probable size of the contingency fund on January 1, 1940, they feel that the increase in the tax rate should not take place before the study herein recommended..." That is a future Council recommendation. "... to be made in 1941 shall have been completed. They believe that under the present conditions it would be better policy to allow the sum involved in the increase in the tax rate to remain in the hands of employees and employers than to use it to increase the contingency fund."

Hanson: Than to increase the contingency fund. Now, on the benefit payments basis, the Advisory Council makes certain recommendations, such as a liberalization, such as advancing the date of payments to 1940, a liberalization of the early benefit payments, which liberalization could take place partly through the addition of which is not now in the Act, of wives' allowances, widows' and dependents' allowances, and so on. There is, I

think, a general similarity between our recommendations and that of the Board, with respect to the liberalization of benefit payments. I think, perhaps, our recommendations, Miss Dulles, are a little more specific than the Board's are.

Dulles: Yes, I think so.

Hanson: In general, they run along the same lines and show the continuous meetings we had with the Board. I think, in general, Mr. Delano

Delano: I think that is very fine.

Taylor: There is one other point in there, in the Committee's report I understand.....

Hanson: You mean the Advisory Committee?

Taylor: The Advisory Committee's report, I understand there is a recommendation that when the final - let's say, distribution of the load of the system is made, it should be one third by the employees and one third by the employers and one third by the Government in the form of general taxation.

Hanson: That is right.

Taylor: Is there anything that you can give us to indicate how they came to that conclusion of that distribution?

Hanson: Partly, I think, because that is something like the scheme that is current in foreign countries, partly because we devised our general scheme of benefit payments, or we recommend, at least, to Congress, that in revising the benefit payments, they ought to try to keep within the limits of the ultimate costs of the present Act, which would indicate a burden, a cost in terms of payroll of about, let us say, ten per cent. We say in the report, ten to twelve per cent of payroll, in the year 1980, when the system would be mature.

Now, under the present plan, it amounts roughly to a three-way system in the respect that ultimately the employer would carry about a third of that cost, maybe three per cent of the payroll; the employee three per cent of payroll, and the other

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would be carried by the interest payments of the funds. Now the thought is that in abandoning the fund, the Federal Government would come in with contributions in lieu of the interest payments that would accrue on the funds, so that partly accounts for this three-way system.

Curry: Then, the precedent abroad.

Hanson: I mentioned the precedent abroad. Now, I feel it is a little dangerous for one member of a Council to attempt to summarize, and I think Miss Dulles, who was present at almost all our meetings, will correct me. I have the impression from the Social Security Board's report that they contemplate that the Federal Government would not come in until the employer and employee payroll taxes have reached the full three per cent; that it would be a long time in the future, a good many years in the future.

Bell: And until the benefit payments will also exceed it.

Hanson: And they would defer the Federal contributions a great many years, until the employer and employee carry their full load. My own feeling is that it is the view of the Advisory Council - we don't definitely say so, but in our discussions, my own feeling is that it is the view of the Advisory Council that the Federal Government would come in virtually at once, as soon as there is a need for a step-up of the taxes. That, for instance, was expressed at least by several members of the Council. I don't recall any particular objection anybody made to it. I think Mr. White, for instance, was very strong on the point, that if we abandoned the reserve fund then the Federal Government ought to come in right away. I agree with him on that. I think the Advisory Council has the view of the Federal Government coming in very early and not way later.

There is some danger in fooling the public that the Federal Government doesn't have to carry their part of the load. If we are going to have a three-way system, the public ought to know it now. I mean, as soon as necessary; I don't think there is any reason why the Federal Government right now should come in. As soon as it is necessary

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to have an increase in taxes, the Federal Government ought to come in and carry its share. I am inclined to feel - I repeat, it is dangerous for one member of a Committee to try to summarize the feelings of the group, but I feel it is the feeling of the Council; I know it is the view of many of the members.

Taylor:

The reason I was making the point is that as I understand it, the position of the Board is that there is a linking of the contributions of the employees and the employers, which is desirable, which is expressed in a certain way; that there are reasons for that which have nothing to do, let's say, with the amount of the revenues themselves. Then you go from there to - all right, if that is desirable, then this figure which we have produced from somewhere is the maximum which the traffic will bear. I think there must be something of that in there - not having anything to do with the type of tax, whether it is a desirable thing or not, but there must be someplace in there where a decision has been made; let's say three per cent is the maximum the traffic will bear. You go from there to the fact that further considerations are necessary, and they should be received by general taxation in some form, so it really gets down to the question of degree.

In other words, the type of the tax, we'll say, is undesirable, but you feel that the traffic, under all circumstances, could bear a three per cent rate. Anything above that, why, should be produced from some other source. Do you think that is a fair statement?

Hanson:

I would even go beyond that. I am not very much impressed by any - any fixed figure as to what the traffic will bear. The very sharp rise of several per cent in one year, of course, is disturbing, but a gradual step-up of payroll taxes, paid by employer and employee, spread over a very long time, I wouldn't like to say where there is any final figure that represents what the traffic will bear, because ultimately, I think, that really - simply means that what we are really deciding there is how much of the wage income of the community do you want to put into old age security. That is really what it means. It is a way of

spending wages. Of course, you could spend half of it that way and there is nothing serious so far as the economy is concerned except that it is foolish, that's all. There isn't any - in my judgment there is no settled limit as to what the traffic will bear. I don't rest the argument on that, but I'd rather rest it on the argument on the basis of - ah - this kind of a problem is not like the early private insurance. There is - there are good general grounds, social and political grounds, why the whole of society should make a contribution, as well as employers and employees to this particular burden. I would rest myself on that ground rather than on the assumption that there is a limit beyond which payroll taxes economically can not go.

Let me say that my own view - I don't feel particularly alarmed at even a sudden jump in any one year of, say a two per cent payroll tax, provided the money is being paid out in the community. In England, as a matter of fact, - I am not following these particular details of foreign bills now in the way I did some years ago, and I am not quite sure of the precise nature of the British system, but at any rate, it is true that they adopted a pretty much of a complete going system at the start. That is to say, they included pretty near everybody that were above a certain age, and began to pay benefits to them right away, and they - on the tax contributions they were made large right away; they took a sudden leap into the thing, but it had no serious effect on economy because while they stepped up the taxes, they paid it out to the community. The only serious thing was they stepped it up that much - two per cent - assuming it was that much - I forget what it was.

Ray: Pretty much a flat benefit.

Hanson: Do you know what that would be.

Ray: I don't know what the percentage would be - no higher than three per cent.

Hanson: I don't think quite that high. If that were too much it would be a disturbing influence at one.

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For a hundred years or more we have had a trend increase of wage rates of something like one and a quarter per cent per annum, wage rates gone up that much in this country for a hundred years, up to the time of the World War, and, of course, much higher, for instance, since the World War. An increase of wage rates of one or two per cent is not anything that worries me at all. The thing that worries me is the thing that you collect it and don't pay it out again.

Curry: If it were paid out again it wouldn't make much difference by stepping up the rate.

Taylor: Obviously, it would make a difference to pay it out to the same type. If you collect it and pay it out to the farmer, there is, let's say, a net out payment for a given year. That doesn't bother you, does it?

Hanson: No, except that if it were too extreme it would be disturbing. You may have a general increase in wages of five to ten per cent in a year that business seems to be able to manage to get along with, though I personally believe it is bad to have a jump in wage rates as we had in '36. I personally cite the fact that industry is used to pretty severe jolts of wage rates in any one year.

Blough: Isn't that quite a different sort of thing? Here we have an imposition from the outside and something.....

Hanson: But a trade union push for wages is an imposition. I don't favor such jumps. All I say is the economy has stood it many, many a time; it went up almost twenty per cent in '36. The manufacturing rate went up fifteen to twenty in that one year.

Blough: Maybe that, instead of the deficit, had something to do with 1937.

Hanson: Oh, I think it was one of the factors. I am not one of those who believe that one explanation explains '37. I firmly believe that that wage jump was a factor.

Curry: Mr. Chairman, shall I go back to these figures?

Eccles: Yes, if you have.....

Curry: I think there are two or three points that would be interesting to the Committee on these figures. That is, that there is a possibility, if you assume a continuance of recovery and not just the levelling off of the 1937 level, but a continuation above that of seventy five million. These revenue estimates, we feel, are conservative.

The second point is that - that estimates of outgo, under the unemployment benefits, I don't think should be taken very seriously. It is obviously put at seven fifty million to match the income. There was no careful attempt made, state by state, to arrive at that figure. I don't think it should be treated with a great deal of respect and don't think the Social Security wants it treated with a great deal of respect. You have a powerful tendency to hold it down, due to the decline in unemployment and reduction of labor turnover, and there are quite a few stray bits of evidence you can utilize on that point. They have been dropping steadily the last four or five months, outpayments on this unemployment account. Amendments don't come awfully suddenly. The Wisconsin law came first - began in '36 or '37.

Hanson: In '36, as I remember it.

Curry: They were still accumulating funds up to this year. That would make - if that figure should be four hundred million instead of seven hundred million in this general picture.

The third point, I think it should be appreciated, in this five hundred estimate for maximum probable outpayments in 1940 on old age accounts, but this does entail a pretty drastic departure from the contributory policies. It means paying benefits to people who have never paid any taxes.

Then we come up with our problem, the figure I mentioned yesterday of 200 to 230 million.

Dulles: You should mention the fact we don't know yet whether they'd pay taxes or not.

- Hanson: Wouldn't - most all of them would have paid taxes; there are few who have paid no taxes.
- Curry: They have never been under the scheme.
- Hanson: They have all paid some tax, but not adequate to be eligible under the present system.
- Curry: Not if they are over sixty-five.
- Blaisdell: Even taking that position on the figure of one million, the Board's other figure which they gave us this morning was seven hundred fifty. It was someplace between seven fifty thousand and a million, and using the million figure, it gives you their outside estimate.
- Blough: But the thirty dollar a month was considered a low average yield of the benefit schedule.
- Curry: In other words, what I am trying to build up to that, should these payrolls continue to increase during '39 and '40, and putting it on an accrual basis, having a lower volume of benefit payments in 1940 on unemployment accounts than you have had this year, and falling somewhere between the minimum and maximum probable scheme, say two hundred - two fifty million, you'd come up with an excess of in payments over out payments of a billion two in 1940. Those are the assumptions underlined.
- Taylor: It don't seem quite consistent to me, because if you worried, these particular taxes are going to be such a drag on recovery that you won't have it. Then your assumption is, your increased wages and your increased contributions are going to stand out.
- Curry: Want me to turn around and say, then.....
- Taylor: No, because we can't both be right.
- Blough: And you are not very much worried about them if they are right.
- Hansen: Let's look at '37. Then we had a good year, and had a good year, and the fact is that in that good year, you see, the

- Curry: consumption flattened out.
- Hansen: In that good year the surplus that was piling into the Social Security Fund, partly because it was a good year, you see, had a profound influence on the net income, creating the expenditures of the Government.
- Curry: So you had a picture of - of six or seven good months, and a steady increase of inventories.
- Eccles: You get a lag. The difficulty is the lag.
- Taylor: I do think those two things work against each other, so that if you do get the recovery which will produce this wage scale, and it affects these contributions, we all know there were a great many other factors in the '37 situation, then it wouldn't worry me a hell of a lot. Excuse me.
- Blough: There is another thing to be kept in mind so far as this increase in taxes in 1940 is concerned; that is responsible for only between 165 million and possibly 303 million dollars, which in view of the budgetary situation is, perhaps, and in view of the rest of the situations, perhaps, a drop in the bucket, or at least not a very big splash, because here we are talking about total excess of income or receipts over outgo, but of that total excess you have, due to this tax about which the controversy, or the discussion, is centering, only an amount between a hundred sixty-five million, which is the figure based on the budget basis, and three hundred three million, which is the figure based on your seventy million dollar increase with coverage extended.
- Hansen: Mr. Chairman, may I say a word about that, Mr. Chairman? Ah - ah - it seems to me that that point of view is extremely dangerous. Suppose we take that point of view with respect to every problem that confronts us; we are here concerned with only one problem; that is the problem we have to consider, "How does it affect our economy?" Let's take that same attitude toward a hundred problems that all affect our economy. "This particular thing is not important, in the whole; let's not do anything about it." Where do we come in at? We are not, in this Committee, con-

cerned with all the responsibilities of the Government. We are concerned with this particular thing on the economy, and we assume the Government committees are particular; therefore, I think it is extremely dangerous to take the view that three hundred million dollars is unimportant. If thirty divisions of the Government take the same view that three hundred million is unimportant, then you've got thirty times three hundred million. That is the way you have to look at the problem. Furthermore, let me set up one figure to show it isn't unimportant.

We haven't had adequate - indeed, Colonel Ayres has been telling us all the time we haven't had as large an expense as public utilities had in 1929 - that the whole problem would be solved. What's the difference between the capital expenditures we have been having and the 1929 level? The difference is about four hundred million dollars; that's the difference. We have had a tremendous lot of.....

Blough:

I'd like to apply your logic on slightly a different line. You say this policy is only one of many; if we assume three hundred million here and there it becomes an exceedingly serious matter. Couldn't we also say this consideration of Social Security policy is only one among several, and if we take it as the sole consideration that we likewise get into serious consideration?

Hansen:

I have never done that myself.

Blough:

This would have to be weighed against many other considerations, and the need determine the policy to be followed.

Eccles:

Well, I think that is one of the jobs of this Fiscal and Monetary Committee just to do that. To take into account other problems as they affect the economy, and tend to retard the increase in the national income. It involves the whole question of taxes and the Committee recognized that certain types of taxes at the present recovery stage would be a greater drain upon recovery than other types of taxes; that taxes, as the President indicated in his Budget Message, that bear upon consumption

at this time are bad taxes, and that if there should be any increase in taxes, the taxes should come from those sources of income that would bear less upon consumption. This particular subject here, to the extent that we accumulate in the reserve, any substantial amount of money, would have the same effect as putting on excise and sales taxes in order to raise general revenue. It would be countered to what the Committee have felt is the proper type of taxes, and it would be contrary to what the President in his Budget Message, had said to Congress, and it would, therefore, seem to me that this Committee, to be consistent with the President's Budget Message, with reference to taxes, must, of necessity, advise him with reference to the possibility of an increase in this reserve, bearing upon consumption, and being somewhat of a drag upon recovery, unless it is offset by a greater budgetary deficit in 1940 than otherwise would be necessary. The amount involved, the importance of the problem, naturally, is affected by the amount involved. It becomes the greater the amount involved, the more - the greater the importance - the problem is, but the principle is not necessarily affected by the amount involved. It is just as unfortunate that both the unemployment insurance and the old age pension program, which is so desirable, should not - should be a drag upon recovery, and which would not be the case if they were - had they been put into effect at a time of greater recovery, if they had been put into effect when the national income was high, they then would have acted as some restraint upon an inflationary development, and, likewise, would have acted as a cushion on the deflationary trends, but at the present time, to attempt in any way to build up reserves further until the national income gets up, it is going to add to the budget a problem, and they are both going to be a drag upon recovery, which is, as I say, somewhat unfortunate, and it seems to me that this Committee should point out this principle, the principle involved here, to the President and so that if it is decided that the fund should accumulate during this period, that it must be offset by a further deficit than otherwise might be the case.

- Hansen: Mr. Chairman, one point that I would like to - hasn't been referred to, but I'd like to express it just a bit more. Nobody knows what Congress will do with respect to benefit payments or eligibility for benefits. Now, I can conceive they might go a very long way; they might conceivably go further than the Social Security Board has assumed in these estimates. They might go so far as to include pretty much everybody over sixty-five years of age; it is not utterly impossible. We don't know what they are going to do with respect to that.
- Bell: Does the five fifteen.....
- Hansen: Pardon.
- Bell: Does the five fifteen million indicate the maximum which could be allowed under the recommendations of the Board?
- Ray: No, not the maximum, I'd say. I would say they attempted to be pretty much in the middle line.
- Dulles: I think Mr. Altmeyer said yesterday it's the maximum, reasonable. The report is general, and it does permit flexibility.
- Bell: It could be much more than five fifteen?
- Dulles: Yes, but the lines are drawn somewhat on the basis of what the Board thinks might reasonably be true.
- Hansen: The point I was going to make, we don't know - nobody knows what Congress will do about this matter of eligibility and payments, but my point of view, and the point of view of those on the Advisory Council who agree to the statement that has been read, is that we ought not to raise taxes until we see that it is necessary and then it should be on a three-way basis, and that there is no hurry about, though I wouldn't want to postpone^{it} for any long length of time. We have in the fund already a billion seven hundred million, or will have by January, 1940, and it seems to me the wise action is to wait and see what are the benefit payments going to be. Why have the taxes until we know that we need them?

- Blough: What emphasis do you place on the judgment of the Board and the judgment of the majority of the Advisory Council, that all things considered, and weighing this consideration against the others, they feel it would be highly desirable from the general public interest to increase rates in 1940? How do you - how does your balance of consideration differ from those of the Board and the majority of the Advisory Council?
- Hansen: The only argument I can see there is one I can't myself see the force of, is that if we don't retain the present tax structure, somehow or other we will miss a chance to educate the American public to carry on a contributory system. That is the only point I can see in the argument, and I myself am not impressed with the argument.
- Blough: Would you agree that the outstanding problem of the Social Security system is to prevent the Congress from promising the American people more than they will want to support when they find out how much it is going to cost?
- Hansen: That, I think, has nothing to do with this question. It has wholly to do with the question of the ultimate load, and has nothing to do with how much the taxes are going to be in the year 1940 and 1941, and I certainly do think it is very important to impress upon Congress that when they adopt benefit payments they are in effect promising something for the future, and they must know what that means in terms of an ultimate burden. I am very strongly in agreement with that, that it is very dangerous to promise a thing without knowing what it is going to cost you, but I think that has nothing to do with this problem. I do agree that the English method of going at it is, from that standpoint, preferable to our method of going at it, in the respect that there would be adopted what might be called a "going system" and people know what it is going to cost. We have adopted this system of easing into it, and we might be able to feel what it is going to cost, but don't know. One and a half per cent doesn't tell you what it's going to cost you, and for that reason, I think there are many, many arguments in favor of the British method of going at it, in preference to ours, and I have never, myself, been convinced

there are not arguments against not adopting the British methods, though I recognize certain difficulties.

Curry: I think that is an enviable approach since we don't know what the costs are going to be; we are not in position to take a stand on the taxes. As Mr. Altmeyer stated yesterday, it would make quite a difference in his own mind. I think the other people feel the same.

Eccles: Mr. Delano, do you have any thoughts as to how the Committee might proceed from this point in suggestions to make?

Delano: I'll say that I read this report that Dr. Altmeyer's Board prepared, with a great deal of interest. I thought it was an excellent report, and exceedingly informative and instructive, and I had the same feeling that some of the other experts have, but, of course, Congress needs a lot of educating on this thing, and just what their reaction is going to be, of course there are going to be some people who think we are not giving them half enough, and there are going to be some who think we are giving them too much.

In just going through the report, I made a note of the number of recommendations and suggestions in it - something like twenty-five or thirty. Well, of that twenty-five or thirty, fully half of them cost money. Now, of course, if I were looking at this thing solely from the point of view of the budget I would say, "Well, I am glad they are recommending advancing the - liberalizing the payments; that they are also going to step up the tax," and that's the first reaction, I think, a man would take. And the argument against that, from a fiscal standpoint is that if with your experience you have been over collecting by taxing the income groups which can ill carry the tax, and which will cut down purchasing tremendously, you are doing just what we are trying not to do in our tax scheme, and I'd say it was unsafe if we didn't have a cushion, if we didn't have a considerable cushion to lay back on, but as it is, I must say I agree with those who think that we should liberalize some of these provisions.

I doubt if Congress will do all the liberalizing that is recommended in this Act. We should do some of those things, and I hope they are going to be talked over, and I'd like to see the raising of the payroll tax deferred for a year or two. It seems to me it could be deferred two or three years, even. I suppose that a good many officers of the Government - highly placed officers of the Government - would have been glad to see this whole thing, as the law provided until '42, so we'd know more about it, and the reason for not doing that is that there is a rumbling of discontent - the Townsendites that think you can do a great deal more than this, and then even those that believe in this scheme here, that think, "Well, you're over collecting," and there are a lot of elements in society that aren't sharing in this contribution - treatment - and it ought to be looked after.

So you are proposing to advance the time by two years and to liberalize the payments, and I think it is rather fortunate if you can do that without increasing the tax.

Now, if I put myself in the position of the President, and were sending up this thing without any recommendation at all, that's one thing; but I think I would like to point out to Congress that if they - if they over collect that will have just exactly the same effect that he had in his budget message he said should not be done.

Taylor: Mr. Delano, don't we get back to this original statement of the Advisory Board and something that was said in another way by the Social Security Board, about the advisability of linking the two types of payments?

Delano: Surely. Oh, I am strongly for that.

Taylor: Well, that's the point. In other words, we all recognize, I think we do, that this particular type of tax, whether it is on the employer or the employee, is a deflationary tax, if you were picking a type of tax which would be the most deflationary you would pick this type.

- Delano: But it isn't deflationary if you collect it all and pay it all out. Not to the same individual.
- Taylor: It can not possibly be to the individual.
- Delano: But the - just to the same class, isn't it, Mr. Taylor?
- Taylor: Not under the schemes I have heard of; there are always these developments in the paying out. Therefore, don't you get back to the fact that if this is a bad tax, should it be increased under any circumstances? In other words we say, "Let's wait for two years or wait for five years." That isn't going to change the situation in the least. You are simply saying that is a bad tax.
- Delano: I think the answer to that is, "we will know more about it."
- Taylor: You can't change that approach.
- Eccles: Eighty billion dollars - it depends a good deal on the state of your economy as to whether your tax happens to be a bad tax. Whether it is a bad tax at one period, it may not be a bad tax at another.
- Taylor: I don't think you can ever have a situation quite as flexible as that. I mean, if you know taking something away from the lowest income groups ordinarily starts out by cutting down purchasing power - going to be the low income groups, and it's just a question of how much you hurt them. You are always going to hurt those groups.
- Eccles: That gets to the point of whether or not you are going to have a contributory system then. I think there are, possibly, arguments that are in favor of a contributory system on some scale. That, possibly, might overcome other aspects of the arguments against it. At least it is in the picture for the present time in not only this country but practically every other country, and that, therefore it gets down to the point of minimizing the deflationary effect, we may say, of the contributory system, and the way you accomplish that is to pay out approximately what

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you may take in, and if the benefits reach a point where the tax must be increased then the Government can participate to the extent of a third or a half or whatever the case may be, and that tends to minimize the effect - the deflationary effect on consumption.

The thing we have to consider for the moment is this particular report, and the effect that it may have upon the fiscal, budgetary picture a year hence when it goes into effect. The effect that it would have, if all - if the recommendations for greater contributions are accepted, greater benefits. It would tend to help recovery and consumption and to that extent it seems to me if in line, as I understand our present views, we may well favor that portion of the report. So far as the tax is concerned, it seems to me that that is contrary to the taxes that have been proposed, and we could well oppose, as being inconsistent with the program, and tending to affect recovery, a delay of those taxes until such time as is determined what Congress - how far they may decide to go with reference to the benefits. If the benefits that they propose to make would substantially exceed the benefits that are proposed in the report, then they should be met in one of two ways, either the Government should start now to contributing, which would - they could put up the one per cent instead of putting on the tax, or the tax should go into effect immediately.

But to propose the tax at this time, without knowing the extent to which the benefits are going to be made, would seem to me to be contrary to the whole idea of the underlying policy with reference to the recovery program and the budget message. That would seem to me to be the situation so far as this committee is concerned.

We may well mention the question of the unemployment insurance as a factor in the picture. That is, of course, something that the Government can't do very much about, but merely pointing out that if recovery continues that there will likely be some accumulation there of whatever the amount that will be will depend upon the liberality that the - the liberalization of the program in each state,

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but certainly where you have the law of averages applying to forty-eight states, even though some states may be so liberal as to pay out all of the income certainly there are going to be other states where there is going to be an accumulation, and I think, without question, there net result is going to be an accumulation of funds in the unemployment insurance; and especially if recovery proceeds to the extent that we all hope and expect.

I ought to merely add what those funds are. Small as they may be, through putting on the payroll tax in the case of the old age - in the case of the payroll tax, it would only accentuate and increase the problem.

Blaisdell:

Mr. Eccles, at the risk of expressing a purely personal view point in connection with unemployment insurance, I think one item in history may be helpful. The present unemployment compensation laws, as adopted by the states, followed in a very great measure, the so-called draft proposals of the Social Security Board; technically, officially, legally, the Board had no position whatsoever with the states. Nevertheless the assistance given by the Board necessarily technical in character, was the basis on which practically the whole system of state laws were written.

At the present stage of the game, the Board is again in a position of being faced by requests for assistance from the Social Security Board - I mean the question - the Board is faced with that request from the states. The Board can not take official - can not require officially that the states do anything. Nevertheless, as in all of these measures where there is Federal-state cooperation, the Board's position can be of very great importance. It seems to me that in the history of the past few years, the significance from the fiscal and monetary standpoint of the type of laws which were being written on the basis of which we had very little to go on, now we have a very considerable amount of experience to go on. It's not summarized well, but the experience is there.

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It might not be out of place to call to the attention of the Social Security Board that there is this phase of the question which should be given serious consideration when suggestions are being made to the states. That might not bear on the immediate report which you are called upon to make to the President, but it might bear consideration.

Eccles: The last fiscal year of the Treasury - of the Government - showed a, as I recall, the budgetary deficit of around a billion three hundred million. Is that right, Dan?

Bell: That is right. Yes.

Eccles: This, of course was very largely due to the operation of the Social Security. Had it not been for the accumulation of reserves during that period the result could have been, of course, quite different. It seems to me rather unfortunate, at a time when budgetary deficits are given too much weight in the public mind, all they look at is not the cash figures, but what they look at, of course, are the budget figures, and it is unfortunate that they should - those deficit figures should be any more than they need to be, and to cause - you can't explain readily to the public the fact that you've got a deficit of a billion three hundred million, and yet you haven't got one - a cash point. They just don't understand the difference between the cash and the bookkeeping and it is foolish to try to explain it. The thing to do is to try to avoid, at this stage of recovery, the great difference between the cash income and the cash deficit and the bookkeeping deficit. If that can be done it seems to me that this Committee could not render the President a greater service.

Well, Dan, what have you got to suggest as a member here? (Laughs)

Bell: Well, I hurriedly went over the Board's report last night. I didn't find anything in it that shocked me greatly, although I think the Board minimized many of its administrative difficulties; I think it is going to have a lot of difficulties if their recommendations are adopted. I think it is unfortunate that one Department of the Executive

Branch of the Government who makes a recommendation so far reaching in their effect on our system of Government, and then say that the financing is primarily a Treasury job, and leaves us out in the air, but I realize that probably was necessary in view of the vagueness of their recommendations. There wasn't anything to which they could attach a financial arrangement and they didn't know what was going to be adopted.

But I think from a budget standpoint that I certainly could advise the President that I have no objection to the report, with the understanding that I will be permitted, later on, or my successor, whoever he may be, can have an opportunity to give him a memorandum on the items that go in any bill that is prepared. We've talked a good deal about the taxes going on in January, 1940. It seems to me that Congress is going to give a very careful consideration to these recommendations. I understand the Committee is just waiting for this report. I don't see how the Ways and Means Committee can consider this report without considering also the matter that is very much in the public mind, and that is the item of reserve - whether we are going to continue the reserve or are we not going to continue it.

Now, if we don't continue it, nevertheless, the taxes have got to come off, because we don't need the present volume of taxes to pay the present volume of benefit payments, and probably wouldn't need any more of the present taxes to care for the increased benefits. And it seems to me, therefore, that this Committee doesn't know enough about the situation to recommend anything to the President. I would hate to see the President say anything in this report about what might happen if you don't take the taxes on or if you add an additional tax. I would prefer the Board merely release its report as all other Departments do, and let Congress get it that way, rather than the President sending it as a special message. I think we will get more out of it; we'll have better opportunity to make comments on it later on than we do now, than we would now.

Eccles:

Why couldn't we point out to the President the possibilities as contained in the report, that is, if we put the taxes on what it means, and if

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the maximum amount of benefit is covered in the report, what it means from a fiscal point of view, and merely suggest that in lieu of the controversy with reference to whether you have a reserve or you don't have a reserve, that the whole matter merely be passed up to Congress to determine, as you say, whether or not they will put on taxes, dependent upon the amount of benefits that they decide to pay, and upon whether or not Congress decides they want to have a reserve. It would seem to me that that would leave him on a consistent ground with his budget message and with the policy adopted by this Committee.

Bell: I'd prefer to see him say nothing.

Eccles: That is right.

Bell: And if he is going to transmit the report, I'd prefer to see him transmit it by letter and say nothing about compensatory spending or taxes. Everything is too vague to arrive at any estimate that is worth anything.

Eccles: He's also already covered that idea in his budget.

Bell: I think in June when this Committee has had an opportunity for study and may have a bill prepared, you will have a much better position to comment upon and make suggestions.

Eccles: Unless the Committee wants to take the position that they would see no objection to the recommendations with reference to the benefits in a broad sense. They are pretty vague, but they see no objection to them, and the question of tax, that this is the effect that they may have, and that matter should be left open to be determined when the benefits may be determined as to the needs of the taxes.

Bell: I'd like to see the Committee say to the President, "We have no objection to this report, but we would like to have it understood that Mr. Altmeyer and the Committee on the Hill will keep this Committee advised of what is being done so it may study the effect on the tax and be prepared to make recommendations before the bill goes through."

- Eccles: Yes. Don't you think though that we - we've got to go a little further than that in making a report to him. That may be, if we undertook - if we wanted to make a recommendation to him. It first seems we should make the report somewhat along the general line of discussion as to the fiscal effect of it, and then make a suggestion that due to the uncertainty and the vagueness and controversy that it merely be sent up, and that when the hearings develop that - that the Social Security keep in touch with this Committee so that - I think just merely to say to not make a little more - it seems to me we've got to make somewhat of a more full report to him, and the suggestion with reference to what we - what - what should be done about the report.
- Delano: Couldn't we say this, that if the President is simply going to transmit the report that is addressed to him, without comment of any kind, we have no objections whatever; if he wants to give any advice or comment, then we'd like to have a little - we'd like to give him our views in some detail.
- Curry: Your chief concern, Mr. Chairman, at the moment, is that we advise the President not to commit himself on the question of the tax, one way or the other, either by implication or advertly.
- Bell: Not only the tax but the benefit payments. I don't think he should commit himself on any of it.
- Delano: No. Anywhere.
- Eccles: Yes, I think there is something to that.
- Curry: So it is just a question of
- Delano: What alarmed some of us was, we understood he was going to send it up with a message which would carry recommendations, and we wanted to be sure he didn't overlook a very important point.
- Bell: I understood from Mr. Altmeyer yesterday he hoped it would be no more than a transmittal message.

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- McReynolds: He showed me a draft of the letter, sending it up. There was no comment; it was simply an endorsement of the Board. He didn't recommend, he just got some of the broad principles of the Social Security which are safe enough - recommended that it give it study and action at this session of Congress. He didn't say, "You ought to do this, or that, or the other."
- Eccles: I saw it; I went over it with Mr. Altmeyer; he was good enough to show me the proposed suggestions that he was going to, I think, make to the President on this. I read it very carefully; in fact, I spent about an hour and a half with him, and there was three different places in the report it seemed to me, that is in the message where implications could be drawn. It didn't make any specific recommendations, but there were places in the report, and I pointed them out to him and he said that he had no intention of getting the President to make any definite recommendation, and it - as I said, it did seem to me there were implications in there that might be fraught with some danger.
- McReynolds: He may have modified those before he showed them to me.
- Bell: The law requires the Social Security.....
- Eccles: It wasn't specific, but you could read into it, at quite a number of places.
- McReynolds: I would be in entire agreement with you with respect to any implications of endorsement. I don't think it should be in the President's draft. In other words, if he is going to make a recommendation of his own, he can, I - I - I think there are some very, very difficult problems.
- Bell: The law requires the Social Security Board to study the social problem. Does it require a report to Congress or a report to the President.
- Dulles: Only the regular annual report.
- Bell: Does it say "Submit a regular annual report to the Congress"?

- Dulles: It is all right in the
- Bell: This is addressed to the President.
- Dulles: That is a different report. That is an occasional or special report.
- Eccles: That isn't the regular report.
- Curry: Does your law read, "... should be a recommendda-tion to the President..." or the Congress?
- Dulles: I don't think it is specified. If so it is Congress, I am pretty sure. I'd have to read the Act.
- Bell: The Social Security Board, as regarded under the Social Security Act, "shall perform the duties imposed upon it by the Act and shall also have the duty of studying and making recommendations as to the most effective methods of providing economic security through social insurance, and as to legislation and matters of administrative policy concerning old age pensions, unemployment compensa-tion, accident compensation, and related subjects."
- It refers to legislation. I would assume those recommendations and report should go to Congress, but this is addressed to the President. I would like to see that changed to go to Congress instead of the President.
- Eccles: The law doesn't require it go to the President. This is merely a supplemental report to the report of Congress. This report could go directly to Congress.
- Bell: It seems to me it could. And that certainly would be preferable.
- Dulles: There is one point - the President wrote the Board a year ago, asking for a special study and report; remember, that was sent to the Advisory Council, a letter, and I think that is the reason this is addressed to the President.
- Bell: I see.

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- Hansen: That would have to preclude this report going to Congress.
- Dulles: We'd have to make some report to the President.
- Curry: In that case, you think that introductory paragraph would refer to the letter from the President.
- Bell: The last sentence, "It is my hope the Board will be prepared to submit its recommendations before Congress convenes in January." - before that sentence, might be interpreted, to mean it should go to the Congress.
- Murphy: Yes, he doesn't say, submit it to whom.
- Eccles: Would there be any reason why the report couldn't be addressed to Congress and a copy of it sent to the President?
- Blaisdell: That is all right.
- Eccles: Then he is not required - the very fact he sent it up there is a tacit endorsement. I think that the thing should be submitted directly to Congress; otherwise, if he is going to submit it, then it would seem to me that he is just submitting it without - for the consideration of Congress, without recommendations, without endorsements, or so that there could be no - now that is a difficult thing; if I were at Social Security, I would prefer to have him send it direct, rather than say that, because that is bad.
- McReynolds: I don't think he'd be willing to do that. That would belittle the report.
- Eccles: I think that is bad; I think the Board should send it direct, or, if the President is going to send it that he's - he's merely - he's got to say something, because merely to send it is a form of endorsement.
- Well, if agreeable to the Committee, I would like - I'd be willing to undertake to prepare something for the consideration of the Committee along several alternatives, with the idea of approaching it, the assumption that the report would go direct, on the assumption that he might send the report

and making a brief report of the results of our discussions, with reference to this matter, so that we can give him the important - it seems to me the important conclusions that - that, at least I have come to, and I think possibly, as I get it, the Committee has, with reference to the problems, that this whole thing may raise, and therefore the need, or the desire, of leaving it up to Congress until they have decided on the benefits, decided to what extent they want this pay-as-you-go, or to what extent they want it as a reserve basis. Otherwise, then, to be consistent with the policy adopted by the Committee and the Budget Message, if he doesn't do that, then it seems to me he's got to point out the dangers of collecting taxes in excess of the benefits. Otherwise, to give the impression that the taxes on consumption could be collected in excess of benefits is contrary to the policy already adopted with reference to the question of taxes.

Dulles:

In connection with your statement about whether it should be on a reserve basis or otherwise, would you perhaps recall the fact that Mr. Altmeyer said the reserve collections on this basis would probably never exceed eight or nine million, so if you are going to amplify your statement, it is a half way or third of the way point, and the Board has, I believe, in several recent communications supported the Government Advisory Council and the Government Subsidy, and that Subsidy brought in both the Advisory Committee and the Board - no large reserves and no large incomes from interest.

Eccles:

Of course it's a question of degree, even projecting the problem up to, as I understood it, 1980, it could conceivably reach a point where even then it might not be entirely reserve system. I mean, it may be a system that the Government may contribute something to, but, as I understand the issue today in the country as to whether or not it shall be on a pay-as-you-go now or a pay-as-you-go in so many years from now. Now that is a question of degree; it is a question of time; and it is a matter, of course, that so far as the fiscal effect is concerned, it doesn't make a great deal of difference whether you put it on a pay-as-you-go in ten years or twenty years. At the moment it

is - it is building up a reserve and that's - that - that is the whole issue; it seems to me that Congress has got to decide.

- Bell: I want to make this clear, Mr. Chairman. You referred to the Budget estimate several times. While I think the principle you have been talking about probably is embodied in that estimate, yet I am quite sure that statement did not have in mind the present schedule of taxes under the Social Security Act. It had in mind new legislation. It certainly embodied that principle.
- Taylor: There was nothing in there which tied any particular in-payment to any particular out-payment. That is the thing that bothers me about this particular presentation. Why you are establishing a principle which I don't think.....
- Delano: You are fencing with a strong arm.
- Taylor: I mean, if you do establish that principle and you have to carry it through to a logical conclusion and each tax you collect from anybody ought to go back in equal amount in the same group, - I don't think that anybody.....
- Eccles: I don't think that; I don't agree with that; I don't think that will ever be true.
- Taylor: I don't think so either. I think if you carry that particular thought to its ultimate conclusion, you will get somewhere like that, and you don't want to get there.
- Eccles: That is why the Government consideration - it is well to have that considered right now in lieu of increasing taxes.
- Bell: Well, Mr. Chairman, you offered to draw up some alternatives.
- Eccles: I merely suggested that I'd try to see what we can work out of this thing. I wish you - I suggest we all do a little work on it; think of what we.....
- Delano: I - I - I think you are over complicating the thing for yourself.

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- Eccles: I should think that - do we agree that the Committee says we think it would be far better to have this report sent directly to Congress? I'd be willing to agree to that.
- Curry: Isn't it necessary to state some of the reasons.
- Delano: I'd go on to say we think if the President sends it up there is certain to be implications; that he approves it, unless he says something critical of it. Therefore, if he sends it up himself he'd have to warn Congress about some of the dangers of it, but he avoids all that if he lets the message go to Congress.
- Eccles: Of course that overcomes all the trouble. The thought occurred to me when you say that to him he will say, "Why?" My thought is we may state.....
- Delano: That could be explained.
- Eccles: So we see that we can get together as to the reasoning.
- Delano: And also make it clear it isn't unanimous, that it is debated; it is a debated problem.
- Eccles: As I understand it, the Treasury, in the absence of the Secretary, doesn't want to say anything on the subject at this time, is that right, Wayne?
- Taylor: That is right.
- Eccles: Now, that being the case, I don't think.....
- Delano: I don't know whether even the Director of the Budget is ready, but I think he's got an open mind on it, and I think we ought not to O. K. this thing as it stands.
- Eccles: We are all in agreement, aren't we, Dan, insofar as thinking that the thing to do is to have it sent directly?
- Bell: Absolutely.
- Eccles: Now, as to the reasons for that. I think we can

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Delano: Don't you think the President would like our reasons for that?

Eccles: Wouldn't it be well to prepare the reasons, to see, and the extent, as we may disagree as to the reasons. I don't believe we will. I don't think we can give the reasons for thinking it possibly should go directly to Congress. The problems that are raised here, without - without saying that our view with reference to the problems, may be the same. We may, we may not; we may feel that the problems that are raised - we may feel different about them, but I don't think we could possibly disagree as to the problems.

Delano: No.

Bell: Suppose you could see the President for a few minutes tomorrow morning?

Eccles: Well, I think that is the thing to try to do.

Bell: Give him an oral report.

Eccles: Tomorrow or Friday, I'll tell him we'll be ready to report. I'd like to meet tomorrow afternoon or Friday, giving us a little - well now, in the meantime, could we leave it subject to call of our getting together. Will you be available? Will you, Mr. Delano?

Delano: Yes, I think I can.

Eccles: And Dan, you?

Bell: Yes.

Eccles: And you will be here, will you, Wayne, and John, right through?

Taylor: (Nods "Yes.")

Hanes: (Nods "Yes.")

Eccles: Well, if there is nothing further to discuss, it is a good session anyway.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 19, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: The Chief Issues in the Social Security Program

*Social Security
Frieder*

I. The President in presenting to Congress the report of the Social Security Board endorsed their recommendations of:

- (a) Extension of old-age insurance system to include workers in domestic service, maritime and non-profit organizations;
- (b) Beginning payment of old-age benefits sooner than 1942 (Board recommended they begin 1940);
- (c) Liberalization of benefits to be paid in the early years;
- (d) The President made no comment on methods of financing the additional benefits, nor did he mention the increase of payroll taxes coming in 1940.
- (e) In addition the President concurred with the Board in recommending that the Federal grants to States on a matching basis be increased to help finance assistance to dependent children.

II. The Social Security Board recommended, in addition to the foregoing, that the increased cost of additional benefits be met from taxes other than payroll taxes, not to be imposed until annual benefit disbursements begin to exceed annual payroll tax collections - i.e., approximately 1955.

This recommendation represents an abandonment of the so-called self-sustaining principle.

III. Amount of old age benefit payments

The present schedule of old age benefits calls for monthly payments between \$15 and \$25 per month, based on the amount of earnings in the previous five years (e.g., persons with an average monthly wage of \$100 would receive \$17.50 per month). The benefits increase with the length of years in which contributions are paid (e.g., a covered person earning continuously \$100 a month for forty years would be eligible to receive in 1977, \$51.25 per month).

Secretary Morgenthau - 2

The new plan recommended by the Social Security Board proposes to increase the payments in the earlier years, and to extend the coverage to include agricultural, maritime, non-profit and bank employees. There are readjustments within the schedule which reduce the benefit payments in the later years to some groups, in such manner as would make the total outpayments after 1980 the same as under the present law. (Sample schedule is appended.) It is also proposed to provide larger benefits for married persons than for single persons.

It is claimed that the new schedule does not increase the "eventual cost of the system". What they mean is that after 1977 (!) the then current cost will be no higher than it is in the present Act.

The actual disbursements under the present Act are estimated to increase from about \$15 million in 1939 (as death benefits) to \$3¹/₂ billion in 1980. Some idea of the outpayments called for under the present Act may be obtained from the following selected dates:

In 1942	total	disbursements	would	be	about	\$	53	million
" 1943	"	"	"	"	"	"	95	"
" 1944	"	"	"	"	"	"	143	"
" 1950	"	"	"	"	"	"	500	"
" 1960	"	"	"	"	"	"	1,400	"
" 1980	"	"	"	"	"	"	3,500	"

The new plan calls for increased total disbursements in the earlier years of the schedule. The appended chart indicates the approximate difference in annual disbursements called for in the new schedule. The difference, I believe, is more than \$3/4 billion a year for many years. The report did not contain a table of estimates.

It cannot be stated how much the new disbursements would cost in 1940 if adopted because there are no specific recommendations made in the Social Security Board's report. It was stated orally that the maximum additional expenditures possible under the most liberal of the new provisions and under the greatest extension contemplated would be about \$500 million for the year 1940. Some experts believe that \$300 would be the maximum disbursements for 1940.

IV. The schedule of benefit payments

The present law calls for payments under old age benefits to begin on January 1, 1942. The new plan calls for benefit payments to begin in 1940. If this proposal is accepted and benefit payments begin in 1940, ~~as the President recommends,~~

then under the present schedule of payments and coverage there would be an additional cost in 1940 and 1941 of some \$150 million. This presumably would come out of the reserve.

V. The important principle in the social security program which is up for reexamination relates to the accumulation of reserve.

Three different principles are being advocated:

(a) The self-sustaining principle

This is the principle on which the financial program of the present law is presumed to be based. The tax receipts and disbursements are so scheduled that no Federal contribution will presumably be required at any time. When maximum outpayments are reached in 1980 the interest payments plus the scheduled taxes will be sufficient to meet them. (Payment of 3 percent interest by the Government may or may not constitute a contribution.)

This principle is under severe criticism by, I believe, virtually all experts in the field. The plan recommended by the Social Security Board constitutes an abandonment of this principle. Under the proposed plan the government would be called upon to make substantial contributions fifteen years from now.

(b) The "reserve principle"

The "reserve principle" calls for the creation of a reserve sufficient to take care of unforeseen contingencies, to help equalize the tax payments over a period of years, to earn an income, and to give the program the appearance of permanence and security.

The size of the reserve advocated differs among the experts. Minor differences in the size of reserve can be a matter of endless dispute and complexity but actually the decision should be made independent of actuarial estimates. It is easy to get involved in the maze of actuarial discussion but it is definitely a waste of your time to do so.

Under the new proposed plan by the Social Security Board a reserve of probably \$15 billion is anticipated, with government contributions necessary to maintain that reserve beginning around 1955.

The reserve principle is, I believe, subscribed to by most experts, though there is doubtless difference of opinion with respect to the size of the reserve to be accumulated.

(a) The "pay-as-you-go" principle

Under this principle disbursements are to be met wholly out of current receipts. It is suggested that the pay-as-you-go principle is a device to make easy the curtailment of the benefits in the future.

(Insurance companies are in favor of the pay-as-you-go basis because they fear that a large reserve will not leave enough government bonds for their portfolios. To a lesser extent it is felt that the reserve basis will interfere with the possibilities of increasing their "industrial insurance" business.)

VI. Tax collections on Old Age Account

For the year 1937 old age collections were approximately \$580 million. They started at 2 percent in 1937 (1 percent from employers and 1 percent from employees) and are to increase by stages to 6 percent in 1949 (3 percent from employers and 3 percent from employees). The first increase comes in 1940 when the payments are stepped up from 2 percent to 3 percent (i.e., 1½ percent from employers and 1½ percent from employees).

The Social Security Board, I believe, estimates that under the present law tax receipts in the calendar year 1940 will be \$715 million (of which \$165 million come from the 1 percent increase in payroll taxes effective in 1940). If the extension of coverage is made, as proposed by the Board, another \$40 million will be added. The men in the Federal Reserve Board believe these estimates are too low by some \$150 million in 1940.

VII. Unemployment insurance

The Social Security Board, I believe, estimates that in 1940 deposits in the unemployed trust fund and tax collections (under Title IX) will amount to \$840 million. They estimate that disbursements will equal in payments, namely, \$760 million for benefit payments and \$80 million for administrative expenses.

Secretary Morgenthau - 5

Here again the estimates of the subcommittee appointed last week by the Fiscal and Monetary Advisory Board (a copy of their report is attached) differ radically from those of the men in the Federal Reserve Board. The latter believe there is no reasonable basis for the expectation that State laws will be liberalized enough to provide for disbursements of \$760 million. Their estimate is that State and Federal taxes will yield about \$1 billion while benefits paid to the unemployed will total only \$400 million, leaving a net withdrawal of some \$600 million from the income stream instead of the zero estimate of the Social Security Board.

VIII. There is altogether a total difference of almost \$1 billion in the estimates made by the men working in the Federal Reserve Board on social security (Sweezy and Krost) and in the estimate that I believe is supported by the Social Security Board. The Federal Reserve Board men estimate the net withdrawal from the income stream in 1940 will be about \$1,200,000,000 with maximum increased payments likely under the proposed amendment. The Social Security Board, I think, estimates the net withdrawal at only \$300 million.

A difference of almost \$1 billion in the critical year 1940 may make the difference between continued recovery and appearance of a recession. Most of the difference, I believe, arises from different assumptions made by each group. The difference is so large and the matter so important for this year's fiscal policy that I believe the different bases of their estimates should be made clear to you.

IX. Some considerations relating to Treasury financing

Under the present law what actually happens is that the Treasury pays 3 percent interest (at least) on sums accumulated in the reserve. The present social security program, in short, supplies the Treasury with a growing source of funds that it must borrow at 3 percent rate of interest. By 1980 the Treasury would be in debt to the fund estimated between \$40 to \$60 billion!

Should the so-called self-sustaining principle be abandoned in favor of the reserve plan as advocated by the Social Security Board, the time will come -- ten, fifteen or twenty years from now -- when the Government would no longer have this source of funds from which to borrow. If they then needed to borrow they would have to go to the market.

The present Act provides for the building up of a reserve so that after 1968 benefit disbursements will exceed tax collections. The difference would be made up by the government contribution in the form of interest payments.

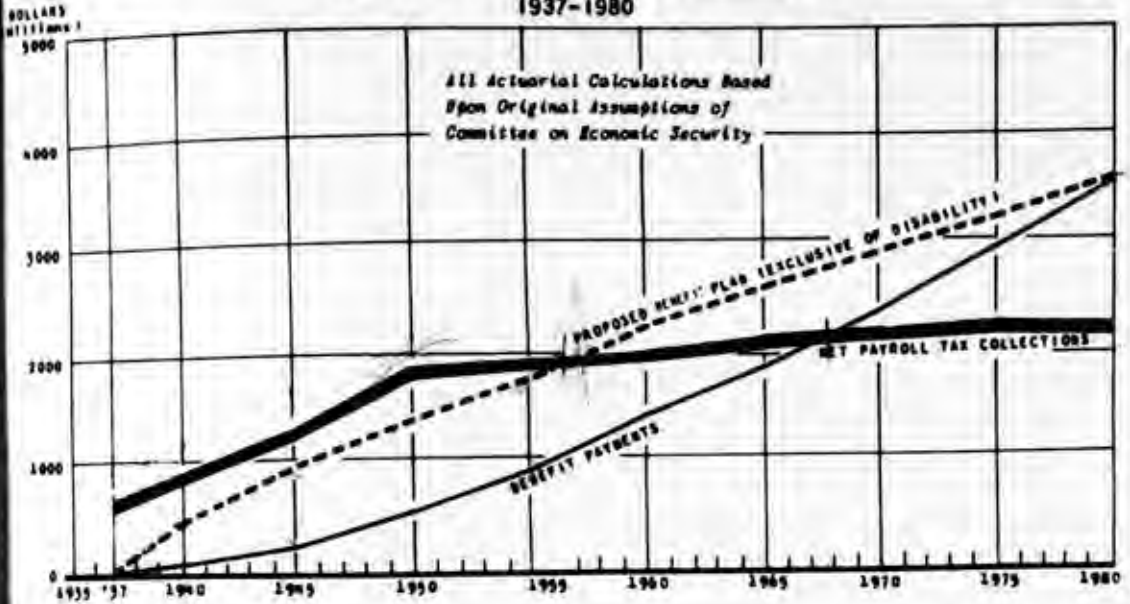
Table 5

COMPARISON OF MONTHLY OLD AGE BENEFITS PAYABLE UNDER PRESENT LAW AND UNDER PROPOSED PLAN
FOR PERSONS WHO ARE CONTINUOUSLY EMPLOYED IN COVERED EMPLOYMENT
BETWEEN JANUARY 1, 1937 AND DATE OF RETIREMENT

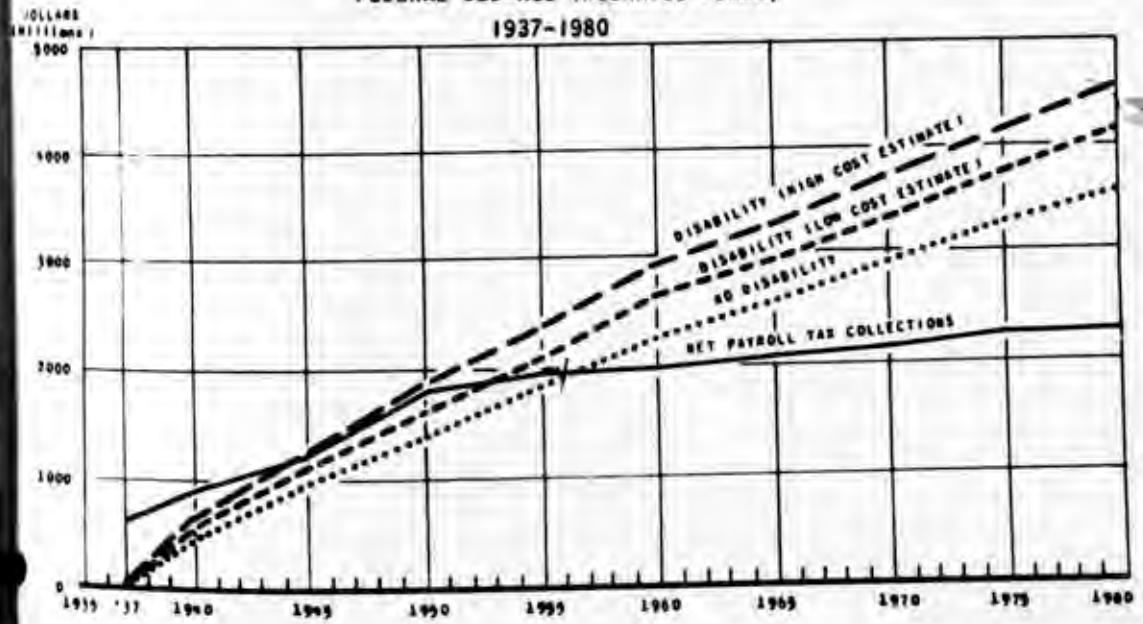
Average Monthly Wage	Retirement After Specified Years of Continuous Coverage Since January 1, 1937								
	5 Years			10 Years			15 Years		
	Present	Proposed Plan		Present	Proposed Plan		Present	Proposed Plan	
	Law	Married	Single	Law	Married	Single	Law	Married	Single
\$25	*	*	*	\$15.00	\$18.00	\$12.00	\$16.25	\$19.50	\$13.00
50	\$15.00	\$33.00	\$22.00	17.50	36.00	24.00	20.00	39.00	26.00
75	16.25	41.25	27.50	20.00	45.00	30.00	23.75	48.75	32.50
100	17.50	49.50	33.00	22.50	54.00	36.00	27.50	58.50	39.00
150	20.00	57.75	38.50	27.50	63.00	42.00	35.00	68.25	45.50
200	22.50	61.88	41.25	32.50	67.50	45.00	42.50	73.13	48.75
250	25.00	66.00	44.00	37.50	72.00	48.00	50.00	78.00	52.00
	20 Years			30 Years			40 Years		
\$25	\$17.50	\$20.00	\$14.00	\$20.00	\$20.00	\$16.00	\$22.50	\$20.00	\$18.00
50	22.50	40.00	28.00	27.50	40.00	32.00	32.50	40.00	36.00
75	27.50	50.00	35.00	35.00	50.00	40.00	42.50	50.00	45.00
100	32.50	60.00	42.00	42.50	60.00	48.00	51.25	60.00	54.00
150	42.50	70.00	49.00	53.75	70.00	56.00	61.25	70.00	63.00
200	51.25	75.00	52.50	61.25	75.00	60.00	71.25	75.00	67.50
250	56.25	80.00	56.00	68.75	80.00	64.00	81.25	80.00	72.00

* Not eligible for monthly benefits because ^{cumulative} total wages are less than \$2000.

NET PAYROLL TAX COLLECTIONS AND BENEFIT PAYMENTS UNDER PRESENT FEDERAL OLD-AGE INSURANCE PLAN AND PROPOSED PLAN, 1937-1980



NET PAYROLL TAX COLLECTIONS AND BENEFIT PAYMENTS UNDER PROPOSED FEDERAL OLD-AGE INSURANCE PLANS, 1937-1980



REPORT OF THE SUB-COMMITTEE ON THE SOCIAL SECURITY
BOARD'S STATEMENTS RELATING TO TAX COLLECTIONS AND BENEFIT PAYMENTS
IN THE CALENDAR YEAR 1940

The estimates are as presented by the Social Security Board, with the bases and assumptions indicated by them.

I - Unemployment Insurance

(a) Deposits in Unemployment Trust Fund	749,000,000
Title IX tax collections	<u>91,000,000</u>
	840,000,000

Based on budget estimates for fiscal year 1940.

These estimates are approximately equal to the rate of collections in the latter months of 1938.

(b) Benefit payments	760,000,000
Administrative expenses	<u>80,000,000</u>
	840,000,000

Assumes sufficient liberalization of state laws relating to benefit payments to equalize income and outgo.

II - Old Age Insurance

(a) Tax Collections-

On present coverage, 2 percent rate	560,000,000
Additional 1 percent rate (3 quarters)	<u>165,000,000</u>
	715,000,000
On proposed coverage	<u>40,000,000</u>
	755,000,000

Figures for present coverage based on budget estimates for fiscal 1940.

These estimates are approximately the same taxable base as prevailed in the last half of 1938.

(b) Benefit Payments

The outstanding fact with respect to old age benefit payments in 1940 is the tremendous range - from \$48 to \$515 million - of possible variation that would arise from the adoption of plans that have been under discussion.

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Until a definite set of provisions is adopted by Congress, estimates are bound to be attended by the greatest uncertainty. It appears, moreover, impossible to say at the present time which of several sets of provisions is more likely to be adopted. All that can be done now is to set forth the conditions under which the minimum and maximum amounts would be paid.

1. Minimum - \$48 million. Lump sum payments under the present law.
2. Maximum - \$515 million. In order to reach this total (or anything like it) extensive changes would have to be made in the existing law.

1. Payment of monthly benefits in 1940.

2. Eligibility for benefits would have to be extended to every one over 65 who had worked in a covered occupation and had earned at least \$300 a year since January 1, 1937. This would mean including people who had never paid any taxes under the act at all as well as those who had received lump sum benefits and ceased contributing. If the administrative difficulties in checking wage records, etc., could be satisfactorily solved as many as 1,000,000 persons might become eligible for benefits in 1940.

3. Adoption of an average wages formula for calculating benefits. It is estimated that this would raise the benefit payment for a single beneficiary to \$30 a month on the average.

4. Adoption of various supplementary benefits for wives over 65, widows, dependent children, etc.

5. Immediate inauguration of disability benefits.

An approximate idea of the relative importance of these various proposals, assuming average monthly benefit payments of \$30 per annuitant, may be derived from the following table:

1,000,000 qualified annuitants	\$361,000,000
Dependent aged wives	48,000,000
Aged widows	2,000,000
Young widows and orphans	22,000,000
Minimum death benefits	52,000,000
Disability	25,000,000
Accrued death claims	<u>5,000,000</u>
	\$515,000,000

1-20-37.

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Agenda for Meeting on Social Security

I. Old-age Insurance

1. Should benefit payments commence in 1940 instead of on January 1, 1942?
2. Should benefit payments in the early years be stepped up materially? Should this be accomplished by changing the base of payments from aggregate taxable earnings to average taxable earnings and by giving an additional allowance to married annuitants with respect to an aged spouse?
3. Should the ultimate level of benefit payments as a percentage of covered payroll be changed materially?
4. Should the death benefits which under the present law are proportional to aggregate taxable earnings, and may ultimately in many cases be of substantial amount, be changed to minimum benefits related to average taxable earnings?
5. Should the old-age insurance system be supplemented by benefits for aged widows and for young widows with dependent children?
6. Should the system be revised immediately to provide for disability benefits?
7. Should there be any change in the present Title VIII tax rates?
8. Should the coverage of Title II of the Act be extended to domestic servants, farm laborers, and all other classes of employees except casual laborers and employees of State and local governments? Should it be extended to the self-employed?
9. Assuming that it is impractical to maintain the full reserve system based upon an excess of payroll tax collections over benefit payments during the early years of the system, should such a full reserve system be maintained nevertheless by appropriations from the general fund?

II. Public Assistance

1. Should the maximum amount of aid to dependent children which may be taken into consideration in determining the amount of the Federal grant (now \$18 a month for the first child in a family and \$12 a month for each additional child) be increased to the same amount as that now taken into consideration with respect to grants to the needy aged (\$30 a month)?
2. Should the proportion of the Federal grant to the total amount of assistance granted dependent children (now $\frac{1}{3}$ of the total amount) be increased to the same proportion as in the case of the needy aged (now $\frac{1}{2}$ of the total amount)?
3. Should the grants to States for both the needy aged and dependent children be made variable in accordance with the fiscal capacities of the States?

General Comment

The reserve method of financing social security is generally taken to imply an excess of specific taxes over benefit payments during the earlier years of the system which would be adequate to build up a fund, the interest on which would offset an expected later excess of benefit payments over taxes. The proposals of the Social Security Board involve the abandonment of the reserve method of financing, as so defined.

It is true that under the recommendations of the Board there would still be a "reserve". This reserve, however, would merely represent the undisbursed residue of earmarked tax collections accumulated at interest. While it might possibly rise to a considerable figure - about \$9 billions at the maximum upon the basis of the most optimistic figures submitted - it would not be an actuarially integral part of the plan. That is, it would not be designed to earn interest sufficient to offset the excess of benefit payments over tax collections during later years as is the reserve provided for in the present law. Any interest which it earned would merely reduce somewhat the otherwise necessary amount of the Government subsidy. This subsidy, however, would be expected to meet most of the excess of benefit payments over tax collections during later years, serving in this respect the same function as that contemplated to be served by the actuarial reserve provided under the present law.

We do not believe that the Treasury should oppose this abandonment of the reserve method of financing. The economic effects of the retention of the reserve method would, at best, be unfortunate and, in our opinion, the economic disadvantages would outweigh the advantages of reserve financing. (The two major purposes of reserve financing are: (1) to prevent extravagant future commitments by requiring that taxes be increased at the same time and in proportion to increases in benefit payments; and (2) to provide a more equitable relationship between the taxes and benefits of each covered individual.)

The accumulation of such a reserve, however, is, in any event, the resultant of a schedule of taxes and benefit payments. The reserve method of financing as so defined cannot be advocated in isolation, but only in connection with specific proposals concerning the amount of and the timing of taxes and benefits in such a manner as to make possible the accumulation of a reserve. Assuming that we shall go along with the proposals for advancing the date and increasing the amount of old-age benefit payments - as indeed we must in

view of the President's message - an actuarial reserve could be maintained only by a very substantial increase in taxes, which would be neither economically sound nor practicably feasible. We have recommended, therefore, that we content ourselves with urging that the schedule of tax rates provided for in Title VIII of the Act be allowed to stand, as recommended by the Social Security Board.

The preceding discussion has neglected the possibility of maintaining the reserve method of financing without an adequate excess of tax receipts over benefit payments during the early years simply by appropriating the required amounts from the general fund. These appropriations would, of course, either increase the amount of other taxes necessary to be levied, or would increase the deficit. A reserve so provided would maintain intact the accounting concept of the reserve method; that is, it would require annual appropriations to the reserve account at least sufficient to keep the amount of the unfunded reserve liability from increasing. On this basis a balanced budget would indicate that, insofar at least as social security is concerned, no future increases in tax revenues other than those already provided for by statute appeared to be necessary because the income from the fund plus annual appropriations continued on the same basis would always provide for benefit payments (total annual income would ultimately equal annual benefit payments). This is the basis followed by the Federal Government in financing the Civil Service retirement fund and several other Government retirement plans. It was also used in connection with the financing of the soldiers' bonus. It is the method of financing required under the present Social Security Act.

Assuming that public opinion would not stand for a Federal budget always out of formal balance, this would mean, as soon as the present period of deficit financing is over, that taxes other than payroll taxes would have to be increased to provide the amounts necessary to cover the contemplated appropriations. The necessity of making this provision would, of course, push further into the future the day when the budget could be formally balanced. After a formal balance had been achieved it would mean that aggregate Federal cash receipts would have to exceed aggregate Federal cash expenditures by a substantial amount in order to continue the budget in formal balance. Assuming full coverage and the adoption of a system costing about 40 percent more than the present benefit plan,^{1/}

^{1/} The Social Security Board has estimated that its recommendations would increase the cost of the system about 40 percent (cost expressed as a level percentage of taxable payrolls on a 3-percent reserve basis).

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the amount of this necessary excess would be of the order of magnitude of a billion dollars per year plus the excess of payroll tax collections over benefit payments. According to current estimates, such excesses will continue into the middle fifties. After that time, an excess of benefit payments over payroll taxes would gradually reduce the amount of the necessary discrepancy between the total income of the Old-Age Reserve Account and cash expenditures until ultimately they would balance.

We propose that the Treasury adopt the viewpoint set forth below with respect to each of the questions on the foregoing agenda:

I. Old-age Insurance

1. The Treasury does not oppose the proposal to commence benefit payments in 1940 instead of on January 1, 1942. 1/
2. The Treasury does not object to liberalization of the benefits payable in the early years; neither does it object to the proposed shift from an aggregate to an average earnings basis, nor to the proposed allowance for an aged spouse. 1/
3. The Treasury believes that the ultimate level of benefit payments as a percentage of covered payroll should not be increased. 1/
4. The Treasury does not object to the proposed revision in the method of determining the amount of death benefits. 1/
5. The Treasury does not oppose the proposal to provide benefits for aged widows and dependent children. 1/
6. The Treasury does not believe that the system should be changed at this time to provide permanent disability benefits. 1/
7. The Treasury does not believe that the present scale of Title VIII tax rates should be altered at the present time. Taxes other than Title VIII taxes will be necessary in future years to meet benefit payments, but the Treasury does not believe that such taxes should be incorporated in the present law. 1/
8. In view of the proposed Federal subsidy, which the Treasury does not oppose, it is believed highly desirable to extend the system to all possible

1/ The judgments indicated in connection with the general recommendations of the Social Security Board assume that the detailed plan will not involve insuperable administrative difficulties and that the method of financing will be reasonably equitable.

groups in order to avoid an inequitable tax on those who are not eligible for benefits. It is recognized that the administrative problems involved in extending coverage are extremely difficult. However, the Treasury believes that the old-age insurance system must and can be so devised as to meet these problems without extravagant future commitments which would be extremely difficult to revise downward. The Treasury reserves judgment on the administrative practicability of extending the coverage of the system until it has had an opportunity to study specific recommendations. 2/

9. The Treasury does not believe that the full reserve plan should be maintained from general fund appropriations. The Treasury does believe, however, that the full cost of the plan and the actuarial status of the Account should be set forth each year in the Annual Report of the Secretary of the Treasury.

II. Public Assistance

1. The Treasury opposes increasing the maximum amount of aid to dependent children which may be taken into consideration in determining the amount of the Federal grant.
2. The Treasury does not oppose increasing the Federal share of assistance to dependent children to the same proportion as in the case of assistance to the needy aged.

2/ A benefit plan has been worked out by the Division of Research and Statistics, which is designed to meet the general recommendations of the President and the Social Security Board. It is believed that the plan could be extended to all the now uncovered groups without serious administrative difficulties and without dangerous incentives for either overpayment or underpayment of the Social Security taxes. The plan could (and should for reasons of equity) be extended to the present unemployed aged and would thus take the place of a large portion of the Federal grants to the States for old-age assistance. Such a plan would reduce still further the accumulation of excess payroll taxes and, in our opinion, provide a much sounder method of accomplishing the purpose than the proposal to reduce the present scale of Title VIII tax rates. The inclusion of the present aged would provide a safeguard against an inevitable pressure for higher and higher benefits because this could not be done without immediate and substantial increases in taxes.

3. The Treasury is opposed to the introduction in the public assistance program of variable grants based upon the fiscal capacities of the several States. Assuming, however, that the President's incorporation of this recommendation in his message places it beyond dispute, we recommend that the amount of the Federal grant for old-age assistance and for aid to dependent children, respectively, should be only one half of the aggregate amounts expended by the States and Federal Government combined for these purposes, such sums to be divided between the States in accordance with their fiscal capacities.

Jan 20, 1939

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Agenda for Meeting on Social Security

I. Old-age Insurance

1. Should benefit payments commence in 1940 instead of on January 1, 1942?
2. Should benefit payments in the early years be stepped up materially? Should this be accomplished by changing the base of payments from aggregate taxable earnings to average taxable earnings and by giving an additional allowance to married annuitants with respect to an aged spouse?
3. Should the ultimate level of benefit payments as a percentage of covered payroll be changed materially?
4. Should the death benefits which under the present law are proportional to aggregate taxable earnings, and may ultimately in many cases be of substantial amount, be changed to minimum benefits related to average taxable earnings?
5. Should the old-age insurance system be supplemented by benefits for aged widows and for young widows with dependent children?
6. Should the system be revised immediately to provide for disability benefits?
7. Should there be any change in the present Title VIII tax rates?
8. Should the coverage of Title II of the Act be extended to domestic servants, farm laborers, and all other classes of employees except casual laborers and employees of State and local governments? Should it be extended to the self-employed?
9. Assuming that it is impractical to maintain the full reserve system based upon an excess of payroll tax collections over benefit payments during the early years of the system, should such a full reserve system be maintained nevertheless by appropriations from the general fund?

II. Public Assistance

1. Should the maximum amount of aid to dependent children which may be taken into consideration in determining the amount of the Federal grant (now \$18 a month for the first child in a family and \$12 a month for each additional child) be increased to the same amount as that now taken into consideration with respect to grants to the needy aged (\$30 a month)?

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2. Should the proportion of the Federal grant to the total amount of assistance granted dependent children (now $1/3$ of the total amount) be increased to the same proportion as in the case of the needy aged (now $1/2$ of the total amount)?
3. Should the grants to States for both the needy aged and dependent children be made variable in accordance with the fiscal capacities of the States?

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We propose that the Treasury adopt the viewpoints set forth below with respect to each of the questions on the foregoing agenda:

I. Old-age Insurance

1. The Treasury does not oppose the proposal to commence benefit payments in 1940 instead of on January 1, 1942. 1/
2. The Treasury does not object to liberalization of the benefits payable in the early years; neither does it object to the proposed shift from an aggregate to an average earnings basis, nor to the proposed allowance for an aged spouse. 1/
3. The Treasury believes that the ultimate level of benefit payments as a percentage of covered payroll should not be increased. 1/
4. The Treasury does not object to the proposed revision in the method of determining the amount of death benefits. 1/
5. The Treasury does not oppose the proposal to provide benefits for aged widows and dependent children. 1/
6. The Treasury does not believe that the system should be changed at this time to provide permanent disability benefits. 1/
7. The Treasury does not believe that the present scale of Title VIII tax rates should be altered at the present time. Taxes other than Title VIII taxes will be necessary in future years to meet benefit payments, but the Treasury does not believe that such taxes should be incorporated in the present law. 1/
8. In view of the proposed Federal subsidy, which the Treasury does not oppose, it is believed highly desirable to extend the system to all possible groups in order to avoid an inequitable tax on those who are not eligible for benefits. It is recognized that the administrative problems involved in extending coverage are extremely difficult. However, the Treasury believes that the old-age insurance system

1/ The judgments indicated in connection with the general recommendations of the Social Security Board assume that the detailed plan will not involve insuperable administrative difficulties and that the method of financing will be reasonably equitable.

mist and can be so devised as to meet these problems without extravagant future commitments which would be extremely difficult to revise downward. The Treasury reserves judgment on the administrative practicability of extending the coverage of the system until it has had an opportunity to study specific recommendations. 2/

9. The Treasury does not believe that the full reserve plan should be maintained from general fund appropriations. The Treasury does believe, however, that the full cost of the plan and the actuarial status of the Account should be set forth each year in the Annual Report of the Secretary of the Treasury.

II. Public Assistance

1. The Treasury opposes increasing the maximum amount of aid to dependent children which may be taken into consideration in determining the amount of the Federal grant.
2. The Treasury does not oppose increasing the Federal share of assistance to dependent children to the same proportion as in the case of assistance to the needy aged.
3. The Treasury is opposed to the introduction in the public assistance program of variable grants based upon the fiscal capacities of the several States. Assuming, however, that the President's incorporation of this recommendation in his message places it beyond dispute, we recommend that the amount of the Federal grant for old-age assistance and for aid to dependent children, respectively, should be only one half of the aggregate amounts expended by the States and Federal Government combined for these purposes, such sums to be divided between the States in accordance with their fiscal capacities.

2/ A benefit plan has been worked out by the Division of Research and Statistics, which is designed to meet the general recommendations of the President and the Social Security Board. It is believed that the plan could be extended to all of the now uncovered groups without serious administrative difficulties and without dangerous incentives for either overpayment or underpayment of the Social Security taxes. The plan could (and should for reasons of equity) be extended to the present unemployed aged and would thus take the place of a large portion of the Federal grants to the States for old-age assistance. Such a plan would reduce still further the accumulation of excess payroll taxes and, in our opinion, provide a much sounder method of accomplishing the purpose than the proposal to reduce the present scale of Title VIII tax rates. The inclusion of the present aged would provide a safeguard against an inevitable pressure for higher and higher benefits because this could not be done without immediate and substantial increases in taxes.

The reserve method of financing social security is generally taken to imply an excess of specific taxes over benefit payments during the earlier years of the system which would be adequate to build up a fund, the interest on which would offset an expected later excess of benefit payments over taxes. The proposals of the Social Security Board involve the abandonment of the reserve method of financing, as so defined.

It is true that under the recommendations of the Board there would still be a "reserve". This reserve, however, would merely represent the undisbursed residue of earmarked tax collections accumulated at interest. While it might possibly rise to a considerable figure - about \$9 billions at the maximum upon the basis of the most optimistic figures submitted - it would not be an actuarially integral part of the plan. That is, it would not be designed to earn interest sufficient to offset the excess of benefit payments over tax collections during later years as is the reserve provided for in the present law. Any interest which it earned would merely reduce somewhat the otherwise necessary amount of the Government subsidy. This subsidy, however, would be expected to meet most of the excess of benefit payments over tax collections during later years, serving in this respect the same function as that contemplated to be served by the actuarial reserve provided under the present law.

We do not believe that the Treasury should oppose this abandonment of the reserve method of financing. The economic effects of the retention of the reserve method would, at best, be unfortunate and, in our opinion, the economic disadvantages would outweigh the advantages of reserve financing. (The two major purposes of reserve financing are: (1) to prevent extravagant future commitments by requiring that taxes be increased at the same time and in proportion to increases in benefit payments; and (2) to provide a more equitable relationship between the taxes and benefits of each covered individual.)

The accumulation of such a reserve, however, is, in any event, the resultant of a schedule of taxes and benefit payments. The reserve method of financing as so defined cannot be advocated in isolation, but only in connection with specific proposals concerning the amount of and the timing of taxes and benefits in such a manner as to make possible the accumulation of a reserve. Assuming that we shall go along with the proposals for advancing the date and increasing the amount of old-age benefit payments - as indeed we must in view of the President's message - an actuarial reserve could be maintained only by a very substantial increase in taxes, which would be neither economically sound nor practicably feasible. We have recommended, therefore, that we content ourselves with urging that the schedule of tax rates provided for in Title VIII of the Act be allowed to stand, as recommended by the Social Security Board.

The preceding discussion has neglected the possibility of maintaining the reserve method of financing without an adequate excess of tax receipts over benefit payments during the early years simply by appropriating the

required amounts from the general fund. These appropriations would, of course, either increase the amount of other taxes necessary to be levied, or would increase the deficit. A reserve so provided would maintain intact the accounting concept of the reserve method; that is, it would require annual appropriations to the reserve account at least sufficient to keep the amount of the unfunded reserve liability from increasing. On this basis a balanced budget would indicate that, insofar at least as social security is concerned, no future increases in tax revenues other than those already provided for by statute appeared to be necessary, because the income from the fund plus annual appropriations, continued on the same basis, would always provide for benefit payments (total annual income would ultimately equal annual benefit payments). This is the basis followed by the Federal Government in financing the Civil Service retirement fund and several other Government retirement plans. It was also used in connection with the financing of the soldiers' bonus. It is the method of financing required under the present Social Security Act.

Assuming that public opinion would not stand for a Federal budget always out of formal balance, this would mean, as soon as the present period of deficit financing is over, that taxes other than payroll taxes would have to be increased to provide the amounts necessary to cover the contemplated appropriations. The necessity of making this provision would, of course, push further into the future the day when the budget could be formally balanced. After a formal balance had been achieved it would mean that aggregate Federal cash receipts would have to exceed aggregate Federal cash expenditures by a substantial amount in order to continue the budget in formal balance. Assuming full coverage and the adoption of a system costing about 40 percent more than the present benefit plan,^{1/} the amount of this necessary excess would be of the order of magnitude of a billion dollars per year plus the excess of payroll tax collections over benefit payments. According to current estimates, such excesses will continue into the middle fifties. After that time, an excess of benefit payments over payroll taxes would gradually reduce the amount of the necessary discrepancy between the total income of the Old-Age Reserve Account and cash expenditures until ultimately they would balance.

^{1/} The Social Security Board has estimated that its recommendations would increase the cost of the system about 40 percent (cost expressed as a level percentage of taxable payrolls on a 3-percent reserve basis).

1/19/39

RE SOCIAL SECURITY RECOMMENDATIONS

January 20, 1939.
10:15 a.m.

Present: Mr. Gaston /
Mr. Haas /
Mr. Blough /
Mr. Murphy /
Mr. Reagh /
Mr. Graves /
Mr. Viner /
Mr. Hansen /
Mr. J. Douglas Brown /
Mrs. Eveline Burns
Mr. Bell.

H.M. Jr: I didn't realize until last night how little I know about Social Security. I didn't even know that Win Riefler was interested, and when Jake Viner said most likely he'd be the only man on my side, I telephoned him quickly to come on down.

Don't you want to make the circle on this side of the table?

(Bell comes in)

The best way to illustrate how little I know about this problem is that I didn't realize until last night that Professor Riefler was vitally interested, and when Jake Viner said he would be the only man on my side, I quickly called him up and asked him whether he wouldn't come down, and he said he was going to try to come down this afternoon if his wife wasn't too sick. His wife is sick.

The reason I asked you people to come down is that I've just been stalling on this thing until I just had to do it, and there are so many things; and the position of the Treasury - and the position of the Treasury both on the report of the Social Security Board and on the report that the President sent up is that our hands are untied. I mean I wrote to the President and while I was away we had what we call a Fiscal and Monetary Board, which is composed of the Chairman of the Federal Reserve and Director of the Budget and Chairman of the National Resources and myself; and they sat, I think, for three afternoons, didn't they, on this question, and after three

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afternoons of very hard thinking, they wrote the President a letter recommending that he let the Social Security Board go up directly because that's the procedure it always followed, and that he take no action. He did not take the recommendation of the Board; as you know, he sent it up.

Now - I mean I'm trying to explain where I stand - now, the thing that I'd like help on is this. As I say, in the first place, you're dealing with somebody who knows very little about this, and in the second place I'd like to approach it first from a fiscal standpoint. I mean I don't want to at this stage get into an argument whether they should pay dependent children \$18 a month or \$30 a month.

I mean what I would like to get some help on is looking at this thing in as broad a way as possible: do we want a reserve, or do we want to pay as we go? And the question of this - what I think is very important - of trying to place - how shall I say - an inventory of the wealth of each state - I mean determine how much each state can or cannot contribute, because if we do it in this case I take it we'll have to do it in every case: W.P.A. and everything. That's tremendously important.

In other words, I'd like to first approach it from the fiscal standpoint rather than from the social needs. I mean I'm not - I doubt if, with the time we've got - and I don't want to - particularly want to say whether I'd like it, say, if Congress would do everything that the Social Security wants. But what would it do to the Treasury? That's the way I'd like to approach it. Do you think that's all right from my standpoint? What?

Hansen: Definitely.

H.M.Jr: Isn't that the way I should do it?

Hansen: I think so, Mr. Secretary.

H.M.Jr: Huh?

Both you and Professor Brown were on this Advisory Council. Now, I asked Mr. Haas to have a little

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agenda as to the questions as we see them. But of course, that goes down the whole thing.

Have you got those questions there, George?

Haas: Yes, sir.

H.M.Jr: Does that make sense to you, Jake?

Viner: I think that's the way to go at it.

H.M.Jr: Is that what you would say is my responsibility?

Viner: Yes, I think so.

H.M.Jr: You (Haas) haven't got any copies?

Haas: I'll have some more copies in a minute. They started copying it at nine o'clock. Want me to pass them around?

H.M.Jr: If you will - to our visitors first.

(Haas passes out several copies)

Haas: What we might do

H.M.Jr: Go ahead, George.

Haas: In order that the group - I presume most of the visitors are familiar with the suggested program of revision. But we might handle it this way. Murphy might go briefly over these proposals and take about ten or fifteen minutes, and then it will be pretty apparent what's happened to the - fiscally to the old basis if these revisions went in; so that would give some benchmark to start discussion from.

H.M.Jr: Could I also say this. I think my statement - I'm making a fair one. As near as I can make out from reading the Social Security report and the President's report, they very carefully avoid saying how much this is going to cost. Is that right, Henry?

Murphy: That's right.

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- H.M.Jr: Of course, that's where we come in the picture. And also I understand that, as between, for instance, the Federal Reserve people working on it and Social Security, there's a difference of almost a billion dollars in what the thing would cost.
- Murphy: Well, that isn't a difference in costs alone. It's a difference in estimates between the - of the spread between in-payments and out-payments. That is, their estimate of cash amounts is larger than ours, and their estimate of benefit payments is less than Mr. Altmeier's, and between them that gets up to a whole billion dollar spread.
- H.M.Jr: I'm just pointing out - I think it's conscious on their part - that they withheld the figures, and there isn't - I mean with the report there is no estimate as to what the thing would cost. Is that right, Henry?
- Murphy: The only cost estimate that's given is the statement that if disability provisions are not included, the ultimate cost of the plan - that is, way out in the year 2000 - as a percentage of public payroll, will be slightly less than the cost of the present one, and if disability provisions are included it will be slightly more. That's the only statement about costs that's there.
- Blough: May I suggest ...
- H.M.Jr: Please.
- Blough: .. there is nothing in the report which says how much benefits shall be paid, and accordingly it wouldn't be possible to figure how much the cost would be, on the basis of the report.
- H.M.Jr: But as Secretary of the Treasury - I mean I'm - I don't want to seem over-hardboiled, but I mean - I'm just as much interested as anybody in the social aspect, but for this particular meeting I want to get down to dollars and cents.
- Blough: I think the nearest we could come to dollars and cents is to accept the plan that the Board - I don't mean to accept, but to accept for discussion the

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plan that the Board seemed most interested in, which is what they call A.C. 14, and on which we do have some figures.

H.M.Jr: A.C. - is that the way they do it?

alough: Advisory Council number 14 - I think that's the reason they called it

Murphy: The estimate of cost which I just quoted from the report, Mr. Secretary, is really based on this A.C. 14. It's a little anomalous, because after having given all their recommendations just in terms of qualitative recommendations, obviously no statement could be made; but then they draw this cost statement in, which could not be justified by the report itself, but which is based on A.C. 14.

H.M.Jr: But if we're going to get down to costs we've got to have something as a basis. I don't want to get into a discussion of which plan is good and which is bad, but we've got to have something.

Hansen: May I make a statement there to clarify it a little. Like to have Mr. Brown check with me on this. In the report of the Advisory Committee, suggestions are made very similar in general to the suggestions made in the report of the Social Security Board, namely, that benefits be started in September 1940, that early benefit payments be increased, partly by various independent allowances and the like. And then the general suggestion is made to Congress - one other point I wanted to make there - namely, that these earlier

H.M.Jr: Excuse me just one second. (Looks at clippings)

You people know - I don't know whether you do or don't know, but Mr. Hitler kicked out Dr. Schacht this morning.

Hansen: Mr. Hitler what?

H.M.Jr: Mr. Hitler fired Dr. Schacht, and the markets are quite upset.

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H.M.Jr: Go ahead, please.

Hansen: Suggestion was made in the Advisory Council's report that the larger earlier benefit payments - widows' independent allowances and the like - would be offset by lower schedule of benefit payments for single individuals. And the suggestion was made that Congress - the whole thing be set up in such a manner that the ultimate cost, the ultimate burden in terms of payroll - not necessarily implying that taxes should be payroll taxes, but that the ultimate burden in terms of payroll should be no greater than the burden of the present Act. So that the Social Security Advisory Council contemplated that the larger earlier benefits would be offset by something on the other side, so that the ultimate cost would be not substantially greater than that contemplated in the present Act.

I think that must be borne in mind, that - it's a matter for Congress, of course - how they'll change the benefit provisions - but they could do these things, namely: increase early benefit payments, without increasing the ultimate load of the system. And at any rate in the Advisory Council's report - I can't remember whether that's in the Social Security Board or not - that they seek to so set up the whole thing that the ultimate load will be no greater than, or substantially greater than, under the present Act.

Is that in the Social Security report also?

Brown: There is a question of the fact, as we just said, that it is their estimate that these recommendations could be implemented ...

Hansen: Could be implemented, yes.

Brown: .. and that the future cost would be within the cost of the present system. The Advisory Council pegged its cost limitations on that point - say, 1980 - that it felt that the eventual cost as of that time should not be greater than the eventual cost of the present system. It felt that it needed to have some peg, some benchmark, so to speak, on this whole cost aspect; at the same time it was very

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difficult, of course, to measure precise costs unless you implemented your recommendations into specific provisions.

H.M.Jr:

Well, the fact that I haven't been in this thing - I mean maybe I don't understand it, but the thing that I got out of the preliminary study is the fact the Board's - well, they're - "This isn't going to cost any more than the other" - they're avoiding one of the most important things, from the Treasury standpoint: that is, do we or don't we want to continue this method of financing it? And I personally feel that the fact that this plan doesn't cost any more - I mean, taking their figures at face value, you shouldn't keep me from lifting the whole lid off and taking a look at the thing: is this the method we want to continue using or isn't it? And that's one of the things I'd like to do.

Burns:

Mr. Secretary, I'd like to ask you also whether it isn't a relevant question as to what these proposals will do to the cost of the other method for providing for the aged, which is an important financial item. Didn't the Advisory Council make any estimates at all as to what these extensions would do by way of diminishing the expenditures on old-age assistance?

Brown:

Well, certainly there was under consideration the impact on old-age assistance; but when we deal in terms of immediate years, then you have to apply different formulae, and the Council did not want to tie down in its recommendations precise formulae for payment. It felt its job was a policy job, and stating policy in broader terms; then the implementation could be done by the Administration.

Burns:

What I meant was rather that even if you pay any kind of allowances to orphans and survivors and to widows, to that extent you'll be reducing the necessity for payments on the assistance account, regardless of the specific formula. I wasn't thinking of the relations of the two systems ...

Viner:

Any increase in the benefits would be a gross increase. The net increase would be smaller, indirectly or directly, through a reduction of other charities under Government.

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- H.M.Jr: That's what they claim. But as I understand the Treasury people, you question that, don't you?
- Reagh: I would say we're talking about two different things. In one case they're talking about the ultimate load. It's true that ultimately the actual cash outgo, according to the recommendations of the Council and the Board, would be no greater as a proportion of payroll ...
- Hansen: Rather, could be implemented so it would be no greater ...
- Reagh: Yes, it could be implemented.
- Hansen: It's not definitely spelled out.
- Reagh: Could I finish that sentence? It does cost a great deal more, however, in the early years. As a matter of fact, over a period of about forty years, there will be something in the order of perhaps 40 billions of dollars more paid out under the proposals; however, the actual cash outgo at the end of these 40 years, as a proportion of payroll, would be no greater. That is true - if they followed the recommendations of the Council.
- H.M.Jr: Say that again, will you please?
- Reagh: You see, the benefits are greatly increased in the early years; they are not offset in the aggregate in the later years, so although the actual amount of cash which will be expended in old-age benefits or other benefits - including other benefits - say, in the year 1980 or the year 2000, - would be no higher at that time, but in the meantime, between now and then, much greater amounts would be spent, so that the over-all picture of amounts spent over a period of years is far greater under the proposal of the Social Security Board.
- Viner: If the expenditures were to be greater, say, by 40 billions in this interim period and then reach a plateau the same as the level under the present scheme, does that plateau take care of the interest in case the Government had financed the 40 billions by borrowing?

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- Reagh: If I get what you mean, it means they have in effect spent this so-called reserve that would have been built up, so the net cost during those years is approximately the amount of that reserve
- Viner: So they would lose - they would not as a matter of fact - they'd be on the same level of expenditures but they would not have the income of interest; so that the financial position of the Treasury, even in 1980, and then thereafter, prospectively would be worse under the new plan than it would be under the old.
- Gaston: Would have added about 40 billion dollars of debt.
- Viner: So that would amount, I'd say, to a billion and a half a year more.
- Blough: Well, the total, as I understand it - the highest estimates on annual cost run between about 900 million and a billion and a half. The excess over the 1935 Act would gradually go up to a maximum between 900 million and a billion and a half, and then would gradually go down until it became equal to the benefits under the existing Act. But in the meantime, that bulge, running from 900 million at its maximum or a billion and a half, depending on the estimates, would mean, as Mr. Reagh pointed out, about 40 billion dollars extra expenditures, no reserve, and the whole thing to be borne out of taxes at the end.
- Hansen: Put in a little different way, what it would mean is that, so far as taxes on employers and employees are concerned, they over this entire 40-year period would actually be somewhat less than under the present plan, because they'd be less in the earlier years and ultimately they'd be no higher than under the present plan. In the present plan they're stepped up in the course of nine years to the full three percent for each, and under this plan they'd be stepped up more slowly and they wouldn't reach any higher eventually than the three percent of the present plan. So the employers and employees under payroll taxes would be paying less than under the old plan, since the step-up would be slower in the

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early years; on the other hand, through this forty years, the Government as such would be coming in gradually with a contribution from general revenues, which before so very long would probably equal the contribution of employers on the one side or employees on the other side - that is to say, a third of the total. But over the 40-year period the Government would be paying something in taxes. That's a simpler way of looking at the problem. Employers and employees would be paying less under the new plan than the old plan, but the Government would be contributing something less than the cost over that period.

Murphy: Isn't that a quite different plan than the plan that Dr. Blough just mentioned?

Blough: You're (Hansen) mixing up increased benefits with a change in the method of financing those benefits.

Murphy: The Social Security Board report does not contemplate reducing the taxes. You introduced a new amendment.

Hansen: That may or may not be the case. The Social Security Board says nothing else; they recommend the step-up in January 1940, but not in respect to the future at all.

H.M.Jr: Isn't what Professor Hansen is trying to tell me that while they don't say it, that's actually what would have to happen? Isn't that what you mean: that if this thing went through the Government would have to be paying one-third of the cost?

Bell: The Board says that - that eventually ...

H.M.Jr: Pay one-third of the cost.

Hansen: There is a difference, in that the Board probably contemplates - I guess they do contemplate - not sure how specific the amount is - they probably do contemplate that the present step-up in payroll taxes will take place as provided in the present Act, and that the Federal Government would not come in with its contributions until about the year 1960, something like that.

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- Burns: That's right. They say that "such other taxes should not be used until annual benefit disbursements begin to exceed annual payroll taxes."
- Hansen: Whereas others have in mind that the Government would come in right away whenever it was necessary, so very quickly they'd match the others with a third of the total cost. I think that's the general view. I don't know whether it's specifically so stated. That's the general view of the Advisory Council.
- Brown: The concept of the Advisory Council on benefits was that there were important reasons for, you might say, lifting the plan, so to speak, of benefits, pegging it to future years; for example, graphically, that if your 1980 is this end (of a pencil held tilted at an angle) that you lift the front end of your annual flow of benefits, taking that as a curve; that you get more of the funds into actual benefits in the early years, however pegging the future end, that is, the 1980 end, so that the annual volume of payments as of 1980 be no greater than under the present Act.
- Viner: How do they get that, with the extension of the coverage and the increase in some of the benefits?
- Brown: It's tied in in two or three changes. One is the reduction of the rate to the single person.
- Viner: Reductions involved.
- Brown: The reductions involved that the single individual would not receive as much as under the present plan. There is also, of course, a transfer of funds as to death benefits; then also the possibility of the average wage method being used, so that you could adjust it - could make it come out in that form.
- H.M.Jr: Well now, you going to say, George, or Henry Murphy, some way we were going to start? Did you have some plan how to
- Heas: Russell Reagh for some months has been working on a plan which we thought was fiscally more desirable and could be adjusted to meet the social requirements, on the theory that if these proposals go through the original basis is for all practical

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purposes scuttled, so we can sit back and take a broader view of the whole picture. Is that what you had in mind, Mr. Secretary?

H.M.Jr: Well, any way, just to get this thing started, to get it - I mean

Reagh: I might try to give the fundamental or basic principles that I was shooting at in this plan. In the first place, I felt very much concerned about a program which reduces taxes and increases benefits, thinking that that opens the door for possibly great liberalization in the law which would get clear out of hand.

Now, as long as we do not cover the present aged under the present law, or under the proposed plan of the Board, a very small increase in taxes will provide all the money necessary for a very, very liberal benefit schedule for the next fifteen or twenty years. To include, or get a plan in which you could include, the present aged and therefore operate, if you please, on a program which would satisfy the economists, and then when benefits are increased it will be necessary at the same time to increase taxes immediately and therefore serve as a check on liberalizing the benefits to a point where we're making future commitments that are entirely unreasonable - that is in general what I was shooting at.

I don't think you wanted me to go into any details on this plan, did you?

Haas: They might - it all depends - in order to understand it, they may have to have some concrete details.

Reagh: It would be much easier perhaps to supply the individual members with a memo which outlines that scheme, than to try to bring out very many of the details of such a plan.

H.M.Jr: Well, let me just see; we still haven't got it going right. Should we take up these things one to nine here and discuss them individually? Or should we - does somebody want to launch into those; simply say, if you take plan A.C. 14, let's discuss what it will do to the Treasury. How would you (Viner) approach it?

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Viner:

It seems to me that the basic issue is one as to what the - from the Treasury point of view, as to what will be the effect over the schedule of years on the Treasury's finances; that is, the all-over effect. And to start with the details before you know what general pattern you want to build up is not the right way of going at it. So I think the issue that has been talked around the last few minutes is the essential starting point for this discussion: in other words, what should be the general financial policy of the program as a whole. And then the discussion of details as to how you can carry that out in its various details.

Brown:

Mr. Secretary, could I explain very, very briefly what I think is the - was the view, at least, of the majority of the Advisory Council; and that was that while the flow of benefits would be enhanced in the early years, that from the tax point of view, first of all, that the step-up to one and a half, one and a half, should go into effect; then as of 1941 and 1942, there should be, while the schedule would remain on the books - I suppose that there would be a restudy of the costs of such a benefit schedule on the basis of more adequate statistics; that by that time there would be five years of tax experience, roughly, and two years of benefit experience, so that there would be a longer base for casting into the future as to the program of taxes.

At that time there would be the possibility of proceeding, on the one hand, with the step-ups on employer and employee to the full three percent, or the possibility of ...

H.W.Jr:

Excuse me - that would be '43?

Brown:

That would be in the beginning of '43, yes. There would be the possibility, as of that time, of bringing in a government contribution, which would in turn affect the amounts required from employer and employee. And various possibilities that were discussed but not fixed in the report in any way were, for example, that the - stabilization of the step-up at one and a half, one and a half, or stabilization

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at two and two, bringing in government contributions up to a three-way division of two, two, and two, moving then at certain step-ups until the amount required was available from year to year.

- H.M.Jr: Let me see if I understand this program that went up on the Hill. As I understand - if I understand this correctly, what you're saying is that there will be no increase of taxes in 1940.
- Brown: That there would be an increase.
- H.M.Jr: They're for the increase?
- Murphy: They're for it.
- Hansen: There's a minority, to which I belong, which did not favor a step-up in taxes in 1940.
- H.M.Jr: Well, the ma- - there's a majority and a minority group. One says to go up to two percent, the other says to leave it as it is for another two years?
- Brown: Go up to one and a half in 1940, and then before January 1, 1942, have a reconsideration to determine what taxes should be in the future, including any program of government contribution to the system.
- H.M.Jr: That's on the tax end. And how about when they should go into effect?
- Brown: 1940. That was unanimous.
- H.M.Jr: And the way it is, without any change in the law, it wouldn't go into effect until
- Brown: ... '42.
- H.M.Jr: '42. So it would make it effective in '40.
- Brown: Yes.
- H.M.Jr: But go ahead with the increase in over-all from one to one and a half.

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- Brown: That is, on the side of going into effect as to benefits in 1940, it was unanimous; as to stepping up on one and a half on the tax rates in 1940, the majority favored that. There was a minority, of which Professor Hansen was a member, favoring continuing at one percent.
- H.M.Jr: Well now, going back to what Dr. Viner was saying, is it your thought - I mean so that we can get somewhere - that the discussion should concentrate on that point? I mean that we should take what the Board says or - I mean just accept it, or should we say - should we get into a discussion of whether we want - is it debatable whether the tax should go up to one and one-half, and should we just, say, take the Board recommendation, and what would it do to the Treasury, and what physical effect would it have on the Treasury? How would you suggest?
- Brown: Well, sir, that's a very important immediate question, and it might well be discussed as to the impact of going to, say, one and a half, one and a half, each, in regard to the Treasury position. I don't know what Mr. Viner
- Viner: Well, I think that the Treasury itself has a limited interest in the scheme as a whole; its special concern, as I understand it, is the impact of the scheme on the Treasury's finances, and that means on the relationship between the payroll tax receipts and the benefit payments.
- H.M.Jr: Jake, I've got a real interest in whether this tax should increase or shouldn't increase from the standpoint of the effect on the whole economy.
- Viner: I see two points of looking at it. First is the level of the benefit payments, the total amount in the schedule of benefit payments. One question is how large a schedule we have; then, given the size of the scheme, what shall be the relationship between the schedule of benefit payments and the schedule of payroll taxes?
- Now, theoretically, you might have a scheme in which the payroll taxes would be adjusted to the amount of benefit payments, and from the point of view of the

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Treasury receipts and expenditures each year would be approximately the same. You might still be interested in what level these expenditures and receipts are.

H.M.Jr: Well now - did you want to say something, Mr. Blough?

Blough: I was going to propose this as a method of approach. I didn't want to interrupt.

H.M.Jr: No, that's all right.

Blough: And it was this: that what Mr. Viner says is certainly the issue, but could we start along this line: first of all, where do we stand now with relation to the financing of the '35 Act as originally passed; are we in the clear financially on that? Second, assuming we adopted - assuming Congress adopted the Board's proposals for increased benefits along the lines of A.C. 14, where would it leave the Treasury in 1940 and in years thereafter, and in view of that situation what should the Treasury's position be on the method of financing those benefits?

In other words, accept the Board's idea of benefits first, see where it leads us, then decide whether we wish to reconsider the level of benefits they suggest.

H.M.Jr: I think that's a good way. Is that agreeable?

Burns: I think that would almost suggest an amendment to Dr. Viner's way of looking at it. Really, as it was made, from a Treasury point of view, there would be three questions: partly this question of the all-over cost involved in the adoption of these amendments; secondly, the very fundamental question as to whether it is intended to finance that entirely out of payroll taxes or whether there is to be some other tax source adopted; and there is thirdly this question of timing, which is the one that is tied up with the reserve at one point, if you decide a combination of taxes - one or the other tax is to be introduced.

Viner: That's right.

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Burns: Woulan't you agree?

Viner: Oh yes.

H.M.Jr: Well, to get started, I think we'll take what Dr. Blough said. First let's look at where are we under the present system with no change. Right?

Blough: Yes.

H.M.Jr: I mean where are we today? And didn't you (Reagh) bring up the question that we were going to - that is, that there is a nine billion dollar deficit?

Reagh: Well, you (Blough) probably are more interested right now in the immediate relationship between cash income and cash outgo - is that right - from the point you're taking?

Blough: I think both points are involved. One is, where are we so far as cash is concerned? I was also interested in whether the system was living up to the expectation of 1935 that it was fully financed on an ultimate six percent payroll level.

Reagh: On a reserve basis which takes into account the over-all cost without regard to the immediate cash relationship between cash outgo and benefit payments, but taking into account the increasing scale of benefit payments as against a relatively level scale of tax income, why, the present system is not self-supporting, according to our own estimates and also the estimates of the Social Security Board. In fact, our estimates indicate that it would be necessary to make appropriations in addition to Title VIII taxes in the neighborhood, say, of 250 million dollars per year to maintain the reserve on a solvent basis.

H.M.Jr: Just without

Reagh: That's in respect to the existing law.

Viner: Because of a modification of the actuarial estimates.

Reagh: I'll tell you, the principal reason for that is the migration, the fact that the present system does

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extend into the groups which are not now covered under the Act, but will because of migration between groups become eligible for benefits which are much greater in value than the payments which would be paid in respect to those benefits by both employers and employees.

- H.M.Jr: Now let's just - are you prepared, for instance, to give us a brief statement of what the situation is, from the time the Act passed up to date, from a financial standpoint, whether it has or has not lived up to the expectation?
- Blough: I think Mr. Reagh can probably do that better than I can. I think we have the figures here. But it isn't that it has not lived up to estimates but that we now see that the future benefits are going to be so much greater.
- H.M.Jr: Let's have Reagh give it, and with the understanding that anybody can challenge what he says. Now, can you give it, Reagh? I mean what's the situation?
- Reagh: Have to talk in terms of reserve figures, which puts me at a handicap, because I'm not certain that I'm going to get my points across. Much more difficult than to talk about immediate cash outgo as compared with taxes.
- H.M.Jr: Give me an inventory in any language you want to use: is the Treasury ahead or behind?
- Reagh: The Treasury is behind right now.
- H.M.Jr: Give it in any kind of language you want, and let these people cross-examine you.
- Reagh: I'll put it first on the basis included in the report. I'll say the relationship between future taxes and future benefits, discounting both on a three percent basis, leaves us with a deficit now of nine billion dollars. In other words, we need the interest income on nine billion dollars to balance income with outgo.
- H.M.Jr: As of what date? For this fiscal year?

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- Reagh: As of July 1, 1938.
- H.M.Jr: Do you mean - so the question right before the Treasury now would be for the Director of the Budget to decide whether he would send up a deficiency appropriation for that amount?
- Reagh: Yes, the appropriation that's required under the law - by law to be recommended by the Secretary of the Treasury in respect to Social Security, or the old-age reserve account.
- Burns: You mean if the current appropriation were sufficient to build up a reserve that by 1980 will take care of the new loads now estimated.
- Reagh: That is, the estimated
- H.M.Jr: Pardon me, Mrs. Burns. Mrs. Burns, you used the word "new load"?
- Burns: I mean new load in this sense: that our most recent estimates of the new people who will be entitled to considerable unearned benefits by 1980
- Gaston: On the basis of the present Act.
- Burns: The newly-estimated load of the old Act.
- H.M.Jr: Of the old Act. Just so we're all together.
- Hansen: What you mean, Reagh, is this - is this correct - that if in some manner out of the skies would come at the present moment nine billion dollars that we could get interest on, then the Act would be self-sustaining.
- Reagh: Yes, on the basis of our estimates, which we don't claim
- Hansen: Or you can put it in another way: that in the absence of that nine billion dollars which doesn't come out of the sky, if you appropriate from now on each year 200 million dollars over the next forty years - is that right - would that
- Murphy: 270 million.

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- Viner: That you'd have to start appropriating now, or there would come a time
- Reagh: There would come a time when you could cease making these appropriations.
- Hansen: How much would you have to appropriate each year during the next forty years in order to get a self-sustaining basis by 1980, over and above the tax appropriations?
- Reagh: 270 million dollars a year.
- Hansen: I mean so - sufficient so that you wouldn't have to appropriate after 1980.
- Reagh: You mean to amortize that deficit during that forty years?
- Bell: Amortization of the nine billion dollar deficit over 40 years.
- Hansen: Wouldn't it be a lot more than 270 million a year?
- Reagh: Maybe 300. That's a rough shot, rough guess.
- H.M.Jr: You don't ...
- Hansen: You say 300 million; that's a reasonable ...
- H.M.Jr: But you don't know - I mean with nine billion off now after four years
- Viner: That's the present discounted value of what we'd be off throughout the whole program up into perpetuity.
- H.M.Jr: But if there were some more shifts, it might vary another five billion dollars.
- Reagh: I think I need to qualify that statement, because I would say that the estimates of the Social Security Board indicate that the present law is out of balance by a much greater sum than that, so that our figure is probably optimistic, on the optimistic side.
- H.M.Jr: I mean supposing I wrote a letter to Mr. Altmeyer

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and said, "Now I'm proposing to recommend to the Director of the budget that he send up an appropriation for three percent of nine billion dollars, and attached herewith are our actuary's figures." You say that the chances are I'd get back a figure which would be higher.

Reagh: Mr. Altmeier would be surprised it was that low.

Viner: May I ask a question to see if I have it clear? If we conceive of turning over the whole scheme to a private insurance company on the basis of their having the rights to the payroll receipts and their having the obligations of the benefit payments, they would ask us for nine billion dollars now to take that over.

Reagh: They would, or increase your premiums by the interest on that amount.

Viner: We're asking them to take over the present scheme, asking what they would ask of us to agree to the scheme? They would ask nine billion dollars.

Bell: Something over 300 million dollars a year.

Reagh: That's right, you're right.

H.W.Jr: Then let me get this. You say it's up to the Secretary of the Treasury to advise the Director of the Budget. Is that the way the law reads?

Reagh: Yes. He recommends the appropriation required on an actuarial reserve basis, which doesn't give very much leeway on that point.

H.W.Jr: Let me get together with my partner. Is this in the President's budget?

Rees: In your annual report.

Bell: Since the Act was signed, Mr. Secretary, the basis of the estimates has been the estimated receipts we expect to get from payroll taxes, from which is deducted the administrative expenses, and then whatever is remaining is the basis for an appropriation estimate. We have never sent an appropriation estimate

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to Congress based strictly on the actuarial computations, have we, Russ?

- Reagh: I think you have, Dan, for this reason, that until this last valuation that was made on July 1, 1938, the valuation showed that within the limits of errors necessary on that kind of a valuation, that the plan was self-supporting, and as long as it was self-supporting the amount of payroll taxes is the correct amount according to the law.
- Bell: What we have actually sent is what I have stated: estimated receipts less the administrative expenses.
- Reagh: Only because the plan at that time was conceivably self-supporting.
- Viner: You can send the actuarial estimates that were prepared at the time the Act was passed, and not re-examine them; the law doesn't tell you what actuarial estimates to take.
- Haas: It says the Government actuary shall do it.
- Viner: Oh, it says the Government actuary shall do it.
- H.M.Jr: They say this fellow Morgenthau, in this report he gets out, has a figure in here of nine billion.
- Viner: He has got it in there.
- H.M.Jr: He's got it in there?
- Viner: Then you've got a legal obligation.
- Haas: No, the last paragraph doesn't make it imperative, because if you'll read that it gives you an out if you don't want to do it.
- Viner: Your baby's getting sicker and sicker all the time.
- H.M.Jr: Now wait a second. This is as good a place to start as any. Supposing, Dan, I write you a letter drawing this to your attention and sending up a supplementary estimate.
- Bell: I don't think so at this time. I think you've got to

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wait until the Committee decides as a matter of policy what they're going to do in respect to changing the Act.

H.M.Jr: But why wouldn't this put them on notice?

Bell: I think you've got to begin to think of what kind of taxes to be interested in.

Gaston: I think you ought to put them on notice.

H.M.Jr: Here's a good point - the way I'd like to work. I was going to suggest, if you don't mind, we get the thing down definitely that, after listening, say, I'd like to have a recommendation - now here would be one example of what I'd like to have: should I or shouldn't I bring this to the attention of Congress now? See?

Hansen: Mr. Secretary, I'd

H.M.Jr: I mean I don't want an answer right now unless you're ready.

Hansen: I want to make a suggestion that bears on it, if I may.

H.M.Jr: Please.

Hansen: While these are called actuarial estimates, I want to call attention to the fact that there are all manner of imponderables involved here, there isn't anything very solid to base these estimates on. It involves a lot of questions with respect to age distribution in future years and the incidence of migration of workers and the expectations with respect to what the wage rates are going to be over the next forty years.

Viner: And the rigor of administration.

Hansen: And expectations with respect to what will be the probable extent of full employment over these forty years. Now, there are all manner of very vague imponderables here, and I find it extremely difficult to dignify the estimates with the term actuarial

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estimates.

Reagh: I want to make one comment.

H.M.Jr: There's a challenge.

Reagh: You'll read in our report that we tried to recognize the difficulties that - of these kinds of estimates and so on as far as possible. We don't think this answer is the exact one. However, as we said before, we think the estimates - the Social Security Board turns out estimates that are far higher than ours - we think it's a minimum, we need at least that much.

In regard to your point about the changing levels of pay, I don't think you can get any actuarial opinion that that shall be taken into account, for this reason: if the level of pay itself goes up, the chances are ten to one that the level of benefits are going up with them, because we must pay benefits that have a reasonable proportion to the level of wages regardless of what that level will be.

Viner: You're estimating with the idea of future legislation, and not necessarily estimating on the present plan.

Reagh: That's the one place I think they should do that.

Viner: If you do, you should double-star it.

Reagh: I'm perfectly willing to put the double-star on it.

Gaston: Jake, within your \$3,000 per year limit, the rise in wages will affect both taxes and benefits.

Viner: I know, but he's going beyond that and he's assuming that the legislation will be changed if the taxes go up so as to raise the proportion of the benefits - raise the amounts of the benefits.

H.M.Jr: May I interrupt? While I'm resting in Cabinet this afternoon, you people will have a chance to take up some of these things. Now - like this - this will be

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point one as far as I'm concerned. You want to advise me should I or shouldn't I take formal action on this - what is in my report, you see. I mean I'd like you people to have this afternoon to - I mean so I want to get over some of the things as they become clear as to what I might or might not do. This would be one, wouldn't it?

Viner: I think that your Counsel should participate in that question.

H.M.Jr: Well, Blough, do you feel that legally - or do you want a lawyer this afternoon?

Blough: Well, I wouldn't want to give a legal opinion.

H.M.Jr: Is this legal? Isn't this just

Blough: I would read the wording - I could see if he thinks it's mandatory.

H.M.Jr: Which lawyer sits in on this?

Blough: I should think this would be the General Counsel's problem.

H.M.Jr: Well, he's

Viner: I don't recall the wording of the law.

Blough: I don't think the law is mandatory.

Viner: So it's a matter of policy.

H.M.Jr: How long is the law?

Blough: I can read it in 60 seconds.

"There is hereby authorized to be appropriated to the account for each fiscal year beginning with the fiscal year ending June 30, 1937, an amount sufficient as an annual premium to provide for the payments required under this title, such amount to be determined on a reserve basis in accordance with accepted actuarial principles and based upon such tables of mortality as the Secretary of the Treasury shall from time to time adopt, and upon an interest rate of three percent

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per annum, compounded annually. The Secretary of the Treasury shall submit annually to the Bureau of the Budget an estimate of the appropriations to be made to the account."

Haas: And there is some other place in the law where it says the Secretary is required to submit a valuation.

Blough: "The Secretary of the Treasury shall include in his annual report the actuarial status of the account."

Now, the two "shalls" are to publish it in the report, which you've done, and to submit to the Bureau of the Budget an estimate of the appropriations to be made.

Bell: Which you have also done.

Reagh: We haven't done that yet; we haven't made any estimate, we haven't submitted an estimate to you.

Bell: How did I get the estimate included in the budget? I certainly didn't make it up.

Haas: You just took them equal to the taxes.

Reagh: Not this last year; you took it from revenue estimates.

Bell: We got an estimate from the Treasury.

Haas: You got a revenue estimate.

H.M.Jr: (On phone, to Ed Foley) - - - - I'll tell Blough to step back there a minute and tell you what the point is that we may want to ask you about, see? You be thinking about it in the meantime, see?

If you (Blough) would step back - in a couple minutes, I'm just going to stop a minute to speak to Mr. Foley. Tell him what we want.

(Blough steps out)

If I might just make this little statement here. While I would be inclined to do this thing - and I

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just want to explain how I feel about these financial matters. I was very happy last year when we changed the method of financing Commodity Credit, and I want to explain that, because we call it the Commodity Credit model, under which once a year Commodity Credit has to take an inventory of their net worth, and then we send through the Director of the Budget - I guess I notify you (Bell), don't I? -

Bell: Uh-huh.

H.M.Jr: - ... how much the deficiency is, and last year it was 93 million dollars; so once a year the Congress and the people of the United States are informed whether the Commodity Credit has a surplus or deficit. Now, that's the same principle that we're trying to apply now to all lending agencies, and the President's approved that, and we hope each year to send up an annual inventory of these lending agencies. If there is a deficit, a message goes up to the Hill notifying them that this agency costs so much money, or they have a surplus. I personally - we here in the Treasury, that is - think it is an excellent plan, so that - well, if Commodity Credit costs another 50 million dollars and Congress wants to continue it, they can't say because we have loaned on eleven million bales of cotton that we've hidden that fact from them. So the President recommended that we get all of these agencies on an annual basis.

Now that thing - I'd like that principle very much to apply to Social Security. In other words, I don't - I'll never worry if the Secretary of the Treasury - anything that the United States Government does - if once a year we can notify the Congress and the people of the United States, "This thing costs so much." The only thing I worry about is if something is costing a large sum and the people are being fooled about it. So everything we're trying to do here is to have everything that the Government is doing - and we're even - confidentially, we have a plan which we hope to get out that we're going to capitalize all of the revenue-producing public works on a three percent basis, and whatever can't be capitalized we'll write off and then say to the public that "T.V.A.'s net worth is X percent, and the other A percent - we'll write it off, that's

experimentation." But then we'll go and sell so many revenue bonds against what is good sound value in the T.V.A. Then, instead of people saying everything in T.V.A. is wrong, it's worth 60 percent or 70 percent, or Greenbelt is worth 40 percent - I mean the rest is experimentation, charge it off. I just want to explain that that's the philosophy that we're working on here, and we're not ready to announce it yet, but that's the direction in which we're working on the various things that the Government has.

And the one thing that I'd like very much to do, if it could be done - to apply that same principle to Social Security, and if there is some way of either once a year, or once in three years, whatever a fair interim is, to notify Congress of this thing, that we're so much to the good or so much in the hole. Now, I didn't know about this until last night, but I would be very much inclined to send a letter up through the Director of the Budget that up to date - that we - the best estimate we can get is that this thing is running behind so much and we think the Congress should make up the difference.

But I wanted to explain my philosophy in approaching financial matters, and how we're working, and I'd like, if it is possible, to get Social Security on that basis. As long as I, as Secretary of the Treasury, let Congress know what things cost, I've got nothing to be ashamed of or nothing to worry about. It is only when something is costing a lot and Congress doesn't know it that I should begin to worry - or the public. I want you to know how I feel.

Now, whether that same thing can be applied to Social Security, I don't know, but if it could it would make me very happy.

Brown: There would be a difference, sir, between that estimated liability over time and the program of current taxes to finance the immediate program.

H.M.Jr: I don't quite follow you.

Brown: In other words, there would be a setting up of a future liability over time. That's an item which

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would appear, say, on the balance sheet if it were a private corporation.

Viner: But it wouldn't be a current item, there wouldn't be a nine billion dollar item in any year. But in an eventual flow of receipts there would be an eventual

H. S. Jr: The thing you have to do - say, "This is the way Morgenthau feels on financial matters." I say that after five years I've never felt so sure I'm on the right track as far as lending agencies are concerned, and these big revenue-paying public works.

Now I'm just starting on the thing: can we apply that same principle of my philosophy to Social Security? I mean that's one of the things I'd very much want your advice on. In other words, whatever the situation is, at regular intervals I want to notify Congress, you see.

Brown: Well, the point that I was raising was

H. S. Jr: I don't know whether that can be applied to this.

Brown: There is the opportunity of setting up a liability for the future cost of the system over time; at the same time, a program of immediate taxes over against immediate benefits which may be determined on a policy apart from this policy of recognizing future costs.

H. S. Jr: Oh yes, I can see the difference. But if, for instance, we're running - if they think that the thing has shifted so that we're running behind 270 million dollars in building up this reserve, should I formally notify the Director of the Budget and he notify Congress of that, and put them on notice? That has nothing to do with whether we should start benefits in 1949 or whether we should increase the benefits or not. That's the point you make.

Brown: Yes.

Blough: May I, to get it clear in my own mind, Mr. Secretary - what you're saying is this: that the reserve is in the law; as long as it's in the law, we ought to do this

sort of thing; if we want to change to another system, that's another question.

H.M.Jr: Two entirely separate questions.

Viner: The question is, what sort of bookkeeping are we required to do under the law, and, perhaps, what bookkeeping should we do under good policy? But the question of financing is another question.

H.M.Jr: Supposing we stop for ten minutes, just rest, then go on some more.

(Here a fifteen-minute intermission was had)

H.M.Jr: All right, will school come to order? Will the class-room come to order please? I'm the pupil. As I say, if the teachers will come to order, the pupil would like to listen some more.

Well, if you people this afternoon will take under advisement what Mr. Bell, the President and myself have to do under the present law, and advise us, I think that would be helpful. Don't you think so, Dan?

Bell: Yes, sir.

H.M.Jr: Now let's put that to one side. Now let's take up Plan A.C. 14. And if we took it just as it is, what would it cost the Treasury? I think I'd like to - who wants to talk on that? What would it cost just if we took it the way it is now?

Reagh: You mean in comparison with the present law, the relative figure?

H.M.Jr: How much more would it cost?

Reagh: Yes.

H.M.Jr: I mean if you changed - well, if you changed from the present law and the Congress took this new plan and passed it just as it is, what would it mean to the United States Treasury?

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- Reagh: On the long-time calendar, again, in relation to the present taxes, you'd have to increase the present taxes - these are Social Security Board estimates which I've had no opportunity to review, but according to our own estimates the present scale of taxes would have to be increased something like 40 percent to maintain the system on a self-supporting basis. 40 percent.
- H.M.Jr: What would that mean, beginning with July 1, 1939?
- Reagh: That means that the immediate cash outgo would be very much higher.
- H.M.Jr: Give us some figures.
- Reagh: Can't do that. There aren't any figures available. Social Security Board has made estimates, if I may read them.
- H.M.Jr: Please.
- Reagh: They have three sets of assumptions. I'm going to use their highest costs, which, however, they say are too high. The figures that they have computed here and submitted to us estimate that instead of about 48 million dollars which would be paid out in calendar year - they have no fiscal figures - instead of 48 million dollars that would be paid out in calendar year 1940 under the existing law, if A.C. 14 were adopted that would run to 500 million to 600 million dollars, somewhere in that neighborhood. Mr. Altmeyer at the meeting the other day said that 500 million was an outside figure, as he saw it. But immediately you have that change from about 50 million to about 500 million.
- H.M.Jr: Might I ask, for my own information - I should think the first thing the Treasury would do would be to put its teeth into that: how near are the Social Security figures to being right?
- Reagh: One of the difficulties is they keep changing the provisions.
- H.M.Jr: All right, let's have something. Take A.C. 14,

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because - now, 500 - that's out of - they'll draw on the Treasury general fund for that?

- Blough: No, that would come out of the reserve, or out of the collected payroll taxes, but it would not come out of the general fund.
- H.M.Jr: Well then, going forward, how much?
- Blough: Going forward on their same estimates, the year 1945, from about 242 million dollars to about a billion dollars, or an increase in payments out, out-payments, of about 760 million dollars. 1950, an increase from about 611 to about a billion and a half.
- H.M.Jr: From when to where?
- Blough: 1950, from 600 million to a billion and a half.
- H.M.Jr: Yes.
- Blough: By 1960, from about a billion 600 million to two billion and a half - about 900 million increase.
- Bell: At that point would the reserve have been exhausted?
- Blough: If somebody didn't come to its rescue with other revenues, the outgo line would have crossed the income line and the reserve would be in process of exhaustion, but would not be exhausted at that point.
- Viner: That would be at that point - it's 1950 - that the outgo would cross the income.
- Blough: Between '50 and '60.
- Viner: And the reserve would grow until then and then begin to evaporate.
- Blough: Yes.
- H.M.Jr: Blough, let me ask you this. I don't know A.C. 14, but just so I could know this much about it: does that propose to start the benefits in '40?

- Blough: That proposes to start the benefits in '40.
- H.M.Jr: And do what about the taxes?
- Blough: The taxes stay just as in the present. The A.C. 14 is a benefit proposal.
- H.M.Jr: But what would happen - does that include - I mean does that include, when you say that - so I could get the picture - the benefits start in '40 and the tax goes up to one and a half percent?
- Blough: Well, A.C. 14 said nothing about financing. It merely said benefits.
- Brown: This diagram involves going ahead with the full three percent taxes.
- Blough: I'm sorry; this diagram is just the benefit law; on the tax side is the '35 law.
- H.M.Jr: With this diagram where are we?
- Brown: The taxes go up to the full three and three - those taxes.
- H.M.Jr: You wouldn't change that.
- Brown: This diagram indicates that they go up to three and three, and meanwhile that the benefit structure be the A.C. 14 benefit structure.
- H.M.Jr: I see. Well - I mean just so I have in my own mind, let me repeat this. The A.C. 14 is a benefit plan, but as far as a tax program is concerned, that would go as under the present law.
- Brown: Well, of course, you can take two assumptions. The one assumption is that A.C. 14 be put into effect, and the other assumption is that the present tax rates also continue in effect; and those figures, I believe, that Mr. Blough is reading involve those assumptions.
- Blough: That chart involves the assumption also; that's correct.
- H.M.Jr: But if we take those as a basis, you mean that the

benefit payments would jump from 50 million to somewhere over 500 million?

- Blough: From 50 to about 500 million in 1940. I think that's optimistic on the benefit side; I doubt if they could get to 500 million.
- Brown: That certainly must be high.
- H.M.Jr: But they'd be - and what would it do to the reserve?
- Blough: That would come out of the taxes that otherwise would have gone into the reserve.
- Viner: Cut the reserve by 450 millions.
- Hansen: For that year.
- Viner: That year.
- H.M.Jr: But when would this reserve thing be exhausted?
- Haas: When those two lines crossed there - '55?
- Blough: No, I'm sorry, the reserve would not be exhausted in '55. In '55
- Viner: It would reach its maximum.
- Blough: In '55 the taxes and interest would be no greater than the out-payments; they'd be the same. After '55, the reserve would actually decrease.
- Viner: The reserve would grow until '55 and shrink after '55.
- Murphy: They don't contemplate allowing it to shrink; they contemplate putting in a government subsidy.
- Viner: No, on these assumptions it would shrink.
- Murphy: Assuming no other changes.
- Brown: The idea, Mr. Secretary, would be that rather than let the reserve go to zero you would want to have a contingency reserve, so that therefore the governmental appropriation would come in sooner, or at least there would be a reserve continued, and that therefore the

government contribution would have to come in sooner than otherwise necessary if you permit the reserve to become zero.

- H.M.Jr: Well, just to try to orient myself - I mean let's just say that you people recommend, and I accept your recommendation, that we have to increase the contribution of the Government by 270 million dollars. What would happen if this plan went into effect in '40 on the basis we're talking now? Would we have to contribute more or less?
- Burns: On the assumption that we're still going to continue the present reserve policy, you mean?
- H.M.Jr: Yes. Supposing we continue the present reserve policy. The tax rate would go up to one and a half percent. But this new benefit plan is put through and they start - they keep saying, I don't know why - keep saying '40 - say January 1, '40 - then where would I be twelve months from now with Mr. Bell? I mean how much would I have to say to him "you've got to send up" instead of 270? Where would I be?
- Reagh: I'll answer that question; I'm taking it you are now assuming the reserve basis and you're continuing to make appropriations same as required under the present law.
- H.M.Jr: There is nothing in the recommendations to change.....
- Reagh: Yes, the recommendations would change that - wouldn't be on the reserve basis.
- Bell: Nothing in A.C. 14
- Viner: That's only part of the program - A.C. 14.
- H.M.Jr: I'm groping, but let me just - say the reserve policy isn't changed, and twelve months from now this law will have passed, A.C. 14 has been put in. They'll have to pay one and a half instead of one. Where will I be?
- Reagh: On that basis, you'd have to recommend an appropriation in excess of Title VIII taxes; instead of 270

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million, it would be in the neighborhood of a billion.

- Burns: Is it as much as that? It's the difference between the current year payroll taxes minus ...
- Reagh: No, no, that's not correct.
- Burns: If you assume the total cost isn't going to be any more
- Murphy: But the total cost will be 40 percent more, if the present values are increased.
- Blough: I think this ...
- H.M.Jr: Excuse me - let Mrs. Burns finish.
- Burns: Is the assumption on A.C. 14 that the total cost is not going to be increased?
- Murphy: Ultimate cost will not be increased.
- Viner: Ultimate cost per year will not be increased, but ultimate cost over time will be increased. You've got to distinguish
- H.M.Jr: But if we kept it on the same basis, same accounting basis, twelve months from now I'd be asking Mr. Bell for how much?
- Reagh: For a billion dollars, plus the revenue receipts under Title VIII, which amount to 600 million this year. So the total appropriation will be a billion 600 million dollars, or a billion dollars in excess of Title VIII taxes.
- Hansen: In 1940 the taxes will be 900 million; that'll be a billion nine.
- Reagh: Compared to the 900.
- Viner: The appropriation now would be 900 under the present scheme.
- Bell: As I understand it, it will be 900 million in 1941.

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- Viner: And this would be a billion 900 million.
- H.M.Jr: Just let me do this again. I've never seen these figures printed, don't think you have them. If the present reserve policy - I'm stating it - I know I'm repeating myself, but it's important - if the present reserve policy was continued and a plan called A.C. 14 was put into effect and the taxes were increased from one to one and a half - I mean I take it that this year, when you use 900, you're including the 270.
- Murphy: No, the 270 is extra.
- H.M.Jr: Let's get it all in.
- Bell: The 270 is included in the billion.
- Murphy: That's right.
- Burns: I don't think you can take the 270, because A.C. 14 will include - take in a lot of people that you're worried about in this 270 liability.
- Viner: There is an overlapping.
- H.M.Jr: Let's get this thing. Is the 900 this year?
- Bell: About 600 this year, as I recall.
- Reagh: 600 this year. The taxes go up to
- Murphy: The taxes go up to two percent; that brings the 600 up to
- Hansen: One to one and a half.
- Murphy: One to one and a half.
- H.M.Jr: That brings it up to 900. That's where you get the figure.
- Murphy: You add 270 to that.
- H.M.Jr: You add 270 to that.
- Murphy: If you kept the present law.

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- Viner: The appropriation would be 1170 now under the present Act.
- Hansen: Taking account of these changed estimates.
- Viner: Revenues are 600 now; you add 300 - 50 percent increase in tax rates.
- H.M.Jr: It would be 900 plus 270 on the one hand, which brings it up to 1170. Now, the billion nine - that thing would still be in there. The base would still be 1170; then you add to that
- Reagh: Add to that 730, bringing the grand total up to a billion nine.
- Brown: In other words, your 270 is telescoped within this extra bill.
- H.M.Jr: I see. So this year it's 900 with the one percent extra. So if we did it, we'd have to add 270, which is 1170; and on top of that, you add ...
- Reagh: Add 730, to bring the total up to one nine.
- H.M.Jr: How do you get it?
- Reagh: Because I said it was a billion dollars, including the 270. So I subtracted the 270 from the billion.
- H.M.Jr: To be perfectly fair, not make it look any worse than it is, the figure we ought to use this year is one billion 170; 270 is what we're adding. It's really adding 270, not adding a billion. I don't want to make it any worse. Is that right? So I mean you're really adding 730 to a billion 170. Is that right?
- Reagh: That's correct.
- H.M.Jr: Is that - does everybody agree on that?
- Blough: Seems that 730 is a little high.
- Reagh: '41. Doesn't apply to the current year. That's after the tax rate goes up.

- Blough: How do you compute the 730, Russ?
- Reagh: That's on the basis of the 40 percent - that the new law A.C. 14 would cost about 40 percent more on the reserve basis, and 40 percent of the taxes....
- Viner: Let me ask this question. Under your calculation the reserve would grow to a maximum greater than under the present law.
- Reagh: The reserve would grow under a full basis - no, the reserve doesn't ultimately grow to any greater amount, if you keep the ultimate level of benefits.
- Viner: Won't its maximum point be higher? Won't its maximum point be higher, or would it be lower?
- Reagh: You're talking about, say, the famous figure of 47 billion.
- Viner: Yes, that's right.
- Reagh: Well, assuming that that 47 billion is correct, it will be just about the same under A.C. 14.
- Hansen: No, it would be higher by reason of the fact that you're adding 270 million a year.
- Reagh: No, Mr. Hansen, I think that's wrong. You'd be spending a lot more of it.
- Hansen: That's right.
- Viner: That's an important part of it: that it would leave the maximum point of the reserve the same as under the present plan.
- H.M.Jr: It wouldn't change it; but we're making it good through the 270.
- Viner: The question in my mind is whether on the new scale of expenditures now and in the future - whether that wouldn't change the maximum amount of reserve required to put it on what they call an actuarial basis. Apparently not. Why not I don't see.
- Burns: Because of the statement that the total cost of the new program, when it is in full operation, will not take a higher percentage

- Viner: But even that wouldn't settle that if in the interval the ratio were changed.
- Hansen: By 1980 it must be the same, though it might be different in the intervening years than the present schedule.
- H.M.Jr: Well now, let me just go back again - I mean we're - Dan, you interrupt me any time, will you? I'm getting to feel as though I'm making some headway. This one billion nine for the next fiscal year - we're talking here fiscal years
- Bell: You're talking about '41 now.
- H.M.Jr: Yes. Does that mean that one billion nine is going to be paid out?
- Viner: No, appropriated.
- H.M.Jr: Well, how much would be paid out?
- Blough: About - not more than 500 million.
- Bell: A billion four would be added to your reserve.
- H.M.Jr: Be 500 million as - be paid out as against in this fiscal year
- Murphy: Same fiscal year.
- H.M.Jr: If the law were unchanged, it would be 50 million going out instead of 500 million.
- Murphy: The only estimate we have is for calendar year '40, but it would be about the same.
- H.M.Jr: But it would be one billion nine.
- Hansen: Appropriated.
- H.M.Jr: Appropriated. And we'd be - use the word "sterilizing"?
- Hansen: O.K. with me.
- Haas: At least that. Formal deficit would go up, but your

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cash deficit wouldn't.

- H.M.Jr: Mr. McReynolds isn't here. He says, "I'm allergic to the word 'net cash contribution.'" He said, "I'm allergic to it, I don't like it."
- But we'd be sterilizing approximately a billion four.
- Reagh: That's right.
- Blough: "Assuming it all came out of tax revenues, yes.
- H.M.Jr: Well then, that gets into another important question I'd like to take up - I mean whether in the year - what calendar year - what would it be, '40 or '41? -
- Reagh: Fiscal year '41.
- H.M.Jr: - ... '41 - whether the economy of the country could stand sterilizing a billion four instead of - we would have sterilized how much under the ...
- Viner: No, that assumes that you tax - that you raise it by taxation.
- Bell: This billion nine appropriation isn't covered by taxes.
- Viner: You may be still willing then to have a big deficit.
- Brown: That is, the asset and liability position might show all this.
- Viner: But your cash position
- Brown: Cash position wouldn't be adjusted to it.
- Bell: What would really happen - you'd get in, as I understand it, about 900 million dollars in cash receipts, and you pay out about 500 million, so you'd be sterilizing in effect, or using it for some other purpose, 400 million dollars.
- H.M.Jr: Where's the other
- Bell: The other billion is in your deficit.

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- Viner: This wouldn't change your cash operations at all, unless the deficit situation, your formal deficit situation, should lead you to change your tax program as a whole.
- H.M.Jr: What we're getting here, for me anyway - we're going to set this up on a blackboard - I mean what this means in dollars and cents.
- Viner: What it means as an estimate in dollars and cents.
- H.M.Jr: I mean where the report fell short - it didn't treat this thing in this way. I mean - I don't know whether it did in your own discussion.
- Brown: We went through many discussions of it.
- H.M.Jr: But I mean the public doesn't know. Is that right?
- Blough: May I suggest that adopting A.C. 14 and adopting the actuarial increase of 730 million dollars would result in a net sterilization of - or whatever you wish to call it - of the difference between the benefits, which - the additional benefits, which, let's say, at the outside, are 450 million, and 730 million, or 280 million. In other words, adopting A.C. 14, adopting the full reserve plan, would increase the accretion to the reserve by about 280 million dollars more than if neither were adopted.
- Murphy: I don't think that's a full statement, Mr. Secretary, because while everything that Roy says is true, something else would happen in addition. That is, there would be a very substantial addition to the deficit, which, if I may use the phrase, would not pull its weight. All the deficit we'd have is a drawback psychologically, it holds us back; here is a large addition to the deficit which doesn't add anything to the economy, an amount of deficit which, if I may use the term, is sterilized. I think we have to be just as apprehensive of sterilizing the deficit as we do of sterilizing our tax receipts, and I don't think we can ignore that aspect of the thing.
- Viner: As I see it, to get it straight, what is pointed out

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on this side is that the actual cash receipts through payroll taxes would increase more, and the expenditure on Social Security would be greater under this modification than it is now, but the deficit on the books would also be greater, and much greater; so there would be a bookkeeping deficit which would increase very substantially, and a collection of taxes which would also increase substantially as compared to the increase of the expenditures.

- Murphy: A.C. 14 will increase expenditures without increasing taxes, so as compared with the present law A.C. 14 is desterilizing.
- Brown: A.C. 14 does not affect taxes of itself.
- Viner: Doesn't it extend the coverage?
- Brown: It has variations there as to whether you include farm labor and domestics.
- Viner: If you include them, you'll have to - they'll have to begin paying taxes now.
- Murphy: Only 40 million; but the increase in benefits is very substantial.
- Viner: And immediate?
- Murphy: And immediate - 500 million in ...
- Viner: So the cash situation gets impaired by A.C. 14.
- Blough: Relatively.
- Murphy: Depends on which cash situation you're looking at.
- H.M.Jr: Extend it 500 million; 450 million go out.
- Viner: And receipts would increase by 40 million - increasing the coverage.
- Blough: Which is another matter.
- H.M.Jr: You're going to pay out 450 million
- Murphy: ... and take in a very little more. So it would be

a desterilization of - in that direction.

H.M.Jr: How do you take in any more?

Viner: Extending the coverage; new people will become subject to the payroll taxes.

Blough: That's a new trick we haven't talked about yet.

H.M.Jr: That isn't very much.

Bell: That's very small.

H.M.Jr: Let's see what you mean - when you people say "small," what do you mean?

Burns: 40 million.

H.M.Jr: (Snaps his fingers)

(Hearty laughter)

God, these non-Washingtonians - they do sling the money around.

Haas: Henry's point about sterilizing the deficit - I think he had in mind there the psychological effect that it might sterilize private spending further - I mean keeping this formal deficit.

H.M.Jr: Well, let's just leave this for a moment. And one of the things that I'd like to talk about - I mean I'd like to get your advice on - is, one - well, I think that - I don't suppose there is very much use arguing about whether or not they're going to put this into effect in '40. I suppose that that, to use Viner's favorite expression, politically is necessary.

Viner: "Sez you."

H.M.Jr: As a teacher of pure economics.

Viner: But I always say, "Sez you." Don't forget that.

H.M.Jr: I mean I don't know - I don't suppose there is much use arguing about that - I don't know whether there is or not. Is there?

Bell: As I understand it, there is no difference of opinion on that point in the Advisory Council or on the Social Security Board - or anyone.

H.M.Jr: Well, but there's a lot of difference of opinion in the Treasury and around this town as to whether the increased tax should go on.

Bell: I think that's true.

H.M.Jr: There's a lot. I'd like to get advice on that.

Viner: I'd like to hear on that - I think it would be relevant - just why there was a majority and minority vote on the question of increasing the rates, what were the arguments. I'd particularly like to know what the arguments were of the majority.

H.M.Jr: Are you (brown) the majority?

Brown: I'm ready to serve.

Well, it was the feeling of the majority that this was a long-range program of social insurance, and that when we were developing a relatively new concept of joint contributions by employers and employees, and that it was definitely advisable from the point of view of social insurance to proceed, at least for this stage, with the plan of gradually increasing the contributions on the part of the employer and the employee.

Now, the employer group - majority of the employer group accepted that notion on their part; they have become accustomed to the idea of joint contributions in their own private annuity programs, group insurance, and various other fields. The employee group accepted it as well, on the basis that this was a new program to benefit them, and they had become adjusted in their own minds to joint contributions, and that for the time being they were accepting this step-up.

My personal feeling, which I think reflects the majority, is that social insurance is still in a

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tenuous stage - that is, the idea of joint contributions on the part of wage-earners, some 40 million of them, and on the part of some two million employers. It's a new field of taxation, virtually getting down to the very lowest ranges. At the same time, it is an accepted social insurance concept that there be joint contributions; that it would be unwise to revert rather suddenly over against the planned arrangement to a different rate of contribution involving less sacrifice, you might say, on the part of both parties, at this very early stage in the program.

Of course, I personally have gone into all the arguments, I think, on the other side. I can see why the position is taken that the - for example, the cash position of the Treasury is a factor in effects on business conditions; and on the other hand, you get in pretty deep as to the whole fact of business confidence and so on.

But from my point of view, I feel that, while we have made - those of us on the majority side have studied and made very real concessions in the adjustment of social insurance to the total economic situation, it would be an unduly large concession, and perhaps a dangerous one to the future of the program, to hold down those taxes, say, to one and one for an indefinite period of time. It is certainly better at this time to move to the one and a half, one and a half, and then, as the Council recommends, make a restudy of the situation as of 1941.

Bell: That is also the view of the Board, is it not, Brown?

Brown: I believe so. I'd say from reading the report of the Board that they would go still further and say that the step-up should continue to three and three, whereas the position of the Council was that flexibility is important, there being arguments on both sides that the best position would be to say - to proceed with the one and a half, one and a half, and then restudy as of '41.

Bell: I think Mr. Altmeyer made the statement here last

week that that was his view and the Board's view, and that if any adjustment in taxes had to be made for fiscal reasons, that they be made in the taxes other than payroll taxes under the Social Security Act.

H.S. Jr: Of course, I'd like to, as we get into this thing - I'd like to talk later on about this whole question of reserve - I mean re-examine that whole question. I mean whether - I mean from the Treasury standpoint, is that the best thing, to have this reserve? I mean I'd just like to go on the basis as though it was all new, just take another look at it.

Brown: Well, Mr. Secretary, on the reserve situation, I might say that I've had a very strong conviction that it would be unwise in a continuing social service mechanism of this sort to depart too far from a balancing of current inflow and current outflow into the Treasury. You might say - if I should carry that position to its nth degree, you might say I should agree with the one and one percent rate from '40 on. But I don't think - I think in all these things that there is a balance between the currency-credit problem and the social insurance problem, and that, following 1942, there might be a reconsideration to insure that the balance as to the cash position, say, as between tax inflow and tax outflow That might involve a readjustment of future rates in payroll taxes and government contribution, so that the cash position, you might say the profit and loss position, of the account, might be kept in closer balance. That doesn't necessarily deny that there be these long-run estimates, you might say, that you mentioned earlier as to an asset-liability position; that, continuing this program as it is now, this does involve the Government in future liabilities, involving economic considerations, political considerations, you might say, of a certain number of billion of dollars.

Viner: There will be a substantial amount of new information in 1940-41?

Brown: Distinctly so. It's like plotting the course of a

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ship. Mr. Reagh said, "If you're plotting the whole future course of a ship from New York harbor to Southampton and have merely the conditions of a few miles, your possible variation in destination - arriving at destination, might be great." But I think the whole attitude of the Advisory Council was that there are so many variables, economic, political, for that matter actuarial, that it was well to keep revaluating both the tax inflow and benefit outflow periodically, to keep oneself in a flexible position.

Hansen: Mr. Secretary, might I state my interpretation of the reasons back of the majority opinion?

H.M.Jr: Please.

Hansen: I think - I didn't belong to the majority, and I'm trying to interpret the reasons for their position. I think Mr. Brown has stated it very well. Now, what I say is not - puts the thing perhaps a little more bluntly, as I understand it. I had a feeling that the employers in the Advisory Council favored the step-up - those of the employers that did; not all of them did, by the way - most of the employers, the majority of the employers favored the step-up and I had a feeling they favored it, you might say, almost exclusively for the reason that they were afraid that if it wasn't stepped up, it might turn out that the employee contribution wouldn't be increased at all in the future and they'd have to carry the whole load. Some of the employers individually told me that.

I, however, don't feel that that argument is at all conclusive in any sense; that if the step-up does not occur in '40 that that means the employee contribution must remain forever one percent. But that's an argument that I know weighed with some of the employers. They were afraid that if they didn't step it up, the employee contribution would stop forever at the one percent level.

Viner: Why wouldn't the employer's also? There's no other proposals that the employer's contribution be stepped up and the employee's not.

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Hansen: No. They were afraid of that, though. Some of them individually told me so.

Viner: I should/^{think} what they'd feel - that if neither would be stepped up, the result would be that they'd pay it through income tax.

Hansen: Yes.

Viner: But not in payroll taxes.

Hansen: Well, they're afraid that in the end they'd be paying it either in general taxes or in payroll taxes. I, however, am not convinced of that argument at all.

On the other side, as far as the Social Security Board is concerned, I have a feeling that they are extremely eager to make sure that the Social Security program is thoroughly on the safe side of not being broke, that it is amply strong financially. That is a major concern, I think, of the Social Security Board.

In my judgment, that is a dangerous position to take. A British actuary of the British old-age insurance in this country made the statement, according to the report of the newspapers at least, that he looked upon our old-age insurance scheme as not an old-age insurance scheme at all, but a compulsory savings scheme. My feeling is that in the country - the country is at the present moment, you might say, violently opposed to building up funds that aren't being used, and that you endanger the Social Security by continuing to take in more than is being paid out. The Social Security Board themselves say - made the strong argument about that last week when we were here - themselves say that that feeling is indeed so strong that the likelihood is that the states in their unemployment insurance acts are going to go to the extreme of lifting the benefits so high that even in good years - even in good years the income - the taxes on unemployment insurance will be no greater than the payments, so that there will be no excess of payments over benefits on unemployment insurance even in good years.

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And if that is so, that the country does feel so strongly, and I think it is, then I think you weaken - quite the opposite argument to the one Mr. Brown has made - you weaken the Social Security program by continuing a system where you are taking in a lot more than you're taking out, you run counter to a very strong feeling that runs through the country, which it seems to me was very obvious in the last election.

Brown:

May I just add, Mr. Hansen - you mention the employer argument; I might mention what I feel is the employee argument. They are afraid of Greeks bearing gifts. That is, they see that here's a program that involves benefits and at the same time certain persons offer to tax them less or not to increase the taxes. They are definitely afraid that if taxes are held down, especially in this immediate step-up, it may involve a whole benefit structure which is less adequate from their point of view. And some of the enlightened labor leaders know darn well that you can't have an adequate benefit structure for nothing. And they have agreed within themselves, not publicly but from - when I talked to them, at least, I found it so - there is the concession of the notion that this thing is going to cost something, and that if they're willing to pay their share up to a certain point, that the benefit structure can be more adequate.

Now, I think by and large the labor group is not very much concerned about precise financial mechanisms. There is a distinction between the diversion of funds criticism and the large reserve criticism, and I think among people the diversion of funds criticism has worried them much more than a precise total amount of reserve criticism.

Viner:

If the diversion of funds argument were to become forceful, then Hansen's position would be stronger. My reply to Hansen would be that as long as there is diversion of the funds - the Government is having an adequate deficit as it is; needn't be worry of that - but if they start really being hostile to diversion of funds, so we're actually taking in more cash all around than we're spending, I'd say

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we'd have a problem.

Hansen: The deficit is larger than it need be.

Viner: You mean the accounting deficit.

Hansen: The actual deficit of the Government. The actual rise of the public debt is larger than it need be.

H.M.Jr: I'm going to have to stop in about three minutes. The point - I'd like to talk also about the diversion of funds, because after all it's going on in the sense that where we have a deficit we borrow that much less and we give them United States obligations, which are good if anything is good. But we do use that Social Security money to finance the Government's expenses. I mean there's no question.

Bell: And we borrow that much less in the market.

H.M.Jr: And we borrow that much less in the market. Now, the point - it isn't the diversion of funds that I want to - I mean while that's - call it whatever name you want; but the fact remains that some day, if this Government has a balanced budget, and then these - we're called on to cash these pieces of paper which we've given, then we're going to have to raise taxes to meet that, and that's the thing that I want to talk about. And I haven't been able to satisfy myself - I mean I don't know when that comes, whether it's '55 or '65, when - but when they begin to call on us, and let's say this Government is running on a balanced budget basis, and we're called on to cash these Social Security certificates, we're going to have to go out and raise

Viner: Never have to be cashed, on the present scheme.

Haas: Just the interest.

Reagh: Just the interest.

H.M.Jr: Well, taxes for interest. Certainly if we're spending a billion dollars right now worth of Social Security money, some day when we're on a balanced budget basis

we've got to raise that money, don't we?

- Hansen: Be refinanced by paying out - by paying out by the Social Security fund and borrowing in the money market an equivalent amount.
- H.M.Jr: But these obligations have to be met some day.
- Haas: The debt stays on forever.
- Bell: Talking about public debt, aren't you, Mr. Secretary?
- H.M.Jr: I'm talking about public debt.
- Bell: The operation of the Social Security Act hasn't affected the total of public debt at all, and if you hadn't had the Social Security Act this public debt that you now have would be the same, except that it would be in the hands of the public.
- H.M.Jr: Right.
- Bell: And in that sense you would have to tax to pay the deficit at some time in ...
- H.M.Jr: But we do have to meet
- Bell: Yes, have to meet that public debt if you're going to be
- Viner: No, the Treasury will perpetually remain in debt to the Social Security fund.
- Brown: It's an endowment concept, that the old-age reserve is on an endowment basis, so to speak; that the interest from this large mass of securities provides the difference between payroll tax income and benefit disbursements.
- Burns: Couldn't you put it another way and say you've been fortunate to discover a group of holders who will agree to hold the public debt and transmit it to continuous future generations, in return for the payment of what is substantially interest? They will never ask for repayment.
- H.M.Jr: May I explain my - now let me explain my difficulty,

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and I want that - through the collection of - we're using 1940 - about a billion dollars, wasn't it, that we're going to collect? Is that the figure? Well, let's use around that.

- Sell: Including unemployment trust, it's something less than a billion dollars.
- H.M.Jr: If we didn't have that billion dollars from that source, we'd have to borrow a billion dollars more in the open market. Now, therefore, we're using this money which comes in in this way instead of going to the investing public. Now, am I wrong in believing that some day we will either have to go to the investing public to get this billion dollars or we will have to raise it in taxes?
- Viner: For your cash budget you are now being helped out by Social Security, and you will not be after 19- - what, '55, '60?
- H.M.Jr: Well, who can straighten me out on this thing?
- Brown: Mr. Secretary, may I state it this way: that with the accumulation of the securities in the old-age reserve account, there will necessarily be tax revenues to pay interest on this mass of securities, but there will not need be a selling of any large proportion of these securities except to meet what would otherwise be a contingency reserve item for the variations as between times of business depression and business prosperity. But the great mass of those securities would continue indefinitely as a sort of an endowment of the old-age insurance program.
- H.M.Jr: Where will we get the interest on the endowment?
- Brown: You'd have to tax, have to raise taxes.
- Viner: Also you would not be getting the billion dollars a year we're getting now; that would stop some day as a net contribution to our cash balance.
- Burns: I think it might perhaps clear the position to point out there is a difference between the old-age reserve account and the unemployment trust fund,

because the unemployment trust fund you will have to sell as and when the states ask the money, but the old-age you will not have to sell, because you've got this group of continuous generations of wage-earners and employers willing to lend you the money at this period of time, to transmit ownership of the debt in return for your promise to pay the interest.

- Blough: May I insert another point? Isn't your real question, so far as burden on the Treasury is concerned, and burden on the taxpayers is concerned, whether what you're now borrowing from the old-age reserve account or from the taxpayers - if we didn't borrow it from them, would we spend less or take in more revenue? If we wouldn't spend less or take in more revenue, we're no worse off from the Treasury point of view to have borrowed from the trust fund than if we had borrowed in the open market, and we're better off in that we have the lack of necessity of paying it back.
- Gaston: There's the interest appropriations that we have to make to service this Social Security debt - come out of the regular appropriations for the public debt, which we would have to appropriate anyway if the fund had not existed. Simply a transfer of interest from the investing public to this fund.
- Viner: I wouldn't cite the interest burden as being part of the picture, because that interest burden ...
- H.M.Jr: Then you people don't worry much about the so-called diversion of funds from the Treasury.
- Gaston: It's a sound bookkeeping device.
- Brown: Mr. Secretary, I feel, sir, that there are many other economic problems. There are certain very definite assumptions in this idea that it would not have any other impacts on the Federal financing or the economic system.
- Viner: If we can assume that the rest of the budget is just as it would have been if there had been no Social Security program, this diversion of funds is not of any weight, but if the ability to divert these funds makes spending easier and explains the general deficit of the Government

- Hansen: Or necessary in order to maintain a certain national income.
- Viner: Well, I'm talking from the strictly Treasury point of view of its budget position. I'm not talking of the good or bad effects.
- Hansen: You're not talking about economic consequences at all.
- Viner: No, talking about the budget. If it makes it easier - if the ability to sell bonds to the Social Security fund makes it easier, say, for appropriation bills to be passed, then the deficit is due to the Social Security program in that sense.
- Gaston: In other words, if this compensatory theory of spending is definitely adopted as a feature of Government policy, taking into account the Social Security operation
- Viner: No, I'd say I would separate that, that's another element.
- H.M.Jr: May I interrupt a moment, because I've got to get ready for Cabinet. Could I make this suggestion? I think you people, after two hours, see some of the things that are bothering me and some of the things I need guidance on. I'd like to make this suggestion. You've got all this list of questions. As I say, I have Cabinet this afternoon, and if you people would meet at 2:30, would you say, Jake - what would you say, 2:30?
- Viner: Suit your convenience.
- H.M.Jr: Well, I mean I won't be here, I'll be at Cabinet.
- Hansen: Two.
- H.M.Jr: Two o'clock. Is that all right? What's the room number, George?
- Haas: You want to meet around the hall in 296?
- H.M.Jr: Yes.

Haas: 296.

H.M.Jr: 296, at two o'clock, and have these people present, your people; and then if you - if the visiting economists would come to my house for supper tonight, I'd be delighted to have them - unfortunately, Mrs. Morgenthau won't be there - at 7:30. And if you'll tell Kieley where to have my car at any time after seven o'clock, he can come and pick the people up and bring them to the house. Jake, will you sort of - and then supper is at 7:30. Get through a little early. I just got a telegram that Win Riefler is coming.

Maybe after supper, George, about 8:30, if you people could come again.

If I'm not pushing you people too hard - is that pushing you too hard? Think you can stand the pace.

So then, George, if these people - if you can have your crowd there to answer questions again - what?

Haas: At 296 at two o'clock; 8:30, your house.

H.M.Jr: Right. And four economists, plus Professor Riefler, will be there for the supper. I mean I can't ...

You (Bell) don't want to be there with them this afternoon.

Bell: No, I can't.

H.M.Jr: You want to come tonight?

Bell: I'd like to.

H.M.Jr: Come at 8:30.

Bell: Fine.

H.M.Jr: Harold, how much do you get in on this?

Graves: Just one point, Mr. Secretary, that I can contribute something about, and that is the extension of this system.

H.M.Jr: Will you give it to them?

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Graves: I will.

H.M.Jr: Don't you think you ought to have this thing? You're doing the administrative work.

Mr. Graves is our administrative trouble-shooter on Social Security. That's why he's sitting in. He's got them out of their administrative difficulties up to now, I think. I think if you'd come this evening, Harold - don't you think so?

Graves: (Nods yes)

H.M.Jr: Herbert, will you come this evening? Have I overlooked anybody? Very much obliged.

(Meeting held at 2211 30th)

RE SOCIAL SECURITY RECOMMENDATIONS

January 20, 1939.
8:30 p.m.

Present: Mr. Gaston
Mr. White
Mr. Blough
Mr. Reagh
Mr. Haas
Mr. Brown
Mr. Viner
Mr. Hansen
Mrs Burns
Mr. Riefler
Mr. Seltzer
Mr. Murphy
Mr. Graves

Viner: First we drew up an agenda for the two days - that was the first thing we did - the things we wanted to talk about; and if I remember right, there were about eight points in that, and I see we reached to the end of the fourth, so that we're not through.

H.M.Jr: What's that?

Viner: We're not through.

H.M.Jr: You mean you're not through with the ...

Viner: With our agenda. We plan to go on with that - the remainder tomorrow.

H.M.Jr: I see.

Viner: And if you like, I'll read the points on which I think we reached a concensus - substantially unanimous, I'd say, on each one of these points.

First - "We recommend that insofar as law permits, the Secretary shall not ask for an increased appropriation due to the present status of the Account (which indicates that to maintain.. - I mean the Account "indicates that to maintain the full reserve it would require future appropriations in excess of Title VIII taxes having a present value of \$9 billion)."

In other words, so far up to the present moment, Bell

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has been using, or been receiving the request for an appropriation for Social Security account, as I understand it, equal to the estimated revenues, and that is the request which the Budget Bureau has received from the Treasury this year for this coming budget. In your annual report you state, however, that upon a recalculation by the actuaries of the estimated receipts and expenditures of the Social Security program on its present basis, the reserve will be inadequate by nine billions of dollars; the taxes are inadequate by nine billions of dollars over the next n years to provide a reserve such as was contemplated in the original plan. Now, that - in other words, that the Social Security program on the basis of present calculations is not self-sufficing by an amount per year which, capitalized at its present value, would be nine billions of dollars.

And we recommend that you, insofar as the law permits you, disregard that and that you do not ask for appropriations - in the first place, that you shall not amend your request for this year - is that right? - and in the second place, as a general recommendation for the future, that you do not ask for sufficient to set up the fund on a self-sufficing basis in those terms.

H.M.Jr: Are you going to give any arguments as a basis for that recommendation?

Viner: Why, I think the feeling of the group - I should say in general the recommendation was in part due to the fact that we were against the whole reserve principle.

Burns: Was that quite the case in regard to our reasoning on the first issue? It seemed to me that our reasoning on the first issue was rather independent of the whole reserve. That is to say, we felt that at this present time there was no particular reason for raising a whole group of questions in connection with this nine billion dollars. And as I understood it, what you added as this implication for the general reserve came as a quite separate thing. It seems to me it would make matters more clear if we confined ourselves to our answer to the Secretary's first question.

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- Viner: Would this be correct: we didn't see anything that would be gained by anybody by setting up the appropriation - I mean by changing the request for appropriations so as to conform to the new and - but nevertheless highly uncertain calculations that have been made as to the actuarial basis of the account.
- Murphy: But if the law was not amended - but if the law should not be amended, it was certainly the recommendation of the group that the Secretary should abide by the law next year and submit an appropriation as provided by law.
- Viner: We ourselves are not entering into the question as to what the law requires.
- H.M.Jr: Did you have a lawyer?
- Viner: We had a lawyer in, but he wasn't really prepared, and your lawyers need to study the problem.
- Brown: There is this fact: that there is a timing problem here; that is, from the point of view of the report there is an explanation as to this revised calculation, which would normally be brought to bear on the budget estimates of next year, that is, of next fall.
- (Reagh comes in)
- H.M.Jr: Good evening.
- Viner: We think it would be very hard to explain to the public just what a request for an increased appropriation would mean. It would mean, of course, a bookkeeping figure as far as this year is concerned, and that's all; it would mean an increased deficit.
- H.M.Jr: Well, let's be - if somebody in this room, though, were a hundred percent believer in the reserve requirement, they most likely would write it that "unless the law specifically says you shouldn't do this, we recommend that you ask for sufficient appropriation to make up the interest on that."
- Brown: But in that case

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H.M.Jr: I mean if somebody was a really ardent believer in the reserve, you'd write it just the other way around.

Brown: We think there is an opportunity in the revised budget estimates, since these are long-range figures developed out of a trend of forty or more years - that in the next budget estimates made up next fall there would be the correcting item.

Viner: You see, you could follow this procedure. Let's assume that you want to live up strictly to the principle of self-sufficing reserve basis.

(Gaston comes in)

There still is the question here - apparently these new calculations were made after Bell had completed his working on the Treasury request for an appropriation; so, as far as the machinery is concerned, you had the last year's calculations to work on, and you made the request for the appropriation. There's been a new actuarial calculation; you can use that as the basis of your next year's request, or you can use some intermediate - still a later recalculation. As far as we were able to make out, this - the schedule is all right. In other words, the request for the appropriation was made before the new calculation was made. But in your annual report, unfortunately, there is a juxtaposition of your request for an appropriation and the new calculation.

Murphy: A reference to the request for the appropriation, not the request itself, Dr. Viner.

Viner: What's that?

Murphy: There is a juxtaposition of the reference to the request, not the request itself, which I think is an important point.

Viner: Yes, yes.

H.M.Jr: Well, couldn't we go on and maybe I can find out more why you people are opposed to the reserve policy, and then if I get more of the feel of that I could tell better. I mean I take it that this

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not asking for an appropriation is because you don't like the idea of the reserve.

Burns: No, it isn't; that's the point I was trying to make earlier: that we discussed this quite independent of the question whether you have the reserve. In other words, we assumed that the reserve would continue. Even on that basis we felt that it was undesirable at this stage to amend the appropriations request by adding a provision for this nine billion dollars.

Hansen: Well, Mr. Secretary - I interpret our discussion a little bit differently from that, Mrs. Burns. I have a feeling that we went on the assumption that the Act is likely to be rather drastically amended. Don't you think everyone around here believes that is the case and - and which involves a drastic change of the reserve, full reserve principle. On that assumption we thought it would be too bad at this point to introduce a revision of the request for an appropriation, since it would have relatively temporary significance anyway probably if the Act is drastically revised, and in the meantime would likely lead to very much misunderstanding. The minute this nine billion dollars was referred to as a basis for a request for an increased appropriation, you'd have everybody all over the United States speculating about it and hundreds of editorials that misinterpreted it altogether and misled the public about the whole thing. Now, that might be worth going through if we were really going to continue without any important amendment of the present Act.

So my feeling is that our discussion went on the basis that since the Act is likely to be - almost everybody thinks is likely to be drastically amended, why raise all this fuss about something that won't amount to anything anyhow, since it's probably only going to be a year proposition, and particularly in view of the fact that there is every justification for not asking for an increased appropriation, in view of what Mr. Brown has said, namely, that the appropriation figure was fixed on the basis of the old calculations and the new estimates came in afterwards, and therefore if any question were made about why an increased appropriation was not asked for on the basis of the estimates, the answer would simply

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be that "We'll take care of that next year; the estimates weren't in at the time this request for the appropriation was made."

I do feel that the fact we all believe the Act will be drastically amended was important in our decision here.

H.M. Jr: I'm willing to pass it for the moment, but I won't say I'm sold. I mean I'd like to go like this - keep my fingers crossed on it, but - because I don't want to take up too much time. I mean I'm willing to pass it, but, I don't want to say that I'm committed yet. I'd like to get more on this question of reserve.

Viner: Well, the second point - I think the same sort of explanations will probably be offered here. "We recommend that the law be changed to provide that the Secretary shall present annually a memorandum showing forecasts of the cost of benefit payments under the then existing law for decennial years as a ratio of total payrolls, on the assumption of existing wage rates, and that capitalized figures of future benefits and taxes should no longer be presented."

Now, the significance of that, if I remember aright, was that we don't think that a reserve should be figured - that the amount should be calculated each year or at any time as to what would put the Social Security program on what is called a self-sufficing basis. Is that correct?

Brown: Well, that it be considered an estimate of future long-range liability, as a bookkeeping proposition.

Viner: And also that it be figured in terms of ratios of total payrolls, so that the extent of the program should be made clear to the public in terms of a benchmark of the amount of tax that would be necessary on payrolls in order to finance the program on its existing level.

Hansen: On payrolls each year over the next 50-year period. Your statement seems to be incomplete. No, no, I'm sorry - it does say "for decennial years," that's right.

Viner: Yes - "for decennial years."

Hansen: Ought to indicate probably that this ought to be extended over the next forty years, fifty years - forty or fifty years.

Viner: For at least four or five decennial years, that the estimates should be made - what you should show annually in your report, or otherwise in a memorandum, would be a forecast of what the ratio would be between the benefit payments that have to be made under the program and the total payrolls that would exist at each decennial year on the assumption that wage rates remain the same as they are now. No - remain the same as they are, I suppose, at the time of estimate.

Brown: That's right.

Viner: The purpose of this is to simplify the actuarial character of the estimate, as I understand it, because it's easier under the program to estimate the ratio to total payrolls than it is to estimate deficiencies or to estimate the ratio to the national income.

Hansen: More especially that the public would understand it.

Viner: And that the public would understand it.

Hansen: Difficult to understand these capitalized figures, but they would know the cost in a way they would understand it as a portion of total payroll each year.

(White comes in)

They'd know that this thing is costing them ten, twelve, or fifteen percent of payroll, and how it will climb over the next forty or fifty years - not a very simple thing to understand.

Viner: You'd say, for instance, that the program as it now stands would in 1950 mean - to be financed currently, would require six and a half percent per year on the total payrolls of the country; I mean a figure of that sort is what you'd estimate, which is something

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that the public could understand.

- Blough: But it is consistent only with recommendation three, that the full reserve be abandoned, is it not?
- Viner: Well, I'd say that even there - a calculation of this sort would be useful, even though ...
- Hansen: For any plan.
- Blough: Quite right; but the recommendation that the other type be abandoned is consistent only with the abandonment of the reserve principle, is it not?
- Viner: Yes - "that capitalized figures of future benefits and taxes should no longer be presented."
- Blough: Which is consistent only with the elimination of the large reserve, because with a large reserve you'd want a capitalized figure.
- Viner: And that is again on the assumption, you see, that - it is influenced by the assumption that the full reserve plan should be abandoned, which is point three.
- Do you suppose Hansen ought to present that?
- Brown: I'm sure he could do it ably.
- Hansen: Well, so far as the report of the Social Security Board is concerned, and so far as the majority group on the Advisory Council and the minority group on the Advisory Council, all three reports look very far in the direction of an abandonment of the reserve plan. All recommend an abandonment of the full reserve plan, and all go a long ways toward what is loosely described as a pay-as-you-go basis. These three reports, perhaps - oughtn't to call them that, because the minority view is expressed only in a footnote.
- Brown: I'd say it's two reports, with a slight minority difference.
- Hansen: These two reports differ only in degree. The Board report recommends the plan of benefit payments and a plan of tax structure which they estimate would

probably result in a maximum reserve fund of from four to nine billion, as I remember the figures that you were reading to us, Blough, today - four to nine billion depending on various assumptions they make as to what the benefits would cost. In other words, instead of the present estimated 47 billion, their report would contemplate a maximum of nine billion, and other estimates would be a little bit lower.

The Advisory Council in general recommends a plan - a scheme of benefits that is not very different from that recommended by the Social Security Board; but they recommend a tax structure that is somewhat different in the respect that while the Security Board recommends that the existing tax structure - that is, the step-up of one-half of one percent every three years until it reaches three percent on employer and employee - be continued, in place of that the Advisory Council recommends that the - the majority recommend that the taxes be advanced January 1, 1940, to one and a half on employer and employee, and that prior to January 1, 1942, a thoroughgoing study be made based on the intervening experience and on the basis of this study a new tax structure be devised which I think on the whole, as I understand the Advisory Council, would contemplate a somewhat smaller reserve tax structure, so devised that it would amount to a somewhat smaller reserve than that estimated - recommended by the Security Board, something less than an estimate of nine billion. I'm not exactly clear about that point. Brown, is that so or isn't it? They're not very clear about that.

Brown: No. But the principle is definitely established in the report that there be a three-way division.

Hansen: That's right, a three-way division.

Brown: Which practically automatically involves a holding down of the reserve on account of the fact that the Government contribution comes in. I think that was behind the thinking of a very large majority of the Council.

Hansen: It would contemplate probably - that again isn't spelled out very clearly in the report - that beginning

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maybe with 1942, or as soon as is necessary, that the Federal Government would come in, whereas the Security Board's report would recommend that the - also that the Federal Government eventually contribute, as would have to be the case unless the payroll taxes were made very much greater, in view of the fact that the full reserve was abandoned, but they would contemplate that the Federal Government would not come in until about 1960. The Advisory Council would contemplate that the Federal Government come in on the three-way basis fairly quickly - on an even three-way basis probably fairly shortly after 1942. Now, the minority group of the Advisory Council, consisting of two employers, and the rest of them I think were all economists ...

Brown: Four economists.

Hansen: ... - four economists - recommend that the tax rates should not be increased January 1940, the present one percent tax be continued until such time as the current benefit payments exceed the current receipts, and they would contemplate therefore that the reserve reached in January, 1940, was at the moment large enough - that is, a reserve of one point seven billion - and that probably in fact that reserve would rise even with the present tax structure for a time. Whether it would or not depends, of course, upon the benefit payments. If the maximum scale of payments that the Federal Reserve Board has estimated under the so-called A.C. 14 plan actually materialized, then the reserve wouldn't rise.

H.M.Jr: Who estimated?

Hansen: The Board has estimated ...

H.M.Jr: You said Federal Reserve.

Hansen: Oh, I'm sorry. I've done that before. + made a mistake; I meant Social Security.

H.M.Jr: I know the Federal Reserve has made some estimates.

Hansen: No, I meant the Social Security Board.

Well, what I'm pointing out is that all these reports,

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at any rate, contemplate definitely an abandonment of the full reserve principle and they only vary in degree as to how far they go toward the pay-as-you-go principle. The Board goes least far, the minority go the farthest, toward a pay-as-you-go, and the other is intermediate. I think that states it, Mr. Brown, so far as those reports are concerned.

Now, the arguments for the abandonment - the economic argument for the abandonment, at any rate, is, as I see it, that these taxes are taxes on consumption - these payroll taxes - and they therefore extract from purchasing power, mass purchasing power, from consumption expenditures; that insofar as equal benefit payments are paid right out back again into the community, of course, the net effect is not to extract from the purchasing power. That is to say, all wage-earners contribute, and other wage-earners are getting benefits in equal amount. But so far as the taxes greatly exceed benefit payments, as is the case under the present plan, then the net effect of the combined payments and the - combined taxes and benefit payments is to extract from the volume of consumption and is to that extent deflationary. And that at least is the economic argument that has been advanced, and I think there is a great deal - it weighs more or less with all these groups.

Other arguments, I should say, are that public opinion has shifted very strongly in the direction of abandonment of a large reserve. Now, that's a little mixed, I think. The criticism has - as we were pointing out this afternoon, the criticism has probably really been more on the fact that at present it is an account in the Treasury, it is not a trust fund, and that therefore there is supposed to be some kind of a rigmarole about it that isn't quite on the square. That's the kind of loose editorials we have had. Now, I myself think that all that type of argument against the reserve doesn't amount to anything, but that's the kind of argument the country has had a great deal of. I think that doesn't - I think that's - all those arguments are really invalid.

There is some point, to be sure, I think, just to meet the prejudice - there is some point in actually

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setting up a trust fund rather than an account; and the only reason why it was set up as an account in the first place was that it was then at that time felt that an account was more likely to get by the Supreme Court than a trust fund, on the ground that an account would enable you to separate definitely the taxes from the benefit payments, whereas if it were set up as a trust fund it would all be an integrated entity.

So that there is at least some point in that, to meet the prejudice, and the Advisory Council recommends that such fund as is built up should definitely be a trust fund and not, as at present, simply an account in the Treasury.

But, aside from this type of objection, I think in addition there has been a strong feeling in the country that there isn't any point to accumulating - to gathering together a lot of taxes that really aren't needed; that they would rather have the - instead of having the Federal Government - instead of having the employers and employees taxed so heavily at the beginning that this huge fund is built up, invested in Government securities upon which the Government would pay interest, they would rather than do that - they would rather have the Federal Government ultimately come in and outright make a contribution which would take the place of the interest which otherwise would accrue to the fund that had been built up.

And I take it that that second argument has been important also with the country. But certainly the editorial criticism we have had has been more of that other - of the other type. But I think that that is due to the fact they were looking for a chance to criticize and that was the kind of handle that they could seize on very easily, since people didn't understand the whole thing anyway and it would seem to the public that here was, as the New York Times describes it, a "pious fraud" that had been put over on the country. They could make a lot out of it. Didn't make any sense, but they could befuddle the people's minds, so they kept on hammering on that all the time more than they did on the other point.

Well, I think that introduces it at least, Jack. I

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don't know whether I have covered the whole thing completely.

Burns:

Do you think it would be fair to say also that there appears to be some change in public opinion regarding the relative parts of government through general taxation and wage and payroll taxpayers, in the financing of this program? In other words, that insofar as people have come to accept a government contribution for its own sake, partly perhaps to secure ultimately adequate benefits and partly to equalize the position of the contributors as compared with the beneficiaries from the contributory program when you get a large government contribution - but insofar as we accept that, one of the original strong arguments for the reserve, namely, that it was a method of putting the whole load on wage and payroll taxpayers, automatically disappears.

Brown:

I think there is a very definite argument from the social insurance point of view that there should be the participation of the Government.

There also is an argument, it seems to me, in the fact that the large reserve program tends to rigidify the system; that is, you have here a mechanism which accumulates large sums in financial terms which are related to a precise program of benefits and a precise program of taxes, and I think in the last three years we have learned more and more that any social insurance program will tend to adjust itself from time to time to changing demands on the benefit side as well as on the tax side.

Now, I feel that the people of this country have become social insurance conscious perhaps much more rapidly than was anticipated three years ago. Along with that has been the demand of expanding benefits. Part of that, of course, is due to the pressure of the Townsend movement and the General Welfare bill and so on. But there has been a definite expansion of understanding that this mechanism can protect them in old age and against dependency on children of surviving widows, and so on.

Now with that has come, as Mrs. Burns says, a feeling perhaps that if it is covering a broader area of risk,

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of social risk, that the Government might well come in, because meanwhile the Government is paying considerable sums to meet that risk on a relief basis.

Hansen: There is another argument that has been used very much, I think, against the big reserve. That is that the ease with which the Government can place its issues with the account - this flow of compulsory savings comes in that's compulsorily seeking investment in Government bonds: only thing they can invest in; that gives a ready market without going to the public, and in fact the Government has to issue bonds to this fund as it grows. And so the argument has been made that that in itself will make Congress more spendthrift than otherwise would be the case. That argument has been used very much, and a similar ...

Seltzer: Not much to that argument, though.

Hansen: I think possibly there is something to it - I don't think very much. And then there is the ... A little hard to appraise; I think maybe there might be something to that. Then the argument has also been made that, insofar as this excess of taxes over benefit payments abstracts from the purchasing power of the consumers and is therefore deflationary, that it may well be that that will lead the Government to offset this deflationary effect by a volume of spending that otherwise wouldn't engage in and therefore its deficit would be larger than would otherwise be the case, and I think that has much more weight than the other one, namely, that the Congress would do more spending. But at least these arguments have been advanced, that it would result in a larger volume of expenditures and therefore ultimately in a larger debt than would be the case if there were no funds. Those additional points have certainly been made and ought to be mentioned.

Brown: I don't want to seem to be adding, but there is from the social insurance point of view a definite problem of equities within the beneficiaries of the system. That is, if taxes rise fairly rapidly, given the present structure of benefits, it is true that the younger persons in the system - that is, starting age 20, 21, and beginning to pay three percent rela-

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tively soon - that tend to pay a pretty heavy share of the amount that - they and their employers pay a pretty heavy share of the amount of so-called unearned benefits for persons now old.

Viner: These people will pay more than the insurance would be worth commercially, isn't that right?

Brown: Certainly if you add together the employer's and the employee's share. It is felt, on the basis of that argument, that rather than the young people of the country paying such a considerable part of the unearned benefit for persons now old, that the Government should contribute that unearned share. Well, if the Government contributes that unearned share, then it is possible to avoid the large reserve in that the program of financing can be adjusted more closely to the current cost concept.

Blough: Well ...

Haas: There is another ...

Blough: Excuse me.

Haas: There is another point that occurred to me: that you start out with the assumption that the benefits are going to be increased to about this 40 percent increase, and then consider placing the system on a - on a so-called actuarially sound basis. There is only one thing that will do that; that is either to increase present taxes, and the law now provides going up 50 percent, see, from one to one and a half, and then gradually up until they get three on each side, making the total of six - to increase the immediate taxes seems almost out of the question to everybody; and the other way you could make it actuarially sound is to say that the taxes at some distant future are going to be increased. You'd get - on an actuarial basis you'd get the same effect, and you'd discount it back and you'd get it so an actuary would say it was on an actuarially sound basis. But after you've done that, you haven't anything, there is no advantage in it.

So, as I look at it, with this increase of benefits, it seems to me that whatever was in the big reserve on an actuarial self-sufficing basis is now lost, and

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you have to look for some other basis.

H.M.Jr: How did you lose it, George?

HANS: You lose it because

Viner: You're assuming that the new proposals are going to be passed into law.

HANS: That they go through.

Viner: But even aside from that, there is - some of it is already lost on the basis that apparently the actuaries are agreed that there was an underestimate of the benefits or an overestimate of receipts. Which was it?

Brown: Underestimate of the benefits, because you have what you might call churning coverage. That is, many persons who are not in the regularly-included classes normally do come into coverage, such as domestics, farm labor and others who may work part time - either part time in the year or part time in their lives - in a covered employment. They get the very best share of the benefit structure; that is the lower gradations, where they get much more in terms of their own contribution. Now that is an added cost, and should the self-sufficing plan be continued, it would involve this - just as we were talking earlier, the nine billion would involve added liability of the system.

Blough: May I - excuse me.

Viner: As we point out here, if you were to keep the plan on a so-called self-supporting basis and didn't increase any of the benefits - I mean kept the law as it is except on the tax side, you'd have to increase the taxes more rapidly than the present schedule in order to keep it actuarially solvent - isn't that correct - in order to make up a present discounted value of nine billion dollars?

Blough: Well, that doesn't disturb me particularly. It seems to me the two big arguments in favor of the reserve are these. First, that it is equitable to have the man who is going to get the money back pay in and pay for it. And the second was that if we collect the

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money early it will help us to bear the burden later.

Now, the first point, I think, is still very strong, despite the remarks about the present generation versus the coming generation, that we're just giving the present generation a bonus - which is no particular reason why we should continue to give a bonus to the coming generation.

- White: There's no equity, from that point of view. You're ignoring very definitely ...
- Viner: We're giving the present generation a bonus. Are we on the present scheme overtaxing the coming generation in terms of what they themselves are going to get out of it?
- Burns: Definitely.
- White: Not only that; you have groups in there today who are favored over other groups: men over women, white over colored, various geographic divisions. So there is no equity within the system as it is.
- Viner: There was going to be a perpetual reserve of 46 billions of dollars contributed from payroll taxes - that was '34 - so the country would be endowed, they would accomplish a saving of 46 billion, which would be a perpetual saving. Who would accomplish that saving? The persons - it must be that group who were taxed. Now, there must have been an overtaxed group, on that basis, and I've been bothered by that all along.
- Riefler: Why overtaxed?
- Blough: No, it seems to me that's hardly tenable. There is an undertaxed group, not an overtaxed group. The undertaxed group are the first generation
- Viner: But if the plan is self-supporting and there is an undertaxed group, there must be somewhere an overtaxed group.
- White: The employer's tax ...
- Viner: I include the employers. To me there is no difference

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at all as to whether employers or employees pay the tax, except a psychological difference; so that I'm lumping those two together. And to me it's been a puzzle how you could build up a 46 billion dollar reserve fund without overtaxing some group, so that ...

- Haas: Well, the overtax comes in this way, Jack: that you run up a five percent level tax and it would make it self-supporting, from the calculations. They ran up gradually - first one and one, one and a half, so on - until they got up not to five - they couldn't stop there - started under five and went up to six, and that six level is to continue on indefinitely. So if they started it off with everybody at two and a half, two and a half - on employer and employee - ...
- Viner: And benefits strictly proportional to payrolls. But they're not either; they make allowances for classes of persons, so that you have two bases
- Blough: Your point is that the present generation of taxpayers not only was to set up its own financing, but also to support the present generation's beneficiaries.
- Viner: What it was to do was to endow the country with 46 billion dollars of net savings.
- Gaston: No, no.
- Riefiler: No, that's not right. That's not right.
- Hansen: Let's put it this way.
- Riefiler: That's the big argument for it.
- Viner: They'd never encroach on it.
- Riefiler: That's the big reason for it, so that the future income of the wage-earner will be the same as the present.
- Blough: They would encroach on it if the system were brought to an end in the future.

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- Viner: You mean with a liquidation.
- Blough: Yes.
- Burns: But that is not why we're setting it up - not for that purpose.
- Gaston: There is a good deal of fallacy in a specific allocation of taxes as a particular burden on the employer and employee. It is especially apparent in the case of the employer. Where all employers alike are taxed in an industry, what you have in ultimate effect is a sales tax on that product.
- Viner: No, no, because he can shift it. That would be true if his method of producing - if it were absolutely rigid particularly, but he can shift
- White: Part one and part the other, but - part sales tax.
- Gaston: The employee is bearing that burden in the first instance, but to say that is the ultimate effect is not accurate, of course; there is a large element
- Viner: I would say the question as to where it is first imposed doesn't seriously affect it. It is a question I wouldn't like to answer - where its incidence is, and how much - I don't know - would be borne by labor.
- Gaston: I think the larger question here is the question whether we are setting up a scheme of liabilities for the future that the future can meet or can't meet.
- Viner: How would you answer this argument, Herbert? I see the same thing about our naval program.
- Riefler: That's not a reason for doubling it.
- Viner: Doubling what?
- Riefler: I mean if we're setting up future liabilities, no reason for doing more of it.
- Hansen: I was trying to present the arguments that have been

made in the country, and there is another argument that I think has been made very widely, including people who have been - newspapers like the New York Times that have been taking every occasion they could to take a crack at the present tax. They argue that the thing ought not to be set up like a private insurance company, that it ought to be social insurance. That has spread very widely over the country. They depart from the whole idea - even the conservative papers like the New York Times - of an individual private insurance basis. They want to put the thing on a social insurance basis and want the Government

Reagh: You're talking about the insurance company practices. I don't think there is any of that in any sound argument for that reserve; I don't think insurance company practice has got a thing to do with it.

Hansen: Blough was arguing for the reserve from the viewpoint of equity, and the general public is against that notion.

White: Equity as between whom? There is no equity in the present plan as between individuals.

Reagh: That may be true.

White: May be! It is true, definitely.

Reagh: Well, don't make it any less equitable than we have to. I'm eliminating economic arguments, because this discussion is - we're not discussing the reserve from that point of view, because as you know, I'm pretty well along with you in view of your economic arguments. But eliminating those, I don't think there is any question about it that you're going to get a much more equitable system with a reserve. If you were going to stress equity on a savings bank principle all the way, then you would have a sharply decreasing system of rates; but is there any particular reason why we should be beyond a level system of rates? From that standpoint alone, pure equity requires a sharply decreasing scale, very high rate in the beginning.

White: I wonder if you can introduce the concept of equity here and get very far, because in the first place

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there is absolutely no equity as between groups, hardly equity between the individuals in groups because of geographical location and other variables.

- Viner: I'd look at the question of equity - I'd take groups that are socially substantially similar, say, groups whose economic status is substantially similar - the present value of the Social Security program to them as individuals. If you find different groups, otherwise similar, for whom the Social Security program has very different meanings because of, say, administrative convenience, like the farmer, let's say
- Hansen: All these plans will give equity on that basis.
- Viner: They will not give it, you mean.
- Hansen: They will.
- Viner: You mean all the new plans?
- Hansen: New plans, and the old, for that matter.
- Brown: The argument that is very convincing to the intelligent business man, and I've had it thrown at me time and time again, is that they can't see why this system should involve an accumulation of a large reserve. You take Teagle of the Standard Oil, who was on the original Advisory Council, and even before we got into the discussion he said any system as large as this, he felt, should be financed on a current cost basis, because he could not understand why it should disturb the economic system any more than could possibly be helped.
- Hansen: That's right.
- Brown: And I think that sort of common sense judgment lies behind a good deal of the elaborated criticism that you find in newspapers and other places; and what they would like to see is the system planned out to avoid as far as possible interferences with the general governmental and general economic program.
- Viner: Theoretically the system could have been set up - I say theoretically - so that a rounded family would be

receiving in any one year from the start benefits equal to the tax payments that the family was making; that would have been the minimum interference with the economic system.

- Blough: Doesn't that involve that second point that I mentioned? The big reason for the reserve at the beginning was the idea that
- Riefler: That's the point of the whole argument.
- Blough: ... that the present taxpayers could help set up something whereby future taxpayers would have lighter burdens to bear: in other words, the notion of saving and setting up some type of increased productive power in the nation to carry the future burdens. And it is because economists have pretty well come to the conclusion that, far from doing that, it would upset the machinery and perhaps reduce the productive power for the future - is perhaps a reason why many of them have come to the conclusion that the reserve is not a very good thing.
- Viner: I'd say Social Security is not of itself a national burden; it is a redistribution at any one moment
- Burns: In the one plane of time in which it can be handled ...
- White: Except at this time - it becomes, as he says, at this particular time, not a redistribution, but it may well curtail the national income.
- Viner: That's the reserve; on the pay-as-you-go it would only be redistribution.
- Blough: But the reserve as originally contemplated was to add to the productive power of the country and make it easier in the future to bear the burden.
- Viner: Make it easier - make the country wealthier in the end in terms of capital, assuming no repercussions because of the accumulation of the 46 billion dollars.
- Riefler: Why isn't that a value?
- Viner: I'd say if I wanted to force national saving ...
- Riefler: Well, don't you?

- Viner: ... I would do it deliberately on a plan to force national savings, and I wouldn't pick out that group to do the saving.
- White: The group that's least able to save.
- Viner: I'd do it by repaying the national debt.
- Riefler: Well, aren't you mixing things up? You still want the reserve.
- Viner: I'd get my reserve, what you call the reserve - if I wanted to make the country save 46 billions of dollars in the next generation, I'd do it by liquidating the national debt through national taxation.
- Gaston: Are you saying, Jake, that you favor revenue, specific revenue on account of Social Security very substantially in excess of current disbursement, but you would pick some other source of taxes to raise that revenue?
- Viner: Well no, I don't. I would like to have the Social Security. I'm not - we haven't as a group yet really discussed the question as to who ought to bear the burden. I myself am not in favor of a Government contribution unless it is necessary, because of equity considerations, because otherwise certain groups would have to bear a share larger than its part.
- Riefler: How do you reconcile that with other things you said?
- White: How do you reconcile that with the fact that that's what's happening now? Certain groups are bearing disproportionate
- Viner: So far as that can be cured, the generality of the insurance scheme would tend to cure it. I'm getting educated rather than educating, and I understand that the proposals involve a movement toward as complete generalization of the insurance scheme as possible, and that will meet a large part of what I would say are inequities as between different groups.
- Burns: Jack, aren't you rather mixing the thing up by introducing equities, because I think this thing that

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troubles most people, which they now talk about, is the reserve, not the equities. That the man who gives up six percent can get a better bargain from a private insurance company is not a consequence of the reserve but is a consequence of the fact that we are loading onto wage-earners a tax of which part is used to pay unearned benefits. If you eliminated those unearned benefits, we could discuss the reserve as a principle which didn't involve this particular aspect of equity.

- Viner: My point, though, is that with the reserve you increase the amount that has to be currently collected and therefore you increase the bearing of this proportionate share of it that has to be borne.
- Burns: But the thing you're really objecting to ...
- Viner: There are two separate phases, but they're really bound together.
- Reagh: I think the point is that a level rate of tax, for example, would greatly decrease that inequity, that's all, because you can't go beyond a certain point.
- Burns: In other words, the tax wouldn't help you if you continue to pay heavy unearned benefits; you're still loading it on this generation and future generations of young people.
- Reagh: It lessens to a great extent the amount of that inequity. For instance, if Mr. Viner could possibly have the system which he just mentioned, that is, load the entire burden on employer and employee on a pay-as-you-go system but have no Federal subsidy introduced, that would ultimately break down, certainly, because the tax rate - ultimate tax rate on people then entering the system at about age 20 - they would have to pay a tax rate which they just wouldn't pay, and they could get the thing
- Burns: But your scheme would only help insofar as you had these people aged 40 and 50 at the present time, who on the present scheme would be paying one, one and a half, and two percent, whereas under your proposal we're jumping up straightaway to five. Well, if you

think of this as a continuing scheme going through time, what happens to this relatively small group of present generation aged people is unimportant in relation to that large stream of people.

- Viner: My point would be the same: that I find myself all the time sliding into thinking of this as a mature plan and separating it from the problem of its growing stage.
- Reagh: If we could just step into the picture with a mature plan, we wouldn't have this problem involved at all.
- Gaston: Of course, your A.C. 14 does do practically that.
- Reagh: It doesn't include the present aged; you have a relatively small load at the outset.
- White: We're using a term in discussion - "equity" - which I'd like to examine. In that concept it may mean merely equality of payment but it has a connotation of more than equality: equity, justice, equalization of burden. If it has that connotation, it certainly doesn't belong in this discussion.
- Viner: Oh, I think it violates equity on almost any basis you can think of.
- White: I say it violates it even more if you have with the concept of equity some other concept of "socially fair, socially just."
- Brown: I think it clarifies it to keep to this basic concept that I mentioned a bit ago, and that is that the program be developed in a way which will interfere less; of course, provided that the program must be adjusted, of course, in the early years, and the fact that you have contributions for a period before benefits begin, that you have a contingency reserve for a certain reason; but that by and large the program avoid interferences with the economic system as far as possible. Now, I think that matches up with the understanding of the intelligent layman, because he doesn't see the advantages, from you might say a bookkeeping point of view or an actuarial point of view, of these large reserves.
- Blough: In other words, does the early taxation add to the

ability of the economic system to handle the burden or does it interfere with it? Now isn't that the real question for discussion?

Reagh: I think so, yes.

Brown: Nine out of ten will say it interferes, because he looks upon Government financing as a thing which should interfere with his business as little as possible.

Blough: Now, nine out of ten don't necessarily swing the argument. The question would be, what is the fact? I gather

Viner: Well, I'd still say, if I were to accept the argument of the one in ten - I'd still say, assuming it amounts to whether we want this government to collect by this system more than it pays out during a period of, say, twenty, twenty-five, thirty years

H.M.Jr: May I interrupt a minute? Would you mind just reading that last recommendation, so that it fits into the thing, and then let's continue along.

Viner: That's right.

H.M.Jr: There's something in there, if I understand it, I'd like to sort of put together in my mind.

Viner: "We recommend that the contingency reserve should be equal to about three years' benefit payments during the critical (1940 to 1945) years of the system, and should be about two years' benefit payments when the system is mature."

H.M.Jr: What I want to ask is, if we kept the taxes one and one now, have we got that sufficient reserve?

Viner: I think what you (Reagh) gave me here answers that, but you can handle that.

H.M.Jr: I think in considering this thing - I just wanted to get that piece in my mind; it would be helpful to me.

Viner: We didn't know the answer to that this afternoon; it was to be calculated.

H.M.Jr: You see, what I'm groping - keeping it one and one, have you got a three-year reserve for the next five years? I think that, to me, is important.

Hansen: Some of us feel that for ultimately the reserve to equal two years' benefit payments is too high.

H.M.Jr: What's that, Professor Hansen?

Hansen: It says here "two years' benefit payments when the system is mature." Some of us - at least it is true of me - think that is too high a reserve.

Reagh: Now, I have three different bases

H.M.Jr: I'm not trying to shut it off. I did want to know, in considering what we're talking about, how much is the reserve - how many years is it good for right now? And it would help me in my thinking.

Reagh: I have some figures on three different bases, Mr. Secretary, as they were given to me this afternoon to start my force in making some computations.

The first one that I have here is on the assumption that the tax rate be frozen at the one percent level - that's the same level as it is right now - and that a government subsidy would be introduced only when necessary, and that as soon as - and that that ratio of Government subsidy would be on this three-way split, that is, the Government would contribute an equal amount with employer and employee, as soon as it became necessary. Now, on that basis, the reserve would reach a maximum of a billion 700 million in 1941, and at that time, in 1941, the Government would have to come in with a Federal subsidy of 92 million dollars. In 1942 that's 183 million dollars, in 1933 it's 326 million dollars. Now at that time, in 1944, the three-way split would become effective.

H.M.Jr: What do you mean, three-way split?

Reagh: What the Government would contribute - I mean that the Government, employer, and employee would contribute equal amounts at that time - the equal amount is 1.06 percent - and in actual amount of tax revenues that the Government would have to raise in addition to payroll taxes, 326 million dollars. In 1945 it's

351 million dollars. Now I've got it by five-year intervals from that point. In 1950, it's 530 million dollars; in '55, 689; in 1960, it's 865; in 1965, a billion and four million; in 1970, it's a billion 165 million; in 1975, a billion 335; and in 1980 and thereafter about a billion and a half dollars a year that would have to be raised out of general revenue.

Brown: But that does not produce a contingency reserve equal to the one called for.

Reagh: This question was put to me on a three-way split.

Viner: And without a contingency reserve. The minute the Government contributions begin

Reagh: We would freeze the reserve, on that basis, at a billion seven.

Murphy: A.C. 14 or present benefits?

Reagh: A.C. 14.

Viner: That's new benefits.

Gaston: Disbursements of four and a half billion.

Reagh: Mr. Gaston just asked a question which you might like the answer to. That billion and a half that the Federal Government would have to raise in general revenues means that the total cost at that time is only three

Gaston: Four and a half billions annually.

Hansen: That would be true under any of the plans, or even under the present.

Gaston: Under any financing of A.C. 14, and it is even true of the present plan.

Hansen: It is even true of the present plan.

Blough: The figures upon which that was based do not contemplate introducing the other groups, do they?

Reagh: Very small increase. For example, I have the payroll figures along with that; I also have the ratio of the

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payroll to those Federal subsidies.

Blough: Does that include, though, the 40 million dollar increased revenue for outside groups?

Reagh: Yes, a limited increase in coverage.

Blough: But it does not include domestic servants or agricultural laborers or self-employees.

H.M.Jr: You've got three different set-ups, haven't you? This is known as the four and a half billion set-up.

Gaston: They're all four and a half billion.

Reagh: This one will come out with the same ultimate. Now, this one is on the basis that the tax rate will be allowed to increase in 1940 to one and a half percent on employer and one and a half percent on employee, and then when necessary, when the reserve begins to - or it becomes necessary that the reserve be drawn upon, instead of drawing upon the reserve freeze it at that point, when it reaches a maximum, and then the same three-way split on the subsidy would begin. That means that in 1944 the reserve would reach the maximum of two billion 400 million and the Federal subsidy - a small Federal subsidy in that year would be necessary of 22 million. In 1945 that Federal subsidy bounces to a hundred million dollars, in 1950 523 million dollars, and thereafter the scale is very nearly the same as it was before, except now we have a two billion 400 million reserve instead of one billion 700 million reserve. But the Federal subsidies go right on up until 1980, when it is again a billion and a half dollars, meaning the total cost is about three times that, or about four and a half billion.

Now, the third one - I'm not certain that my force got exactly what I wanted, because we have a Federal subsidy introduced in 1980, I note, of a billion 877 million; in other words, this was interpreted to mean that the Board's proposal would hold it at the present scale of tax rates. Is that the way we asked that?

Brown: Go up to three and three.

Reagh: And the rest be Federal subsidy. No three-way split in that. Then they got it the way we wanted it, then. In that case, the reserve would reach the maximum in 1955 of six billion 600 million. Now, this is sort of a middle line between that five to nine - six billion 600 million. In 1960 the Federal subsidy would amount to 263 million; in '65, 572 million; in 1970, 949 million; 1975, one billion 362 million; and in 1980 and thereafter a billion 900 million.

White: You haven't worked it out beyond 1980, have you?

Viner: 1980 it's what?

Brown: A billion 900 million.

Hansen: The world ends at 1980.

Brown: We'll all be dead.

Reagh: I'd say in that connection that all these figures have used the 1980. I think the original Committee on Economic Security started that, so that 1980 became the millenium. But actually under the assumptions of population increase which that committee used and which have been used by the Social Security Board since, and our figures, which I believe were taken from studies of the National Resources Committee or the National Resources - is that what you call that - the Committee?

White: Call it anything you like.

Reagh: Well, anyway, on the basis of those assumptions, the maximum is by no means reached in 1980; it would have to be about the year 2040 or 2050 before you could reach a theoretical maximum. So they're still going up at that point.

White: Do you estimate the national income up as far as that too?

Haas: 1980 - eight.

Viner: Tell me one thing. This scheme is on the original schedule of rate increases?

Brown: That's right; it's the Social Security Board's

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program of going up to three percent as under the present Act, and having the Government contribution come in as needed.

- Viner: Well, what produces the one billion 900 million?
- Reagh: Because the subsidy is not a three-way split on this. The subsidy will be whatever is necessary, in excess of the three percent tax.
- Viner: And under the present system the tax never exceeds six percent.
- Brown: That's right. But I think under the three-way split you can come out with odd figures on the rates of contributions.
- Reagh: On which one?
- Brown: On the other one you come out with odd rates; you don't land
- Reagh: The Federal subsidy amounts to 3.6 percent of the payroll ultimately. Each one is 3.6. They're very slightly different because of the different amount of reserve that we have at that time, providing for a small amount of interest income.
- H.M.Jr: Reagh, would you mind just waiting a minute? Just a minute. You people who sat on the committee - Professor Brown and I think Hansen - did I get that the representatives of the laboring people are disinclined towards depending upon the Government for contributions, putting it in another way, and they'd like the tax to go up to one and a half? I mean they're ready to pay the tax? I got that somewhere.
- Brown: Yes, the attitude of the laboring group was, as I mentioned this morning, "Beware of Greeks bearing gifts." That is, they feel that they are interested in benefits and that if this rate is held down to one and one there might be some fears that that involved a holding down of future benefit structure; at least, that's on the part of a few that I think are relatively intelligent labor leaders. They did not question it at all, and they voted for the Council report, which involved the step-up to one and a half.

Likewise, four out of the six employer members voted to go along on the one and a half percent increase, and of course the middle group - that is, the public group - except for the four, did likewise.

H.M.Jr: Now go back to whenever these last calculations were made, in '35 - was that when the first thing was started?

Brown: Yes.

H.M.Jr: Take it - when did the Social Security - I mean when they put the legislation through and the testimony and the rest of that, were they counting on the Treasury to make a contribution, or was the plan as originally worked out that this thing would always be a self-supporting thing?

Brown: The original recommendations of the staff that worked on the plan in the first instance, and the technical groups then, and the Advisory Council then, was to go ahead with employer-employee taxes, I believe, until - which would carry it until approximately 1962, and then there would be an increasing wedge of government contribution.

H.M.Jr: But the government contribution would not come until 1962.

Brown: Something like that, yes, sir.

H.M.Jr: Well now, let me just ask you this. What would happen - I mean would this be feasible as an approach - I mean that whatever was done now - I mean if you could get Congress to say that "Whatever we do now, this is going to be for three years; we'll take this thing through until '42 and then re-examine this." Now, I'm just thinking - I mean without trying to solve everything and trying to go so far up into the realm of way beyond - I mean what you can tell - I mean would it be possible, for instance, ... I take it that the people here - at least it seems to me the people working on it, most of them, are inclined towards not increasing the tax; that's the impression I get.

Viner: We worked on it without these figures, so we didn't

know what our own recommendations would mean in tax rates; I'd want to study those more.

- H.M.Jr: Well, let's suppose we kept the tax rate - I mean, say, at one percent - I'm just trying to feel my way - say, for three years, and then - I mean set up but not count on any government contribution, but it's a three-year program, one percent rate, not increasing it for three years, and then taking this plan 14. I mean where would we be at the end of three years, with the understanding that Congress would then re-examine it?
- Reagh: Be in the red before that time; on the one percent tax in 1941, for example, according to this schedule, the government would have to raise an additional 92 million dollars.
- Viner: Over and above the previously accumulated reserve.
- Reagh: If they held the reserve at a billion seven.
- Viner: And hold the reserve at a billion seven.
- H.M.Jr: No reason that it has to be - no reason why you couldn't draw down on the reserve.
- Reagh: Wouldn't go very far.
- Brown: The reserve is there for other reasons; that is, should there be a business depression and tax collections decline and, on the other hand, benefits increase because of persons retiring at 65 rather than 75 or 68.
- H.M.Jr: All right, supposing you did this for two years.
- Brown: It would be a pretty close haul.
- Reagh: Well, for two years you could get along with the one percent, and the very next year it would be necessary to increase it.
- H.M.Jr: At least you'd have two years behind you and we'd know a lot more about business conditions, you'd know a lot more about this plan, and you'd know -

well, you'd be two years wiser, that's all.

- Brown: Well, the Council's position was that that interval for further study - that it would be safer to go to the one and a half and have the study period at the one and a half rate, and that following that period there could be sufficient information available to plan future rates.
- White: The Secretary is thinking of it from the fiscal point of view, which would
- Gaston: I think you need to think of the fact that if you once liberalize the rates you can never take it back; if you adopt this plan A.C. 14 for one year, two or three, you can never adopt a plan less liberal.
- Viner: I think that's pretty clear. You have to count any extension of benefits as permanent.
- H.M.Jr: I mean I don't accept plan 14, but I ...
- Viner: Any reduction of rates would be difficult to reverse, but any postponement might be merely a postponement.
- H.M.Jr: In listening to this, I keep thinking of why Mr. Wallace wants the processing tax. What Mr. Wallace is groping for is some permanent way of financing his agricultural program so he won't have to come to Congress or the general fund of the Treasury. That's what he's trying to do. He isn't wedded to the processing tax. But he wants a method of financing his agricultural program, because he knows sooner or later he won't be able to get his money unless there is some particular earmarked revenue which is earmarked for agriculture. And all the agricultural groups are more or less in sympathy with that. He'll take anything which will give him enough money to finance his program.
- Now, having listened to that for a good many years - I mean I think there's something to it, and I'm just thinking that if this Social Security program eventually will have to dip into the Treasury - I just wonder if it won't hurt Social Security, and if we're going to have to draw on the Treasury for large

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amounts, that that will maybe be a device that will eventually kill it. So, putting that on the one hand, I think that that is something which influences me possibly to say, "Well, we better go up to the one and a half," you see. I mean I'm arguing on both sides.

But I've been impressed for a long time - I mean I don't like the way - I don't like Section 32, which gives Mr. Wallace a quarter of our Customs revenue, and the reason for it being that way - he says, "Well, the manufacturer has his tariffs, so the farmer should have his." I don't like his method of getting his revenue out of processing taxes by processing food; I think the consumers pay for it. But I am in sympathy with the fact that if he doesn't have some special source of revenue, he isn't going to get any revenue.

I think the same thing holds true with Social Security. I'm just arguing within myself which is more important - I mean the general fiscal picture and all this talk which is around this town about net contribution and withdrawal of money from general circulation and taxes on the consumer and the working men and all the rest, is against the possibility if at this time ... And the only thing the President's ever said to me on this thing - he said to me, "Now Henry, if we don't go ahead and increase the taxes, we'll never get it." And he feels that very strongly. That's the only thing he's ever said to me.

Brown: That's a convincing argument to me on the one and a half, one and a half. And I feel that the Council was wise in, however, holding the question open for the future. Now that determination might well mean that the consensus of view as of '42 would be to go ahead to two and two; but personally I feel that if there can be brought in a government contribution relatively early, that this is sounder social insurance and broad social policy.

H.M.Jr: You'd like to see a government contribution.

Brown: Yes.

Burns: Even if a small one, just for the principle of it.

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- Brown: Yes.
- Burns: Yes, I would too.
- H.M.Jr: When would be the next raise?
- Brown: Not until the beginning of 1942, so that during the year '42 you'd have practically five years of tax experience and two years of benefit experience upon which to base your future program.
- H.M.Jr: This will come up for discussion in the spring of '41?
- Brown: Well, in the spring of '42, during the year '42. And of course, it would have to come up for Congressional action in the spring of '42 if there were to be a change in the rate beginning '43.
- H.M.Jr: But if we went ahead with this one and a half, one and a half, would we be facing this reserve issue? We'd be sort of ducking it, wouldn't we?
- Haas: It would be eliminated.
- Murphy: The reserve would be automatically eliminated.
- Burns: The A.C. 14 plan involves a re-do on the whole self-sufficing proposition.
- Blough: The substantial contingency reserve wouldn't be eliminated; the big interest-bearing reserve would be.
- White: There is another reason which speaks for postponement, and that is that at this time nobody is ready to say whether the additional liberalization which is being asked will call for an expenditure of 100, 150, or even 500 million, and secondly, that there is a wide divergency of opinion with respect to the out-payments on unemployment insurance. So that until there is greater certainty as to that difference of a magnitude of anywhere from a half billion to a billion dollars, it pays to be a little more conservative from the point of view of fiscal policy and postpone taxes. That's another argument.
- H.M.Jr: I don't think you're being conservative. How do you

get that way?

White: Well, I say "at this time."

H.M.Jr: How do you get being conservative out of postponing taxes?

White: Because I take it you're interested in recovery and being conservative is doing nothing which might jeopardize it.

H.M.Jr: Harry, you got out of that one pretty well. Oh boy, that was very neat, wasn't it?

Viner: I was interested in seeing Harry masquerade as a conservative.

White: Conservatism has its place.

Brown: A rose by any other name

White: No, I think there is more to that, despite the facetiousness - I think if you'll think that over, there is a great deal to it. If there were certainty, and I take it there isn't any, as to whether the present liberalization is going to spend a hundred million or five hundred million, and there certainly is no agreement as to whether the out-payments on unemployment are going to be 700 million or 300 million - well, I take it it's conservatism not to act when there's a difference of a billion dollars which can have such a substantial influence in a critical year.

Viner: That sounds to me like a call for action.

White: No, it's just - you're examining both sides; I'm putting that on one side of the scale.

H.M.Jr: Well

Haas: Take it in reverse and you have a deficit. That's what Harry's talking about - being conservative.

H.M.Jr: On that point - that's another point. This one percent represents about 300 million, doesn't it?

Murphy: That's right.

- H.M.Jr: Isn't that right? 300 million. Another point - we're talking about being conservative - we can conservatively estimate a four billion dollar deficit.
- White: Yes, except that this doesn't affect the deficit one way or the other.
- H.M.Jr: Well, and what we're talking about is whether we should or should not give up 300 million dollars worth of additional revenue. Conservatively speaking.
- White: I didn't know you called it revenue. It's supposed to go into social insurance.
- H.M.Jr: It's revenue, nevertheless.
- Gaston: It isn't, it's a revenue receipt.
- Hansen: As far as recovery is concerned, you could borrow the same amount; but you borrow that much less from the public. And let me suggest, under the proposal of the Social Security changes, that the taxes no longer go into the general fund of the Treasury, but go direct to a trust fund, so you can't then properly call it a tax receipt of the Treasury.
- Gaston: The effect would be just the same.
- Hansen: Not be a revenue of the Treasury.
- Gaston: Have to be invested in Government securities. It would make no practical difference.
- Reagh: Purely a matter of bookkeeping there.
- Hansen: Eliminates the confusion that now it is considered like any other tax that goes into the Treasury, which could no longer possibly exist. I think that is a confusion that exists now. It is entirely different from other taxes that do go into the Treasury. That confusion is possible now because of the fact that it does now have to go into the Treasury and have to be reappropriated. But under the proposal of the Council it will no longer go to

the Treasury, never go there in the first place.

Brown: The suggestion was a permanent appropriation; that's worked through ...

Hansen: No, the suggestion is that it be set up as a trust fund; in this case it never goes to the Treasury at all.

Brown: Its destination is definitely a trust fund.

Gaston: I think the Supreme Court is sufficiently patched up now so that will get by.

Hansen: In fact the Council says so in its report.

H.M.Jr: Could they do this tomorrow for me - I mean I've got a lot out of this now - what I think ought to be done tomorrow is this. One of the main things to look at is - take the report of this advisory board, of the committee, and set up this thing on a financial basis - I mean just the way it is, going up to whatever it is in 1980. This means so much, you see. I mean Reagh can have that, taking this thing - it means that from now until 1980 this is what happens if you take plan 14, and if... Let's see, the Board said to go up to one and a half, didn't they?

Brown: The Board would go direct to three.

H.M.Jr: And the next jumping-off place is '42, is it?

Brown: That's right.

H.M.Jr: And the next place is '45.

Brown: The step-up in three years.

Reagh: Every three years.

H.M.Jr: Be every three years. And I think the thing to do is to take that and give it to Mr. Altmeyer and say, "Will your people figure this, do you agree with this?" and so forth and so on, and at least give it to the President whenever he wants it and say, "This is what this thing looks like - what do you think of it - from a financial, from a Treasury standpoint."

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I think we'd have at least gained that satisfaction. And then do as much more as we have time. But I'd be that much ahead. Then we can take a look at it, send it to other people in town who are interested.

But if I could get that much - we haven't gotten that far, have we? At least our own people haven't done it. And set this thing up and say, "This is what this means" and then give it to other agencies to check, because it hasn't been done, has it? I mean at least there is no agreement anyway. What?

Viner: We haven't touched at all on the question either of extension of coverage, you see.

H.M.Jr: If you don't mind, Jake - I mean I can't - not tonight.

Viner: We're not ready to. We haven't talked about it ourselves. It's one of the things - tomorrow I think we ought to

H.M.Jr: Well, when would you people be ready to see me again? Do you want to have another meeting - I mean ...

Viner: Well, we're at your service.

H.M.Jr: Well, I'm ready from 10 o'clock on.

Viner: Well, I think we ought to meet ourselves now for a while.

H.M.Jr: What does that mean? Do you want to see me after lunch then?

Viner: If you like.

Brown: Be ready by noon.

H.M.Jr: I mean I - I planned 10 to 12, but if you people don't want that time I'd be available after lunch.

Brown: Would we be ready by eleven?

Viner: I doubt it; it doesn't pay to crowd. That never works well. Yes, after lunch, I think, would be ...

- H.M.Jr: Well, that's - but I would have by then - who would do that? Reagh? Huh?
- Haas: Yes.
- H.M.Jr: Would you have maybe - would you have time to get somebody from Social Security before the afternoon take a look at your figures?
- Reagh: Well now, let me explain that. The Social Security Board has not yet mentioned any specific plan in their report, and as a matter of fact A.C. 14 is now obsolete. They are, as I understand it, on about A.C. 18 now. So we're more or less talking about an obsolete plan.
- H.M.Jr: That's all right; let's from now on keep up with them. And let's take this thing from the Treasury standpoint. I don't want to get into an argument with the Social Security Board whether their plans are good or not.
- Reagh: There won't be any argument from the Social Security Board, because these are not my figures, these are all based upon Social Security Board figures.
- H.M.Jr: I think I'm on safe ground if we keep on the fiscal ground. As they go along planning, let me just keep figuring this thing, see where we're at, and we'll be all right.
- Burns: There may be arguments in the Social Security Board concerning the estimates of out-payments, which will be something that will have to be taken into account in this discussion.
- H.M.Jr: I think they ought to be able to hit it.
- Reagh: I'll check with the Social Security tomorrow morning and make certain they agree to all these figures by tomorrow noon.
- H.M.Jr: Then you people be ready some time after two o'clock. Is that the thought?
- Viner: Two o'clock.
- H.M.Jr: Two o'clock? All right.

Preliminary draft of recommendations

1. We recommend that insofar as law permits, the Secretary shall not ask for an increased appropriation due to the present status of the Account (which indicates that to maintain the full reserve it would require future appropriations in excess of Title VIII taxes having a present value of \$9 billion).

2. We recommend that the law be changed to provide that the Secretary shall present annually a memorandum showing forecasts of the cost of benefit payments under the then existing law for decennial years as a ratio of total payrolls, on the assumption of existing wage rates, and that capitalized figures of future benefits and taxes should no longer be presented.

3. We recommend that the full reserve plan should be abandoned.

4. We recommend that the contingency reserve should be about three years' benefit payments* during the critical (1940-1945) years of the system, and about two years' benefit payments when the system is mature.

* i.e., the anticipated "normal" payments during the next three years.