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ISSUES IN FINANCING RETIREMENT INCOME

A VOLUME OF STUDIES

PREPARED FOR THE USE OF THE

SUBCOMMITTEE ON FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

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LETTERS OF TRANSMITTAL

DECEMBER 20, 1974.

To the members of the Joint Economic Committee:

Transmitted herewith is a volume entitled "Issues in Financing Retirement Income." This is Paper No. 18 in the series *Studies in Public Welfare*, prepared for the Subcommittee on Fiscal Policy.

This volume contains four studies about the financing of social security and private pensions and the goals of those programs.

The views expressed in these papers are exclusively those of the authors and do not necessarily reflect the views of members of the Joint Economic Committee, the Subcommittee on Fiscal Policy, or the staff.

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

DECEMBER 18, 1974.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is "Issues in Financing Retirement Income," Paper No. 18 in the study series prepared for the use of the Subcommittee on Fiscal Policy in its review of the Nation's public welfare programs.

This volume of four papers examines how the Nation has financed rising social security benefits for a growing number of recipients in the past and concludes that fiscal constraints in the future may compel the program to narrow its goals. The papers show that in the past economic growth and population increases have produced payroll tax revenue great enough for social security to pursue three goals: (1) providing earnings-related wage replacement for persons no longer at work; (2) providing a minimum income floor for persons with low former wages or low coverage; and (3) sharing economic growth and productivity increases with retirees, their dependents and survivors. But the falling ratio of workers to beneficiaries has begun to strain the system and will require changes. Alternative financing mechanisms such as an infusion of general revenues cannot *reduce* the cost of the program although they may *redistribute* it somewhat. These papers do not provide detailed recommendations, but they do suggest the inexorable influence of demographic, social and economic conditions on the Nation's strategy for income security. The task of retirement income security will have to be more rigorously defined and more efficiently undertaken. This will require a sharper division of labor between social security and other public and private income security programs. The large Federal tax subsidy of private pension plans justifies a continuing congressional concern as to the fairness of these plans. And individual effort to prepare for retirement through private savings must be encouraged.

The first paper in this volume was written by Alexander Korns of the staff of the Subcommittee on Fiscal Policy. The second paper was prepared at my request by Frank Crowley of the Congressional Research Service, Library of Congress. An annotated bibliography relating to social security financing issues was prepared by Nancy Davenport, also of the Congressional Research Service. The third paper was graciously contributed by Alicia Munnell of the Federal Reserve Bank of Boston. The fourth paper was prepared at my request by Raymond Schmitt of the Congressional Research Service. I am grateful for their contributions. Alexander Korns prepared the volume for publication, with the aid of Sharon Galm and Alair Townsend.

The views expressed in this volume are those of the authors and do not necessarily reflect those of the members of the Subcommittee on Fiscal Policy or the subcommittee staff.

MARTHA W. GRIFFITHS,
Chairman, Subcommittee on Fiscal Policy.

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THE FUTURE OF SOCIAL SECURITY

By ALEXANDER KORNS*

The rapid growth of the social security system in the past 20 years has swelled its importance on the landscape of Government operations to such an extent that a funding crisis in social security would have major implications for the whole economy. Today the prospects of zero population growth, declining productivity growth, and high inflation rates are raising fears that social security taxes could increase to punitive levels in order to finance future benefits. Meanwhile, debate continues over the regressive nature of the payroll tax, and over the proper balance between insurance and welfare components of social security.

From 1956 to 1973 the number of OASDI beneficiaries increased more than threefold, from 9 million to almost 30 million; payments increased more than eightfold, from $6 billion to $51 billion in 1973. As a share of Federal outlays the program rose from 8.1 to 19.4 percent; in proportion to GNP it grew from 1.4 to 4.0 percent. As a source of Federal revenue, the payroll tax is second only to the personal income tax, and the Secretary of Health, Education, and Welfare has said that in 1973, more than half the Nation's taxpayers paid more social security taxes than income taxes. The combined employer-employee OASDI tax rate on covered earnings has gone from 3 percent in 1956 to 9.9 percent in 1974. In addition, there is a combined 1.8 percent tax to finance medicare, so that total OASDHI taxes now equal 11.7 percent of payroll. However, this paper concentrates on the OASDI program and deals with cost projections and payroll taxes exclusive of medicare.

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*The author is staff economist, Subcommittee on Fiscal Policy. The author wishes to thank Alair Townsend, Jon Goldstein, Lawrence Thompson, and Frank Crowley for their useful comments and contributions.

TABLE 1.—*Number of social security recipients*

[Millions]

Year	Total			Retired workers	Disabled workers	Wives and husbands	Children	Widowed mothers	Widows and widowers	Parents	Special age 72 beneficiaries
	Total	OASI	DI								
1956	9. 1	9. 1	--------	5. 1	--------	1. 4	1. 3	0. 3	0. 9	0. 03	--------
1963	19. 0	17. 6	1. 5	10. 3	0. 8	2. 7	2. 7	. 5	2. 0	. 04	--------
1971	27. 3	24. 4	2. 9	13. 9	1. 6	3. 0	4. 3	. 5	3. 4	. 03	0. 5
1973	29. 9	25. 2	3. 6	15. 4	2. 0	3. 2	4. 7	. 6	3. 7	. 02	. 4

Source: See table 2.

TABLE 2.—*Expenditures on cash social security benefits*

[Dollars in billions]

Year	Total	OASDI	DI
1956	5. 8	5. 8	
1963	16. 2	14. 9	1. 3
1971	38. 5	34. 5	4. 0
1973	51. 4	45. 7	5. 7

Source: U.S. Department of Health, Education, and Welfare, Social Security Administration, *Social Security Bulletin, Annual Statistical Supplement, 1971* (Washington, D.C.: Government Printing Office, 1973), table 28, p. 49; and unpublished statistics furnished by the Social Security Administration.

The papers in this volume are intended to contribute to public discussion of the future of social security. They review the past and likely future of program financing, and they also raise questions as to how the purpose of social security should be defined so as to avoid a crushing tax burden on future workers.

1. THE FUTURE OF SOCIAL SECURITY FINANCING

The 1974 report of the Board of Trustees [1] was a turning point in the long term outlook for the social security system. For the first time, the report forecast an actuarial deficit in the program over the next 75 years of about 3 percent of taxable payroll, if current tax rates are not raised. On a pay-as-you-go-basis, the tax rate would have to rise to an exorbitant 17.68 percent of covered payroll in the year 2045 under the board's projections, with the major escalation taking place between the years 2005 and 2030. Previous estimates foresaw a longrun average deficit of only about 0.5 percent of taxable payroll. The authors of the report cite a trend to zero population growth as the major factor in their new forecast.

The report also draws attention to the precarious dependence of social security financing on a number of long term economic factors over which we have little or no control. For example, the trustees said that if inflation continues at present double-digit rates, serious funding problems could arise in the next few years because of a peculiar feature of the cost-of-living escalation formula enacted by Congress in 1972. Another development which could jeopardize the existing structure of benefits and tax rates is a possible long term slowdown in the rate of productivity growth in the American economy. Such growth has provided the basis for an enormous intergenerational transfer in the social security program, whereby retirees receive benefits far in excess of their previous contributions, the difference being paid for out of taxes on the rising real wages of the current work force. Finally, the trustees' estimates assume no further congressional changes in the Social Security Act. Any legislation to liberalize coverage or to increase benefits for retirees beyond a simple cost-of-living adjustment would of course add to program costs and require matching revenue increases.

[1] *1974 Annual Report of the Board of Trustees of the Federal Old-Age and Survivor Insurance and Disability Insurance Trust Funds*, Washington, D.C., May 31, 1974.

TABLE 3.—*Status of the combined old-age and survivor insurance trust fund, 1937–73, and the disability insurance trust fund, 1957–73, selected years*

[In millions of dollars]

Calendar year	Receipts	Expenditures	Total assets	Ratio-assets to expenditures
1937	767	1	766	766.0
1940	368	62	2,031	32.8
1945	1,420	304	7,121	23.4
1950	2,928	1,022	13,721	13.4
1955	6,167	5,079	21,663	4.3
1960	12,445	11,798	22,613	1.92
1965	17,857	19,188	19,841	1.03
1968	28,494	26,015	28,729	1.10
1970	36,994	33,107	38,068	1.15
1971	40,908	38,542	40,434	1.05
1972	45,622	43,281	42,775	.988
1973	54,787	53,157	44,414	.836

Source: *Social Security Bulletin, Statistical Supplement, 1971*, tables 29 and 30, and subsequent issues of the *Bulletin*.

In essence, the report demonstrates the vulnerability of a pay-as-you-go system to changing economic and demographic circumstances. Congress first put social security explicitly on a pay-as-you-go basis in 1972, but the system had been tending in that direction for many years, as the last column in table 3 shows. For example, the trust fund in 1955 was 4.3 times annual expenditures; by 1973 the comparable figure was 0.836. Frank Crowley's legislative history published in this volume shows that the pay-as-you-go philosophy evolved gradually and with considerable opposition.

Although many private pension funds are not fully funded, most use some form of advance funding in preference to pay-as-you-go. For example, private pension plans in 1971 paid $8.6 billion in benefits and held $151.4 billion in accumulated reserves.[2] For social security to attempt even partial advance funding would require the accumulation of a huge trust fund, and would tend to eliminate the intergenerational transfer that is so basic a feature of the current system. Congress has chosen not to pursue such a path. Social security can afford to dispense with advance funding because, unlike private corporations, it can count on the Nation's future power to tax. The only hitch is that long-term shifts in basic economic and demographic variables will require an immediate adjustment of either tax rates or benefit levels. There is not much time for delay in a system which maintains a contingency reserve equal to less than 1 year's outgo.

The long-term significance of the trustees' report may therefore be that it signals a secular swing to more unfavorable conditions for the system. To judge better whether this may be the case will require a separate examination of each of the long-term factors considered by the trustees in their projections.

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[2] U.S. Department of Health, Education, and Welfare, Social Security Administration, "Employee Benefit Plans, 1971," by Walter W. Kolodrubetz, *Social Security Bulletin*, April 1973, p. 32.

A. Zero Population Growth

The Bureau of Census estimates that a fertility rate of 2.11 babies per woman would lead over time to zero population growth in the United States, in the absence of immigration.[3] This is known as replacement fertility. A somewhat lower fertility rate would be required to produce the same effect if immigration continued. However, the Bureau points out that: "the immediate cessation of net immigration, combined with replacement level fertility, would not lead to immediate zero growth because the United States has a relatively young age structure (due to the post-World War II baby boom) which provides momentum for continued growth." [4]

The rapid decline in the number of live births from 1961 to 1973—from 4.3 to 3.1 million per year—has signaled a sharp drop in the fertility rate. Bureau of Census has estimated that the total fertility rate fell to 1.90 in 1973 from 3.64 in 1960.[5] Moreover, the birth expectations of American wives have also declined. A June 1974 survey shows that wives 18 to 24 were expecting 2.17 lifetime births, down from 2.85 in 1967, and wives 25 to 29 were expecting 2.34 births, down from 3.04.[6] There is evidence from past experience that actual births may fall short of expected ones by as much as .2.

Present birth patterns suggest therefore that the United States is on a path to zero population growth, and the Census Bureau has begun to base projections on the assumption that ZPG will be attained sometime next century, possibly as early as 2028. The Board of Trustees of the social security system projected replacement fertility for the first time in 1974. Under the board's forecast, population growth would continue, due to some immigration, but the rate of growth after 2030 would be very small. Earlier cost forecasts by the board were based on fertility rates of 2.3 and 2.8.

Zero population growth will mean a gradual but profound change in the age structure of the United States. Under Census Bureau Series X projections, for example, the percent of population age 65 or over would begin to climb sharply around 2005. The percentage, which was 10.1 in 1973, would reach 11.0 in 2000 and jump to 15.0 in 2025, leveling off at 16.0 by 2050. By the same token, the ratio of persons 65 and over to persons 20–64 would rise from a current .188 to an ultimate .283, an increase of nearly 50 percent in the burden on the working-age population of supporting retired persons.[7]

Under a pay-as-you-go system, in which current workers support the retired population, a 50-percent increase in the ratio of retired persons to workers will immediately require a 50-percent rise in the tax rate on workers, if benefits are held constant and other factors remain the

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[3] U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 480, "Illustrative Population Projections for the United States: The Demographic Effects of Alternative Paths to Zero Growth" (Washington, D.C., 1972), p. 1.

[4] U.S. Bureau of the Census, *Statistical Abstract of the United States: 1974* (Washington, D.C., 1974), p. 7.

[5] Ibid, pp. 7 and 11.

[6] U.S. Bureau of the Census, *Current Population Reports*, Series P-20, No. 269, "Prospects for American Fertility: June 1974," (Washington, D.C., 1974).

[7] Census, Series p–25, No. 480. Series assumes no net immigration.

same. Currently, the ratio of social security beneficiaries to contributors is already .39.[8]

Under zero population growth, it could rise to .59. Any tendency toward earlier retirement could send the ratio even higher. The trustees actually project a 60-percent increase in the ratio of beneficiaries to covered workers in 2045, assuming a continuation of the recent trend toward early retirement.[9]

An analogous development took place from 1955 to 1973, when the ratio of recipients to covered workers grew from .142 to .388. Part of this increase in the recipient population came as a result of more and more covered workers reaching a retirement age. But a sizable portion of the increase came from changes in the social security law which made many more workers, dependents, and survivors eligible for benefits. There was also an increase in the proportion of aged persons in the population—from 8.7 percent in 1955 to 10.1 percent in 1973. To finance this 173-percent increase in the ratio of beneficiaries to covered workers and to increase payments per beneficiary by 67 percent more than the cost of living,[10] it was necessary to raise the combined employee-employer tax rate from 3.0 to 9.9 percent—an increase of 233 percent.

The effect of zero population growth on social security financing is a long-term problem, not likely to become critical until the next century. Under the demographic assumptions employed by the Board of Trustees, the cost of social security as a percent of taxable payroll would not rise sharply until 2005 and afterward, because it is only then that the share of the elderly in the population will begin to increase dramatically.

If replacement fertility continues, there will be no easy way to deal with the growing fiscal burden. The Nation will face a hard choice in the next century between three steps to equalize social security income and outgo on a pay-as-you-go basis: (1) cutting back on retirement benefits, (2) forcing or encouraging people to postpone retirement, or (3) further raising taxes on workers. A fourth solution would be to attempt partial advance funding of future benefits. This would require the establishment of a huge trust fund and would make it necessary to raise tax rates at an early date in order to accumulate a surplus in the fund.

B. Cost-of-Living Adjustment

A more immediate financial problem is raised by the formula for an automatic cost-of-living adjustment in social security benefits that Congress enacted in 1972. This provision threatens to escalate both medium-term and long-term costs if the social security law is not amended.

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[8] U.S. Department of Health, Education, and Welfare, Social Security Administration. *Social Security Bulletin*, September 1974, pp. 50 and 75. Data are for March 1974.

[9] Based on a projected population of 317 million in 2045 and a projected covered payroll of 148 million workers paying contributions at some time during the year. The comparable figures for 1972 were 209 million and 96 million. The average number of employees paying contributions at any one time during the year is considerably less than the number who pay at some time. Thus, in December 1972, the average number of employees paying contributions at one time was estimated at 75.5 million. Data supplied by the Social Security Administration.

[10] Based on average benefits per recipient of $154 in March 1974 and $51.70 in December 1955. Ibid., pp. 52–53.

The formula raises problems in regard to two classes of persons: current beneficiaries and future beneficiaries.

In principle, an escalator clause for current beneficiaries simply maintains the real value of benefits. This seems innocuous enough, and when combined with automatic escalation of maximum covered earnings, appears to pose no threat to the fiscal integrity of the system. Moreover, it only regularizes what Congress has done anyway for the last 20 years. But, there is a hidden assumption here which it would be well to make explicit. The effects of escalation depend crucially on the nature of the inflation. If it is wage-price inflation, in which real wages are either advancing or at least not declining, there is no problem with escalation. If, however, the inflation is an outcome of declining real income among workers, then payroll tax rates would have to rise in order to protect beneficiaries from sharing in the general decline in available real goods and services. This is a typical effect of escalator clauses in hard times. They insulate some persons from losses in real income, and thereby concentrate the burden of belt-tightening on the remaining unprotected persons. Declines in the real income of consumers have occurred before, and could occur again in such typical cases as: Food or other raw material shortages, a deterioration in the terms of trade—for example the rise in oil prices—a depression, a decline in productivity for whatever reason, an increase in sales or turnover taxes, or a sharp rise in defense expenditures.[11]

In World War II and after, Congress did not raise social security benefits in money terms so that inflation caused them to decline in real terms at a time when the requirements of war financing made the accumulation of a large social security trust fund a useful tool for shifting resources from consumers to the Government. Analogous developments may recur in the future. If they do, automatic escalation for current beneficiaries would no longer seem innocuous since it would give privileged treatment to retirees.

The more urgent issue posed by the 1972 law has to do with the future benefits of persons yet to retire. An internal memorandum of the Department of Health, Education, and Welfare explains:

> * * * the current automatic cost-of-living adjustment mechanism happens to produce an overadjustment in the benefits that are to be received by * * * those persons who are due to retire in the future. This overadjustment introduces into the system a bias toward ever-increasing benefit levels and payroll tax rates.[12]

This peculiar phenomenon is a direct result of the way in which Congress chose to formulate its cost-of-living escalator clause. The law requires that escalation be applied to the formula which determines a worker's "Primary Insurance Amount." This amount is the product of the individual's past average earnings and a set of percentage replacement rates which decline according to a given schedule as the level of average earnings rises. The 1972 amendments provide for automatic escalation of the percentage replacement rates. Workers yet to retire will therefore get a double adjustment for inflation. First, their wages will probably rise in line with the general inflation. Second, the replacement rates will escalate along with the price level. The multi-

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[11] Analogously, an increase in income taxes reduces the real disposable incomes of workers, but leaves social security recipients unharmed because benefits are tax-exempt.

[12] Memorandum made available to the subcommittee.

plication of these two adjustments will produce a dual correction for inflation. Under these circumstances, the higher the rate of inflation, the greater the increase in the real value of future benefits, and the greater the future fiscal burden of social security on covered payroll. This method of overadjusting benefits of present workers for inflation is generally referred to as "coupling."

The above-cited HEW memorandum also points out that if inflation were to proceed at moderate rates of 3 to 5 percent annually, the dual adjustment in future benefits would not actually have the effect of escalating real benefits until after 1990. That is because of two offsetting factors which will tend to depress benefits in the short run. Thus the report states:

> If it were not for the upward pressures on benefit levels produced by the current cost-of-living adjustment, other changes in the system would probably be needed in order to prevent a decline in the ratio of benefits received to wages earned for persons retiring over the next 15 years.[13]

The two factors which will tend to reduce benefits are:

1. The PIA computation formula, as mentioned above, establishes a declining set of rates of replacement of past earnings, with the brackets fixed in money terms. The rates decline from 120 percent of the first $110 in average monthly earnings to about 43 percent of the next $540, about 24 percent of the next $350, and 20 percent of any additional amounts.[14] As money wages rise with inflation, the average replacement rate will therefore decline, ultimately tending toward 20 percent (multiplied, of course, by the cumulative rate of inflation).

2. Present law requires that the "average wages" of retiring workers be computed by averaging the individual's covered annual earnings from the best 18 of the previous 23 years. Under present legislation this period will be gradually lengthened until the averaging period reaches 35 years in 1994. If money wages and prices continue to rise, the effect of this lengthening of the computation period will be that the earning record of earlier years will get "older" and tend to depreciate in real current value. The earlier years will drag down the real value of the "average wages" on which the PIA is computed, and this tendency will increase until the lengthening process stops in 1994.

Summing up the consequences of these offsetting factors, an HEW report concludes:

> Specifically, it is now clear that the level of the future benefits paid by the system depends rather crucially on the exact pattern of future price and wage increases. Slight alterations in that pattern can cause social security benefits to rise either more or less rapidly than do future wages, thereby producing alterations in the relationship between future benefit levels and future wage levels that may not be particularly desirable. Indeed, as a result of the fact that this relationship between future benefits and future wages depends so heavily on the exact pattern of wage and price changes, it now appears that future benefit levels, and the

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[13] Ibid.

[14] More precisely, the formula is: 120 percent of the first $110; 43.6 percent of the next $290; 40.8 percent of the next $150; 47.9 percent of the next $100; 26.6 percent of the next $100; 22.2 percent of the next $250; and 20 percent of the next $100. The PIA of any covered worker cannot fall below $93.80. See U.S. Department of Health, Education, and Welfare, Office of Income Security Policy, "An Analysis of the Factors Currently Determining Benefit Level Adjustments in the Social Security Retirement Program," by Lawrence Thompson, Technical Analysis Paper No. 1, Washington, D.C. 1974, p. 5.

payroll tax rates necessary to finance them, are as much a product of the chance interaction of economic factors as they are of any conscious policy decisions.[15]

The same HEW report examines the effects of various future wage and price movements on future benefits under the present law. As a measuring rod to compare alternative future situations, the report uses the "replacement ratio", defined as the quotient of the PIA due to a "representative worker" at retirement divided by the monthly wage he earned in the year just previous to retirement. (The "representative worker" is one who received the median taxable earnings in every year of his working life.) The technique of analysis exposes the effect of inflation on the real wage replacement function of social security, given the present "coupling" mechanism. The results of the HEW analysis are presented in table 4. Replacement rates will remain stable only under special circumstances—for instance, if wages rise by 4 percent and prices by 2 percent, the "C" series in table 4. If both wages and prices rise by only an additional 1 percent, the effect would be to gradually increase the replacement ratio until it was 24 percent higher in 2045. The assumed 5- and 3-percent rates of growth in the "B" series happen to be the ones employed by the Board of Trustees in their central set of projections of social security costs.

TABLE 4.—*Replacement ratios for men retiring at age 65, median taxable earnings in all years*

Assumption set	A	B	C
Assumed average annual rates of increase in:			
Wages	4	5	4
Prices	3	3	2
Replacement ratios:			
1975	0.426	0.426	0.423
1980	.462	.443	.437
1985	.485	.452	.436
1990	.512	.456	.439
1995	.522	.448	.427
2000	.548	.456	.426
2005	.574	.466	.425
2010	.599	.474	.424
2015	.623	.482	.423
2020	.646	.489	.421
2025	.667	.495	.420
2030	.688	.501	.419
2035	.707	.506	.418
2040	.725	.510	.417
2045	.743	.515	.416

Source: U.S. Department of Health, Education, and Welfare, Social Security Administration, "Some Aspects of the Dynamic Projection of Benefits Under the 1973 Social Security Amendments (Public Law 93-233)," by Albert Rettig and Orlo R. Nichols, Actuarial Note No. 87, April 1974, table 5.

Even more alarming is the "A" projection with 3 percent inflation and only 1 percent growth in real wages. By comparison with the "B" projection, there is 1 percent less growth in wages, and this dif-

[15] Ibid., p. 2.

ference leads to an astonishing 44 percent increase in replacement rates. Projections by the Board of Trustees show that under these circumstances the tax rate on covered payroll would rise to nearly 16 percent in 2010 and 27 percent in 2045! Under the current law, therefore, a declining rate of growth of real wages would have the perverse long-run effect of making retirees better off than workers, who would have to bear a crushing tax burden to support these very high replacement ratios. Retirees would be better off because their income would be tax-free, and because in many cases their benefits would be supplemented by dependents' allowances, for example 50 percent extra for a wife.

If, however, the law were amended to stabilize replacement ratios in the future, the fiscal burden of "coupling" could be eliminated. Thus in the "C" case cited above, trustee projections show that payroll taxes would not begin to rise very much until 2005, reaching only 11.6 percent in 2010 and 15.0 percent in 2045. In this scenario, zero population growth would be the only factor driving tax rates up in the next century.

Meanwhile, there is danger that the "disaster scenario" of escalating replacement ratios could occur much sooner than appears in table 4 if inflation continues at anywhere near its present double-digit level. For example, simulations done at HEW show that if inflation were to proceed at 10 percent and money wages rose steadily at 12 percent, the replacement ratio for the "representative worker" would be 28 percent higher in 1985 than it is in 1974. The 1985 cost of the program would reach 11 percent of payroll. The immediate fiscal impact of this development would be relatively small, because only the most recent retirees would be receiving benefits at the new replacement level. The bulk of persons on the social security rolls in any one year are getting benefits based on a PIA computed 1 to 25 years earlier. But even if Congress acted in 1985 to freeze replacement ratios at their then-current level, it would be too late to keep program costs from continuing to rise as successive cohorts of workers retired at the newly entrenched level of wage replacement. Eventually, program cost would be 28 percent higher than it would have been had replacement ratios been frozen at their 1974 levels.

Another HEW estimate shows that if wages rise by 7 percent and prices increase by 6 percent, the replacement ratio in 1985 will be 33 percent above its 1974 level. In this case the 1985 tax rate will be 12 percent, almost 2 points above what it would be if the replacement ratio were held at its 1974 level. If the replacement level were then frozen in 1985, projected costs under these HEW simulations would continue to rise, eventually reaching 16.9 percent of payroll in 2015, or 4.2 points above what they would be in 2015 if replacement rates had been frozen in 1974. An HEW observer concludes from this case that the eventual cost of postponing legislative action on "coupling" until 1985 may turn out to be over twice as much as the apparent immediate cost in 1985 of such delay.[15a]

"Decoupling" the system—that is eliminating the overadjustment for inflation in the benefits of persons yet to retire—will not be as easy as it sounds. It will require, first, a conscious policy decision by Congress as to what should be the long-term level of replacement rates.

[15a] Unpublished manuscript made available to the subcommittee.

Should these remain constant over time, or should they be allowed to decline as real income rises, so that the floor on retirement income remains fixed in constant dollars instead of rising along with the real wages of current workers? The latter alternative would be one device for holding costs down as the population ages.

Second, "decoupling" will require a complex alteration in the present benefit computation formula. Simply excluding current workers from cost-of-living escalation would lead to declining wage replacement rates over time if inflation continues. To avoid this, there will have to be provisions for offsetting the depreciation in the current real value of past earnings if a benefit computation period of 35 years is kept. Also, there would have to be an automatic adjustment for inflation in the brackets used in the PIA formula, which provides declining wage replacement as average money earnings rise. If these two changes were made it would be possible to maintain a fixed PIA formula for computing benefits in the first year of retirement. Benefits could then be automatically escalated in subsequent years.

C. Real Wages and Productivity

It is widely recognized that there is a large element of intergenerational transfer in the current social security program. In basic terms, that means that current benefits far exceed the value of past contributions accumulated at interest, the difference being paid for out of taxes on the rising real wages of current workers. The amount of intergenerational transfer can be measured in various ways, depending on the choice of interest rates and earnings histories. To take one instance, Martha Ozawa has estimated that a "maximum contributor," that is one who paid taxes on the maximum covered payroll throughout his working life, can expect, upon retirement in 1973, to receive benefits which will be worth 3.1 times the past contributions by himself and his employer. A "50-percent contributor" would get 3.9 times past contributions.[16] Persons with dependents, or persons who had spent some years out of covered employment, or persons with lower earning records, would get even larger returns on their previous payroll taxes. And the actuarial cost of disability and survivor insurance would further increase the return on previous contributions.

There is an analogous phenomenon in private pension systems, referred to as the "accrued liability." When a private pension is established, there is a tendency to begin awarding the new benefits to current retirees on whose behalf no past contributions were made into the fund. Also, when benefits are liberalized, there is a tendency to begin paying the new benefits to employees on the verge of retirement, even though past contributions on their behalf were made on the assumption of lower benefit levels. However, social security far outdoes private pension plans insofar as Congress grants benefit increases not only to new retirees, but also to persons already on the retirement rolls. Only a few private pension plans practice the latter type of generosity.

The key element which underlies this "Ponzi game," as Samuelson has dubbed it, is the secular growth of population and real wages. A

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[16] Martha N. Ozawa, "Individual Equity versus Social Adequacy in Federal Old-Age Insurance," *The Social Service Review*, XLVIII (March 1974), 24–38.

perpetual continuance of these growth patterns would enable the game to go on forever, with retirees always collecting benefits in excess of their past contributions and no risk of a fiscal crunch. A likely deceleration in population growth, discussed above, will remove one of the struts supporting this fiscal structure. If real wage growth were also to cease, the effects would be analogous, and the other strut supporting intergenerational transfer would collapse.

Prior to 1972, actuarial forecasts for the social security system were based on static assumptions—level earnings and level benefits. As Robert Myers points out in the appendix to Crowley's paper, this assumption was essentially conservative. Whenever earnings rose an actuarial surplus would develop which could be used to finance benefit increases. The 1971 Advisory Council on Social Security recommended a fundamental shift in the actuarial methodology used to determine the OASDI tax rate schedule. They proposed using "dynamic economic assumptions," whereby the actuaries would base their cost estimates on long-range forecasts of growth rates for both wages and prices. "This was much more appropriate than was the case in previous years, because the Advisory Council was recommending automatic adjustment of benefit levels for changes in the cost of living and of the earnings base," Myers points out.[17] A third shift, the adoption of an explicit pay-as-you-go philosophy, was also taking place.

TABLE 5.—*Projected "current cost"* [1] *of old-age, survivors, and disability insurance system as percent of payroll,*[2] *under various dynamic assumptions, for selected years, 1974–2045*

[In percent of payroll]

Calendar year	Dynamic economic asumption [3]						
	5.00–3.00	5.00–2.00	5.00–4.00	6.00–3.00	4.00–3.00	6.00–4.00	4.00–2.00
1974	10.67	10.33	10.35	10.33	10.33	10.35	10.33
1985	10.44	9.63	11.64	9.33	10.96	10.49	10.20
1990	11.03	9.76	13.00	9.53	12.15	11.25	10.77
1995	11.25	9.53	13.98	9.44	12.94	11.69	10.92
2000	11.31	9.10	14.71	9.19	13.48	11.92	10.84
2005	11.69	8.88	15.74	9.14	14.23	12.39	10.89
2010	12.69	9.16	17.71	9.60	15.82	13.55	11.56
2015	14.14	9.78	20.55	10.43	18.15	15.27	12.68
2020	15.71	10.48	23.80	11.37	20.84	17.24	13.95
2025	16.97	11.01	26.86	12.16	23.29	18.99	14.97
2030	17.60	11.14	29.05	12.53	24.92	20.12	15.42
2035	17.68	10.89	30.15	12.45	25.62	20.50	15.30
2040	17.68	10.57	30.97	12.26	26.05	20.66	15.04
2045	17.86	10.39	32.08	12.19	26.74	20.98	14.95
Average cost [4]	13.89	10.05	20.41	10.66	17.96	15.20	12.60

[1] Represents the cost as percent of payroll of the year's total outgo, including amounts needed to maintain the funds at about 1 year's outgo.
[2] Payroll is adjusted to take into account the lower contribution rate on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.
[3] The 1st of the 2 figures represents the assumed ultimate annual percent increase in earnings after 1980, while the 2nd figure represents the assumed ultimate increase in CPI.
[4] Represent the arithmetic average of the "current cost" for the 75-year period 1974–2048.

Source: *1974 Annual Report of the Board of Trustees of the Federal Old-Age and Survivor Insurance and Disability Insurance Trust Funds*, Washington, May 31, 1974, p. 86.

[17] See Myers' appendix to the Crowley paper.

A basic issue posed by the new methodology is whether it is possible realistically to forecast wages and prices over a 75-year period. The method adopted by the Board of Trustees in their 1974 report was to forecast wage and price increases for the next 5 years on the basis of an informed extrapolation of current conditions, and then to assume straight-line growth rates for the following 70 years which were more or less similar to the experience of recent decades. The weaknesses of this or any other procedure of dynamic forecasting is that it is extremely sensitive to slight changes in the projected compound growth rates.

Table 5 illustrates the risks inherent in the new methodology. In this table, the Board of Trustees have simulated the cost consequences associated with seven alternative dynamic forecasts. In these projections, the post-1980 rate of wage increase varies from 4 to 6 percent, and the rate of price increase varies from 2 to 4 percent. We could say alternatively that the rate of inflation varies from 4 to 6 percent, while the rate of real wage growth varies from 1 to 3 percent. The cumulative effect of even such small variations is extraordinary. Average cost over the 75-year period ranges from a low of 10 to a high of 20 percent of taxable payroll, and cost in the final year 2045 varies from 10 to 32 percent of payroll.

How is it possible to account for such effects? It is useful at this point to distinguish two variable factors—inflation, and real wage growth. Let us first take a brief glance at inflation before turning to the main issue under consideration—the effects of real wage growth.

1. Inflation.—Reference was made earlier to the sensitivity of costs to inflation via the mechanism of "coupling." The effects of coupling can be observed in table 5 by comparing scenarios which assume the same rate of real wage growth at differing rates of inflation. (Real wage growth is roughly the difference between money wage growth and price growth. Therefore, holding real wage growth constant means maintaining a constant gap between money wage growth and price growth. For example, money wage and price growth rates of 6–4, 5–3, and 4–2 percent are all equivalent to real wage growth of 2 percent per year.) The issue under discussion is how "coupling" causes inflation to escalate real social security costs at given rates of real wage growth. Examination of the trustees' projections in table 5 indicates that a secular 1-percent increase in the rate of inflation will have about the following effect on the average cost of the social security system in percent of taxable payroll over the next 75 years, at given rates of real wage growth:

Cost increase associated with a 1-percent increase in inflation, in percent of taxable payroll

Rate of real wage growth per year:	
0.01	2.4
0.02	1.3
0.03	0.6

It appears, therefore, that the effect of "coupling" on costs will be greater, the smaller the rate of real wage growth.

2. Real wages.—With employee compensation accounting for about 75 percent of national income, long-term real wage growth cannot exceed long-term productivity growth. To assume a secular growth of wages at 5 percent and a growth of prices at 3 percent—the trustees' "central assumption"—is therefore equivalent to assuming a secular productivity growth rate of at least 2 percent. What will happen if such increases do not take place? The trustee estimates provide a forthright answer. A fall in the rate of real wage growth to 1 percent will escalate average costs from about 14 percent of taxable payroll to either 18 or 20 percent, depending on the rate of inflation. Moreover, the bite of this fiscal burden will begin to be felt by 1990. And the report does not even examine the consequences of zero real wage growth. On the other hand, should real wage growth reach 3 percent, system costs would remain nearly level over the next 75 years, averaging 10–11 percent of taxable payroll.

The experience of the past 25 years indicates that it will not be easy to maintain a real wage growth rate of 2 percent for the next three-quarters of a century. To be sure, productivity in the private economy advanced at a rate of 3.2 percent in the period 1947–72.[18] But real wages grew more slowly. First, productivity in government services, hard to measure, probably lagged behind the private sector.

Second, consumer prices advanced more rapidly than the implicit price deflator in private production used to measure productivity. The CPI rose by 87.3 percent in 1947–72, against 83.3 percent for the deflator.[19] (The recent adverse turn in the terms of trade will tend to aggravate this differential for the time being.) As a consequence of these and other factors, compensation of private employees per man-hour, deflated by the CPI, rose by only 3.0 percent per year in the same period.[20] Meanwhile, man-hours worked per employee in the private economy declined by 13 percent.[21] At the same time, the share in compensation of employer supplements to wages and salaries—contributions to social insurance, private pensions and other fringe benefits—rose from .045 to .120.[22] Both trends have tended to reduce the growth rate in direct real earnings. Thus, in the period 1948–72, real direct compensation of all wage and salary employees rose at an annual rate of only 2.14 percent. In the more recent period 1955–73, it rose at only 1.58 percent.[23]

Many economists doubt whether productivity gains of past magnitude can be expected to continue indefinitely. For example, in 1947–72 productivity in the nonfarm private economy grew at a rate of only 2.7 percent, as against 3.2 percent for the whole private economy. The difference was due to faster growth in agricultural productivity, together with the shift of workers out of agriculture into the nonfarm economy, which has had a higher level of productivity. The opportunities for such gains are diminishing as employment in the agricultural sector shrinks. Meanwhile there is a continuing growth of the service sector, where productivity gains are harder to achieve than in manufacturing.

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[18] *Economic Report of the President*, Transmitted to Congress February 1974 (Washington, D.C.: Government Printing Office, 1974), p. 62.

[19] Ibid., pp. 253 and 300.

[20] *Manpower Report of the President*, Transmitted to Congress, April 1974 (Washington, D.C.: Government Printing Office, 1974), p. 375.

[21] Ibid., p. 374.

[22] *Economic Report*, p. 266.

[23] Based on the quotient of wages and salary payments (*Economic Report*, p. 266) and the number of wage and salary workers (*Manpower Report*, p. 270), deflated by the change in the CPI.

Doubts of this type tend to undermine the current actuarial philosophy of projecting 2 percent real wage gains for the next 75 years. Thus Robert Myers, former Chief Actuary to the Social Security Administration, proposes in the appendix to the Crowley paper in this volume that:

In my opinion, it would be much more appropriate and prudent to make the actuarial cost estimate on the basis of economic assumptions that allow for a reasonable differential between earnings increases and price increases for the next 5 to 10 years with this differential being eliminated over the subsequent 5 years. In other words, after the end of this period, it would be assumed that earnings and prices would both increase at the same rate.

Myers believes that there are good reasons—including raw material shortages and changing life styles—for expecting that past productivity gains will not be matched in the long-run future, and he argues that it is important to study the fiscal consequences on social security of such a slowdown. Essentially, he is appealing to the Nation not to count its chickens before they hatch.

An unfortunate aspect of the present situation is that "coupling" makes it impossible to isolate the effects of alternative productivity gains on future social security costs in the trustee estimates. Simple reasoning tells us that a slowdown in productivity growth will diminish the opportunities for intergenerational transfer at a given tax rate, and will increase the social security tax burden at given wage replacement rates. Due to coupling, however, there is also a long-run tendency under present law for replacement rates to escalate as real wages decelerate at given rates of inflation. The very high average social security costs associated with 1 percent real wage gains in table 5 therefore are due to two factors: (a) rising replacement rates, due to "coupling", and (b) declining opportunities for intergenerational transfer. Realistically, it is unlikely that Congress will allow replacement rates to rise dramatically over the long run, if only because the associated tax burden would be intolerable. It would therefore be useful to have cost projections which hold wage replacement rates constant and measure the effects of alternative real wage growth rates on system costs.

A study is now underway at HEW to answer precisely this question. Preliminary results indicate that the eventual effect of a 1 percentage point decline in secular real wage growth given level replacement ratios is to increase the ratio of program costs to covered payroll by about 9 percent. In other words, if required taxes in any given future year were projected at 13 percent of payroll given 2 percent secular real wage growth, the tax rate would be about 14.2 percent if real wage growth turned out to proceed at only 1 percent per year, or 15.5 percent of payroll if real wages ceased altogether to grow. The same study shows that a 1 percent rise in the replacement ratio of the "representative worker" will lead to a 1 percent increase in the ratio of program cost to payroll, other things being equal. In other words, if costs were 12 percent of payroll in any given year at a level replacement ratio of 0.4, they would be 15 percent of payroll in the same year at a level replacement ratio of 0.5, assuming the replacement ratios had been in effect for a number of years.[23a]

In a related model, Rejda and Shepler have studied the question of whether one could hold tax rates constant at replacement fertility by

[23a] Same source as footnote 15a.

financing the retirement burden of an aging population out of real wage increases. The assumption is that benefits would either be held constant in real terms or allowed to increase more slowly than real wages, so that wage replacement rates would gradually decline. The authors found that assuming zero population growth as projected in the Census Bureau's Series X, and assuming as well a fall in the age of retirement to 60, it would still be possible to hold tax rates constant over the long run and keep real benefits fixed if real wages were to rise by at least 1.01 percent per year. If real wages rose by more than 1.01 percent, real benefits could be increased by the excess amount.[24] This would be good news for taxpayers, but it would mean that retirees would have to content themselves with an ever-decreasing ratio of social security income to the per capita income of current workers.

Such models raise a basic issue in social security financing—whether well-being is an absolute or a relative concept. If well-being can be measured absolutely in "constant dollars," and assuming real wages continue to rise, it would be possible to carry out a fiscal maneuver of the type described by Rejda and Shepler without actually hurting social security beneficiaries. Wage replacement rates could be allowed to decline, with retirees facing only a transitional hardship as they adjust to relatively lower post-retirement incomes. If, however, well-being is relative to the average per capita income prevailing in society, beneficiaries will feel impoverished if forced to accept a decline in the ratio of retirement income to average per capita income or to their own past income.

Congress will be faced with a similar issue in the near future as it decides what to do about the benefits of current social recipients. Over the past 20 years, Congress has tended to raise these benefits by much more than the cost of living, in fact by more than real wages have risen.[25] Retirees have thereby been allowed to participate in the general growth of real per capita income. Current cost projections by the Board of Trustees do not allow for any increases in the real value of benefits to persons once they are on the social security rolls. The cost-of-living escalator clause simply protects them against any decline in their real income. If Congress in coming years decides that level real benefits are not sufficient, it will face the issue of how to finance benefit increases for retirees. Such increases would raise costs above the levels projected by the trustees.

FINANCIAL PROSPECTS

Viewed in the light of the preceding analysis, how realistic do the trustee projections appear? Briefly, there are three mutually-offsetting factors which deserve close attention. One step which could cut costs would be the elimination of "coupling." Due to "coupling," the trustee projections imply a gradual increase in wage replacement rates, with

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[24] George E. Rejda and Richard J. Shepler, "The Impact of Zero Population Growth on the OASDHI Program," *Journal of Risk and Insurance*, September 1973, 313–325.

[25] Between 1955 and 1973, real wage and salary income per employee rose by 32.5 percent, while real benefits per beneficiary rose by almost 67 percent. See footnotes 22 and 9.

the hike ultimately reaching 25 percent in 2045. If legislation were enacted to maintain level replacement rates, social security officials estimate that the average cost of the program over the next 75 years would be cut by about 1 percent of payroll, one-third of the presently forecast actuarial deficit. The exact savings would depend on the precise method chosen for "decoupling," officials add. Furthermore, the cost savings would be largest in the next century, so that cost in 2045 would fall from the present forecast of 17.86 percent of payroll to about 15 percent.

But two other factors threaten to increase costs above the trustee forecast. First, any lag in real wage growth rates below the optimistic 2 percent per year assumed by the trustees would require substantial increases in payroll taxes above trustee projections. Second, any benefit increases enacted by Congress would have a similar effect. Therefore, Congress and the public should treat the trustee projections seriously, and consider them as underestimates of what may happen.

In sum, now that the social security program has become so large, there are good reasons for giving prudent forethought to the risks of an excessive fiscal burden in both the near and distant future. Congress should reconsider the current "coupling" mechanism in the benefit formula, whereby the rate of inflation determines the amount of wage replacement which future retirees can expect. There are no good policy reasons why future retirees should receive dual compensation for inflation.

2. The Future of Program Structure

The prospect that support of an aging population will require a sharp long-run increase in payroll taxes, even at level wage replacement rates, should spur a re-evaluation of the purpose of social security. It has long been recognized that there is a tension in the program between its welfare side and its insurance side. The basic philosophy of the insurance side is that people actually get insurance protection which is worth about what they and their employers have paid into the fund in the past. In fact, however, the welfare component of social security predominates today in two ways. First, all beneficiaries receive a massive intergenerational transfer, which Ozawa has estimated to be worth two-thirds of benefits for the maximum contributor. Second, the program assures a very high wage replacement rate—sometimes exceeding 100 percent—to minimum contributors. There are good grounds for arguing that the regressive payroll tax is a fair way to finance an insurance program, but an unfair way to finance a welfare program. Therefore there are grounds for thinking about two steps which could reduce the welfare burden of social security on payrolls:

(a) Transferring the support of minimum contributors to supplemental security income (SSI). Since January 1974 the income support goal of social security has been duplicated by SSI. SSI is a universal negative income tax-type plan for the aged, blind, and disabled that provides a guaranteed annual income ($1,752 for a single person and $2,628 for a couple), and reduces the guarantee by 50 percent of earnings above $780, and by 100 percent of unearned income above $240. The existence of SSI makes it feasible for social security to relinquish its income support goal and become a pure earnings-replacement system.[26]

(b) Using general revenue to supplement the payroll tax as a source of funds for the intergenerational transfer component of the social security program; or, alternatively, partially or wholly eliminating this transfer and converting the program into more of a strict annuity system with benefits paid exactly in proportion to one's lifetime payroll tax contributions.

The use of general revenue or the transferring of beneficiaries into other programs will only shift the cost burden onto a somewhat different group of taxpayers. Therefore, in the context of the coming fiscal squeeze it is important to ask which social security spending goals are essential, and which ones are simply too expensive for society to bear.

How one approaches these issues is decided primarily by his conception of what the social security system is, or should be, designed to achieve. Should it be a wage-replacement program closely related to former earnings and contributions? Should it be a mechanism for sharing the fruits of economic growth and productivity gains with retirees? Should it be a mechanism for providing a minimum income below which no beneficiary's income can fall? The system now tries to serve all of these objectives, but the first and last contradict and impede each other.

Frank Crowley notes that the notion of social security benefits as an "earned right" is a mixture of fact and fiction. Although it is true that benefits are payable because of the earnings record of a worker,[27] they are not closely related to the level of those earnings or the amount of social security taxes paid. Two workers with the same lifetime earnings may receive substantially different benefits depending on the pattern of earnings over the years and their number of dependents. Conversely, workers with dissimilar earnings histories may receive benefits within a substantially narrow range, because of artificially high minimum benefits, a benefit formula that replaces a larger portion of low than high covered earnings, and provisions for dependents. Moreover, over the years newly covered workers, dependents, and survivors have been given full-rate benefits under the lib-

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[26] Independent of any restructuring of social security, the manner in which SSI and social security interrelate needs to be altered. Because SSI classifies income from social security as unearned and reduces benefits by 100 percent of all social security income over $240, coordination of the two programs is awkward and produces severe horizontal inequities. At the moment "* * * the sum of SSI cash benefits plus any State cash supplements plus the imputed dollar value of in-kind benefits such as mediacid that are tied into welfare eligibility can exceed the value of OAI benefits plus income from other sources for low-income retirees." (U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, "The Social Security Retirement Program and Welfare Reform," by Michael K. Taussig, *Issues in the Coordination of Public Welfare Programs*, Paper No. 7 (Washington, D.C.: Government Printing Office, 1973), p. 27.) Indeed, California guarantees an aged couple with a modest social security check State benefits that are $4 above the maximum social security benefit payable anywhere in the Nation. In effect, SSI has lowered the rate of return on the payroll taxes paid by low-income OAI recipients during their working lives. An attractive solution to the problem of better coordinating social security with SSI is for SSI to lower the rate at which it reduces SSI benefits because of receipt of social security benefits.

[27] Certain persons age 72 and over were covered in 1966 and after even if they did not otherwise qualify on the basis of their own or another's earning record.

eralized schedules of the changing law rather than the benefits to which they would otherwise have been entitled on the basis of earnings histories.

Although the papers in this volume suggest that the role and structure of social security require rethinking, they do not discuss recommendations in detail. Will future workers be willing to earmark a great share of their earnings to support their retired parents, uncles, aunts, grandparents, and neighbors on the assumption that their own children and others in the next generation of workers will be willing to do the same for them? When such a large component of the Nation's resources is devoted to retirees [28]—a good share of whom will be comfortably fixed—other compelling social needs may be neglected.

One of social security's popular features is that it does not directly attempt to relate benefits to current income need. Although social security imposes no income test for eligibility, it indirectly attempts to relate benefits to current need by such devices as minimum benefits, a progressive benefit-computation formula, and dependents' and survivors' allowances. Yet some of the recipients of these non-insurance benefits are not poor. Recipients of the high minimum benefits may include retired civil servants with their own public pension who worked long enough in private employment to gain access to the social security minimum, as well as truly low-income people. And those who are poor are eligible for extra help from the supplemental security income program. Before private pensions were widespread, before there was a uniform and federally administered welfare program for the aged, blind, and disabled (SSI), and before the dramatic increase of working wives, those noninsurance elements of social security may have served a useful function. In the interest of more efficient use of scarce tax dollars, and because of growing costs, it seems imperative to reorient social security so that it adheres more strictly to wage replacement up to reasonable levels, and to rely on welfare programs and other public and private pensions to fill in the gaps for those below and above average income levels.

The papers in this volume are presented as a contribution to discussion on the future role of social security. Frank Crowley has reviewed the history of program financing with particular attention to the controversial issue of using general revenue to pay for social security. He notes that Congress has repeatedly rejected such proposals, and shows how the issue relates to disagreements about the nature and purpose of the program. Some have argued that general revenue would amortize the program's accrued liability, or support its welfare element, or pay for intergenerational transfer, or relieve low-income earners of a heavy payroll tax burden, while others have warned that the use of general taxes would undermine the system's fiscal integrity and its reputation as an insurance program.

Crowley reviews the legislative history of the 1972 amendments, which represent a turning point in social security history. The amendments introduced automatic cost-of-living escalation into social security, and granted large benefit increases based on a revised actuarial forecasting methodology which for the first time assumed rising real

[28] Including as well other Federal, State, and local public pensions, public medical care costs, and the cost to the consumers of private pensions.

wages and explicitly accepted pay-as-you-go financing. Crowley also discusses the fears expressed by conservative economists as to the implications of the new methods.

In an appendix to the Crowley paper, Robert J. Meyers, former Chief Actuary of the Social Security Administration, explains the background and features of the new actuarial methodology based on "dynamic economic conditions," and expresses doubts as to the prudence of the new methods. In another appendix, Nancy Davenport of the Congressional Research Service provides a compendious selective bibliography of literature on the development of social security financing in the United States.

Another key issue in considering the future of social security is the complementary role of private saving in accumulating resources for retirement. In her paper Alicia Munnell reviews the evidence on the effect of social security on private savings behavior, and concludes that the large benefit increases of recent years will probably reduce the tendency of individuals to save for retirement. Her findings raise basic questions about whether generous social security benefits will really improve the welfare of future retirees, or simply substitute in large measure for pre-retirement saving efforts they would otherwise have made on their own initiative.

Private pension plans have grown rapidly over the past 35 years and now cover about half of 61 million nonfarm private workers. (Meanwhile, most of 13 million Government workers are enrolled in pension plans.) The growth of private pension plans, which benefit from a Federal tax subsidy estimated to be worth $4 billion per year, raises the question of how private programs and social security should be coordinated to provide adequate retirement income at reasonable costs. Ray Schmitt explores one of the issues involved in this question in his paper on the "integration" of private pension plans and social security. Present law allows private pension plans to provide higher wage replacement benefits for persons with earnings above the social security wage base than those below. This practice may be inequitable to workers with low and moderate earnings, and it also raises the question of whether social security tends to supplement or supplant business efforts toward providing retirement income. The surveys which Schmitt made present new data on the extent of integration practices in private pension plans, and constitute a first step toward the collection of basic information which Congress will require as it re-examines the fairness of the existing law.

FINANCING THE SOCIAL SECURITY PROGRAM—THEN AND NOW

By F. J. CROWLEY*

INTRODUCTION

This paper is a revision and expansion of an earlier paper, "Historical Review of General Revenue Financing in Social Security," which was written in 1967. However, since 1967 there has been considerable change in the social security program and the society in which it operates. The welfare reform debate which barely had begun in 1967, seems to have subsided, after having given rise to a Federal welfare program (supplemental security income or SSI) for the needy aged, blind, and disabled. The social security concept of the 1930's has given way to the income maintenance ideas of the present decade. Proposals for revisions in the financing of social security should be examined from the point of view of both the old and the new concepts. The discussion should consider whether the new concepts are likely to cause structural changes in the social security cash benefits programs.

The need for a close look at the way the social security program is financed seems more obvious now than it did even as recently as the first days of spring 1974 when this paper was completed. Since then the trustees of the social security trust funds have reported (May 31, 1974) that the social security cash benefits programs have a long-range actuarial deficit in the neighborhood of 3 percent of taxable payroll (about $20 billion a year on the basis of current payroll). The report indicates that the long-range cost estimates were revised to take account of new demographic assumptions (zero population growth) as well as the recent unfavorable experience with the disability insurance program. Also, the effect of rapidly rising prices, as translated into cost-of-living benefit increases, of course, has significant effects because, at the present time, a 3 percent rise in benefits amounts to about $1.8 billion in the first full year and has a compounding effect on the long-range costs.

Concepts of how social security should be financed are influenced by an individual's view of the nature of social security and its role. For some, social security will be considered as an insurance program—a *social* insurance program, to be sure, but nevertheless insurance—that should be financed, like any insurance program, by premiums paid by the insured. In recognition of the social aspects of the program, the full premium may not be paid by the insured, but may be supplemented by a payment from an interested party—the employer and possibly the Government. In this case, the payment is called a "contribution" rather than a premium. For others, the social security program is little more than another welfare program, and should be paid

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for, like all other welfare programs, out of revenues from general taxation.

In discussing ways of reconciling the objectives of a needs tested program with wage-related programs, a study prepared by the staff of the Subcommittee on Fiscal Policy of the Joint Economic Committee noted:

> The traditional objective of welfare programs is to provide needy persons with a minimum income, usually described as a level adequate to maintain health and decency below which no one should fall. The SSI program has essentially the same purpose. The emphasis on supplementation recognizes that the majority of aged persons and many blind and disabled persons receive social security benefits and the program is designed to supplement other income up to a defined level.[1]

Thus, there is a tendency to discuss social security financing both from its "insurance" or "equity" aspects and from its "social" or "welfare" aspects. Some who support the general revenue approach say that the payroll tax is the appropriate way to finance the insurance aspects (retirement benefits, for example), but that it is not the proper way to finance the broader social aspects of the program, such as a minimum benefit or dependents' benefits. In this context, the question of using general revenues becomes a question of defining the *role* of the social security program. On the other hand, some argue that a balance should be maintained between the social and the insurance aspects, with the total cost of the program being paid out of the earmarked payroll tax. This group argues that general revenue financing would have an undesirable effect on people's attitudes toward the social security system. Nearly from the start of the program, and up to the present time, the Social Security Administration and proponents of the social security program in general have stressed the contributory nature of the program, indicating that because people pay social security taxes, the benefits, unlike welfare payments, are paid as a matter of earned right. Moreover, they point out that because employers and employees know that improvements in the program will cause increased taxes that they themselves must pay, the payroll tax serves to limit fiscal irresponsibility and too rapid liberalizations.

The original proposals made by the Committee on Economic Security for a social security program contemplated the use of general revenues starting about 1965. During the 1940's, the law authorized an appropriation from general revenues if it was needed to keep the program solvent. In the Social Security Amendments of 1950, Congress appeared to settle the question, at least for the time being, by repealing the authorization for appropriations from general revenues. Thereafter, frequent references to the self-supporting nature of the program were made in the reports of congressional committees dealing with social security financing.

In the early discussion leading up to the creation of the social security program, the financing of the program was a major issue. The problem the early planners thought they had solved, however, was limited to assuring adequate financing over both the short- and the

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[1] U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, *Studies in Public Welfare*, Paper No. 10, "The New Supplemental Security Income Program—Impact on Current Benefits and Unresolved Issues," p. 82. The paper contains, starting on p. 78, a discussion of the problems of coordinating the supplementary income program with other programs.

long-run future without simultaneously concentrating in the social security trust funds an unconscionable portion of the national wealth. Surprisingly, there was little discussion about the source of basic funds. Not so surprisingly, however—if one accepts the idea that dominated the thinking of the early planners that the new old-age security program was to be contributory, wage-related, with benefits paid as a matter of right—the financing decisions made at the outset were pragmatic solutions arrived at with due regard to the then-existing political and economic situation.

That the original decision to use a payroll tax as the basic method of funding social security seems to have been reached without much discussion should not obscure the early discussions that occurred about use of general revenues to meet some part of the costs of the program. Moreover, as the costs of the program has risen over the years, discussions on financing the program have gained in intensity, and the proposals have ranged from establishment of a three-part financing plan—with employees, employers and the Government each paying an equal share—to financing all of the cost of the program from the individual income tax or from some sort of tax on total income.

The present social security tax law requires a maximum combined employer-employee tax of $1,554.40; payroll taxes account for about 30 percent of Federal budget receipts; and payroll taxes have overtaken the income tax in the budget of most U.S. taxpayers. Hence, much of the current discussion of social security financing deals with the regressive nature of the payroll tax, methods of redistributing the social security tax burden, pay-as-you-go financing, the actuarial cost estimates; and, in a broader sense, the role of social insurance vis-a-vis welfare and how the supplemental security income program might change the philosophy of the program.

This paper is an attempt to collect in one place a brief history of how social security financing has developed in the United States, current problems with respect to the financing of the program, alternative proposals to finance the program, and representative opinions about suggested revisions. There has been a conscious attempt to limit the bulk of the paper to something resembling readable proportions. Because selectivity represents personal choice, any individual may well ask why something was not included or why some other point was included. The only answer, of course, is that at the time of writing, the decision seemed appropriate.

The first part of the paper revises and updates the paper prepared in 1967. The second part of the paper, "Some Current Issues," follows the style of the earlier paper in that, to the extent possible, the statements of persons and of committees of Congress who are considered to have influenced the legislative process are given as direct quotations.

The selection of whom and what to quote has been decided, in order of priority; by: (1) the representativeness of the view; (2) the influence the view or its author has had on legislation; and (3) how well it is said.

As an aid to those interested in exploring the published materials on social security financing, this paper contains a unique bibliography (appendix III), "The Origin and Development of Social Security Financing in the United States, 1932–73," prepared by Nancy Davenport, a bibliographer employed by the Congressional Research Service. As she indicates in her introduction, the citations are arranged in the chronological order of major amendments to the Social Security Act. Because it is extensively annotated, the bibliography should be of special use to those who need information on specific aspects of social security financing.

The appendix, "Study of Actuarial Assumptions as to Social Security Tax Rate Schedules," by Robert J. Myers, who was formerly Chief Actuary to the Social Security Administration, was prepared in 1973 under a contract with the Congressional Research Service. The opinions expressed in the appendix are, under the terms of the contract, his professional opinions rather than the views of the Congressional Research Service.

PART 1. HISTORY

I. *The Social Security Act of 1935*

The earliest discussions of using general revenues to finance social security took place in the Committee on Economic Security, whose recommendations formed the basis of the original Social Security Act. The Committee, which had been appointed by President Franklin D. Roosevelt in 1935, was composed of five members.[2] The social security program proposed by the Committee had originally called for a Government contribution starting about 1965. However, when the President learned that the program was not "self-sustaining" he insisted that it be changed. Edwin Witte, Executive Director of the Committee, described the President's reaction on learning that the program was not self-sustaining. Mr. Witte wrote:

> On the afternoon of January 16, after the President had already notified Congress that he would, on the next day, submit a special message dealing with social security, and after press stories on the message and the committee's report had already been given out at the White House, the President discovered a feature in the old age insurance part of the program which he did not like. This was the aspect that a large deficit (to be met from general governmental revenues) would develop in the old age insurance system after 1965, as was stated clearly in the press releases which were prepared by Mr. Fitzgerald of the Department of Labor. The President thereupon sent for Secretary Perkins, who, in turn, asked me to come over after the President had indicated that he could not support such a program. When I arrived, the President was still under the impression that there must be a mistake somewhere in the tables which appeared in our report. When advised that the tables were correct the President insisted that the program must be changed. He suggested that this table be left out of the report and that the committee, instead of definitely recommending the particular tax rates and benefit schedules incorporated in the original bill, merely present these as one plan for meeting the problem which Congress might or might not adopt.
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> Following this conference with the President, all members of the Committee were communicated with and all agreed that the President's wishes in that matter must be carried out. The report was again withdrawn from the President

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[2] The members were: Frances E. Perkins, Secretary of Labor (Chairman); Henry Morgenthau, Jr., Secretary of the Treasury; Homer Cummings, Attorney General; Henry A. Wallace, Secretary of Agriculture; Harry Hopkins, Federal Emergency Relief Administrator.

and changes made which he had suggested. It was not filed in final form until the morning of January 17, although it bears the date of January 15, 1935.[8]

The President, however, was not the only one who did not understand the extent to which general revenues were to be used to finance the old-age insurance program the Committee was recommending. Mr. Witte believed the members of the Committee on Economic Security did not realize that benefits in excess of the amount of social security taxes would be paid to substantially all people who entered employment prior to 1957. Mr. Witte explained this and the rationale for the Committee's recommendation in the following way:

> * * * The benefits provided in this bill were such as the actuaries figured could be paid for by 5 percent contributions on payroll over a lifetime of employment in industry. This meant that the combined rates on employers and employees would be adequate to pay the costs of the benefits only for employees entering the old age insurance system in 1957 and thereafter. In the first twenty years of the system far less would be collected than necessary to meet the costs computed on an actuarial basis. Due to the fact, however, that in any old age insurance system there are relatively few retirements during the early years, the amount collected in these first twenty years would nevertheless have been considerably greater than the disbursements during these years, so that the inadequacy of the rates would not create a serious financial problem until some years later. If the ultimate rate equaled only the actual current cost, however, the actuaries estimated that by 1965 a deficit would develop in the old age insurance fund, which would continue to increase until 1980. By that time this deficit would amount to approximately $1,400,000,000 per year. This deficit, the old age security staff proposed, should be met through contributions from the United States Treasury, although there was no way in which it could be guaranteed that when the deficits developed contributions would be actually made from general tax revenues, rather than be met through reduction of benefits or increase in the contribution rates.
>
> The Committee on Economic Security was told by its staff that the taxes currently collected would not meet the costs of benefits after 1965 and it accepted the idea that the deficits resulting thereafter should be met from general tax sources. In all discussions preceding the committee's final decision on the recommendations it should make on old age security, the plan recommended by the staff was discussed in terms of larger benefits to workers approaching old age than could be paid for through their contributions and those of their employers with the United States Government ultimately making up the resulting deficits from general tax sources. It is my belief that no member of the committee understood that payments in excess of contributions would be made not only to workers already approaching old age, but to substantially all workers who enter employment prior to 1957. When Secretary Perkins and Mr. Hopkins, acting for the committee, presented its recommendations orally to the President on December 24, [1934] they described the recommendations on old age insurance in the terms used by the staff, and the President got the impression that the plan proposed contemplated payments in excess of contributions only to people approaching old age who did not have time to build up their own old age protection on a really adequate basis. He also accepted the argument made by the staff and the committee that the compulsory old age insurance system would reduce the costs of the noncontributory old age assistance grants and apparently formed the idea that the two programs combined would result in decreasing governmental costs as the years went on.

On this point, Mr. Witte continued his account.

> To satisfy the President, the committee's report was altered at the last minute, avoiding a definite commitment to the tax and benefit rates recommended by the staff. The working out of new rates to make the plan self-supporting, however, required time. So the rates recommended by the staff had to be included in the original. The Committee on Economic Security, however, had definitely told the

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[8] Witte, Edwin E. *The Development of the Social Security Act.* Madison, University of Wisconsin Press, 1962, p. 74.

President that it would revise these rates to accord with his views and would suggest an amendment to the Ways and Means Committee which would make the old age insurance system self-supporting (assuming the correctness of the actuarial calculations and continuance of the plan without material amendments in future years.)

Because Secretary Morgenthau presented this amendment, this proposal was termed the "Morgenthau amendment," and in all newspaper accounts was represented as if it was a proposal of the Secretary of the Treasury acting alone, whereas in fact it was an amendment recommended by the Committee on Economic Security and agreed to by all of its members. This amendment revised the bill to make the initial tax rate (for the years 1937, 1938, and 1939) 1 percent on employers and 1 percent on employees, and provided for increases of 0.5 percent every three years, until a maximum of 3 percent on employers and 3 percent on employees would be reached in the year 1949, after which this rate was to be continued indefinitely. The actuaries estimated that the increased tax revenues yielded under this plan would enable the old age insurance system to remain entirely self-supporting, at least until 1980. At the same time, it would result in an ultimate reserve of nearly $50,000,000,000 as against a reserve of $14,000,000,000 estimated by the actuaries under the original plan. This large reserve was regarded by the President as creating a far less serious problem than the deficits after 1965 contemplated under the original plan.

The Morgenthau amendment was criticized before the Ways and Means Committee on the score of the large reserve which it would create by Messrs. Latimer and J. Douglas Brown, connected with the Committee on Economic Security, and before the Senate committee also by Mr. Folsom of the advisory council. Apparently, however, their arguments made little impression upon any members of either committee. The large reserve was used as argument against the bill by Senator Hastings on the floor of the Senate, but neither he nor any other member of either congressional committee ever offered an amendment to reduce the tax rates. The rates of the Morgenthau amendment were agreed to by the Ways and Means Committee without a dissenting vote and remained in the bill ever after.[4]

In this connection it is worth noting that the tax schedule provided for an initial tax of 1 percent, each, for employees and employers on the first $3,000 of annual wages (a maximum of $30 each a year), which would rise in ½ percent steps to 3 percent each in 1949 (a maximum annual tax of $90 each).

II. *Financing the 1939 Amendments*

An Advisory Council on Social Security had been appointed by a subcommittee of the Committee on Finance and the Social Security Board in 1937 to study the advisability of amending the Social Security Act. It reported in December of 1938 (before any monthly benefit had been paid under the 1935 Act), recommending basic changes in the system that departed from the 1935 Act's emphasis on the private insurance concept of an individual benefit tied directly to the amount of taxes paid. Instead, it recommended paying monthly benefits to dependents and survivors and accentuated the policy of paying to people who retired early in the life of the program higher retirement benefits than the actuarial equivalent of the taxes paid on their earnings. As to financing, the Council stated:

> Since the Nation as a whole, independent of the beneficiaries of the system, will derive a benefit from the old-age security program, it is appropriate that there be Federal financial participation in the old-age insurance system by means of revenues derived from sources other than pay-roll taxes.[5]

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[4] Ibid., pp. 147–151.

[5] U.S. Congress, House Committee on Ways and Means. Hearings Relative to the Social Security Amendments of 1939. 76th Cong., 1st sess., 1939, p. 39.

Emphasizing that dependency in old age was a national problem, the Council declared:

* * * With the broadening of the scope of the protection afforded, governmental participation in meeting the costs of the program is all the more justified since the existing cost of relief and old-age assistance will be materially affected.

Governmental participation in financing of a social insurance program has long been accepted as sound public policy in other countries. Definite limits exist in the proper use of payroll taxes. An analysis of the incidence of such taxes leads to the conviction that they should be supplemented by the general tax program.[6]

Although this statement indicates a concern about the incidence of the payroll tax, it should not be evaluated in the context of today's tax system. Rather, it should be assessed in terms of the system that existed in 1939 (when most workers did not pay an income tax) and the Council's belief that it was transfering some welfare costs to the payroll-tax-supported social security program.

The Council then went on to recommend a tripartite approach "of distributing the eventual cost" of the system by equal contributions by employers, employees, and the Government. The Council indicated that this would permit the redetermination of tax rates and that "problems of financial policy can be far more readily resolved" because of the Federal contribution. As to the question of the amount of reserves necessary, the Council stated:

With the changes in the benefits structure here recommended and with the introduction of a definite program of governmental contributions to the system, the council believes that the size of the old-age insurance fund will be kept within much lower limits than are involved in the present act. Under social insurance programs it is not necessary to maintain a full invested reserve such as is required in private insurance, *provided* definite provision is made for governmental support of the system. The only invested fund then necessary would be a reasonable contingency fund.[7]

On January 17, 1939, President Roosevelt submitted the recommendations of the Social Security Board to the Congress. The Board report stated:

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 more 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 payroll 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-

[6] Ibid., p. 39.
[7] Ibid., p. 40.

rolls, it does not believe that such taxes should be substituted for any part of the pay-roll taxes provided in the present act, 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.[8]

During the public hearings on the Social Security Act held by the Committee on Ways and Means, Secretary of the Treasury Morgenthau in late March presented four plans for modifying the contribution rate schedule provided in the Social Security Act. The variations in the plans related only to the years prior to 1943.[9] Under all four plans the rate schedule for 1943 and subsequent years was the one provided by the Social Security Act of 1935; that is, 2 percent each for employer and employee in 1943, 2½ percent in 1946, and 3 percent in 1949. Plan number four, which was finally adopted with the enactment of the 1939 amendments, omitted the increase in tax rate from 1 to 1½ percent for the years 1940–42 as provided in the 1935 Act.

As to the revised thinking of the Roosevelt administration on the Government contribution, Secretary Morgenthau stated:

> My latest annual report presented the estimate that without extension under the present law, 80 percent of the population of the United States ultimately will have qualified during their working life for at least the minimum annuity under title II of the act.
>
> This experience throws new light on our original belief that the act ought to be self-supporting. Four years of experience have shown that the benefits of the act will be so widely diffused that supplemental funds from general tax revenues may be substituted—without substantial inequity—for a considerable proportion of the expected interest earnings from the large reserve contemplated by present law. Therefore, it becomes apparent that the argument for a large reserve does not have the validity which 4 years ago it seemed to possess.
>
> There is no need at the present time and, I believe, there will be no need in the near future, for supplementing pay-roll taxes from general revenue. For all classes of beneficiaries, the values of the benefits which the act provides, are, and for a long time will be, substantially in excess of the contributions under the schedule provided in the law.[10]

The Secretary recommended the adoption of an "eventual reserve amounting to not more than three times the highest prospective annual benefits in the ensuing 5 years."[11] This was cited by the House Committee on Ways and Means and the Senate Committee on Finance in their reports accompanying the bill, and a provision was inserted in the law requiring the trustees to report immediately whenever the trust fund reached this magnitude.

The Congress did not authorize a Government contribution in the 1939 amendments when it froze the 1 percent tax until 1943. At that time it was estimated that benefits would not exceed tax collections until about 1955 and that the revised system was financially sound. After explaining the difficulty of estimating costs, both committee reports contained the following:

> Unforeseen contingencies may, however, change the entire operation of the plan. It is important, therefore, that Congress be kept fully informed of the probable future obligations being incurred under the insurance plan as well as the

[8] Ibid., pp. 8–9.
[9] Ibid., p. 2114.
[10] Ibid., p. 2112.
[11] Ibid., p. 2113. The appropriate measure of the desirable balance in the trust fund has been, and continues to be, the subject of various opinions both within and without the Government, as will be shown in the material that follows.

public-assistance plans. Each generation may then meet the situation before it in such manner that it deems best.

If future annual pay-roll tax collections plus available interest are insufficient to meet future annual benefits it will be necessary, in order to pay the promised benefits, to increase the pay-roll tax or provide for the deficiency out of other general taxes, or do both.[12]

The 1939 estimates concerning the probable size of the reserve fund in future years proved to be very conservative. Under the proposal to "freeze" the tax rate at 1 percent until 1943, and thereafter to follow the original schedule as provided in the Social Security Act, the Finance Committee estimated that the reserve fund would be $6,871 million by the end of 1955.[13] The Ways and Means Committee estimated the fund would be $7,752 million by the end of the same year.[14] The change in world conditions due to World War II and the resulting expansion of industry increased the reserve fund far beyond what expert opinion could foresee in 1939. Although the tax rate did not rise above 1 percent, at the end of June 1950 the reserve in the fund was almost $12.9 billion.

III. *Financing Issues in the 1940's*

In the years between 1942 and 1950 Congress enacted seven more postponements of the scheduled increases in tax rate. The principal architect of the "freeze" was Senator Vandenberg. Those who favored the "freeze" argued that there were sufficient assets and income flowing into the trust funds to take care of the requirements of the program for many years, that the Morgenthau "three-times rule" was being more than met, and that the social security system was not the proper vehicle for curbing wartime inflation. The Roosevelt administration in opposing the "freeze" argued that the Morgenthau rule was not supposed to be operative in the early years of the system; that the long-term actuarial soundness of the system required the tax increases scheduled in the act, that if the rates were not allowed to go into effect as scheduled in the act, higher ultimate rates or a Government subsidy would be needed. Sometimes the argument used was that to allow the original rates to go into effect would help finance the war and curb wartime inflation.

The debate on the postponement of the tax rate in 1944 was of particular interest in that Congress froze (over Presidential veto) the tax and authorized an appropriation from general revenue to the trust fund of "such additional sums as may be required to finance the benefits and payments under this title." The general revenue authorization was a Senate floor amendment introduced by Senator Murray who was opposed to the tax "freeze." He quoted the Senate committee report, which had reported the "freeze" provision:

It is obviously true that the change to the basis of contingent reserves, as contemplated by the amended statutes, that Congress obligates itself in the

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[12] U.S. Congress, Senate Committee on Finance. *Social Security Act Amendments of 1939*. S. Rept. 734, 76th Cong., 1st sess., 1939, p. 18.

[13] U.S. Congress, Senate Committee on Finance. *Social Security Act Amendments of 1939*. S. Rept. 734, 76th Cong., 1st sess., p. 17.

[14] U.S. Congress, House Committee on Ways and Means. *Social Security Act Amendments of 1939*. H. Rept. 728, 76th Cong., 1st sess., 1939, p. 15.

future to make whatever direct appropriations (in lieu of appropriations for interest on bonds in reserve) are necessary to maintain the full and complete solvency of the old-age and survivors benefits funds, because there could be no more solemn public trust. This is inherent in the decision made by Congress in 1939. The statutory rule, requiring contingent reserves which are at least three times as large as the total cost of the system in any one of 5 subsequent years, is a complete measure of contingent protection and always gives Congress at least 5 years' notice of any possibility of delinquency.[15]

Senator Murray stated that his amendment only carried out the intent of the committee statement. Senator Vandenberg agreed, saying, however, that there should be "no implication that any additional sums are necessary now or in the foreseeable future." [16]

During this period, two reports of advisory groups are of interest as to the issue of a Government contribution. The Ways and Means Committee's Social Security Technical Staff established pursuant to H. Res. 204, 79th Congress, first session, began its study of various phases of the Social Security Act in the summer of 1945. Its report, *Issues in Social Security*, [17] noted the problem of estimating benefits because World War II "played havoc" not only with estimates already made but also with the basis for future estimates. As to the growth in costs of the program, the report stated:

While at present the benefits are considerably less than half of 1 percent of taxable wages, we can foresee a possible growth to as much as 9 or 10 percent of wages. Perhaps for present purposes it is not really important whether the cost 20 years hence is four or seven times as much as now or whether by 1980 the benefits will be 6 or 8 percent of wages. Perhaps the really important expectation—one regarding which there is no difference of opinion—is that the total of benefits is going to increase gradually over a long period of years and will become many times as large as at present.[18]

The report made the following suggestion for a tax schedule and a Government contribution:

That, for old-age and survivors insurance as now provided, social-security tax rates be 1½ percent on the first $3,000 of wages from employer and employee alike during the 10-year period 1947–56, inclusive; that this rate be increased one-half percent in 1957, 1967, and 1977; that a Federal subsidy be anticipated in future years, any excess of benefit and expense payments over social-security taxes and interest on the trust fund for a particular year to be met by Federal subsidy until such time as the subsidy becomes a third of the year's total of benefit and expense payments. Whenever this stage is recognized as imminent, revision of the tax rate should be considered. Revision of the tax rate should be considered if the trust fund reaches some chosen total like 20 billion or 30 billion dollars.[19]

In the 1970's, with social security expenditures expected to exceed $80 billion a year by the end of the decade, this may seem like a modest proposal. However, in 1945, when expenditures were only $274 million, a trust fund of some $20 or $30 billion seemed like a more than sufficient reserve, even with a fourfold or sevenfold increase in benefits. The issue at that time was twofold: a desire to limit the part of the national debt held by the trust fund, and a desire to hold down the tax payments, which—at a 1 or 2 percent rate—were a relatively small

[15] U.S. Congress, Senate Committee on Finance. *The Revenue Bill of 1943.* S. Rept. 627, 78th Cong., 1st sess., 1943, p. 19.
[16] *Congressional Record*, vol. 90, 1944, p. 374.
[17] U.S. Congress, House Committee on Ways and Means, social security technical staff. *Issues in Social Security.* 79th Cong., 1st sess., 1946.
[18] Ibid., p. 110.
[19] Ibid., p. 121.

burden on most individuals, but could become significant for employers, particularly in labor intensive industries.

The Committee on Ways and Means had the report of the social security technical staff before it when it began its considerations of the Social Security Amendments of 1946. On July 1, the committee reported out a bill (H.R. 6911) which would have raised the tax rate to 1½ percent and repealed the provision authorizing appropriations out of general revenue. A strong minority report was filed, objecting, in the main, to the bill's increased Federal matching for public assistance, but also pointing out that social security tax rate "could just as well have been frozen at 1 percent for 5 years according to the authorities appearing before the committee." [20] H.R. 6911 was never brought to the floor, but another bill (H.R. 7037) was reported and enacted [21] which would have frozen the tax at 1 percent and have repealed the provision authorizing general revenue financing. The Senate approved the freeze, but struck out the deletion of the general revenue authorization. The report of the Senate Committee on Finance stated:

> * * * to repeal this provision, as proposed by the House of Representatives, while continuing to freeze the tax, might be taken to imply an unwillingness of Congress to underwrite the solvency of the system.[22]

The legislation also authorized survivors' benefits for uninsured veterans who died within 3 years after discharge. These benefits were to be financed out of general revenue.

The Committee on Finance appointed an Advisory Council on Social Security in 1947. At the end of 1948 the Council issued a report [23] with a broad range of recommendations as to coverage, eligibility, and benefits. The Council suggested that if benefits were liberalized as it suggested (by about 50 percent), the tax rate should be raised immediately to 1½ percent but that a step-up to 2 percent "should not take place until actually needed to cover current disbursements." When the 2 percent rate was insufficient to meet current benefit costs, the Council believed that a Government contribution should be introduced. The Council wrote:

> There are compelling reasons for an eventual Government contribution to the system, but the Council feels that it is unrealistic to decide now on the exact timing or proportion of that contribution. When the rate of 2 percent on employers and 2 percent on employees, plus interest on the investments of the trust fund, is insufficient to meet current outlays, the advisability of an immediate Government contribution should be considered.
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> The step-up to 2 percent should be postponed until actually needed. The Council believes that the excess of income over outgo, inevitable in the early years of the program, should be kept as low as is consistent with the contributory character of the program. Even with the increase to 1½ percent, assets of the trust fund may rise for a few years at an annual rate of about $2,000,000,000.
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> For the reasons given above, the Council believes that the first step-up is needed when the liberalized program becomes effective, but we wish to emphasize that building up the trust fund is not the purpose of our proposed increase in

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[20] U.S. Congress, House Committee on Ways and Means. *Social Security Act Amendments of 1946*. H. Rept. 2447, 79th Cong., 2d sess., 1946.

[21] U.S. Congress, House Committee on Ways and Means. *Social Security Act Amendments of 1946*. H. Rept. 2526, 79th Cong., 2d sess., 1946.

[22] U.S. Congress, Senate Committee on Finance, *Social Security Act Amendments of 1946*. S. Rept. 1862, 79th Cong., 2d sess., 1946, p. 3.

[23] U.S. Congress, Senate Advisory Council on Social Security. *Recommendations for Social Security Legislation*. S. Doc. 208, 80th Cong. 2d sess., 1948, pp. 45–47.

the contribution rate, and we therefore urge that additional increases in the rate be postponed. The increase in the trust fund is an incidental result of the contribution rates, the benefit rates, and the eligibility requirements that seem to us desirable on other grounds. Unlike private insurance, a social-insurance scheme backed by the taxing power of the Government does not need full reserves sufficient to cover all liabilities.

Some people fear that additions to the trust fund will have adverse effects on the economy. Whether the economic effects of additions to the trust fund are good or bad will depend on the general economic situation and on the fiscal policies of the Government. In any circumstances, an annual surplus for a few years of as much as $2,000,000,000 would not, in our opinion, be unduly large or unmanageable; in fact, such a surplus would be small in comparison with the amounts involved in many recent financial operations of the Government. On the other hand, the Council sees no reason to increase this surplus even further by moving to the 2-percent rate before the demands of the system actually call for such an increase.

The Council believes that the Federal Government should participate in financing the old-age and survivors insurance system. A Government contribution would be a recognition of the interest of the Nation as a whole in the welfare of the aged and of widows and children. Such a contribution is particularly appropriate, in view of the relief to the general taxpayer which results from the substitution of social insurance for part of public assistance.

The old-age and survivors insurance program starts with an accrued liability resulting from the fact that, on retirement, the present members of the labor force will not have contributed toward their benefits over a full working lifetime. Furthermore, with the postponement of the full rate of contributions recommended above. even young people who enter the labor force during the next decade will not pay the full rate over a working lifetime. If the cost of this accrued liability is met from the contributions of workers and their employers alone, those who enter the system after the full rate is imposed will obviously have to pay with their employers more than is necessary to finance their own protection.[24] In our opinion, the cost of financing the accrued liability should not be met solely from the payroll contributions of employers and employees. We believe that this burden would more properly be borne, at least in part, by the general revenues of the Government.

Old-age and survivors insurance benefits should be planned on the assumption that general taxation will eventually share more or less equally with employer and employee contributions in financing future benefit outlays and administrative costs. The timing and exact proportion of this contribution, however, cannot be decided finally now. They will depend in part on the other obligations of the Government and the relationship between such obligations and current income. We believe that a Government contribution should be considered when the 2 percent rate for employer and employee plus interest on the investments of the trust fund is insufficient to meet current costs. To increase the payroll contributions above the 2 percent rate before the introduction of a Government contribution might mean that the Government contribution would never reach one-third of eventual benefit outlays, since under our low-cost estimates the annual cost of the benefits never exceeds 6 percent of any payroll even though it reaches 9.7 percent under the high estimate.

IV. *Financing Issues in the 1950's*

Although the Congress did enact into law many of the recommendations of the Advisory Council, it did not accept the idea of a Government contribution. In fact, both committee reports stated that the system "should be on a completely self-supporting basis" and the Congress, in Public Law 81–734, enacted August 28, 1950, repealed the

[24] It is estimated that the cost of the protection for a generation of workers under the program for a full-working lifetime would be from 3 to 5 percent of payroll, while the level premium cost of the whole system including the accrued liability, is from 4.9 to 7.3 percent of payroll.

1943 authorization for an appropriation from general revenue. The Committee on Ways and Means stated:

> Your committee has very carefully considered the problems of cost in determining the benefit provisions recommended. Also your committee is firmly of the belief that the old-age, survivors, and disability insurance program should be on a completely self-supporting basis. Accordingly, the bill eliminates the provision added in 1943 authorizing appropriations to the program from general revenues. At the same time, your committee has recommended a tax schedule which it believes will make the system self-supporting (or in other words, actuarially sound) as nearly as can be foreseen under present circumstances. Future experience may differ from the estimates so that this tax schedule, at least in the distant future, may have to be modified slightly—either upward or downward. This may readily be determined by future Congresses after the revised program has been in operation for a decade or two.[25]

Although the legislation provided a general benefit increase of about 77 percent, the financing changes were relatively minor—the tax base was increased to $3,600 starting in 1951; and the tax rates, which were scheduled to increase to 1½ percent, each, for employees and employers in 1950 and to 2 percent in 1952 and after, were increased to 1½ percent for 1951, to 2 percent for 1960–64, to 3 percent for 1965–69 and to 3¼ percent thereafter.

Also of interest is the provision of the 1950 Social Security Amendments that granted special wage credits to veterans of World War II and continued the benefits that had been authorized by an earlier amendment to survivors of veterans who died within three years of discharge. The bill that was reported by the Committee on Ways and Means had authorized paying the cost of these benefits from general revenues, while the Committee on Finance had provided that the cost be from the payroll taxes paid into the trust fund. The bill reported by the Conference Committee accepted the Senate version. The Senate report stated that the money should come from the trust fund "since there is a substantial amount now in the trust fund and, as will be indicated subsequently, the trust fund will continue for a considerable time to have an excess of income from contributions over outgo for benefit payments." [26]

Later legislation provided that the noncontributory wage credits granted for military service be paid out of general revenues. This, however, should not be taken as an indication that Congress thought the program should be financed from general revenues. Rather, the payment was in the nature of an employer paying both the employer and employee taxes—a special veterans' benefit.

The committee reports on all the major Social Security legislation enacted during this period continued to say that the system should be "self-supporting." The report of the Committee on Ways and Means

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[25] U.S. Congress, House Committee on Ways and Means. *Social Security Act Amendments of 1949*. H. Rept. 1300, 81st Cong., 1st sess., 1950, p. 31. Although the reports of both the House and Senate indicate the authorization for appropriations from general revenues was added in 1943, the legislation, Public Law 78–235. was enacted on February 25, 1944 when the Senate voted to override the President's veto.

[26] U.S. Congress, Senate Committee on Finance. *Social Security Act Amendments of 1950*. S. Rept. 1669, 81st Cong., 2d sess., p. 19.

on the Social Security Amendments of 1956, which introduced cash disability benefits into the system, is typical:

Your committee continues to believe that the tax schedule in the law should make the system self-supporting as nearly as can be foreseen, or in other words, actuarially sound.[27]

The Social Security Amendments of 1956 established an Advisory Council on Social Security Financing, which reported on January 1, 1959, on what it considered its main responsibility—"the method of financing old-age and survivors insurance and disability insurance." [28]

The Council did not consider it part of its task "to evaluate in detail the effect of this system of social insurance on the stability and productivity of the economy." It believed, however, that a sound program could be of great value to the economy as well as to the individual citizen. The major finding of the Council stated that "the method of financing the old-age, survivors, and disability insurance program is sound, and based on the best estimates available, the contribution schedule now in the law makes adequate provision for meeting both short-range and long-range costs" and that the Council had "no suggestions for basic changes in the present plan of financing." [29] The Council also stated that it was important that income exceed outgo during the early years of the system and that the system be in close actuarial balance over the long range. The Council endorsed the payroll-tax financing and with regard to the worker's taxes stated:

The fact that the worker pays a substantial share of the cost of the benefit provided, in a way visible to all, is his assurance that he and his dependents will receive the scheduled benefits and that they will be paid as a matter of right without the necessity of establishing need. The contribution sets the tone of the program and its administration by making clear that this is not a program of government aid given to the individual, but rather a cooperative program in which the people use the instrument of government to provide protection for themselves and their families against loss of earnings resulting from old age, death, and disability. The Council also believes that the direct earmarked tax on prospective beneficiaries promotes a sense of financial responsibility. It is very important that people see clearly that increases in protection necessarily involve increases in costs and contributions.[30]

As to the use of general tax funds, the 1959 Council report ratified the 1950 congressional rejection of the 1948 Council's recommendation for partial general revenue financing:

We believe that the experience of the last 22 years has shown the advantages of contributory social insurance over grants from general tax funds. It is true that, up to the present time, workers as a group have not contributed a large

[27] U.S. Congress, House Committee on Ways and Means. *Social Security Amendments of 1956*. H. Rept. 1189, 84th Cong., 2d sess., 1956, p. 11.

[28] Advisory Council on Social Security Financing. Appendix IV to *19th Annual Trustees Report*. H. Doc. 181, 86th Cong., 1st sess., 1959, p. 59.

[29] Ibid., pp. 60–61. This statement was made following the enactment of the Social Security Amendments of 1958, which reduced the actuarial imbalance from —0.42 percent of taxable payroll to —0.24 percent. At that time an imbalance that exceeded —0.25 percent was considered an indication that the program was not adequately financed. Although the amendments made significant increases in benefit expenditures, the reduction in the actuarial insufficiency came about through an increase in the tax base to $4,800 (the 1954 amendments had increased the base to $4,200) and through an increase in taxes from 2¼ percent in 1958 to 2½ percent in 1959, to 3 percent in 1960, to 3½ percent in 1963, to 4 percent in 1966 and to 4½ percent in 1969 and after.

[30] Ibid., p. 62.

share of the cost of their own protection. Most workers covered in the early years of the program will contribute during only part of their working lifetime, and, under the graduated schedule in the law, contribution rates have been low relative to the value of the protection provided. But this situation is changing. Young workers starting out under the system in recent years will contribute a substantial part of the cost of their protection.[31]

With regard to the taxes paid by the employer and the self-employed a similar conclusion was reached:

Protecting the members of the labor force and their dependents against loss of income from the hazards of old-age retirement, permanent and total disability, and death is, at least in part, a proper charge on the cost of production. Moreover, business enterprises have a significant stake in assuring that orderly provision is made to meet the needs of their employees and their families for income when their working lives are over. The earmarked contribution for social security is a recognition of this stake. The direct contribution gives employers status in the program and a clear right to participate in the development of the program and in the formation of policy.

The rate for the self-employed—1½ times the rate paid by the employee—is a recognition of the fact that the self-employed person, in respect to his own employment, has some of the characteristics both of employee and employer. The Council has found no reason for a change in this rate.[32]

The Council also recommended retaining a maximum limit on the amount of earnings taxed and credited toward benefits and that "the contribution should be levied on the same amount of earnings as the amount which is credited for benefits." It also endorsed the past congressional practice of giving periodic consideration to increasing the maximum limit from time to time as wages rise. As to the role of trust funds—

The Council approves of the accumulation of funds that are more than sufficient to meet all foreseeable short-range contingencies, and that will therefore earn interest in somewhat larger amounts than would be earned if the funds served only a contingency purpose. The Council concludes, however, that a "full" reserve is unnecessary and does not believe that interest earnings should be expected to meet a major part of the long-range benefit costs.[33]

As to the Morgenthau "three times rule" the Council called for its repeal:

We see no merit in the provision of present law which requires the trustees to report to the Congress whenever, in the course of the next 5 years, it is expected that either of the trust funds will exceed three times expenditures in any one year. The implication of the provision is that the trust funds should not be allowed to exceed the result of this formula. We do not believe that the trust funds should be held to any arbitrary relationship to expected annual expenditures, and we recommend that the provision be repealed.[34]

This repeal became a reality with the enactment of the 1960 Social Security Amendments (Public Law 86–778).

V. *Financing Issues 1960–66*

As the sixties started, the Congress and the administration maintained much the same position that they had held since 1950, that the social security program ought to be fully self-supporting through the payroll tax. However, in 1965 and 1966 legislation was enacted that

[31] Ibid., pp. 62–63.
[32] Ibid., p. 63.
[33] Ibid., p. 67.
[34] Ibid., p. 68.

provided for significant appropriations from general revenues to pay for social security benefits. The Social Security Amendments of 1965 extended hospital insurance (medicare, part A) to everyone who attained age 65 before 1968, without regard to whether they could qualify for monthly social security benefits. The cost of these benefits is paid out of general revenues appropriated by the Congress. Also, the Prouty amendment to the Tax Adjustment Act of 1966 provides benefits paid for out of general revenues to people who were over 72 before 1968 and who would not otherwise be eligible for monthly social security benefits.

In the 1960's the OASDI part of the program underwent three major amendments, those of 1960, 1961, and 1965. The financing of these amendments continued the policies of the 1950's. Two brief statements from the committees that considered these amendments reflect the position of the Congress in this respect. The first report issued by a congressional committee in the 1960's was that of the Committee on Ways and Means on the 1960 amendments. In its report the committee stated:

> The Congress has always carefully considered the cost aspects of the old-age, survivors, and disability insurance system when amendments to the program have been made. In connection with the 1950 amendments, the Congress was of the belief that the program should be completely self-supporting from the contributions of covered individuals and employers. Accordingly, in that legislation, the provision permitting appropriations to the system from general revenues of the Treasury was repealed. This policy has been continued in subsequent amendments. Thus, the Congress has always very strongly believed that the tax schedule in the new law should make the system self-supporting as nearly as can be foreseen and, therefore actuarially sound.[35]

Identical statements appear in subsequent committee reports. In the period after 1960 there was a growing awareness of the amounts of money involved in the social security program and a growing concern as to whether the payroll tax could be expected to continue to carry the whole burden if the program were expanded.

In 1963 and 1964, the Advisory Council on Social Security made a major study of the social security program. A large part of its effort was devoted to the financing of the program. Its report issued in January 1965 stated:

> The Council strongly endorses the social insurance approach as the best way to provide, in a way that applies to all, that family income will continue when earnings stop or are greatly reduced because of retirement, total disability or death. It is a method of preventing destitution and poverty rather than relieving those conditions after they occur. And it is a method that operates through the individual efforts of the worker and his employer, and thus is in total harmony with general economic incentives to work and save. It can be made practically universal in application, and it is designed so as to work in ongoing partnership with voluntary insurance, individual savings, and private pension plans.
>
> Under the social security program the right to benefits grows out of work; the individual earns protection as he earns his living, and up to the maximum amount of earnings covered under the program, the more he earns the greater is his protection. Since, unlike relief or assistance, social security benefits are paid without regard to the beneficiary's savings and resources, people can and do build upon their basic social security protection and they are rewarded for their planning and thrift by a higher standard of living than the benefits alone can provide.

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[35] U.S. Congress, House Committee on Ways and Means. *Social Security Amendments of 1960.* H. Rept. 1799, 86th Cong., 2d sess., 1960, p. 34.

The fact that the program is contributory—that employees and self-employed workers make contributions in the form of earmarked social security taxes to help finance the benefits—protects the rights and dignity of the recipient and at the same time helps to guard the program against unwarranted liberalization. The covered worker can expect because he has made social security contributions out of his earnings during his working lifetime, that social security benefits will be paid in the spirit of an earned right, without undue restrictions and in a manner which safeguards his freedom of action and his privacy. Moreover, the tie between benefits and contributions fosters responsibility in financial planning; the worker knows that improved benefits mean higher contributions. In social insurance the decision on how to finance improvements is always an integral part of the decision on whether they are to be made.[36]

In this vein the Council made a number of recommendations for changes in the social security program that would have increased costs. To pay for these costs, it recommended two-step increases in the tax base to $6,000 and later to $7,200. These financing recommendations were rationalized as follows:

The increase in the contribution and benefit base and the extensions of coverage recommended by the Council will decrease the cost of the program relative to taxable payroll. On the other hand, the benefit liberalizations recommended by the Council will increase the cost of the program relative to taxable payroll. On balance, the changes recommended by the Council would require a somewhat higher ultimate contribution rate than does present law.[37]

As to the tax rates for the cash benefits part of the program the report contained the following schedule of taxes:[38]

Period	Contribution rates			
	Employee and employer, each		Self-employed	
	Present law [1]	Recommended [2]	Present law [1]	Recommended [2]
1965	3.625	3.625	5.4	5.4
1966–67	4.125	4.3	6.2	5.8
1968–70	4.625	4.3	6.9	5.8
1971–75	4.625	4.7	6.9	6.0
1976 and after	4.625	5.3	6.9	6.3

[1] Applicable to annual earnings up to $4,800.
[2] Would apply to annual earnings of $4,800 in 1965, $6,000 in 1966 and 1967, and $7,200 in 1968 and thereafter.

APPROPRIATIONS FOR MILITARY SERVICE CREDITS

One section of the 1965 amendments deserves special mention because it illustrates a problem that occurs when appropriations from general revenues are used. Military service, which before 1957 had not been covered on a contributory basis, qualified veterans and their survivors for benefits under special provisions. As indicated earlier, the cost of benefits based on this military service was to have been paid out of general revenues. Up to the time of the 1965 amendments, however, the social security trust funds had been reimbursed only for the cost of the benefits through August 1950. The law in effect prior to the 1965 amendments provided that the costs incurred after

[36] Advisory Council on Social Security. *The Status of the Social Security Program and Recommendations for Its Improvement.* Washington, D.C., U.S. Government Printing Office, 1965, p. 2.
[37] Ibid., p. 84.
[38] Ibid., p. 85.

August 1950 and through June 30, 1956 were to have been paid over the 10 fiscal years ending June 30, 1969, and the costs incurred after June 1956 were to have been paid annually. However, no payments were ever made under this provision. The 1965 amendments authorized a level annual appropriation from general revenues, starting in fiscal 1966, to amortize both the accumulated costs and the additional costs that would accrue through fiscal year 2015 with annual appropriations for costs incurred after fiscal 2015. Following enactment of the 1965 amendments, annual appropriations from general revenues have been made for this purpose but the administration has not always requested the full amount as calculated by the Social Security Administration Actuary.

Subsequent legislation (1967 and 1972) provided an additional noncontributory wage credit of $300 a quarter for military service after 1956. The cost of this coverage is paid out of general revenues, and it is interesting to note that the Congress expected this to be a charge to the Department of Defense, rather than to the social security budget, as are the costs of the pre-1957 noncontributory credits.[39]

BLANKETING-IN THE UNINSURED FOR CASH BENEFITS

One of the most persistent issues in social security has been that of blanketing-in the uninsured. For the OASDI part of the program the number of quarters of coverage required before a person can be paid benefits has been gradually reduced, but until 1965 the minimum number had always been six. The 1965 amendments provided special benefits at age 72 for certain people who had as few as three quarters of coverage. Subsequently, the Prouty amendments to the Tax Adjustment Act of 1966 provided benefits for people with no quarters of coverage provided that they reached 72 prior to 1968. As noted, the hospital insurance program covers all people who attained age 65 prior to 1968. The major portion of the costs of the benefits paid under these provisions is paid out of general revenues. The only exception is that the benefits paid to people with three or more quarters of coverage are paid out of the social security trust funds.

FINANCING HEALTH CARE BENEFITS

A major issue in the 1960's, hospital care for the aged, highlighted the question of how high the social security tax could go if the self-financing principle were retained, as well as whether this principle applied equally to service benefits and to cash benefits. The original Forand bill, around which the early controversy developed, used the self-financing method, and furnished hospital benefits only to people over 65 entitled to social security benefits in their own right.

The financing of medicare, hospital and medical care programs for the aged established by the 1965 amendments, goes in two directions. The financing of the hospital insurance program (part A) follows the payroll tax pattern established for the OASDI program in the 1950's. The medical care program (part B) on the other hand, gets one-half of its financing from general revenues and one-half from fees paid by

[39] See the *Report of the Committee on Finance on the Social Security Amendments of 1967*. S. Rept. 744, 90th Cong., 1st Sess., 1967, p. 60.

those enrolled in the program. The self-supporting nature and the actuarial soundness of the hospital insurance program (part A) is described in identical words in the reports of the Committee on Ways and Means and the Committee on Finance:

Just as has always been the case in connection with the old-age, survivors, and disability insurance system, the committee has very carefully considered the cost aspects of the proposed hospital insurance system. In the same manner, the committee believes that this program should be completely self-supporting from the contributions of covered individuals and employers (the transitional uninsured group that would be covered by this program would have their benefits, and the resulting administrative expenses, completely financed from general revenues, according to the provisions of the bill). Accordingly, the committee very strongly believes that the tax schedule in the law should make the hospital insurance system self-supporting over the long range as nearly as can be foreseen, as well as actuarially sound.

The concept of actuarial soundness as it applies to the hospital insurance system is somewhat similar to that concept as it applies to the old-age, survivors, and disability insurance system * * * but there are important differences.

One major difference in this concept as it applies between the two different systems is that cost estimates for the hospital insurance program should desirably be made over a period of only 25 years in the future, rather than 75 years as in connection with the old-age, survivors, and disability insurance program. A shorter period for the hospital insurance program is necessary because of the greater difficulty in making forecast assumptions for a service benefit than for a cash benefit. Although there is reasonable likelihood that the number of beneficiaries aged 65 and over will tend to increase over the next 75 years when measured relative to covered population (so that a period of this length is both necessary and desirable for studying the cost of the cash benefits under the old-age, survivors, and disability insurance program), it is far more difficult to make reasonable assumptions as to the trends of medical care and costs and practices of more than 25 years in the future.

In starting a new program such as hospital insurance, it seems desirable to the committee that the program should be completely in actuarial balance. In order to accommodate this result, the committee has developed a contribution schedule that will meet this requirement, according to the underlying cost estimates.[40]

The financing of the voluntary, supplementary medical insurance program (part B), as noted above, represented a departure from the payroll tax financing which had been used up to that time. Not only is one-half of the cost of the program paid out of general revenues, but none of the cost is paid from payroll taxes. Moreover, the program is financed on a pay-as-you-go basis rather than on the traditional partial reserve basis. Thus, those eligible for benefits payed $3 a month for the insurance in 1967 and 1968, and the Government payed an equal amount. Since that time the amount has risen steadily and will reach $6.80 a month in July 1974.

A LIMIT ON SOCIAL SECURITY TAXES?

Prior to the enactment of the Social Security Amendments of 1965 there had been discussion of what should be the limit of Social Security payroll taxation. The then Secretary of Health, Education, and Welfare, Abraham Ribicoff, had stated in 1961 that he thought the combined employer-employee limit should be about 10 percent of payroll but left open possible increases in the tax base. The combined

[40] U.S. Congress, Senate Committee on Finance. *Social Security Amendments of 1965*. S. Rept. 404, 89th Cong., 1st sess., 1965, p. 57. U.S. Congress, House Committee on Ways and Means. *Social Security Amendments of 1965*. H. Rept. 213, 89th Cong., 1st sess., 1965, p. 49.

hospital insurance and OASDI tax under the 1965 amendments amounted to 11.4 percent of taxable payroll, and there appeared to be a growing feeling among those who wished to further liberalize the social security program that future changes involving significant costs would be difficult to justify if they were to be financed solely through additional payroll taxes. In this context Robert M. Ball, the Commissioner of Social Security, wrote in the fall of 1965:

Improvements in the social security program of the kind suggested call for a reconsideration of the financial basis of the system. Workers in general have shown themselves willing to pay for improved social insurance protection, and there is no question that the major part of the cost of social insurance should continue to be met by a tax on covered payrolls. There is, though, justification for a contribution from the general revenues of the Treasury.

The justification for such a Government contribution arises from the fact that in order to make the program quickly effective in its early years full-rate benefits are being paid to people who were already old at the time their work was first covered under the program, even though a small percentage of the actual cost of the benefits being paid to these people was met by the contributions they and their employers paid. Under the present financial arrangement the excess of the value of benefits over the value of the contributions in the early years of operation will be financed from future contributions. As a result, future generations of covered workers will get protection that is worth less than the combined employer-employee contributions with respect to earnings, since some part of those combined contributions will go to pay part of the cost of paying full benefits in the early years. (Future generations of workers will, however, get protection that is worth at least as much as the value of their own contributions.) Since society as a whole benefits from a national social security system, it can be argued that the cost of the benefits for people already old when the social security program went into effect should be borne by the general revenues rather than by the social security tax.[41]

At about the same time the AFL–CIO adopted a resolution calling for extensive changes in the social security program, including a 50 percent rise in benefits and a substantial contribution from general revenues. The resolution states:

In order to make the social security program quickly effective in its early years, it was the decision of the Congress to provide for the payment of full-rate benefits to people who were already old at the time their work was first covered under the program, even though only a small percentage of the actual cost of the benefits being paid to these people was met by the contributions they and their employers paid. This has been sound public policy, necessary to help prevent widespread want and destitution and to contribute to the social and economic security of the Nation as a whole. The cost of the program resulting from these payments, though—about one-third of the total cost—should not be charged to future generations of workers and their employers. It is entirely appropriate that the cost of getting into operation a national social security system from which society as a whole benefits, should be borne by the population as a whole.[42]

An elaboration of these ideas was presented by the Commissioner of Social Security in the following spring. Speaking before the American Society for Public Administration, the Commissioner discussed general revenue financing and suggested that by using general revenues it would be possible to increase benefits by about 50 percent. He said:

A general benefit increase any greater than the 7-percent increase of last year could not be financed by an increase in the contribution and benefit base alone.

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[41] Ball, Robert M. "Social Security: A Changing Program for a Changing World." *St. Louis University School of Law.* Vol. 10, No. 2, winter, 1965, p. 237.

[42] AFL–CIO, *Proceedings of the AFL–CIO 6th Constitutional Convention,* vol. 1, 1965, pp. 487–488.

For this purpose it would be necessary, in addition, to raise the contribution rates scheduled in the law or to introduce a government contribution. Various possibilities will be considered.

* * * Since the employer contribution in part, at least, is shifted to workers in the form of lower wages, it might be more equitable to finance from general taxation part or all of the so-called "accrued liability" resulting from payment of full benefits to the first generation of covered workers and so introduce another element of progressivity into the financing of the program.

The idea that the accrued liability costs could be met from general revenues is not a new one. It is, for example, part of the reasoning behind the government contribution in the British system and was mentioned by the Committee on Economic Security—the Committee that in 1934 recommended the establishment of the original program for the United States. Just recently in the United States the Cabinet Committee Report on Federal Staff Retirement Systems, which the President endorsed and transmitted to the Congress on March 7, used similar reasoning concerning the civil-service retirement system. They recommended that the financing of the civil-service retirement system should be based on the theory that the contributions of employees and of the Federal agencies, as employers, should fully meet the system's normal cost—that is, the combined employee-agency contributions should be at a rate that would have to be paid over the working lifetime of new entrants to the system to pay for the benefits provided under current law, and the Government should finance the accrued liability by direct appropriations. The "normal cost" of social security is about two-thirds of the total costs over the long run so that, if general revenues were to take care of the entire one-third attributed to accrued liability, about one-half again as much money as at present would be available for program improvements. Another way of looking at such a government contribution is that it is in lieu of the interest that would have been available from full reserve financing.

Contribution rate increases are also, of course, a possibility. These could be additions to the present employee contribution schedule, which for cash benefits rises from 3.85 percent this year to 4.85 percent in 1973, with the employer paying a like amount. Contribution rates for hospital insurance will be an additional ½ of 1 percent next year and will rise to 8/10 of 1 percent in 1987 and later.[43]

Still later in the year, Senator Robert F. Kennedy introduced a bill (on which no action was taken) that in broad outline paralleled the recommendations made the previous winter by the AFL–CIO. In addition to Senator Kennedy, the bill was sponsored by nine other Senators. Although the changes called for in the bill would have increased all benefits by about 50 percent, the Senator considered that the bill would make only "minimum improvements in social security benefits that are necessary now." The Senator's statement to the Senate when he introduced the bill contains an explanation of his reasons for using general revenues in the financing of the social security program.

What will be the costs of this legislation? The 50-percent average increase in benefits provided by the bill would cause a considerable increase in the payments out of the trust fund during 1968, the year in which the bill would go into effect. It is important to understand, however, that the bill does not contemplate, nor does actuarial soundness require, that this increase in benefits would be entirely paid for immediately. The trust fund would be replenished over a period of time. This creates no difficulty. The Social Security Administration has told me that "The proposed program as a whole is in close actuarial balance." The "temporary declines in the trust funds," the Social Security Administration adds, "are not significant in terms of the financial soundness of the program over the long run." Thus the costs of the program will be spread over a period of years. This is both actuarially sound and fiscally wise.

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[43] Ball, Robert M. Address at the annual meeting of the Americans Society for Public Administration. Washington, D.C., Apr. 14, 1966.

* * * The important thing is that we do what we can now toward making social security benefits truly adequate. To do that, in my judgment, we must be prepared to rely partially on general revenues. The general revenue contribution is the major new aspect of this bill. But that does not mean that we could not add general revenues to social security financing on a more gradual basis than the 9-year schedule which the bill provides. And, if it becomes necessary, the proposed benefit increases could be adopted in steps rather than all at once, although I believe that would be less desirable.

* * * * * * *

The turn to general revenue financing is well supported by considerations of history and policy.

First, as a practical matter, it is difficult to see how the payroll tax can be raised too much further. The payroll tax is highly regressive, and for low-wage employees particularly, a required contribution beyond what is contemplated in this bill would be very burdensome.

And the justification for total payroll tax financing over the years has been that the payroll tax is a contribution that each employee makes to finance his own benefits. In general, the original purpose was that the wage earner would be paid, during his years of retirement, what he had put in during his working years. But his original purpose has been modified somewhat in practice. Considerations of social justice have caused us to create some benefits which are not totally contributory, and these have been financed out of the contributions of others. We have provided benefits, for example, to poor and more irregularly employed workers; to widows and orphans; and to those disabled by injury or illness.

Second, it is essential to recall that Congress provided in the original Social Security Act for full-rate benefits even for those persons who were too old to be in the work force long enough to contribute fully for their benefits. The cost of these benefits is still being financed by the contributions of those who have followed. * * *

Third, the general revenue approach has been considered and discussed since the inception of social security. The first Presidentially appointed Council on Economic Security, said that Government contributions to the system would eventually be needed, adding prophetically that, "It will not be necessary to have actual Government contribution until after the system has been in operation for 30 years." [44]

Earlier in 1966 President Lyndon B. Johnson had indicated his intention of recommending substantial, though unspecified, changes in the social security program when the 90th Congress convened in January 1967. At the time he made this statement, he instructed Secretary of Health, Education, and Welfare, John W. Gardner, to begin studies and conversations with interested parties on the nature of the changes that should be sent to the 90th Congress.

In this connection, John Carroll of the Social Security Administration prepared a paper, "Social Security Financing Revisited," as a background paper for a conference on social security financing held at the Brookings Institution on June 17, 1966. This background paper, designed to discuss the financing involved in a 35 to 55 percent rise in social security benefits,[45] said:

The contemplated liberalization of benefits could not be financed by payroll taxation unless the rates were increased. Rate increases would be necessary even if the taxable wage base were increased to $15,000 from its present level of $6,600 or removed entirely. Past benefit increases have been accomplished each time by increased payroll taxation; rate levels have been increased; and, in some cases, taxable wage ceilings have been raised. Collections have swelled after

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[44] *Congressional Record*, vol. 112, July 28, 1966, pp. 17391–17392.

[45] At that time a benefit increase of this magnitude seemed fantastic. However, since then Congress has authorized benefit increases totaling 90.4 percent in benefit levels if one includes the two-step 11 percent increase which becomes effective for June 1974.

each amendment partly because during the period coverage was greatly expanded. This source will not be available in the future because coverage is nearly complete.

There is growing concern about the wisdom of continued reliance upon payroll taxation as the sole source of funds for social insurance. Doubts have been expressed by the Treasury, the President's Council of Economic Advisors, and the National Commission of Technology, Automation and Economic Progress that so regressive a tax should be increased.[46]

In Carroll's opinion, the most important arguments against using general revenues in the social security program are considered to be "institutional." In this connection, the paper points out the important role played by the idea of a self-supporting system in securing public acceptance of the social security program. The paper states:

There is a belief that sole reliance upon contributions from employers and employees is closely tied to the rights acquired by the insured workers. A government contribution would not be tied in this way and some believe that the claim of the worker—his assurance that his pension is his as a matter of right—may be damaged or weakened.

Others fear that unless benefit levels are closely related to taxes upon the worker—taxes which can be clearly identified—there will not be sufficient constraint to prevent too liberal benefit promises.

Few doubt that the statutory benefits would be paid. But the real protection of the system is the readiness of the society to keep benefits adequately up to date. Revisions of this sort are expensive and unless promises are restrained within workable limits future generations may allow benefit adequacy to fall behind.

* * * It can scarcely be contested that earmarking of payroll taxes for OASDI reduced resistance to the imposition of taxes on low-income earners, made feasible tax increases at a time when they might not otherwise have been made, and has given trust fund programs a privileged position semi-detached from the remainder of the government. Institutionalists foresaw these advantages as means to graft the new programs into the social fabric.

It is an open question whether or not the OASDI program has matured sufficiently to be independent of the need for institutional safeguards. Perhaps the experienced of the last thirty years makes it no longer necessary to place so much emphasis on these fears. It seems probable that the introduction of a government contribution, if explained in terms of the past service credit, need not weaken the system. There may be some advantage to having the size and timing of the government contributions determined statutorily. Provision of this type will draw the same criticism as other arbitrary and fiscally inflexible features of the system, but may nonetheless be wise.

There seems to be little question that the well-established precedent of contribution by the covered worker should be continued for a meaningfully large share of the costs. There may come a day when the society accepts fully the notion of social responsibility for persons who experience interruption of earnings. When that day comes there is no reason why financing of the system need be tied to the earnings of the insured. Benefits could continue to be related to the previous earnings experience of the insured—one of the basic features of our social insurance system—without recourse to payroll taxation. It is a matter of judgment, but more informed persons doubt that this day has yet dawned.[47]

Later in the summer, another element was added when the Social Security Administration's Actuary, Robert J. Myers, revised his estimates of the cost of the social security program to take account of certain changes in assumption growing out of more recent experience in assessing the long-term operation of the system. The revised estimate showed an actuarial surplus of 0.89 percent of taxable payroll for OASI while the disability insurance part of the program was

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[46] Carroll, John. "Social Security Financing Revisited." (Background paper for a conference on social security financing held at the Brookings Institution on June 17, 1966.)

[47] Ibid., pp. 26–28.

underfinanced by 0.15 percent of taxable payroll. Combined, the OASDI program had a surplus of 0.74 percent of taxable payroll or enough to finance an 8 percent increase in benefits.[48] When the estimates were made public in October, President Lyndon B. Johnson indicated that he would send the 90th Congress a recommendation that social security benefits be increased by at least 10 percent and perhaps by as much as 15 percent. His recommendations for a 15 percent benefit increase were sent to the Congress on January 23, 1967, and were to be financed by the surplus and by increases in the tax rates and the tax base.

In December of 1966 the Brookings Institution published a study by Joseph H. Pechman on tax policy that considers the question of continued reliance on payroll taxes to finance social security benefits.[49] Although much of the author's concern in this area is with the regressive nature of the social security tax and its built-in inflexibility, he points out that there is considerable psychological advantage to the payroll tax.

> Financing of Social Security through contributory and often regressive taxes is well established in most countries. Receipts are earmarked to make workers feel that they are receiving benefits as a matter or right rather than as a government donation. The ear-marked taxes emphasize the statutory nature of the benefit and may discourage benefit reductions when the budget is tight. Moreover, increases in benefits are believed easier to obtain if they are financed by the contributions of future beneficiaries rather than from taxes in general.[50]

As to the use of general revenues, he mentions the precedents that exist in present law and that the combined employer-employee tax rate is scheduled to exceed 10 percent. Therefore, he feels that "* * * use of the general fund should be considered as an alternative to rate increases when additional funds are required to finance benefits." [51]

When the Committee on Ways and Means undertook hearings on the administration's proposed recommendations for changes in social security (H.R. 5710) in March 1967, considerable interest was shown in the financing of future liberalizations of the program. Although a large number of witnesses showed concern about this issue, there was no general agreement that general revenues should pay for future changes. Many testified that the administration's proposals should not be enacted because the program was properly financed through payroll taxes, which they said had risen to about the bearable limit.

In a broad way, the position of the AFL–CIO on the future need for general revenues is representative of the position of those who argued that future cost increases should be financed with general revenues. Testifying for the AFL–CIO, its president, George Meany, said:

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[48] Compare this with the —0.76 percent actuarial balance which developed under the 1972 amendments. Under the actuarial assumptions used in 1966, which assumed level payrolls and level benefits, a positive actuarial balance would result from rising wage levels. On the other hand, the actuarial assumptions used after 1972 assumed rising wages and rising benefits and would result in a negative actuarial balance if wages rose at less than twice the rate of price increases.

[49] Pechman, Joseph A. *Federal Tax Policy.* Washington, D.C., Brookings Institution, 1966.

[50] Ibid., p. 172.

[51] Ibid., p. 175.

AFL–CIO members are properly known for their willingness to pay for what they get, in war and peace. I am completely confident that they will gladly pay their fair share toward a better Social Security system. Yet, it must be recognized that as we approach the goal of a 50-percent increase in benefits, as we continue to enlarge the scope of the system, a heavier proportion of the tax load will fall upon wage earners.

Frankly, Mr. Chairman, we all realize that because the Social Security tax is not progressive as to amount of income, it is regressive in the classic sense. We in the AFL–CIO have ridden along with this, over the years, for the sake of the greater objective which we know you share.

But in all candor I think you should know that in time, we shall urge a modest and gradual contribution to the Social Security trust fund from the general revenues of the United States. We believe this would be an effective way—and a simple one—to introduce the principle of progressive taxation to the Social Security system. We are not asking for this now, so I will not argue the case for it. But we will be back.[52]

The objections presented to the committee against the use of general revenues in financing social security generally avoided direct argument and relied rather on laudatory statements regarding the self-supporting nature of the program achieved through the payroll taxation. Typical of these arguments was the testimony of Henry R. Chase who represented the Chamber of Commerce of the United States of America at the public hearings. He praised the committee for keeping social security on a self-supporting basis and pointed out:

In financing the many amendments to Social Security, Congress did so by levying additional taxes to cover current costs, and, at the same time, provided for escalating tax rates to meet growing future commitments. Success for this method of financing depends upon the willingness of today's and tomorrow's workers to pay the full cost of benefit commitments promised by Congress.

But he also warned:

The ever present danger of this method of financing is that Congress, through repeated and rapid liberalizations, may so load up the burden of taxes as to undermine the willingness of workers to support the full cost of Social Security.[53]

In the course of the public hearings on H.R. 5710, Representative Herlong questioned the Under Secretary of Health, Education, and Welfare, Wilbur J. Cohen, about the use of general revenues to finance the costs of some of the "welfare" aspects of social security. In his reply Mr. Cohen stated his belief that the contributory aspect of the program was necessary to the maintenance of public confidence, but that a situation could develop in which it would be appropriate to use general revenues to meet "social cost." The exchange between Mr. Herlong and Mr. Cohen follows:

Mr. Herlong. It seems to me that to the extent that we continue to add war on poverty items to the Social Security Act, to that extent we destroy the insurance concept of the whole program.

Mr. Cohen. I don't think so for this reason, Mr. Herlong: a social insurance program is not like a private insurance program in a strict private-contract sense of returning to an individual, or a small group of individuals, only what they have paid in. As Mr. Ball said yesterday, and as we have said several times before the committee, one has to look at the employer contributions in this system as trying to carry out certain social objectives of seeing that the benefits meet certain minimum needs, and this may mean paying to an individual more than he or she has paid in. If I thought that any benefit in this bill

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[52] U.S. Congress, House Committee on Ways and Means. *President's Proposals for Revising the Social Security System.* 90th Cong., 1st sess., 1967, p. 576.

[53] Ibid., p. 1342.

undermined the contributory insurance system, I would not be for that particular type of benefit, because I think that the payment of this benefit, as a matter of earned right and payment through a separate trust fund is essential to giving people a sense of security about the receipt of their benefits.

Mr. HERLONG. The point I was trying to make here is that in my judgment the poverty program or the war on poverty items that are constantly being added to this program, it seems to me, ought more appropriately to be paid for by the general taxpayer rather than by the worker alone and his employer.

That is the point I was trying to make.

Mr. COHEN. Well, as the chairman brought out in his questioning, I do think that there is a point where, if one is going to raise the minimum benefits substantially beyond a level that is consistent with the total wage related system, then that increase ought to be paid out of general revenues in recognition of social cost.

I would certainly concede that as a matter of principle, this ought to be carefully looked into.[54]

The use of general revenues, however, was not a direct issue before the committee because the Administration's bill lacked such a provision.

In the spring of 1967 the general revenue issue also came up in the consideration of a particular proposal. On April 18, 1967, when the Senate was debating the Investment Tax Credit bill (H.R. 6950), Senators Prouty and Cotton introduced an amendment (which was not adopted) to increase social security benefits. The amendment called for increased expenditures of about $4 billion in the first year and would have been financed largely out of general revenues. The largest increases would have gone to people at the lower earnings levels, and those at the highest level would have received only a token increase. Senator Prouty stated on the floor of the Senate:

Mr. President, I believe that one of the most significant features of this amendment offered by the distinguished Senator from New Hampshire [Mr. Cotton] and me is the provision which provides for the financing of the increased benefits. This amendment provides that the costs entailed in it be paid from general revenues rather than from additional increases in an already too regressive social security payroll tax.

The social security payroll tax places too great a burden on low-income families who can least afford to pay for increases motivated by need rather than insurance principles. General revenues, which are obtained in a large part from the progressive income tax, provide a source which is based on the ability to pay. Utilization of general revenues for all future benefit increases will at least hold the line on the social security payroll tax which cuts most cruelly into the pocketbooks of low-income groups.[55]

The debate on the amendment revolved largely around the question of using general revenues. Opponents stated that the proposal was a radical departure from established practice. Senator Williams of Delaware set the tone of the debate, saying:

Once we start down the road of financing social security benefits from general revenue by direct appropriations we will have departed from the insurance concept of social security and changed it into a general welfare program.[56]

Senator Gore believed that the Prouty-Cotton amendments would destroy the social security program, and the following exchange took place:

Mr. WILLIAMS of Delaware. All of these amendments have merit. I said yesterday that one can take any of the proposed Social Security amendments by

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[54] Ibid., pp. 371–372.

[55] *Congressional Record*, vol. 113, Apr. 18, 1967, p. 9943.

[56] Ibid., p. 9945.

itself and make a wonderful argument as to its merits. I do not question that. On the other hand, any meritorious proposal which would give benefits to any group will cost some money.

While the Senate is voting for those benefits let us include in the bill provisions to pay for them. If we are willing to vote for the increases and if we consider them to be meritorious certainly we should be willing at the same time to include whatever payroll tax increase may be necessary to finance them; or if we are going to put a tax on the general revenue why not include a proposal to increase income taxes in order to bring in the necessary revenue to pay for the cost of the bill? If we do not want to increase income taxes to pay for these benefits or if we do not want to increase payroll taxes with an extra $4 billion then we must increase the ceiling on the national debt in order to pay for the cost; otherwise the Senate is merely going through the formality of saying it is in favor of something for which it does not have the money, and that is farce.

Mr. GORE. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. GORE. Does the senior Senator from Delaware agree that the pending amendment would destroy the contributory nature of the social security program, that it would invalidate the integrity of the fund, violate the ratio between benefits received and wages earned, or payments made into the fund, and instead, by going into general revenue, make of this another mass general welfare program?

Mr. WILLIAMS of Delaware. There is no question about it. I have pointed out those facts before. The adoption of this amendment would be a great disservice to those who are depending on social security. The entire principle of social security has been that it was an insurance type of operation. We all recognized that those persons who came in at a later date would not pay as much money, but everybody was paying under the program. Social security was established on the principle that we wanted these elderly persons upon retirement to be able to walk into the post office, accept their check, and walk out with dignity saying, "This is something I paid for." This is important.

I recognize that we did depart from the principle in one instance last year or the year before when we blanketed in those persons over 72 years of age. We did that knowingly because there was no possible way in which these people could qualify in the labor force. They were out of the labor force, and recognizing that and that in a few years, based on the normal lifespan, the program would revert to a general insurance program we brought in that small group. However, those affected by the present amendment were contributors. They build up their equity. Any increased benefits given to them should be on the basis of increasing the contributing rate so that the program will remain as an insurance fund.[57]

VI. *Financing the 1967 Amendments*

Hearings on the 1967 amendments, which opened on March 1, 1967, before the Committee on Ways and Means, elicited further discussion of social security financing.

Dr. Carl H. Fischer of the University of Michigan, an actuary, and a member of the 1958 Advisory Council on Social Security Financing, said it would be best to maintain the social security program on a self-supporting basis. However, he felt compelled to examine the use of general revenues as a way of maintaining individual equity; that is, a correspondence between the value of the contingent benefit for the individual and the payroll taxes that he and his employer pay.

The question of individual equity was considered by Walter Reuther, then UAW President. Mr. Reuther viewed the choice as plainly one of continuing to neglect the needs of the elderly or of placing an undue tax burden on younger workers. Rejecting both possibilities, he saw the use of general revenues as a "rational, and reasonable and equitable" way of building and paying for an adequate social security program. The UAW, therefore, recommended that the cost of social

[57] Ibid., p. 9946.

security be paid by equal contributions from employees, their employers and the Federal Government. This, it said, would be a way to "* * * face up to the basic problem that you can't provide an adequate system of social insurance and meet the complex problems of a highly industrialized society in the 20th century and expect to do that by a constant pyramiding of the payroll tax burden."

Following his prepared testimony, Mr. Reuther was questioned on this point by Congressman Ullman. The following exchange took place:

We have had a number of proposals, Mr. Reuther, to use general revenues for financing. Dr. Campbell presented one such point of view yesterday. But if we are going to do it it seems to me we need a rationale to limit such participation. Are we going to raise it from a third to 40 percent Federal revenues just because we need it? Are the composition of the committee and the political climate in the country to decide which way we are going to go in financing?

This would really be a hodgepodge system. What we need if we are going to use general revenues is a real rationale upon which we can build a permanent system, a guideline for the committee so that when we do need increased financing we know exactly what the limitations of the system are. Do you have such a rationale in your proposal here today?

Mr. REUTHER. We are not proposing the use of general revenue as a matter of political expediency. I think that that would be unsound. I think that the social content of the overall social security system is a broad character which, as a matter of public policy, makes it not proper to place the exclusive burden of that cost upon the payroll tax.

It seems to me that this does give you a rationale upon which you can defend the use of general revenues. The ratio of the general revenue, its contribution as compared to that of the employer and the employee, this is a changing thing.

Obviously a wage earner who has access to the kind of affluence that is going to be possible 10 years from now will be in a different position. I think in terms of an UAW member 15 years from now getting $30,000 a year income. Well syphoning off a portion of his wage is quite a different economical thing from syphoning off the same proportion of wage of a worker making $1,000 a year. What you are dealing with here is a dynamic economic equation that is going to change. I think you have to start out with a sound rationale so that you are not acting out of expediency and then the relationship of the relative elements in the total equation will respond to rational judgment in any given situation.[58]

Subsequently, Mr. Reuther furnished the committee with additional arguments on the case for using general revenues. While the statement produced no new arguments, it summarizes the principal reasons that have been advanced for turning to the Treasury, particularly by those who favor expansion of the program.

(a) Increasing the already regressive payroll taxes would create an unjustifiable burden on low paid workers, young workers and middle-income families with two wage earners, and small businessmen.

(b) It would be grossly inequitable to expect Social Security taxpayers alone to finance the needed benefit increases for current beneficiaries who would not be paying for the added benefits.

(c) As a practical matter the difficulties of raising payroll taxes sufficiently to finance truly adequate benefits are probably unsurmountable.

(d) More adequate Social Security benefits with partial general revenue financing would reduce the cost of welfare programs also financed from general revenues.

(e) The concept of general revenue financing for Social Security is not novel and has been recommended by many competent and responsible groups. The Congress has already adopted the principle with respect to certain payments for Social Security beneficiaries over 72 and for Part B of Medicare.

(f) When we do not count social insurance payments, because they are fi-

[58] *President's Proposals*, op. cit., pp. 1462-1463.

nanced by employee-employer contributions, we are actually spending a smaller percentage of Gross National Product for social welfare programs than we were in 1940.

Those who claim that general revenue contributions would add a welfare component to the social security system simply do not recognize that this is a social insurance system designed to achieve social objectives. Properly restructured, as we are proposing, it will reduce public welfare programs.[59]

Dr. Colin D. Campbell, a professor of economics at Dartmouth College, expressed concern about the effect of payroll taxes on the incomes of younger people. He said that the young worker would be grossly overcharged for his social security benefit, and recommended that the payroll tax be reduced so that no one would pay more than the cost of the benefits he might expect. Dr. Campbell testified that the social cost of the welfare aspects of social security should be paid out of general revenues. In questions to Campbell, the chairman of the committee, Wilbur D. Mills, brought out the rather substantial cost of the proposals that had been made. The exchange between the chairman and Dr. Campbell follows:

The CHAIRMAN. * * * Very frankly, when any witness before this committee begins to suggest that we start paying benefits out of the general funds of the Treasury he raises my curiosity beyond the point of containment.

How much would it cost to do what you suggest; namely, to finance out of the general funds of the Treasury all the benefits paid to presently retired beneficiaries in excess of what they themselves paid for those benefits?

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Dr. CAMPBELL. I am suggesting that you reduce the payroll tax * * *.

The CHAIRMAN. I am not suggesting that either. I am talking about leaving the payroll tax exactly as it is and looking back to those who have retired and paid for their benefits, determining what we pay them in the way of benefits.

The difference between what they have actually paid and what we have given them in benefits is around $20 billion a year.

Dr. CAMPBELL. That is right.

The CHAIRMAN. In the future that would probably, as time goes on, be about half the program cost throughout the future of the program. That will have to be paid for some way.

I don't know what your deficit is for 1968. It is argumentative right now. Some people say it could be as much as $18 billion. But if we began this in fiscal year 1968 the deficit would then be $38 million. We would have to raise some income taxes from somebody.

These very people you are concerned about, and I am concerned about, are going to pay income taxes, too. That would be a rather sizable bite out of the pocket of the young workers. I am just wondering.

I am not arguing with you.

Dr. CAMPBELL. To a certain extent it would mean just replacing payroll taxes with income taxes but these are not exactly the same two groups.

The CHAIRMAN. I understand the difference between them.

Dr. CAMPBELL. I think the gap between what people have paid for and what they have not paid for, unless the welfare aspect of the program is increased considerably in the future, is going to diminish.

The CHAIRMAN. I will check my figures. I think I am right on it.

I made quite a point, myself, out of the fact that those who have retired have qualified for benefits under very liberal eligibility requirements. Some people could retire with 18 months of tax payment, paying a very small amount, and receive for the remainder of their lifetime a benefit which is now at least $44 a month.

When you think in terms of the small amount they have paid and the large amounts that are paid to them in benefits, I don't think the $20 billion figure that has been given me is very far off.

Dr. CAMPBELL. No; it is not.[60]

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[59] Ibid., pp. 1473–1474.
[60] Ibid., pp. 1392–1393.

VII. *Activities in 1969–72*

In the period after the 1967 amendments, congressional consideration of social security legislation was overshadowed by consideration of welfare reform proposals. In this period benefits were increased three times—15 percent effective January 1970, 10 percent effective January 1971, and 20 percent effective September 1972. Because these increases resulted from Senate floor amendments to internal revenue and debt ceiling bills, the legislative history of their financing is scant. The first two increases were financed in the traditional way but, by placing the program explicitly on a pay-as-you-go basis, the September 1972 increase broke with custom.

This change, which grew out of the recommendation of the 1971 Advisory Council,[61] is not so unexpected as one might think, particularly in retrospect. For some time serious questions had been raised as to a maximum limit on the social security tax rate, and the change to an overt pay-as-you-go system was designed to allow a sizable increase in benefits with a minimum increase in actual taxes and a reduction in the tax rates.

THE TRANSITION PERIOD

At the end of 1967 the Joint Economic Committee published a series of papers on the problems and issues in public and private pension systems.[62] In one of these papers the then Commissioner of Social Security, Robert M. Ball, said:

> One of the most important issues in connection with long-range financing of the social security program is whether, if benefits are to be raised substantially, we are willing to have the contribution rate—which applies equally to lower-paid and higher-paid workers—raised sufficiently to cover the cost, or whether some of the additional financing should come from general revenues.
>
> There is some leeway for improvement in the future without a Government contribution and without increasing the contribution rate. * * * If the maximum earnings base is increased somewhat from time to time (it does not have to be increased proportionately to increases in earnings levels for this purpose), contribution rates in present law will produce sufficient income to considerably more than keep benefits adjusted to future increases in prices. Of course, it *may* well be that in America we will want to increase benefits substantially more than can be financed by a higher earnings base and out of rising earnings. If we do, it is at this point that the issue of a Government contribution will be seriously considered.[63]

A somewhat different point of view was expressed in the same series of pension papers by three economists, Joseph A. Pechman, Henry J. Aaron, and Michael K. Taussig; namely, that the social security payroll tax, even though it is an earmarked tax, can be altered by Congress, like other Federal taxes. It follows, they said, that the roll of the payroll tax should be considered in relation to the Nation's broad economic goals, not merely in relation to the objective of public acceptance of social security, a goal commonly promoted by use of the insurance analogy.

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[61] See "The 1971 Advisory Council Recommendations," infra.

[62] U.S. Congress, Joint Economic Committee. *Old Age Income Assurance*, 90th Cong., 1st sess. Joint committee print, 1967.

[63] Ibid. pt. I, pp. 55–56.

The practical importance of disregarding the insurance analogy is not to discredit the concept of social security, but rather to dispel basic misconceptions about certain aspects of the OASDI program. Once the insurance analogy is seen to be false, the social security "contribution" must be regarded as a tax, not an insurance premium nor, indeed, as a "contribution" in the generally acceptable sense. The financial interchange between generations does not depend on the existence of a particular tax—the payroll tax. It arises because each generation of workers undertakes to support the eligible nonworking population and implicitly expects similar treatment.

Social security payroll taxes are legally earmarked, but they are not *economically* earmarked. Congress and the President jointly have total discretion about which kinds of taxes (including those on payrolls) shall be used to pay for whatever expenditures they jointly conclude are worth making. If Congress should decide to end the earmarking of the payroll tax (but should allocate it to the general fund) and to earmark enough of, say, the corporate income tax to pay for social security benefits, nothing would be changed except some accounting. Or, if Congress should decide that all taxes are to be deposited in the general fund and then should appropriate sufficient funds each year to pay for social security, again nothing would be changed. In each case, the taxes paid by individuals and businesses woud be unaltered, the amount of borrowing by the Government from the public would be unaffected, and the expenditures of the Federal Government would be the same.

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The basic point that emerges from the foregoing observations is that the payroll tax is not a necessary feature of the social security system. Payroll tax receipts are part of the total revenues of the Federal Government, and should be evaluated on their merits as a source of taxes. This means that the desirability of changes in payroll taxes should be weighed against changes in other taxes and that social security benefits should be financed by the methods which are most equitable and most conducive to economic growth and efficiency.[64]

These two sets of statements can be considered as representative of two schools of thought advocating new sources of financing as alternatives to reliance on the payroll tax as the sole source of social security financing.

With regard to the use of general revenues, the argument shifted to using such funds, in one way or another, to provide either tax relief for low-income taxpayers or some sort of supplemental income under the social security program. An associate processor at UCLA, Yung-Ping Chen, illustrated this aproach in an article [65] that concluded that general revenues should not be used to finance social security. In his view, the method of financing social security must be considered in relationship to the fundamental purpose of the program:

A major source of controversy concerning benefit levels and method of finance stems from attempts to use OASDI as a means to reduce poverty, particularly among those who receive meager social security benefits because of very limited labor force participation.[66]

It follows that those who see a need to increase benefits without exceeding some ill-defined, but nonetheless real, limit to payroll taxation must rely on general revenues. However, according to Chen, those who reach this conclusion underestimate the need for a rise in general taxes if they are to be used in place of the payroll tax. Moreover, they overestimate the realtive position of the social security program if it

[64] Ibid., pt. III, pp. 18–19.

[65] Chen, Yung-Ping. "General Revenue Financing for Social Security: A Negative View." *Proceedings of the National Tax Association*, 1969. pp. 329 ff.

[66] Ibid., p. 330.

were to be placed in direct competition with other programs for the limited funds available from general revenues.

The problem, according to Chen, is that present financing is based on a regressive payroll tax and that the plans advanced for using general revenues would change the basic nature of the program so much that it would become just another public welfare program, which he believes is more than the Nation would accept. The merits of general revenue financing—somewhat less regressive taxes—are less than the disadvantages which would result. Changes, though, are needed.

If there is no reform plan which aims at preserving the desirable and reducing the undesirable characteristics of the existing system, Social Security faces the dangers of (1) constantly being criticized from the conservative as well as the liberal for the weaknesses in its tax-benefit framework; (2) gradually causing ever-increasing tax burdens on the workers, especially those who are young and those with low earnings; and (3) possibly developing into another public welfare measure which runs counter to the original objective and, more significantly, to the commonly held belief that it is a self-supporting group protection program.[67]

THE 1971 ADVISORY COUNCIL RECOMMENDATIONS

On April 1, 1971, an advisory council on social security submitted a report that recommended a revision in the long-range actuarial assumptions that had been used up to that time in determining the cost of the social security program and which, therefore, were the basis for the schedule of tax rates in the law. In essence, the Council's recommendation was that the program be financed on a pay-as-you-go basis, which is sometimes characterized as "current-cost financing," as opposed to the level-cost basis that had been used up to that time. This recommendation became the basis for cost estimates used to justify the 20 percent benefit increase enacted in 1972.

Up to 1972, the estimated costs of social security cash benefits had been based on the assumption that over the long run neither benefit nor wage levels would change. Although this was not considered to be a forecast of what would happen, it was considered a valid measure of the long-range cost that could be used to compare the relative cost of various changes in the program and to determine the level of social security taxes needed to pay for the program. Because the conservative[68] nature of the assumptions ran counter to the rising wage trends that actually occurred, most reevaluations of the actuarial cost estimates showed that the then-existing tax schedules could support a higher level of benefits than was being paid and that the higher level was in proportion to the rise in wage levels that had occurred between actuarial evaluations. Thus, the level-cost actuarial procedures might

[67] Ibid., p. 344.

[68] Although in the generally accepted terminology the level-cost estimates are "conservative," a better term might be "safe." That is to say that it was expected that any given estimate would understate the cost of the program in terms of the next following estimate. Therefore, there would be a continuously developing "actuarial surplus" which would be available, for all practical purposes, to meet some of the costs of liberalizing the program. On the other hand, if actual experience was unfavorable (in terms of the assumptions), there would be a cushion to dampen (or preclude) the need for extensive changes in the financing scheme. In effect, the financing scheme envisaged under the level-cost assumptions was a system in which saving occurred before spending, rather than a fly-now-pay-later scheme.

be said to be based on the assumption that over the long-run future, benefits would increase in proportion to the rise in wage levels.

In contrast, the short-range estimates (for a 5-year period) for cash benefits had been based on the assumption that wage levels would rise but that there would be no changes in the law. Thus, there would be no change in the tax base, although the earnings taxable would rise within the limits of the tax base. The introduction of the automatic cost-of-living benefit increase under the 1972 amendments complicated both the long-range and the short-range estimating procedures, inasmuch as it was no longer realistic to assume that there would be neither benefit nor tax-base increases. Thus, the new short-range estimates assume not only general benefit increases but also that the tax base will rise. For the long-range the original estimate that benefits will rise according to the rise in the Consumer Price Index (2.75 percent a year) and that wages and the tax base will rise 5 percent a year was revised in 1974 to 3 percent and 5 percent.

Although this change in actuarial assumptions was used to justify the 20 percent benefit increase provided in 1972, it did not reduce the cost of the program. All that was changed was the way *future costs* are estimated. For example, if the cost of the program is estimated to be $85 billion for any year, this cost can be expressed as 8.5 percent of payroll when payroll is $1,000 billion; if payroll is only $850 billion, the cost is, of course, 10 percent of payroll. Thus, in a situation where 10 percent of payroll is dedicated to meeting the costs of the program, a change in assumptions which results in increasing taxable payroll from $850 billion to $1,000 billion provides $15 billion in additional income, enough for an 18 percent increase in expenditures.

The Advisory Council appointed a panel of actuaries and economists to examine the assumptions on which the actuarial estimates were based. This panel stated—and the Council concurred—that the level-cost estimates resulted in actuarial surpluses that "* * * have been used in the past, partly to finance cost-of-living increases, partly to maintain replacement ratios, and partly to expand benefit provisions." In the panel's opinion, the mechanism was not "generally understood" and the panel believed that understanding and analysis of the program would be improved if the level-wage assumptions were to be "* * * replaced with reasonable assumptions concerning the future growth in average covered wages." [69]

With regard to the economic assumptions to be used, the panel said:

> We recommend that the cost projections be based on the best available estimates of the future course of prices and wages. Adoption of realistic wage assumptions for the short term alone is, of course, not sufficient in itself for either actuarial or economic analyses. For the actuarial and economic analyses underlying projections, the relationships between covered payrolls, benefits, tax rates, and trust fund balances need to be traced out as accurately as possible in the long as well as the short run. In such analyses the possible changing interconnections between social security financing, the replacement rate and the purchasing power of benefits need to be studied with care. We recommend further that the economic assumptions for the cost projections should be related, for the short range, as now, to those used by the Administration for budgetary purposes, and for the longer range, should be based on the expectations of continuation of historical price and wage trends.

[69] U.S. Congress, House. *Reports of the 1971 Advisory Council on Social Security*. H. Doc. 92–80, 92d Cong., 1st sess., 1971.

The estimates based on this single set of "best estimates" would then be used for setting the social security tax rates for both the long-run and the short-run future.

ASSUMPTIONS AND METHODOLOGY

1. The Council recommends that the actuarial cost estimates for the cash benefits program be based—as the estimates for the hospital insurance program now are—on the assumptions that earnings levels will rise, that the contribution and benefit base will be increased as earnings levels rise, and that benefit payments will be increased as prices rise.[70]

The most important reason for advancing this concept was the Council's belief that:

* * * assumptions concerning such fundamental cost-determining elements as future earnings levels and future benefit levels should be explicitly stated so that they can be examined for reasonableness. To base contribution rates on estimates that assume that earnings, prices, and benefits will remain level is, in practice, to assume that as earnings and prices do, in fact, rise, the Congress will act not merely to maintain the purchasing power of the benefits but to provide for real increases in benefit levels.[71]

(The separate statements of four members of the Council[72] take exception in one way or another to this recommendation.)

2. Contribution rates should be based on a single, best estimate derived from a single set of assumptions that reflect likely future trends in the factors that affect income and outgo of the program, rather than on an average of low-cost and a high-cost estimate, as has been the case in the past; and there should be a series of estimates which show the extent to which the best estimate might vary if experience with respect to any of the major factors were to differ from the assumptions.[73]

At the time this recommendation was made, the official estimates were made on a "high-cost" assumption and on a "low-cost" assumption, with these assumptions being the basis for an "intermediate" estimate that was in effect the estimate used in discussion of the cost and as the measure of whether the program was in actuarial balance. In recommending the above change the Council said that it "* * * believes that there is likely to be less variation from actual experience if contribution rates are based on a single, best estimate that reflects likely future trends * * * rather than on an estimate * * * which groups assumptions * * * and averages the results."[74]

CURRENT COST FINANCING

1. The financing of the program should be on a current-cost basis, with the trust funds maintained at a level approximately equal to one year's expenditures.[75]

In making this recommendation the Advisory Council had two objectives. First, to formalize what had become the practice of operating the program on a pay-as-you-go basis through periodic changes in

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[70] Ibid., p. 64.
[71] Ibid., p. 65.
[72] Gabriel Hauge, Charles A. Sigfried, Robert C. Tyson, and Dwight L. Wilbur, Ibid., pp. 79–85.
[73] Ibid., p. 66.
[74] Ibid., pp. 66–67.
[75] Ibid., p. 68.

the law; and second, to put off until some future date increases in the tax rates for the cash benefits part of the program.

It is unfortunate that the Council chose to present this recommendation in the way that it did because there has been considerable confusion between its recommendations for changes in the long-term actuarial estimates and the concept of a pay-as-you-go program. The pay-as-you-go concept is not, as some seem to think, dependent on the adoption of assumptions for the long-range estimates of the type recommended by the Council.[76] The misunderstanding seems due in part to the Council's explanation of its reasons for recommending current-cost financing, which boil down to a statement that it is "nothing new" except that Congress "has continued to prescribe future contribution rate increases which, if allowed to go into effect, would produce very large trust fund accumulations."

Additional confusion results from the Council recommendation that:

> * * * the policy of current-cost financing, which has been followed in practice, should be recognized in the provisions of the law. To carry out this recommendation, the contribution rate charged should be sufficient only to result in trust funds equal to approximately one year's benefit expenditures, and the law should be changed to require the boards of trustees to report immediately to the Congress whenever it is expected that the size of any of the trust funds will fall below three-quarters of the amount of the following year's estimated expenditures, or will reach more than one and one-quarter times such expenditures.[77]

And from the additional statement that:

> One result of limiting the trust funds to a contingency-reserve function and of making the amounts needed for this purpose the determinant of the contribution rate charged is to postpone until well into the next century any increases in the contribution rates for a cash benefits program with benefits adjusted to price changes.

THE PANEL OF ACTUARIES AND ECONOMISTS

In order to assist the Advisory Council in its work a panel of two actuaries and the three economists was created to advise a subcommittee appointed by the Council. The panel seems to have been appointed at a rather late stage in the Council's deliberations—its report was dated December 31, 1970, 1 day before the Council's final report was due, but 3 months before the final report was actually issued—and the report complains about the "short period" of time available for the group to examine the assumptions and method used for the cost estimates.[78] Inasmuch as the parent Council had made a tentative decision to include in its report a recommendation that the cash benefits programs be placed on a pay-as-you-go basis, the panel's report is in terms of the actuarial assumptions and methods the group believed appropriate to such a program. Thus, the central recommendation made by the panel begins with the subjunctive "if":

> If, to avoid substantial accumulations in the trust funds, the contributions now scheduled after the first few years are to be changed before they become

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[76] See app. I for a discussion by Robert J. Myers of this and other aspects of the Council's recommendations.

[77] *Reports of the 1971 Advisory Council*, p. 69.

[78] Ibid., pp. 90–103.

effective, we can see no useful purpose served by including them in an Act of Congress nor in projecting the purely hypothetical fund accumulations which would result from such tax rates if they were allowed to go into effect. Rather the effort should be to focus as sharply and as completely as is possible, on the size of the burden involved in the support of the beneficiary population over the years, given the current law or under modifications which from time to time may be proposed. We believe that, under pay-as-you-go financing, year-by-year projections of outlays for benefits in relation to taxable payrolls, rather than the level cost percentage, should become the major criteria for the long-term financial evaluation of the Social Security Program.[79]

Having set the tone with this statement, the report supports in a general way the recommendations that are included in the report of the Council itself. The panel, however, seems to have placed more emphasis on the cash flow than does the report of the whole Council. For the panel, "The concept of actuarial balance is automatic in a pay-as-you-go system. Pay-as-you-go financing requires raising sufficient revenues to cover outlays within each year or biennium and is, therefore, self-policing.[80]

Having made the assumption that actuarial balance is automatic under pay-as-you-go financing, the panel goes on to recommend procedures to assure that it would be.

If our recommendation that taxes be established on a pay-as-you-go basis is accepted, there is no need for a trust fund which is substantially larger than one year's benefit payments. It seems to us desirable that there be a statutory prescription of the tax-fixing formula, operative annually in the absence of Congressional interposition. Given pay-as-you-go financing, the function of the trust fund would be to bridge over any reduction in contribution income resulting from increases in unemployment, deviations of actual from projected wages, or abnormal numbers of retirements.[81]

Much of the panel's report is concerned with the technical details of making the cost estimates; and for the policymaker, the discussion of economic assumptions that should be used provides an important guide as to how he should evaluate the cost estimates. Since a single set of cost estimates is recommended, the economic assumptions are critical because they must represent the best available predictions of the future course of wages and prices. As the panel saw it, these best predictions for the short-run are "* * * those used by the Administration for budgetary purposes," and for the long-run future they "* * * should be based on the expectations of continuation of historical price and wage trends."

In the view of one actuary [82] at least, estimates of the type recommended for the long-run future "* * * are based on estimates of productivity increases that probably won't materialize." This statement reflectes his belief that in future years society will be more concerned with the quality of life than with increasing its productivity.

STATEMENTS BY INDIVIDUAL MEMBERS

The Advisory Council's report contained minority statements by Council members that disputed some of the Council's recommenda-

[79] Ibid., p. 92.
[80] Ibid., p. 99.
[81] Ibid., p. 10.
[82] Myers, Robert J., as quoted in *Nation's Business*, vol. 61, June 1973.

tions for social security financing. Four of the 13 members[83] thought that the Council had not gone far enough and recommended that general revenues be used to finance a significant part of the long-range cost of the programs. In justification of this, they brought out the traditional argument that about one-third of the long-range cost of the program resulted from the decision to pay full-rate benefits to people who would pay social security taxes for less than a full working lifetime and pointed out that the use of general revenues had been suggested by the 1935 Committee on Economic Security.

The four members said:

The Council did not, however, find it necessary or desirable to recommend such a Government contribution for the cash benefits program. We take strong exception to this view of the Council, although we unreservedly support the Council's recommendations pertaining to changes in actuarial assumptions and to current-cost financing.

There are compelling reasons why a contribution from general revenues should be made to the cash benefits program. In order to make the program fully effective in its early years, full-rate benefits have been and are being paid to people who were already along in years when their work was first covered under the program. That is to say, workers retiring in the early years of the program, generally speaking, get the same benefits as they would get if the program had been in existence and they had been covered under it throughout all of their working life. Only a small part of the actual cost of the benefits being paid to these older people is met by the contributions they and their employers paid. The remainder is paid out of the contributions of current and future workers and their employers. The cost of paying full-rate benefits to older workers is about one-third of the cost of the program. This means that future workers and their employers will pay contributions which are about 50 percent higher than the benefits payable to these future generations. Thus a substantial part of the contributions to the program goes to meet the cost of getting the program started. If this cost were to be met by a Government contribution, all of the contributions paid by future generations of workers and their employers would be available to furnish protection for them. The adoption of a financing policy calling for a general revenue contribution equal to the present employer and employee contribution rates—thus meeting one-third of the cost of the program through general revenues—would make possible an improved social security program without increasing payroll contributions. Such a general revenue contribution could finance nearly 50-percent benefit increase.

We suggest that an equitable way to finance the full-rate benefits for older workers and at the same time protect the interests of current and future workers under social security is through general revenues. Social security contributes to the well-being of the Nation as a whole as well as to that of the individual beneficiaries, and it is appropriate that the Nation as a whole, through the gradual introduction of partial financing of the system from general revenues, share part of the cost of the program.[84]

One member, Gabriel Hauge, expressed his "deep concern" about the automatic increases in benefits recommended by the Council, saying:

But most important is the pervasive effect that acceptance of inflation through income escalation would have on our society. With the passage of time, more and more of the self-imposed disciplines that have made possible our unique social political, and economic structure seem to be eroding. I regard it as a great mistake to accelerate that process.[85]

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[83] Walter J. Burke, Bert Seidman, Joseph P. Tonnelli, and Whitney M. Young, Jr.

[84] *Reports of the 1971 Advisory Council*, p. 75.

[85] Ibid., p. 80.

Three additional members [86] associated themselves with Mr. Hauge's statement and confessed to being troubled by the "underlying philosophy and potential impact" of the Council's recommendations. They expressed fears that the past successes of the program might be endangered:

Because of the past success of social security and the strong public confidence and support for it, great care must be exercised in making changes. Otherwise, the system may be jeopardized by faulty planning, overly liberal benefits and by unsound and inequitable financing.[87]

And, as to the Council's lack of attention to the tax-burden created by social security, the three said:

We are concerned that many people, including some in the Congress, appear not to be cognizant of the extent of the existing future commitment of resources under social security and the extent to which this commitment is increased when the program is expanded. Maximum attention should be given to existing commitments in evaluating the present program and proposals for changes in it.

There are many indications that the public is already overburdened by taxes, so that further increases face increasingly great opposition. The report, however, ignores the total tax burden placed on the average taxpayer by social security plus other Federal, State and local taxes. It tends to ignore the long-held premise that the primary responsibility to take care of himself and his family rests with the individual, and not with other taxpayers.[88]

The Mills Bill, H.R. 13320

Cost estimates prepared on a modification of the assumptions recommended by the Advisory Council showed that in early 1972 it would be possible to increase social security benefits by 20 percent without increasing the ultimate social security tax rates that were included in a House-passed bill (H.R. 1), which was then pending in the Senate. Although the actuarial assumptions that would have allowed a 20-percent benefit increase were similar to those recommended by the Advisory Council Panel, they had been modified to include a "margin of safety." Basically, the estimates assumed that benefits keep up with changes in the cost of living and that wages rise sufficiently to meet the additional benefit expenditures; in addition, the balance in the trust funds at any given time would be approximately equal to expenditures for 1 year.

On the basis of these estimates, the chairman of the House Committee on Ways and Means, Wilbur D. Mills, introduced a bill (H.R. 13320) to increase social security benefits by 20 percent. In discussing the bill in the Congressional Record, Chairman Mills indicated that the assumptions used were a departure from past practice:

In the past, the contribution rates were based on the assumption that neither benefits nor earnings levels would rise. And as a result, when earnings levels did rise, there was an automatic excess of social security income that the Congress would use to finance benefit improvements. The use of the so-called level-earnings assumption in the financing of the cash benefits program has resulted in the enactment of contribution rates that, when earnings did increase, actually provided financing in advance for benefit increases that go beyond increases in the cost of living. The use of dynamic assumptions would mean that at any time in the future Congress chose to increase benefits by more than the increase in the cost of living contribution rates would also have to be increased.

The contribution rates I am recommending are based on the best actuarial estimate of future price and earnings relationships but with a margin of safety

[86] Charles Siegfried, Robert C. Tyson, and Dwight L. Wilbur.

[87] *Reports of the 1971 Advisory Council*, pp. 80–81.

[88] Ibid., p. 81.

so that even if the estimate of actual earnings and price relationships in the future should vary to any significant degree from the assumptions, the rates provided by my bill will be sufficient to meet the cost of benefits, adjusted in the future for increases in the cost of living, over the 75-year evaluation period.[89]

Thus, if the procedures underlying the estimates for H.R. 13320 were used and if Congress continued to increase benefits by more than the rise in the cost of living, future tax rates would need to be increased significantly above the levels called for in H.R. 13320.

The Church Amendment

Following the introduction of the Mills bill, Senator Frank Church (who was then as now chairman of the Senate Special Committee on Aging) introduced a similar measure. And when a House-passed bill providing for a temporary increase in the debt ceiling reached the Senate floor, he offered an amendment providing for a 20 percent general increase in social security benefits. By a rollcall vote of 82 yeas and 4 nays, the Senate adopted the amendment. Because House and Senate conferees were unable to agree to a compromise, the matter was referred to the full House, which accepted the Senate social security amendment by a vote of 302 yeas and 35 nays. On July 1, 1972, President Nixon reluctantly approved the bill (Public Law 92–336).

This legislation not only increased benefits 20 percent, effective in September, but also provided for future automatic cost-of-living increases, beginning in January 1975. The law provided that benefits could be increased automatically each January whenever the cost of living rose 3 percent or more between specified base periods. However, an automatic benefit increase would *not* take effect if in the preceding year a general benefit increase (other than an automatic benefit increase) had become effective or had been enacted.

Each year the Secretary of Health, Education, and Welfare would compare the monthly average of the Consumer Price Index for the second calendar quarter with the monthly average of the index for the most recent second calendar quarter that had been used to compute an automatic benefit increase or, if later, the calendar quarter in which a legislated benefit increase became effective. If the rise in the Consumer Price Index were 3 percent or more, the Secretary would promulgate (not later than November 1) the benefit increase, effective for the following January. The benefit increase would be equal to the percentage rise in the Consumer Price Index rounded to the nearest 0.1 of 1 percent.

The maximum earnings taxable for social security purposes was also increased from $9,000 a year to $10,800 for 1973 and to $12,000 for 1974. Starting in 1975 the base was to be automatically increased in proportion to the increase in the level of average covered wages in the first calendar quarter of the year in which the computation was made over the level of average covered wages in the first calendar quarter of the later of: the most recent year in which an increase in the tax and benefit base was enacted, or the most recent year in which a determination was made to automatically adjust the contribution and benefit base.

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[89] *Congressional Record,* vol. 118, Feb. 23, 1972, p. H1413.

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At the time he signed Public Law 92–336, the President said that the bill had serious shortcomings, which he described as follows:

> It fails the test of fiscal responsibility by failing fully to finance its increase in social security benefits. As a result of this failure, it would add an additional $3.7 billion to the more than $3 billion by which earlier actions and inactions by the Congress have already thrown the full employment budget for fiscal year 1973 into deficit—thus threatening dangerously to escalate the rate of inflation at a time when this Administration's economic policies are succeeding in turning it back.
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> Therefore, it will be necessary for the Congress and the Administration to offset the additional $3.7 billion deficit created by the measure through cuts in other Federal programs.
>
> An additional fault with H.R. 15390 is that it jeopardizes the integrity of the Social Security Trust Fund by substantially reducing the necessary coverage of trust fund reserves to ensure annual benefit payments. I shall request the next Congress to restore this full 100% protection.[90]

The fault the President found with the financing of the benefit increase was that the tax schedule provided by the amendment was based on what has come to be called the 75-percent-assumption; that is, the schedule was designed to provide a yearend balance in the old-age and survivors insurance and disability insurance trust funds equal to approximately 75 percent of the estimated expenditures for the following year. (The actual estimate was that the balance in the funds at the end of 1972 would be about 84 percent of estimated 1973 expenditures and would range from a low of 81 percent at the end of 1973 to a high of 83 percent at the end of 1975 and again at the end of 1977.) This assumption was in contrast to the practice that had prevailed up to that time of setting the early year tax rates so that the trust fund's yearend balances would be approximately 100 percent of estimated expenditures for the following year.

When the provisions providing for automatic cost-of-living benefit increases were adopted, there was only limited discussion that this constituted a basic change in the method of financing social security. In fairness, however, nearly everyone seemed to think that a proper evaluation had been done in some other forum. For example, the Committee on Finance had agreed in closed session to a 10 percent social security benefit increase that, along with other changes, would be financed on a pay-as-you-go basis under a long-range tax schedule based on assumptions similar to those recommended by the Advisory Council. The committee, however, had no public discussion of the matter, and its report was published only several months later.

In this atmosphere, then, Senator Church called up his amendment, and in his introductory remarks, explained how the proposed benefit increases could be financed without increasing tax rates (but not tax collections) and without impairing the financial soundness of the program. He said:

> The contribution rates that my amendment would set for the cash benefits program are based on recommendations made by the Advisory Council on Social Security and endorsed by the Nixon administration. The Advisory Council was a distinguished and knowledgeable 13-member panel chaired by Arthur S. Flemming, who is now the President's Special Consultant on Aging.

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[90] Nixon, Richard M. *Weekly Compilation of Presidential Documents*, July 3, 1972. General Services Administration vol. 8, No. 27, pp. 1122–1123.

The contribution rates in my amendment are set at a level that assures sufficient income to meet current expenditures and to allow for growth in the trust funds. These contribution rates would maintain the funds at a reasonable contingency-reserve level, in line with the recommendations of the Advisory Council. In addition, the contribution rates are based on the assumptions that benefits will rise in the future to take account of increases in prices—as my amendment would provide—and that the maximum amount of earnings counted for social security purposes will increase as earnings levels rise—also as my amendment would provide. The Advisory Council recommended the adoption of contribution rates based on rising benefits and earnings assumptions in lieu of the past practice of basing rates on the assumption that earnings levels would not rise.[91]

When the debt ceiling bill was returned to the House, the parliamentary situation developed in such a way that the House was required to vote on the social security provisions of the bill. Chairman Mills of the Committee on Ways and Means sought passage of the amendment. Pointing out that the provision was in essence the legislation he himself had proposed some months earlier, he indicated that the proposed financing was sound, and he assured the House that enactment of the measure would mean that, "We will not be taking in the excessive amounts over what we pay out, that we would under the provisions of existing law or under H.R. 1, if enacted."[92]

The committee's ranking minority member, John Byrnes, however, took another view. He thought that Congress was being asked to act on an important issue with too little information to make an informed judgment and accused the backers of the social security amendment of "* * * playing fast and loose with the integrity of the social security system. * * *"[93]

At no point has there been a study by the Ways and Means Committee of the new method of financing that has produced the "windfall" that now is going to be used for the 20-percent benefit increase. Not one word of testimony in public or executive session has been received on this subject. This fundamental change in the criteria by which the soundness of the social security trust fund has been measured for one-third of a century is being adopted willy-nilly by the Congress without even a cursory review.

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Despite the subterfuge and political chicanery underlying this discussion about tax increases, the American people will not be fooled. If we are going to pay out 20 percent more in benefit dollars, someone will have to pay 20 percent more in tax dollars than they otherwise would have to pay. It is that simple. The new methodology, while permitting some manipulation, does not change this fact. And let me point out that the hasty procedures employed here are completely inconsistent with the caution with which we should approach these new proposals.[94]

Just how this situation came about is not clear from the record but it seems likely there are two reasons why the social security changes in H.R. 1 received relatively little consideration. First, most of the provisions had been considered in the 91st Congress and the major differences between the House and the Senate already had been taken into account in preparing the House bill. Second, the major items in dispute in H.R. 1 dealt with welfare reform, which had become the major policy issue. And, although the financing issue

[91] *Congressional Record*, vol. 118, p. S10781, Jan. 29, 1971.
[92] *Congressional Record*, vol. 118, p. H6509, June 30, 1972.
[93] Ibid., p. H6510.
[94] Ibid., p. H6511.

had not been considered in detail by the Congress, it had been considered by a group of experts and was supposed to be based on their recommendations.

VIII. *The 1973 Cost-of-Living Increases*

THE JUNE INCREASE

The 1972 legislation providing for automatic cost-of-living benefit increases authorized the first of these increases to be effective for January 1975. However, the Consumer Price Index rose rapidly in the first 6 months of 1973. Reacting to this situation, in June 1973 the Senate Committee on Finance added an amendment to a House-passed bill authorizing a continuation of the temporary increase in the Public Debt Limit (H.R. 8410). Under the committee amendment, the first cost-of-living increase would have been provided with the benefits payable for January 1974, rather than January 1975, with the percentage rise measured over the 12-month period from June 1972. (When the previous benefit increase had been considered by the committee, it was estimated that benefits would be increased by 5.6 percent. However, the actual rise in the Consumer Price Index was greater than anticipated and when the index for June 1973 was published, the rise was actually 5.9 percent.)

The committee thought that because the benefit increase provided by the amendment was only an advance on an increase that otherwise would be payable automatically later, there was no need to provide additional revenue to pay for the additional benefits. In support of this position the committee report said:

> The Committee bill would increase social security cash benefit payments to which beneficiaries are entitled in calendar year 1974. Subsequent benefits, however, would not be increased under the committee bill above what they will otherwise be under the provisions of present law which become effective beginning January 1975: the Committee bill in effect makes the benefit related to the cost of living increase more timely. The Committee therefore feels there is no need to increase the long-range financing of the social security program since the bill provides an increase above present law in entitlement to benefits for only one year. The cash benefit trust funds under present law represent a little more than 9 months of benefit payments at the end of 1974. The Committee amendment would reduce the size of the cash benefit trust funds to a level just about equal to 9 months of benefit payments, considered by the Congress last year as an acceptable level of contingent funds on hand. The Committee therefore feels that there is no need to raise social security taxes for these additional benefits which relate only to calendar year 1974.[95]

When this legislation went to conference, the administration objected to the benefit increase on grounds that it would ruin the budget for fiscal year 1974 by increasing expenditures without increasing revenues. Accordingly, the conference agreed to postpone the increase until June 1974 (the check would be issued in July) so that the additional expenditures would not come until the start of the next fiscal year (1975). In addition, to help meet the additional costs pro-

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[95] U.S. Congress, Senate Committee on Finance. *Continuation of Existing Temporary Increase in the Public Debt Limit.* S. Rept. 93-249, 93d Cong., 1st sess., 1973, p. 19.

vided, the annual tax base scheduled to go into effect in January 1974 was raised from $12,000 to $12,600.

Because of the parliamentary situation in the House, the changes agreed to by the conference on the debt ceiling bill became a Senate amendment to a bill extending the Renegotiation Act and were enacted as part of Public Law 93–66.

THE DECEMBER INCREASE

Following enactment of Public Law 93–66, pressures arose to make the increase payable earlier than July 1974. Moreover, the Consumer Price Index continued to rise at a rapid rate and there were complaints that the 5.9 percent increase provided would be inadequate. The Committee on Finance, therefore, announced on October 30, 1973, that it had ordered reported a bill (H.R. 3153) that included a 7 percent increase in social security benefits, in lieu of the 5.9 percent increase enacted in July, which would become effective with the benefits payable for the month of enactment. Like the earlier enactment, the proposed increase was considered an advance on the January 1975 automatic cost-of-living increase.

At the same time the Committee on Ways and Means was also considering a substitute for the 5.9 percent benefit increase. As the committee came to consider the need for increased benefits and the timing of the increase, it also came to consider the financing of the program, and one member of the committee, James Burke, proposed that the program be financed in part from general revenues. Under this proposal, employers, employees, the Government would each pay one-third of the cost. Other members became concerned about the relationship of the supplemental security income program, which is financed by general revenue, to the social security cash benefits programs and wondered aloud as to whether there was a "welfare" component that might be a proper charge to general revenues rather than to the earmarked payroll tax. Although the committee did not resolve these issues, its report states:

> In the course of consideration of this benefit increase, your committee became concerned about the financial soundness of the present program. Although your committee believes that this bill will make a significant improvement in the financial status of the program, it believes that a basic review of the financing and other major characteristics of the system is overdue. To this end, your committee has instructed the Secretary of Health, Education, and Welfare to expedite the appointment of the next Advisory Council on Social Security (which under present law is required to be appointed by the end of December 1973) and to inform the Council of your committee's own concern. Your committee also instructs the Council to consider the role of the social security program in providing an adequate level of benefits in addition to an equitable benefit based on individual earnings levels. Your committee further instructs the Council to review in depth the existing methods of financing social security benefits, and both the short-range and the long-range implications as to benefits and taxes as well as to the economy in general.
>
> Your committee has also instructed its staff to conduct an independent review of these same matters using the resources of the Congressional Research Service, the General Accounting Office, and all other available sources as required.[96]

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[96] U.S. Congress, House Committee on Ways and Means. *Social Security Benefit Increase.* H. Rept. 93–627, 93d Cong., 1st sess., 1973, p. 7.

Although the committee did not resolve basic problems regarding social security financing, it did provide for additional revenue, not only to meet the cost of the two-step, 11 percent benefit increase authorized, but to "reduce the long-range actuarial deficit of the system." [97] Under the committee bill (H.R. 11333), the tax base was to be increased to $13,200, effective January 1974 (rather than to the $12,600 authorized earlier in the year) and the tax rate schedule for the early years was to be revised by transferring income from the hospital insurance program (which estimates showed to be over financed in this period) and by increases in the tax rates beginning in 1981.

When H.R. 11333 was received in the Senate, the Committee on Finance reconsidered its earlier decision to provide a 7 percent benefit increase and recommended (as an amendment to H.R. 3153) [98] a two-step, 11 percent increase similar to that passed by the House. The Senate bill, however, provided that the first step—7 percent—would be effective for the month of enactment (rather than for March as in the House-passed bill) with the second step to the full 11 percent being effective for June 1974, as in the House-passed bill. With regard to financing the cost of this increase the committee adopted provisions somewhat like those in the House-passed bill. The report of the committee explained:

> The Committee would point out that at the time it considered the 5.9 percent benefit increase which under present law would occur with the benefits for June 1974, it had been advised that the automatic benefit increase scheduled for January 1975 would be between 7.1 percent and 8.5 percent above the current benefit levels. Subsequent rises in the cost of living, though, indicate that the benefit increase in January 1975 could be in the neighborhood of 11.5 percent above the current benefit levels were no change made in the law. In this connection, it is important to keep in mind the effect that changing assumptions as to future rises in the cost of living have on estimates of future income and outgo. When the 5.9 percent benefit increase was adopted four months ago, the social security actuaries assumed a January 1975 benefit increase in the range of from 7 to 8.5 percent, based on projected increases in the cost of living. If the 1975 increase is about 7 percent, the social security trust funds would increase each year through 1977, but if it is as high as 8.5 percent, there will be a slight decrease in 1977. And if the January 1975 benefit increase is as high as 11.5 percent, as current actuarial estimates project it might be, the trust funds will decrease slightly from 1974 to 1977.
>
> Although the Committee believes there is no cause to be concerned about the short-range financial stability of the program, the situation with regard to the long-range situation is not as clear. On July 13, 1973 (after the enactment of the 5.9 percent benefit increase) the Trustees of the social security trust funds sent their 1973 report to the Congress. This report indicated that the cash benefits trust funds had had a long-range actuarial imbalance of −0.32 percent of taxable payroll, assuming a 7.1 percent increase in 1975; if the increase is 11.5 percent, as assumed in current estimates, the imbalance can be expected to rise to −0.76 percent.
>
> With regard to the hospital insurance program, the Committee has been informed that the program is somewhat over-financed in the near future, and that a modification of the schedule of hospital insurance tax rates would be appropriate so as to reflect on a more current basis the year-by-year financial needs of that program.
>
> Therefore, the Committee bill would modify the schedule of social security taxes to reduce the long-range actuarial deficit of the cash benefits program and to regulate the cash flow in the hospital insurance program to reflect more nearly

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[97] Ibid., p. 4.

[98] See footnote 99.

the needs of that program. Thus, the social security tax base would be increased from $12,600 to $13,200 effective January 1974.[99]

When the Senate-passed bill (H.R. 3153) went to conference, the parliamentary situation was tangled. Conferees reached an informal agreement as to what provisions would be recommended to the House and to the Senate. The conference was recessed, subject to the call of the chairman, and Senator Russell Long, the chairman of the Committee on Finance, brought House-passed H.R. 11333 to the floor. On the floor, he made a motion to substitute for H.R. 11333 those provisions of H.R. 3153 that had been agreed to by conferees. The amended bill passed both houses of Congress with substantially the social security benefit and financing provisions of House-passed H.R. 11333. The legislation was approved by the President (Public Law 93–233) on December 31, 1973.

Part 2. Some Current Issues

The large increase in benefits (nearly 104 percent), taxes (the maximum employee-employer tax increased 200 percent),[100] and the tax base (100 percent), which started in 1965, has added new dimensions to the question of whether general revenues should be used to finance the social security program. Moreover, the provision for automatic cost-of-living benefit increases financed by automatic increases in the tax base and the creation of a supplemental security income program may cause some changes in the way people look at the program. The emphasis, though, has changed from a philosophical concept to the solution of practical problems.

This part, therefore, will attempt to describe some of the issues that relate to the financing of the program.

I. *The Social Security Tax Burden and Reform Proposals*

The idea that social security taxes are too high comes from two considerations. On the individual level, the maximum employee taxes have risen from $30 a year in 1950 to $772.20 in 1974, with promises of future increases as the tax base climbs again in 1975 and tax rates in 1981. On an overall basis, social insurance payroll taxes are the second largest source of Federal revenues, exceeded only by individual income taxes. In fiscal year 1950, payroll taxes amounted to less than 10 percent of Federal revenues and were exceeded by individual income taxes, corporation income taxes, and excise taxes. Estimates for fiscal 1975 indicate that social insurance taxes will amount to about 29 per-

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[99] U.S. Congress, Senate Committee on Finance. *Social Security Amendments of 1973.* 93d Cong. S. Rept. 93–553, 1973, pp. 13–14. The Committee on Finance did not report the House-passed bill, H.R. 11333, rather it reported H.R. 3153 which had been passed by the House earlier in the year for the purpose of making a number of technical and clerical changes in the law. As passed by the Senate, H.R. 3153 contained a number of significant and controversial provisions which had been added either in committee or on the floor in addition to several extensions of expiring legislation.

[100] Comparisons of this type though used frequently, need to be considered in context rather than as abstract measurements of change. For a further discussion of this point see app. II.

cent of Federal revenues. Thus, economists point out that a disproportionate share of the cost of these programs is paid by low-income people, who generally pay higher portions of their income for these taxes than do people with higher incomes.[101]

Suggestions for reducing the social security tax burden fall into three broad categories:

(1) Use of general revenues as mentioned earlier; this could provide additional income for future benefit liberalization in lieu of tax relief.

(2) A tax credit or rebate for people who have incomes below some predetermined amount.

(3) A change to a progressive system of social security taxation or even full integration of the payroll tax with the individual income tax.

In its extreme form, suggestions of the third type are actually little different from those of the first. However, the motivation of the proponents of each may be quite different and adoption of one rather than the other might have quite different effects on the future development of the program. Because the use of general revenues has been covered in some detail earlier, the material that follows will be limited to the second and third categories.

One of the little noticed provisions of the Social Security Amendments of 1972 reported by the Senate Committee on Finance was a so-called work bonus for low-income workers. Chairman Long had advocated this provision to encourage low-income people to seek work, rather than welfare payments. The provision was justified on grounds that the social security tax laws, unlike the income tax laws, lack provisions that exempt low-income people from taxation. Under the provision, when a husband and wife had combined incomes subject to social security or railroad retirement taxes of $4,000 a year or less, they could qualify for a payment from the Internal Revenue Service equal to 10 percent of their income (a rough approximation of the combined employee-employer tax). If the income exceeded $4,000 a year, the payment would be reduced by 25 percent of income in excess of $4,000. In this way the payment would be gradually reduced until it reached zero at $5,600 and above.

The report of the Committee on Finance explains the reasons for the proposal as follows:

> Although the low income allowance eliminates income tax on those below the poverty level, the requirement that a social security tax, without the benefit of this allowance or personal exemptions, be paid by virtually any employed person still means that the existing structure contains a disincentive for employment. This social security tax burden does have the effect of diluting the value of employment, a result which the committee finds inconsistent with its overall objective of making employment more attractive than welfare. For this reason the committee believes that the requirement that individuals heading low-income families pay social security taxes if they work should not be a source of discouragement to their seeking gainful employment. To overcome any such discouragement, the committee added to the bill provisions for payment

[101] Although most of the earlier parts of this paper have been limited to the cash benefits part of the program, to the exclusion of the hospital insurance program, such a distinction is not reasonable in connection with a discussion of the tax burden. Therefore, all of the social security tax is considered in this part, rather than just the taxes paid for the old-age, survivors, and disability parts of the program.

of a work bonus based on a percentage of the individual's wages up to a maximum of $4,000. This approximates the combined social security tax taken out of his wages and paid for him by his employer.[102]

Earlier, Senator Lawton Chiles had introduced a bill that would have made radical changes in the social security and welfare programs. Included was a provision that would have limited individual social security taxes to the amount of the individual's income taxes. Under this provision, social security taxes would continue to be deducted from an individual's pay and at the end of the year he could apply to the Internal Revenue Service for a refund or a credit toward his income taxes. The credit allowed was equal to the social security taxes on $3,000 in earnings. When earnings were more than $3,000, credit was reduced by 10 percent of the amount by which gross earnings exceeded $3,000.

When the Senator testified in favor of this bill before the Committee on Finance, he asked: "Why should we take a man's social security when we don't take his income tax * * *?"[103] In his prepared statement, Senator Chiles gave his conception of the nature of social security:

> Social Security was originally thought of as an insurance program where workers would pay premiums into a trust fund while they were working in return for guaranteed payments after they retired. But the "insurance concept" doesn't seem to hold anymore. Social Security taxes, like income taxes, are compulsory. No close relationship exists between Social Security benefits received and the amount of "premiums" or social security taxes an individual has paid in over his lifetime. The system is especially unfair to low and middle income American workers.

When the committee bill, H.R. 1, reached the Senate floor, the work-bonus provision was included among the committee amendments adopted en bloc. Senator Long, however, asked, and received unanimous consent to have a separate vote on the provision. In the debate which followed Senators Long and Chiles held the following colloquy:

> Mr. CHILES. As I understand the purpose of this provision, it is to allow some help to be given to the working poor in a way which would not be giving them a welfare check. It would not be taking away the worker's pride. It would put him in a position where he would not feel he has to be a recipient of welfare. This proposal would not be like the present family assistance program, would it, where we would take somebody not now on welfare, who is employed, but give him a monthly check and put him on the welfare rolls? This would be a way of supplementing his earnings and getting around that; would it not?
>
> Mr. LONG. That is the way we view it. We conceived this proposal initially as, in effect, relieving low-income working persons from the social security tax, but then when we thought in terms of the extent to which we might be able to help them, it seemed to us we could justify completely this kind of help, not only because it amounted to a refund of a tax which had been paid by the employee himself, but because the tax had been paid by the employer on the employee's behalf, on the theory that that, too, was something that was generated by his work efforts.
>
> We felt we would be justified in having him get a refund of more than 5 percent, or 6 percent when the tax goes to 6 percent; that we could justify giving 10 percent to the working poor, which corresponds largely to a refund to the workingman on the tax generated by his work efforts. It still would permit

[102] U.S. Congress. Senate Committee on Finance. *Social Security Amendments of 1972.* S. Rept. 92–1230. 1972. 92d Cong., 2d sess., p. 602.

[103] U.S. Congress, Senate Committee on Finance. *Social Security Amendments of 1971,* hearings before the Committee on Finance on H.R. 1. 92d Cong., 1st and 2d sess., p. 2051 f.

enough of the tax of the employer and employee not to be refunded that he would be able to feel that some of his tax supported money was flowing back to him from the contribution made by him.

One can look at this as he wants to. He can look at it as a work subsidy for those making low wages. He can look at it as a tax refund. We decided to call it a work bonus, because, whatever one calls it, it results from tax money collected as a result of the man's working.

Mr. CHILES. The touchstone of our tax system was that we were going to tax those with the ability to pay. One of the faults of the social security system is that continually we really place the same burden, or a greater burden, on those least able to pay, because if we started with a system in which one paid only 4 percent, and only on the first $3,600, it was going on the person who was earning his pay by the strength of his arm and the sweat of his brow, and yet there were always some welfare features in the bill which should have been taken care of by general revenues. This is recognizing that we should base it on the ability to pay, to help that man to help himself, and not take his pride away from him, not put him into the class where he has got to feel like he is taking a dole.

I think the amendment is an excellent amendment. As the chairman knows, I appeared before his committee with an amendment something like this, and wanted to bring it up on this bill, in which I was going to provide that until he reaches the point where he is paying Federal income tax, he will not pay any social security tax; because why should we charge him social security on the first dollar he makes, and yet give him a refund of his income tax up to the point that he reaches $3,600, depending on how many dependents he has or whatever it is? Here we are going to charge a man on the first dollar he earns and every dollar after that, because he is in that bracket.

So I think the chairman has a good amendment here, and I am delighted with the amendment because I think it is better than the guaranteed wage, family assistance, or whatever it is, where we would take away a man's pride; because one thing I found out when I campaigned was that the first thing anyone told me, if he was not on welfare, whether he was white, red, black, or anything, was, "I don't get one of those Government checks." He had his pride.

I am talking about a man working on the road, digging a ditch, farming, a shade-tree mechanic, or anything else; the first thing he would tell me was, "I don't get that Government check; I ain't on that dole."

To put such a man on Government assistance has always shattered me. Yet how could we help him? This tax credit giving him some basis of helping himself without taking away his pride, I think, is the best way to do it, and I am delighted that the committee has proposed this amendment.

Mr. LONG. Mr. President, we not only agreed with the Senator's amendment, we went him one better. He wanted to take the social security tax off the poor. We have proposed to do that, not just as to the part collected from him, but also the part collected from the employer on his behalf, almost all of it. We felt there should be some small amount of tax collected on his behalf to flow into the social security fund, but this 10 percent can be justified; and, frankly, as the one who proposed this matter in committee, the argument the Senator from Florida made and the experiences he had in talking to people on the highways of Florida, which he related to me, about their plight and their desire not to be on welfare but to work to support their families, played a major part in the fact that this matter is not before the Senate.

Just as a matter of simple fact, I have been dismayed to see some of the studies indicating that the poor in this Nation are paying altogether more taxes than they should. I suspect that some of those studies are misleading, because they fail to take into account what we refer to as the transfer payments, that is, the welfare payments and social security payments being paid to the poor which makes it possible for them to have revenue with which to pay taxes. But in any event, even when you take all that into consideration, the poor are still paying too much in the way of taxes.

Insofar as we can do something about it at the Federal level, we think that this just about does the job. Maybe we can find some way to help the States to relieve their poor from some of the regressive taxes that exist in the State governments which burden the poor. That is a different problem, and that is something we will have to struggle with when we have a tax reform bill next year or the year after. But insofar as the tax system under social security involves a tax that tends to tax away from the working poor the money they need to provide for their families, this would relieve them of that burden.

Mr. CHILES. I certainly agree with the chairman. As I said before, I think sometimes when we use these terms we almost use a misnomer in terms when we talk about the working poor. Most of the people out there that I found who were working did not consider themselves poor. If they were working they did not consider themselves poor and did not even like to be referred to as poor. They felt that they were paying a heavier burden, and knew they were paying a heavier burden, than the guy getting an oil depletion allowance or a deferred compensation allowance, or the guy who had a charitable foundation helping him out, or the person with all kinds of deductions that way. They knew they were paying more than their share, but they did not consider themselves poor, because they were working; and I think we need to do everything we can to maintain in them that feeling of pride.[104]

Subsequently the amendment was adopted by a vote of 49 yeas and 5 nays. However, it did not survive the House-Senate conference.

In 1973, when the Committee on Finance was considering social security and welfare amendments, the committee adopted a similar provision as an amendment to H.R. 3153. In its report, the committee pointed out that:

Presently, no Federal income tax is generally paid by those with incomes at or below the poverty level. However, almost all employed persons pay social security taxes, regardless of how little income they may earn. The committee bill includes a new tax credit provision which has the effect of refunding to low-income workers with children a large portion of the social security taxes they pay.[105]

Earlier, the Secretary of Health, Education, and Welfare, Casper W. Weinberger, had testified before the committee against the work bonus, pointing out that the administration was reexamining a variety of welfare reform "options" and that the administration might propose changes which would include some aspects of the work bonus proposal. In his testimony [106] the Secretary said:

As presented last year, the committee's work bonus proposal was intended to lessen the burdens imposed by the social security tax. Although this proposal can be characterized as tax relief for low-income families—an objective the administration has supported—it is also a needs-based income maintenance proposal and should be evaluated as such.

Work bonus as income maintenance

As an income maintenance device, the work bonus must be judged in relation to coverage of all employed needy individuals. As such, the work bonus could have the disadvantaged of adding yet another program to the many present assistance programs. The work bonus would not cover the self-employed or those not covered by social security. In addition, the proposal could complicate our present coverage of employed AFDC recipients, depending upon the interrelationship ultimately developed between AFDC and the work bonus. We must also consider the way the work bonus would relate to other programs to assist low-income families, such as the food stamp, housing, and health care programs as well as AFDC, and all of these are included in the work we are now doing.

This was followed by a brief discussion of the administrative problems involved, after which the Secretary discussed the proposal as tax relief saying:

It is certainly true that the social security payroll tax is a significant payment for low-wage earners. For the first time since such a tax has been levied, more than half the Nation's taxpayers will this year pay more social security tax than

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[104] *Congressional Record*, vol. 118, p. S 16405.

[105] U.S. Congress, Senate Committee on Finance. *Social Security Amendments of 1973*. S. Rept. 92–553, 1973, p. 20.

[106] U.S. Congress, Senate Committee on Finance. *Child Support and the Work Bonus. Hearing on S. 1842, S. 2081 and Other Matters Relating to Child Support and the Work Bonus.* 93d Cong., 1st sess., 1973, p. 82–84.

Federal income tax. The committee has suggested one way of reducing payroll tax contributions; we see alternative techniques which may be preferable.

In general terms, an alternative might be to reduce or eliminate withholding of the payroll tax for a family with an income below the low-income allowance level. As income rises above this level, withholding would gradually phase in, just as the committee proposal would phase down the work bonus. Assuming the alternative would be feasible when its details were developed, it would have the major advantage of avoiding the issuance of a separate Federal check to beneficiaries.

When the work bonus reached the Senate floor, Senator Sam J. Ervin, Jr. made a motion to delete the provision from the bill on grounds that it would "pervert" the social security program by introducing a welfare payment. On the other hand, Senator Long defended the proposal because of the unconscionable tax burden social security tax creates for poor families. Some excerpts from their debate follow:

Mr. ERVIN. It really does not make any difference whether the provision robs the general fund or the trust fund. It robs the taxpayers for welfare purposes.

Mr. LONG. I am not trying to quarrel with what the Senator contends, but what I am saying is that if he wants to call it robbery to help the poor, it nonetheless does not come out of the social security fund.

Mr. ERVIN. No, I do not say it is robbery to help the poor, but I think it is robbery to take social security money and use it for welfare purposes.

* * * * * * *

Mr. ERVIN. * * * [the work bonus] perverts the social security system. And not only that, Mr. President, but it provides an entering wedge for a guaranteed annual income. I am not impressed by the argument distinguishing between people who work and people who do not work. If Congress wants to give some people special privileges or special aid because they are poor, it should do it in the name of welfare and not in the name of social security. It has no place in social security.

This provision gives a 10-percent tax credit to persons earning $4,000 a year. However, a lot of other people have a lot of political power and a lot of votes. In subsequent years, Congress will apply this provision to persons earning $5,000, $6,000, $7,000, and upward. Thus Congress will ultimately destroy the social security system by constantly increasing the number of voters who are excused from paying social security taxes through the device of giving them a credit against such taxes.

No amount of sophistry can erase the plain truth that part B gives to everyone receiving a credit against his social security taxes equal to the amount of the credit.

If Congress wishes to help people because of their poverty, it should help them by appropriate welfare benefits out of the general fund and not excuse them from paying social security taxes.

Part B poses a threat to the social security system. This is so because part B uses the social security system as an excuse for paying a guaranteed annual income out of the Treasury and an attempt to convert the social security system into a welfare system rather than an insurance system.

When one opposes anything in a social security bill, he does something that may not be popular. When I am tempted to cast a vote that I know to be politically unpopular, I quote to myself these words of Edgar Guest.

> "I have to live with myself, and so, I want to be fit for myself to know.
> "I want to be able as days go by, always to look myself straight in the eye.
> "I don't want to stand with the setting sun, and hate myself for the things I've done."

If I voted for a provision that would convert the Social Security System into a welfare system by exempting some people from paying social security taxes, I would stand with the setting Sun and hate myself for the things I have done.

Congress should amend the welfare laws to help those who need help. It ought not to prostitute the Social Security System to accomplish such an objective.

Mr. President, I yield the floor.

Mr. LONG. Mr. President, the thing that we are discussing here is the same thing that the Senate voted for by a margin of about 9 to 1 when we were considering H.R. 1.

This relates to what is probably the most unjust thing about the American structure of government, and that is that when one actually studies the matter of who is paying the taxes, he comes to the shocking and disappointing conclusion that a fair study by any economist would show that actually the poor people have actually paid their taxes to some of the richest people in the world.

* * * * * * *

It was concluded by the Committee on Finance, by a vote of 11 to 1, and by a substantial floor vote when we studied the matter in connection with H.R. 1 last year, that it is just not fair that these poor people should be taxed so heavily, especially when you recognize the fact that in many instances we are actually taxing those people into poverty. Furthermore, for those who are not on welfare—and this provision does not benefit anyone who is on welfare—it is very discouraging to see how little better off they would be if they worked rather than remained on the welfare rolls, not working at all.

Therefore, it was felt that we should at least give these working people tax relief in an amount that would be about as much as they are paying in social security taxes, because while they are theoretically only paying half of it, as a practical matter, they are absorbing all of it. Every blessed bit of it, everytime they buy a can of beans or a pair of shoes or some diapers for the children.

The committee knows that these people are in poverty, that they are not receiving any help from their Government, and that they are being overworked, underpaid, and overtaxed.

* * * * * * *

That is the basis on which we are seeking to help these people, who are being taxed into poverty.

This is not a guaranteed income scheme. What it says is that the more poor people work to benefit themselves the more benefits they get by getting back some of the taxes that are being extracted from them, indirectly though much of it may be.[107]

Senator Walter F. Mondale then took up the defense of the proposal, indicating that it was preferable to induce people to work rather than to go on welfare and that the regressive taxes paid by poor people might make welfare a more attractive source of income than low earnings. The Senator then went on to say:

Some of us, Senator Muskie and I among them, have introduced legislation designed in part to deal with the regressive nature of payroll taxes, particularly those in the low income level, which is part of what this is designed to do; that is, to return * * * about what the direct or the indirect cost of the payroll tax is for people working at the lowest income levels.

This statement prompted Senator Long to add:

At the present time, the poor person who works for a lifetime is about $4.50 better off, because we do allow him to keep a small amount of benefits when we reduce his welfare check by his social security check. And under the new SSI program, we will permit him to keep a plum or two out of the social security check to give him some recognition for a lifetime of hard work. We will permit him to keep $20, we might say, out of his social security check to recognize that he has worked all his life and had to absorb the social security taxes, and the social security tax increases. But even though he works hard his whole life he winds up only $20 better off than if he had never worked.

This point was driven home to me very forcibly in my own home. Someone mentioned to our maid who was working for us that she should be grateful for the fact that we were paying her social security taxes for her, both the employer and the employee parts.

Well, our maid must have been informed by someone who knew the facts, because she said to us—God bless her sweet heart: "With all due deference,

[107] *Congressional Record*, vol. 119, p. S21553f.

Mr. and Mrs. Long, just look at what my minimum social security benefit will be when it comes time for me to retire because that is what I am going to get, which, unless I am mistaken, will be the same thing as anyone on welfare gets for his whole lifetime."

Unfortunately, she was right, and I have never again tried to suggest to a maid working in my household that we were paying her social security taxes.[108]

As Senators Long and Ervin continued their debate, Senator Abraham Ribicoff, who had been Secretary of Health, Education, and Welfare, defended the proposal saying:

The Senator from Louisiana has been motivated by the objective of keeping the working poor working. How do we make sure that it is better to work for wages than to go on welfare? There is no question that what the Senator from Louisiana is trying to do is to make the person who is self respecting, who wants to work, realize that he can be self-respecting and still not be worse off than his neighbor next door, who is drawing a welfare check which under present law may exceed wages he is getting for a full week's work.

It is not a question of changing the social security system; because, when all is said and done, our welfare program is a part of the social security system. It is in the same titles that we are working on.

We are really, to a great extent, making it possible for the individuals we are talking about to work. They are self-respecting, are not getting a supplemental welfare check, and we are making sure that they stay on their jobs.

We are going to say: "We respect you for trying to work, and we are going to make sure that we will not charge you with an extra tax that will put you on welfare and discourage you from working."[109]

Others opposed the work bonus as inflationary, unnecessary, debilitating to those who would receive the payments and discriminatory (it would not have applied to farmers and other self-employed persons).

By a vote of 57 to 21, the Senate voted to keep the work bonus in H.R. 5331, but it was not one of the provisions included in the informal conference agreement. Although this provision was not enacted, the legislative history indicates a clear concern not only about the social security tax burden, but about the nature of the social security program and the role it should play in the Federal tax scheme and in the Nation's income maintenance efforts. There was a general consensus that welfare, on the one hand, should be paid out of general revenues, while, on the other hand, social security (as insurance) should be paid for by the insured. However, the problem remains to define each and then to provide proper financing.

It is important to note that the costs of these proposals were not to be charged to the social security trust funds. The refunds or tax credits would decrease net income tax collections but would not reduce social security payroll tax receipts.

It is not difficult to discover why proposals of this sort are made. Since the social security program first went into effect, social security tax rates have increased by 485 percent and benefits have been increased by 279.6 percent, including the increase that becomes effective for June 1974. If the rise in taxes is expressed in terms of the maximum dollar tax paid ($30 each for employer and employee in 1937 and $772.20 in 1973), the increase is 1575 percent. Looking at the relationship between individual income taxes and social security taxes over a shorter period, the striking fact is that while income taxes went down, social security taxes went up. For example, in 1963 a

[108] Ibid.
[109] Ibid.

family of four with one employed spouse who earned $4,800 (the maximum amount taxed for social security purposes) paid $174 in social security taxes and $389 in income taxes. By 1973, however, the income tax for the same family had dropped to $70 while the social security tax had risen to $281. If the same family had earnings of $9,600 in 1963, the social security tax was the same $174, but income taxes were $1,293. By 1973 the income tax on this amount had been reduced by 35 percent, but the social security tax had risen by 323 percent.

II. *A Progressive Social Security Tax*

When the social security tax rate was first imposed, there was little concern about its effect on the worker's take-home pay. Rather the concern was about its effect on employers. What could be viewed as forced savings for the employee [110] was an out-of-pocket expenditure for his employer. Thus, employers challenged the tax in court and, after its constitutionality was affirmed, sought to limit expansion of social security by holding the tax base down, even at the expense of higher tax rates. Employee organizations, on the other hand, sought to raise the tax base. (Under the actuarial methods in use at that time, expanded coverage and increasing the maximum limit on taxable earnings resulted in a long-range actuarial surplus.) However, when economists examined the incidence of the social security tax, they came to an apparent general agreement. Summarized in an oversimplified way, their conclusion was that the ultimate burden of both the employer and the employee tax rests on the employee, who pays the tax either through reduced wages or higher prices.

As taxes increased in the 1960's, people began to pay more attention to the real burden of the social security tax. For example, in 1968 John A. Brittain could write a paper that opened by quoting two university economists, Paul Samuelson and Milton Friedman, with diametrically opposed views. The former said social security was a "Ponzi game" and the latter that it provided a "raw deal" for the young: [111]

> The fifteenfold growth of Federal social security tax receipts since 1949 has stirred a debate over how well workers fare under the system. The expressed opinions are remarkably varied. For example, Paul Samuelson pictures a growing nation as "the greatest Ponzi game ever contrived," with its growth making possible ever-expanding social security benefits:
>
> > The beauty about social insurance is that it is actuarially unsound. Everyone who reaches retirement age is given benefit privileges that far exceed anything he has paid in. And exceed his payments by more than 10 times as much (or five times, counting employer payments.) *
>
> * "On Social Security," *Newsweek*, Jan. 13, 1967, p. 88.
>
> On the other hand, Milton Friedman speaks on a "raw deal" for young workers:
>
> > Retired persons currently enjoy a bonanza. But youngsters currently entering the system are getting a raw deal * * * To finance the excess pay-

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[110] The 1935 Act, which provided only retirement benefits, also had a sort of guaranteed return of taxes. Sec. 203 (Public Law 74–271) provided for a lump-sum death payment equal to 3½ percent of covered wages minus any old-age benefits that might have been paid during the worker's lifetime. Sec. 204 provided for a similar payment to people who at age 65 were unable to qualify for benefits.

[111] Brittain, John A., "The Real Rate of Interest on Lifetime Contributions Toward Retirement Under Social Security, Old Age Income Assurance," Part III: *Public Programs*, a compendium of papers on problems and policy issues in the public and private pension system submitted to the Subcommittee on Fiscal Policy of the Joint Economic Committee, 90th Cong., 1st sess. (1967).

ments to the growing number of retired, taxes have had to be raised repeatedly. As a result the benefits promised younger workers are much smaller than the equivalent of the taxes paid on their wages.*

* Milton Friedman, "On Social Security," *Newsweek*, Apr. 3, 1967, p. 81.

After exploring the incidence of the tax, tax-benefit ratios, and rates of return, Brittain concluded: "* * * the alleviation of the burden of the payroll tax on the poor would contribute to making social security a substantially more attractive package."

This and other analyses from The Brookings Institution are representative of the arguments for some sort of progressive financing for social security. As one of these studies puts it:

> The payroll tax is grossly inferior to the individual income tax in its treatment of people with equal incomes as well as in the relative burden it imposes on people with different incomes. Income alone does not differentiate a man's ability to pay; his family responsibilities are also important. Making ends meet on an income of $3,000 is much more difficult for a man with a wife and two children than it is for a single person without dependents. Major health expenditures and casualty losses also affect ability to pay. The individual income tax takes such differences into account through the personal exemptions and deductions, which are subtracted before arriving at income subject to tax.
>
> By contrast, the payroll tax is levied on gross wages without any allowance for family size * * *[112]

The Brookings authors hold that, when considered by itself, the social security tax is proportional up to the maximum amount taxable and regressive when levied above that amount. They dispute the idea that social security, taken as a whole, is progressive because lower-income people pay lower taxes for proportionately higher benefits, saying:

> This view of the income distribution effect of OASDI overlooks one of its major characteristics: the tax is levied on one group in the population, and the benefits are received by another group. Aggregration of taxes and benefits by income classes therefore gives a misleading picture of the distribution of the real burden and benefits of the taxes and transfers. At any given time, the tax is proportional or regressive with respect to the incomes of those who are subject to tax; and the benefits accrue largely to persons with little other income.[113]

Alternative methods of financing social security are integration of the payroll tax with the income tax, exemptions from the payroll tax, a contribution from general revenues, or integration with a negative income tax.[114] Which of these choices is preferred depends largely on one's assessment of the role of social security. How does one differentiate the various objectives that he sees in the program? How much of social security is a welfare program aimed at providing a guaranteed minimum income for the aged and the disabled and for dependents of them and of workers who have died? How does this relate to providing a continuing source of income that will sustain a living standard something like that achieved when the family breadwinner still worked?

One of the simpler methods of providing a progressive social security tax would be to integrate it with the income tax. Under such a plan, present tax withholdings for both social security and income

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[112] Pechman, Joseph A. Aaron, Henry J., Taussig, Michael K. *Social Security—Perspectives for Reform.* The Brookings Institution, 1968, p. 182.

[113] Ibid., p. 179.

[114] Much of what follows results from a liberal "borrowing" from the ideas expressed by Messrs. Pechman, Aaron, and Taussig.

taxes could continue, but at the end of the year the total amounts collected would be added together and used to satisfy individual income tax liabilities. If an excess in income taxes paid results, it would be the basis for a tax refund. Of course, higher income tax rates would be needed if total current revenues from social security and income taxes were to be maintained. The degree of upward revision in income taxes, of course, could be limited by providing only a partial income tax credit—say 50, or 25, or even 10 percent—for social security taxes.

A scheme of this sort would allow the program to proceed on much the same basis as now, with earmarked taxes and with benefits unrelated to individual taxes, and without too much alteration of the official rationale for the program. In addition, the administrative machinery for such a change already is in place.

Perhaps the most direct and visible way of providing a progressive payroll tax would be to provide individual exemptions in much the same way as in individual income tax withholding. From an administrative point of view, this would be relatively complex. If such a system were to be really practical, it would involve a complete restructuring of the social security tax system, the preparation of a set of withholding tax tables, and the various administrative chores of both Government and employer and the public relations activities that any large change in tax law requires.

The potential effect of such a tax scheme on an individual's view of social security would have to be weighed in deciding whether or not to adopt it, and the structure of the tax schedule and exemptions under such a program probably would be guided in large measure by one's assessment of what changes are desirable or undesirable. For example, if one wished to emphasize the welfare aspect of the program, he might create a tax schedule providing that people with income below a specific level would pay no social security tax. On the other hand, one who wishes to maintain the idea that everyone pays something for his social security might impose a very low tax on the first dollar of earnings and increase it gradually over the entire earnings scale.

Under ideal conditions, adoption of this sort of tax system might be part of a total revision of the social security program. Such a revision might change the program from one with concern for providing a *basic income* to one providing a *supplemental income;* the basic income being provided by individual efforts or through a need-tested program such as the new supplemental security income program administered by the Social Security Administration. If this were done, the rationale for a minimum benefit approaching $100 a month would be reduced. If low-income persons are to be exempt from taxes, or are to pay very little taxes, one could argue that the benefit formula perhaps should be weighted for years of contributions.

Pechman, et al., suggested that a way to achieve a progressive tax for social security and, simultaneously, to reform the welfare system could be the creation of a negative income tax program:

> The characteristics of the negative income tax are very similar to those of the social security system—with the important exception of the income test which is implicit in the negative income tax. Social security benefits are adjusted to family size, are not subject to government scrutiny when spent, and are given as a matter of right. As previously indicated, minimum social security benefits are pitifully inadequate for households with no other income. If a negative income tax

were enacted, the aged poor should be eligible for its benefits just as other groups in the population would be. The only question is whether the two systems should be operated side by side or be formally integrated.[115]

After evaluating the choice of integrating social security and a negative income tax (which to them seemed representative of welfare reform) they concluded:

It probably would be desirable to handle negative income tax allowances of the aged through the social security system. Those who are not eligible for social security could be blanketed-in, and reimbursement for the cost of their benefits—as well as the cost of the supplementary payments to those with allowances—would be made to the trust fund from the general fund of the federal government.[116]

It is their thought that:

* * * the aged poor could be aided more effectively and at lower overall cost by a negative income tax than through increases in minimum social security benefits. Increases in the minimum social security benefits must be regarded as a "second best" solution, inferior to the introduction of a negative income tax but superior by far to the present distribution of benefits.[117]

They recognize, however, that:

Although there are many practical problems, the Social Security Administration should be able to administer, at reasonable costs, a negative income tax for all aged persons. General revenue financing would automatically be introduced into the system if the additional cost were paid by the general fund. Like a direct general fund contribution, however, this method would not in itself solve the problem of the impact of the payroll tax on low-income workers.[118]

In January 1973, Mr. John Brittain testified before the Senate Special Committee on Aging and outlined for the committee his views on the financing of social security. After his testimony Senator Fong questioned him:

Senator FONG. Mr. Brittain, you do not propose the total elimination of the payroll tax, do you?

Mr. BRITTAIN. I think the first approach would be eliminating the heavy burden on very low income people.

I would like to see a gradual phasing out of the payroll tax in favor of a more equitable tax, but that is a long-run proposition.

Senator FONG. In the final analysis, you would wish to see that there would be no payroll tax?

Mr. BRITTAIN. That is right. Even if there is relief given to low income groups, for example, the tax applies to earnings only, and it is applied at a flat rate. It would remain regressive, even if the ceiling were completely removed, because property income makes up a higher fraction of the total income of people at a higher income level. So they would still pay a lower payroll tax rate on total income than people at a lower income level.

Senator FONG. If the total payroll tax was eliminated, both from employee and employer, to pay for the present benefits which the law provides, how much more income would we have to generate?

Mr. BRITTAIN. How much more?

Senator FONG. Income tax.

Mr. BRITTAIN. At the present time, it would be on the order of 50 percent.

Senator FONG. In other words, we increase the income tax on everybody by 50 percent.

Mr. BRITTAIN. That is right, in the aggregate, the payroll tax at the present time is yielding somewhere over half what the income tax is yielding, so there would have to be a total increase in income tax on the order of 50 percent.

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[115] Ibid., p. 199.

[116] Ibid., p. 200.

[117] Ibid.

[118] Ibid., pp. 200–201.

However, the ratio would not have to be raised by a fixed percentage across the board.

I would suggest there are certain ways of raising the yield so that the whole structure could be made more equitable.

I was not able to get into the details of that in my statement.

Senator FONG. Do you believe that if the public had a choice between increasing the income tax 50 percent, or given the benefits which are given through the present law, that these benefits will decrease?

Mr. BRITTAIN. You mean in practice, people would not tolerate a large increase in income tax.

Well, I would defer to Members of the Senate to measure the electoral attitude better than I, but I have suggested in more detail, in my book, that the income tax could be restructured in such a way, with the payroll tax being abolished, that a substantial majority of the population would pay lower total taxes than they had before.[119]

The suggestion, thereafter, would seem to require not only a restructuring of the social security tax system but also a revision of the income tax program. If one is to attempt an evaluation of proposals of this type, it would be well to keep in mind that if a substantial majority of the population would pay lower total taxes, then there will be a significant increase in total taxes for a minority, if total revenues are not to be decreased. Obviously, if the social security program is financed on pay-as-you-go basis, the income for each year must approximate expenditures for that year. The method of financing the program does not change the cost of the program; it does, however, determine who pays what portion of the cost.

Subsequent to the hearing, Senator Frank Church, chairman of the committee, sent written questions to Mr. Brittain, one of which dealt with the effect of income-tax financing on the nature of the program. The question and his reply follow:

6. You say that a "feasible as well as equitable income tax structure can be assigned to take over completely from the payroll tax" and that this would be "an appropriate long-term objective" (pp. 149–150). Do you think that if the benefits were financed entirely out of income taxes there would be a tendency to pay benefits only to people who prove they were needy—that social security would be turned into essentially a public assistance program? Do you think that would be "an appropriate objective" also? What exactly did you have in mind with regard to the footnote relating to the above that implies that the taxpaying public might not automatically accept the complete substitution of income taxes for social security taxes without some change in social security benefits? And don't you think this issue deserves serious attention in evaluating the appropriateness of the stated long-term objective?

6. My advocacy of substitution of the income tax for the payroll tax entails no corresponding changes in the benefit structure. Overall, the latter seems relatively fair and reasonable, although specific modifications are in order, especially with respect to the retirement test. I certainly believe that benefits should continue to be related to income and on a progressive basis, as at present, and I would oppose any introduction of the means test that you fear. (In fact, if I may digress briefly, I would go farther and end the retirement test which is in effect a means test, its various rationales notwithstanding. It is true that social security is said to insure against involuntary termination of work, and under that formal definition those who keep on working rule themselves out of benefits. I believe this principle is expendable and that benefits should be associated with age, as in the case of a private annuity. In other words, I believe that benefits should be based on the age at which the recipient elects them to begin, rather than employment status. Similarly, working widows should not be deprived of

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[119] U.S. Congress, Senate. *Future Directions in Social Security* (Hearings before the Special Committee on Aging). 93d Cong., 1st sess., Jan. 23, 1973, pp. 180–181.

benefits. This would end the ludicrous contrast between the poor widow who loses her benefits because she goes to work to support her children and the rich widow who keeps her benefits as a bonus for not having to work.)

Under income tax financing, the benefit-income formula could be modified, if desired, without degeneration to a program of the public assistance type. While I favor taxation on the basis of ability to pay, I repeat that I am opposed to a means test for benefits. A change in the tax structure does not entail a means test on the benefit side. Benefits could continue to be related to the earnings experience only, as at present, or they could be related to income taxes paid in the most recent period. The latter would alleviate the potential problem to which I was referring in the footnote which you cited. If social security turned from a regressive to a progressive tax for its financing, high-income people would expect higher old-age benefits than at present. This is the exact opposite from the means test possibility. Those who need pensions the least would feel they deserve the most. The benefit structure could be revised to lean somewhat further in the direction of relating benefits to tax-paying experience, without greatly stretching out the benefit scale. I agree that this pragmatic political problem needs consideration, but I doubt that it is a major obstacle. As I indicated in my post-hearing response to Senator Fong, some of these reform possibilities have rather high break-even points and would benefit a substantial majority of the population. At the same time, the tax rates required of others seem bearable and reasonable.[120]

What might be called the full flowering of the progressive tax school seems to have arrived with the publication in 1972 by The Brookings Institution of John Brittain's *The Payroll Tax for Social Security.* In somewhat less than 300 pages, many quite technical and some quite readable, he ranges from a statement on the "misconceptions shielding the payroll tax" to his evaluation of the "prospects for payroll reform."

With regard to the misconceptions—the "misleading analogy to private insurance" and the "unperceived burden on the poor" he writes:

Large increases in social security payroll taxes have sailed through Congress again and again with scarcely a ripple of opposition from Congressmen and (until recently) from their constitutents. To ask why repeated increases in a direct tax of this magnitude should arouse so little reaction could be instructive; certainly this acquiescence is in marked contrast to the fierce opposition generated by virtually any proposal to raise income tax rates. A "good press" and rising benefits have helped prevent the development of public criticism at the payroll tax. More specifically, there appear to be two major misconceptions that have enabled payroll tax increases to pass almost unnoticed through the political process. An initial understanding of these is essential to evaluation of this form of taxation.[121]

And with regard to prospects for reform:

It may seem utopian to contemplate drastic alteration or phasing out of so massive and entrenched a fiscal device as the payroll tax. However, recent developments suggest that such action might be palatable to a majority of the population if the facts were clarified. Most taxpayers complain about the income tax, but their wrath is blunted by the general belief that it is a fair tax overall, despite some inequities. There is little visible wrath against the payroll tax because most of those who pay it do not realize how heavy and inequitable its burden actually is. As taxpayers with middle and lower incomes become more aware of this burden and the inequities discussed in this study they may prefer to take their chances under an expanded income tax.[122]

Not everyone agrees that tax relief for low-income workers is desirable. In fact, one's view of this issue depends largely on his con-

[120] Ibid., p. 216.

[121] Brittain, John A., *The Payroll Tax for Social Security,* The Brookings Institution, 1972, p. 6.

[122] Ibid., pp. 260–261.

ception of social security. Those who consider the program as insurance, much like that sold by private insurers, believe that the rates paid (contributions in their view) should be the same for both rich and poor. They hold that social factors should be provided through a benefit structure that yields proportionally higher benefits to the lower-paid than the higher-paid. In opposition to a tax policy that would reduce the social security taxes paid by low-income workers, they present two broad lines of argument, one relating to administrative difficulties and the other to social insurance policy. One of the better statements of these arguments is contained in a memorandum sent to the Senate Committee on Aging by J. Douglas Brown.[123] The memorandum follows.

Supplementary Memorandum on the Reduction of Social Insurance Contributions for Low-Income Workers

The objectives to the reduction of contributions for low-income workers may be grouped into two categories; those related to the administrative implementation of the policy, and those related to the justification of the policy in broad social insurance terms.

I. OBJECTIONS RELATED TO ADMINISTRATIVE IMPLEMENTATION

Since the collection of social insurance contributions, especially for low-income workers, is largely a function of the employer who has no firm basis for knowing the total earnings of the worker, any downward adjustment of the worker's contributions must be made by the government on a periodic, post-audit basis. This would involve much administrative work and long delays since contributions would need be totaled over a period and related to income over a period. Earned income from covered employment would need be combined with income, or its equivalent, from other sources to fully implement the policy. It would be difficult, for example, to measure and account for income in kind, the value of the use of a home owned by the worker and earnings in public employment or from casual self-employment. In any case, the rebates on social insurance contributions would need be based on a rough measure of effective income, especially for low-income workers such as farm workers, domestic servants and intermittent self-employed persons, and would be long delayed.

If such rebates were made only on claims for reimbursement, few low-income workers would have the evidence available to support their claims. Also, many low-income workers would resist making claims for fear of involvement in income tax complications. Further, in any system of rebates related to total annual earnings and graduated in amount, few low-income workers would be able to measure their relative interest in claiming rebate because of the absence of records and the complexity of the system.

The precise break points between annual earnings for which full rebates would be made and those for which partial rebates would be made would lead to much difficulty, especially in a dynamic wage system. Should break points be related to family composition? Are the part-time earnings of a working wife or a teenage son subject to rebate? The measure of ability to pay should properly be related to family income, not individual income.

How would the rebate systems be interlocked with the payment of benefits for the old, the disabled or survivors? Would benefits be disregarded when a beneficiary earns supplementary income? Benefits are not taxable and a coordination with social security records would be necessary if such benefits were considered a factor in assigning rebates.

Would assistance payments be included in income in determining rebates?

In the case of persons with irregular employment but with good earnings when employed, it would be difficult to determine an appropriate based [sic] period for eligibility for rebates. A year would be too long to assist the poor effectively. A quarter might give undue advantage to some.

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[123] *Future Directions in Social Security*, op. cit., Jan. 23, 1973, pt. 3, pp. 220–221.

II. OBJECTIONS RELATED TO SOCIAL INSURANCE POLICY

Under the social insurance mechanism, need is predetermined on a presumptive basis in respect to particular contingencies which involve loss of earnings. Individual need throughout life related to the vast complexities of economic and family conditions, in the absence of a particular, definable contingency, is best determined under the arrangements of a relief system.

The basic source of revenue for a social insurance system is the payroll tax. Procedures in the collection of the payroll tax have been greatly refined and are largely routine. The use of the mechanism of the income tax system under social insurance is supplementary, largely to cover self-employed persons. The rebates paid on claims for overpayment of payroll taxes submitted through the income tax system are a very minor element. In sum, the use of the income tax mechanism for social insurance collections does not involve a basic change in the essential operations of the income tax system as a revenue producing mechanism.

To involve the income tax mechanism in the operation of social insurance as an instrument of relating payroll taxes to the degree of need of the contributor introduces a change in function secondary to its major purpose of producing revenue. The income tax mechanism can normally adjust to need only by such indirect and arbitrary means as deductions for dependents regardless of total income. Already highly complex and dependent upon taxpayer knowledge and acceptance, the introduction of devices intended to assure proper rebate of payroll taxes to lower income workers would place a burden upon the income tax mechanism for which it is poorly suited in administrative procedures, administrative personnel, and in normal coverage of the population.

It is on the benefit side, not the collection side, that a social insurance system can serve on a systematic, predetermined, presumptive basis in meeting need. The graduated benefit in OASDI is a reflection of this. The lower-income worker gains by this in old age, on the onset of disability and on death with survivors. Granted, this involves a delay in effect, but in the total family pattern, generation by generation, the advantages are frequently evident.

Overall, the advantages of uniform proportionate contributions toward one's social insurance protection are of great psychological, social and political importance. They clearly differentiate benefits as a matter of right from those available only on individual proof of need. They reflect a natural desire for self-reliance. They refute a criticism of dependency. They also are a factor in avoiding a class-conscious society in which some classes give and some classes get. Proportionate contributions are a force for political restraint in the evolution of a total system, both in respect to excessive demands for liberality in the benefit structure and the condoning of abuses in unwarranted payments.

In all social systems based on response, experience over long years is an important guide. In the 35 years during which the American social insurance system has developed, it is important to note almost no objection to proportionate contributions has come from working people. Rather, it has come only recently from analysts who base their argument on a priori, economic presumptions. It appears to them that low-income people should want relief from proportionate social security contributions, but the total complex of factors which determine worker response to the system has not led to the articulation of a demand by them for the elimination of contributions. They have a long learned that rights to protection are worth their price.

Without attempting to deny that there would be administrative problems in any program that provided payroll tax relief to lower paid people, it is necessary to point out (as the above memorandum does) that present law and procedures provide a mechanism for rebates or tax credits in cases where employee taxes are overpaid because an individual has more than one employer. It would not seem unreasonable to think that the present procedures could be adapted to provide payroll tax relief to lower wage persons, if that were desired.

In a somewhat similar vein Senator William Proxmire told the Senate that he had chaired meetings of the Joint Economic Committee where he had noticed "a persisting proposal to reduce the social security tax." He went on to say:

> I vigorously disagree with this proposal. If social security taxes are reduced while benefits continue to increase, the whole social security system could be gutted. This could, in fact, be the end of what is probably the most popular program, and rightly so, that the Government has developed in the past 50 years.
>
> The relationship between contribution and benefit as a matter of right is not only fundamental—it is probably essential if social security is to continue as the most successful program fighting poverty and need that this country has developed.
>
> Those who would make the social security tax progressive are well-intentioned. They do indeed want to help the low-income worker, but in doing so they would destroy the basis not only for his sure and certain claim on a decent retirement income, but also the assurance of dignity and respect that a full contribution gives him.[184]

To buttress his argument he inserted into the record an article by Robert M. Ball, a former Commissioner of Social Security, which had appeared in the *Washington Star* the previous day. The article, "Against 'Progressive' Social Security Taxes," starts:

> In the name of "tax reform" there is a movement afoot which would seriously undermine the contributory nature of the social security system.
>
> One current proposal is to finance social security by a progressive tax, with complete exemption for low-wage earners. Under this proposal the present flat-rate social security deductions from earnings would be dropped, and the loss of income arising from the failure of low-wage earners to make contributions would be made up by higher payments from middle level and higher-paid wage earners. As a consequence such earners would be called on to pay more for social security than their protection is worth to them.
>
> Proposals to finance all or the major part of social security out of the general revenues of the United States are also being advanced.
>
> I believe that such changes would be dangerous to the stability of the system and would threaten contributors' rights to future benefits.

He then points out that a basic distinction between social security and welfare is that social security is contributory and lacks a means test. Therefore:

> The proper financing principles for such a program—really a government-operated, contributory, retirement and group insurance plan—are by no means the same as the financing principles one would want to follow in raising money for the support of general government expenditures. Social security financing should not be considered separately from social security benefits or approached solely as a tax issue.
>
> * * * * * * *
>
> The analysis of social security financing separately from social security benefits and solely in terms of taxation principles seems to me to be based on a misunderstanding of the nature of social security—a misunderstanding that grows in part out of the fact that social security today is lumped in with other government programs, both organizationally and in the presentation of the budget. I believe it would help make the nature of social security clear if it were operated by a separate government corporation or instrumentality and if social security transactions were kept separate from the rest of the federal budget.

Thus, arguments or policy considerations represent a judgment of what function the income tax and payroll tax should play in the National scheme of things and how they relate to one's conception of the social security program. However, there should be no question that the concept of social security benefits as a "right" earned by payment of

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[184] *Congressional Record*, Mar. 11, 1974, vol. 120, p. S3251.

payroll taxes analogous to insurance premiums has played an important part in building public support for the program in the past. This should not obscure the need to examine whether the tax burden has become heavier than the lower paid segment of the population can bear. The question is to judge the appropriateness of the present taxing scheme for today's situation, not for that of 1935.

III. *The Actuarial Cost Estimates*

The method of estimating the cost of the social security program is critical to the method of financing because the tax schedule in the law is designed to put the program in actuarial balance—that is, to provide sufficient funds to meet all of the costs of the program over the period covered by the estimates. Prior to 1972, the long-range estimates were made on a level-cost basis that assumed earnings and benefit levels would not change over the next 75 years. In 1972, as an effect of the Church amendment to the debt ceiling bill (Public Law 92–336), the method of making cost estimates was revised so that the actuarial projections now assume an increase in both wages and prices in future years. Moreover, these assumptions are in effect written into the law through the provisions that provide for automatic cost-of-living benefit increases. Under these provisions, benefits can increase each year as the Consumer Price Index rises, and the funds to pay these additional benefits are to come from increases in the tax base, which is to rise in proportion to the rise in average taxable earnings.

The level-cost assumptions were generally considered to be "conservative" in view of the probability that wage levels would continue to rise in the future. Thus, when the cost was expressed in terms of a percentage of covered payroll, there was an implicit allowance for an increase in benefit levels in proportion to any rise in wage levels. Moreover, Congress did act from time to time to use the actuarial surpluses (which resulted from rising wage levels) to finance part of the cost of the various benefit increases. As a result, large amounts of surplus funds were not accumulated and for all practical purposes the program was financed largely on a pay-as-you-go basis—that is, income in most years approximated outgo.

Thus, the new estimates were put forward in connection with the automatic cost-of-living provisions as a way to recognize in the law (as well as in the estimates) that the additional income generated by rising wage levels was not to be used to accumulate large surpluses in the social security trust funds, but was to be spent to provide higher benefit levels. Further, the new assumptions provided that benefits could be increased—without any changes in the tax rates but with increases in the tax base—at the same rate as rises in the Consumer Price Index, if average taxable wages increased at about twice the rate of the index. In addition, the change indicated that an immediate 20 percent increase in benefits was possible along with some reduction in tax rates.

Therefore, the Church amendment is generally thought of as providing a 20 percent increase in benefits. The changed actuarial assumptions used to estimate the cost of the social security program, however, made it possible to adopt a revised tax schedule with lower tax rates but a higher tax base.

In describing this amendment to the Senate,[125] Senator Church pointed out that the amendment not only increased the benefits payable under the social security program but:

Equally important, all this can be achieved without impairing the actuarial soundness of the social security trust funds and without any increase in the contribution rates for the cash benefits part of the social security program for several decades. In fact, the cash benefit improvements in my amendment can be financed until well into the next century with contribution rates that are lower than the rates under present law.

and:

As a result of the lower contribution rates in my amendment, a worker whose future earnings will be $9,245 or less will actually pay less in social security contributions from 1973 through the end of this century than he would pay under the contribution rates scheduled in present law.

Here was an important concept being given an "equally important" billing with the increased benefits. There was, however, little chance that the tax schedule provided by the amendment would ever go into effect. As everyone knew, the Committee on Finance was about to report the Social Security Amendments of 1972, which would require additional taxes. As enacted, the Church amendment would have reduced the social security tax rate from the 5.65 percent rate for 1973 (which would rise to 6.06 percent in 1987) to 5.5 percent for 1973. Under the revised schedule, the rate was to have remained under 6 percent until 2011, when it would rise to 6.55 percent. This schedule remained in the law only until the 1972 amendments (Public Law 92-603) were enacted later in the year. With the adoption of the 1972 amendments, the tax rates were increased to 5.85 percent for 1973, and the 6.05 percent rate would go into effect in 1978, rather than in 1987, as under previous law. In addition, the rates would continue to rise until they reached 7.3 percent in 2011.

This experience illustrates the problems that have to be solved if the social security tax burden is to be redistributed. Social security must be dynamic and responsive to changing social and economic conditions if it is to survive as a major income maintenance program. On the other hand, its very success as an income maintenance program creates a tax burden that seriously limits expansion of the program. Thus, there is a tendency to attempt to increase benefits while reducing taxes for some people.

At the time the Church amendment was considered, its benefit and tax provisions were not unreasonable, taking into account the information available in a form that legislators and the general public could understand. Even the "experts" with more technical knowledge generally did not dispute the feasibility of what was being proposed. Those who did seemed to do it from a "feel" that something was not quite right; they could not predict future trends and were uneasy about a system financed on a prediction of the future relationship between prices and wages. It was clear that increased benefits were to require increased income. The question was who was to provide the increased income. The answer Senator Church offered was people earning more than $9,245 a year.

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[125] *Congressional Record*, June 29, 1973, vol. 119, p. S10781.

Hard on the heels of this decision came the 1972 amendments, which, as reported by the Committee on Finance, said, in effect, that the increased taxes were to be paid by people earning above $4,000. As it worked out, however, the provision providing tax relief for low-income people under the 1972 amendments was tied to welfare provisions that did not survive the legislative process. As a result, the increased income was raised by an increased tax on all covered earnings.

Perhaps it is worth mentioning at this point that there is a difference between the cost of the program and the estimated cost of the program. The cost of the program at any time will be equal to whatever expenditures the law requires, and the method of estimating this cost for any future year will not change that amount. The method of making the estimate, however, may have a great effect on how one plans to meet that cost and on the funds that will be on hand in any given year.

At the time Congress adopted Public Law 92–336, it approved a current-cost method of financing the program predicated on the assumption that the yearend balances in the trust fund should approximate the anticipated expenditures for the following year. When the 1972 amendments (Public Law 92–603) were adopted a few months later, the tax schedule in the law was based on a prediction that the yearend trust fund balances would be about 80 percent of the anticipated expenditures for the following year. However, the 1973 experience was quite at odds with the estimates, and at the end of October 1973 when the House of Representatives came to consider the need for a benefit increase, prices were rising at about twice the rate for earnings (rather than earnings at about twice the rate for prices, as contemplated in the cost estimates). As a result, the cost of the program, both for the shortrun and for the longrun, was rising rapidly. It was at this time that the staff of the Committee on Ways and Means prepared what was then a confidential committee print dated October 30, 1973,[126] which contained the following table:[127]

CHANGES IN ESTIMATES OF RATIO OF OASDI ASSETS TO EXPENDITURES

[In percent]

Year	Estimate at enactment of Public Law 92–603, assumed 5.1-percent increase in 1975	Estimate at enactment of Public Law 93-66		Estimate as of October 1973 present law (Public Law 93-66)		Estimate for a 7-percent increase in November 1973	
		Assumed 7.1-percent increase in 1975	Assumed 8.5-percent increase in 1975	Assumed 10-percent increase in 1975	Assumed 11.5-percent increase in 1975	Assumed 10-percent increase in 1975	Assumed 11.5-percent increase in 1975
1973	81	80	80	80	80	80	80
1974	78	76	76	75	75	72	72
1975	79	74	73	71	70	67	67
1976	81	76	74	67	64	63	61
1977	80	75	71	64	59	60	56

[126] U.S. Congress, House Committee on Ways and Means. *Background Information Relating To Increasing Social Security Benefits.* Committee print, Oct. 30, 1973.

[127] Ibid., p. 3.

With regard to the long-range cost of the program the print said:

At the time the Social Security Amendments of 1972 were enacted, approximately a year ago, the long-range (75 year) estimates showed the OASDI trust funds to be in exact actuarial balance. Since that time revised estimates have shown increasing actuarial deficits. According to the estimates included in the Board of Trustee's reports filed in July. there was an actuarial deficit in the combined OASI and DI trust funds of 0.32 percent of taxable payroll. Because of continued increases in the cost of living, the actuarial deficit has increased to 0.68 percent of taxable payroll according to the latest estimates, of the Office of the Actuary. (The special 5.9 benefit increase added to the long range actuarial deficit by 0.01 percent of taxable payroll.) * * *

In this connection, it should be noted that the actuarial imbalance is considerably higher than 0.1 percent which in the recent past was considered as the maximum acceptable actuarial imbalance. However, because the new assumptions are sensitive to short-range variations in the relationship between wage levels and prices, a much higher deviation from exact balance than was thought permissible in the past seems inevitable. Experience with the new estimates, though, has been too short to indicate just what the allowable variation should be. The Social Security Administration Actuary who is responsible for the long-range estimates believes that it is in the neighborhood of 5 percent of the long-range cost of the program—about one-half of 1 percent of taxable payroll for the present program.[128]

When the print was presented to the committee on the following day, the actuaries had revised their estimates and a 10-percent benefit increase in 1975 was no longer considered a reasonable alternative. Therefore, the actuarial deficit was calculated at -0.76 percent of taxable payroll.[129]

This, then, was the actuarial situation when the Committee on Ways and Means (and ultimately the Congress) came to grapple in real terms with the new method of estimating costs that had been adopted only a little more than a year earlier. With what may seem like some hesitation the committee reported out a bill (H.R. 11333) that, with regard to social security benefits and financing, was to be enacted as Public Law 93–233. Under the bill, benefits were to be increased in two steps by 11 percent, the tax base for 1974 would be increased to $13.200 (rather than to $12,600) and the schedule of taxes would be modified by transferring some of the tax income scheduled in the early years for the hospital insurance program to the cash benefits program and by increasing tax rates in later years. The tax rates under the then existing law and under the committee bill are shown below:

SOCIAL SECURITY TAX RATES FOR EMPLOYERS, EMPLOYEES, AND SELF-EMPLOYED AS CHANGED BY THE COMMITTEE BILL

[In percent]

	Existing law						Committee bill					
	Employer and employee, each			Self-employed			Employer and employee, each			Self-employed		
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	Total
1974–77	4.85	1.00	5.85	7.0	1.00	8.00	4.95	0.90	5.85	7.0	0.90	7.90
1978–80	4.80	1.25	6.05	7.0	1.25	8.25	4.95	1.10	6.05	7.0	1.10	8.10
1981–85	4.80	1.35	6.15	7.0	1.35	8.35	4.95	1.35	6.30	7.0	1.35	8.35
1986–2010	4.80	1.45	6.25	7.0	1.45	8.45	4.95	1.50	6.45	7.0	1.50	8.50
2011 plus	5.85	1.45	7.30	7.0	1.45	8.45	5.95	1.50	7.45	7.0	1.50	8.50

[128] Ibid., p. 7.
[129] About $5 billion a year at present payroll levels.

As mentioned earlier, the committee as a whole was concerned about the financial soundness of the program. These concerns were voiced by Representative Bill Archer, who stated that the committee had not carefully evaluated the actuarial assumptions that were the basis for tax schedules in the bill. In his additional remarks, Mr. Archer said:[130]

Last July when the committee provided a 20 percent across-the-board benefit increase, dramatically different assumptions were adopted in measuring the actuarial soundness of the OASDI program. The most significant of these changes involves the assumption of "dynamic earnings." Under this assumption, the actuaries make projections about future earnings levels throughout the entire 75-year period covered by the estimates. The uncertainties of these estimates and other economic projections subject the cost estimates to vicissitudes that the actuaries have not had to deal with in the past.

The change to dynamic earnings did not raise anyone's taxes at all, but the consequences of making these assumptions increased projected income beyond estimated increased disbursements, and enabled the Congress to provide a 20-percent benefit increase without the pain of imposing additional taxes.

The new methodology is complex and not without controversy. The former Chief Actuary of the Social Security Administration, Robert J. Myers, who has more experience with the system than any other living human being and is widely regarded as one of the foremost actuarial experts on social security, stated that "This would be an unsound procedure * * *" He went on to state:

> What it would mean, in essence, is that actuarial soundness would be wholly dependent on perpetually continuing inflation of a certain prescribed nature—and a borrowing from the next generation to pay the current generation's benefits, in the hope that inflation of wages would make this possible.

In view of this admonition by a leading expert who has devoted his whole life to the program, the Ways and Means Committee and the House of Representatives should have carefully examined these new assumptions before adopting them in order to provide benefit increases. The Ways and Means Committee last year did not look into the matter at all. The new assumptions were adopted in connection with a social security increase added by the other body as a nongermane amendment to a public debt bill and promptly adopted by the House when it acted on the conference report.

In view of this record, the committee should have carefully examined these new assumptions before providing an additional benefit increase. However, the committee reported this bill without even giving cursory attention to the new methodology. * * *

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The record before the committee * * * made clear that the new methodology represents "a fundamental change," that "it is more difficult to make estimates on the new basis than in the past", and that estimates are now "subject to wider variations on the basis of actual experience." Despite these statements made to the committee, we did not even give cursory attention to the implications of this new methodology.

The record of cost estimates since the new methodology was adopted illustrates the wide range of error that cost estimates are now subject to even in the very short range. After adopting the 20-percent increase last July and enacting significant amendments to the program in connection with H.R. 1 last fall, the OASDI system was in actuarial balance: .00 percent of payroll. When the trustees' report was filed earlier this year, the fund was already out-of-balance —.32 percent and this was increased to —.42 percent when we enacted the 5.9 percent benefit increase in connection with Public Law 93–66 earlier this year. When the committee recently began considering the subject of a social security increase, a pamphlet was prepared on October 30, showing the OASDI program to be out-of-balance by —.68 percent. A few days later, we were given another estimate indicating that the program was out-of-balance by —.76 percent of payroll. This experience concretely demonstrates the validity of the actuaries' assertion that estimates are now much more difficult to make and much less precise.

In the past, it was assumed that actual experiences would vary from the

[130] U.S. Congress, House, Committee on Ways and Means. *Social Security Benefit Increase.* H. Rep. 93–607, 1973, p. 73f.

estimates by no more than 1 percent of the level costs of the system, equivalent to about .12 percent of payroll in recent years. The actuaries tell us that under the new methods, actual experience will vary by as much as 5 percent of the projected level costs of the system, equivalent now to about .57 percent of payroll. In view of the imprecision of the new methodology, the committee should err even more on the conservative side to guard against down side risks.

Despite this, the committee has made it clear that while 1 percent was as much of an imbalance as could be tolerated in the past, they will now tolerate an imbalance of 5 percent. Put another way, although the estimates are subject to experience variations five times as great as in the past, the committee will now tolerate a deficit in the system five times as great as in the past.

In addition to adopting the wider tolerances in spite of the uncertainty attending the new methodology, the committee assumed throughout its deliberations that funding would be established on the bottom side of the range, or around —.57 percent of payroll. The difference between +.57 percent of payroll and —.57 percent of payroll is more than 1 percent of payroll—10 percent of the cost of the system. In view of the wide range involved and the contingencies the estimates are subject to, the prudent course would have been to allow margin for error and finance the system at +.57 percent of payroll. Instead, the committee bill leaves the system with an actuarial imbalance of —.51 percent.

* * * * * * *

When the Congress adopted dynamic earnings assumptions and current cost financing last year, it was stated that the funds should be allowed to gradually build up to equal one year's benefit disbursements. Despite this, only a year later, the committee has now taken action that will reduce the ratio to 62 percent.

In view of the producers I have outlined, I do not believe the committee has taken the time to conduct a review of the financial integrity of the system, I agree with the minority views that the committee should conduct a thorough review of the program at the earliest opportunity, giving particular attention to financing.

Cumulative Increases in Recent Years Impose Large Burden on the Working Man

Since January 1, 1972, social security benefits have been increased by 51.8 percent. During the same period, the Consumer Price Index has increased by 19.6 percent. When the 11-percent increase becomes effective next June, benefits will have been increased since January 1970 by 68.5 percent. It is estimated that during this period, the Consumer Price Index will have increased by 24.4 percent.

I am concerned that the cumulative increases in recent years, combined with the increase proposed in this bill, are setting a pattern for social security increases that will substantially augment the already heavy payroll tax burden the American worker is carrying. The wage base will be increased under this bill to $13,200 effective next January 1, and tax increases are also proposed for future years. A worker with $10,800 annual earnings—the current wage base—is now paying a payroll tax of $631.80 per year. Next January 1, when the wage base is raised to $13,200, an individual earning the maximum taxable earnings will pay a tax of $772.20 per year, an increase of $140.40. This is a very heavy burden on a worker attempting to support his family and educate his children.

Experience in the first years after adoption of the new estimates shows that however reasonable the estimates might have been at the time they were made, they seem to be an unsteady forecast of what the long-range actuarial balance will be. The reason for this is, of course, quite simple—the compounding effect of the changes that occur in the short-range estimates results in large changes over a 75-year period. Thus, a relatively small change in the amount of a cost-of-living benefit increase can make the difference between actuarial balance and imbalance. Perhaps over the 75-year period covered by the estimates there will be counterbalancing changes so that in the year 2045 (the last year covered by the estimates) the estimates made in 1972 will prove to have been accurate. For policymakers, the question is what sort of guide do these estimates provide? Are they adequate for the short run? For the long run? [131]

There seems to be general agreement that estimates of this nature are the proper estimates for the short run (5 years). In fact, these are the sort of estimates that have been made for the short-range estimates. Over this period the compounding effect of relatively small changes does not cause the major changes that it does over long periods of time.

With regard to the long-range estimates it seems worthwhile to examine dollar estimates as well as the average-cost estimates for the period under consideration.

In April 1974, the Social Security Administration published an actuarial note that projected benefits and taxable earnings throughout the period 1974–2050.[132] Projections for a man with maximum earnings and the man with median earnings are shown in the following tables:

Man retiring at age 65 in year with maximum taxable earnings in all years, earnings increasing at 5 percent and CPI at 3 percent

Year of attainment of age 65	Computation period,[1] years	Taxable earnings in year	Average monthly wage	Primary insurance amount at award [2]	Replacement ratio [3]
1974	18	$13, 200	$511	$304. 90	0. 339
1975	19	13, 800	542	323. 50	. 294
1976	19	14, 400	584	353. 40	. 307
1977	19	15, 000	628	387. 80	. 323
1978	19	15, 900	676	419. 20	. 335
1979	20	16, 800	708	441. 00	. 333
1980	21	17, 700	741	465. 20	. 332
1985	26	22, 500	911	591. 80	. 333
1990	31	28, 800	1, 099	748. 00	. 329
1995	35	36, 900	1, 341	953. 50	. 326
2000	35	46, 800	1, 768	1, 256. 80	. 337
2005	35	60, 000	2, 305	1, 645. 00	. 346
2010	35	76, 800	2, 980	2, 141. 10	. 351
2015	35	98, 100	3, 809	2, 768. 90	. 356
2020	35	125, 100	4, 866	3, 575. 70	. 360
2025	35	159, 600	6, 216	4, 611. 90	. 364
2030	35	203, 700	7, 937	5, 941. 00	. 367
2035	35	259, 800	10, 133	7, 645. 90	. 371
2040	35	331, 500	12, 933	9, 832. 20	. 374
2045	35	423, 000	16, 503	12, 632. 70	. 376
2050	35	540, 000	21, 057	16, 219. 50	. 379

[1] The number of years of earnings that are averaged for purposes of computing a benefit.
[2] Assumes retirement in June.
[3] Replacement ratio represents the ratio of PIA at award to monthly taxable earnings in the year just prior to retirement.

[131] At the time this paper was being sent to the printer, the social security actuary announced (at the first meeting of the 1974 Advisory Council on Social Security on May 4, 1974) that the actuarial cost estimates were in the final stages of a revision. These revised estimates will show a long-range actuarial deficit in the neighborhood of 3 percent of taxable payroll (about $20 billion a year at current levels). This new deficit was attributed to new demographic assumptions (zero population growth) and adverse experience with the disability program. Also, although it was not mentioned, inflation can be presumed to be a cause.

[132] U.S. Department of Health, Education, and Welfare, Social Security Administration, "Actuarial Note No. 87," April 1974.

Man retiring at age 65 in year with median taxable earnings in all years, earnings increasing at 5 percent and CPI at 3 percent

Year of attainment of age 65	Computation period, [1] years	Taxable earnings in year	Average monthly wage	Primary insurance amount at award [2]	Replacement ratio [3]
1974	18	$7, 681	$407	$261. 30	0. 436
1975	19	8, 065	419	272. 90	. 426
1976	19	8, 468	439	289. 40	. 431
1977	19	8, 892	460	308. 20	. 437
1978	19	9, 336	484	328. 30	. 443
1979	20	9, 803	499	344. 80	. 443
1980	21	10, 293	514	361. 80	. 443
1985	26	13, 137	597	471. 20	. 452
1990	31	16, 767	696	606. 60	. 456
1995	35	21, 399	828	760. 80	. 448
2000	35	27, 311	1, 060	989. 00	. 456
2005	35	34, 857	1, 357	1, 288. 70	. 466
2010	35	44, 487	1, 734	1, 674. 00	. 474
2015	35	56, 778	2, 213	2, 171. 10	. 482
2020	35	72, 465	2, 825	2, 809. 70	. 489
2025	35	92, 486	3, 605	3, 632. 10	. 495
2030	35	118, 038	4, 601	4, 689. 70	. 501
2035	35	150, 650	5, 873	6, 047. 00	. 506
2040	35	192, 271	7, 495	7, 788. 90	. 510
2045	35	245, 392	9, 566	10, 027. 60	. 515
2050	35	313, 190	12, 210	12, 895. 20	. 519

[1] The number of years of earnings that are averaged for purposes of computing a benefit.
[2] Assumes retirement in June.
[3] Replacement ratio represents the ratio of PIA at award to monthly taxable earnings in the year just prior to retirement.

These tables raise a question not as to their quality as actuarial estimates, but as to their value for policymakers. Those who are familiar with the short-range estimates that the Social Security Administration has prepared each year should have little trouble with the figures shown for the period through 1980 or 1985. The amounts are not unfamiliar and one can understand a society in which wages and benefits are at this level. On the other hand, the amounts shown for later years seem to contemplate an economy with as little relationship to the world we live in as the post-Civil War era had to present day society. On this basis, it is understandable that some policymakers will concentrate on short-range estimates without being aware of their long-range cost implications. Therefore, it seems important that the long-range estimates be cast in a form that is useful to the policymaker so that he will not be overly tempted to adopt a shortrun policy that could have serious adverse effects over the long run. It would seem possible, for example, to devise a system of estimates that would provide dollar estimates for the early, and perhaps middle years, along with some sort of index to the cost in the latter years.[133] At the very least it would seem that there should be some visible link between the short-range and the long-range estimates; the current short-range estimates stop with 1978 while the long-range estimates take up with 1985.

[133] For another suggestion as to how long-range estimates might be made see app. I, p. 8.

As pointed out earlier, the long-range cost estimates are dependent largely on events that occur in the early years of the valuation period. Therefore, predictions regarding the tax rates "well into the next century" seem to be founded on hope and may founder on experience.

For example, the table on page 84 shows how the anticipated ratio of assets to expenditures can change over a short period of time. Although a similar table has not been published for the current law as of early March 1974, information made available at the time the Senate was considering the two-step 11 percent benefit increase for 1974 showed that under the existing law the ratio would decline from 75 percent in 1974 to 56 percent by 1978, but that under the provisions adopted by the Committee on Finance the decline would be from 72 percent in 1974 to 62 percent in 1978.

Because these estimates showed that the cash benefits trust funds would drop below the 75 percent level, which had been considered the target level, during the next 5 years, Congress was faced with the need to make a decision regarding tax rates in the immediate future. The range of options available for the short run is great because, unlike the long-range estimates, the estimates indicated that there would be sufficient money available to pay benefits and administrative expenses; the only question was how large the contingency fund should be. Thus, Congress could have decided that no action with regard to taxes was needed until new estimates were prepared in the next year or the year after; or that the trust funds must never fall below a fixed percentage, say, the 75-percent minimum recommended by the Advisory Council, and that income must be increased. The latter option would have required decisions about how much extra income was needed and how to obtain it. As mentioned earlier, the decision was a mixed one, and some additional income was provided.

The decision with regard to the shortrun size of the funds has important effects on the long-range estimates. If the decision on raising additional income is to be put off, the program may well have a long-range actuarial insufficiency. On the other hand, a decision to increase the income should reduce or eliminate the long-range insufficiency.

For the policymaker, though, there is an important distinction between the short- and long-range cost estimates. In the short run, cash flow can be predicted with sufficient accuracy so that he will have a realistic idea of whether or not adequate funds will be available in any given year, but the long-range estimates indicate only in a general way that adequate funds will or will not be available over the entire period.

Because the current method of estimating costs is tied so closely to the provisions for automatic cost-of-living benefit increases, some consideration needs to be given to the way these provisions affect the cost of the program as opposed to how they affect the cost estimates.

When proposals for automatic cost-of-living increases in social security benefits began to get serious consideration, proponents were apt to point out that cost-of-living increases could be provided without any increase in social security tax rates. (This was at a time when the cost estimates were made on the level-cost basis.) The statement was true, however, only if the tax base were increased to take account of rising wage levels.

Under level-cost assumptions, as wage levels increase the cost of the social security program—even without an increase in the tax base—decreases when measured as a percentage of taxable payroll, but not in dollars. This comes about because, with the benefit formula weighted in favor of the lower paid, tax income increases more rapidly than expenditures. If wages increase faster than the cost of living, as was generally true up to 1972, the increased income that results can be used to offset the cost of increasing benefits to take account of rises in the cost of living. It should be noted, however, that not all of the additional income that comes from rising earnings is available to pay for cost-of-living benefit increases; about one-half of the additional income must go to pay the higher benefits that result from the higher earnings levels.

The provision for automatic cost-of-living increases in the social security law, unlike cost-of-living provisions in other Government programs, is not limited to people who are on the benefit rolls as of the effective date of the increase; it applies also to those who will become entitled at any time in the future. Moreover, because the tax base (which is also the limit on the earnings used for benefit computation) is increased automatically to take account of rises in taxable earnings each time there is an automatic benefit increase, there is, in effect, a double increase in future benefits—one to take account of rises in the cost of living and one to take account of rises in average earnings. As a result, the cost-of-living provisions over time will result in a very large increase in the dollar cost of the program. And, if earnings increase at a faster rate than that predicted (as has been the case since the provision was adopted), the cost as a percent of payroll will also increase.

It is this complex interelationship which has been in part responsible for the rapid increases in the estimated cost of the program over the last few years. As a result, some have suggested that the provision ought to be changed to restrict the automatic cost-of-living increase to those on the benefit rolls on the effective date. Such a change would probably decrease the long-range cost of the program, expressed as a percent of taxable payroll. Although the dollar cost would continue to increase, the rate of increase would be much slower than under present provisions.

IV. *Conclusion: A Changing Concept of Social Security*

While there are many ways to finance social security, the "right" way depends on one's concept of the program. Those who see the program as insurance would equate benefits to "premiums" paid and divorce it from other aspects of Government. Those who see it as welfare would finance it as any other welfare program out of funds appropriated from general revenues. Between these two extremes, one can ring whatever changes sound the peal he wants.

Up to now, there has been a general agreement that social security is something between insurance and a welfare program. It has been financed through a tax that is frequently called a contribution. As a result, there has been wide public acceptance of the program and even a willingness to pay regressive taxes that, had they been levied for a

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less popular program, might have had consumer and taxpayer groups leading a spirited fight for repeal. However, some are concerned that this situation is due for a change, that the public is no longer quite so sure that social security, as previously conceived, still is the best way of getting the job done.

Those who speculate on the future of the program raise a serious question about how it may be affected by changing public attitudes toward welfare. A major cause of this speculation results from the creation of the supplemental security income program (SSI), which went into effect in January 1974. Under this program, operated by the Social Security Administration, every aged, blind, and disabled person in the country who is poor is guaranteed, under specified conditions, a minimum income.

In a letter to Senator Church, Mr. John R. Stark, executive director of the Joint Economic Committee, commented on the implications of SSI for Social Security:

> SSI, financed from general revenues, will provide an income supplement to many Social Security beneficiaries and will provide the full benefit amount to persons with no Social Security coverage or other income. Will this change the concept of Social Security as basic income protection? SSI payments well above the Social Security minimum will be available to persons who have paid little or no payroll taxes. Will this raise questions as to the importance of the payroll tax and equity in imposing the tax on all workers while a large number receive SSI benefits regardless of taxes paid or wage record? Is the weighted Social Security benefit to low wage earners justified if the supplement is available to persons with low incomes?
>
> The escalator provision for increasing benefits with increases in the cost of living applies to Social Security benefits but not to SSI benefits. This means that the larger number of individuals who receive both Social Security and SSI payments will not benefit from Social Security increases since SSI benefits will be reduced accordingly. A thorough analysis of the SSI program as it relates to Social Security would no doubt identify a number of inconsistencies which have not yet been examined. Another illustration is the difference in ages for entitlement and treatment of dependents. Workers and dependent wives can elect to receive Social Security at age 62 and widows at age 60 and many do who have difficulty in obtaining employment because of their age. However, they must wait until they reach age 65 to receive an income supplement. These differences raise questions about the role of an income supplement program in relation to Social Security which your committee could help to clarify and provide a basis for future development of both programs.[134]

If Congress sees a relationship like this between social security and SSI, it seems reasonable for the people who pay for both programs to see one also. How then are taxpayers to look at the two programs?

What this will mean for the future of social security benefits and financing is not predictable. In this connection it might be worth recalling that in 1971, Senator Lawton Chiles introduced a bill, S. 2872, which tied social security changes in with changes in the welfare program. This bill proposed to reduce the social security tax burden in two ways: first, the cost of the program would be reduced by eliminating the minimum social security benefit; and secondly, payroll taxes paid by low-income people would be refunded out of general revenues. To offset the loss of income to some poor persons that would have resulted from the elimination of the minimum benefit, there would have been a sort of SSI program providing a guaranteed monthly income of $150 a month for an individual and $200 a month for a couple. Later, as part of its welfare reform bill (H.R. 1), the Committee on

[134] *Future Directions in Social Security*, p. 225.

Finance recommended a work bonus that was a type of refund of social security taxes paid by low-income workers.

More recently, a Babson weekly staff letter said:

> The Social Security system is currently undergoing major changes in its scope, its philosophy and its economic impact. Yet, few of the 95 million Americans who contribute to the program are aware of how radical the changes are, let alone their long-range significance.
>
> * * * * * * *
>
> *Conclusion:* The Social Security system today is a far cry from the limited "insurance" plan adopted in the 1930's. It has become a gigantic tax system aimed at redistributing income from workers to retirees, more and more on the basis of "need" and less and less on the basis of past contributions.[125]

This, then is the setting in which future changes in the social security program will be considered. There is a basic concern about higher costs and who is to pay for them that can be resolved only in the context of the benefit structure. The decision to adopt an explicit pay-as-you-go financing scheme has brought into public view factors that previously were not readily discernable. The commitment to an automatic formula for cost-of-living benefit increases, with concurrent automatic increases in the amount of wages taxable, precludes to a large degree the easy financing of future liberalizations which was available in the past. To a larger degree than in the past, the law creates basic assumptions as to how the long-range cost estimates should be made. Moreover, early experience indicates that financing based on relatively rigid assumptions about increases in wage levels relative to increases in prices, can result in long-range cost estimates that are quickly out of date.

The confusion between the welfare and the insurance aspects of social security seems to be increasing as more attention is called to the regressive nature of the present tax. Although confusion about the nature of the program is rising, there is more realization that the perceived character of social security largely determines what financing method is appropriate for it.

As long as the program is regarded as primarily insurance rather than welfare, it is reasonable to assume that financing will continue to be based chiefly on a tax that is equated to an insurance premium. However, if the program should come to be considered as more of a welfare program, pressures for general revenue financing could be expected to increase. However, in either case one might expect pressures to continue, or even grow, for some sort of tax relief for low-paid people.

Appendix I

Study of Actuarial Assumptions as to Social Security Tax Rate Schedules

By Robert J. Myers*

This study will describe the actuarial assumptions that have been used in establishing the tax rate schedules for the old-age, survivors, and disability insurance program and the hospital insurance programs under the Social Security Act. The analysis will be directed at methods

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[125] Wilson, Mary J., "Weekly Staff Letter," David L. Babson & Co., June 28, 1973.

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used in the past, going back to the original Social Security Act of 1935, but will particularly emphasize the recent developments that underlay the new approach taken in connection with the legislative activity in 1972.

ACTUARIAL METHODOLOGY FOR OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM

The Social Security Act of 1935 established an old-age benefits program that was to be financed on a long-range basis by a tax schedule applicable to all future years. The cost estimates from which the financing basis was developed assumed static economic conditions as to future wage levels and further assumed that demographic conditions would be such that all income and outgo items would be the same for each year after 1980. Quite naturally, it was also assumed, for purposes of the cost estimates, that the law would remain unchanged in the future; any other assumption in this respect would have seemed both inconsistent and presumptuous on the part of the actuaries in predicting just what future actions Congress would (and probably should) take.

Actuarial cost estimates made in subsequent years by the Social Security Administration (SSA) for both the existing old-age, survivors, and disability insurance programs (OASDI) and proposed amendments thereto followed the same general pattern until 1972. Certain minor refinements and revisions were, however, made during the period 1936–71. Thus, for example, the terminal point after which it was assumed that income and outgo items would be unchanged each year in the future was advanced from 1980 to the year 2000, and then later to the year 2050.

Part of the reason for such advancement was in order to use a sufficient period before real maturity of the system could develop (a group of young workers today will still have some survivors receiving benefits three-fourths of a century hence). Still another reason for such advancement was so that the cost estimates should extend beyond the aged population trough or plateau that will occur in the late 1990's and the first decade of the 21st century, when the survivors of the relatively low numbers of births during the depression years of the 1930's will represent the bulk of the population aged 65 and over (which constitutes the major cost group for social security purposes).

Originally, and for many years, the adequacy of the OASDI tax schedule was measured over all future years—that is, into perpetuity. This was done by computing the level-cost of the benefits and administrative expenses (after taking into account the effect of the existing trust fund), expressed as a percentage of taxable payroll. The level-cost is computed by discounting at interest the dollar figures for each year in the valuation period and then relating the resulting lump-sum present-value figure to the similarly discounted value of 1 percent of future taxable payrolls. (At times, the phrase "level-premium" was used instead of "level-cost".) This level-cost was then compared with the level-equivalent of the contribution or tax schedule, so as to determine whether the latter was adequate. A deficiency of the level-equivalent of the taxes as against the level-cost of the benefits of as much as 0.3 percent of taxable payroll was considered not to be significant—in view of the sizable fluctuations possible in such long-range cost estimates—and the system was then declared to be in actuarial balance.

As a result of recommendations of the 1958 Advisory Council on Social Security, the period to be considered in establishing the financing basis for the OASDI program was changed in 1961, so that only the next 75 years would be considered. At the same time, the "allowable margin of deficiency" was reduced from 0.3 percent of taxable payroll to 0.1 percent. This reduction offset, to a considerable extent, the lower level-costs produced by eliminating the high-cost experience beyond 75 years.

Over the years, some individuals had argued that the actuarial cost estimates were unrealistic because they assumed constant-earnings levels into the future, whereas past experience had been otherwise, and it appeared likely that in the future there would be steadily increasing earnings levels. The SSA actuaries defended this procedure by pointing out that the benefit structure at a given time was developed relative to the then prevailing earnings level. The actuaries further pointed out that it would be extremely unrealistic to use rising-earnings level assumptions along with a static benefit and a static maximum taxable earnings base. Likewise, the actuaries pointed out that it would be improper for them to assume that benefit levels and the earnings base would change in the future, because the responsibility for such dangers is a prerogative of Congress.

However, the actuaries did state that, although the dollar figures of their estimates might not be realistic in the face of dynamic economic conditions, the resulting benefit costs expressed as percentages of taxable payroll would very likely be good indication of what the actual costs in the future under dynamic economic conditions and resultant possible congressional action would likely be.

It may be noted that the assumption of static economic conditions—that is, level-earnings assumptions in the OASDI cost estimates—is, in one sense, an element of conservatism insofar as the financing of the program is concerned. If earnings rise in the future—as has been the case for many years in the past—and if no change is made in the provisions of the program, then an actuarial valuation made a year or two hence will indicate that an actuarial surplus is present as compared with, say, approximate balance for a valuation made now (assuming that all other experience factors are the same as had been assumed). This actuarial surplus would be available either to increase benefits or to reduce future tax rates.

In a similar vein, if it is decided to keep the earnings base up to date with the rising general-earnings trend (so that the same proportion of total payroll in covered employment would be taxable), then a further actuarial surplus would develop.

The source of both of these actuarial surpluses is merely the weighted benefit formula under the program (which provides relatively higher benefits for the low-paid than for the high-paid) and the inherent lag between when benefits are paid and when the taxes that produce them were collected.

Thus, it can be seen that the benefit formula is based on the earnings structure of a particular date and that, if earnings levels change, then it is only reasonable that the benefit formulas should change too. In actual practice before 1972, this was done in each instance when new valuations reported the presence of an actuarial surplus. Generally, such increases were of about the same magnitude as needed to finance benefit increases necessary to offset rises in the cost of living. This was both a convenient and a proper result.

Thus, although from one standpoint it might be argued that the use of static economic assumptions in the actuarial cost estimate for the OASDI program was an overly conservative procedure, in its actual practice this was by no means so. Rather, the procedure was quite realistic in providing the financing for benefit increases necessary to meet cost-of-living changes after they had occurred, rather than attempting to anticipate them in advance.

The automatic-adjustment provisions for the benefit level provided by the 1972 amendments merely established into law the same general principle that had been followed in the past. The additional financing needed would come from the higher general-earnings level within the taxable earnings base and from the automatic extension of the base to higher amounts as earnings rise.

In passing, it is important to note that short-range, 5-year cost estimates for OASDI using dynamic economic assumptions for tax income have always been prepared and presented. These were developed for budgetary and fiscal purposes, and not for long-range financing purposes. Thus, the use of dynamic economic assumptions in the long-range cost estimates cannot be argued for on the grounds that "realistic" figures are needed for budgetary and short-run economic planning purposes, because proper figures therefor have always been available.

The 1971 Advisory Council on Social Security recommended sweeping revisions in the actuarial methodology used in determining the OASDI tax rate schedule. These recommendations should not be confused (although they often are) with the Council's recommendations to move to a current-cost financing basis. Such a basis could have been adopted and implemented under the previous actuarial methodology and would have produced about the same schedule of tax rates, at least in the early years of operation.

The change in the actuarial methodology was basically to assume dynamic economic conditions in the future as to the trend of earnings rates and the cost of living. This was much more appropriate than was the case in previous years, because the Advisory Council was recommending automatic adjustment of benefit levels for changes in the cost of living and of the earnings base for changes in the level of earnings in covered employment. Moreover, simultaneously, Congress was considering favorably legislation which would provide such automatic adjustments (both the House and the Senate passed bills with such provisions in 1970, but due to a legislative snarl, law containing such provisions was not enacted until 1972).

A relatively minor change in the actuarial methodology that was made recently was to discard the concept of level-cost and replace it instead by the concept of average-cost. The difference between these two concepts is that the former is based on discounting at interest (as described previously). On the other hand, the average-cost method ignores discounting at interest and instead considers the ratios of outgo (or, alternatively, tax income) to taxable payroll each year and then obtains the mean value of these ratios for all the years in the valuation period.

As between these two approaches, there are two counterbalancing elements. The average-cost method omits consideration of interest, which has the effect of giving more importance and weight to the higher figures for long-distance future years (properly, interest discount should always be taken into account for time transactions, but the argument given for not doing so is that the system is to be on a current-cost basis, with little accumulation of funds that will earn interest). On the other hand, the average-cost method gives equal weight to all years, despite the fact that income and outgo items for long-distant future years are much higher than those for current and near-future years. As it turns out in actual practice, there is almost complete counterbalancing, and the average-cost differs from the level-cost by only a few hundredths of a percent of taxable payroll.

It may logically be argued that, since automatic-adjustment provisions have been included so as to recognize and take into account future economic changes, "realistic" dynamic economic assumptions should be made as to future earnings and price levels. However, the matter is not quite this simple.

The projection of economic elements some 75 years into the future is fraught with difficulties. Consequently, some might argue that the actuarial cost estimates should not be extended for such a lengthy period, but rather only for the 5 to 10 years for which reasonably realistic estimates of economic factors may be feasible. In contrast with this, it seems to me essential that the actuarial cost estimates for a long-range social insurance program like OASDI must extend for a significant number of years, so as to present properly the financing situation—which is bound to be one of rising costs for a number of decades, because of demographic conditions.

If economic factors such as the cost of living and the general earnings level are projected ahead for 75 years, then by using continuing small annual percentage increases, phenomenal results in terms of dollars are produced. Thus, for example, at a 5 percent compound annual rate of increase in the earnings level, the maximum taxable earnings base at the end of 75 years would be $540,000 as compared with $13,200 in 1974. Perhaps this amazing result from the "compound-interest effect" will actually occur. But, on the other hand, we may get a better control on our inflationary situation at some time in the future, and then such results will not occur. To count on them to finance a social insurance program does not seem prudent.

The situation with regard to using dynamic economic factors for long future periods—with their resultant compounding effect—becomes even more critical when we consider the relationship between benefits and taxes. The latest official cost estimates of the Social Security Administration assume that wages, after a 6-year grading-in period from the present situation, will increase perpetually at a rate of 5 percent per year, while prices (and thus the benefit level) will similarly rise at 3 percent per year. It is most significant to note that, if this gap is narrowed significantly or if both assumed rates of increase are higher, then much higher medium-range and, especially, long-range costs will occur.

In my opinion, it would be much more appropriate and prudent to make the actuarial cost estimates on the basis of economic assumptions that allow for a reasonable differential between earnings increases and price increases for the next 5 to 10 years, with this differential being eliminated over the subsequent 5 years. In other words, after the end of this period, it would be assumed that earnings and prices would both increase at the same rate.

Such a procedure should at least be followed so as to produce cost estimate that would show the effect of the assumption of a sizable constant differential between salary increases and price increases indefinitely into the future. The result of such an alternative estimate would be exactly the same—insofar as current-cost financing is concerned—for the first 5 to 10 years, but thereafter there would be shown the need for much higher tax rates than those resulting from the current estimates. It would seem much more prudent to predict such higher future financial burdens so that the country may realize what may reasonably be involved in connection with the OASDI program and proposed changes therein insofar as long-range financial commitments are concerned than to count optimistically on inflation and maintenance of past high productivity-gains trends appearing to produce low costs and bailing the system out of trouble.

It is most important to note that the assumption of a constant differential between earnings increases and price increases over the next 75 years carries with it the implicit assumption that productivity increases paralleling the increases in the past will continue indefinitely in the future. Among the reasons that this is not likely to occur are the following:

(1) Growing emphasis on ecology (which can mean higher production costs for a given amount of end products).

(2) Changing life styles (which can mean less emphasis on economic growth and production, less hard work and effort, etc., thus resulting in smaller productivity increases—or, perhaps even decreases).

(3) Future trends toward more service industries (for which productivity gains are much more difficult to achieve).

(4) Earlier attainment of zero population growth conditions than had previously been expected (which tends to "slow down" the economy).

ACTUARIAL METHODOLOGY FOR HOSPITAL INSURANCE PROGRAM

The Social Security Amendments of 1965 established the hospital insurance program for persons aged 65 and over (which has now been extended to disabled beneficiaries who have been on the roll for at least 2 years) as a part of the medicare program. This long-range social insurance program is financed by payroll taxes (in the same manner as the old-age, survivors, and disability insurance program).

When this program was first proposed in the 1950's, the long-range cost estimates that were used to develop its financing provisions were made in exactly the same manner as were those for OASDI: namely, using static assumptions as to future earnings rates and hospital costs. It was not realized that this was an inappropriate procedure, because, in the recent past, hospital costs had been rising significantly more rapidly than earnings rates. Therefore, under likely dynamic future economic conditions, an element of nonconservatism was being introduced.

Accordingly, the procedure was altered, and an estimate was made of the trend in the differential between increases in hospital costs and increases in earnings level. The cumulative result thereof was applied to the benefit costs, so as to increase them to allow for this element.

Even so, the cost estimates were widely misunderstood in certain quarters, by their being considered in terms of the dollar figures resulting, rather than in terms of cost as a percentage of taxable payroll. Figures on the latter basis were the underlying data for establishing the financing of the program and the necessary payroll tax schedule. Even on this basis, it should be recognized that there was the implicit assumption that the maximum taxable earnings base would keep up to date with changes in the general earnings level (so that total taxable payroll would bear the same relationship, over the years, to the total payroll in covered employment).

Another change that was made in the HI cost estimates was in the first half of the 1960's, when it was decided that the period over which the cost estimates were made should be reduced from 75 to 25 years. This was done because of the difficulty of projecting realistically what the future trend of hospital costs would be. Some people have argued—as did the 1971 Advisory Council on Social Security—that, for this reason, projections should be made for only 10 years ahead. In my opinion, however—and the official Social Security Administration cost estimates are in concurrence—a period as much as 25 years should be used for a social insurance program like this, in order to give some reasonable picture of the long-range trends.

During the enactment of the medicare legislation in 1965, Chairman Wilbur D. Mills of the House Ways and Means Committee suggested that the cost estimates should be made on a more conservative basis, particularly at the inception of such a new and far-ranging program. In particular, the suggestion was made (and was adopted) that the cost estimates for the 25-year period should use dynamic assumptions throughout, both as to earnings levels and as to hospital costs, but that there should be no assumption as to any increase in the maximum taxable earnings base beyond that which was scheduled in the law.

This latter assumption would have a particularly dampening effect on the tax-income side. For example, an assumed annual increase in earnings in covered employment of 5 percent would be translated into an increase in taxable earnings (and thus in tax income) of almost 5 percent in the first year, but with gradually smaller (and decreasing) increases in the future. This result occurred because the earnings of individuals who were a already near the base, when increased by the projected 5 percent annual increase, would not produce 5 percent additional tax income to the system. This would increasingly be the case for future years for individuals whose earnings reached the base in past years.

In the early 1970's, the foregoing margin of safety in the assumptions for the HI cost estimates was eliminated, and instead the assumption was made that the earnings base would rise in the future at the same rate as would the general-earnings level in covered employment. In part, this was done because there was now much more ample and adequate data about the operations of the program, so that more reliable and realistic estimates were possible. But, to an even greater extent, this was done because of the likely inauguration of automatic-adjustment provisions in the social security program, so that, among other things, the maximum taxable earnings base would be increased in the future in accordance with the trend of earnings in covered employment. If such a provision were incorporated in the law, then quite naturally it would have to be taken into account if there were the assumption of a rise in the general-earnings level.

ACTUARIAL METHODOLOGY FOR SUPPLEMENTARY MEDICAL INSURANCE PROGRAM

The Social Security Amendments of 1965 also established the supplementary medical insurance program for the same categories of persons covered by hospital insurance, both together constituting the medicare program.

The cost estimates for SMI have always been on a short-term basis—for only a few years ahead—since it is not financed on a long-range basis by a tax or premium schedule incorporated in the law. Instead, the premium rate paid by the enrollees (on an individual voluntary basis) is determined annually (originally, biennially) on the basis of the past experience and projected assumptions thereof for the new premium period. Accordingly, it is appropriate to project dynamic economic conditions in making estimates of likely future experience—under SMI—and this has always been done.

APPENDIX II

The Cost of the Social Security Program

Many discussions of the cost of the social security program include statements that since some specified time social security income, expenditures, tax rate or tax base has increased by a specific percentage. If one is not familiar with the history of the program, such statements can be misleading in that they may not make clear that a considerable portion of the rise is the result of the natural growth of the program rather than the result of changes in the law which have taken place in the period under discussion. While the difference between the cost resulting from natural growth of the program and that resulting from legislated changes may not be of particular importance in connection with budgeting to meet the current costs of the program, it is an important distinction to make when considering changes in the program.

For example, look at which happened in the cash benefits parts of the program from 1967 through 1971. In this period Congress provided:

(1) A 42.8 percent increase in benefits;
(2) A 39.7 percent increase in the maximum employer-employee tax; and
(3) An 84.6 increase in the tax base.

But, if one looks at the trust funds:

(1) Outgo increased 71.1 percent;
(2) Income increased 50.8 percent; and
(3) The balance in the trust funds increased 53.6 percent.

On the other hand, should one compare the estimates for 1971 prepared before the 1967 amendments with the actual experience for 1971:

(1) Outgo was 46.9 percent over the amount estimated;

(2) Income was 10.4 percent over the amount estimated; and

(3) The balance in the trust funds was 25.9 percent less than the amount estimated.

However, in considering the estimates made in 1967 it is necessary to recall the tax provisions which were in effect then. In 1967 the employee and employer tax rate (for OASDI) was 3.55 percent and the maximum earnings taxed were $6,600 a year. Under the law, the tax rate was scheduled to increase to 4.05 percent but there was no scheduled increase in the tax base; thus, there was to be a 14.1 percent increase in not only the maximum tax but in all taxes. Actual experience was another matter. The tax rate increased to 4.05 percent (as in the estimate) but the tax base increased to $7,800 (an 18 percent) increase. As a result taxes paid by people earning up to $6,600 a year increased 14.1 percent while taxes for people earning the maximum $7,800, or more, increased 18 percent.

If all of this seems confusing, it should. For budgetary purposes the comparisons are valid; but as a tool for evaluating the program's effectiveness in meeting its objectives, they conceal as much as they reveal. From these percentages it would not be unreasonable to conclude that the 42.8 percent increase in benefit levels was in reality only a 24.2 percent increase (the 71.1 percent increase in actual outgo minus the 46.9 percent increase assumed in the 1967 estimates). Such a conclusion would neglect an evaluation of the 1967 estimates.

Prior to 1972, social security long-range (75 year) cost estimates were made on what was called a level-cost basis. These level-cost estimates assumed that the social security law would not change over the period covered by the estimates and that the wage level which prevailed at the time the estimate was made would continue into the indefinite future. Because the assumption that wage levels would not increase was contrary to fact (wage levels do rise over time), these estimates would understate the cost of the program to the extent that rising wage levels generated increased income. On the other hand, the assumption that the law would not change was also contrary to experience; Congress has from time to time increased benefit payments. If estimates of this type are expressed as a percentage of taxable payroll they can be considered as a relatively accurate forecast of what might happen in the future provided that the law is changed from time to time so that expenditures are increased to the extent necessary to use up the additional income generated by rising wage levels. On the other hand, if expenditures are not increased, a program that was adequately financed at the time the first estimates is made will appear to be overfinanced if estimates are prepared at a later date.

In practice, Congress had come to expect that from time to time new estimates would show an "actuarial surplus" which could be used (and which was used) to meet part of the cost of benefit increases and other changes in the program.

Short-range (5 year) estimates presented a somewhat different situation. In such a short period it was clear that earnings levels would rise even if there were to be no change in the law and as a consequence income would rise. However, in the short-run, benefit payments would not rise greatly due to the rising wage levels. (The additional benefits due on the higher earnings would for the most part be paid in the relatively distant future because benefit rates are determined by a "lifetime" average wage rather than by recent earning levels.) Thus, the 1967 estimates showed that at the end of 1971 there would be:

(1) A 16.4 percent increase in outgo;
(2) A 36.6 percent increase in income; and
(3) A 107.2 percent increase in the year-end trust fund balances.

Had the law not been changed, in the period, the probability that the experience would relate closely to the estimates is high. Thus, the short-range estimates over time have tended to bear out what revisions of the long-range estimates have forecast: that the program could afford additional expenditures.

While all of the comparisons shown above indicate in one way or another growth in the program, the validity of each depends on the context in which it is used. Thus, it is relatively meaningless to say in connection with the tax burden on individuals that maximum 1971 taxes were only 3.9 percent more than anticipated in 1967 when in fact they had increased 18 percent. On the other hand, if one is measuring changes in taxes from the point of view of how much additional income is available to the program over what had been anticipated, the 3.9 percent figure has some relevance.

Appendix III

Origin and Development of Social Security Financing in the United States, 1932–73: Selected References

By Nancy Davenport*

This bibliography contains references to selected congressional documents, monographs, and journal articles on social security financing in the United States. In addition, some material on the general social insurance program is included because of its relation to or influence on the financing process. The monographs and journal articles have each been reviewed by the compiler and are extensively annotated; however, it was felt that the congressional documents did not require such annotation.

In order to help the reader follow the changes that have been made in the financing provisions, citations are arranged chronologically according to the dates when the Social Security Act was amended or the date of publication, as appropriate. An exception, however, is made in regard to overall histories of the development of the social security program, which, regardless of publication date, are included with the references to the 1935 Act. Also, an exception is made in regard to the various advisory council reports which are in a section at the end. Within each of the chronological divisions, the references are divided

*Library Services Division, Congressional Research Service, Library of Congress.

into two sections: (1) Congressional documents arranged by committee: House, Senate, Conference; and (2) journal and monographic material arranged alphabetically by main entry. It should be noted that some benefit increases were adopted as amendments to non-social security bills. The legislative history of these increases, therefore, is scant.

Citations to items which are in the classified collections of the Library of Congress, other than congressional documents, include the Library's call number. All serials are provided with the call number for the bound volumes of the journal regardless of whether the issues cited have actually been bound at this time. Unbound issues will be found in the Library of Congress Newspaper and Current Periodical Room. A number of unclassified items are held in the Law Library at the Library of Congress. This is shown by the designation "LAW" in the citation.

SOCIAL SECURITY ACT OF 1935

Congressional documents

U.S. Congress. House. Committee on Labor. Unemployment, old age, and social insurance. Hearings, 74th Congress, 1st session, on H.R. 2827, H.R 2859, H.R. 185, and HR. 10. Washington, U.S. Govt. Print. Off., 1935. 726 p.

Hearings held Feb. 4–8, 11–15, 1935.

U.S. Congress. House. Committee on Ways and Means. Economic Security Act. Hearings, 74th Congress, 1st session on H.R. 4120. Washington, U.S. Govt. Print. Off., 1935. 1141 p.

Hearings held Jan. 21–26, 28–31; Feb. 1–2, 4–8, 12, 1935.

———. The social security bill; report to accompany H.R. 7260. Washington, U.S. Govt. Print. Off., 1935. 45 p. (74th Congress, 1st session. House. Report no. 615)

U.S. Congress. Senate. Committee on Finance. Economic Security Act. Hearings, 74th Congress, 1st session, on S. 1130. Washington, U.S. Govt. Print. Off., 1935. 1354 p.

"S. 1130, a bill to alleviate the hazards of old age, unemployment, illness and dependency, to establish a social insurance board in the Dept. of Labor."

Hearings held Jan. 22–Feb. 20, 1935.

———. The social security bill; report to accompany H.R. 7260. Washington, U.S. Govt. Print. Off., 1935. 55 p. (74th Congress, 1st session. Senate. Report no. 628)

U.S. Congress. Conference Committees, 1935. Social security bill; conference report to accompany H.R. 7260. Washington, U.S. Govt. Print. Off., 1935. 16 p. (74th Congress, 1st session. House. Report no. 1540)

———. Social security bill; conference report to accompany H.R. 7260. Washington, U.S. Govt. Print. Off., 1935. 2 p. (74th Congress, 1st session. House. Report no. 1744)

Journals and monographs

Altmeyer, Arthur J. The formative years of social security. Madison, University of Wisconsin Press, 1966. 314 p. KF3649.A74

Altmeyer sheds light on the considerations and personalities involved in the making of important policy decisions concerning not only the legislation but also the administration of the social security system.

———. Handling of social security reserves. American labor legislation review, v. 28, June 1938: 65–67. HD7833.A55, v. 28

Chairman of the Social Security Board answers criticisms regarding the investment of social security trust funds in government obligations. States that the financial provisions of the Social Security Act are sound, honest and equitable to the workers and the taxpayers.

———. Social security. American federationist, v. 44, Nov. 1937: 1208–1219. HD8055.A5A2, v. 44

Admits that the costs of social security are high, but states that the costs of social insecurity are even higher. Altmeyer suggests that if the contributions called for by the Social Security Act represent too great a burden upon the wage earner that their wage levels must be too low.

Anderson, George E. Social security forever. Banking, v. 28, Mar. 1936: 16–19. HG1501.B6, v. 28

Concludes that "it is evident that the blithe readiness with which the state and national governments are entering upon such a system has more to do with political pressure than any appreciation of the economic and financial effects it may entail."

Armstrong, Barbara N. Insuring the essentials; minimum wage, plush social insurance—a living program. New York, Macmillan, 1932. 717 p. HD7091.A7

Reviews the evolution of social insurance and minimum wage programs adopted in different parts of the world and analyzes their trend and probable future.

Auld, George P. The Federal Social Security Act. Journal of accountancy, v. 61, June 1936: 430–453. HF5601.J7, v. 61

Discusses all aspects of the act. When explaining the financial mechanisms, Auld admits that the final incidence of the costs of social security and its effect on power are among the uncertainties of the program. Hopefully a better solution will be found during the fifteen years which would elapse before the problem would become a pressing one.

Baker, Helen. Social security: selected list of references on unemployment, old age, and health insurance. Princeton, Dept. of Economics and Social Institutions, Princeton University, 1936. 31 p. Z7164.17P9

Ballantine, Arthur A. Promoting social security. Vital speeches, v. 2, May 1936: 526–529. PN6121.V52, v. 2

Finds the reserve fund not only delusive but dangerous. "It could tend to promote Government extravagance, upset established financial practices, upset credit conditions, prejudice the operations of banks and insurance companies and invite unwarranted increase in payments against the fund."

Bauder, Russell. The probable incidence of social security taxes. American economic review, v. 26, Sept. 1936: 463–465. HG1.E26, v. 26

Theorizes that the payroll tax will fall on the wage earner and will not be shifted to the consumer. Bauder states that wage earners, employed and aged must be looked at as a single group, and when viewed in this way the program does not involve a long run reduction of wage earners' income.

Blough, J. Roy. Financing the welfare provisions of the social security program. National municipal review, v. 25, Apr. 1936: 215–223. JS39.N3, v. 25

The grant-in-aid method of financing the welfare provisions of the Social Security Act is highly significant because they mark the inauguration of Federal assistance for social welfare work on a permanent basis.

Bortz, Abe. Social security sources in Federal records, 1934–1950. [Washington] U.S. Social Security Administration, Office of Research and Statistics [U.S. Govt. Print. Off., 1969] 116 p. (U.S. Social Security Administration. Office of Research and Statistics. Research report no. 30) HD7123.A39 no. 3

Brown, J. Douglas. An American philosophy of social security: evolution and issues. Princeton, Princeton University Press, 1972. 244 p. HD7125.B69

Traces the history of the social security program from 1934 to 1972 with chapters relating to financing and taxation issues.

———. British precedent and American old age insurance. American labor legislation review, v. 27, Mar. 1937: 18–23. HD7833.A55, v. 27

Argues that the American public should demand that the government assume its full responsibility in the financing of old age insurance just as Great Britain has done. This need not mean immediate grants from the Treasury but rather appropriations from general funds for many years to come; this would permit the elimination of the "illusion" of a large reserve system. Douglas concludes that when a government embarks on a program of social insurance, it cannot avoid the full implication of the word "social".

———. Current social insurance problems. American labor legislation review, v. 28, Mar. 1938: 6–8. HD7833.A55, v. 28

Points to the reserve fund as one of the problems in social security. The fund and alternate methods of financing it are complex and the press frequently misleads the public concerning its nature.

———. Old-age insurance under the Social Security Act. National municipal review, v. 25, Mar. 1936: 180–186. JS39.N6, v. 25

Discusses the various methods that were suggested for financing social security comparing them with the one chosen, analyzes why a national system of insurance rather than separate state plans was adopted and also analyzes the effects the social security system could have on private pension plans.

———. The old-age reserve account. Quarterly journal of economics, v. 5, Aug. 1937: 716–719. HB1.Q3, v. 51

Replies to Alanson W. Willcox whose article is also cited in this bibliography. Brown outlines the hazards of a "high-reserve" policy, questions the desirability of placing the burden of the tax on the wage-earner, and briefly outlines the hazards to the economy when the government proceeds to buy back its own debts and sell itself new ones.

Burns, Eveline M. The arguments for and against the old-age reserve. Washington, U.S. Social Security Board, 1938. 53 l. HD7106.U5B8

Arguments for the old-age reserve include: the reserve facilitates a self-sustaining plan which never calls for taxes above 6% of payroll; the reserve is an integral part of a sound scheme when using the analogy of private insurance; the reserve will protect the rights of contributors against Congressional failure to appropriate funds and the reserve will lower the payments for interest on privately held national debt while enabling future generations to meet the burdens of old age benefits without unduly depressing their standard of living.

———. The financial aspects of the Social Security Act. American economic review, v. 26, Mar. 1936: 12–22. HB1.E26, v. 26

In deciding the appropriate part to be played by different types of taxes attention must be paid to: (a) the desired distribution of the burden between persons and generations, (b) the usefulness of the contributory principle as a method of defining eligibility for certain preferential benefits or as a device for promoting stabilization of employment, (c) the nature and distribution of the risk over time, and (d) the relative tax resources of the federal and state governments. The implications of these considerations are examined and the extent to which attention is paid to them in the Social Security Act is analyzed.

———. Toward social security: an explanation of the Social Security Act and a survey of the larger issues. New York, McGraw-Hill, 1936. 269 p. HD7124.B8

Outlines the financing of the social security system finding it strange that so little attention was devoted to the idea that the contributions from employers and workers will somehow distribute the costs of security between the rich and poor when the final burden will really be shifted to the workers.

Camman, Eric A. Social security: seven billion dollars a year. Journal of accountancy, v. 61, Apr. 1936: 251–282. HF5601.J7, v. 61

Analyzes each segment of the Social Security Act and its financing mechanism determining that the incidence of taxes will have a depressant effect on spending equal to twice the tax rate. The effect on purchasing power will result because of the lower income for consumption and the higher prices to cover the employer's tax.

Clark, Jan Perry. Federal-state cooperation under the Social Security Act. National municipal review, v. 25, Mar. 1936: 151–156. JS39.N6, v. 25

Clark outlines the requirements for grants-in-aid, federal control, and conditions for approval.

Clifford, J. C. What will social security cost the investor? Magazine of Wall Street, v. 57, Nov. 23, 1935: 132–133, 164–165. HG4501.M3, v. 57.

Because the taxes are imposed for individual benefit it seems fair that they should be levied on an individual basis, but it is certain that they will fall hardest on industries in which the labor cost is high in relation to gross sales.

Cohen, Wilbur J. Financing the social services. American labor legislation review, v. 28, Mar. 1938: 9–12. HD7833.A55, v. 28

Discusses several proposals that would increase the Federal subsidies to existing social assistance programs and the other variable grants-in-aid programs that have been advanced.

Committee on Economic Security. Social security in America: the factual background of the Social Security Act as summarized from staff reports to the Committee on Economic Security. Washington, U.S. Govt. Print. Off., 1937. 592 p. (Social Security Board publication no. 20)

Dechamp, Cyrille. The investment of compulsory social insurance funds. International labour review, v. 37, Mar. 1938: 275–300. HD4811.I65, v. 37

Draws attention to the problems that have arisen in the investment of social insurance funds when the funds are invested without considering the justifications for the rules governing the volume of the reserve or the rate at which they are accumulated.

Dewhurst, J. Frederic. Economic implications of the social security program. National municipal review, v. 25, Mar. 1936: 134–137, 145. JS39.N3, v. 25

Sees grave problems involved in the investment and liquidation of sums of money in the reserve fund. The buying and selling of government bonds would mean that the money would eventually work its way into the private capital markets and could adversely affect security prices.

Eliot, Thomas H. Funds for the future. Atlantic monthly, v. 162, Aug. 1938: 225–232. AP2.A8, v. 162

Defends the old-age reserve account as being independent of the government for purposes of balancing the budget and a prudent method of stockpiling for years of lean payroll taxes.

Ellis, George Price. Social security versus Social Security Act. Illinois journal of commerce v. 18. July 1936: 7–8, 27. HF1.I33, v. 18

Explains that the payroll tax must be thought of as a tax and not as a part of the labor cost and it should not be passed on to the consumer, since that would defeat the purpose of the Act. Ellis also totals the cost of welfare during the depression and compares it to what the cost would have been if the Social Security Act had been in effect.

Epstein, Abraham. Our social insecurity act. Harper's magazine, v. 172, Dec. 1935: 55–66. AP2.H3, v. 172

Vigorously opposes the Social Security Act seeing it as the beginning of constant social insecurity and economic and fiscal chaos.

———. Why cheer for social security? Nation's business, v. 26, Dec. 1938: 15–16, 66–69. HF1.N4, v. 26

Surveys the decline in the department store index, the drop in farm prices, the decline in listed bonds and the stock price index during the years social security has been in effect. Epstein concludes that these conditions are closely related to the decrease in purchasing power resulting from regressive taxes.

Escher, G. Edward Jr. An analysis of the long-term consequences of the Social Security Act. Commercial and financial chronicle, v. 145, Dec. 4, 1937: 3556–3558. HG1.C7, v. 145

Contends that the Social Security Act is revolutionary and socialistic and that the whole scheme gives the Federal government a stronger hold over the masses and their votes as the fund grows in size.

Feraud, Lucien. Introduction to the financial problems of social insurance. International labour review, v. 38, July 1938: 1–25. HD4811.I65, v. 38

Describes the characteristics of the fundamental factors in the financial organization of various social insurance programs, contributions, subsidies, benefits, and accumulated funds.

Gilbert, Dan W. The massacre of the middle class. Catholic world, v. 147, June 1938: 340–343. AP2.C3, v. 147

Regards social security matching by employers as the massacre of struggling shopkeepers and enterprisers. States that in an attempt to elevate a submerged laboring class, the socially conscious legislators are submerging the middle class.

Gilchrist, Ralph A. The tax provisions of the Social Security Act. Minnesota law review, v. 22, Feb. 1938: 299–315. LAW

Outlines the requirements and the incidence of the taxes authorized in Titles VII and IX of the Social Security Act.

Goldberg, Louis I. The Federal Social Security Act. Certified public accountant, v. 16, July 1936: 410–420, 433. HF5601.C45, v. 16

Sets forth a pro-con analysis of the act grouping the 11 titles into 3 major divisions: unemployment compensation, Federal old age benefits and grants to states for various social purposes, linking taxes to benefits for purposes of analysis although they are not linked within the act.

Hall, James K. Incidence of Federal social security payroll taxes. Quarterly journal of economics, v. 53, Nov. 1938: 38–63. HB1.Q3, v. 53

Presents and discusses three conflicting views concerning the incidence of the payroll tax: 1) that the incidence of the payroll taxes is on profits; 2) that the incidence of the payroll taxes is on the consumers of goods and services; 3) that the incidence of the taxes is on wage rates. Hall concludes, agreeing with most economists, that the payroll tax falls principally on wages in the long run, but that a minor part will fall on profits.

Hamilton, T. J., Jr. The social security controversy. [Washington] Editorial Research Reports, 1936. 237–253 p. (Editorial Research Reports, 1936, v. 2 no. 13) H35.E35, 1936, no. 13

Points out that the United States is the only country which has proposed to pay old-age and unemployment benefits by building up reserves similar to those maintained by private insurance companies and is the only country that does not make contributions to the benefits.

Harris, Joseph P. Paying for economic and social security. National municipal review, v. 24, Aug. 1935: 430–435. JS39.N3, v. 24

Deplores the necessity of Federal assistance through grants-in-aid to support social security, but maintains that in a short time the program will pay for itself posing no economic burdens on the taxpayer, since the taxes are spread over such a large base.

———. Social security: a symposium of articles reprinted from the National Municipal Review. New York, National Municipal League, c 1936. 100 p. HD7125.N3

Reprints include articles on the economic implications of the act, the administrative problems and Federal-state cooperation under the Social Security Act.

Heer, Clarence. Financing the social security program in the South. Southern economic journal, v. 4, Jan. 1938: 291–302. HC107.A13A67, v. 4

Argues that the Federal Government will have to abandon the matching grants method of financing social security programs if it is to work in the South, because the southern states have a low taxable capacity and a need for the protection offered by social security.

———. Probable effects of the Social Security Act on state and local finances. Taxes, v. 14, Dec. 1936: 712–715, 760–761. HJ2360.T4, v. 14

Tax competition between national and state governments points to the probable jeopardy of state and local functions.

Horack, Frank E. Jr. Federal-state cooperation for social security: the grant-in-aid. Illinois law review, v. 30, Nov. 1935: 292–313. LAW

Outlines the previous uses of the grant-in-aid for accomplishing Federal goals in individual states. Horack devotes most of his paper to a discussion of the major fault in the financing of social security as spelled out by the act: there are no provisions for the Federal Government to exercise expenditure control over the state programs.

Kilgore, Bernard. What price security? Today, v. 5, Apr. 4, 1936: 6–7 APS.T58, v. 5

Criticizes the Social Security Act on two counts: 1) "it tends to retard (if not prevent) economic recovery and thus endangers not only those it is ostensibly designed to protect, but all the rest of the country as well. Second, it promises little practical protection to anyone."

Knappen, Theodore M. Business looks at the pros and cons of "social security." Magazine of Wall Street, v. 55, Feb. 2, 1935: 442–443, 471. HG4501.M3, v. 55

Looks at each of the taxes and agrees that they all have a purpose but when combined they could exert an undue burden on business and may be "so great as to crush the whole social fabric as it exists."

Lindley, Ernest K. Financing social security. Today, v. 3, Feb. 23, 1935: 10, 17. AP2.T58, v. 3

Compares and contrasts the two administration proposals for financing social security: one by the Committee on Economic Security and the other by Secretary of the Treasury, Henry Morgenthau, Jr.

Linton, M. A. The problem of reserves for old age benefits. American labor legislation review, v. 27, Mar. 1937: 23–26. HD7833.A55, v. 27

Presents four points that Linton believes would increase the probability of success for the present contributory program: (1) Continue to reduce the national debt by means of general revenue funds rather than payroll taxes. This would reduce the interest charged against the general revenue funds and that amount should be considered as available for old-age pension purposes. (2) Devote the receipts from old-age taxes almost entirely to paying current benefits, but build up a reasonable contingency reserve. (3) Adopt a pension formula that would increase the scale of pensions paid in the early years of the system and allow future Congresses to determine tax rate in light of existing conditions. (4) Seek to include the coverage of the contributory plan—as full assistance can jeopardize the success of the contributory plan.

———. Insuring the future; the burden of old-age security. Atlantic monthly, v. 162, Oct. 1938: 544–549. AP2.A8, v. 162

Opposes the reserve principle, regarding it as a device for solving the fiscal problems of government, a function not intended by the planners. Linton advocates the current-cost plan of operation for social security saying that if payroll taxes were devoted exclusively to old-age benefits, the benefits could be raised and the taxes lowered.

———. Old age security for everybody. Atlantic monthly, v. 157, Apr. 1936: 488–498. AP2.A8, v. 157

The change in the Social Security Act that theoretically placed the contributory old-age benefit plan on a self-supporting basis "was unsound and it is doubtful if its consequences were appreciated."

———. The problem of reserves and a possible solution. Social security analyst, v. 1, Jan. 1937: 5–6, 21–23. HD7123.S55, v. 1

Proposes a pay-as-you-go method of financing social security instead of the reserve fund currently being used.

Linn, Roy A. Payroll taxes. Tax digest, v. 13, Dec. 1935: 401–403, 417–418. HJ2395.C3, v. 13

Advises that the first year's operation of the payroll taxes is likely to cause much trouble for small employers as these are taxes that are paid regardless of the profit status of the firm.

Lubove, Roy. The struggle for social security, 1900–1935. Cambridge, Mass., Harvard University Press, 1968. 276 p. HD7125.L8

Concludes that the Social Security Act was a turning point in American history. "It marked a decisive transfer of welfare functions from voluntary to public institutions, and from the local to the federal level, thus paving the way for contemporary anti-poverty programs."

The Menace of the social security program. Commercial and financial chronicle, v. 140, Jan. 26, 1935: 522–523, 537. HG1.C7, v. 140

Finds serious objections to President Roosevelt's program of social security particularly in that if it is attained, the political, financial and social risks will be great. Finds that investment in primary obligations of the government may be shaky in view of the depression and with no guarantee that it won't happen again.

Methods of charging social security taxes discussed by controllers. Controller, v. 4, Apr. 1936: 83–88, 99–100. HF5001.F514, v. 4

Describes accounting plans which are being used by many companies—some plan to distribute taxes through payrolls, some will capitalize when applicable to capital projects and many are regarding the social security tax as a general expense.

Mills, Ogden L. The social security hoax. American mercury, v. 42, Dec. 1937: 385–393. AP2.A37, v. 42

Former Secretary of the Treasury charges that the ulterior purpose of the Social Security Act "is the perpetuation of the New Deal Administration through the financing of government deficits with money paid by poor people into a non-existent Reserve Fund." Mills concludes that the administration had a perfectly sincere desire to bring a better life to the people, but the need to extend and perpetuate their power was overriding.

Modlin George M. The old-age reserve account and its economic implications. Law and contemporary problems, v. 3, Apr. 1936: 221–230. LAW

Discusses the legal basis of the reserve account and the need for it since it is estimated that annual disbursements will not equal annual receipts until 1980. Modlin considers four points relevant to the desirability of a reserve fund. It could 1) cause an unfair distribution of the burden between contributory taxpayers, 2) complicate the fiscal policies of the Treasury, 3) create economic maladjustments between saving and spending, and 4) probably lead to political interference with the relationship between contributory taxes and old-age benefits.

Modrall, J. R. Social security taxes. Proceedings of the New Mexico State Bar Association, v. 1938: 75–82. LAW

Discusses each of the separate taxes authorized by the Social Security Act pointing out who bears the responsibility for the tax, who collects the tax and how the tax is disbursed.

Murphy, Hermon K. Social security. Conference Board bulletin, v. 11, Jan. 15, 1937: 1–11. HC106.3.N22, v. 11

Analyzes the Federal system of social security exposing some of its weaknesses: that the monthly benefit payments will not be sufficient to insure security to the aged; that the tax imposed upon employers may produce an unfavorable reaction upon wage and employment conditions; that the Congress has failed to impose any restrictions upon the use of the money collected from the taxes on employers and employees.

Myers, R. J. The effects of the Social Security Act on the life insurance needs of labor. Journal of political economy, v. 45, Oct. 1937: 681–686. HB1.J7, v. 45

Discusses the effects due directly to the Act in its benefit and tax provisions rather than any arising indirectly from an increase in general taxation. Myers concludes that group insurance and social security will adequately take care of the life insurance needs of labor in the future.

National old age security. Tax digest, v. 16, Oct. 1938: 329–331, 348–350. HJ2395.C3, v. 16

Argues that buying primary obligations of the government does not guarantee that the reserve account is solvent—the Treasury will have the ability to issue special Treasury securities to the social security account and therefore the social security funds will have the effect of stimulating unwise expenditures.

Norton, Thomas Lowell. Old age and the Social Security Act of 1935. Buffalo, N.Y., School of Business Administration, University of Buffalo, 1937. 116 p. HD7106.U5N6

Says that if we are to have a contributory plan it should be, like the law, national in scope. Suggests that the U.S. could utilize a cost current plan with a provision for a moderate contingency reserve to take account of those periods in which the tax revenue would decline. The elimination of the huge reserve would then force the Federal Government to openly subsidize the system.

Ochsner, Edward H. Social Security. Racine, Wis., New Era Library, 1935. 231 p. HD7126.032

Bases his analysis of the social insurance programs on the "firm conviction and belief that all the systems are intrinsically bad—only some are worse."

Orfield, Lester B. Taxation under the Federal Social Security Act: constitutional and regulatory aspects. Cornell law quarterly, v. 23, Dec. 1937: 85–112. LAW

Taking each program of the Social Security Act separately, Orfield discusses the constitutional and regulatory aspects of the taxation from the standpoint of an objecting taxpayer or a state.

Perkins, Frances. The way of security. Survey graphic, v. 23, Dec. 1934: 620–622, 629. HV1.S82, v. 23

The chairman of the Committee on Economic Security discusses the directions the studies and thinking of the Committee have gone.

Powell, Thomas Reed. The processing tax and the Social Security Act. Brooklyn law review, v. 5, Jan. 1936: 125–139.

Discusses the constitutionality of imposing a national tax upon the states, thus coercing them into accepting a system of unemployment compensation and workmen's compensation as well as old-age benefits that they have not agreed to.

Pribram, K. The functions of reserves in old-age benefit plans. Quarterly journal of economics, v. 52, Aug. 1938: 615–640. HB1.Q3, v. 52

Discusses the reserves policy from the insurance point of view and the budgetary point of view; presents an argument for the full reserve case and other proposals and the varying effects the payroll taxes have.

Princeton Symposium on the American System of Social Insurance: It's philosophy, impact, and future development. Princeton University, 1967. Edited by William G. Bowen [and others] New York, McGraw-Hill, 1968. 255 p. HD7123.P74, 1967

The papers and discussions give an overview of the social insurance system, examine the role of social insurance in an overall national program for social welfare, analyze the critical aspects of financing the system and survey individual social insurance programs.

Pritchard, R. E. What price social security? Savings bank journal, v. 16, Dec. 1935: 12, 35. HG1881.S23, v. 24

"Because the Social Security Act will tend to raise costs and selling prices to the detriment of our exports abroad, and encourage imports of merchandise which otherwise might be made in this country, it will discourage employment in this country and stimulate it abroad."

Putney, Bryant. Revision of the Social Security Act. [Washington] Editorial Research Reports, 1938: 63–73. (Editorial Research Reports, 1938, v. 2, no. 4) H35.E35, 1938, v. 2, no. 4

In discussing the proposed revisions of the Social Security Act, Putney points out that according to the report of the Twentieth Century Fund the reserve fund is a device to facilitate the financing of benefits solely by taxes on employers and workers without at any time imposing a tax of more than 6%, though this in itself does not justify the non-contributory status of the government.

Rees, H. Maynard. Social security cost about $811,500,000 in 1936, rising to $4,936,000,000. Annalist, v. 46, Dec. 13, 1935: 813–814. HG1.N6, v. 46
Points out the incidence of social security costs will fall heavily against company profits and asks what will be done about it.

Richter, Otto C. Actuarial basis of cost estimates of Federal old-age insurance. Law and contemporary problems, v. 3, Apr. 1936: 212–220. LAW
Chief actuary for A.T.&T. traces the erroneous assumptions and statistics upon which the first social security tax system was constructed.

Robinson, George Buchan. Position of U.S. Treasury the real issue in old age reserve controversy. Annalist, v. 52, Oct. 26, 1938: 566–567. HG1.N6, v. 52
Argues that the taxes should be available to the Treasury to pay its debt, otherwise there is no fund. Robinson takes this tack to insure that when the pensions are due the government will be able to pay them without deficit financing.

Ross, Raleigh E. The Social Security Act and thrift. Bankers monthly, v. 53, Feb. 1936: 85–87, 99. HG1501.R2, v. 53
"The Social Security Act appears to be more threatening to banking than any other recent law, not because it may discourage thrift, but because it indicates the necessity for continuously skyrocketing public debt."

Rubinow, I. M. Social security—1936 model. Survey, v. 72, Feb. 1936: 35–37. HV1.S8, v. 72
Criticizes the social security system as being actuarially unsound and lacking in leadership.

———. The Social Security Act: an appraisal. National municipal journal, v. 25, Mar. 1936: 138–145. JS39.N6, v. 25
States that the "straight-laced" effort to make the system self-supporting and actuarially sound is the result of applying the concepts of private insurance and is altogether unnecessary. He hopes that within a ten year period there will be a drastic cut in the 3% rate of contribution.

Rucher, Allen W. How much will the payroll tax cut your profit margin? Sales management, v. 37, Dec. 1935: 622–623, 656. HF5438.A34, v. 37
"The apparently 'equal' payroll tax will absorb as little as 1% of the gross margin in some companies, and as much as 10% or 12% in others—grave inequalities which will have a direct effect upon competition. This article will tell you just how much you have to increase sales in your firm if you are to maintain the same rate of profit you are getting."

Schottland, Charles I. The social security program in the United States. New York, Appleton-Century-Crofts, c1968. 209 p. HD7125.S35
Presents a brief and simple summary of social security programs in the United States. Within the descriptions of the individual programs, there is a short section devoted to the financing of that specific program.

Schwulst, E. B. Economic problems arising from social security taxes, reserves. Social security analyst, v. 1, Feb. 1937: 53–54, 62–64, 92. HD7123.S55, v. 1
Discusses the effects of the social security trust fund investments on money and investment markets analyzing the impact from the varying points of commercial bank deposits, government bonds, and the Treasury.

Scrivner, Evrett. Social security. Journal of the Bar Association of the State of Kansas, v. 6, Aug. 1937: 23–31. LAW
Outlines the social security legislation in considerable detail. Scrivner devotes an extensive section to the effects of the social security financing system upon employers who are liable under the law.

Secretary Morgenthau's recommendations regarding changes in the social security bill. Commercial and financial chronicle, v. 140, Feb. 16, 1935: 1076–1077 HG1.C7, v. 140
Summarizes Secretary Morganthau's recommendations—the principle one being the suggestion that the payroll taxes be sharply increased to prevent huge future Federal contributions.

Seidman, M. L. The Social Security Act: its burdens, implications and complications. Financial age, v. 72, Oct. 19, 1935: 250. HG1.F4, v. 72
Argues that industry's share of the payroll tax will be passed on to consumers in the form of higher prices, and since all industries from raw materials to finished products will pass the tax on, there will be a pyramiding effect. Seidman fears that the removal of so much money from the economy into sterile reserves will have a severe effect on the economy.

Selekman, B. M. The Social Security Act. Harvard business review, v. 15, winter 1937: 174–188. HF5001.H3, v. 15

Presents a strong case for the Social Security Act calling it the "most comprehensive program of social insurance and welfare aid ever enacted at one stroke by any democratic nation." Selekman does argue, however, that a portion of the costs should be paid for from the general tax funds as the present method cannot be considered to project a satisfactory distribution of costs.

Shipman, George A. and Harold J. Saum. Federal grants and the problem of financing public assistance. Law and contemporary problems, v. 3, Apr. 1936: 289–297. LAW

Considers the matching grant program of the Social Security Act from the viewpoint of a bankrupt state that cannot supply funds since its scarce wealth is already taxed to the limitation point.

Showing up social security. New republic, v. 97, Dec. 28, 1938: 217–218. AP2.N624, v. 97

Discusses the social security system as it exists and then presents a plan for changing the financing. Recommends that the financing be taken care of entirely by the government except for such individual contributions by the participants as would be necessary to maintain a sense of personal responsibility. The government could then use the taxation as a method of monetary control rather than trying to imitate private insurance companies.

Social security acts declared constitutional. Monthly labor review, v. 45, July 1937: 179–187. HD8051.A78, v. 45

Presents excerpts from the opinions of the Supreme Court justices in upholding the constitutionality of social security.

Some problems of social security. Tax digest, v. 14, Dec. 1936: 406–407, 419–420. HJ2395.C3, v. 14

Claims the practice of collecting for a reserve is altogether "misleading and insidiously vicious" as well as financially illiterate in public administration.

The Social security decisions. Commercial and financial chronicle, v. 144, May 29, 1937: 3564–3565. HG1.C7, v. 144

Editorial charges that the Supreme Court has surrendered to so much of the New Deal philosophy by its extraordinary latitude in interpreting the Constitution that it has opened the way to further invasions of State authority in taxation and other matters by the Federal Government.

Text of 7 to 2 decision of United States Supreme Court upholding validity of old-age pension provision of Federal Social Security Act—majority opinion written by Justice Cardozo. Commercial and financial chronicle, v. 144, May 29, 1937: 3575–3576. HG1.C7, v. 144

Thurston, Elliott L. The forgotten man in the white collar. Today, v. 3, Feb. 2, 1935: 11, 17. AP2.T58, v. 3

Recommends the social security program saying that it "represents as much as practical experience and the best economic and actuarial judgement deem possible in the immediate future, after taking into consideration the vast and complex economic and social problems involved."

Todd, Edwin S. Federal and state social security acts. Tax digest, v. 16, Feb. 1938: 41–43, 58–59. HJ2395.C3, v. 16

States that there really is not a huge reserve in social security funds—they are being "invested" in every day expenditures and only the Treasury I-O-U's show any investing.

———. Old age security. Tax digest, v. 13, June 1935: 185–187, 210–213. HJ2395.C3, v. 13

Concludes that it is absurd to rely on an old age pension to bring about a restoration of industrial prosperity; that it is unwise and unjust to place upon industry the burden of general old-age relief, and that it would be economic and financial suicide for the state to assume such a burden, so that those who will be the beneficiaries of such a pension plan should also be the incidence of the tax.

Turner, Jennie McMullin. Old age pensions: direct, national, equal, universal. American federationist, v. 42, Jan. 1935: 16–24. HD8055.A5A2, v. 42

Advocates an old age pension which is national in scope, equal and is based on direct taxation. Turner also suggests that if the Supreme Court rejects social security as unconstitutional, Congress should enlarge the Court, ratify justices who support social security and not be servant to the Court.

Tutt, Ernest L. Social security. National auditgram, v. 12, Mar. 1937: 4–5, 16. HG1501.A87, v. 12
Explains the three types of social security taxes authorized by the Act, using the justification that society has always paid for social security by general taxation in contrast to a "self-sustaining" economic security program.

Twentieth Century Fund. Committee on Old Age Security. More security for old age. New York, Twentieth Century Fund, 1937. 191 p. HD7105.T83
In the section on payroll taxes, the Committee recommends that the United States follow the precedent established by European countries in financing a substantial portion of old age pensions from general revenues. The Committee also recommends that the contributory old age pension system be financed on a cost-current rather than a full reserve basis.

U.S. Supreme Court. Arguments in the cases arising under the Social Security Act and the Alabama Unemployment Compensation Law, Apr. 7–9, 1937. Washington, U.S. Govt. Print. Off., 1937. 113 p. (75th Congress, 1st sesion. Senate. Document no. 53)

———. The constitutionality of the Social Security Act. Washington, U.S. Govt. Print. Off., 1937. 54 p. (75th Congress, 1st session. Senate. Document no. 74)
"Opinions of the Supreme Court in the cases involving the constitutionality of the Social Security Act: Charles C. Steward Machine Company v. Harwell B. Davis, individually and as Collector of Internal Revenue for the District of Alabama, May 26, 1937."

Wagner, Robert F., and Daniel O. Hastings. Is the Administration's program from old-age pension sound? Congressional digest, v. 14, Mar. 1935: 80–91. JK1.C65, v. 14
Pro-con discussion with Wagner favoring the Administration because "through a maldistribution of the capacity for self protection the American population cannot provide for its old age through savings and the national compulsory insurance would then do so." Senator Hastings points out the inadequacies and discriminations in the plan and prophesies that the taxpayers will revolt against it.

Warning against weakening of national life through too much dependence on Federal Government. Commercial and financial chronicle, v. 142, May 16, 1936: 3278. HC1.C7, v. 142
Warns that the inherent danger in the social security plan is not that the huge reserve will actually be created, but that the excess of income over outgo will lead either to a dangerous liberalization of the benefits or to a program of unsound government spending.

Watt, Robert J. Social security and the workers in the United States. International labour review, v. 37, June 1938: 715–728. HD4811.I65, v. 37
Provides a simple, non-technical account of the social security program and its application to date and expresses the considered opinion of organized labour on the legislation and its future development.

White, Clyde R. The functions of social insurance in relation to economic security. Social forces, v. 14, Mar. 1936: 326–335. HN51.85, v. 14
States that effects of social insurance reserves on general economic conditions would 1) "spread purchasing power which would tend to stabilize the market for consumers' goods 2) stabilize the worker's standard of living 3) the central reserve fund could be used by the Government as an aid in the control of credit 4) tend to keep employment at a higher level and 5) the reserves could be used to stimulate an important but lagging industry."

Willcox, Alanson W. Basic policies under Social Security Act; argument against system analyzed. Analyst, v. 52, Aug. 31, 1938: 300–301. HG1.N6, v. 52
Discusses some of the changes in the Social Security Act that could be made by Congress and the effects those changes would have on the reserve account mechanism.

———. The old-age reserve account—a problem in government finance. Quarterly journal of economics, v. 51, May 1937: 444–468. HG1.Q3, v. 51
Outlines some of the underlying problems involved in financing any system of old-age pensions, indicates the more important choices that were open to the framers of this portion of the Social Security Act, and the decisions which they made, and describes the machinery that was set up to give expression to those decisions. Wilcox also tries to dispel "some of the misunderstandings and answer some of the criticisms which only becloud the really serious issues involved" in social security financing. Willcox concludes by strongly advocating a "high-reserve" policy which is also recommended by the Treasury.

———. Social security taxation, annual appropriations and anticipation tax receipts. Annalist, v. 52, Aug. 24, 1968: 270–271. HG1.N6, v. 52
Compares the government's borrowing from the reserve account with its borrowing from private sources and concludes that the American taxpayers are much better off if the money is borrowed from the reserve account, as the interest will accrue to the account and may have an effect on the interest rate charged.

———. Why the old-age reserve account is indispensable apart from tax problems. Annalist, v. 52, Aug. 17, 1938: 237, 262. HG1.N6, v. 52
Willcox, the assistant General Counsel of the Social Security Board, defends the reserve account and says that the attacks against it are "utterly without foundation" and that the reserve account has no inflationary or deflationary tendency whatsoever. The attacks come about because of misconceptions regarding the operation and purpose of the account.

Witte, Edwin E. Are old age pensions worth their cost? American labor legislation review, v. 26, Mar. 1936: 7–14. HD7833.A55, v. 26
Witte says the pensions are worth their cost. He answers criticisms of the financial mechanism by saying that if the cost or the method of financing should become overly distasteful to Congress, they can change the law.

———. The development of the Social Security Act. Madison, University of Wisconsin Press, 1962. 220 p. LAW
Provides a general history of the Committee on Economic Security and their task that led to the Social Security Act. Witte's account is particularly interesting because he provides insights into the thinking, discussion and deliberations concerning the operation of a social security system.

———. The essentials of unemployment compensation. National municipal review, v. 25, Mar. 1936: 157–163. JS39.N3, v. 25
Discusses the three sources of financing unemployment compensation: employers, employees, and the government.

———. In defense of the Federal old age benefit plan. American labor legislation review, v. 27, Mar. 1937: 27–33. HD7833.A55, v. 27
Answers charges against the social security system. When replying to an attack on the reserve system, Witte says that "attacks upon the possible 47 billion dollar reserve in 1980 will not lead to tax reductions but to benefit increases and benefit increases can only result in increased taxes ere long."

———. Old age security in the Social Security Act. Journal of political economy, v. 45, Feb. 1937: 1–44. HB1.J7, v. 45
Analyzes several of the often voiced attacks on the social security system including its financing. Witte explains that the reserve plan is not fixed by law and can be easily changed to a pay-as-you-go plan if that is deemed more appropriate.

Wyatt, Richard E. What of social security's millions? Nation's business, v. 26, Feb. 1938: 21, 94, 96–97, 98. HF1.N4, v. 26
Explains actuarial reserves operations in general and then in the specific case of social security. Wyatt presents many of the arguments against social security trust funds including potential government extravagance, debt expansion, and economic dislocations in a deflationary period.

Youngquist, G. Aaron. The Social Security Act and its tax problem. Commercial law journal, v. 40, Nov. 1935: 616–621. LAW
Address outlines old-age assistance, old-age benefits and unemployment compensation and the relation and functions of the Federal and state governments with respect to each. Youngquist estimates how many people can be enrolled immediately and how much this program would cost. He does not comment on the constitutionality of the Social Security Act.

Amendments of 1939

Congressional documents

U.S. Congress. House. Committee on Ways and Means. Social security. Hearings, 76th Congress, 1st session relative to the Social Security Act amendments of 1939. Washington, U.S. Govt. Print. Off., 1939. 3 v.
Hearings held Feb. 1–4, 6–8, 10, 13, 15–17, 20–22, 1939.

———. Social Security Act amendments of 1939; report to accompany H.R. 6635. Washington, U.S. Govt. Print. Off., 1939. 121 p. (76th Congress, 1st session. House. Report no. 728)

U.S. Congress. Senate. Committee on Finance. Social Security Act amendments. Hearings, 76th Congress, 1st session on H.R. 6635. Washington, U.S. Govt. Print. Off., 1939. 554 p.
Hearings held June 12–15, 1939.

———. Report to accompany H.R. 6635. Washington, U.S. Govt. Print. Off, 1939. 93 p. (76th Congress, 1st session. Senate. Report no. 734)

U.S. Congress. Conference Committees, 1939. Social Security Act amendments of 1939; conference report. Washington, U.S. Govt. Print. Off., 1939. 21 p. 76th Congress, 1st session. House. Report no. 1461)

Journals and monographs

A $300.000,000 reprieve. Business week, Apr. 1, 1939: 48. HF5001.B89
Strongly advocates a pay-as-you-go program in their editorial on social security. Believes it to be a more responsible, and financially sound method of providing old-age pensions.

Actuarial factors in old-age and survivors insurance. Social security bulletin, v. 7, Apr. 1944: 10–15. HD7123.S56, v. 7
Recognizes certain basic cost factors which must be considered when analyzing the costs of the old-age and survivors insurance program. These factors include: population, mortality, family composition, credited employment, employment of covered survivors, and trends in employment.

Altmeyer, A. J. Should the present Federal social security policy be continued and expanded? Congressional digest, v. 18, May 1939: 147–149. JK1.C65, v. 18
Comments on the effects social security taxes will have on employment in industry saying "the total taxes collected under the Act represent a relatively small proportion of costs of production and of the national income, and the effects of these taxes are likely to be diffused in the multiplicity of forces which operate to determine prevailing economic circumstances."

Altmeyer, Arthur J. Ten years of social security. Survey graphic, v. 34, Sept. 1945: 368–371, 383–384. HV1.S82, v. 34
Presents a close up of the philosophy and practice of social security and answers several basic questions concerning the financing of social security: is it a definite goal of a social security system to redistribute wealth? Should the contributions take the form of incentive taxation? Should the taxes be employed for anything besides social security funds?

Babson, Roger W. Should the present Federal social security policy be continued and expanded? Congressional digest, v. 18, May 1939: 156–157. JK1.C65, v. 18
Warns against the dangers of too heavy Federal appropriations for social security, quoting that one cannot have complete security without completely losing liberty.

Balke, E. Wight. America and the Beveridge plan. Yale review, N.S. 33, June 1944: 642–657. AP2.Y2, n.s. 33
Analyzes the Beveridge plan of social security for Great Britain pointing out its advantages over the American plan. The Beveridge plan considers all the social costs of a social insurance program or the lack of one. American planners tend to consider only the monetary costs to the workers, employers, and the government.

Bigge, George E. The expansion of social security: important influence on war and peace. Vital speeches of the day, v. 10, Nov. 1, 1943: 58–60. PN6121.V52, v. 10
Proposes that social security benefits be expanded to include unemployment, old age, temporary disability, permanent disability, or death, and added funds to cover the costs of medical and dental care, suggesting that they be paid for by a 6% tax on workers and a 6% tax on employers, when the present rate was 4% on employers and 1% on workers.

Broadening of social security looms as issue for Congress. Newsweek, v. 24, Oct. 16, 1944: 64, 67. AP2.N6772, v. 24
Discusses the effects on the reserve fund if social security is overhauled and 20 million more workers become eligible for pensions. Because of a previous amendment, the program has been removed farther from an actuarial basis and contributions from the Federal Government may be necessary to pay the benefits of the new recipients.

Brown, J. Douglas. Should the present Federal social security policy be continued and expanded? Congressional digest, v. 18, May 1939: 151–153. JK1.C65, v. 18
Insists that contributory social insurance is definitely along the lines of preserving incentive and independence and is highly preferable to a system that requires dependency upon the state.

Burns, Eveline M. The place of social security in postwar planning. Special libraries, v. 34, July-Aug. 1943: 218-224, 348. Z671.S72, v. 34

Discusses a more comprehensive social security plan as part of the National Resources Planning Board's 6 point program for postwar economic security.

———. Social insurance in evaluation. American economic review, v. 34, Mar. 1944 (suppl.): 199-211. HB1.E26, v. 34

Distinguishes three stages in the development of social insurance describing characteristics of each—the amount of benefits, the coverage of benefits and the financing and its effects on the economy in each of the three stages.

———. Social security planning in the United States. Agenda, v. 2, Nov. 1943: 301-312. D825.A35, v. 2

Discusses the various reports, the method of analysis used, the manner in which it was presented and received by the public.

Cadman, Paul F. From the cradle to the grave. Banking, v. 35, Feb. 1943: 28-29, 32. HG1501.B6, v. 35

Analyzes the American Beveridge Plan and urges readers to reject social security as it will invoke class conflict, is financially insolvent, and concentrates too much power in too few hands.

Clark, Harrison, and Robert A. Winters. The incidence of payroll taxes: comment. Quarterly journal of economics, v. 54, Nov. 1939: 161-164. HB1.Q3, v. 54

Calls attention to various statistical inaccuracies in the article by James K. Hall cited in this bibliography. Clark and Winters think Hall drew unwarranted decisions from the data he gathered.

Clarke, Helen I. General welfare and social security legislation. Sociology and social research, v. 29, Jan.-Feb. 1945: 171-179. HM1.S75, v. 29

Describes four developments in the area of public welfare and social security: 1) improvement of public assistance standards; 2) expansion of government services, and increased Federal-state relationships; 3) expansion of the social insurances; and 4) utilization of social planning methods.

Cohen, Wilbur J. The development of social security in the United States. Social education, v. 5, Nov. 1941: 489-494. H62.A1S6, v. 5

Traces the necessity for and the method of development of the social security system citing its parallel in foreign social security systems.

Compton, Ralph Theodore. The social security payroll taxes. New York, Commerce Clearinghouse, c1940. 446 p. HD7124.C67

Offers an explanatory and descriptive analysis of the fundamental principles and application of federal and state social security laws from the taxpaying standpoint.

Corson, John J. Advances in old age security. Survey midmonthly, v. 75, Sept. 1939: 267-269. HV1.S8, v. 75

Reviews the changes made by the 1939 amendments noting that according to the chairman of the Ways and Means Committee, "If the original actuarial assumptions of 1935 prove to be correct, it is possible that benefits for all time can come to be financed from the present schedule of taxes and the interest on the fund."

———. "Building security through social insurance." National auditgram, v. 16, Feb. 1940: 15-18, 32. HG1501.A87, v. 12

States that the 1939 amendments broadened and strengthened the social security program while retaining the essential relationship between tax collections and benefit payments.

———. More secure security. Survey graphic, v. 34, June 1945: 277-279, 299-300. HV1.S82, v. 34

Discusses the Wagner-Murray-Dingell bill and its financing pointing out that employer groups will oppose additional taxes levied, the centralization of administrative authority and employer merit rating.

Davis, Shelby Cullom. The cost of old age security. Events, v. 5, May 1939: 372-377. D410.E845, v. 5

Ponders how the social security program will affect the economic conditions of the country. Poses and answers the following questions: Will the taxes be raised according to schedule? Will this increase be passed on to consumers? Will the government begin to dominate the capital markets since they will be the largest buyers of government securities?

Downing, Francis. Security and incentive: a survey of Beveridge and our own Beveridge. Commonweal, v. 38, Aug. 27, 1943: 461-465. AP2.C6897, v. 38

Discusses the report of the National Resources Planning Board and the Wagner bill and their provisions for social security. Downing finds fault with the government for not offering to pay part of the financing but allowing the employers and employees to each pay 6% under the proposed Wagner bill.

Dulles, Eleanor Lansing. Financing old-age insurance. In Appraising the social security program. Philadelphia, American Academy of Political and Social Science, 1939. (Annals, v. 202, Mar. 1939) p. 176–183. H1.A4, v. 202

Carefully and extensively appraises 3 different concepts of what the old age account is: 1) that the reserve account is the residual sum resulting from the accumulation of tax receipts under Title VIII, less current benefit payments; 2) that the reserve is essentially a fund of real assets which forms the sole or main support of a beneficial structure; 3) that the essential function of the old-age reserve account is to make plain on the balance sheet of the Treasury the assets and liabilities incurred under the act and accepted by Congress.

———. Financing old-age insurance. Social security bulletin, v. 2, Apr. 1939: 19–23. HD7123.S56, v. 2

Outlines the changes that a shift to a small contingency reserve would make in the financing process.

Effect of Social Security Act on company pensions. Monthly labor review, v. 50. Mar. 1940: 642–647. HD8051.A78, v. 50

Survey results show that industrial pension plans have not been discontinued to any great extent because of the Social Security Act. Numerous plans have been adopted since that date, but many of the earlier plans intend to adapt themselves to the provisions of the Federal act.

The Effect of the war on Old-age and Survivors' Insurance in the United States. International labour review, v. 52, Dec. 1945: 701–704. HD4811.I65, v. 52

"The effect of the policy now being pursued with respect to contribution rates is to increase the likelihood that a direct government subsidy from general revenues will be required to meet the benefits of the system."

Epstein, Abraham. Away from social insecurity. New republic, v. 97, Jan. 4, 1939: 250–253. AP2.N624, v. 97

Calls for an overhaul of the social security system. Epstein advocates a pay-as-you-go program with small contingency reserves, no increase in the tax rate until further funds are necessary and the ultimate total contribution from workers and employers should not be allowed to exceed 4%.

———. Government responsibility for economic security. In Government expansion in the economic sphere. Philadelphia, American Academy of Political and Social Science, 1939. (Annals, v. 202, Mar. 1939) p. 81–85. H1.A4, v. 206

States that the government has the inherent responsibility for the security of its people, and that under the Social Security Act the government does not fulfill its responsibility. The U.S. social security program does not increase the purchasing power of the wage earners, it merely "distributes the poverty" over a greater number of people.

———. Social security—where are we now? Harper's v. 181, June 1940: 32–39. AP2.H3, v. 181

Argues that the basis of taxation must be altered before the system can be regarded as fully wise and constructive. Epstein suggests that when devising a system which aims to underpin mass purchasing power, one cannot achieve success if the tax is confined to the mass itself. Such a system only distributes poverty among the poor. Funds are required from a third party—the better to do and indirect beneficiaries of the whole economic system.

Federal old-age and survivors insurance: a summary of the 1939 amendments. Social security bulletin, v. 2, Dec. 1939: 3–16. HD7123.S56, v. 2

"The effect of these amendments is to shift the emphasis of the system from the protection of the worker to the protection of the family and to make changes in the financial framework of the system and in the taxing provisions of the legislation."

Flynn, John T. Should the present Federal social security policy be continued and expanded? Congressional digest, v. 18, May 1939: 154–156. JK1.C65, v. 18

Argues against the maintenance of a large "social security reserve fund on the grounds that it is unnecessary and will be used to defray ordinary government expenses and not for the payment of unemployment and old-age benefits."

———. The social security "reserve" swindle. Harper's, v. 178, Feb. 1939: 238–248. AP2.H3, v. 178

Presents the argument that the old-age reserve account is a fiction, and that the social security premiums are being used to pay ordinary government expenses and are not being held in trust for benefits. Flynn strongly urges an end to the social security program.

Folsom, Marion B. Coordination of pension plans with social security provisions. Personnel, v. 16, Nov. 1939: 41–50. HF5549.A2P38, v. 16
Describes methods of coordinating private plans with social security provisions and evaluates the types of plans being adopted.

Fowler, C. B., *and* S. Cohen. The old age insurance "reserve" controversy. American federationist, v. 46, July 1939: 695–707. HF8055.A5A2, v. 46
Concludes that the argument is not really between those advocating a reserve account and a pay-as-you-go plan but whether the payroll taxes should be reduced now, or whether they should be kept at the same level until there are more statistics and the program can be expanded and judged under more stable conditions.

Frankel, Lee K., Jr. The twilight of industrial life insurance. Survey midmonthly, v. 74, June 1938: 204–205. HV1.S8, v. 74
Discusses the implications for industrial insurance from an effective social security program. Expects that sales of industrial insurance will decline as workers build up a governmental equity equal to the protection afforded by an industrial policy.

Gelles, Manuel. Financing social security. Political science quarterly, v. 60, June 1945: 222–240. H1.P8, v. 60
Advocates a current cost approach to financing social security, similar to the method currently used. The approach recognizes the realities of social security and is able to present to the public the scheme's financial picture in its true economic setting. Gelles discusses the advantages and disadvantages of the cost-current system and the accumulated deferred benefits plan.

Grant, Margaret. Old-age security; social and financial trends. Washington, Committee on Social Security, Social Science Research Council, 1939. 261 p. HD7106.U5G7 1939
Presents a major study of the social security system of various countries relating them to the U.S. system. Grant discusses the various methods of reserves and cost-current financing and their effectiveness related to the method of tax collection or government contribution.

Haensel, Paul. A social security tax? or insurance? Taxes, v. 18, June 1940: 351–355, 394. HJ2360.T3, v. 18
Argues that a pay-as-you-go system of social security should be the aim of the Board and that investments should be made in other securities besides government obligations.

Haney, Lewis H. Haney discusses old age tax. Commercial and financial chronicle, v. 160, Nov. 23, 1944: 2258. HG1.C7, v. 160
Haney opposes raising the social security tax since "the tax is unfair, the reserves exist only on paper and since it is being misused to fight inflation."

Harris, Seymour Edwin. Economics of social security. New York, McGraw-Hill, 1941. 455 p. HJ257.H33
Study is concerned with the significance of the social security program for the volume and fluctuations of output and employment. Effects on money and finance are of importance primarily in so far as they influence these variables.

Hirschfeld, Gerhard. Determining the actual cost of social security. Savings bank journal, v. 24, Jan. 1944: 18–19, 32, 34. HG1881.S23, v. 24
"* * * to judge the full cost * * * it is necessary to analyze all the factors * * * the cost in money as well as the cost in incentive * * * the cost to the worker and the salaried man; the cost to the investor and to the employer; the cost to the taxpayer and the pensioned widow, and the cost to the nation."

———. Personal security: the role of government and private financial planning. Trusts and estates, v. 78, June 1944: 511–515. HG4341.T8, v. 78
Argues that government should not have a role in personal security but that private industries should be allowed to pay their workers sufficiently that labor will be able to plan and provide for old age without any influence by government.

———. What is this "Social Security"? Trusts and estates, v. 76, May 1943: 409–415. HG4341.T8, v. 76
"Sets forth basic distinctions between insurable risks and temporary or permanent public aid, and sets the stage for the important decision as to the respective roles of government and private economy."

Hohaus, Reinhard A. Actuarial problems in social insurance. Journal of the American Statistical Association, v. 35, Mar. 1940: 37–46. HA1.A6, v. 35
Indicates the kinds of statistical data that is needed to accurately forecast the "expenditures" under the social insurance programs. Concludes that be-

cause of the large number of unknowns such predictions cannot be made accurately.

How the Beveridge plan compares with social security in the U.S. U.S. news & world report, v. 14, Jan. 1, 1943: 18–19. JK1.U65, v. 14

Compares the benefits and costs under each section of both programs determining that the U.S. plan equals 3–5% of national income as compared with 10–12% for Britain.

How security is "security"? Saturday evening post, v. 215, Jan. 9, 1943: 84. AP2.S2, v. 215

States that most people would find social security more palatable if they were assured the free enterprise system would prevail. Suggests that social security "is only a slice of today's surplus for tomorrow's deficit."

Johnston, Eric Allen. Social security: business must take lead in providing sound program. Vital speeches of the day, v. 10, Oct. 1, 1944: 764–768 PN6121.V52, v. 10

President of the U.S. Chamber of Commerce advocates a social security program administered by business that makes social security an incentive and not a dole. Briefly outlines the disadvantages of having social security paid for by the government and of paying for it through the payroll tax.

Kahn, Dorothy C. Function of government in relation to economic security. American labor legislation review, v. 32, Sept. 1942: 120–127. HD7833.A55, v. 32

Discusses the need for social security as a part of a total economic security program and affirms the use of federal tax monies to support such a program.

Klein, Lawrence R. The cost of a "Beveridge Plan" in the United States. Quarterly journal of economics, v. 58, May 1944: 423–437. HB.Q3, v. 58

Using cost of living studies, Klein analyzes the American Beveridge Plan which is the Report of the National Resources Planning Board. Klein provides tables of comparison—though other proposals like the Wagner bill do not really accommodate themselves to comparison because of the lack of cost data.

Layne, Donn. Eight years of social security. Nation's business, v. 32, Mar. 1944: 95–96, 98. HF1.N4, v. 32

Reviews the status of the U.S. social security program concluding that if social security plans are to succeed, they must be financed on an equal basis by both employer and employee and administered largely at a local level. Any other method of financing or administration would lead to indifference as to the costs or the problems of administration.

Lebrun, Harvey. The social security tax freeze. Commonweal, v. 41, Jan. 5, 1945: 301–303. AP2.C6897, v. 41

In describing the social security program, Lebrun says that payroll taxes are contributions and even though they fall harder on little than on big business and on low-paid than high-paid workers, they are no more unfair than the fact that a loaf of bread will cost everyone the same amount.

Leet, Glen. Congress revamps social security. State government, v. 12, July 1939: 121–122. JK2403.S7, v. 12

Presents a description and discussion of the proposals of the House Ways and Means Committee and of the bills put forward by members of the Senate.

Linton, Albert. Social security—public and private. Trusts and estates, v. 78, Jan. 1944: 21–22. HG4341.T8, v. 78

Says that evidence indicates that the payroll tax rate should be kept low for several years, rising as benefits increase and the need for contingency reserves grows. It is expected that the government should make appropriations to the system out of general revenues when the benefit payment exceeds tax receipts.

———. Security through individual enterprise: the proper role of social insurance. Annalist, v. 54, Dec. 28, 1939: 825–826, 855. HG1.N6, v. 54

Linton says the proper role of social insurance is to provide merely a basic minimum of protection and not to remove the need for individual initiative. The payroll tax on anything more than minimum benefits would impose an intolerable payroll tax.

Linton, M. Albert. Social security—today and tomorrow. Special libraries, v. 35, July–Aug. 1944: 256–264. Z671.S72, v. 35

Advocates that Congress adopt a pay-as-you-go contingency reserve financing plan similar to the one adopted in 1939. Linton says that the argument that payroll taxes should now be increased in order to combat inflation and to finance the war is unsound.

———. Some aspects of the reserve program. *In* Appraising the social security program. Philadelphia, American Academy of Political and Social Science, 1939. (Annals, v. 202, Mar. 1939) p. 184–189. H1.A4, v. 202
Discusses the contributory financing system and its attempt to be self-supporting. Linton states that the "present set-up relies so much upon the concepts of private life insurance that it is found wanting when judged by social insurance standards."

Linton opposes increase in social security taxes. Insurance field (Life ed.) v. 73, Dec. 1, 1944: 3–4, 18–19. HG8011.I46, v. 73
Opposes increasing the payroll tax saying the 2% deduction is ample. Linton says the fund should not be used as an anti-inflationary device because an unjustified tax would place unnecessary burdens on small businessmen and white collar workers.

McGrath, J. Howard. An adequate social security program. State governmuent, v. 18, Aug. 1945: 132–133, 136–140. JK2403.S7, v. 18
Governor of Rhode Island suggests that the Social Security Act be modified to put the unemployment compensation program on a federal-state grant-in-aid basis similar to the public assistance programs. Such a program would provide more equitable benefits and would prevent interstate competition that the present system does not curtail.

McNutt, Paul V. Social security bogeymen. Virginia quarterly review, v. 16, Sept. 1940: 230–240. AP2.V76, v. 16
Describes the social security tax as one which is not progressive with income because the poor people spend more on consumption goods than do the rich and therefore the social security system does not make the rich pay for the poor.

MacNeill, Earl S. Trends in the pension field: legal, functional and economic developments. Trusts and estates, v. 80, Jan. 1945: 65–68. HG4341.T8, v. 80
Finds that the increasing number of non-contributory plans which are favored by employees may have a significant effect on social security.

Make social security secure. Colliers', v. 103, Mar. 25, 1939: 78. AP2.C65, v. 103
Urges Congress to take the existing "swindles" out of social security. States that the system is a swindle because the reserves are not composed of the tax monies collected through the payroll tax, but rather are the government's IOU's for the tax collections that have been spent.

Manning, Raymond E. Financing social security. Library of Congress, Legislative Reference Service. Washington, 1946. 118 p. (Public affairs bulletins no. 46) JK1108.A35, no. 46
Reviews the arguments for and against the payroll tax, reserves versus pay-as-you-go, financing entirely from general funds, etc. Alternative tax methods such as the transactions tax, the income tax, a tax on machinery, a tax on value added, and non-labor markup are also reviewed.

Moley, Raymond. Social insecurity. Newsweek, v. 8, Oct. 20, 1941: 80. AP2.N6772, v. 18
Opposes social security as constituted. Moley states that since the tax falls so heavily upon a business' costs, not its profits, that it runs the risk of increasing unemployment.

Moves in Congress to avert new freeze of pay-roll tax. U.S. news & world report, v. 17, Nov. 24, 1944: 53–54. JK1.U65, v. 17
Discusses the argument from both sides—those who favor freezing the tax because of an expected overhaul of social security and those who favor higher taxes to increase the reserve fund.

Murray, James E. Paying our way; the role of social security in the future of America. Commonweal, v. 44, June 7, 1946: 182–185. AP2.C6897, v. 44
Views social security benefits as transfer payments that are used for current maintenance by many families and thus are immediate cause of consumer demand.

Mushkin, S. J., and Anne de Scitovsky. A formula for social security financing. American economic review, v. 35, Sept. 1945: 646–652. HB1.E26, v. 35
Presents a formula that seeks to retain all the advantages of a contributory program. Proposes to finance social security in such a way that during times of full employment the combined effect of payroll taxes and benefits would be neutral when looking at consumption. At levels below full employment, the same tax rate and the augmented benefits disbursements would have a stim-

ulating effect on consumer demand, helping to push the economy back to full employment.

Parker, J. S. The true meaning of "pay-as-you-go" in financing old age retirement. Social service review, v. 16, Mar. 1942: 75–85. HV1.S6, v. 16

Thoroughly discusses pay-as-you-go financing and says that in avoiding the assumed danger of permitting the government to borrow insurance tax revenues for general federal expenditures, they may have created a greater one of unfunded and recognized debts for old age insurance benefits.

———. Social security reserves. Washington, American Council on Public Affairs, c1942. 300 p. HD7106.U5P3

Clarifies how the old-age reserve account was intended to work under the 1935 act, appraises the meaning of pay-as-you-go financing and compares it with reserve financing. Parker then devotes much attention to the interrelationships between federal finances and the old-age account, the effect of a reserve upon the formation of private capital, commercial life insurance companies and the workability of such a large sum of money in reserve.

Pauley, C. O. The multiple costs of social security. Massachusetts law quarterly, v. 28, Dec. 1943: 89–95. LAW

President of the Insurance Economics Society of America opposes social security because it is not clearly delineated how much it will cost in dollars, because it is too great a social cost, and because the government is meddling in an area where private enterprise can suffice. Devotes most of the article to the economic costs of social security.

Proposed changes in the Social Security Act. Scholastic, v. 34, May 13, 1939: 20S–21S. AP2.S295, v. 34

Proposes a scaled down tax schedule to allow business to revive and will also help eliminate the hugh reserve fund.

Public should know cost in work-hours of unsound SS plan. National underwriter, v. 48, Mar. 2, 1944: 23. HG8011.N35, v. 48

M. A. Linton, President of Provident Mutual Life, says that when social security really gets going the cost might be 18%–20% of payrolls or about seven hours out of every week and the American public must decide whether they want to spend that much money on social security.

Robinson, George Buchan. Basic error in considering the Social Security Act apart from fiscal results. Annalist, v. 53, Feb. 15, 1939: 263. HG1.N6, v. 53

States that the payroll taxes have not made any reduction in the outstanding public debt as was expected by Secretary Morgenthau, but rather the reserve account is full of special obligations which further increased deficit financing.

———. The old-age reserve: the Treasury as underwriter; its undisclosed liability. Annalist, v. 53, Feb. 8, 1939: 228–229, 254. HG1.N6, v. 53

Notes that part of the confusion regarding the reserve account develops because there are those who regard it as a collection of assets and those who speak of it as a liability. Robinson then discusses the role of the Treasury in receiving and disbursing pension funds without the statutory directive to do so.

———. Charlie and the banker. Annalist, v. 55, June 13, 1940: 819–820, June 27: 885. HG1.N6, v. 55

"These articles criticize the Social Security Act Amendments of 1939, partly because the condition of the United States Treasury as insurer is declared to be not sufficiently favorable to undertake the old age insurance program on a small reserve basis."

———. Old-age reserve fund is not "illusory". Quarterly journal of economics, v. 60, Nov. 1945: 136–153. HB1.Q3, v. 60

Presents a response to the study of the Tax Foundation, New York. Finds that the reserve does exist. The fact that it lends money to the government receiving government obligations in return does not negate its existence. Emphasizes the fact that the social security fund is a creation of the government, and is not the government itself.

———. Old-age security and the Treasury. Journal of accountancy, v. 73, Jan. 1942: 7–24. HF5601.J7, v. 73

Asserting that in 1939 Congress amended the Social Security Act on fallacious grounds and insufficient accounting and actuarial evidence with the result that the old age program is at present both underfinanced and inequitable, the author urges that Congress review the act before increasing its coverage or levying additional taxes.

———. Old-age security and the war. Journal of accountancy, v. 76, Oct. 1943: 318–330. HF5601.J6, v. 76
Reviews the war's effect on the old age program and makes recommendations aimed at overcoming the present deficit in the pension account including making the program more contributory and more accumulative.

———. Sound old-age pension theory completely scrapped by Social Security Act amendments. Annalist, v. 53, June 29, 1939: 903–904, 908. HG1.N6, v. 53
Recomends retention of the reserve principle, continuance of Treasury estimates and congressional appropriations to express liability, and maintenance of the original rate.

Rosenson, Alex Moses. Monetary effects of wartime social security taxes. Journal of political economy, v. 50, Dec. 1942: 881–900. HB1.J7, v. 50
Examines the tax from both the employer's and employee's side. Rosenson concludes that a wartime social security tax would not reduce inflation appreciably because people would reduce their savings in order to maintain their previous level of disposable income.

Should the social security system be expanded now? Modern industry, v. 6, Dec. 15, 1943: 129–130, 132, 135–136, 139. HC101.M6, v. 6
Presents a debate with Arthur J. Altmeyer favoring the expansion and M. Albert Linton opposing it. Altmeyer cites problems that will occur after the war, the fact that the program is affordable now that wages are high, that there is an efficient social security system operating and the expansion will improve the morale of the workers and soldiers. Linton's opposition says that to use the expansion as an anti-inflation measure is unsound, it would discourage thrift, it is fraught with all the dangers of bureaucratic control, there is no known way to administer such a program and the costs are prohibitive.

Shoup, Carl. The prospects for a study of the economic effects of payroll taxes. Washington, Committee on Social Security, Social Science Research Council, 1941. 74 p. (Social science research council. Pamphlet series, no. 9) HD7123.S56, no. 9
Explores the possibility of whether a study of the economic effects of the payroll tax in the U.S. would produce enough information to be of material assistance in the formulation of policy concerning the continued use of the tax.

———. Taxing for social security. *In* Appraising the social security program. Philadelphia, American Academy of Political and Social Science, 1939. (Annals, v. 202, Mar. 1939) p. 165–175. H1.A4, v. 202
Discusses the suitability of the social security taxation considered against its benefits. The payroll tax on employees is considered moderately satisfactory as it does fulfill the individual—sacrifice principle, but for that reason the employer tax is unsatisfactory.

Shultz, William J. Economic effects of payroll taxes. Taxes, v. 22, Jan. 1944: 2–5, 37–40. HJ2360.T4, v. 22
Analysis is divided into four sections: 1) the long term economic tendencies set into operation by the payroll tax; 2) the transition effects associated with adjustment of the business system to the tax; 3) the effects of the payroll tax and those of possible alternative taxes; 4) the considerations that arise from association of payroll taxes with social security benefits.

Social security proposals of National Resources Planning Board. Monthly labor review, v. 56, May 1943: 904–907. HD8051.A78, v. 56
Report of the Board makes no estimates of the costs of their proposed program but says that the financing of public aid should be provided for as a normal and continuing function of government in a revised and reorganized fiscal system and should be coordinated with the broader economic and monetary policies of government.

Social security tax frozen at 1% for 1943 in proposed tax bill—opposed by Morgenthau. Commercial and financial chronical, v. 156, Oct. 1, 1942: 1173. HG1.C7, v. 156
Morgenthau says that if the tax is frozen at 1% it "would jeopardize the program for financing Old-Age and Survivors Insurance. Sound financing requires that social security contributions be collected at the scheduled levels, especially during a period of very high incomes and employment such as this."

Sollenberger, I. J. Estimated cost of old-age and survivors insurance. Quarterly journal of economics, v. 59, May 1945: 427–450. HB1.Q3, v. 59
Presents cost estimates for the old-age and survivors insurance program as it existed in 1945, projects figures for 1955, 1980, and 2000. Sollenberger then

assumes that changes will be made in the social security program and projects figures for the same years with changes in lump-sum benefits, eligibility for women, provision of disability benefits and extension of coverage.

He concludes that the costs for the present program may be expected to rise significantly and that the assumed changes do add materially to the total cost in dollars of benefit payments.

Stevenson, Marietta. Toward more social security. Social action, v. 9, Feb. 1943: 12–35. HN51.S45, v. 9

Describes each of the programs under the Social Security Act, its administration, financing and method of disbursement and any changes that have taken place because of the war.

Stewart, Maxwell S. The backlog of social security. Survey graphic, v. 32, May 1943: 192–193, 218–219. HV1.S82, v. 32

Compares the U.S. social security program with the English Beverage program and finds the U.S. program has many defects: it does not cover enough people, sharp disparities exist between states in the public assistance program. Stewart finds that the U.S. program was too heavily influenced by the depression.

———. Social security. New York, W. W. Norton & Co., c1939. 398 p. HD7126.S72 1939

Recognizes the importance of broadening the social insurance program but feels that the weakness of the actuarial approach must be pointed out. Stewart says the danger inherent in the reserve plan is that contributions, instead of going to the aged, so there would be no economic loss, are used instead to purchase government securities. This means the money will go to the present holders of those securities who presumably will not use all of it for consumers' goods.

———. Social security for the Joneses. Nation, v. 149, July 8, 1939: 41–44. AP2.N2, v. 149

Reviews the proposed amendments to the old-age insurance system, giving examples that show how the amended system would operate to advantage in a number of specific cases.

Tax dilemma for Congress: freeze or raise pay-roll rates. U.S. news & world report, v. 17, Dec. 1, 1944: 53–54, 56. JK1.U65, v. 17

Outlines arguments for and against the tax increase from 2% to 4%. Author then assumes passage of the higher tax and predicts the absolute growth of the trust fund after benefits are paid until the year 2000.

Tax Foundation, New York. Social security * * * its present and future fiscal aspects. New York, Tax Foundation, Inc., c1944. 126 p. HD7126.T3

Presents summary findings that were developed during an intensive study of the probable future costs of the social security system. Report is divided into two main parts. One deals with the estimates under the existing laws in 1944. The other deals with the results to be anticipated under the Wagner-Murray Bill.

Too rapid enlargement of social security may injure entire movement, says Pink. Commercial and financial chronicle, v. 157, Feb. 25, 1943: 768. HG1.C7, v. 157

Louis H. Pink, President of the Associated Hospital Service of New York says: "Social insurance cannot create wealth; it can only redistribute it more equitably. Any politician can propose a plan for extending social security, but only a statesman can erect it upon the base of full employment and international economic cooperation."

Townsend, Francis E. Should the present Federal social security policy be continued and expanded? Congressional digest, v. 18, May 1939: 157–159. JK1.C65, v. 18

Proposes to do away with present social security legislation, substituting for it " a constitutional amendment calling for a blanket annuity insurance for every citizen of the United States without discrimination, without a means test applied." Proposes to pay for the annuity by exacting from everyone a certain percentage of the pay they get for what they sell.

U.S. National Resources Planning Board. Committee on Long-Range Work and Relief Policies. Security, work, and relief policies, 1942. Washington, U.S. Govt. Print. Off., 1942. 640 p.

Presents an analysis of public aid in the United States, including social insurance assistance and relief, work programs, and related activities.

U.S. Social Security Board. Proposed changes in the Social Security Act: a report of the Social Security Board to the President and Congress of the United States, Washington, U.S. Govt. Print. Off., 1939. 29 p. (76th Congress, 1st session, House. Document no. 110)

Voltz, I. A. A survey of social security. Taxes, v. 17, Mar. 1939: 152–154, 165–166. HJ2360.T4, v. 17

Advocates that the states bases of tax liability should be limited in the same manner as that of the federal old age tax; it would provide for a more equitable system Voltz says.

Wagner, Robert F. Social security lifts its sights. Survey graphic, v. 32, July 1943: 283–284, 301–302. HV1.S82, v. 32

Senator Wagner sketches the main provisions of his bill.

Waldron, David. Social security amendments of 1939: an objective analysis. University of Chicago law review, v. 7, Dec. 1939: 85–111. LAW

Analyzes all of the titles of the original act that will have changes. New features affecting the financing of social security include changing the Old-Age Reserve Account to the Federal Old-Age and Survivors Insurance Trust Fund with new, clearer instructions for investing the funds.

Wermel, Michael T. Economic factors in long-range cost estimates of old-age and survivors insurance. Social security bulletin, v. 7, Apr. 1944: 5–10. HD7123.S56, v. 7

Divides economic factors to be analyzed into two large groups: employment and earnings. Under these headings Wermel considers population, labor force short-term covered employment and unemployment, retirements, wage rates, price levels and fluctuations, productivity, and institutional changes.

Withers, William. Financing economic security in the United States. New York, Columbia University Press, 1939. 210 p. HD7125.W5

In discussing how the financing program should be designed and what method of taxation should be employed, Withers says that during the depression the government discovered an unused tax capacity and that 1½ to 2 billion dollars could be distributed without disturbing the economic system.

Witte, Edwin E. American post-war social security proposals. American economic review, v. 33, Dec. 1943: 825–838. HB1.E26, v. 33

Compares various American plans, particularly the report of the National Resources Planning Board with the British Beveridge Plan and finds a lack of concern in the American plan for the financing of social insurance. The entire problem of financing is presented as if the only concern is with the incidence of the taxes levied and their effects on the level of employment.

———. Befuddled social security finances. American labor legislation review, v. 32, Dec. 1942: 149–152. HD7833.A55, v. 32

Discusses the fluctuating social security finances during the war period, particularly the Vandenburg Amendment and the Townsend Plan.

———. Should the present federal social security policy be continued and expanded? Congressional digest, v. 18, May 1939: 149–151. JK1.C65, v. 18

Defends the principle of the social security reserve fund: "It is my view that the alleged large reserve in the old-age insurance system constitutes little, if any, problem." Witte regards the fund as a way of paying out benefits and as a means of providing for accurate bookeeping.

———. What to expect of social security. American economic review, v. 34, Mar. 1944 (suppl.) 212–221. HB1.E26, v. 34 (supplement)

States that social security must not be viewed by economic planners as one means of reshaping the economic system or as a tax problem. Witte points out many of the pitfalls that can come to a social insurance system when wrong expectations are placed on it.

———. What's ahead in social security. Harvard business review, v. 3, Apr. 1941: 311–325. HF5001.H3, v. 3

Reviews the history of social security, how the act was constructed and how the system works discussing in detail the present financing of the plan and previous alternate financial plans.

Whittet, J. L. Social security amendments. Retail executive, Nov. 15, 1939: 4, 7. HF5001.R42

Outlines the important changes in the law relating to the extension of the welfare program, appropriations of funds, and simplification of procedures.

34-599—75——9

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Congressional documents

U.S. Congress. House. Committee on Ways and Means. Amendments to the Social Security Act. Hearings, 79th Congress, 2nd session on social security legislation. Washington, U.S. Govt. Print. Off., 1946. 3 v.

Vol. 1.: Old-age and survivors insurance; Vol. 2.: Public assistance; Vol. 3.: Unemployment insurance.

Hearings held Feb. 25–28, Mar. 1, 4–8, 11–13, Apr. 1–5, 8–12, 15; May 1–3, 6–10, 20–24; June 3–7, 1946.

———. Social Security Act amendments of 1946; report and supplemental views to accompany H.R. 7037. Washington, U.S. Govt. Print. Off., 1946. 42 p. (79th Congress, 2nd session. House. Report no. 2526)

U.S. Congress. Senate. Committee on Finance. Social Security Act amendments of 1946; report to accompany H.R. 7037. Washington, U.S. Govt. Print. Off., 1946. 41 p. (79th Congress, 2nd session. Senate. Report no. 1862)

U.S. Congress. Conference Committee, 1946. Social Security Act amendments of 1946; conference report. Washington, U.S. Govt. Print. Off., 1946. 10 p. (79th Congress, 2nd session. House. Report no. 2724)

Journals and monographs

Adams, John F. A review of some of the changes proposed in old-age and survivors insurance and public assistance legislation. Economic and business bulletin, v. 1, June 1949: 14-21. HC101.P452, v. 1

Suggests that if Congress changes social security in such a way that it increases the propensity to consume and decreases the propensity to form capital the need for social security would be met at the expense of progress.

Advisory Council report on old-age and survivors insurance. Monthly labor review, v. 66, June 1948: 641–643. HD8051.A78, v. 66

The Council's recommendations on financing see compelling reasons for an eventual government contribution to the system, but that the exact timing or proportion of that contribution could not be stated.

Altmeyer, A. J. Comprehensive social security. Commercial and financial chronicle, v. 164, Oct. 24, 1946: 2083, 2102–2103. HG1.C7, v. 164

"Predicting widespread need for expanded social security, Federal Commissioner pleads for a unified program under Federal control. Says it can be ultimately accomplished with a single payroll deduction and employer's contribution together not exceeding 8% of wages. Contends social insurance on a contributory basis is opposed to socialism, and claims it is a form of organized thrift."

Arnold, Sam. Forward shifting of a payroll tax under monopolistic competition. Quarterly journal of economics, v. 61, Feb. 1947: 267–284. HB1.Q3, v. 61

Summarizes that the burden of the contribution costs, in the case of monopolistic competition, cannot be shifted completely forward. The net income of the monopolistic will always be decreased as a result of contribution costs.

Bingham, Jo. Aspects of costs in social insurance. Tax review, v. 9, July 1948: 29–32. HJ2360.T35, v. 9

Concludes that the cost of social security, whether in initial payments or in the ultimate discharge of obligations, constitutes a demand upon the producers at large, and is determined by the ability and willingness of those who produce to share with those who do not.

———. Costs in social insurance. Commercial and financial chronicle, v. 168, Sept. 2, 1948: 907, 927–928. HG1.C7, v. 168

After analyzing the nature and costs in social insurance, author maintains that under the present system the costs, whether in initial tax payment or in ultimate discharge of obligations, constitute demands upon current product. She holds that the burdens fall on producers at large and that they are determined not only by extent of total output at any given time, but by the ability and willingness of those who do produce to share with those who do not.

———. Make an issue of it. Commercial and financial chronicle, v. 168, Aug. 26, 1948: 800, 817. HG1.C7, v. 168

Contends that the right to security afforded by government to an individual should be an earned right and not a moral claim upon the product or income of others, unless established by need—social security should remain a contributory program.

———. Who pays the social insurance? Aspects of cost analyzed. Tax digest, v. 26, Sept. 1948: 307–309, 329–330. HJ2395.C3, v. 26

Agrees with other economists that the actuarial principles of other insurance plans does not have to apply to social insurance because taxing power makes it unnecessary. Concludes that the cost of the program is almost wholly shifted to the workers—by employers lowering wages or raising prices and by the government collecting taxes.

Bleiberg, Robert M. Social security fund going broke as it rises. Barron's, v. 27, Nov. 3, 1947: 7–8. HG1.B3, v. 27

Warns that the size of the reserve conceals the fact that future obligations mount faster than the reserve based upon prevailing tax rates.

Branch, Mary Sydney. Financing public assistance and social insurance. Social service review, v. 21, Dec. 1947: 478–499; v. 22, Mar. 1948: 54–71. HV1.S6, v. 21, 22

Extensively surveys the methods of financing being employed for public assistance and for social security, raising and answering questions concerning the responsibilities of such methods and of alternate methods. Branch concludes that if public welfare programs are to serve the purposes for which they are established they must be adequately financed from equitable tax sources.

CIO's two-way drive for social security. Economic outlook, v. 9, Nov. 1948: [5–12] HC101.E43, v. 9

CIO agrees to some increase in payroll taxes above 1% so that the worker's right to receive benefits will not be questioned. Costs above a total of 6 or 6½% payroll tax should be met out of general revenues through progressive forms of taxation; this will put a larger proportion of the cost on the well-to-do, as is proper according to the CIO position.

Cohen, Wilbur J. and James L. Calhoon. Social security legislation, January–June 1948: legislative history and background. Social security bulletin, v. 11, July 1948: 3–14. HD7123.S56, v. 11

Corson, John J. Basic issues in social security. Survey graphic, v. 35, Mar. 1946: 83–84, 95. HV1S82, v. 35

Ponders whether Congress will act on the report of its own subcommittee which found grave weaknesses in the social security system and proposed some remedies to correct them.

———. Basic issues of security. Public welfare, v. 4, Oct. 1946: 218–221. HV1.P75, v. 4

Advocates a plan that would provide for the accumulation of current contributions from workers and employers—even higher contributions—in order to yield a greater degree of security for more people.

Federal trust fund investments. Commercial and financial chronicle, v. 164, Aug. 8, 1946: 752, 762–764. HG1.C7, v. 164

"Points out recent decline in growth of reserves under federal social security program due to increasing payments and refusal of Congress to permit rise in payroll taxes. Report shows significance of trust funds in absorbing government debt."

Financial operations in 1947. Social security bulletin, v. 11, Feb. 1948: 42–46. HD7123.S56, v. 11

Presents the financial statistics and statement for 1947. Similar data can be found for each year since the enactment of social security.

Inflation vs. social security: shrinking value of government payments. U.S. news & world report, v. 24, May 28, 1948: 40–43. JK1.U65, v. 24

Reports that inflation is increasing so greatly that the social security benefits are no longer adequate. A rise in benefits would entail either an immediate hike in the tax or a supplement from the government's general funds.

Jarchow, C. E. Cost aspects of employee security plans. Personnel, v. 22, May 1946: 408–421. HF5549.A2P38. v. 22

States that an adequate program of employee security will cost between 8 and 15% of payroll. Jarchow believes that the major portion of social security planning should be undertaken by private enterprise, not government, though the programs funded by private employers should be closely coordinated with the government sponsored programs.

Kalbfleish, A. H. A postwar social security plan. Taxes, v. 24, Mar. 1946: 224–230. HJ2360.T4, v. 24

Proposes to recognize social security taxes as a tax levied by the government for the general welfare and prosperity of the nation. Kalbfleish further suggests that once the true nature of the tax is recognized, social security taxes should be allowed as a credit against the Federal income taxes paid by the employer. Under such a procedure, the employee contributions can be phased out and the incentives provided to the businessman through tax relief will make possible the extension of some or all benefits now excluded from some people.

Kelly, Matthew A., *and* Hazel C. Benjamin. Social security: selected list of references on unemployment, old age and survivors', and health insurance. Princeton, Industrial Relations Section, Princeton University, 1947. 60 p. Z7164.I7P9 1947

Linton on social insurance in U.S. Eastern underwriter, v. 49, June 25, 1948: 4, 17–18. HG8011.E3, v. 49

Discusses the U.S. social security program since 1935 presenting the various suggestions for financing OASI, and analyzes why they were rejected or accepted by the Congress.

Marley, James B. The Southwest pays, inequalities in social security. Southwest review, v. 33, spring 1948: 154–162. AP2.S883, v. 33

Points out many of the inequalities in payments and benefits within the social security system. The crux of the matter is that these many laws are different because they were written differently to be different.

Meriam, Lewis. Relief and social security. Washington, Brookings Institution, 1946. 912 p. HD7125.M4

Meriam reviews all of the relief programs operating in the United States and their financing. When considering social security, he analyzes the payroll tax from both the employers' and employees' views and the effects of each. He further considers whether the reserve system of financing is necessary and says that the use of reserve can lead to irresponsible spending.

———. Social security in an unstable world. American economic review, v. 37, May 1947: 335–344. HB1.E26, v. 37

Presents the thesis that productive efficiency must be emphasized as the main source of social security. Opposes the social security financing because it is not a true actuarial basis and because the buying power of the pension should be the chief concern, not the dollar amount, but the government should not participate in the financing.

O'Connor, E. H. Realistic view of compulsory social security. Commercial and financial chronicle, v. 167, Apr. 15, 1948: 1652, 1676–1677. HG1.C7, v. 167

"Contending compulsory social insurance is a deadening doctrine which frustrates ambition and achievement, O'Connor points out advantages of voluntary insurance plans over bureaucratic devices operated by government. Admits existing pressure for expanded social security, and cites its heavy cost, as well as its adverse influence on individual initiative and enterprise, as destructive of American ideals."

O'Connor discusses realities of social security—cost of current proposals estimated. Weekly underwriter, v. 153, Oct. 20, 1945: 878. HG8011.W4, v. 153

E. H. O'Connor, executive director of Insurance Economics Society of America says that a compulsory social security system which greatly exceeds 10% of payroll in cost is likely to seriously disrupt economic life regardless of the device or devices employed to finance the cost.

Planning more social security: pension coverage for everyone. U.S. news & world report, v. 20, May 3, 1946: 40–42. JK1.U65, v. 20

Outlines the increases in benefits and discusses the funds required to finance such a program providing a graph to illustrate those points.

Rhatigan, Edward E. The role of public welfare in an integrated social security system. Public welfare, v. 4, July 1946: 159–164. HV1.P75, v. 4

Rhatigan sketches out the steps he believes should be taken in social legislation to create a standard so no one will be denied the necessary minimum income. His suggestions include maintaining categorical assistance programs, which do create favored groups, but yet are an effective way of eliminating want.

The Role of social security in a stable prosperity. American economic review, v. 37, May 1947: 351–366. HB1.E26, v. 37

Panel discussion which includes those favoring the present financing of social security through the reserve fund and those who would like to see social security declared a form of relief so that it could be operated more liberally.

Schmidt, Emerson. The expansion of social security. Commercial and financial chronicle. v. 163, Apr. 11, 1946: 1928, 1947. HG1.C7, v. 163
Holds that there is no opposition from businessmen for financing the social security program through joint contributions, but warns that payroll taxes may become burdensome, particularly in view of heavy revenues required by government for other purposes.

Schwellenbach, Lewis B. Social security expansion. Commercial and financial chronicle, v. 164, Aug. 29, 1946: 1144, 1161. HG1.C7, v. 164
"Labor Secretary calls attention to postwar labor problems and a program for expanding social security. Holds there is no longer any valid basis for withholding social security from approximately 20 million Americans now excluded from certain benefits. Urges increases in benefit payments and recounts activities of the Labor Department to improve economic conditions and promote industrial peace."

Shultz, William J. Social security and the economics of saving. New York, National Industrial Conference Board, c1948. 72 p. (Studies in individual and collective security, no. 5) HD7125.S54, no. 5
"An analysis of the economic effects of the Social Security system on saving must take into account 3 factors: 1) the effects of the Social Security system upon national saving, 2) the effect upon investment through the purchasing by the Social Security Reserves of federal debt securities, and 3) special problems of unemployment insurance financing."

Social security. Business week, July 27, 1946: 19–21. HF5001.B89
Discusses the consideration of social security by the Congress—outlining the reserve fund and the pay-as-you-go systems of financing and the problems involved with the taxation required by each.

Swan, Eliot J. Economic and fiscal effects of social insurance. Commercial and financial chronicle, v. 164, Sept. 5, 1946: 1309, 1316–1317. HG1.C7, v. 164
"Reserve Bank official asserts social insurance, unlike private insurance, should not be based on premiums equated to the degree of risk or amount of benefit, but costs should come largely from government revenues. Holds social insurance expenditures can be significant in fiscal policy directed toward full employment. Though upholding contributory payments, he discountenances keeping reserves, and concludes that adequate and properly financed social security can increase employment and output by enlarging aggregate expenditure."

———. Economic aspects of social security. *In* Housing, social security, and public works [by] Ramsay Wood, Eliot J. Swan [and] Walter F. Stettner. Washington, Board of Governors of the Federal Reserve System [1946] p. 40–62. HC101.A138, no. 6
(U.S. Board of Governors of the Federal Reserve System. Postwar economic studies, no. 6, June 1946)
Presents the thesis that a comprehensive and unified plan on income maintenance through social insurance is desirable and it should be financed in large part from general revenues.

———. Financing social security. American economic review, v. 37, May 1947: 345–350. HB1.E26, v. 37
Discusses the financing of social security as a tool for fiscal control by the Treasury.

Amendments of 1950

Congressional documents

U.S. Congress. House. Committee on Ways and Means. Social Security Act amendments of 1949. Hearings, 81st Congress, 1st session on H.R. 2892, H.R. 2993 and other bills. Washington, U.S. Govt. Print. Off., 1949. 2 v.
Vol. 1: Public assistance and public welfare
Vol. 2: Old-age, survivors, and disability insurance.
Hearings held Feb. 28; Mar. 1–4, 7–11, 14–18, 21–25, 28–31; Apr. 4–8, 11–14, 19–22, 25–27, 1949.

———. Social Security Act amendments of 1949; report to accompany H.R. 6000. Washington, U.S. Govt. Print. Off., 1949. 207 p. (81st Congress, 1st session. House. Report no. 1300)

U.S. Congress. Senate. Committee on Finance. Social Security Act amendments of 1950; report to accompany H.R. 6000. Washington, U.S. Govt. Print. Off., 1950. 319 p. (81st Congress, 2nd session. Senate. Report no. 1669)

———. Social security revision. Hearings, 81st Congress, 2nd session on H.R. 6000. Washington, U.S. Govt. Print. Off., 1950. 3 v.
"H.R. 6000, a bill to extend and improve the Federal old-age and survivor insurance system, to amend the public assistance and child welfare provisions of the Social Security Act."
Hearings held Jan. 17–20, 23–28, 30–31; Feb. 1–3, 6–10, 13, 20, 23–24, 27–28, 1950.

U.S. Congress. Conference Committees, 1950. Social Security Act amendments of 1950; conference report. Washington, U.S. Govt. Print. Off., 1950. 123 p. (81st Congress, 2nd session. House. Report no. 2771)

Journals and monographs

Altmeyer, Arthur J. More security for all: broader, costlier program. U.S. news & world report, v. 26. Apr. 15, 1949: 28–32. JK1.U65, v. 26
In a question and answer interview the Commissioner of the Social Security Administration explains the complicated contribution-benefits ratio that was developed to equalize the differences between low and high-wage earner's pensions. He also explains the operation of the reserve funds and its potential ballast effect in a period of deflation and the proposed expansion of the benefits program.

———. The worker's quest for security. Monthly labor review, v. 71, July 1950: 31–37. HD8051.A78, v. 71
Explains the role of social security programs as a part of a total security package for the American worker. He states that the basis of the Social Security Act and its provisions rests squarely on the power of the Federal Government to tax and spend for the general welfare.

Babson, Roger W. Social security. Commercial and financial chronicle, v. 164, May 26, 1949: 2278. HG1.C7, v. 164
"In discussing social security, Babson points out, under the present Federal system, payments made by employees and employers are not invested in diversified securities which furnish capital to industry, but are used by government." Holds that social security is "killing spirit of saving."

Bigger pensions, same tax gaining favor in Senate. U.S. news & world report, v. 28, Apr. 14, 1950: 52–55. JK1.U65, v. 28
Discusses leaving the tax rate the same, giving up the plan of building a $90 billion trust fund and gradually switching to pay-as-you-go finance plan.

Bingham, Jo. Social insurance or buttered parsnips? Economic aspects investigated. Tax digest, v. 28, June 1950: 191–193, 203–210. HJ2395.C3, v. 28
Argues that social security is a program of redistribution of money and only that. Its purpose is to provide money for those who under certain circumstances do not have it. The view that the social security system increases purchasing power and thereby directly promotes prosperity is a view that is accepted too readily, because the incidence of the taxes falls almost wholly on the wage earner and thereby decreases his purchasing power.

Block, Kurt. Old age pensions grow. Barron's v. 30, June 26, 1950: 7. HG1.B), v. 30
The revision of the Social Security Act will reduce some pension burdens for some corporations and will nullify some union gains, because both sides contribute to social security financing under the new plan.

Burns, Eveline M. The American social security system. New York, Houghton Mifflin Co., c1949. 46 p. HD7125. B86
Reviews the changes in the financing policy that was brought about by various amendments. Burns presents the arguments that have been used in favor of full reserve financing and cost-current proposals. The Advisory Council on Social Security in 1940 was opposed to the accumulation of reserve although its own plan contemplated a reserve of between $20 and $30 billion by 1960.

———. Further needs in social security legislation in the field of social insurance. Social service review, v. 25, Sept. 1951: 283–288. HV1.S6, v. 25
Says that 1950 amendment represents a major shift away from the principles of private, commercial insurance toward those of social insurance, but that the Act also took a step backward in financial arrangements when the amendment reverts to the principle embodied in the original act whereby the whole cost of the program will be met out of taxes levied on workers and their employers, "a method of financing which at best is nonprogressive and to the extent that employers are able to shift their contribution via higher prices, positively regressive."

Campbell, W. Glenn. The economics of social security and the theory of government finance. National tax journal, v. 4, June 1951: 167–179. HJ2240.N3135, v. 4
Contends that in the modern state, the benefit doctrine or insurance financing should be applied in every case where its application is technically feasible. The major arguments supporting insurance financing are: 1) it meets the basic aim of social security: it assures a minimum of income; 2) insurance financing makes more explicit to the individual the nature of the choices he faces in deciding on the ranges and the amount of the social security he desires. Under this financing he knows the costs as well as the benefits.

Cline, Denzel C. Payroll taxes and social security. *In* Government finance in a stable and growing economy. Philadelphia, American Academy of Political and Social Science, 1949. (Annals, v. 266, Nov. 1949) p. 128–135. H1.A4, v. 266
Explains in great detail the functions of the payroll tax, the reserve funds and their purpose.

Cohen, Wilbur J. Social security and family stability. *In* Toward family stability. Philadelphia, American Academy of Political and Social Science, 1950. (Annals, v. 272, Nov. 1950) p. 117–126. H1.A4, v. 272
Very briefly outlines the financing of various social security programs while emphasizing the contributions these programs make to family stability.

Cruikshank, Nelson H. The welfare state—what labor wants. Commercial and financial chronicle, v. 169, May 12, 1949: 2067. HG1.C7, v. 169
"Organized labor spokesman expresses opposition to all-inclusive government activity that can control details of daily living and relationships with each other, but defends government expanding into social security and like services. Says problem is not in limiting government action but in keeping control of government in hands of people."

Economic realities of pensions. Guaranty survey, v. 30, Sept. 28, 1950: 1–4. HC101.G83, v. 30
Social security is viewed as a plan for the redistribution of income. Article regards the trust fund as a fiction that is useful—so long as covered employees think that the benefits are related to the taxes they pay they will not organize into political pressure groups to raise the benefits.

The Federal social security programs. Monthly labor review, v. 70, Jan. 1950: 1–8. HD8051.A78, v. 70
Reviews all of the programs emanating from the Social Security Act. The section on financing states that passage of the 1939 amendments started a trend toward the concept of presumed need, which is the essence of social insurance, and away from the principles of individual savings and equity as known in private insurance.

Figuring your pension prospect. U.S. news & world report, v. 2, Nov. 18, 1949: 40–42. JK1.U65, v. 27
Compares the costs and the benefits of private pension plans and Federal social security. Concludes that a worker's rights under social security are of greater importance than any other pension plan and that the Federal plan is the real key to pension prospects.

Folsom, Marion B. Promises and problems of social security. Dun's review, v. 57, Nov. 1949: 19–21, 66–81. HF1.D8, v. 57
Explores the questions concerning the past, present and future of government participation in social security. Folsom does not advocate a pay-as-you-go plan, but states that the Federal contributory insurance plan is a basically sound approach which should be extended to groups not now covered and benefits should have a more realistic base as related to current living costs.

———. The quest for economic security. Whose responsibility? Management review, v. 39, July 1950: 380–383. T58.A2M37, v. 39
Advocates the extension of the old-age and survivors insurance to take the place of the old-age assistance program which seems to have the tendency to destroy the incentive to save by promising that those who do not will be supported in their old age by the government. Folsom favors the old-age and survivors insurance plan because it fits well into our economic system.

Forman, Carl H., and Veronica Marren Hale. Social security legislation throughout the world. U.S. Social Security Bureau report, no. 16, 1949. HD7123.A35, no. 16
Contains five charts: 1) old-age, invalidity and survivors insurance; 2) health and maternity insurance; 3) workmen's compensation; 4) unemployment insurance; 5) family allowance programs. Information on charts in-

cludes countries with social security programs, coverage, source of funds: divided between insured, employer, and government, benefits for the insurance and for the survivor and the type of administration for the program.

Grattan, C. Hartley. Social security poor. Harper's, v. 199, Dec. 1949: 72–77. AP2.H3, v. 199

Discusses the efforts of the labor unions to force into existence a private social security system which parallels and in some way extends the government scheme. The unions are doing this so that the retirement for its members will not mean too great a drop in their standard of living. Grattan says that deferring this income for later consumption is making the laborers social security poor and will have an effect on the economy.

Hazlitt, Henry. Illusions of "social security". Newsweek, v. 34, Oct. 17, 1949: AP2.N6772, v. 34

Reports that the steel fact-finding board recommended in its report that private industry assume the responsibility for its workers security after retirement because the government fails to do so adequately. Juxtaposed with this is the New Dealers statement that since industry has not fulfilled its social responsibilities, the government had to do so through taxation.

Heron, Alexander R. Implications of changing of social security background of our present systems. Paper trade journal, v. 130, Feb. 9, 1950: 19–21. TS1080.P2, v. 130

Concludes that regardless of how public or private pension plans are modified, security cannot be provided by pension checks or government checks, but only in the form of food, clothing, housing, medical care and other tangible things needed by workers.

Hohaus, Reinhard A. The present challenge to America in social security. American economic security, v. 6, Nov. 1949: 8–23. HD7123.A75, v. 6

Discusses the variations and the inefficiences in the social security and old age assistance programs. Advocates continuing the wage tax base at $3000 because only those making $3600 and close to retirement would benefit from the increase.

Is the administration's move for expanded social security sound? Congressional digest, v. 28, Dec. 1949: 306–320. JK1.C65, v. 28

Presents pro-con analysis. Pro advocates an extension of social security to professions not previously covered, an increase in benefits, and the addition of disability payments.

Con argues against the extension citing regressivity of taxation, potential for becoming a welfare state, loss of personal freedom and choice, unfair hardship on employees and unsound actuarial principles as reasons for either not passing this legislation or dismantling social security completely.

Kendrick, Benjamin B. How much more security can we afford? Nation's business, v. 37, May 1949: 54–55, 58–61. HF1.N4, v. 37

Looks at the cost of each of the social security programs determining that the combined costs are nearly 3 times the costs of a decade ago.

MacMillan, Frederick N. Integration of public retirement systems with social security. Personnel administration, v. 12, July 1950: 1–4, 40. JK671.P4, v. 12

Advocates that city or state employees be eligible for social security showing how private pension plans can be made accomodating to social security using Wisconsin as an example.

Meriam, Lewis, and Karl Schlotterbeck. The cost and financing of social security. Washington, Brookings Institution, 1950. 193 p. HD7125.M35

Presents costs and cost factors showing that the sums required will reach such proportions that they may have a profound effect on the entire economy. Meriam's fear is that the freedom of future generations to meet their problems may be complicated by inherited commitments for social security and interest on the public debt.

Miller, Donald C. Taxes, the public debt, and transfers of income. Urbana, University of Illinois Press, 1950. 153 p. H31.I4

"Focuses attention on the year 1945 in an effort to determine the effect of the federal tax structure and public debt structure in that year and seeks to determine the transfers of income attributable to the tax and debt structures in 1945.

More social security. New republic, v. 123, July 3, 1940: 6–7. AP2.N624, v. 123

Discusses the 1950 proposed changes in the social security program interpreting them to mean that the Congress is aiming toward a pay-as-you-go system.

Murray, Roger F. Economic impact of industrial pensions. Commercial and financial chronicle, v. 171, May 11, 1950: 1949, 1983. HG1.C7, v. 171

"In tracing effects of pension plans arising out of collective bargaining, New York banker portrays their effects on the Federal budget, on capital markets, and on business in general. Concludes budgetary aspects of Old Age and Survivors Insurance program do not appear troublesome, but effects on capital markets may mean broadening of institutional investment. Foresees some danger of inflation from excessively liberal pension systems."

Myers, J. W. Governmental and voluntary programs for security. Harvard business review, v. 28, Mar. 1950: 29–44. HF5001.H3, v. 28

States that the level of benefits paid by a governmental pension program should not be so high that the country cannot afford them, nor should it be so high as to stifle an individual's desire and ability to provide additional security for himself.

Myers, Robert J., *and* Eugene A. Rasor. Long-range cost estimates for old-age and survivors insurance. Washington, U.S. Social Security Administration, Division of the Actuary. HD7106.U5A36

(Actuarial study no. 39)

Published for various years.

Pensions for enterprise. Fortune, v. 41, Jan. 1950: 62. HF5001.F7, v. 41

Fortune editorial proposes that the government should be responsible for financing pensions for people who can get them no other way, but does not think the government can properly concern themselves with pensions beyond the level of need.

Perlman, Jacob. Changing trends under old-age survivors insurance, 1935–1950. Industrial and labor relations review, v. 4, Jan. 1951: 173–186. HD4802.I53, v. 4

Traces the development of the provisions in the social security law as they affect old age and survivors insurance from 1935. Describes the changes in coverage, eligibility, and financing.

———. The Federal program of old-age and survivors insurance. Monthly labor review v. 70, Jan. 1950: 9–13. HD8051.A78, v. 70

Analyzes legislative provisions, exclusions from coverage, cooperation with states, operating experience, value of programs to individuals and its further needs.

Polk, James K. Social security unlimited. American Gas Association monthly, v. 32, Nov. 1950: 17, 60–61. TP700.A28, v. 32

Suggests that all social security programs which are not job related, should be financed through a super-levy on the income tax and should not be the burden of just wage earners.

Poole, Kenyon E. Background and scope of American fiscal policy. *In his* Fiscal policies and the American economy. New York, Prentice-Hall, 1951. p. 1–54. HJ263.P6

Concludes that an extensive social insurance scheme would add to the rigidities that limit the use of fiscal policy as an instrument for economic stabilization.

Post-war trends in social security. International labour review, v. 59, June 1949: 668–683. HD4811.I65, v. 59

Deals with cash benefit policies, the administrative structure and the financing of social security systems.

Proposed budget for social security and related programs, 1951–52. Monthly labor review, v. 14, Mar. 1951: 16–18. HD8051.A78, v. 14

Reticker, Ruth. The financing of unemployment insurance. Monthly labor review, v. 70, Mar. 1950: 257–262. HD8051.A78, v. 70

Deals with the legislative basis of unemployment insurance financing and the changes that have been made in Federal and state laws.

Schmidt, Emerson P. Financial and economic aspects of security. American economic security, v. 7, Mar. 1950: 27-35. HD7123.A75, v. 7

Suggests that there are greater costs to financing social security than just the taxation. The aggregate costs include subsidizing unproductive segments of society, lesser rate of economic expansion because employers will not be making new jobs, etc. For these reasons, Schmidt quotes the Brookings Institution as advocating that we abolish Old-Age and Survivors insurance and substitute a modest pension for those in actual need.

———. Financial and economic aspects of social security. Commercial and financial chronicle, v. 171, Feb. 23, 1950: 811, 830. HG1.C7, v. 171

Dr. Schmidt analyzes current and prospective programs of social security and points out that these programs will be impracticable and ineffective unless there is adequate production for their support. Calls attention to mounting hidden payroll costs in business and their inflationary effect, and concludes, despite its importance, expanded social security will impede the goal of a healthy, dynamic, effectively-functioning economic society.

Slichter, Sumner H. The pressing problem of old-age security. Management review, v. 39, Feb. 1950: 103–105. T58.A2M37, v. 39

Estimates that the cost of a fairly adequate old age security program would be about one-tenth the increase in production during the next generation. Suggests that in order to keep the cost of old age security within moderate limits a drop of the universal retirement age to 65 must be avoided as it would make the program ten times as costly as it is.

———. The problem of old age security. Commercial and financial chronicle, v. 171, Mar. 23, 1950: 8, 40–42. HG1.C7, v. 171

Advocates a Federal system of contributory social insurance, related to prior earnings without a means test. Slichter holds that the present system is not adequate due to: "1) many who need protection are not receiving it; 2) the average old age pension is inadequate and has not kept pace with rise in living costs and 3) pensions granted are not adjusted to earnings and living standards of recipients."

———. The problem of old age security. Commercial and financial chronicle, v. 171, Mar. 23, 1950: 1200, 1232–1234. HG1.C7, v. 171

"Professor Slichter, reporting conclusions of Advisory Council of Senate Finance Committee, advocates a Federal system of contributory social insurance, related to prior earnings without a means test."

Slichter, Sumner H. Reduce social security cost by subsidizing employers to retain older workers. Commercial and financial chronicle, v. 172, Oct. 5, 1950: 1293. HG1.C7, v. 172

"In calling attention to rising costs of social insurance due to early age retirements, Dr. Slichter advocates encouraging employers to retain older workers through subsidies. Says this would not only reduce pension costs, but would also keep up employment of younger men. Recommends cost-of-living basis for pensions."

Social security: prelude to pensions. Modern industry, v. 19, Jan. 15, 1950: 69–70, 72, 74, 76. HC101.M6, v. 19

Discusses the changes the 1950 amendments would make on industry, particularly those that have pension plans which are tied to the Federal pension level. In presenting the arguments that have surrounded the reserve fund, the author draws the conclusion that regardless of whether or not the fund exists, the American economy will have to produce more to meet the cost of social security.

Social security gain. New republic, v. 123, Aug. 14, 1950: 9. AP2.N624, v. 123

Discusses the conference committee report which would raise the payroll tax to 3¼% in 1970 although it establishes a trend toward more uniform payments.

Trust fund operations in 1949. Social security bulletin, v. 13, Apr. 1950: 16–18, 21, 23–24. HD7123.S56, v. 13

Presents financial accounting on social security trust fund investments and their earnings.

Wedemeyer, J. M. How much can we pay for old age assistance? Public welfare, v. 7, Oct. 1949: 170–172. HV1.P75, v. 7

Determines that the community's willingness to contribute more in taxes for the support of older people is a definite factor which must be considered. Old age assistance must be seen in its relation to the economic system.

Williamson, W. Rubin. Social security—"magic" or muddle? Tax review, v. 12, Aug. 1951: 35–38. HJ2360.T35, v. 12

Poses eleven questions that the Commission studying social security should have answered such as: Why have the inflationary effects of OASI and public assistance gone unnoticed for so long? Why should the privileged, who have always helped the underprivileged, now expect major subsidies for themselves from social security?

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Congressional documents

U.S. Congress. House. Committee on Ways and Means. Social Security Act amendments of 1952; report to accompany H.R. 7800. Washington, U.S. Govt. Print. Off., 1952. 51 p. (82nd Congress, 2nd session. House. Report no. 1944)

U.S. Congress. Senate. Committee of Finance. Social Security Act amendments of 1952; report to accompany H.R. 7800. Washington, U.S. Govt. Print. Off., 1952. 36 p. (82nd Congress, 2nd session. House. Report no. 1806)

U.S. Congress. Conference Committees, 1952. Social Security Act amendments of 1952; conference report. Washington, U.S. Govt. Print. Off., 1952. 11 p. (82nd Congress, 2nd session. House. Report no. 2491)

Journals and monographs

Allen, Henry D. The proper Federal function in security for the aged. American economic security, v. 10, no. 3, 1953: 47–54. HD7123.A75, v. 10

Advises that the Federal Government move quickly in the direction of eliminating Federal participation in old age assistance and restrict itself to its proper role—the administration of a sound old age contributory benefit system.

Altmeyer, Arthur J. The future of social security in America. Social service review, v. 27, Sept. 1953: 251–268. HV1.S6, v. 27

Discusses the Chamber of Commerce's proposal for pay-as-you-go financing and says "that the Chamber's proposal promises too much, underestimates the cost, specifies an inadequate method for financing the cost, jeopardizes the security of the Old-Age and Survivors Insurance system and weakens, when it should strengthen, the relationship between benefits and past wages, so essential to the maintenance of a contributory social insurance system."

American Federation of Labor. Committee on Social Security. Where we stand on social security. American federationist, v. 60, Nov. 1953: 13. HD8055.A5A2, v. 60

Union is strongly opposed to freezing the tax rate as has been proposed. "To freeze it at its present rate would not be a savings for workers but a tax cut for employers at the expense of the social security trust fund."

Benson, Dorrance. Unrealistic financing. American economic security, v. 10, no. 3, 1953: 19–24. HD7123.A75, v. 10

Supports the financing system proposed by the Chamber of Commerce believing it will bring about more realistic financing and more effective and economical administration of the old age programs.

Blagden, Henry E. Realistic timing of contributions to finance Federal old-age benefits. American economic security, v. 10, Oct.–Dec. 1953: 12–22. HD7123.A75, v. 10

States that full level premium financing of a federally-sponsored nationwide program is not only undesirable but unnecessary. Blagden provides a plan that would move up and down as wages do which would result in realistic timing of contributions to finance Federal old age benefits or would be a realistic application of the pay-as-you-go principle of financing.

Calhoun, Leonard J. Are important changes in social security probable? American economic security, v. 9, May–June, 1952: 13–19. HD7123.A75, v. 9

Advocates retention of the ear-marked payroll tax arguing that the relationship of contributions to benefits is necessary to keep the system from becoming too socialistic.

———. It's social but it's not security. Nation's business, v. 41, Dec. 1953: 34–35, 79. HF1.N4, v. 41

Explains the social security program as a tax, not as a social insurance program. Advocates the extension of social security pensions to all the aged reasoning that this would lower the number of elderly receiving public assistance payments which are made from general revenue sources and help to lower the Federal taxes.

———. The Chamber's proposal—a unified approach. American economic security, v. 10, no. 3, 1953: 64–71. HD7123.A75, v. 10

Chamber of Commerce proposes that OASI shall remain fully financed by earmarked payroll taxes, levied on a pay-as-you-go basis and be financed by taxes paid by all the currently employed.

Chamber of Commerce of the United States. Improving social security. Washington, 1953. 128 p. HD7106.U5C45

Explores and questions the social security policy and proposes a program to correct the defects in the social security system analyzing the effects of the Chamber's proposal on state programs.

A Comparative analysis of the cost of social security. International labour review, v. 67, Mar. 1953: 292–303. HD4811.I64, v. 67

Considers two categories of problems that are raised by social security financing: the financial relationships within a social security system and secondly, the interdependence of social security and the national economy, dealing specifically with the repercussions of social security on the national economy as a whole.

Corson, John J. Sources of income for the aged. Journal of finance, v. 7, May 1952: 243–251. HG1.J6, v. 7

"The evidence available at this moment suggest [that their segment of national income will be distributed to the aged will be as] a) increased public payments, b) non-monetary income in the form of subsidized housing and medical care, and c) private employer retirement funds."

The Cost of social security. International labour review, v. 65, June 1952: 726–791. HD4811.I65, v. 65

Gives a tabular summary for 24 countries of the social security systems; information includes: contributions, special taxes allocated to social security, state participation, income from capital, and other receipts balanced against benefits in kind and in cash and administrative expenses.

Cruickshank, Nelson H. Your stake in the social security trust fund. American federationist, v. 60, July 1953: 12–15 HD8055.A5A2, v. 60

Presents arguments against social security and its financing and answers each from the viewpoint of the worker and how any change in social security would affect him.

Curtis, Carl T. Some problems in social security. American economic security, v. 10, May–July 1953: 28–36. HD7123.A75, v. 10

Discusses the problems of social security including favored professions, benefits to low wage earners and the soundness of the financing. Rep. Curtis says that the Congress must act slowly and must not promise benefits that would cause national insolvency now or in the future.

———. Plain thoughts on a plain motive. Tax review, v. 14, Aug. 1953: 35–38. HJ2360.T35, v. 14

Looks back on the social security program and sees that the actuaries were far astray in their estimates of population and labor force. Any changes made in the financing of social security must have reliable supporting data says Chairman of the House Social Security Subcommittee.

Hogg feels Federal social security plans strayed from purpose—taxation trends. Weekly underwriter, v. 167, Nov. 15, 1952: 1330–1332. HG8011.W4, v. 167

Robert L. Hogg, executive vice president of American Life Convention, thinks that social security has strayed from support of the destitute to support and promotion of the pleasure and recreation of all citizens. The taxes have been raised accordingly. Hogg supports a re-orientation of the social security program and a switching to pay-as-you-go financing.

How to keep pensions at par. Business week, Aug. 16, 1952: 138–139. HF5001.B89

Increases in social security taxes paid by companies will probably mean deductions in private pension plans. Analyzes the various positions taken by management and unions.

Kirkland, Lane. Congress and social security. American federationist, v. 60, Dec. 1953: 8–10. HD8055.A5A2, v. 60

A.F.L. recommends extending coverage to non-participating occupations, increasing the benefit amounts, and broadening the wage base.

Linton, M. Albert. Social security and the United States economy. Commercial and financial chronicle, v. 175, Jan. 3, 1952: 14, 32–33. HG1.C7, v. 175

Warns that a reduced ratio of economically producing population to the grand total may adversely affect general living standards. Linton advises that the problem be studied by a non-political commission, and advocates putting the Federal Government's share of Old Age Assistance under Old Age and Survivor's Insurance so as to place this field of social security on an actuarial basis. Linton further warns that high level social insurance benefits kill incentives to work.

Merriam, Ida Craven. Social security financing. [Washington] U.S. Social Security Administration, Division of Research and Statistics [1952] 204 p. HD7123.A22, no. 17

Summarizes the financing and financial problems in the U.S. social security system and serves as an introduction to the financing of related programs.

Myers, Robert J. Long-range cost estimates for old-age insurance: a comment. Quarterly journal of economics, v. 66, May 1952: 286–296. HB1.Q3, v. 66

Myers answers the criticisms in the articles by Charles C. Killingsworth and Gertrude Schroeder cited elsewhere in this bibliography.

———. Railroad Retirement Act Amendments of 1951: financing and actuarial aspects. Social security bulletin, v. 15, Mar. 1952: 14–19. HD7123.S56, v. 15

Discusses the financial and actuarial implications of the amended law, with special emphasis on the provisions coordinating in some measure the railroad retirement program with old-age and survivors insurance.

Pay-as-you-go social security. U.S. news & world report, v. 33, Dec. 5, 1952: 70–72. JK1.U65, v. 33

Outlines the pay-as-you-go plan strongly advocated by the U.S. Chamber of Commerce. Also presents estimated costs of social security under the present and proposed schemes of financing. Concludes that the tax rate under any revised plan would probably be reduced little, if any, because new funds will be needed to pay benefits for the additional people who will be included.

Sees social security as an insurance threat. Eastern underwriter, v. 54, Apr. 17, 1953: 16. HG8011.E3, v. 54

Supports the Chamber of Commerce proposal to enroll everyone in social security and maintain the program through pay-as-you-go financing and thereby clarify that social security is not an insurance but a tax.

Siegfried, Charles A. Why pay-as-you-go? American economic security, v. 10, no. 3, 1953: 55–63. HD7123.A75, v. 10

"Of the various alternative bases of financing available, the pay-as-you-go method, including an appropriate contingency reserve, appears clearly to offer more desirable features and fewer undesirable ones than any other alternatives that might be considered."

Social security financing, and demography. International labour review, v. 66, Nov.–Dec. 1952: 461–476. HD4811.I65, v. 66

Considers how demographic statistics can be of assistance in making the estimates on which the financing of social security is based.

Social security—going broke? U.S. news & world report, v. 33, Aug. 22, 1952: 22–23 JK1.U65, v. 33

Discusses the pay-as-you-go plan vs the reserve funds plan concluding that under the reserve funding social security is not going bankrupt; income, at present rates, will exceed outgo for years to come.

Social security: the why of the tax increase. Time, v. 62, Dec. 28, 1953: 50. AP2.T37, v. 62

Outlines the reasons for the tax increase: so the government will be able to meet its obligations to the 48 million Americans enrolled in social security, so the benefits can be expanded and old-age insurance can be extended to others not now covered. Outlines the reasoning behind the U.S. Chamber of Commerce proposal for a pay-as-you-go fund that would have a periodically adjusted rate of interest.

Stark, John R. Equities in the financing of Federal Old-age and Survivors Insurance. National tax journal, v. 6, Sept. 1953: 286–292. HJ2240.N3135, v. 6

Proposes to indicate certain conflicts between maintaining the insurance concept of social security and at the same time satisfying the social objectives of the plan.

What's ahead for old people? U.S. news & world report. v. 35, Dec. 25, 1953: 80–81. JK1.U65, v. 35

Discusses the changes in social security that are favored by the Congress and the White House. These changes include larger pensions that will be easier to get and harder to lose and higher taxes to keep the reserve fund solvent.

Why not invest social security funds in housing? American city, v. 67, Aug. 1952: 9. HT101.A5, v. 67

Proposes that the law be changed to allow the Treasury, as managing trustee, to invest $500,000,000 in non-profit housing developments for the exclusive benefit of older people and their dependents. The reserve fund could then be used to supply a social need and would also earn more than 3% per year.

Your old age pension: how safe? U.S. news & world report, v. 35, Dec. 11, 1953: 96–98. JK1.U65, v. 35
"Doubts raised about the certainty of future old-age retirement checks are heavily discounted by most Congressmen. Legally they admit, your old age insurance policy may not be as sound as a Government bond—what one Congress provides another can take away. Yet few Congressmen see cancellation of pension rights as anything but political suicide."

Amendments of 1954

Congressional documents

U.S. Congress. House. Committee on Ways and Means. Analysis of the social security system. Hearings, 83rd Congress, 1st session. Washington, U.S. Govt. Print. Off., 1953–54. 8 v.
Hearings held July 24–Nov. 27, 1953.

———. Social Security Act amendments of 1954. Hearings. 83rd Congress, 2nd session on H.R. 7199. Washington, U.S. Govt. Print. Off., 1954. 883 p.
"HR. 7199, a bill to amend the Social Security Act and the Internal Revenue Code so as to extend coverage under the old-age and survivors insurance programs * * *"
Hearings held Apr. 1–2, 5–8, 9–15, 1954.

———. Social security after 18 years: a staff report. Washington, U.S. Govt. Print. Off., 1954. 72 p.
At head of title: 83rd Congress, 2nd session. Committee print.

———. Social security amendments of 1954; report to accompany H.R. 9366. Washington, U.S. Govt. Print. Off., 1954. 99 p. (83rd Congress, 2nd session. House. Report no. 1968)

U.S. Congress. Senate. Committee on Finance. Social security amendments of 1954. Hearings, 83rd Congress, 2nd session on H.R. 9366. Washington, U.S. Govt. Print. Off., 1954. 746 p.
Hearings held June 24, 28–30; July 1–2, 6–9, 1954.

———. Social security amendments of 1954; report to accompany H.R. 9366. Washington, U.S. Govt. Print. Off., 1954. 183 p. (83rd Congress, 2nd session. Senate. Report no. 1987)

U.S. Congress. Conference Committees, 1954, Social Security Act Amendments of 1954; conference report. Washington, U.S. Govt. Print. Off., 1954. 22 p. (83rd Congress, 2nd session. House. Report no. 2679)

Journals and monographs

Ain, Samuel N. Proposed social security amendments. Trusts and estates, v. 94, Aug. 1955: 677–679. HG4341.T8, v. 94
Reviews the proposed changes to see how they may influence developments among private pension plans for it is the totality of benefits under the two programs which must be considered when an employer seeks to determine whether his plan will best accomplish his retirement objectives.

Altmeyer, Arthur J. The development of social security in the United States. International Social Security Association bulletin, v. 7, Dec. 1954: 447–462. HD7090.I662, v. 7
Outlines the various programs of social security, their benefits, costs and financing and intended development.

———. The struggle over social security. Progressive, v. 18, May 1954: 7–9. AP2.P8655, v. 18
Compares three proposals for changing the social security system: President Eisenhower's, the Chamber of Commerce and Representative Carl T. Curtis'. Altmeyer advocates the President's proposal with several modifications. He rejects the other two as extremely costly and inequitably financed.

Astor, Eleanor G. Old-age security: it's still in danger. Nation, v. 178, Jan. 30, 1954: 83–85. AP2.N2, v. 178
Outlines the effect of the U.S. Chamber of Commerce proposed pay-as-you-go plan on the payroll taxes. Astor concludes that the taxes would go down in the short run but by the year 2000 a tax rate of 8% would be necessary to support the payments since there would be no interest income from the trust fund.

Bigger benefits for 75 million people: changes in the social security law—a full report, U.S. news & world report, v. 37, Sept. 3, 1954: 44–51. JK1.U65, v. 37
Reports on all the changes in the benefit plans under social security and under a private pension plan. Concludes that the changes add up to a new and

different social insurance system, one that does provide far more security than the previous law.

Burns, Eveline M. Social security and public policy. New York, McGraw-Hill, 1956. 291 p. HV31.B8

Part III: Decisions about the financing of social security programs considers the types of taxes to be levied: taxes on workers and employers, or private underwriting of social security costs. She then considers the costs over time, devoting much attention to the purposes of reserve financing.

Christgau, Victor. Old-age and survivors insurance after twenty years. Social security bulletin, v. 18, Aug. 1955: 12–17. HD7123.S56, v. 18

Surveys the 20 years of change in the program. Christgau, the Director of the Bureau of Old-age and Survivors Insurance states that Congress has made clear its intent that the program be self-supporting and actuarially sound.

Congress considers social security revision. Congressional digest, v. 33, Feb. 1954: 33–43. JK1.C65, v. 33

Article covers the growth of social security in the U.S., the social security program and its administration at that time, and the broadening changes the Congress intends to make including an explanation of the tax increase to support the additional programs.

Curtis, Carl T. What's wrong with social security? U.S. news & world report, v. 36, Feb. 19, 1954: 70–74. JK1.U65, v. 36

Representative Curtis strongly advocates a single social security program on a pay-as-you-go basis. Provides examples of the inequities and the problem with social security in this interview.

Effect of increased OASI benefits on public assistance, September-December 1954. Social security bulletin, v. 18, July 1955: 11–13. HD7123.S56, v. 18

The increased OASI benefits have decreased the assistance payments but by less than the increase in insurance benefits for various reasons.

Folsom, Marion B. The Eisenhower Administration's social welfare philosophy. Commercial and financial chronicle, v. 182, Dec. 22, 1955: 2760–2761. HG1.C7, v. 182

"Administration's spokesman on social welfare policies traces the rise of social insurance in this country and indicates what is needed for its future progress."

Gillmore, Curry W. Trust funds and national output. Southern economic journal, v. 24, July 1954: 41–53. HC107.A13A67, v. 24

Applies the Keynesian theory that trust fund accumulation reduces national output but does not affect capital formation to the OASI trust fund.

How safe is your social security pension? U.S. news & world report, v. 57, Dec. 7, 1954: 55–58, 63. JK1.U65, v. 57

Interview with Robert M. Ball in which he explains the operation of the payroll tax and the trust fund and the mechanisms that protect it from inflation and depression.

International Labour Office. Systems of social security: United States. Geneva, 1954. 106 p. HD7090.I664

Condenses into an orderly, comprehensible, and readable form much information about social security. The monograph is useful for a ready and fairly comprehensive picture of the social security system, within the limits of the plan of the report.

Kennedy, John F. Social security: constructive if not bold. New republic, v. 130, Feb. 8, 1954: 14–15. AP2.N624, v. 130

Argues against the "irresponsible pay-as-you-go program." Provides a comparison of H.R. 7199—the Eisenhower proposals for social security and S. 2260—the Democratic proposals.

Lee, Henry. How secure is our social security. Better homes and gardens, v. 32, May 1954: 38, 41, 192, 194–196, 198–199. NA7100.B45, v. 32

Discusses all the faults of the current social security program: reserve fund investment in government obligation, pensions for the elderly who have not paid into the system, and the actuarial unsoundness of the program. Lee also outlines the congressional arguments favoring a pay-as-you-go social security plan.

M. A. Linton appraises some controversial phases of old age security. Eastern underwriter, v. 56, May 6, 1955: 3, 6. HG8011.E3, v. 56

Linton discusses the economic burden and the estimates of cost, the taxes raised and the method of investment of the reserve fund.

Meany, George. Twenty years of social security. American federationist, v. 62, Aug. 1955: 3-7, 26-27. HD8055.A5A2, v. 62
Reviews the development of the social security system as it has evolved against the suggestions and recommendations made by the labor movement. Concludes that the program has had massive accomplishments in alleviating human distress and providing for public welfare.

Murphy, Ray D. Government's role in providing economic security. Commercial and financial chronicle, v. 179, June 10, 1954: 2528, 2572. HG1.C7, v. 179
Warns against destruction of individual incentives through excessive liberalization of social security benefits. Murphy discusses proposals in social security bill now pending in Senate, and holds dangers of excessive security seeking can be avoided if role of government is minimized and more reliance placed on voluntary insurance.

No Santa Claus: the U.S. should take a second look at social security. Barron's, v. 35, July 18, 1955: 1. HG1.B3, v. 35
Charges that the social security program has become a political football and that a fresh, statesmanlike approach is needed to re-track the insurance system. The aged need the security of a constant income but the workers also need to be able to enjoy the fruits of their labors.

Peterson, Eric. Our social security system. Machinist monthly journal, v. 66, May 1954: 134-135, 153. HD6350.M2M3, v. 66
Outlines the changes in the social security program that are advocated by organized labor. They include: wider coverage, raised wage base to $6000, increased benefits, allowance for beneficiaries to work, disability benefits, and a rehabilitation program.

Schiff, Philip. Twenty years of social security. Social casework, v. 36, Oct. 1956: 343-351. HV1.J56, v. 36
Advises social workers to avoid those people who think social security is being pushed too far and who think there should be a pay-as-you-go program—"the funds needed to cope with the problems created by our dynamic industrial economic will have to come from public sources."

Should the "U.S. Chamber of Commerce Proposal" for social security revision be adopted? Congressional digest, v. 33, Feb. 1954: 44-62. JK1.C65, v. 33
Argues pro and con the merits of a pay-as-you-go system that would also increase taxes to support additional pension programs for the aged.

Stokes, Dillard. Does our social security system make sense? Commentary, v. 17, June 1954: 566-574. DS101.C63, v. 17
Contends that the social security system is not an insurance plan for old age as the American public has been led to believe. It is a tax, that can be raised or lowered at will and benefits can also be raised or lowered or not paid. Stokes writes that it is an inequitable and haphazard system that must be changed.

Walter, James E. Some implications of private pension funds. Southern economic journal, v. 22, Oct. 1955: 230-242. HC107.A13A67, v. 22
Concludes from analysis that with the disappearance of inflationary pressures from the economy, the government may be forced to finance indirectly the expansion of private pension funds. Walter suggests that a more appropriate policy would be to expand and make adequate an improved social security program.

Witte, Edwin E. Twenty years of social security. Social security bulletin, v. 18, Oct. 1955: 15-21. HD7123.S56, v. 18
Surveys the work that preceded the enactment of the original law and comments on the developments since then.

15 billion a year for social security. U.S. news & world report, v. 37, Dec. 10, 1954: 83-84. JK1.U65, v. 37
Charts show the government payments to individuals for pensions, relief, and other aids. Article also outlines how such assured income is growing, and what its effects are on private pensions and insurance.

AMENDMENTS OF 1956

Congressional documents

U.S. Congress. House. Committee on Ways and Means. Public assistance titles of the Social Security Act. Hearings, 84th Congress, 2nd session on H.R. 9120, H.R. 9091, H.R. 10283, and H.R. 10284. Washington, U.S. Govt. Print. Off., 1956. 358 p.
Hearings held Apr. 12-13, 16, 19-20, 1956.

———. Social Security Act amendments of 1955; report to accompany H.R. 7225. Washington, U.S. Govt. Print. Off., 1955. 72 p. (84th Congress, 1st session. House. Report no. 1189)

U.S. Congress. Senate. Committee on Finance. Social security amendments of 1955. Hearings, 84th Congress, 2nd session on H.R. 7225. Washington, U.S. Govt. Print. Off., 1956. 3 parts.

Hearings held Jan. 25–27, 31; Feb. 1–2, 8–9, 14–16, 21–22, 28–29; Mar. 1–5, 22, 1956.

———. Social security amendments of 1956; report together with minority and individual views, to accompany H.R. 7225. Washington, U.S. Govt. Print. Off., 1956. 141 p. (84th Congress, 2nd session. Senate. Report no. 2133)

U.S. Congress. Conference Committees, 1956. Social Security Act amendments of 1956; conference report. Washington, U.S. Govt. Print. Off., 1956. 45 p. (84th Congress, 2nd session. House. Report no. 2936)

Journals and monographs

False philanthropy: it's time to weigh the mounting costs of social security. Barron's, v. 36, Aug. 6, 1956: 1. HG1.B3, v. 36

Editorial contends that the additions of disability payment to OASI is a further push toward the welfare state. "Already the payroll levy extracts more from some employees with several dependents than does the income tax."

Folsom echoes industry stand on OASI revamp. Eastern underwriter, v. 57, Apr. 6, 1956: 41. HG8011.E3, v. 57

HEW Secretary Marion B. Folsom joined the insurance industry's protest to reducing the retirement age for women and payment of disability benefits saying that it would be too costly. He did point out that with the steady improvement of the actuarial position of the system it will be possible to provide additional benefits in the future without requiring an increased tax rate or causing an actuarial deficiency.

O'Connor asks impartial study of S.S. law. Eastern underwriter, v. 57, Feb. 24, 1956: 45. HG8011.E3, v. 57

Edward H. O'Connor, managing director of the Insurance Economics Society, calls for a complete investigation of the social security system before any amendments are adopted. Based on the premise that the social security system is actuarially unsound, O'Connor states his fearful belief that the social security tax is fast shaping up to become a secondary graduated income tax on wages and salaries.

Will the pension money last? U.S. news & world report, v. 40, Jan. 13. 1956: 108, 110–113. JK1.U65, v. 40

"The costs of old-age pensions are mounting far faster than the people who first set up the Social Security system ever figured on * * *

Time and time again the Government has acted to make pensions bigger and easier to get."

Amendments of 1957

Congressional documents

U.S. Congress. House. Committee on Ways and Means. Public assistance medical care provisions of the Social Security Act; report. Washington, U.S. Govt. Print. Off, 1957. 9 p. (85th Congress, 1st session. House, Report no. 496)

U.S. Congress. Senate. Committee on Finance. Medical care vendorpayments; report together with minority and supplementary views to accompany H.R. 7238. Washington, U.S. Govt. Print. Off., 1957. 12 p. (85th Congress, 1st session. House. Report no. 684)

Journals and monographs

Brown, J. Douglas. Social insurance: a problem in institutional economics. American economic review, v. 47, May 1957: 463–469. HB1.E26, v. 47

Brown uses social insurance as an example of the problem faced by social economists. He discusses five questions: 1) Does social insurance protection enhance or reduce worker motivation? 2) What should be the proportionate cost and the proportionate benefit under social insurance programs compared to normal earnings? 3) What is the appropriate area of operation of social insurance as contrasted to needs-test relief or self support? 4) What is the appropriate role of employee contributions in a social insurance system? 5) How much does a social insurance system contribute to reducing the amplitude of economic fluctuations?

Cohen, Wilbur J. Federal social security legislation, 1954. Public welfare, v. 12, Oct. 1954: 118–119, 139. HV1.P75, v. 12

Summarizes the changes made by the 1954 legislation pointing out that the wage base was raised to preserve the wage related character of the old age and survivors insurance system.

Killingsworth, Charles C., *and* Gertrude Schroeder. Long-range cost estimates for old-age insurance. Quarterly journal of economics, v. 65, May 1957: 199–213. HB1.Q3, v. 65

"Criticizes the long-range cost estimates for the old age and survivors insurance system thus far developed by the Social Security Administration. Suggests methods of making better estimates and the role that economists can play in making them, and considers some of the problems involved in the philosophy and methodology of long-range economic forecasting with reference to estimating the cost of old-age and survivors insurance."

Morley, Felix. The state of the nation. Nation's business, v. 45, Oct. 1957: 21–22. HF1.N4, v. 45

Contends that the dilemma of the rise of social security benefits in relation to the lesser rise in taxes is further sharpened by the nature of the trust fund, composed entirely of government securities which are serviced from general tax receipts. Any additional outlay by the Treasury could therefore give rise to inflationary forces.

Murphy, Earl Finbar. Description of a controversy: financing old-age and survivors insurance. Journal of public law, v. 6, spring 1957: 55–99. LAW

As a part of the American Social Insurance Symposium, Murphy thoroughly discusses the financing of OASI under the prevailing law and presents several theories of alternative methods of finance.

Myers, Robert J. Social security benefits: cost of today's plan tomorrow. Commercial and financial chronicle, v. 185, Mar. 28, 1957: 1450. HG1.C7, v. 185

"Chief Social Security Actuary terms our present Federal system neither fully-funded nor pay-as-you-go but rather somewhere in between." Says that despite expectations of approximate crossing of income and outgo benefits sometime between 1957–1959 and at approximate five year intervals he believes that adherence to scheduled rate increases will, after 1959, make possible financing the present program without need for further taxation.

Seib, Charles B. Politics pushes social security tax boost. Nation's business, v. 45, Nov. 1957: 94, 96, 98, 100–104. HF1.N4, v. 45

Predictions that the reserve fund would grow $960 million in 1957 were wrong. Takes a very close look at financing through payroll taxes since the administration had to draw on the reserve fund to pay benefits during 1957. Reviews the benefit and tax increases over the years, offering several methods of coping with the current situation.

Somers, Herman M., *and* Anne R. Somers. Trends and current issues in social insurance. Monthly labor review, v. 80, Feb. 1957: 166–169. HD8051.A78, v. 80

Concludes that it has become an American conviction that social insurance benefits should be paid for by the employee and employer and not by the government and that the costs of social insurance have been surprisingly less than was originally anticipated. The Somers say that the institution of social insurance is now being recognized as an instrument of business welfare as well as of individual welfare.

Something in it for everybody. Business week, Aug. 3, 1957: 90–91, 93. HF5001.B89

Discusses the financing plan of the Social Security Act as a compromise between those who wanted full actuarial reserves and those who advocated a pay-as-you-go plan.

Sonneberg, Walter. Social insecurity. Commercial and financial chronicle, v. 185, Jan. 3, 1957: 22–23. HG1.C7, v. 185

"The pitfalls and limits to social security are probed by Mr. Sonneberg, who decries plunging deeper into a government program involving unknown and mushrooming costs—the opposite direction from obtaining 'real security.' Writer cites Brookings Institution's observation of the consequences of our social system, and warns that it adds to our trend toward statism."

tenBroek, Jacobus. The 1956 amendments to the Social Security Act: after the new look—the first thought. Journal of public law, v. 6, spring 1957: 123–162. LAW

The 1956 amendments to the Social Security Act undertook a fundamental revision of the public assistance programs. tenBroek discusses the changes in the programs and the changes in matching formula for financing.

Trustees report on old-age and survivors insurance and disability insurance trust funds. Social security bulletin, v. 20, June 1957: 19–24. HD7123.S56, v. 20

Report shows that the old-age and survivors benefit costs are running higher than was expected, so much so that the system has a small financial deficit and is thus not quite self-supporting.

Turnbull, John G., Arthur C. Williams *and* Earl F. Cheit. Economic and social security: public and private measures against economic insecurity. New York, Ronald Press Co., 1957. 539 p.

Considers the major problems of economic insecurity and public and private methods of combatting them.

Amendments of 1958

Congressional documents

U.S. Congress. House. Committee on Ways and Means. Social security legislation. Hearings, 85th Congress, 2nd session on all titles of the Social Security Act. Washington, U.S. Govt. Print. Off., 1958. 1205 p.

Hearings held June 16–20, 23–27, 30, 1958.

———. Social security amendments of 1958; report to accompany H.R. 13549. Washington, U.S. Govt. Print. Off., 1958, 79 p. (85th Congress, 2nd session. House. Report no. 2288)

U.S. Congress. Senate. Committee on Finance. Social security. Hearings, 85th Congress, 2nd session on H.R. 13549. Washington, U.S. Govt. Print. Off., 1958. 448 p.

"H.R. 13549, a bill * * * to improve the actuarial status of the trust fund * * *." Hearings held Aug. 8, 11–13, 1958.

———. Social security amendments of 1958; report to accompany H.R. 13549. Washington, U.S. Govt. Print. Off., 1958. 78 p. (85th Congress, 2nd session. Senate. Report no. 2388)

Journals and monographs

Anti-social security: old-age pensions must not impair the general welfare. Barron's v. 38, June 9, 1958: 1. HG1.B3, v. 38

Opposes the proposed benefits in social security with its attendant tax increases. "In a recession year, a shift of this kind might be positively anti-social."

Bigger bite for a bigger payout. Business week, Sept. 6, 1958: 40, 42. HF5001.B89

"Social security tax boosts beginning next year will take a big slice of incomes by 1969, to get system back on pay-as-you-go basis and keep it there as payout burden grows heavier with hike in benefits and stepup in retirements."

Boston bank advises Congress to go slow on social security benefits. Commercial and financial chronicle, v. 188, Aug. 14, 1958: 619. HG1.C7, v. 188

The First National Bank's reasons for such advice include a greater need to tackle problems of controlling inflation, also cites official findings that the OASI fund has an estimated actuarial insufficiency computed into perpetuity of .57% of payroll.

Brown, J. Douglas. The American philosophy of social insurance. Social service review, v. 30, Mar. 1956: 1–8. HV1.S6, v. 30

Presents 5 elements in the American philosophy of social insurance: 1) the system must provide protection as a matter of right and not as a benevolence of a government, or an institution or an employer; 2) all citizens should be eligible to coverage under a system regardless of class or level of income; 3) the individual worker establishes, within limits, the level of his protection by his individual contribution to the economy; 4) that the family as a unit should fall under the protection of social insurance from all the hazards that such a unit might face; 5) that the support of the social insurance system should arise from the joint contributions of the employer and the employee.

Craig, Paul G. The payroll taxes and social security. *In* Inflation. Philadelphia, American Academy of Political and Social Science, 1959. (Annals, v. 326, Nov. 1959) p. 85–92. H1.A4, v. 326

States that social security financing cannot be changed with any degree of practicality for several reasons. The institutional complexity of the system, the basic purposes which it serves, and the size of the federal budget all preclude significant changes in financing. Craig divides the present financing system into three groups—nonreserve accumulating, increasing reserve accumulating and variable reserves and analyzes each in terms of its contribution to economic stability.

Dales, Sophia R. Trust fund operations, 1957. Social security bulletin, v. 21, Apr. 1958: 16–20. HD7123.S56, v. 21

Provides descriptive and statistical information on the functioning of the trust funds established under the Social Security Act and its amendments. This report is provided each year in the April issue of the Social Security Bulletin.

Economic stability and social security. International labour review, v. 77, May 1958: 434–454. HD4811.I65, v. 77

"Through the various benefits it provides, a social security system raises the standard of living of a considerable part of the population by improving its conditions of life and raising its purchasing power." Concludes that social security schemes are not really inflationary except during boom periods when supply is relatively inelastic. Subsequently, social security plans operate mainly as a stabilizing element in the economy.

Financing Old-Age, Survivors, and Disability Insurance: Report of the Advisory Council on Social Security Financing. Social security bulletin, v. 22, Feb. 1959: 3–11. HD7123.S56, v. 22

"The Council is pleased to report that according to the best cost estimates available the contribution schedule now in the law makes adequate provision for meeting the cost of the benefits provided. We have found that the method of financing is sound and that no fundamental changes are required or desirable."

How social security is to be sweetened in 1960. U.S. news & world report, v. 47, Nov. 23, 1959: 132, 134–135. JK1.U65, v. 47

Outlines probable changes in social security in 1960 – an election year: easier rules on disability pensions, a general raise in pensions and a higher ceiling on earnings for those drawing pensions and a payroll tax increase starting January 1.

International Labour Office. The cost of social security, 1949–1954. Geneva, 1958. 201 p. HD7091.I57

Presents a consolidated statement of the financial operations of all social security systems existing in individual countries. The objective is to compare the distribution of the sources of revenue and the economic incidence of social security in the different countries and to determine the trends in social security costs during the time period covered.

Is your pension headed for trouble? U.S. news & world report, v. 44, Jan. 17, 1958: 112–115. JK1.U65, v. 44

Explains the problems facing Congress during an election year when social security benefits are traditionally increased but when the reserve fund is running a deficit. Presents several methods of varying tax rate and benefits showing their effects on the reserve fund.

It keeps costing more for your old-age security. U.S. news & world report, v. 47, Dec. 21, 1959: 93–95. JK1.U65, v. 47

Outlines the payroll tax increases since 1940 * * * in the 20 years the taxes were increased by 400%.

Larson, Arthur. Know your social security. New York, Harper & Brothers Publishers, 1959. 240 p. HD7125.L3 1959

Presents the various arguments for reserve and pay-as-you-go financing concluding that the reserve method is best, since it keeps the tax rate low and also keeps the funds fiscally solvent.

More benefits, higher tax under new social security law. Journal of taxation, v. 9, Oct. 1958: 243–245. HJ2360.J6, v. 9

Explains each section of the bill signed by President Eisenhower and its effects on the benefits and costs of the social insurance program.

Myers, Robert J. Old-age, survivors, and disability insurance: administrative expenses. Social security bulletin, v. 21, Mar. 1958: 13–16. HD7123.S56, v. 21

Outlines the expenses of administering the social security program commenting on why they are so low. Myers does expect the program to become more expensive as the benefit rolls increase.

———. Old-age, survivors, and disability insurance: financing basis and policy under the 1958 amendments. Social security bulletin, v. 21, Oct. 1958: 15–21, 39. HD7123.S56, v. 21

The changes brought about by the 1958 amendments has improved the actuarial status of the program because the costs of the liberalized benefits is more than met by the increased contributions that are scheduled.

Social security running in the red. Financial world, v. 110, July 2, 1958: 14. HG4501.F5, v. 110

"Pension and other payments now exceed payroll tax revenues. Current deficit may stay this Congress' generosity, but no early balance can be expected."

Stark, John Regan. Social security reserves: how large should they be? American Bar Association journal, v. 44, Aug. 1958: 749–750. LAW

Analyzes the role of the social security trust fund and the need for it. Stark concludes that amassing additional funds into the trust fund would serve no useful purpose. The non-working portion of the population, including the aged, are supported out of the current production of goods and services. Author says the debt cannot be moved forward or backward in time.

Trustees report on old-age and survivors insurance and disability insurance trust funds. Social security bulletin, v. 21, Aug. 1958: 25–28, 36–37 HD7123.S56, v. 21

Presents excerpts from the trustee's report on the operations of the trust fund for fiscal year 1956–57 and provides estimates of projected operations of the trust funds during the next five years.

U.S. Advisory Council on Social Security Financing. Financing old-age, survivors, and disability insurance. Washington [For Sale by the Supt. of Docs., U.S. Govt. Print. Off.] 1959. 30 p. HD7106.U5A5112

Reports that "the method is sound and that in our judgment, based on the best available estimates, the contribution schedule now in the law makes adequate provision for meeting both short-range and long-range costs."

Why your old age pension is safe. U.S. news & world report, v. 46, Jan. 9, 1959: 92–95. JK1.U65, v. 46

Reports on a social security survey that found the trust funds and old age pension plan secure. This approval of the actuarial basis of the program rejects some of the widespread criticism of the program. The report stated that the investment of pension funds in Treasury obligations was secure and does not involve any misuse of this money nor does it endanger the funds in any way.

Amendments of 1960

Congressional documents

U.S. Congress. House. Committee on Ways and Means. Social Security Amendments of 1960; report to accompany H.R. 12580. Washington, U.S. Govt. Print. Off., 1960. 336 p. (86th Congress, 2nd session. House. Report no. 1799)

U.S. Congress. Senate. Committee on Finance. Social Security Amendments of 1960. Hearings, 86th Congress, 2nd session on H.R. 12580. Washington, U.S. Govt. Print. Off., 1960. 531 p.

"H.R. 12580, a bill * * * to remove hardships and inequities, improve the financing of the trust funds * * *"

Hearings held June 29–30, 1960.

———. Social Security Amendments of 1960; report together with minority views to accompany H.R. 12580. Washington, U.S. Govt. Print. Off., 1960. 301 p. (86th Congress, 2nd session. Senate. Report no. 1856)

U.S. Congress. Conference Committees, 1961. Social Security Amendments of 1960; conference report to accompany H.R. 12580. [Washington, U.S. Govt. Print. Off., 1960] 29 p. (86th Congress, 2nd session. House. Report no. 2165)

Journals and monographs

Babian, Haig. America's most misunderstood benefit. Senior scholastic, v. 76, Mar. 16, 1960: 17–18. AP2.S477, v. 76

Explains the operation of social security trust funds to high school students but warns that those who vote for security at the expense of growth will soon find themselves neither better off nor secure.

Brown, J. Douglas. The role of social insurance in the United States. Industrial and labor relations review, v. 14, Oct. 1960: 107–112. HD4802.I53, v. 14

Points out that the concept of cooperative contract in social insurance has paralleled and supported the concept of cooperative contract in industrial relations.

Burns, Eveline M. Issues in social security financing. *In* California. University. Chancellor's Committee on the 25th Anniversary of the Social Security Act. Social security in the United States, four lectures. Berkeley, Institute of Industrial Relations. University of California, 1961. p. 9–22. HD7125.C2

Poses three questions to be asked of any financing mechanism for social security: How are costs to be allocated among various segments of the population? What is the period of accountancy? What financial role is to be played by the tax systems of different levels of government? Burns also explores the alternative decisions that should have been made in light of 25 years of experience with social security.

Carroll, John Joseph. Alternative methods of financing Old-Age, Survivors, and Disability Insurance. Ann Arbor, Mich., Institute of Public Administration, University of Michigan, 1960. 187 p. (University of Michigan. Michigan governmental studies no. 38) HD7106.U5C29

Study is an attempt to assess the OASDI program in terms of the economic consequences we may expect from alternate methods of financing. Contains comparisons of the differences in output effects which might be expected under the current and alternate financial methods.

Christgau, Victor. Old-Age, Survivors, and Disability Insurance after twenty-five years. Social security bulletin, v. 23, Aug. 1960: 20–30. HD7123.S56, v. 23

Outlines the financing changes in the social security program emphasizing that Congress has repeatedly made it clear that the program should remain self-supporting on the basis of the contributions of employees, their employers, and the self-employed.

Day, J. Edward. We can't afford it. Freeman, v. 10, June 1960: 9–12. AP2.F915, v. 10

Contends that the U.S. cannot afford to include hospital and health benefits because the Trust fund cannot support benefits—as it is already overcommitted.

Hazlitt, Henry. Insurance—or handout? Newsweek, v. 55, June 13, 1960: 88. AP2.N6772, v. 55

Explains OASDI as an insurance, not a handout. Hazlitt approves the work test criteria for social security and dimsses any question of its actuarial soundness.

Mitchell, William Lloyd. Social security in the U.S.A. [Washington? U.S. Information Service, 1962] 31 p. HD7125.M52

Written for generalized distribution. Mitchell outlines the programs offered by the Social Security Act, how they are administered, who is eligible, and presents a cursory examination of the problems involved in financing such a program.

——— Social security legislation in the 86th Congress. Social security bulletin, v. 23, Nov. 1960: 3–29. HD7123.S56, v. 23

"The method of financing the program has been strengthened by changes designed to make the interest earnings of the trust funds more nearly equivalent to the rate of return on Government bonds bought in the open market."

More and bigger pensions coming—who'll be helped. U.S. news & world report, v. 48, Jan. 11, 1960: 100–103. JK1.U65, v. 48

Discusses the potential 1960 tax increase for social security. Article explains how the taxes are used, the effects of tax increases on pensions and on other benefits of the social security program such as the proposed compulsory health insurance.

Peterson, Ray M. Social security challenges. Journal of the American Society of Chartered Life Underwriters, v. 14, fall 1960: 323–336. HG8751.A53, v. 14

Discusses the misconceptions the public holds concerning social security benefits, providing excerpts from Social Security Administration material which demonstrate why these misconceptions are believed.

Richardson, John Henry. Economics and financial aspects of social security; an international survey. Toronto, University of Toronto Press, 1960. 270 p. HD7091.R47

Discusses the accumulation of funds versus pay-as-you-go financing considering the effects of inflation, growth of productivity and the investment of funds. Richardson's discussion is a generalized one since he is presenting an international survey.

Schottland, Charles I. Social security then and now. American journal of nursing, v. 60, May 1960: 694–697. RT1.A5

In explaining all of the social security program, Schottland says that the present system of financing is a sound one. It is self-supporting, actuarially sound and monitored closely by the board of trustees.

Social security gets more costly. Financial world, v. 113, Jan. 13, 1960: 3, 26. HG4501.F5, v. 113

"This year's payroll tax hike is another lap in the never-ending race to keep revenues within reach of constantly expanding Federal payouts."

What price welfare? It's time to stop expanding social security. Barron's, v. 40, Jan. 4, 1960: 1. HG1.B3, v. 40
Contends that because Congress deliberately held down taxes in the beginning of the system, today's taxpayer carries more than his share. The payroll taxes have been raised so high that social security diverts "more and more of the potential savings of the average citizen into immediate consumption. In the process, the Nation clearly is the loser."

AMENDMENTS OF 1961

Congressional documents

U.S. Congress. House. Committee on Ways and Means. Social Security Amendments of 1961; report to accompany H.R. 6027. [Washington, U.S. Govt. Print. Off., 1961] 103 p. (87th Congress, 1st session. House. Report no. 216)

U.S. Congress. Senate. Committee on Finance. Social Security Amendments of 1961; report to accompany H.R. 6027. [Washington, U.S. Govt. Print. Off., 1961] 105 p. (87th Congress, 1st session. Senate. Report no. 425)

U.S. Congress. Conference Committees, 1961. Social Security Amendments of 1961; report to accompany H.R. 6027. [Washington, U.S. Govt. Print. Off., 1961) 8 p. (87th Congress, 1st session. House. Report no. 611)

Journals and monographs

Another round in Amish fight against social security tax. U.S. news & world report, v. 51, Sept. 25, 1961: 123. JK1.U65, v. 51
Amish farmers are fighting the required payment of social security tax, arguing that the social security tax is not a true tax, but a premium on insurance. The use of life insurance violates the religious tenets of the Amish. For the Amish, compulsory payment is an infringement of the U.S. Constitution's guarantee of religious freedom. Insurance spokesmen insist social security is not insurance and that New Dealers who got the word insurance into the title "Old-Age, Survivors and Disabiilty Insurance" misled the country.

Carlson, Valdemar. Economic security in the United States. New York, McGraw Hill, 1962. 225 p. HD7125.C3
In the chapter on OASDI, Carlson traces the historic significance of the Social Security Act, as one of the welfare functions of government. He presents an analysis of reserve versus pay-as-you-go financing and the blanketing-in proposal of the Chamber of Commerce.

Cohen, Wilbur J., and William L. Mitchell. Social Security Amendments of 1961: summary and legislative history. Social security bulletin, v. 24, Sept. 1961: 3–11. HD7123.S56, v. 24
Amendments raised the tax rate and advanced the schedule to be effective in 1968 rather than 1969.

Colm, Gerhard. The economic base and limits of social welfare. Monthly labor review, v. 86, June 1963: 695–700. HD8051.A78, v. 86
Social welfare is best promoted when economic growth is assured. Continued growth allows income that can be diverted for social welfare purposes.

"Enforced solvency". Forbes, v. 94, Dec. 1, 1964: 36–38. HF5001.F6, v. 94
"In time of prosperity, the economic impact of Social Security comes from the fact that most of the people who pay the Social Security taxes would be putting aside money for their old age any way, while those who receive the benefits spend them instantly for rent, food and clothing. Social Security, therefore, is a method of automatically converting savings into spending. In a time of recession, Social Security also serves as a floor under the economy."

Future of U.S. pension fund. U.S. news & world report, v. 5, Apr. 3, 1961: 106. JK1.U65, v. 50
Discusses the findings of the annual report of the social security trust fund's trustees which found the fund to be sound and healthy. Explains and gives examples of how minor changes in the pension law can make a big difference in the growth of the trust fund as can shifts in the economy.

Gordon, Margaret S. The economies of welfare policies. New York, Columbia University Press, 1963. 159 p. HV91.G6
"There are indications that the [social security] program may have a significant effect on economic growth, partly through its impact on human resources and on the adjustment of the labor force to economic change." There is also evidence that with contributions and expenditures approximately in balance, the transfers effected through OASDI stimulate an increase in aggre-

gate consumption expenditures, and that timing liberalizing amendments so that they take effect during recessions can be a useful countercyclical device.

An Increase in your social security taxes? U.S. news & world report, v. 54, June 10, 1963: 9. JK1.U65, v. 54

Explains the increase in benefits and taxation under a bill introduced by Wilbur Mills.

Kemp, Arthur. Disputed questions in the financing of medical care. *In* California. University. Chancellor's Committee on the 25th Anniversary of the Social Security Act. Social security in the United States, four lectures. Berkeley, Institute of Industrial Relations, University of California, 1961. p. 36–48. HD7125.C2

Though in disagreement with ever-expanding social services, Kemp defends the advocacy of using social security as a financial mechanism to provide for health care. He is less tolerant of the approach which advocates such health services for particular groups only.

Mitchell, William Lloyd. Social security in America. Washington, Robert B. Luce, c1964. 79 p. HD7125.M53

Presents a highly simplified but very clear explanation of the social security financing system.

Moley, Raymond. A word to the elderly. Newsweek, v. 49, May 21, 1962: 100. AP2.N6772, v. 59

Concludes a discussion of the inequities of the King-Anderson bill for medicare with a caution as to the costs of the program. Moley contends that the Federal government would be spending a great deal of money for a "shotgun" approach to medical care for the aged.

Myers, Robert J. Old-Age, Survivors and Disability Insurance: financing bases and policy under the 1961 amendments. Social security bulletin, v. 24, Sept. 1961: 12–19. HD7123.S56, v. 24

All major legislation since 1950 including the 1961 amendments has indicated by the tax schedule that Congress intends that the tax schedule make the program as self-supporting as possible by designing a contribution schedule that, according to the intermediate-cost estimate, brings the program into approximate balance and makes it actuarially sound.

Peterson, Ray M. The coming din of inequity. Journal of the American Medical Association, v. 176, Apr. 8, 1961: 34–40. R15.A48, v. 176

Vigorously opposes adding hospital benefits to the social security program and uses the method of financing social security as one of the reasons hospital benefits should be left in the private sector. Contends that the financing mechanism operates under distortion and misrepresentation and is highly inequitable.

The Plan now—bigger pensions in '64. U.S. news & world report, v. 56, Apr. 20, 1964: 85–86. JK1.U65, v. 56

Reports that the plan being drafted that would raise benefits for 20 million people under various social security programs and would also boost payroll taxes to cover the cost.

Poirot, Paul L. The social security program. Freeman, v. 12, Nov. 1962: 45–56. AP2.F915, v. 12

Strongly denounces the social security program as an attack upon private property and the right to earn private property. "The social security program is not a method of soaking the rich to help the poor. Social security is a feature of the broad socialistic pattern—a special feature designed to get at the private property of the man who works for an hourly wage."

Social security taxes and total payrolls. Social security bulletin, v. 26, Aug. 1963: 16–20. HD7123.S56, v. 26

Statistics show that if ultimate rates now scheduled are considered—under the assumption that the proportion of the payroll that is taxable does not change—then the aggregate employer tax rate, when measured against total payroll, is about ⅓ larger than it was in the 1930's.

Vicious circle in taxes. Business week, Dec. 8, 1962: 36. HF5001.B89

Social security taxes are scheduled to rise again amidst growing feeling that the taxes have reached the limits of political feasibility and economists are becoming increasingly concerned about the growing social security trust funds as a factor in the business cycle.

When surplus isn't all roses. Business week, Nov. 14, 1964: 150, 152, 154. HF5001.B89

Analyzes the ramifications of the fiscal change brought about by the fact that social security will take in more than it pays out and the surplus could be a serious fiscal drag on the economy.

Where taxes are sure to keep on rising. U.S. news & world report, v. 55, Nov. 11, 1963: 67–69. JK1.U65, v. 55
Discusses the "needed" tax increase to support the "disability insurance fund that may be gone in eight years without a higher levy."

Witte, Edwin E. Social security perspectives. Madison, University of Wisconsin Press, 1962. 419 p. HD7125.W55
States that the principle of contributory self-finance must be preserved, as it is a powerful safeguard against runaway benefits and against diversion of old-age, survivors' and disability funds for other purposes. Witte concludes that the insurance system is solvent and promises to remain so throughout the foreseeable future.

AMENDMENTS OF 1965

Congressional documents

U.S. Congress. House. Committee on Ways and Means. Actuarial cost estimates and summary of provisions of the Old-Age, Survivors, and Disability Insurance system as modified by the Social Security Amendments of 1965 and actuarial cost estimates and summary of provisions of the Hospital Insurance and Supplementary Medical Insurance systems as established by such act, by Robert J. Myers. Washington [U.S. Govt. Print. Off.] 1965. 51 p.
At head of title: Committee print.

———. Social Security Amendments of 1965; report to accompany H.R. 6675. Washington [U.S. Govt. Print. Off.] 1965. 264 p. (89th Congress, 1st session. House. Report no. 213)

———. Summary of major provisions of H.R. 6675, The Social Security Amendments of 1965, as reported to the House of Representatives on March 29, 1965. Washington, U.S. Govt. Print. Off., 1965. 17 p.
At head of title: 89th Congress, 1st session. Committee print.

———. Summary of major provisions of Public Law 89–97: The Social Security Amendments of 1965. [Washington, U.S. Govt. Print. Off.] 1965. 24 p.
At head of title: 89th Congress, 1st session. Committee print.

U.S. Congress. House. Conference Committees, 1965. Social Security Amendments of 1965; conference report to accompany H.R. 6675. [Washington, U.S. Govt. Print. Off., 1965] 70 p. (89th Congress, 1st session. House. Report no. 682)

U.S. Congress. Senate. Committee on Finance. Social security. Hearings, 89th Congress, 1st session, on H.R. 6675. Washington, U.S. Govt. Print. Off., 1965. 1256 p.
Hearings held Apr. 29, 30; May 3–7, 10–14, 17–19, 1965.

———. Social Security Amendments, 1965; report to accompany H.R. 6675 together with individual, additional and supplemental views. Washington, U.S. Govt. Print. Off., 1965. 563 p .(89th Congress, 1st session. Senate. Report no. 404)

———. Text of and justifications for amendments to H.R. 6675 recommended by the Department of Health, Education, and Welfare. Washington, U.S. Govt. Print. Off., 1965. 38 p.
At head of title: 89th Congress, 1st session, Committee print.

Journals and monographs

Aaron, Henry. Rate progressivity and the direct taxation of personal income. Taxes, v. 44, July 1966: 497–503. HJ2360.T4, v. 44
Concludes that increases in social security taxes and cuts in the personal income tax have reduced the progressivity of direct taxation of personal income.

At last: the details on bigger pensions, medicare. U.S. news & world report, v. 58, Apr. 5, 1965: 98, 100–101. JK1.U65. v. 58
Under the Kerr-Mills bill the payroll taxes will increase as the rates will be set in a steeper rise and will continue along that scale.

Ball, Robert M. Policy issues in social security. Social security bulletin, v. 29, June 1966: 3–9. HD7123.S56, v. 29
States that Congress must raise the base earnings level to respond to new and emerging needs because it weakens the financing of the program and because the tax then falls on a smaller percentage of the population and becomes highly regressive.

Bell, Martin M. Social security integration. Trusts and estates, v. 105, Nov. 1966: 1059–1065. HG4341.T8, v. 105
Presents an analytical review of the IRS proposal to reduce the differential for integrating qualified retirement plans with social security.

Bernstein, Merton C. The coming social security debate. Challenge, v. 15, Sept.–Oct. 1966: 15–17, 43–44. HC101.N533, v. 15
"The increasing pressure for more benefits, plus Congressional reluctance to raise payroll taxes could make Social Security's time-honored insurance principle a dead letter."

Burns, Eveline M. Social security in evolution: toward what? Social service review, v. 39, June 1965: 129–140. HV1.86, v. 39
Reviews and compares the changes in social security over the years from the basis of her predictions for social security in three stages of development.

Deran, Elizabeth. Income redistribution under the social security system. National tax journal, v. 19, Sept. 1966: 276–285. HJ2240.N3135, v. 19
Discusses the redistributive factors built into the social security system: 1) the effective tax rate which decreases as the taxpayer's income level increases, and which also increases where there is more than one in a family with taxable earnings; 2) the total tax payments which vary with the level of taxable earnings and length of time in the work force; 3) total benefits which vary according to earnings, dependents, and time worked.

Harvey, Ernest C. Social security taxes—regressive or progressive? National tax journal, v. 18, Dec. 1965: 408–414. HJ2240.N3135, v. 18
Argues that the social security tax, after adjustment for the quid pro quo element, has a progressive rather than a regressive characteristic. "The amount of progression is a function of income within the tax base, number of dependents, retirement age, employment status, and length of covered service."

Kuebler, Jeanne. Social security improvements. [Washington] Editorial research reports, v. 2, Dec. 14, 1966: 904–923. H35.E35, 1966
(Editorial research reports, 1966, v. 2)
In criticizing certain features of the social security system, Kuebler quotes Peckman, who says that the tax is progressive with respect to income up to $4,000, proportional between $4,000 and $7,500, and regressive thereafter.

Lawrence, David. Reducing "take-home pay". U.S. news & world report, v. 59, July 19, 1965: 108. JK1.U65, v. 59
Contends that the social security tax has been increased because the government can't manage to economize. Lawrence says that medicare could have been paid for out of general revenues and the social security tax could have been kept somewhere near the low rate originally planned, since the double taxation on workers is bound to increase their hardships and lower their take-home pay.

Meyer, Frank S. Principles and heresies: is social security a sacred cow? National review, v. 17, June 1, 1965: 463. AP2.N3545, v. 17
Finds the social security program to be a "con game" because a worker paying payroll taxes from the age of 18 will probably never receive payment nearly equal to his contribution.

Myers, Robert J. Actuarial cost estimates for Hospital Insurance Act of 1965 and Social Security Amendments of 1965. [Washington] Social Security Administration, Division of the Actuary, 1965. 54 p. (Actuarial study no. 59) HD7106.U5A36 no. 59

———. Social insurance and allied government programs. Homewood, Ill., Richard D. Irwin, Inc., 1965. 258 p. HD7125.M9
In the chapter devoted to the financing basis of OASDI system, Myers explains why a fund develops, the concept of actuarial soundness, the actuarial basis of OASDI and its investment procedures.

Myers, Robert J., and Francisco Bayo. Hospital Insurance, Supplementary Medical Insurance, and Old-Age, Survivors, and Disabiilty Insurance; financing basis under the 1965 amendments. Social security bulletin, v. 28, Oct. 1965: 17–28. HD7123.S56, v. 28
1965 amendments repealed the provision that would allow Congress to make a supplemental appropriation to the social security trust fund, expressing its conviction that the program should be completely self-supporting.

———. Long-range estimates for Old-Age, Survivors, and Disability Insurance system, 1966. [Washington] U.S. Social Security Administration, Office of the Actuary, 1967. 42 p. (U.S. Social Security Administration. Actuarial study no. 63) HD7106.U5A36, no. 63

One tax that will go up and up. U.S. news & world report, v. 59, July 12, 1965: 104. JK1.U65, v. 59
Outlines the tax rate changes in the history of the social security program and translates those rates into dollars based upon varying salary levels. Article concludes that the social security tax is becoming a greater burden than the Federal income tax.

Pensions, benefits, taxes, how they go up under the new social security law. U.S. news & world report, v. 59, Aug. 2, 1965: 48–49. JK1.U65, v. 59

Discusses the increased benefits available under the 1965 social security change. The tax increases are displayed in chart form.

Price tag for old people's share of the "Great Society." U.S. news & world report, v. 58, Jan. 25, 1965: 92–93. JK1.U65, v. 58

Points out that by 1968 many workers and self-employed people will find the payroll tax is costing more than the income tax. One reason for this is that the payroll tax is highly regressive, with a flat rate that allows no exemptions or deductions.

Social security: a growing giant. Business week, Feb. 6, 1965: 76–77, 80, 82. HF5001.B89

Article is based on the possible changes in social security caused by the 1965 King-Anderson bill. Article covers the impact of swings in the size of the trust fund, the increasing impact of the payroll tax on the economy, and the inequities that plague the system.

Tax Foundation, New York. Economic aspects of the social security tax. New York, c1966. 63 p. HD7125.T3

Discusses the history and development of OASDHI, the effects of the taxes and benefits on resource allocation and the growth of the economy, the business cycle and the spending power of beneficiaries. It considers the burden of the social security tax from both the employer's and employee's reactions and says that when the payroll tax is compared with alternate sources of financing, it may look more desirable than when it is examined in isolation.

———. The social security tax: economic aspects. New York, Tax Foundation, Inc., c1966. 8 p. (Government finance brief no. 6) HD7125.T34, no. 6

Concludes that there is relatively little material that forms a basis for an enthusiastic defense of the social security tax until it is compared with alternative revenue sources. To date, taxpayers have presented relatively little resistance to the tax.

Amendments of 1967

Congressional documents

U.S. Congress. House. Committee on Ways and Means. Actuarial cost estimates for the old-age, survivors, disability, and health insurance system as modified by H.R. 12080 as passed by the House of Representatives, as reported to the Senate, and as passed by the Senate, prepared by Robert J. Myers. [Washington, U.S. Govt. Print. Off.] 1967. 30 p.

At head of title: 90th Congress, 1st session. Committee.

———. Social security amendments of 1967, report to accompany H.R. 12080. [Washington, U.S. Govt. Print. Off., 1967] 201 p. (90th Congress, 1st session. House. Report no. 544)

U.S. Congress. Joint Economic Committee. Old age income assurance: a compendium of papers on problems and policy issues in the public and private pension system submitted to the Subcommittee on Fiscal Policy. Washington, U.S. Govt. Print. Off., 1968. 6 parts.

At head of title: 90th Congress. 1st session. Joint Committee print.

U.S. Congress. Senate. Committee on Finance. Social security amendments of 1967: brief summary of major recommendations presented in oral and written statements during public hearings on H.R. 12080. [Washington, U.S. Govt. Print. Off.] 1967. 85 p.

At head of title: Confidential committee print.

———. Social security amendments of 1967. Hearings, 90th Congress, 1st session on H.R. 12080. Washington, U.S. Govt. Print. Off., 1967. 2053 p. Hearings held Aug. 22–Sept. 26, 1967.

———. Social security amendments of 1967; report together with minority views to accompany H.R. 12080. [Washington, U.S. Govt. Print. Off., 1967] 341 p. (90th Congress, 1st session. Senate. Report no. 744)

———. Social security amendments of 1967; statistical tables. Washington [U.S. Govt. Print. Off.] 1967. 42 p.

At head of title: 90th Congress, 1st session. Committee print.

U.S. Congress. Conference Committees, 1967. H.R. 12080: social security amendments of 1967: brief description of Senate amendments. [Washington, U.S. Govt. Print. Off.] 1967. 42 p.

At head of title: 90th Congress, 1st session. Conference committee print.

———. Social security amendments of 1967: conference report to accompany H.R. 12080. [Washington, U.S. Govt. Print. Off.] 1967. 77 p. (90th Congress, 1st session. House. Report no. 1030)

Journals and monographs

ALC, LIAA urge social security earnings base be held at $6,000 limit. Insurance, v. 68, Mar. 25, 1967: 3, 17. HG8011.E3, v. 68

Trade associations agree that Congress should periodically review social security and that the economy does call for an increase in benefits, but not of the magnitude suggested.

Another hike in social security. Financial world, v. 128, Dec. 20, 1967: 3, 23. HG4501.F5, v. 128

Congress raises benefits payments appreciatively but also raised payroll taxes which is seen by author as only one aspect of a general unwillingness in Washington to set spending priorities tailored to the amount of revenue which can be raised without crippling the economy.

Bigger benefits, bigger taxes: latest idea for "Great Society". U.S. news & world report, v. 62, Feb. 6, 1967: 28–30. JK1.U65, v. 62

Outlines the changes that would take place in the benefits and the jump in tax rate and wage base that would be necessary.

Bok, Derek. Emerging issues in social legislation: social security. Harvard law review: v. 80, Feb. 1967: 717–764. LAW

Discusses social security taxation law as it affects the incentive to work.

Bonin, Joseph M. OASDHI taxation and the progessivity of the Federal tax structure. Taxes, v. 45, Feb. 1967: 137–140. HJ2360.T4, v. 45

Observes that reductions of progressivity in the Federal tax structure have originated in part from inadequate increases in the OASDHI taxable ceiling rather than simply from increases in social security taxes and also observes that there are methods of halting the erosion of progressivity in Federal taxation.

Buchanan, James M. Social insurance in a growing economy: a proposal for radical reform. National tax journal, v. 21, Dec. 1968: 366–375. HJ2240.N3135, v. 21

Proposes to vest the individual with the rights to benefits based on earnings with the provision for opting out of the governmental and choosing a private program and proposes replacing the payroll taxes with the compulsory purchase of a new type of bond which would have a potential yield equal to the growth in GNP.

Coming in 1968: biggest pension boost ever? U.S. news & world report, v. 63, Nov. 20, 1967: 113–116. JK1.U65, v. 63

Large increases in the tax are proposed by the committee but although it will be implemented in stages, the bite of the payroll tax will be increasingly deep for higher paid workers.

Cordtz, Dan. Social security: drifting off course. Fortune, v. 76, Dec. 1967: 104–107, 207–208, 210. HF5001.F7, v. 76

Suggests that one of the best reasons for moving toward general financing of social security is that taxing could be on a progressive rather than regressive basis and the fiscal effects of the program could be managed with much greater flexibility when taxes and benefits are directly tied together.

Deran, Elizabeth. Industry variations in the social security tax: effects on equity and resource allocation. Quarterly review of economics and business, v. 7, autumn 1967: 7–17. HC10.Q33, v. 7

The Federal social security tax falls with uneven impact on different industries since the tax is levied on one specific factor of production. Opportunities for adjustments to the tax frequently depend on industry structure, conduct and behavior. Deran suggests that current levels of the tax may result in substantial inequities and waste and cautions against further increases in the tax.

deTorres, Juan, and Delos R. Smith. The social security program in perspective. Conference board record, v. 5, May 1968: 25–29. HC101.C64, v. 5

Review provides a summary of the development of social security since its inception in 1935 including vital statistics on the present scope, coverage, and costs of the program.

Galenson, Walter. Social security and economic development: a quantitative approach. Industrial and labor relations review, v. 21, July 1968: 559-569. HD4802.I53, v. 21

Argues that some social security programs represent investment rather than consumption, that choices among them can be economically rational rather than reflect political expending, and that social security programs can promote rather than limit economic development. Through multiple regression analysis, the author quantifies the output returns of social security investments in 40 countries over a ten year period, 1955–1964, concluding that social security expenditures have the greatest potential for raising productivity in those countries at an intermediate level of economic development.

Is social security still a bargain? U.S. news & world report, v. 63, Aug. 14, 1967: 62–64. JK1.U65, v. 63

Except for the extreme cases, social security will be a good buy even for those who pay the highest rate of tax.

Is social security to get out of hand? U.S. news & world report, v. 62, Jan. 30, 1967: 42–45. JK1.U65, v. 62

"Payroll taxes have been increased, but not enough for full funding. Today's reserve fund is less than one year's benefits, which means the program is virtually on a pay-as-you-go basis."

Myers, Robert J. The financial basis of social security. Banking, v. 60, Mar. 1968: 50–51. HG1501.B6, v. 60

The "social security system is financed on a partial reserve basis. Under which it is intended to be completely self-supporting over a long future period from the contributions from workers and employers and from interest earnings on invested assets. Criticisms that the program is not insurance, but rather that it is soley on a welfare basis, or that these two elements should be separated, result primarily from a misunderstanding of the purposes and structure of the program."

Myers, Robert J., and Francisco Bayo. Financing basis of old-age, survivors, and disability insurance and health insurance under the 1967 amendments. Social security bulletin, v. 31, Feb. 1968: 20–33. HD7123.S65, v. 31

"The principles used to determine the financing stability of the program were not altered [by the amendments]." Discusses the changes that will significantly affect the actuarial status of the system.

Paukert, Felix. Social security and income redistribution: a comparative study. International labour review, v. 98, Nov. 1968: 425–450. HD4811.I65, v. 98

Social security systems in developing countries function in environments where there is much more scope for income distribution than in developed countries, in view of the more unequal distribution of factor incomes. In the developing countries, however, the social security systems operate on a much smaller scale, not only absolutely but also relatively, because the percentage of national income devoted to social security is much smaller than in the developed countries for this reason, one can expect social security to have a smaller redistribution effect in the developing countries.

Pechman, Joseph A., Henry J. Aaron and Michael Taussig. The objectives of social security. Washington, Brookings Institution, 1968. 20 p. (Brookings reprint no. 144) HD7125.P37

Conclude "that the payroll tax is not a necessary feature of the social security system. Payroll tax receipts are part of the total revenues of the Federal Government, and should be evaluated on their merits as a source of taxes. This means that the desirability of changes in payroll taxes should be weighed against changes in other taxes and that social security benefits should be financed by the methods which are most equitable and most condusive to economic growth and efficiency."

———. Social security: perspectives for reform. Washington, Brookings Institution, 1968. 352 p. HD7125.P38

Conclude that although the payroll tax has performed an important role in paving the way for acceptance of the social security system, it leaves much to be desired as the source of financing. The burden of the tax levied to support benefits is borne by the poor of another generation.

Reviglio, Franco. Social security: a means of savings mobilization for economic development. International monetary fund staff papers, v. 14, July 1967: 324–368. HG3810.I5, v. 14

Attempts to measure the extent to which savings are in fact mobilized by social security and related taxes and surveys the investment policies of social security funds and assesses their impact on economic development.

Roenisch, Davis H. Coming crossroad for social security. Financial executive, v. 36, Mar. 1968: 35–36, 38. HF5001.F519, v. 36

"Social security taxes, as a percentage of payroll, can and will level off in the near future provided the nature of the public program does not change."

Seidman, Bert. The future role of social security. American federationist, v. 75, Apr. 1968: 1–8. HD8055.A5A2, v. 75

"One way to modify the regressive effect and to secure additional revenue would be to raise the wage base * * * it would make the system fairer to both low and high wage workers." Seidman thinks that even this will not adequately finance needed benefit improvements, but that a contribution from general tax revenues will be required.

Shades of Ponzi: the social security program makes him look like a piker. Barrons, v. 47, Feb. 20, 1967: 1. HG1.B3, v. 47

Claims that the government is defrauding new contributors to the social security program. A worker who begins to pay in between ages 18 and 22 and works continuously until retirement can never break even.

Social security: a brush-off for business. Magazine of Wall Street, v. 120, Sept. 2, 1967: 25–28. HG4501.M3, v. 120

"Bigger and better benefits for 25 million could have been provided without a tax increase, but the plan was ignored. For business, which pays half of all social security taxes, the proposed increases will become just one more element in the profits squeeze about which so many companies are currently complaining."

Social security: a January shock. U.S. news & world report, v. 64, Jan. 29, 1968: 91–92. JK1.U65, v. 64

Analyzes the increase in payroll taxes effective Jan. 1, 1968. Concludes that the increased taxation will decrease take home pay by $6 billion annually.

Social security: an extra $4.4 billion tax bite. Forbes, v. 99, May 1, 1967: 25–26. HF5001.F6, v. 99

Discusses the proposed increase in taxation comparing the rate of benefits against taxation in tabular form.

Social security tax hits hard. Burroughs clearing house, v. 52, Feb. 1968: 5–6. HG1501.B9, v. 52

"The frequent expansion of the program has forced the tax rate and base to the point where it is now a distinct burden on the country's lower paid workers."

Sweetening the pot of social security. Business week, Nov. 25, 1967: 115–116. HF5001.B89

Outlines the potential changes in the social security benefits and social security payroll taxes based on 1967 amendments.

Tax Foundation, New York. Future financing of social security: the issues. New York, 1967. 8 p. (Government finance brief no. 10) HD7125.T313, no. 10

Study finds that a separation of welfare and insurance elements in OASDI programs would represent a radical revision in existing financing principles. It would mean a departure from the principle of self-support through exclusive reliance on payroll taxes, and from the fiscal control element that goes with this principle.

———. Issues in future financing of social security. New York, c1967. 52 p. HD7125.T32

Discusses the expansion of social insurance the possible future costs and the limits to payroll taxation. Study then analyzes the financing principles in social insurance, the concept of actuarial soundness and the major alternatives in financing social insurance.

Weisbrod, Burton A. Income redistribution effects and benefit-cost analysis. *In* Problems in public expenditure analysis edited by Samuel B. Chase, Jr. Washington, Brookings Institution, c1968. p. 177–222. HJ2005.P7, 1966a

Considers the conceptual case for integrating income distribution effects in the evaluation of public expenditures projects including social security payments.

Who foots what bill for social security. Business week, Jan. 13, 1968: 110–111. HF5001.B89

Outlines the various arguments supporting the idea that the Federal government should contribute to the social security fund, contending that wage earners can't pay for the boost in benefits.

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U.S. Congress. Conference Committee. 1969. Tax reform act of 1969: conference report to accompany H.R. 13270. [Washington, U.S. Govt. Print. Off., 1969] 346 p. (91st Congress, 1st session. House. Report no. 91–782)

Title X regulates the increase in social security benefits.

U.S. Congress. House. Committee on Ways and Means. The President's proposals for welfare reform and social security amendments 1969; including draft bills, summaries, and other materials transmitted by the Department of Health, Education, and Welfare. Washington, U.S. Govt. Print. Off., 1969. 106 p.

At head of title: 91st Congress, 1st session. Committee print.

———. Social security amendments of 1969: report to accompany H.R. 15095. Washington, U.S. Govt. Print. Off., 1969. 21 p. (91st Congress, 1st session. House, Report no. 91–700)

———. Social security amendments of 1970; report on H.R. 17550. Washington, U.S. Govt. Print. Off., 1970. 144 p. (91st Congress, 2nd session. House. Report no. 91–1096)

———. Social security and welfare proposals. Hearings, 91st Congress, 1st session. Oct. 15, 16, 21, 22, 23, 24, 27, 28, 30, 31, Nov. 3–7, 10, 12, and 13, 1969. 7 parts. Washington, U.S. Govt. Print. Off., 1970. 2757 p.

———. Written statements submitted by administration witnesses appearing before the Committee on Ways and Means at hearings on social security and welfare proposals, beginning Oct. 15, 1969. Washington, U.S. Govt. Print. Off., 1969. 92 p.

At head of title: 91st Congress, 1st session. Committee print.

Includes statements of Robert Finch and George Shultz and HEW social security charts of 1969 legislative recommendations.

U.S. Congress. Senate. Committee on Appropriations. Departments of Labor and Health, Education, and Welfare appropriations for fiscal year 1970. Hearings, 91st Congress, 1st session on H.R. 13111. Washington, U.S. Govt. Print. Off., 1969. 3101–4291 p.

Part 5—Department of Health, Education, and Welfare; Social and Rehabilitation Service; Social Security Administration; Special institutions; Departmental management.

———. Departments of Labor and Health, Education, and Welfare, and related agencies appropriations for fiscal year 1971. Hearings, 91st Congress, 2nd session, on H.R. 18515. Washington, U.S. Govt. Print. Off., 1970. 3589–4555 p.

Part 6—Department of Health, Education, and Welfare; Social and Rehabilitation Service; Social Security Administration; Special institutions; Departmental management.

U.S. Congress. Senate. Committee on Finance. Social security amendments of 1970, H.R. 17550. Washington, U.S. Govt. Print. Off., 1970. 80 p.

At head of title: 91st Congress, 2nd session. Committee print.

U.S. Congress. Senate. Committee on Finance. Social security amendments of 1970. Hearings, 91st Congress, 2nd session, June 17, July 14 and 15, Sept. 14–17 and 21–23, 1970. Washington, U.S. Govt. Print. Off., 1970. 1426 p.

———. Social security amendments of 1970; report together with separate. additional views on H.R. 17550. Washington, U.S. Govt. Print. Off., 1970. 456 p. (91st Congress, 1st session. Senate. Report no. 91–1431)

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Bigger pensions, higher tax—coming hike in social security. U.S. news & world report, v. 68, May 18, 1970: 74–76. JK1.U65, v. 68

The 5% boast in benefits approved by the House Ways and Means Committee would be financed by the temporary surplus in the system's trust account, the wage base for the payroll tax would be raised from $7,800 to $9,000 in 1971 and a new schedule for tax rates would go into effect.

Bridges, Benjamin, Jr. Current redistributive effects on tax-transfer programs. Public finance, v. 25, no. 1, 1970; 63–76. HJ109.N4P8, v. 25

"This methodological discussion focuses on government cash transfer payment programs, i.e., the transfer payments and the earmarked and general revenue taxes which finance them."

Burns, Eveline M. The American system of social security: agenda for the 1970's. In Social economics for the 1970's: programs for social security, health, and manpower. Cambridge, Mass. University Press, 1970. p. 67–97. HN59.S6

Proposes stronger social action programs that would provide jobs with salaries above the poverty line—encouraging employment and active participation in the economy without checking incentive. Response to this proposal drew severe reservation regarding its effectiveness and cost.

Cassidy, Henry J. The employer payroll tax and the labor mix. Quarterly review of economics and business, v. 9, spring 1969: 39–43. HC10.Q33, v. 9

Investigates "how a flat rate employer payroll tax affects the labor mix, how several of the features of the payroll taxes as they existed in 1967 distort the labor mix, and what can be done by varying the tax parameters."

Cruikshank, Nelson H. The goal of secure retirement. American federationist, v. 77, Dec. 1970: 9–14. HD8055.A5A2, v. 77

States that when the payroll tax is studied as a tax it is regressive, even though later the benefit formula replaces a higher proportion of earnings for those at low-wage levels. Cruikshank says the time is coming when it will be difficult to levy a regressive tax on low paid workers at the higher rate needed to finance benefit improvements. He recommends that this problem be alleviated by raising the wage base and by the use of general revenues.

Komisar, Jerome B. Social legislation policies and labor force behavior. Journal of economic issues, v. 2, June 1969: 187–195. H.B.1.J64, v. 2

Presents and defends the thesis that welfare programs are so designed that eligibility for benefits is dependent upon a particular economic occurrence—such as the loss of wages because of unemployment or retirement or the loss of income does to parental abandonment, thus the welfare programs will tend to increase the number of such occurrences.

Myers, Robert J. Runaway expansion of social security? Nation's business, v. 58, Mar. 1970: 60–63. HF1.N4, v. 58

Warns that mounting pressures for a high enlargement of the social security program could transform the concept of the system and give the Federal government a new monopoly in the pension field.

———. Social security and the pension plan system: are they compatible? Financial executive, v. 38, May 1970: 36–40, 42, 44, 46. HF5001.F514, v. 38

Myers concludes that the two pension systems are not compatible if the expansionist philosophy toward social security prevails. However, the proposals that have been advanced by the administration and Congress meet the criteria of the moderate philosophy and Myers optimistically predicts that both the private pension system and the social security system can have significant and more or less equal roles.

Nixon asks automatic increases in old-age benefits. Congressional quarterly weekly report, v. 27, Oct. 17, 1969: 2005–2009. JK1.C15, v. 27

Proposes to finance the automatic increases through the surplus that exists now in the trust fund. Future increases would be financed by raising the wage base.

One-upping Nixon on social security. Business week, Oct. 11, 1969: 42–43. HF5001.B89

Outlines Nixon's proposal to increase the social security benefits as the cost of living increases and to raise the payroll tax as average wages increases and describes probable Congressional reaction to the plan.

Perrin, Guy. The future of social security. International social security bulletin, v. 22, no. 1, 1969: 3–27. HD7090.I6662, v. 22

Discusses social security internationally, without particular emphasis on the U.S. Perrin says that the evolution of social security proceeds by contrary movements, one of which remove it farther from its traditional methods, while the other leads it steadily back to the source of its original inspiration.

Prest, A. R. Comments on "Social insurance in a growing economy: a proposal for radical reform". National tax journal, v. 22, Dec. 1969: 554–556. HJ2240.N3135, v. 22

Comments on Buchanan's article cited elsewhere in this bibliography. Prest says Buchanan's arguments are not complete and are not strong arguments.

Prest says people do trust the government to redeem the social security debts and there is a working compact between the generations.

Projector, Dorothy S. Should the payroll tax finance higher benefits under OASDHI; a review of the issues. Journal of human resources, v. 4, winter 1969: 60–75. HD5701.J6, v. 4

Smith, V. Kerry. The distorting effects of an employer payroll tax. Quarterly review of economics and business, v. 10, summer 1970: 83–85. HC10.Q33, v. 10

Assesses Henry J. Cassidy's article *The Employer Payroll Tax and the Labor Mix* and explains that the imperfect labor markets play a roll in the distorting effects of the payroll tax which he analyzes mathematically.

Snyder, Wayne W. Measuring the stabilizing effects of social security programs in seven countries, 1955–65. National tax journal, v. 23, Sept. 1970: 263–273. HJ2240.N3135, v. 23

Measures the stabilizing effects that social security benefits and contributions had on economic fluctuations during the eleven year period from 1955–1965 in seven countries: Belgium, France, Germany, Italy, Sweden, the United Kingdom and the United States. Snyder finds that for each of the countries, except France, the impact of the social security system was a positive feature and in some instances was the major factor contributing to the goal of achieving economic stability.

Social security's galloping surplus. Business week, Oct. 18, 1969: 41–42. HF5001.B89

Discusses the unique problem concerning the future of the social security program that literally has too much money in reserves. Debate concerns methods of dispersing part of the funds: greater spending or lower taxes.

Tax Foundation, New York. Federal trust funds: budgetary and other implications. New York, Tax Foundation, 1970. 36 p. HD7106.U5T37

Proposes that the establishment of trust funds be avoided whenever possible but if they are used they should be scrutinized regularly and closely.

Those social security "reserves". Financial world, v. 115, Mar. 1, 1969: 3–4. HG4501.F5, v. 115

Calls the reserves "a complete fallacy carefully nurtured ever since the social security program was first proposed. The fact that fund assets have grown continuously (through 1958; not subsequently) increases their apparent resemblance to such reserves."

U.S. Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. The 1969 annual report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Trust Funds. Washington U.S. Govt. Print. Off., 1969. 68 p. (91st Congress, 1st session. House. Document no. 91–46)

———. 1970 annual report; letter transmitting the 1970 annual report of the Board (30th report), pursuant to the provisions of Section 201 (c) of the Social Security Act as amended. Washington, U.S. Govt. Print. Off., 1970. 68 p. (91st Congress, 2nd session. House. Document no. 91–295)

U.S. Dept. of Health, Education and Welfare. The retirement test under social security. Letter from the Secretary of Health, Education, and Welfare transmitting a report * * * pursuant to Public Law 90–248, the social security amendments of 1967. Washington, U.S. Govt. Print. Off., 1969. 27 p.

U.S. President, 1969– (Nixon). Reforms in social security. Message * * * transmitting proposed reforms in the social security system. [Washington, U.S. Govt. Print. Off.] 1969. 6 p. (91st Congress, 1st session. House. Document no. 91–163)

Weitenberg, Johannes. The incidence of social security taxes. Public finance, v. 24, no. 2, 1969: 193–208. HJ109.N4P8, v. 24

Although Weitenberg is studying the Dutch social security system, the historical survey of some macro-economic theories on the incidence of payroll taxes is relevant to the U.S. system.

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U.S. Congress. House. Committee on Ways and Means. Actuarial cost estimates for the old-age, survivors, and disability insurance system as modified by the social security provisions of Public Law 92–5. Washington, U.S. Govt. Print. Off., 1971. 22 p.

At head of title: 92nd Congress, 1st session. Committee print.

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———. Social security amendments of 1971; report * * * on H.R. 1. Washington, U.S. Govt. Print. Off., 1971. 386 p. (92nd Congress, 1st session, House. Report no. 92–231)

———. Summary of provisions of H.R. 1 the "social security amendments of 1971" as reported to the House of Representatives on May 26, 1971. Washington, U.S. Govt. Print. Off., 1971. 35 p.

At head of title: 92nd Congress, 1st session. Committee print. "House report no. 92–231"

———. Revised press release no. 5; summary of provisions of H.R. 1, "the social security amendments of 1971", as amended and ordered reported to the House of Representatives. Washington, U.S. Govt. Print. Off., 1971. 34 p.

At head of title: 92nd Congress, 1st session. Committee print.

U.S. Congress. Senate. Committee on Appropriations. Departments of Labor, and Health, Education, and Welfare, and related agencies appropriations bill, 1972; report to accompany H.R. 10061. [Washington, U.S. Govt. Print. Off.] 1971. 108 p. (92nd Congress, 1st session. Senate. Report no. 92–316)

———. Departments of Labor and Health, Education, and Welfare and related agencies appropriations for fiscal year 1973. Hearings, 92nd Congress, 2nd session, on H.R. 15417. Part 4. Washington, U.S. Govt. Print. Off., 1972. 3367–4369 p.

U.S. Congress. Senate. Committee on Finance. Excerpts from the Social Security Act as amended by H.R. 1. Washington, U.S. Govt. Print. Off., 1971. 427 p.

At head of title: 92nd Congress, 1st session. Committee print.

———. H.R. 1: social security amendments of 1972; opening statement of Senate debate. Washington, U.S. Govt. Print. Off., 1972. 40 p.

At head of title: 92nd Congress, 2nd session. Committee print.

———. Material related to H.R. 1: social security cash benefits and social security financing. Washington, U.S. Govt. Print. Off., 1971. 45 p.

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U.S. Congress. Senate. Committee on Finance. Social security and welfare reform; summary of the principal provisions of H.R. 1 as determined by the Committee on Finance. Washington, U.S. Govt. Print. Off., 1972. 129 p.

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———. Staff data on H.R. 1: analysis of cost of committee bill. Washington, U.S. Govt. Print. Off., 1972. 58 p.

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———. Staff data with respect to H.R. 1: social security cash benefit increases; new financing proposals. Washington, U.S. Govt. Print. Off., 1972. 25 p.

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U.S. Congress. Conference Committees, 1971. Public debt: social security benefit increase; conference report to accompany H.R. 4690. [Washington, U.S. Govt. Print. Off., 1971] 13 p. (92nd Congress, 1st session. House. Report no. 92–42)

U.S. Congress. Conferences Committees, 1972. H.R. 1: social security amendments of 1972; brief description of Senate amendments. Washington, U.S. Govt. Print. Off., 1972. 95 p.

At head of title: 92nd Congress, 2nd session. Conference committee print.

———. Public debt: social security benefit increase; conference report to accompany H.R. 15390. [Washington, U.S. Print. Govt. Print. Off., 1972] 2 p. (92nd Congress, 2nd session. House. Report no. 91–1215)

———. Social security amendments of 1972; conference report to accompany H.R. 1. [Washington, U.S. Govt. Print. Off.] 1972. 67 p. (92nd Congress, 2nd session. House. Report no. 92–1605)

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Brittain, John A. The incidence of social security payroll taxes. American economic review, v. 61, Mar. 1971: 110–125. HB1.E26, v. 61

Reprinted as Brookings Institution Reprint no. 197.

Author marshalls statistics to support conclusion that "wage and salary earners pay the entire tax for unemployment insurance and twice as much under the OASDHI program as the amount withheld from their nominal earnings. An awareness of this on the part of taxpayers might contribute to decreased reliance on this regressive form of taxation."

———. The payroll tax for social security. Washington, Brookings Institution [c1972] 285 p. (Brookings Institution, Washington, D.C. National Committee on Government Finance. Studies of government finance) HD7125,B68

"* * * presents the first detailed analysis of the federal payroll tax and its effects on wage earners, employers, and the economy as a whole. The author puts to rest the 'insurance' analogy and subjects the tax to a series of criticisms based on the judgment that tax rates on personal income should be based on ability to pay. * * * the author suggests alternative ways of financing the social security system without curtailing its benefits—preferably by phasing out the payroll tax and letting the income tax cover the cost of this essential social program."

Horlick, Max, and Robert Lucas. Role of the contribution ceiling in social security programs: comparison of five countries. Social security bulletin, v. 34, Feb. 1971: 19–31. HD7123.S56, v. 34

Study covers the general principles involved in the use of a ceiling, the relationship of the ceiling and average earnings, and the mechanism for adjusting the ceiling to inflation and increasing productivity. Study found that the U.S. ceiling is relatively much lower than the other ceilings that other countries have developed means to keep up the value of the ceiling in terms of living costs and productivity trends on a more systematic basis and as a consequence a greater proportion of foreign workers have all their earning below the ceiling.

O'Donnell, Charles F. A critique of the old-age and survivors insurance program of the United States. Review of social security, v. 29, Mar. 1971: 39–61. HB1.C314, v. 29

Analyzes the economic and social impact of the retirement benefits provided by the OASI program. O'Donnell suggests that the earnings or contributions base must be adjusted frequently to insure that it covers a constant proportion of earnings. The failure to raise the base as earnings rose has resulted in lower levels of earnings being covered and in reduced benefits at retirement.

Pechman, Joseph A. Federal tax policy. Washington, Brookings Institution, 1971. 344 p. HJ257.P4 1971
(Brookings Institution, Washington. Studies of government finance)

"As the second largest source of federal revenue, payroll taxes have a significant effect on the distribution of the tax burdens and may also have a substantial impact on the economy. From the standpoint of tax analysis their important features are their regressivity; their built-in flexibility; their effect on prices, employment, and wages; and their effect on personal and public saving."

Social security benefits: how much higher? U.S. news & world report, v. 70, Mar. 29, 1971: 38–39. JK1.U65, v. 70

Outlines the changes in the social security law showing benefit and tax changes in tabular form.

Social security tax: another boost. U.S. news & world report, v. 70, May 10, 1971: 37. JK1.U65, v. 70

Discusses the upwards changes in the tax base and the tax rate under proposed bills and their effects on employees and on the self employed.

Social security tax: issues of impact and fairness. Congressional quarterly weekly report, v. 29, Oct. 16, 1971: 2132–2134. JK1.C15, v. 29

Social security's growing tax bite. Morgan guaranty survey, Mar. 1971: 4–6. HC101.M65

Stuchiner, Theresa B. New proposed regs peg basic social security integration rate at 37.5%. Journal of taxation, v. 35, July 1971: 20–22. HJ2360.J6, v. 35

U.S. Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. 1971 annual report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds; letter * * * transmitting the annual report of the Board (31st report), pursuant to the provisions of Section 201(c) of the Social Security Act as amended. Washington, U.S. Govt. Print. Off., 1971. 68 p. (92nd Congress, 1st session. House Document no. 92–88)

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Belanger, James H. and Raymond G. Bolton. The social security tax: an analysis of proposals for reform. Boston college industrial and commercial law review, v. 8, Mar. 1972: 827–869. LAW

Proposals for low-income exemptions law and for broadening the base to include all earned and unearned receipts are analyzed as to tax equity and revenue gain or loss.

Cohen, Wilbur J., and Milton Friedman. Social security: universal or selective? Washington, American Enterprise Institute for Public Policy Research, c1972. 114 p. HD7125.C56

Presents a lecture by each author with rebuttals and discussion on the merits and administration of the social security system.

Costello, Mary. Social security financing. [Washington, Editorial Research Reports] 1972. 707–724 p. (Editorial research reports, 1972, v. 2, no. 11)

Friedman, Milton. The poor man's welfare payment to the middle class. Washington monthly, v. 4, May 1972: 11–16. E838.W37, v. 4

Attacks the present social security system. Advocates one comprehensive plan designed to give assistance to persons with low incomes, regardless of the reason why the incomes are low.

McCabe, James R. Social security financing: a new package or just new packaging? Federal Reserve Bank of Richmond monthly review, v. 58, Jan. 1972: 10–17.

Springarn, Natalie Davis. Congress debates application of billions in social security funds. National journal, v. 4, Apr. 29, 1972: 723–733. JK1.N28, v. 4

1973

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Axinn, June. Social security: history and prospects. Current history, v. 65, Aug. 1973: 52–56. D410.C82, v. 65

Elimination of the exemption on high incomes would remove the most regressive feature of the contribution system. "Further liberalization might be achieved by following the income tax principle of exempting low income from tax and adjusting the effective tax rate to allow for differentials in family size."

Dale, Edwin L., Jr. The security of social security: the young pay for the old. New York times magazine, Jan. 14, 1973, p. 8–9, 40–41, 43, 45. AP2.N6575

According to the author, this article is an effort to describe and assess the $7 billion tax increase enacted in 1972 with scarcely a voice of protest. In addition Congress abandoned all pretense of an actuarial trust fund for social security and provided that from now on benefits would be financed exactly by each year's social security tax income from present wage earners. Dale concludes that the present system is acceptable. "The young do pay for the old, but the young will have their day."

Reports of Advisory Councils

U.S. Advisory Council on Social Security. Final report. Washington, U.S. Govt. Print. Off., 1938, ie 1939. 29 p. (76th Congress, 1st session. Senate. Document no. 4)

"The Advisory Council on Social Security [was] appointed by a subcommittee of the Committee on Finance in cooperation with the Social Security Board to study the advisability of amending the Social Security Act."

———. Recommendation for social security legislation; the reports of the Advisory Council on Social Security to the Senate Committee on Finance. Washington, U.S. Govt. Print. Off., 1949. 236 p. (80th Congress, 2nd session. Senate. Document no. 208)

U.S. Advisory Council on Social Security Financing. Financing old-age, survivors, and disability insurance; a report. Washington [For sale by the Supt. of Docs., U.S. Govt. Print. Off.] 1959. 30 p.

U.S. Advisory Council on Social Security. The status of the social security program and recommendations for its improvement. Washington, 1965. 115 p.

———. Report of the 1971 Advisory Council on Social Security; communication of Secretary of Health, Education, and Welfare. Washington, U.S. Govt. Print. Off., 1971. 104 p. (92nd Congress, 1st session. House. Document no. 92–80.)

THE IMPACT OF SOCIAL SECURITY ON PERSONAL SAVING

By ALICIA H. MUNNELL*

Prior to the introduction of social security, retirement income depended on savings accumulated during the working years. Many older people who could no longer work lived with their children and depended on them for support. Others found themselves destitute and alone in their old age and had to be supported by welfare. Since the introduction of social security, most retired couples have been guaranteed benefits at the age of 65. The question then arises: How has this guaranteed retirement income affected personal saving behavior over the past 35 years? [1]

The impact of the social security program on the saving behavior of individuals is an important issue for two reasons. First, the welfare of retired persons depends significantly on whether they reduce their own saving for each dollar of expected social security benefits or whether they use social security as a base upon which to build for a truly secure retirement.

The second aspect of the savings question pertains not to individual well-being but to the volume of saving for the economy as a whole. Savings play a crucial role in the economic process of financing the investment essential for economic growth. If social security does indeed discourage personal saving, then the enormous across-the-board increases enacted from 1970 to 1973 could have a dramatic effect on the volume of savings in the future. If potential declines in savings can be forecasted, then Government may have to undertake compensating policies so that investment and growth can proceed uninterrupted.

The main argument developed and tested in this study is that since the introduction of social security there have been two significant but offsetting effects on saving. On the one hand, guaranteed retirement benefits have discouraged saving since they reduce the necessity for individuals to save on their own. On the other hand, social security has

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[1] In the aggregate, social security does not generally result in increased saving, because unlike private pension plans which accumulate large reserve funds, social security functions approximately on a "pay-as-you-go" basis. This means that the payroll tax revenues from the working population are transmitted immediately to the elderly as retirement benefits. Although in recent years contributions have exceeded benefits and the assets in the trust fund increased from $20 billion in 1960 to about $36 billion in 1973, they still represent less than one years' benefits.

encouraged earlier retirement, stimulating saving for an extended retirement period.

The model used for testing this hypothesis employs retirement saving rather than total saving to determine the importance of benefit and retirement effects. The results are consistent with the hypothesis that guaranteed retirement benefits have discouraged saving while extended retirement years have stimulated saving. Moreover, cross-sectional analysis of the effect of pension plans on retirement savers (individuals aged 55–64) indicates that pension coverage and the availability of retirement benefits discourages private saving.

I. Traditional Arguments

There have been two popular, but irreconcilable, arguments on the way compulsory saving and guaranteed retirement benefits of the social security program would affect savings behavior. On the one hand, traditional savings theory indicates that private saving would decline as compulsory public saving increased. The more popular argument, however, has been that social security has probably stimulated saving by providing a base on which individuals could build toward an adequate retirement income.

Social Security Discourages Saving

The traditional argument contends that individuals assured of a certain minimum level of support after retirement would be able to spend more freely during their working years and worry less about saving for retirement. Milton Friedman summarized this point of view: "The availability of assistance from the State would clearly tend to reduce the need for private reserves and so to reduce planned saving." [2]

This prediction of reduced saving has not been restricted to classical economists. In fact, John Maynard Keynes himself, in a seminar held at the Federal Reserve Board in Washington around 1945, brushed aside the fears of American Keynesians who anticipated stagnation during the postwar period, basing his remarks on the assumption that social security would dramatically reduce private saving.[3]

Whereas there have been scattered pieces of evidence, primarily from international cross-sectional studies, to support the reduced saving hypothesis,[4] most of the solid empirical evidence to date for

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[2] Milton Friedman, *The Theory of the Consumption Function*, National Bureau of Economic Research (Princeton, N.J.: Princeton University Press, 1957), p. 123.

[3] Recollection of Richard A. Musgrave, H. H. Burbank, professor of political economy, Harvard University.

[4] See Henry J. Aaron, "Social Security: International Comparisons" in *Studies in the Economics of Income Maintenance*, Otto Eckstein, Ed. (Washington, D.C.: Brookings Institution, 1967), pp. 13–48; and "International Comparisons," Appendix D in Joseph A. Pechman, Henry J. Aaron and Michael K. Taussig, *Social Security: Perspectives for Reform* (Washington, D.C.: Brookings Institution, 1968). Aaron found a highly significant relationship between savings rates and social security expenditures in a cross section study of industrialized nations, but cautioned against assigning the direction of causality. Some of Aaron's savings regressions were reestimated with 1960 data for a later study, and while the sign of household savings rates and social security outlays remained negative, the coefficients were no longer significant.

the United States seems to indicate not only that social security has not decreased saving, but that it may even have served to stimulate it.

Social Security Encourages Saving

For the argument that social security stimulates saving, the most important piece of evidence is the savings rate itself. As illustrated in figure 1, the ratio of personal saving to disposable income has not shown any downward trend since the introduction of social security. In fact, the ratio of personal saving plus social security contributions to disposable income plus social security has increased significantly.[5] Cross-sectional studies suggest a stronger version of this hypothesis: not only has personal plus social security saving increased, but personal saving itself has been stimulated as a result of the introduction of a universal pension system. This argument is based on two cross-sectional studies which concluded that individuals covered by private pension plans saved more than those not covered.[6]

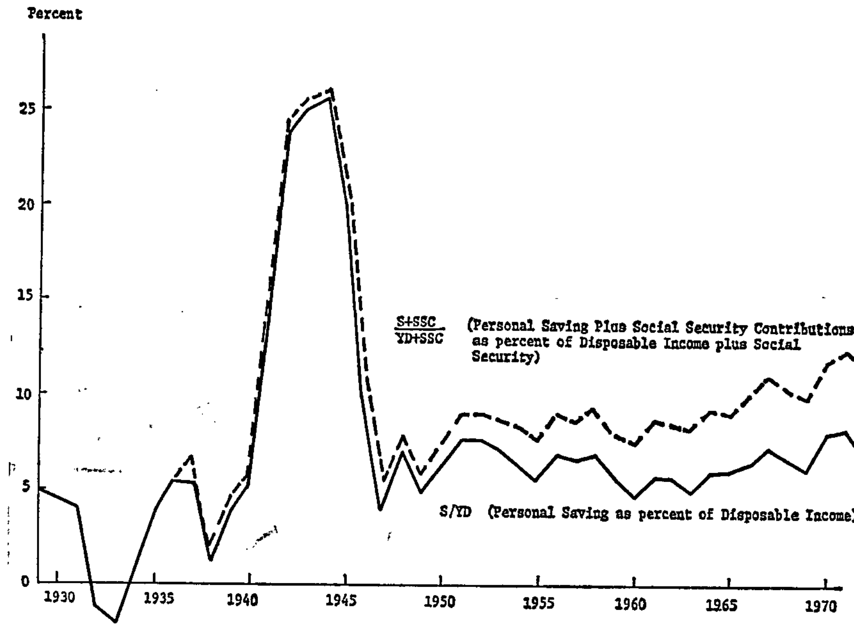
In addition, the Swedish experience during the 1960's provided further support. With the introduction of a new pension system, the aggregate savings rate fell from 10 percent in 1960 to 3 percent in 1969. However, the simultaneous redistribution of income and a recent spurt in the savings rate indicate that this evidence must be interpreted with caution.

[5] Social security includes both the employer and employee contributions to the OASI trust fund.

[6] Phillip Cagan, *The Effect of Pension Plans on Aggregate Saving: Evidence from a Sample Survey*, Bureau of Economic Research, Occasional Paper No. 95 (New York: Columbia University Press, 1965). Cagan analyzed the savings behavior of over 15,000 members of the Consumers Union in 1958–59. His explanation of the surprising results was that pension plans call attention to retirement needs and prospects, and thereby foster a "recognition effect" that counteracts individuals' disinclination to worry about the future. Toward the end of this paper, the relationship between pension coverage and saving is reexamined using a subsample of 3,000 families from the Consumers Union Survey. The regression results directly contradict Cagan's conclusions. For the subsample, coverage by either a pension plan or social security is accompanied by a 3 percentage point decline in the savings rate among persons aged 55–64, the retirement savers.

A second study, based on personal interviews with about 2,000 consumers in 1962–63, was published by George Katona: *Private Pensions and Individual Saving*, Monograph No. 40, Survey Research Center, Institute for Social Research, Ann Arbor, Mich., 1965. Katona added a second explanation for his results, hypothesizing a "goal feasibility" effect where individuals intensify their savings effort the closer they get to their retirement goal. This assumption makes savings preferences endogenous and is, therefore, a dramatic departure from traditional economic analysis.

FIGURE 1.—Savings rate with and without social security contributions,* 1929–72.



*Includes both employer and employee contributions to the OASI trust fund.

Source: *Economic Report of the President, 1973,* and U.S. Department of Health, Education, and Welfare, Social Security Administration, *Social Security Bulletin, Annual Statistical Supplement, 1970.*

In short, there has been enough evidence from cross-sectional studies and the behavior of the aggregate savings rate to lead some to argue that the introduction of "Social Security may well (have) provide(d) an incentive for individuals to save more: with major hazards already covered, other savings goals may appear to be within reach." [7]

II. A New Hypothesis: The Dual Impact of Benefit and Retirement Effects

A factor neglected in the debate over social security and saving has been the changing retirement experience. If individuals have to save over a shorter working life for a longer retirement period, then aggregate savings will increase.[8] Therefore, a secondary impact of social security may have been to stimulate saving by enforcing a retirement age of 65. Whereas in the past individuals could plan to work their entire lifetimes, after the introduction of social security all individuals were expected to withdraw from the labor force at age 65.

This new explanation of the relationship between social security and saving implies a dual effect for social security: on the one hand,

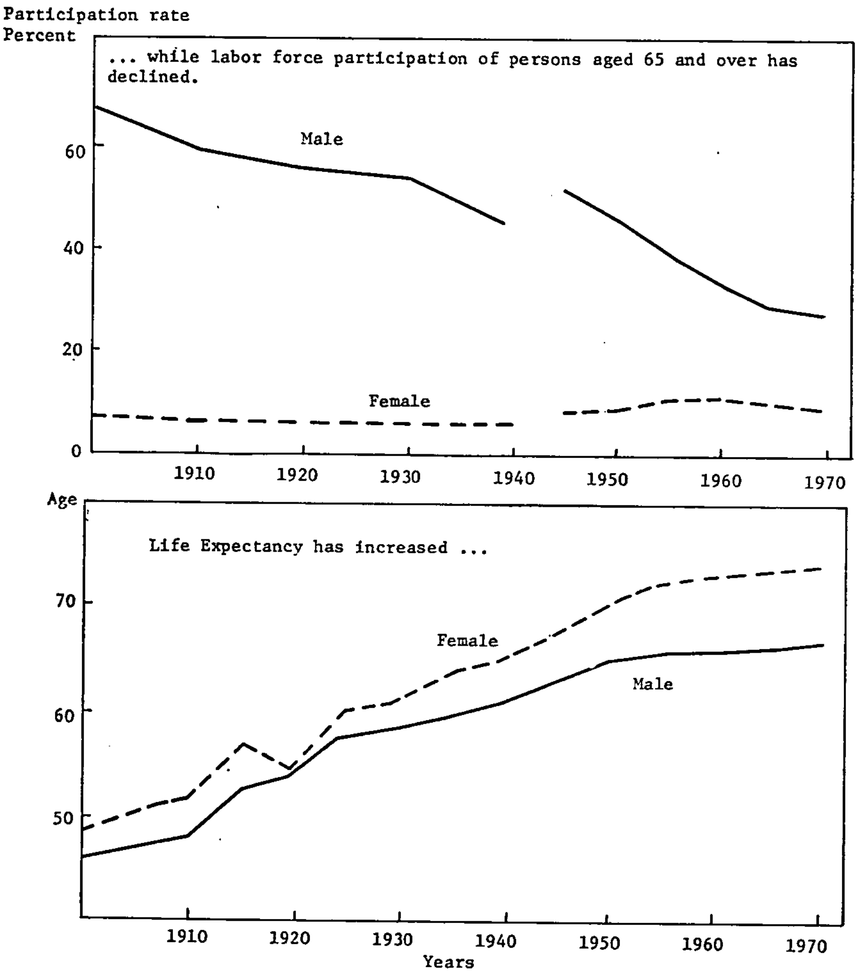
[7] Pechman et al., *Social Security: Perspective for Reform,* p. 183.

[8] This argument assumes a growing population so that the increased saving of workers due to earlier retirement more than offsets the increased dissaving of the elderly due to extended retirement period.

·it incorporates the traditional argument that ceteris paribus guaranteed retirement benefits will reduce private saving; on the other, it contends that social security has encouraged retirement and therefore stimulated saving.

Evidence of the changing retirement pattern is presented in figure 2. The combined impact of lengthened life expectancy and declining labor force participation has significantly increased both the length and incidence of retirement. To the extent that the decline in work effort of the aged is attributable to factors other than higher incomes, extended retirements and shortened working lives would be expected to have a definite stimulative effect on savings behavior.

FIGURE 2.—Life expectancy and labor force participation, 1900–70.



Source: U.S. Department of Commerce, Bureau of the Census, *Historical Statistics, Colonial Times to 1957*, Series B 92–100, p. 25; and *Statistical Abstract of the United States: 1972* (93d edition), Washington, D.C., 1970, table 74, p. 55.

Naturally social security was not the only factor contributing to earlier withdrawal from the labor force. The increase in urbanization, the decline in self-employment, prolonged periods of high unemployment, the growth of private pension plans and compulsory retirement policies of private industry have all contributed to the decrease in work effort of the elderly.[9]

Nevertheless, social security seems to have played a major role in the changing retirement experience. The social security earnings test has been an important factor encouraging workers to withdraw from the labor force. Until 1972, benefits were reduced $1 for each $1 of earnings in excess of some very low exemption.[10] The reduction applied to all individuals up to age 72, after which they were permitted to receive full benefits regardless of their earnings. This 100 percent tax on earnings essentially forced individuals to retire from regular employment as a condition of receiving benefits. Social security has probably also had indirect effects on retirement behavior by conditioning both employers and employees to the idea that 65 is a "normal" retirement age.[11]

There are several pieces of evidence confirming the importance of the social security program on retirement behavior. First, the dramatic decline in labor force participation by the aged has occurred only since the introduction of social security. Second, cross-sectional evidence reveals that the sharpest drop in participation occurs at age 65. Finally, the data show that there is a slight jump in participation rates for males when they reach age 72 which indicates that the social security earnings test does play a significant role.[12]

In summary, retirement patterns have changed dramatically over the century, especially since the introduction of social security and, therefore, any attempt to explain aggregate savings behavior must include some formulation of the retirement experience.

III. Empirical Test of the "Dual Impact" Hypothesis

In evaluating the impact of social security on saving, it is possible to look at saving as a whole or at the retirement component of saving. In this study we have attempted to estimate the "benefit" and "retirement" effects of social security through their impact on retirement saving [13] (see figure 3). The "dual impact" hypothesis was tested

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[9] William G. Bowen and T. Aldrich Finegan, *The Economics of Labor Force Participation* (Princeton, N.J.: Princeton University Press, 1969), p. 374.

[10] The earnings test was relaxed by the 1972 legislation which provides that the potential recipient loses only $0.50 for each $1.00 of earnings in excess of $2,400. However, even this 50 percent rate probably provides significant incentive to withdraw from the labor force.

[11] Legislation in 1956 permitted females to retire at age 62 with actuarially reduced benefits. In 1961, this option was extended to men, and by 1972, 39 percent of men aged 62–64 elected to retire early. Although there has been some movement towards a retirement age of 62, for most of the period under consideration in the study (1937–69), age 65 was clearly the watershed.

[12] Lenore A. Epstein and Janet H. Murray, *The Aged Population of the United States: The 1963 Social Security Survey of the Aged*, U.S. Department of Health, Education, and Welfare, Social Security Administration, Office of Research and Statistics, Research Report No. 19 (1967), Table 7.2, p. 335. Based on 1960 Census of Population data.

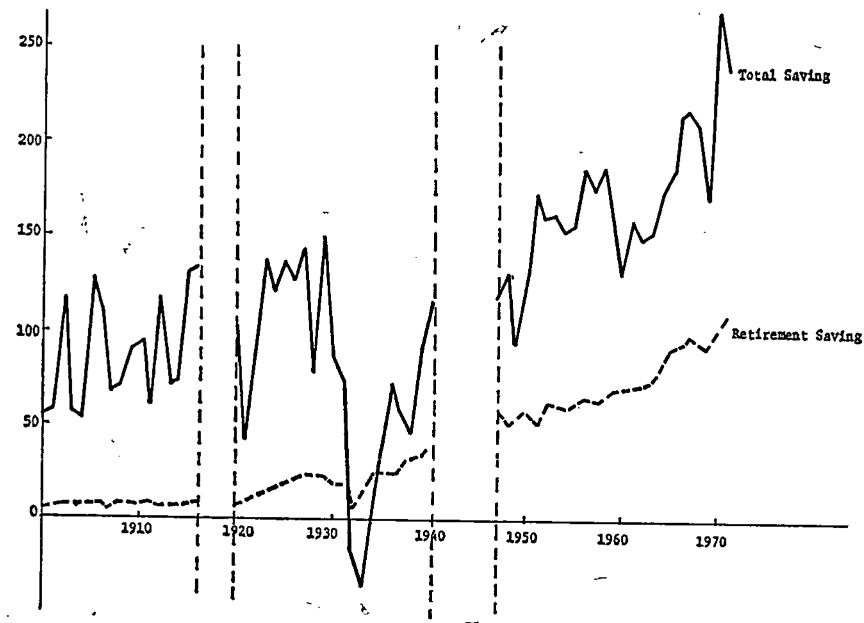
[13] The retirement saving series is defined to include the net increase in assets of life insurance companies (net of policy loans), pension plans, and Government

empirically using multiple regression analysis on saving, retirement, and social security data for the period 1929–69. The explanatory variables included in the final equation are as follows:

(1) Income.—Disposable personal income.
(2) Wealth.—Net worth of consumers.
(3) "Retirement effect".—Labor force participation of males aged 65 and over.
(4) "Benefit effect".—Social security wealth.
(5) Unemployment.—Unemployed as a percent of civilian labor force.

Income and wealth are the traditional variables used to explain savings behavior.[14] The additional variables, introduced to test the "dual impact" hypothesis, require some further explanation.

FIGURE 3.—Saving per capita in 1958 dollars: Total and by component, 1900–71.



Source: Author's estimates.

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insurance and pension plans. Naturally, changes in these assets do not represent all of retirement saving and all this saving is not solely for retirement. A large part of the growth in life insurance also satisfies the precautionary motive. On the other hand, many individuals are also saving for retirement through investments in savings accounts, stocks, bonds and real estate.

The retirement saving series is based on aggregate savings data by component published by Raymond Goldsmith for 1900–48 and by the Securities and Exchange Commission for 1948–70. See Raymond Goldsmith, *A Study of Saving in the United States*, Vol. 1 (Princeton, N.J.: Princeton University Press, 1956) and *Flow of Funds Accounts* 1945–68 (Washington, D.C.: Government Printing Office. March 1970).

[14] All income and wealth data were entered on a per capita basis and in constant 1958 dollars.

Retirement effect.—The ideal measure of the retirement effect would be the ratio of expected years to be spent in retirement to expected number of working plus retirement years.

Unfortunately, since data on expected or actual retirement years are not available, the labor force participation rates of males aged 65 and older can stand as a proxy to represent the lengthening of the retirement period over the century.

Benefit effect.—Unlike private pension plans where a large reserve fund is accumulated, the social security program functions more or less on a pay-as-you-go basis; therefore, in the aggregate the social security activity nets out to approximately zero. Consequently, a problem arises of how to introduce social security quantitatively into a savings function.

In this study, the benefit effect of social security is introduced by means of a social security wealth variable.[15] The wealth series was constructed by calculating the present discounted value of social security benefits outstanding, taking into account the probabilities of living to receive them.[16] Table 1 presents the values of social security wealth and net worth of consumers for selected years. By 1969, the wealth variable in 1958 dollars amounted to more than $1.4 trillion, which was equivalent to almost two-thirds of total household assets. Social security wealth as a share of GNP has also increased significantly, reflecting a significant increase in benefits and in the proportion of individuals covered by the program as well as a general aging of the population.

The results of the statistical analysis support the dual impact hypothesis. The benefit effect represented by social security wealth has indeed had a significant depressing impact on saving over the period 1929–69. On the other hand, the trend toward earlier retirement rep-

TABLE 1.—*Social security wealth, net worth of consumers, and GNP; selected years 1940–69*

[Billions of 1958 dollars]

Year	Social security wealth	Net worth of consumers	GNP
1940	175	903	227
1950	329	1,164	355
1955	514	1,396	438
1960	683	1,621	488
1965	1,039	2,016	618
1969	1,424	2,303	726

Source: Author's estimates.

[15] It is assumed that the current impact of transferring income from the working to the retired would not affect savings behavior. While it is true that the aged have a high propensity to consume, the tax is derived primarily from low-income individuals who also have high consumption propensities.

[16] See technical appendix for detailed description of the construction of the social security wealth variable.

resented by the labor force participation of aged men has stimulated saving.[17]

It is interesting to examine the implications of the statistical results for aggregate savings. The marginal propensity to save out of social security wealth is −0.008. In 1969, the wealth variable was $1,424 billion in 1958 dollars, implying a reduction in retirement saving of $11.4 billion. The retirement variable, however, implies an increase in saving of $8.5 billion. The net impact of these two effects is a $2.9 billion reduction in retirement savings in 1969 when total personal saving amounted to $35.2 billion in 1958 dollars.

IV. Pension Coverage and Saving

The conclusion of the time series analysis, that while an extended retirement period has stimulated saving social security benefits have depressed saving, was reinforced by cross-sectional evidence of the effect of private pension coverage on personal savings behavior. The data for this analysis came from a series of questionnaire surveys conducted between 1958 and 1961 of members of the Consumer Union.[18]

In keeping with this study's emphasis on retirement saving, the cross-sectional analysis focused on the savings behavior of persons aged 55–64. An effort was made to standardize for all socioeconomic characteristics by including variables for education, homeownership, size of household and savings preferences as well as traditional income and wealth information. Pension coverage was represented by a dummy variable that was set equal to 1 if the head of the household expected to receive a monthly benefit if he continued with his present employer.

The results revealed that for the retirement savers coverage by a pension plan had a significant depressing effect on private saving. The size of the coefficient indicated that coverage by a pension plan implied a reduction in the households' savings rate of 3 percentage points, which is quite significant given average savings ratios of 0.12.

Some additional equations were estimated including a dummy for social security coverage. The performance of this variable was very similar to that of the pension dummy. For the retirement savers (individuals aged 55–64), coverage by social security implied a further 3 percentage point reduction in the household savings rate.

Finally, regressions were run including an expected benefit and vesting variable. Among the retirement savers, those with fully vested

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[17] The coefficients and t-statistics of the equation for 1929–69 are as follows:

$$\underset{}{S} = -19.7 + \underset{(5.4)}{0.153YD} - \underset{(5.5)}{0.015NW_{t-1}} - \underset{(2.1)}{0.008SSW} - \underset{(2.4)}{0.061YD \cdot LF65} + \underset{(1.3)}{0.536RU}$$

Confidence in these results was reinforced by other equations estimated for this study. Social security contributions were also included as a proxy for benefits contributions and this variable had the same quantitative impact as the social security wealth.

[18] The subsample used in this study consisted of those 3,000 families who responded to all four parts of the survey and for whom there was complete and consistent data.

pension benefits saved considerably less than those without. Furthermore, vested pension benefits were the primary determinant of variations in savings ratios in the age 55–64 group.[19]

These results on the impact of expected benefits were in line with those from a recent Labor Department study. The new evidence, based on a sample of 5,000 men between age 45 and 59, indicated that employed men approaching retirement who expected to receive pension benefits saved considerably less than those without benefits.[20]

In short, the evidence from the Consumers Union sample supports the hypothesis that the assurance of benefits on retirement will reduce saving for retirement. These results together with the Labor Department study significantly weaken support for the alternative contention that pension coverage stimulates saving.

V. Conclusion

This study explains the constant aggregate savings rate over the last 35 years, despite the significant growth in the social security program. There have been two strong forces operating simultaneously on the savings rate during the last three decades. On the one hand, the social security benefit effect has led to a decline in private savings, while on the other, the extension of retirement years has forced individuals to save more during their working lives.

Two new pieces of evidence considerably weaken support for the alternative hypothesis that the existence of pension benefits stimulates saving. First, a Labor Department study found that individuals nearing retirement who expected benefits saved less than those without benefits. Second, a reexamination of Consumers Union data indicated that individuals aged 55–64 significantly reduced their private saving if covered by a private pension.

The apparent neutral influence of social security on saving has really been the net result of two strong but offsetting forces, and this dual impact argument has implications for both the welfare of the retired and the future volume of aggregate personal savings. To evaluate the effect of social security on the welfare of the retired, it is use-

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[19] Both the results of the Consumers Union subsample and the recent evidence from the Labor Department survey directly contradict the conclusion of the two well-known studies of pension coverage and saving. Since one of these studies by Philip Cagan, *The Effect of Pension Plans on Aggregate Saving*, was based on the same sample of Consumers Union members as our analysis, it is important to explain the contradictory results. There seem to be three contributing factors. First, the data in the subsample contains more information than Cagan's since it includes all four rounds of questionnaires. Furthermore, the savings data are constructed through detailed balance sheet information rather than by respondents' estimates of "approximate changes" in broad categories of assets. The subsample was also subjected to considerably more elaborate screening and consistency checks. The second factor contributing to the new results is the method of analysis. Due to the size of Cagan's sample, he was not able to standardize for a large number of socioeconomic variables simultaneously. With regression analysis it is possible to isolate the impact of pension coverage from that of education, family size, income, age and so on. Finally, the analysis of the subsample focused on the savings behavior of those persons most concerned about saving for retirement, individuals aged 55–64. If a substitution effect of pension saving for private saving existed it would clearly be found among members of this pre-retirement age group

[20] Ronald B. Gold, "Tax Deductions for Individual Retirement Savings," *National Tax Journal*, December 1972.

ful to separate the population into two groups—those who, in the absence of social security, would have made provisions for their retirement and those who would not. Clearly social security has made a significant contribution to the welfare of the latter. These individuals now are assured of a monthly benefit, which they can view as an earned right, rather than arriving at retirement destitute and dependent on welfare. On the other hand, the negative benefit effect indicates that many persons who would have saved on their own have simply substituted social security for private saving. In short, social security has unequivocally improved the retirements of the nonsavers, but savers may have just substituted one form of saving for another.

The second implication of the dual impact hypothesis pertains to the future behavior of aggregate personal savings. Whereas the "retirement" and "benefit" effects have just about offset one another in the past, it is unlikely that this balance will continue in the future. The extraordinary decline in the labor force participation of the aged experienced during the last three decades appears to have slowed, and the number of expected retirement years will increase only slightly. Furthermore with population growth leveling off, any increased saving due to shorter working lives will be offset by greater dissaving due to extended retirements. This means that the stimulative impact of social security through extended retirements will be far less important in the future than in the past. At the same time, the impact of the social security benefit effect which tends to discourage private saving will become larger, reflecting the accelerated rate of benefit increases. Congress has enacted across-the-board benefit increases totaling more than 50 percent from 1970–1973, and these increases will substantially raise the value of social security wealth. Greater social security wealth will result in larger reductions in personal saving.

In the future, social security will probably reduce personal saving by about 25 percent. Personal saving generally accounts for about 60 percent of total corporate and private saving. These ratios imply a 10 percent reduction in future savings due to the social security program. If this reduction contributes toward a significant capital shortage, then the Government may want to undertake offsetting policies. Fortunately, the social security system, which is partially responsible for the decline in saving, can be used as a mechanism for insuring an adequate supply of capital. If social security were moved either partially or fully from a pay-as-you-go to a funded system which accumulated large reserves, the Government could then insure an optimal supply of capital.

Technical Appendix

I. Calculation of Social Security Wealth

Social security wealth represents the present discounted value of social security benefits accrued to working age individuals. This includes workers whose earnings are currently subject to the social security tax, retired workers and beneficiaries already receiving benefits, and males aged 16–20, 20–24, 55–59, 60–64 not currently in the work force but expected to be covered or have been covered some time during their lifetimes.

For any given year, total benefits are the sum of the expected benefits for (1) working males, their wives and widows, (2) working females, (3) aged nonworking men, (4) aged nonworking women, and (5) aged widows and widowers. To calculate the benefits for a given age group, say 40–49 years, and for a given year, say 1950, the social security wealth for male (or female) workers would be calculated as follows:

$$SSW_{1950,\,40-49}=N_{40-49}\sum_{i=65}^{100}\frac{\overline{B}}{YD}\cdot YD_{1950}\cdot\frac{(1+G)^{65-45}}{(1+D)^{65-45}}\cdot\frac{MPL_i}{MPL_{45}}\cdot\frac{(1+G)^{i-64}}{(1+D)^{i-64}}$$

where:

$SSW_{1950,\,40-49}$ = Present discounted value of social security benefits to be received by insured workers in the 40–49 age group in 1950.

$\overline{B}/YD$ = Average ratio of social security benefits to per capita disposable income for the period 1940–70. There has been no trend in this ratio so that the average value is projected for the future.

N_{40-49} = Number of men in covered employment aged 40–49.

$\frac{MPL_i}{MPL_{45}}$ = The probability that a man will live to age i (65, 66, 67, etc.) given that he has lived to age 45.

$\frac{(1+G)^{65-45}}{(1+D)^{65-45}}$ = The growth term insures that real per capita income increases at 2 percent per year until the man retires at age 65. The discount term discounts benefits from age 65 back to the present, i.e., 1950.

$\frac{(1+G)^{i-64}}{(1+D)^{i-64}}$ = The growth term insures that income continues to grow after retirement. The discount term serves to discount benefits after retirement back to age 65.

Essentially, the social security wealth for male (female) workers aged 40–49 is equal to the expected benefit at age 65 times the probability of living to age 65 given the worker has reached age 45, plus the expected benefit at age 66 times the probability of living to age 66, etc. The expected benefits are calculated by applying the (constant) benefit-income ratio to projected real per capita disposable income at retirement, where real per capita income is assumed to grow at 2 percent per year.

In addition to benefits for male and female workers, a calculation is made for the dependents of male workers. Approximately 60 percent of retired male workers are expected to be married and have wives who will claim benefits as a wife rather than a woman worker. The wife receives a benefit equal to 50 percent of her husband's while he lives and 82.5 percent as a widow. (The law has recently been changed to provide a widow with 100 percent of her husband's benefit.)

The benefits for female workers, male workers and dependents are summed for each age group. Then the age groups are summed to derive total social security wealth for each year.

For the variable used in this study, the value of G was set equal to .02, the rate of growth of real disposable personal income from 1937 to 1972. A value of D=.03 was used to reflect the real average rate of interest after taxes during the same period.

II.

The purpose of this part of the appendix is to present the regression results for both the time series and the cross-sectional analysis summarized in the article.

Time Series Data

The form of the equations estimated for 1900–1971, 1929–1971, and 1946–1971 was as follows:

$$S=\delta_1+\delta_2 YD(\beta_1+\beta_2 LF65)+\delta_3 SS+\delta_4 NW_{t-1}+\delta_5 RU$$

where:

S= (1) Total personal saving per capita in 1958 dollars.
(2) Retirement saving per capita in 1958 dollars.

YD= Disposable personal income per capita in 1958 dollars.

$LF65$=Labor force participation of males aged 65 and over (as a proxy for the increasing importance of retirement).

SS= (1) Combined employer-employee social security contributions in 1958 dollars per capita.
(2) Per capital social security wealth in 1958 dollars.

NW_{t-1}=Per capita consumer net worth in 1958 dollars.

RU= Unemployment rate.

The equations were estimated using ordinary least squares and the results are presented in table A-1. The signs and magnitudes of the coefficients are in line with the predicted results, and retirement savings equations provide a clear picture of the "dual impact" of social security. As discussed in the text, the retirement and social security variables have had an approximately offsetting effect on personal saving.

TABLE A-1.—*Savings functions including social security "benefit" and "retirement" effects*

Dependent variables	Independent variables							R^2
	YD	NW_{t-1}	SSWG	SSCON	YD^*LF 65	RU	k	
1929–69:								
Saving	.272	−.016	−.030		−.150	−4.794	28.73	0.91
t statistics	2.2	1.2	1.6		1.2	2.4	.2	
Retirement saving	.153	−.015	−.008		−.061	.536	−19.70	.98
t statistics	5.4	5.5	2.1		2.4	1.3	7.	
1900–71:								
Saving	.114	−.004		−.326	−.059	−4.836	64.25	.84
t statistics	1.6	.4		.5	.4	5.5	1.5	
Retirement saving	.092	−.001		−.390	−.057	.295	−40.67	.98
t statistics	6.3	.6	2.7		1.9	1.6	4.7	
1929–71:								
Saving	.150	−.010		−.390	−.023	−3.627	21.29	.90
t statistics	1.7	.7		.4	.2	1.9	.1	
Retirement saving	.139	−.011		−.531	−.090	.404	−16.38	.98
t statistics	9.9	4.5		3.4	3.8	1.3	.7	

Note: Variables are per capita and in 1958 dollars.

Cross Sectional Analysis—Consumer Union Sample

The Ando-Modigliani life-cycle savings model was also employed in the cross sectional analysis. The specific form of the estimated equations was based on the following relationships:

$$(1)\quad S_t=\alpha_1+\alpha_2Y_t+\alpha_3W_{t-1}$$

$$(2)\quad \alpha_2=\beta_1+\beta_2\,\mathrm{TASTE}+\beta_3\,\mathrm{HO}+\beta_4\,\mathrm{COLL}+\beta_5\,\mathrm{COVPP}+\beta_6\,\mathrm{NHOUSE}$$

$$(3)\quad \frac{S_t}{Y_t}=\alpha_1\cdot\frac{1}{Y_t}+\beta_1+\beta_2T+\beta_3\,\mathrm{HO}+\beta_4\,\mathrm{COLL}$$

$$+\beta_5\,\mathrm{COVPP}+\alpha_3\frac{W_{t-1}}{Y_t}+\beta_6\,\mathrm{NHOUSE}$$

where:

S= Saving per consumer unit
Y= Disposable family income
NHOUSE= Number of individuals in the household
COLL= 1 Head of household experienced—at least some college education
TASTE= 1 Household's description of saving habits involved "setting aside savings in advance"
HO= 1 Household owns its own home
COVPP= 1 Household head expects monthly pension benefit if he continues working with same employer.

The results of regressions for individuals aged 55–64 are presented in table 2 for both pension and social security coverage.

TABLE A-2.—*Effect of social security coverage on private saving, individuals aged 55–64*

Dependent variable	1/Y	W/Y	Constant	COVPP	COLL	SAVER	HO	NHOUSE	COVSS	R^2
Saving	168.5	0.001	0.070	−0.030	0.025	0.028	0.026	−0.007	----------	0.019
t values	.8	.3	1.5	1.2	1.2	1.5	1.0	.7	----------	----------
Saving	169.2	.001	.11	−.030	0.027	.028	.026	−.008	−.026	.024
t values	.8	.8	1.9	1.2	1.2	1.4	1.0	.7	1.1	--------

Some additional equations were estimated to determine the impact of expected benefit levels and the degree of vesting on personal savings behavior. The estimated equation for individuals aged 55–64 is as follows:

$$
\begin{aligned}
S/Y = &\underset{(1.6)}{.083} + \underset{(1.1)}{225.3}\ 1/Y + \underset{(.3)}{.001}\ W/Y - \underset{(.5)}{.022}\ \text{EXPBEN} - \underset{(2.5)}{.174}\ \frac{\text{EXPBEN}}{\text{Y}} * \text{VEST} \\
&+ \underset{(1.2)}{.026}\ \text{COLL} + \underset{(1.4)}{.027}\ \text{SAVER} + \underset{(.9)}{.023}\ \text{HO} - \underset{(.8)}{.008}
\end{aligned}
$$

The new variables are EXPBEN/*Y*, which is the ratio of annual expected benefits to disposable income, and VEST, which is a dummy variable to represent vested benefits.

The fully vested benefit seems to be the single most important explanation of variations in savings ratios for preretirement households. Introducing the interaction term into the model including all the demographic and socioeconomic characteristics doubles the R^2 from 0.020 to 0.040.

INTEGRATION OF PRIVATE PENSION PLANS WITH SOCIAL SECURITY

By RAYMOND SCHMITT*

INTRODUCTION

Debate on the pension reform legislation of 1974 revealed new congressional interest in the "integration" of private pension plans with social security. Plans which correlate pension benefits or contributions with social security benefits or contributions are said to be "integrated." While based on the logical idea that the Nation's public and private pension systems should be considered as a whole, integration has the practical effect of partially or totally denying private pension benefits to workers whose earnings do not exceed the social security wage base.

The Ways and Means Committee report on H.R. 12855 [1] stated that the committee believed that integration practices raised important issues:

> On the one hand, the objective of the Congress in increasing social security benefits might be considered to be frustrated to the extent that individuals with low and moderate incomes have their private retirement benefits reduced as a result of the integration procedures. On the other hand, your committee is very much aware that many present plans are fully or partly integrated and that elimination of the integration procedures could substantially increase the cost of financing private plans. Employees, as a whole, might be injured rather than aided if such cost increases resulted in slowing down the rate of growth of private retirement plans.[2]

Recognizing "the serious issues involved in the integration of private plans with the social security system," [3] the Ways and Means Committee chose not to take abrupt action. The committee voted to prohibit integrated pension plans from using increases in social security benefit levels as a reason for reducing the pension benefits paid to employees already retired and receiving pension benefits, or to em-

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[1] U.S. Congress, Ways and Means Committee, *Private Pension Tax Reform*, House Report No. 93–807, 93d Congress, 2d Session (1974). H.R. 12855 eventually became title II of the House-passed version of H.R. 2.

[2] Ibid, p. 29.

[3] Ibid.

ployees separated from the employer's service prior to retirement.[4] The conference committee also tried, unsuccessfully, to freeze integration at 1971 social security levels until June 30, 1976.[5] Most importantly, the Ways and Means Committee called for further study[6] of integration and announced its intention to "consider this overall problem again at the earliest opportunity, possibly in connection with future tax reform or social security legislation."

Although pension plan integration is an important issue of public policy, information about it has been scanty. Precise answers have been unavailable for basic questions such as how many plans integrate, or to what extent plans integrate within the limits permitted by IRS. Furthermore, little has been written on the equity of the present rules for integration and the probable cost of substantially reducing the permitted integration differentials to improve treatment of lower wage earners.

In order to obtain answers to these questions, a survey was made by the Congressional Research Service.[7] The survey examined the prevalence of integration, the levels at which private plans are integrated, cost increases that would result if plans were no longer permitted to integrate, and certain implications of private pension plan integration.

General Statement of Findings

The following general findings were disclosed by the Congressional Research Service survey of integrated plans.

1. Prevalence of integration.—The integration issue concerns a majority of private pension plans. It is estimated that approximately 60 percent of the 412,376 active corporate-type pension, profit-sharing, and stock bonus plans in existence today are integrated with social security. In terms of participants, however, integration affects a minority. It is estimated that integration affects about 25 to 30 percent of the 30 million participants believed to be covered by private pension plans in 1974. (These figures exclude Keogh plans for the self-employed.)

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[4] Ibid. This action codified IRS administrative practice regarding retired individuals and extended the prohibition to cases where the individuals concerned were separated from service prior to retirement with deferred nonforfeitable rights to plan benefits.

[5] Section 1021g of the conference bill provided that until July 1, 1976, pension plans could not increase their level of integration of social security with private pension plans by taking into account changes in the social security benefit levels since 1971 (even though increases in social security benefits had occurred since 1971). Under this provision, however, plans which were integrated above the 1971 levels would have been permitted to retain their levels of integration. After receiving a storm of protest from employers and the private pension industry, the House adopted a concurrent resolution to delete this provision.

[6] The 1974 pension law calls for several congressional studies. Although the law itself makes no specific reference to a study of pension plan integration, the conference report states, "The conference substitute also provides (consistent with the Ways and Means Committee report) for a 2-year study, by the Congress, of the issues involved in the integration of private pension plans with social security." A joint pension task force was created comprised of the staffs of the Committee on Ways and Means and the Committee on Education and Labor of the House, the Joint Committee on Internal Revenue Taxation, and the Committee on Finance and the Committee on Labor and Public Welfare of the Senate.

[7] The methodology of the survey is explained in Appendix I.

2. Small plans versus large plans.—Smaller plans (those covering fewer than 26 participants) are more than twice as likely to be integrated with social security as are larger plans. It is estimated that 64 percent of smaller plans, compared to 29 percent of larger plans, are integrated. (Small plans are estimated to cover about 10 percent of all covered workers; large plans cover the remaining 90 percent.)

3. Hourly wage earners versus salaried employees.—The survey showed that pension plans for hourly workers—especially those covered by a collective bargaining agreement—were usually not integrated with social security. Pension plans for salaried employees, on the other hand, were frequently integrated. Furthermore, it was learned that companies often have more than one pension plan, a nonintegrated plan for the hourly worker and an integrated plan for the salaried employee.

4. Time lag in integration level.—Integrated plans usually do not routinely amend their integration levels to reflect the most recent social security wage base. Although some plans are written so as to automatically reflect the most recent taxable wage base, integration levels tend to remain unchanged or to lag behind increases in the taxable wage base.

5. Some benefit rather than no benefit.—Although many plans are integrated with social security, they usually provide at least some benefit in relation to earnings falling below the integration level.

How Integration Works

The Internal Revenue Code permits private pension plans to integrate their benefit formulas with benefits provided under social security. The basic idea of integration is simple. Social security laws set a ceiling on the amount of wages subject to payroll tax. Since social security benefits are related to covered earnings, they also have a built-in ceiling. Thus, social security income replacement rates decrease as preretirement income increases. It was considered logical, therefore, to permit the private pension system to pick up where the social security system left off by providing supplemental benefits based upon earnings above the social security wage base.

Congress recognized this in 1942, when it first wrote into the law the proviso that although a tax-qualified plan could not discriminate in favor of the higher paid workers, its benefit structure could favor those with earnings above the social security ceiling provided that when the public and private benefits were considered together, their combined benefits did not give preference to the higher paid. So long as the ratio of combined benefits to earnings is no higher for employees whose wages exceed the taxable wage base than for those whose wages are fully taxed by social security, Congress said a plan would be held to be nondiscriminatory.

A ruling by the Internal Revenue Service (Revenue Ruling 71-446) implements this nondiscrimination requirement by specifying certain limits to benefits (or contributions) that a private pension plan must observe in order for the plan to receive special tax treatment. These limits govern the extent to which retirement benefits based on earnings above the social security taxable wage base can exceed benefits based on earnings below it.

There are two general types of retirement plans—defined benefit plans and defined contribution plans.

Under a defined benefit plan, a formula is provided for computing the monthly pension benefit. For instance, a plan might provide a monthly benefit of $6 times years of service up to a maximum of 40 years. Thus, an individual retiring with 40 or more years of service would receive a monthly pension of $240.

In contrast, under a defined contribution plan, the employer makes a separate contribution of some stated amount for the benefit of each covered employee. Such plans include profit-sharing and stock bonus plans, where an employer contributes a certain percentage of profits according to a predetermined formula; under these kinds of plans, a participant's account balance may fluctuate depending upon the market value of the stock. Another type of defined contribution plan is a money purchase plan. Under a money purchase plan, an employer might contribute 7 percent of each employee's compensation to the individual employee's pension account; upon retirement, the individual then would be entitled to whatever retirement annuity could be purchased with the funds credited to his account.

There are two primary ways in which retirement plans can integrate their benefit formulas with social security (although profit-sharing and stock bonus plans usually are not integrated): either an offset basis or an excess basis.

Offset plan

Under an offset plan, the private pension provided by an employer is reduced, or offset, by as much as 83⅓ percent of the primary social security benefit. For example, an offset formula may provide a plan participant with a monthly pension of 1 percent of average pay for each year of service, reduced by 50 percent of the individual's primary social security benefit. Under this formula, three individuals—all of whom had worked 30 years with the same employer—would receive the following benefits if they retired at age 65 in January 1973:

Average monthly earnings	*Monthly benefits from:* Social security	Private pension [1]	*Combined benefit*
$250	$174.80	$0	$174.80
750	266.10	92	358.10
2,250	266.10	542	808.10

[1] Computation of private pension benefit:
[(30 percent of $250)—(50 percent of $174.80)].
[(30 percent of $750)—(50 percent of $266.10)].
[(30 percent of $2,250)—(50 percent of $266.10)].

Excess Plans

The more common way for private retirement plans to be integrated with social security old-age benefits is under one of several "excess" methods. An excess plan usually is based on compensation earned in excess of covered compensation, or in excess of some other lower stated dollar amount that is uniformly applied to all employees. Another form of excess plan is called a "step-rate" excess plan. Under a step-rate excess plan all earnings are taken into account in applying the plan formula: however, the formula will contain two percentages—a lower percentage for earnings up to some stipulated level and a higher percentage for earnings in excess of this amount. In all, six different types of excess plans can be distinguished: flat-benefit, unit-benefit, step-rate flat benefit, step-rate unit benefit, defined contribution, and step-rate defined contribution plans.

1. Flat-benefit excess plan.—In integrated plans of this type, plan benefits are provided only with respect to final average pay in excess of the integration level set by the plan. The maximum permissible integration level under these plans is determined by a procedure described in appendix III. Annual pension benefits may be as much as 37½ percent of annual compensation in excess of the integration level as long as no benefits are provided in relation to compensation below that level. For example, a flat-benefit excess plan might have an integration level of $9,000 and provide annual retirement benefits upon retirement at age 65 equal to 30 percent of average annual compensation in excess of $9,000 for an individual with at least 15 years of service. The following table shows the benefits that 3 different individuals would receive under this plan.

Annual compensation:	*Amount of private pension*
$6,000	0
$10,000 [30 percent of ($10,000—$9,000)]	$300
$20,000 [30 percent of ($20,000—$9,000)]	3, 300

2. Unit-benefit excess plan.—A unit-benefit excess plan provides a pension benefit of some percentage of average pay in excess of the integration level for each year of service. The maximum permitted integration level for such plans is the current social security maximum tax base ($14,100 after Jan 1, 1975.) Annual pension benefits may be as much as 1 percent of average compensation above the integration level (or 1.4 percent if based on actual compensation). For example, a unit-benefit excess plan might provide a pension benefit equal to 1 percent of compensation over $7,800, times years of service. The following table shows the amounts that three different individuals would receive after working 30 years under this plan.

Annual compensation:	*Amount of monthly private pension*
$6,000	0
$10,000 [30×1 percent of ($10,000—$7,800)]	$660
$20,000 [30×1 percent of ($20,000—$7,800)]	3, 660

3. Step-rate flat benefit excess plan.—Under a plan of this type, all earnings are taken into account in applying the plan formula. However, the step-rate formula contains two percentages, one for earnings up to the integration level, another for earnings above it. The difference between the two percentages may not exceed 37½ percent. The integration level is determined as in case 1. For example, a plan might provide a flat benefit to individuals with at least 15 years of service equal to 15 percent of compensation up to $9,000, and 40 percent of compensation over $9,000. The following table shows the amount that three different individuals would receive under this plan.

Annual compensation:	*Amount of private pension*
$6,000 [15 percent of $6,000]	$900
$10,000 [(15 percent of $9,000)+(40 percent of $1,000)]	1, 750
$20,000 [(15 percent of $9,000)+(40 percent of $11,000)]	5, 750

4. Step-rate unit benefit excess plan.—Like the step-rate flat benefit excess plan, a step-rate unit benefit excess plan bases benefits on all earnings and applies one percentage to earnings up to some stipulated amount and a higher percentage to earnings above this amount. (The difference between these percentages may not exceed 1 percent if based on average compensation, or 1.4 percent if based on actual compensation.) But its formula contains an extra factor, years of service. The integration level is determined as in case 2. For example, a step-rate unit benefit excess plan may provide a benefit of 3/4 percent of the first $500 of monthly income and 1 3/4 percent for amounts over $500, times years of service. The following table shows the amounts that three different individuals would receive under this plan after working 25 years.

Monthly compensation:	*Amount of private pension*
$500 [25 (3/4 percent of $500)]	$93.75
$800 [25 [(3/4 percent of $500) plus (1 3/4 percent of $300)]]	225.00
$1,700 [25 [(3/4 percent of $500) plus (1 3/4 percent of $1,200)]]	618.75

5. Defined contribution excess plan.—Under a plan of this type, employer contributions are based on earnings in excess of the integration level. The maximum allowable integration level in such plans is the current social security wage base. The rate of employer contributions to an employee's account cannot exceed 7 percent if based on actual compensation (or 5 percent if based on average annual compensation). For example, a defined contribution excess plan might call for employer contributions of 5 percent of monthly compensation in excess of $500. The following table shows the amounts that three different individuals would receive under this plan.

Monthly compensation:	*Amount of employer contributions*
$500	$0
$800 [5 percent of $300]	15
$1,700 [5 percent of $1,200]	60

6. Step-rate defined contribution excess plan.—Like other step-rate plans, a step-rate defined contribution excess plan bases contributions on all earnings and applies one percentage to earnings up to some stipulated amount and a higher percentage to earnings above this amount (the difference may not exceed the amounts specified in case 5). The integration level is determined as in case 5. For example, a step-rate defined contribution plan may call for employer contributions of 2 percent of the first $500 of monthly earnings, and 5 percent for amounts over $500. The following table shows the amount of employer contributions to the accounts of the three individuals cited in the previous example.

Monthly compensation:	*Amount of employer contributions*
$500 [2 percent of $500]	$10
$800 [(2 percent of $500) plus (5 percent of $300)]	25
$1,700 [(2 percent of $500) plus (5 percent of $1,200)]	70

SURVEY OF INTEGRATED RETIREMENT PLANS

Prevalence of Integration

According to the Pension Trust Branch of the Internal Revenue Service, there were 412,376 corporate-type pension, profit-sharing, and stock bonus plans active as of September 30, 1974. This excludes "Keogh" plans for the self-employed.

The Congressional Research Service surveyed these plans in two groups. (1) Large plans, covering 26 or more workers, were required by the Welfare and Pension Plans Disclosure Act to file reports with the Department of Labor. There were about 47,000 such active plans. The CRS took a sample of these plans from department files. (2) Until the recent enactment of the private pension reform law, plans covering fewer than 26 workers were not required to report to the Department of Labor. The CRS obtained a sample of these smaller plans from 17 major life insurance companies which together underwrite 92,000 such plans covering about 720,000 workers.[8]

There are several estimates of the number of individuals covered by private retirement plans. The Social Security Administration estimated that there were about 27.5 million wage and salary workers covered by private employee-benefit plans at the end of 1972.[9] A conservative 1974 estimate of the number of individuals covered by employee benefit plans would be about 30 million participants. We estimate that about 2.5 to 3 million individuals are covered by plans having fewer than 26 participants, with the remainder covered by larger plans.

Based upon the results of the two Congressional Research Service samples, it is estimated that about 60 percent of the 412,376 corporate-type plans are integrated with social security. More than twice as many smaller plans (that is, those covering fewer than 26 participants) are integrated with social security than larger plans—64 percent compared to 29 percent. Thus, integration is not simply a minor matter that concerns relatively few plans.

Also of importance is the number of individuals affected by integrated plans. As explained in Appendix I, a statistical estimate of the number of individuals covered by integrated plans could not be made with any precision. However, based upon the sample results and the opinions of pension experts, it is estimated that about 25 to 30 percent of pension plan participants, or between 7.5 million and 9 million individuals, are covered by integrated plans.

On the surface it would appear that the more frequent use of integrated plans by small employers may be caused in part by the fact that small employers have the opportunity to establish tax-qualified integrated plans that primarily benefit themselves (although not being considered discriminatory under the Internal Revenue Code) by setting integration levels as high as possible and by providing as high a benefit as permitted in relation to excess earnings.

An additional explanation for the more frequent use of non-integrated plans by large employers may stem from the fact that the companies are more likely to be unionized. Plans covered by a collective bargaining agreement are seldom integrated.

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[8] For a description of the methodology of the Congressional Research Service survey, see Appendix I.

[9] U.S. Department of Health, Education, and Welfare, Social Security Administration, "Employee-Benefit Plans, 1972," by Walter W. Kolodrubetz, Social Security Bulletin (Washington, D.C.: Government Printing Office, May 1974), pp. 15–21. (By way of comparison, the Pension Trust Branch of the Internal Revenue Service currently estimates that about 35 million individuals are covered by the 412,376 plans.)

Breakdown of Different Types of Integrated Formulas

The following table presents a breakdown of the types of integrated formulas found in both samples of the CRS survey.

Type of formula [1]	Percent breakdown: Plans covering fewer than 26 participants	Percent breakdown: Plans covering 26 or more participants
Step-rate flat benefit excess	40	15
Step-rate defined contribution excess	22	0
Step-rate unit benefit excess	15	42
Flat-benefit excess	15	6
Defined contribution excess	4	3
Offset	3	24
Unit-benefit excess	0	13
Other	1	5
Total	100	100

[1] Integrated plan benefit formulas are often very complicated. Moreover, some plans offer 2 formulas—1 integrated and 1 nonintegrated—with the employee being covered by the formula producing the greater benefit. Other plans offer a minimum benefit regardless of the fact that they are integrated. Integrated plans were therefore classified according to the general category which best described them.

The table shows sharply different patterns of integration between large and small plans. More than half of the plans covering 26 or more participants—55 percent—calculated benefits per year of service (unit benefit plans), but only 15 percent of the smaller plans were of the unit benefit variety. Plans that reduce benefits by the amount of the social security payment (offset plans) were rare among smaller plans, accounting for only 3 percent. However, almost 1 in 4 larger plans were of this type.

Despite these differences, however, large and small plans share an important feature. Both tend to offer some benefit related to wages below the integration level. Seventy-seven percent of the smaller plans and 57 percent of the larger plans have step-rate features. Thus, lower and moderate income workers could receive something from an integrated plan even though their compensation is below the integration level adopted by the plan.

Integration Levels

Since the Internal Revenue Service permits integrated retirement plans (with the exception of flat benefit plans) to exclude compensation up to the social security taxable wage base in effect at any time, an examination was made of the integration levels of the plans in the two Congressional Research Service samples.[10] The following table shows the integration levels of "excess type" plans in each sample.

[10] For a discussion of IRS rules on integration levels, particularly with respect to flat benefit plans, see Appendix III.

Integration levels for "excess" plans

Integration level [1]	Percent breakdown: Plans covering fewer than 26 participants	Percent breakdown: Plans covering 26 or more participants [2]
Under $3,600	(3)	4
$3,600	(3)	6
$4,200	21	37
$5,400	16	7
$6,600	17	24
$7,800	17	16
$9,000	8	1
$10,200	3	1
$13,200	17	4
Total	100	100

[1] Several plans were integrated at levels other than these and are included in the closest integration level category.
[2] Theoretically, this column should reflect current provisions since plans are required to send copies of any plan amendments to the Department of Labor. (Although many are frequently behind in even filing routine annual reports, it was assumed that the integration level did not change in the interim.)
[3] Less than 1 percent.

As can be seen in the above table, most retirement plans set their integration levels far below the maximum presently permitted—$13,200. Whether this will continue into the near future is problematical. For larger plans, practically half (47 percent) set their integation levels below $5,400. Only 6 percent had integration levels of $9,000 or more. Most larger plans were found to integrate at $4,200 (37 percent) or $6,600 (24 percent). Smaller plans tended to set their integration levels higher. Seventeen percent used $13,200 as the breaking point.

With respect to the Congressional Research Service's survey of larger plans, it was observed that the integration levels of many plans had been established years ago and had not been increased to reflect increases in the social security taxable wage base. In addition, the major life insurance companies which were the source of information in the survey of smaller plans were asked whether the plans written by their companies were amended routinely or periodically to reflect increases in the social security taxable wage base. Their answers suggest the following: Under standardized or prototype plans, companies establishing plans most frequently choose the taxable wage base in effect at that time. From then on, the pension plans are not routinely or periodically amended to reflect the most recent taxable wage base. Furthermore, the life insurance companies do not suggest to their customers that the integration levels be increased. However, most said that the plan could be amended at any time at the employer's discretion. One company (New York Life) stated that "all of our plans [group pension contracts] are periodically reviewed with our clients to determine if the plan is meeting its current objectives. With respect to retirement plans funded under individual contracts . . . New York Life does not have as formal a review program as under group pension contracts [although] our agents do review the plans from time to time with the trustees to determine if any amendments are desired."

Use of Maximum Permitted Differentials

IRS guidelines set forth several different amounts (depending on the type of plan and benefit formula) by which plans can provide higher benefits in relation to earnings above the taxable wage base without being considered to discriminate against the lower paid.[11] To what extent do plans use these maximum permitted differentials?

In an article in the February 1973 issue of *Pension and Welfare News* "Is Social Security Integration Still Important?" Murray Projector wrote,

> Many benefit formulas for small corporations have developed as a result of the "more than" mathematics game. The maximum permitted percentages on excess earnings have become the typical percentages in practice. In this way we have produced the most benefit for the most executives who are our clients.

Because of the diverse ways that plans integrate their benefits with social security and the very technical nature of the IRS revenue ruling, it is difficult to determine exactly to what extent each plan in the sample actually utilizes the maximum differentials permitted. In almost every case, the maximum differential has to be adjusted (in most instances downward) to reflect other retirement benefits offered by the plan, such as preretirement or postretirement death benefits, disability benefits, and a normal retirement age earlier than age 65. Employee contributions under the plan would have the reverse effect. A summary of the types of adjustments that would have to be made is included in Appendix III.

The following table shows the "unadjusted" amounts by which integrated plans utilize the maximum permitted IRS differentials:

Percent of maximum IRS differential utilized	Percent of smaller plans	Percent of larger plans
0 to 10	0	0
11 to 20	1	1
21 to 30	4	8
31 to 40	4	6
41 to 50	4	14
51 to 60	9	26
61 to 70	12	6
71 to 80	33	18
81 to 90	9	10
91 to 100	24	10
Total	100	100

The survey showed that smaller plans integrated their benefit formulas at higher levels than larger plans. Almost one-fourth of the

[11] For discussions of current maximum permitted differentials, see Appendices III and IV.

smaller plans are integrated "to the hilt," using between 91 and 100 percent of the maximum differentials permitted by IRS. In contrast, only 10 percent of the larger plans were integrated to such an extent. Furthermore, two-thirds of the smaller plans are integrated in excess of 70 percent compared to two-fifths of the larger plans.

It should be emphasized that the above figures reflect unadjusted figures. That is, in most cases the maximum limits permitted by IRS would have to be adjusted downward to reflect additional fringe benefits. As mentioned previously, only when a plan called for employee contributions would they be increased. Employee contributions were a feature of 23 percent of the larger plans and 10 percent of the smaller plans. The effect of a downward adjustment to the limitations would be an increase in the actual amount by which integrated plans utilize integration. The following table shows the extent to which integrated plans included provisions for which adjustments would have to be made in calculating the maximum differential actually utilized.

[In percent]

Type of supplemental retirement benefit	Small plans (covering fewer than 26)	Large plans (covering more than 26)
Preretirement death benefit	92	61
Postretirement death benefit	72	89
Disability retirement benefit	57	64
Employee contributions	10	23

Since all the plan details were not known it was not possible or practical to analyze each plan in the sample and make the detailed actuarial adjustments and assumptions required by the complex Revenue ruling. However, the following example illustrates the adjustments that would have to be made to determine precisely by how much an integrated plan "takes what it can get."

A company has an integrated plan covering salaried employees. It is a noncontributory plan having a benefit formula of 7/8 percent of average annual compensation under $6,600, in the 5 highest consecutive years of the 10 years preceding retirement, and 1½ percent of average compensation in excess of $6,600, times years of service. This plan would be classified as a step-rate unit benefit excess plan based on final average compensation. If the plan did not provide any supplementary benefits, the applicable IRS limit for such a plan would be 1 percent. Since this plan provides a difference in benefits on the excess compensation of 5/8 of 1 percent, or .00625, it would fall within the permissible .01 differential—using only 62½ percent of the maximum permitted. However, the plan does provide additional retirement benefits that would have to be taken into consideration. They are as follows:

Preretirement death benefits whereby spouse receives early retirement joint and survivor benefit of 50 percent payable to the start of social security, and
Disability retirement after 10 years of service.

In this example, two adjustments would have to be made—one for the disability retirement benefit, and the other for the preretirement death benefit. Since a preretirement disability benefit is provided, IRS regulations stipulate that the 1-percent limitation for a unit benefit plan based on final average compensation would have to be multiplied by 90 percent. This would reduce the .01 down to .009.

An adjustment would then have to be made to recognize preretirement death benefits. In this situation the IRS requires that an adjustment of $7 \div (7+2k)$ would be made, with "k" the ratio of survivor benefits to retirement benefits, being 50 percent. Thus

$$7 \div (7+[2\times.50]) = 7/8 \text{ or, } .875.$$

Multiplying the "adjusted" .009 limitation by .875 results in the final adjusted limitation of .007875. Since this particular plan uses .00625 out of the recomputed maximum differential of .007875, it uses 79 percent of "what it can get" rather than 62½ percent.

Cost

It is generally believed that the elimination of integration procedures would affect significantly the cost of financing many private retirement plans. But by how much?

For many integrated plans, the cost impact could be great if the integration rulings were changed to reduce substantially the permitted integration differentials. However, the plans which would experience the highest costs generally would be those which provide the least benefits to the lower paid. Cost increases would be translated into benefits primarily for the lower paid if employers wanted to continue providing the same benefits in relation to earnings above the integration level. Of course, benefits for the higher paid could be reduced to avoid increase in cost.

One actuary writes that for most small plans, the equivalent cost of a nonintegrated plan would result in a negligible lowering of benefits for the executives.[12] By negligible he meant 2–5 percent. Presumably his estimates reflect benefit forfeitures among lower-paid employees having the effect of "wiping out" most of the cost increase. The actuary added that "For the top executives of large corporations, the individual benefit differences between integrated and equivalent cost [nonintegrated] plans are not negligible."

In order to gain some insight into the costs associated with the elimination of integration for smaller plans, the CRS questionnaire asked the life insurance companies, "Based upon the various types of integrated plans written by your company, what cost changes would be expected to result if this practice were discontinued (assuming benefit levels were not decreased)?" Similar information was not elicited from the administrators of large plans included in our sample since the survey analysis of these plans was limited just to the information they filed with the Department of Labor.

Some life insurance companies in responding to this question did not include actual cost details but instead commented narratively on potential increases that might be involved. While the survey questionnaire produced some data on cost increases that might be expected

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[12] Murray Projector, "Is Social Security Integration Still Important?" *Pension and Welfare News*, February 1973, pp. 69 and 79.

to result if plans were no longer permitted to integrate, the data are only superficial. Moreover, since the cost figures furnished are essentially "first year" costs, they would appear to overstate the actual long-run costs. Furthermore, such cost projections under a uniform nonintegrated formula could result in certain lower income individuals receiving over 100 percent combined public and private income replacement.

It appeared that in all instances the response to this question was based on the assumption that if it was presently costing an employer "X" dollars under an integrated plan, present costs under a nonintegrated plan would increase by the increase in the benefit formula that would be required on earnings below the integration level. Although this appears to be a logical way of estimating the cost increases that could be expected, it probably overstates the cost increases that would actually be experienced over a longer time frame, especially for very small plans. To arrive at a more precise estimate, it is necessary to consider the actual historical experience of the plan—specifically salary structure, turnover rates, and benefit forfeitures, as well as the probable effect in the future of the new pension law on eligibility and vesting.

For instance, the executive of a small company who may have set up the plan primarily to benefit himself would be least likely to forfeit benefits. If lower income individuals were now covered at the same uniform benefit rate on all earnings, they might still forfeit at the same rate. (Forfeitures have the effect of reducing employer contributions in subsequent years.) In this event, plan costs would still increase, but by a much smaller amount than the life insurance companies estimate.

Notwithstanding the above, based upon the replies received from the life insurance companies, the median percentage increase in costs that might be expected in small plans (if they were not permitted to integrate) was 51 percent; the average increase in cost was 58 percent. Cost estimates varied significantly from plan to plan.

The question of cost will have to be studied in much more detail and sophistication in order to arrive at any reliable cost estimates associated with the elimination of integration, or the reduction in the permitted benefit differentials. It will be particularly important to gather data on integration costs under large plans.

Implications of Pension Plan Integration

Consideration of integration involves consideration of the basic principles underlying, and the future directions of, the Nation's overall income maintenance scheme for the aged—that is, "integration" in its broad sense. The supplemental security income (SSI) program—and to a great extent the social security system as well—are based on the principle that every aged person is entitled to certain minimum income. On the other hand, present integration guidelines are based on the principle that since the social security system is weighted for lower income workers it is appropriate for the private pension system to give compensating "weight" to higher income workers in order to provide workers of all income levels with approximately the same rate of earnings replacement when they retire.

While integration reflects the employer's cost of social security and serves to minimize the cost of providing a voluntary private pension, it also has the practical effect of partially or totally denying private pension benefits for individuals whose earnings are below the social security wage base.

Although the salary structure of individuals covered by integrated plans is not known, the concept of integration raises questions of equity toward the lower and moderate wage earner. However, if social security benefits were not considered in establishing private plan benefit formulas, the income replacement rate from combined public and private benefits might exceed 100 percent for certain lower wage earners.

The view that social security benefits attributable to employer taxes are, in effect, part of the employer's private pension plan can be questioned. Yet, this is the rationale behind the Internal Revenue Service's derivation of the integration guidelines. Indeed, many economists state that workers as a class bear the ultimate cost of social security contributions (and even the cost of private pensions, for that matter). This cost takes the form of lower wages or higher prices.

One actuary writes:

> The IRS' continuing derivations of permissible levels for integrated plans have used arbitrary assumptions for quantifying just how much the "employer" is contributing toward his employees' social security pension. Each new derivation of permissible limits has included its unfair share of arbitrary assumptions. The high probability of fundamental changes in social security funding [i.e., financing from general revenues] means that the measurement of the employer's share will become more tortuous, more indefensible.[13]

To the extent that integration procedures reduce private pensions of individuals with low and moderate incomes, these procedures may be deemed to frustrate the intent of social security increases provided by Congress. Although the new pension law codifies the IRS administrative practice of "freezing" the dollar amount by which integrated plans can offset social security benefits (while also extending this same freeze to offsets applied against vested benefits of individuals terminating employment prior to retirement); up until the time that they actually retire, what the social security system giveth with one hand, the offset features of many integrated plans taketh away with the other.

Under unit-benefit and money-purchase plans, the progressive rise in earnings taxable under the social security system permits a rise in income levels at which employees can be excluded from fully participating in the private pension plan. Under flat-benefit plans, a similar rise takes place although at levels which lag behind the current taxable wage base. While the survey has shown that overall excess plans are not routinely amended to exclude additional wages, some in fact are amended; and because of cost constraints this may occur more frequently in the future.

Social security costs and benefits have been rising substantially in recent years. Social security benefits will undoubtedly continue to increase since they are now tied into increases in the cost of living. Employers now are faced with some additional costs in meeting the requirements of the newly enacted pension law, and they now face the

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[13] Ibid., p. 69.

possibility of an additional payroll tax to finance a national health insurance scheme. All these benefits cost money. With these rising costs, more employers might decide to integrate their pension plans with social security so as to restrain payroll costs. (In this regard, many of the plans of major Canadian employers have been converted from a nonintegrated to an integrated basis since the adoption of the Canada/Quebec pension plans legislation in 1966.)[14]

Moreover, some companies may decide that their lower paid employees are receiving sufficient retirement income from social security and will not adopt a pension plan for their lower paid hourly and clerical employees. Instead, they may establish a plan for the sole benefit of higher paid employees. Such actions may work to the disadvantage of low and moderate income individuals. Furthermore, an additional effect of social security increases may be a leveling off of increases in private pension benefits.

Since less than half the work force is covered by private pensions, the classic situation of the "haves" and "have-nots" exists. When Congress increases benefits under the social security system in order to raise the retirement income floor it benefits the "have-nots," as well as those "haves" who are covered under nonintegrated plans. However, proportionate benefits do not always flow to those individuals covered under integrated plans. Increases in benefits affect offset plans, whereas increases in the wage base affect excess plans. As a result of changes in social security, low and moderate income workers covered by these integrated private pensions may receive lower proportionate increases in combined public and private income replacement than higher income workers covered by the same plan.

In an effort to stimulate the voluntary expansion of the private pension system among the "have-nots," Congress included in the new pension law a provision entitling individuals not covered by a Government plan or a tax-qualified corporate type plan to provide for their own retirement savings through annual tax deductions of 15 percent of earned income up to $1,500. How successful this will be for low and moderate income individuals is debatable. A low-income individual covered under a tax-qualified integrated plan, would not be able to take advantage of this tax incentive since he already is "covered" by the private plan. Even if he could receive a tax deduction for retirement savings, a low-income worker might be hard pressed to set aside up to 15 percent of his income for a pension.

Upward limitations on pension plan benefits first were established on corporate plans by the Employee Retirement Income Security Act of 1974. Now the highest annual benefit that can be paid (in the form of a straight-life annuity) out of a defined benefit plan to a participant is not to exceed the lesser of (a) $75,000, or (b) 100 percent of the participant's average compensation in his high 3 years of employment. In the case of a defined contribution plan, the annual additions for the year to an individual's account are not to exceed the lesser of $25,000, or 25 percent of the participant's compensation from the employer. (Both of these dollar limitations are to be adjusted to reflect cost-of-living increases.)

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[14] Mario Leo, "Yes Social Security Integration Is Still Important!" *Pension and Welfare News*, August 1973, p. 98.

Differing views exist on the amount of preretirement income that should be replaced through a tax incentive system.[15] If we assume that only income necessary to replace basic preretirement goods and services should be considered, it would follow that income replacement ratios would decrease as preretirement income increased.

The integration guidelines raise another question of equity. Is it fair to structure the integration guidelines on a uniform income replacement basis (e.g., 37½ percent of earnings) regardless of preretirement income levels? In this connection, it should be noted that the present social security replacement ratios vary significantly for individuals presently retiring at age 65. According to a Social Security Administration actuarial note,[16] the income replacement ratio through social security benefits for a man retiring in June 1974 at age 65 with "low" earnings is .630, for one with "median" earnings .436, and for one with "high" earnings .339. The actuarial note defines "low earnings" as $3,200 in 1974, and comparable amounts in earlier years, "median earnings" as $7,681 in 1974 and comparable amounts in earlier years, while "high earnings" are the maximum amounts taxable ($13,200 in 1974) in each year. Since income replacement through social security declines as preretirement earnings increase, it could be argued that integration guidelines should be similarly structured so the maximum limitations gradually decrease as preretirement earnings increase beyond the social security wage base up to the $25,000/$75,000 limits.

Perhaps a more equitable way of integrating private pension plans would be to continue building on top of social security, but not to totally exclude the compensation of workers below the social security wage base. For instance, the integration guidelines could be based upon some congressionally approved income replacement objectives, that (a) would assume a Federal responsibility to provide a certain standard of income replacement at various income levels through a public system, and (b) would offer tax incentives for the private pension system to supplement the public system up to certain maximum levels. Low-wage earners may be found to need practically 100 percent income replacement, with the rate gradually decreasing as income increases. Higher income individuals who wish to make up the difference between their preretirement income and the congressionally defined standard of combined public and private income replacement could do so through voluntary saving.

Appendix I

SURVEY OF INTEGRATED RETIREMENT PLANS

Methodology

As mentioned in the introduction section, very little information is available on pension plan integration. A logical place for such information would be the Internal Revenue Service which has to rule on such plans in order to determine if they are tax qualified (although most plans are adopted by small com-

[15] According to the Treasury Department, the revenue loss resulting from the tax advantages afforded private plans is $4 billion annually. This estimate is related to all private retirement plans, however, not just integrated ones.

[16] U.S. Department of Health, Education, and Welfare, Social Security Administration "Some Aspects of the Dynamic Projection of Benefits under the 1973 Social Security Amendments (Public Law 93-233)," by Albert Rettig and Orlo R. Nichols, Actuarial Note Number 87, April 1974.

panies from preapproved master or prototype plans offered by life insurance companies, banks, etc.). Statistics and information on integration are not centrally kept by IRS or by the Department of Labor. Therefore, in order to gain some insight into the prevalence of integration, two random samples of pension plans were made.

The first sample selected for analysis was a systematic random selection of every hundredth plan listed in the 1972 edition of the Department of Labor's Register of Retirement Benefit Plans from among the 44,600 retirement plans reporting under the Welfare and Pension Plans Disclosure Act. (Only plans covering 26 or more participants were required to report under this act which was repealed September 2, 1974 by the passage of the Employee Retirement Income Security Act of 1974.)[1] Although this would have produced a random "gross" sample of 446 plans, a "net" sample of 369 active plans was eventually analyzed because 48 of the selected plans were terminated, and 29 contained insufficient information, were inactive, were not retirement plans, or now covered fewer than 26 participants.

It was determined that the remaining "net" sample was not biased insofar as our first test was concerned—how many retirement plans are integrated with social security—since the incomplete files were in effect a random selection from the original sample. The net figure is of sufficient size to yield significant results (that the percentage of integrated plans in the universe is within plus or minus 5 percent of the estimate from the sample at the 95 percent confidence level).

The second sample covered plans with fewer than 26 participants. Since plans of this size were not required to report to the Department of Labor, the Congressional Research Service asked the 20 largest life insurance companies to select a systematic random sample of 25 plans from among all their plans (excluding "Keogh" plans for the self-employed) covering fewer than 26 participants and to complete a pro forma worksheet. (Life insurance companies were considered a good source for this information since they do a substantial amount of pension business with small employers.) This would have resulted in a sample of 500 plans. However, one company informed us that it did not issue integrated plans. Two other companies replied that they did not issue small group pension plans. Therefore, 425 plans were included in this sample out of a universe of 365,776. The sample was also of sufficient size to estimate that the percentage of integrated plans in the universe was within plus or

ESTIMATED RETIREMENT PLAN COVERAGE OF SMALL EMPLOYERS BY MAJOR LIFE INSURANCE COMPANIES INCLUDED IN SAMPLE

Name of life insurance companies	Number of plans with fewer than 26 participants	Number of participants
Aetna	15,800	90,000
Bankers Life	2,350	23,600
Connecticut General	10,118	32,378
Connecticut Mutual	3,500	83,000
Equitable	5,500	40,000
John Hancock	4,500	22,750
Lincoln National	3,500	23,000
Massachusetts Mutual	7,000	(1)
Metropolitan	4,000	22,000
Mutual Benefit Life	3,500	31,500
Mutual Life	3,623	31,600
New England Life	12,000	96,000
New York Life	4,300	24,000
Northwestern Mutual	4,500	45,000
Penn Mutual	2,300	30,000
Prudential	4,500	22,000
Travelers	800	12,800
Total	91,791	719,628

[1] Not available.

[1] Under current law, each pension and welfare plan—regardless of size—is required to report certain detailed financial and actuarial data annually to the Secretary of Labor (although a simplified report may be authorized for plans with fewer than 100 participants).

minus 5 percent at the 95 percent confidence level. The 17 life insurance companies are listed below together with the number of plans they have covering fewer than 26 participants and the estimated number of participants.

Insofar as our second test was concerned—how many individuals are covered under integrated plans?—only 266 plans out of the first sample contained information on the number of participants covered. However, an additional 50 plans had not submitted a form D-2 (annual report) to the Department of Labor. Since only plans covering 100 or more participants are required to submit this form, an assumption was made that these 50 plans covered between 26 and 99 participants. While it is possible that these factors could introduce bias in any projections of the number of individuals covered by integrated plans—even though the distribution of the plans in the sample followed closely the distribution of the universe as shown below—a more important limitation was the large size variance found among plans. This resulted in an unacceptable standard deviation of the sample mean. Even when some stratification of the sample was attempted, the standard deviation was too large to allow meaningful analysis. Therefore, the number of individuals estimated to be covered by integrated plans is based in part on the sample results and the impressions of experts in the pension field.

Retirement Plan Size

In 1971, the most recent year for which size distribution data exists, there were approximately 45,000 active retirement plans filing disclosure reports with the Department of Labor. The following table shows the distribution of plans by participant size, together with the size distribution of the Congressional Research Service sample of 316 plans for which plan size could be ascertained.

NUMBER OF PLANS COVERING 26 OR MORE PARTICIPANTS, BY NUMBER OF PARTICIPANTS

Number of participants	All retirement plans		Plans in CRS sample	
	Number	Percent	Number	Percent
Total, all plans	45,000	100.0	316	100.0
26 to 99	29,170	64.8	166	52.5
100 to 199	4,850	10.8	60	19.0
200 to 299	2,435	5.4	20	6.3
300 to 399	1,470	3.3	10	3.2
400 to 499	1,030	2.3	7	2.2
500 to 599	750	1.7	5	1.6
600 to 699	550	1.2	6	1.9
700 to 799	450	1.0	5	1.6
800 to 899	390	.9	2	.6
900 to 999	300	.7	2	.6
1,000 to 1,999	1,470	3.3	15	4.7
2,000 to 2,999	620	1.4	6	1.9
3,000 to 3,999	330	.7	4	1.3
4,000 to 4,999	195	.4	0	0
5,000 to 9,999	475	1.1	4	1.3
10,000 to 14,999	180	.4	1	.3
15,000 to 19,999	95	.2	0	0
20,000 to 24,999	45	.1	2	.6
25,000 and over	195	.4	1	.3

Plans covering between 26 and 99 participants were not required to specify the exact number of individuals covered by the plan, but merely had to check a box indicating this.

An assumption had to be made, therefore, as to what the average number of participants would be covered in a plan in this range. In our sample, 166 plans fell in this range. Although not required to report plan size, 17 plans did actually specify the number of individuals that were covered. The average size of these plans was 62.76, or 63 participants—the same as the midpoint in the 26–99 range. Projections of the number of participants in plans in the 26 to 99 range were therefore made at 63 participants.

Appendix II

LEGISLATIVE HISTORY

Since 1943, the integration of pension plans with social security has been the subject of rules laid down by the Internal Revenue Service under authority of certain provisions of the Revenue Act of 1942. While this legislation was tax oriented rather than reform oriented, the need for the legislation, according to the report on the 1942 bill by the House Ways and Means Committee, was that the provisions of the tax code which were intended to encourage the setting up of retirement plans were being considerably abused by the use of discriminatory plans which either covered only a small percentage of the employees, or else favored the higher paid or stockholding employees. It was contended that under the law then in effect, the officers of a corporation could set up pension plans for themselves without making any provision for other employees. For instance, a profit-sharing plan could be established for the sole benefit of its executive employees, to the exclusion of all other employees, and still be held qualified for the favorable tax treatment afforded under the Internal Revenue Code.

In reporting out the revenue bill of 1942, the House Ways and Means Committee stated that the amendments made to the bill (H.R. 7378) by the committee were intended to remedy the two most serious abuses of the pension trust provisions—(1) limited coverage, and (2) discrimination in favor of higher-paid employees.

Regarding coverage, the committee felt that a pension plan must cover either (1) 70 percent or more of all employees with 5 years of service (except casual, part-time, and seasonal employees) or (2) employees qualifying under a classification found by the Commissioner of Internal Revenue not to be based upon favoritism for officers or stockholders. The committee report stated that "This latter provision would make it possible for plans that really supplement the social security program to qualify."

In regard to the discrimination issue, the report stated:

> Even such extended coverage would not by itself guarantee that the pension plan would be operated for the welfare of the employees generally, because the scale of benefits could be manipulated. Therefore, the scale of benefits must be nondiscriminatory. High-salaried employees should not be favored at the expense of the low-paid employees.

The Ways and Means Committee report went on to state that "Determination of benefits according to a fixed percentage of wages should not be considered discriminatory even though it results in larger benefits to highly paid employees. However, the use of one scale for officials and a less generous scale for other employees would be discriminatory." The report added:

> . . . Thus, a plan in good faith designed to supplement the benefits under the Social Security Act . . . by making eligibility to the benefits of the plan dependent upon an employee receiving annual compensation in excess of $3,000 [the taxable wage base at that time], will not be considered by reason of that fact as based upon favoritism to highly compensated employees. . . . For a plan to qualify . . . the scale of contributions and benefits must be nondiscriminatory, with the exception that larger employer contributions and benefits may be provided for the lower paid employees. Contributions or benefits based upon the application of a fixed rate to compensation paid directly to employees are not intended to be considered in violation of this provision. . . .

The Senate Finance Committee report on the 1942 House bill mentioned:

> As stated in the House committee report, one of the purposes of the alternative qualification provision . . . is to make it possible for plans that supplement the social security program to qualify. A new paragraph (5) has been inserted in order to mention in the law itself some of the acceptable provisions found in plans supplementary to the Social Security Act, both with respect to eligibility conditions and as to the scale of benefits and contributions.

The Senate Finance Committee report went on to state that:

> The provisions with respect to contributions or benefits among employees may vary as long as the effect of the plan as a whole does not favor officers, shareholders, supervising employees, or highly compensated employees over other employees. For example, an employer may have a plan whereby each employee will contribute 2 percent of the first $150 of his regular monthly earnings, 4 percent of the next $100 of such earnings, and 6 percent of such earnings over $250, and the employer will contribute for the benefit of each employee an amount equal to that contributed by the employee. Similarly, a plan might provide for a greater percentage of contributions with respect to earnings of employees in excess of a designated amount such as $5,000, as long as such greater contributions do not have the effect of creating discriminations in favor of a class of employees consisting of the officers, shareholders, supervising employees, or highly compensated employees.

Thus, while the Revenue Act of 1942 added the nondiscrimination concept to the tax-qualification of pension and profit-sharing plans, it also stated certain conditions which would not necessarily constitute discrimination. Specifically, plans could supplement social security benefits by excluding employees from the private pension plan whose wages were below the social security wage base. Moreover, different benefits or contributions could be provided in relation to wages above the wage base than to wages below it.

The exact language of the 1942 Act is as follows:

> (5) A classification [of employees] shall not be considered discriminatory within the meaning of paragraphs (3)(B) or (4) of this subsection merely because it excludes employees the whole of whose remuneration constitutes "wages" under section 1426(a)(1) (relating to the Federal Insurance Contributions Act) or merely because it is limited to salaried or clerical employees. Neither shall a plan be considered discriminatory within the meaning of such provisions merely because the contributions or benefits of or on behalf of the employees under the plan bear a uniform relationship to the total compensation, or the basic or regular rate of compensation, of such employees, or merely because the contributions or benefits based on that part of an employee's remuneration which is excluded from wages by section 1426(a)(1) differ from the contributions or benefits based on employee's remuneration not so excluded, or differ because of any retirement benefits created under State or Federal law.

This language has remained intact in the present Internal Revenue Code (except that reference to section 1426 has been changed to section 3121).

It was therefore left to the Internal Revenue Service to establish objectively determined quantifiable criteria—based upon this provision and the legislative intent—for determining whether or not any integrated plan was discriminatory in favor of officers, shareholders, supervising employees, or highly compensated employees.

The widespread use of integrated plans made it necessary for the Treasury Department to develop general rules as to the value of the benefits provided under the social security program. Whether all or only a portion (and if the latter, what portion) of social security benefits should be included in such a valuation is one of the major issues involved in the various IRS rulings.

In connection with the complete rewriting of the tax code in 1954, the House bill (H.R. 8300) replaced the integration concept with a different approach to prevent discrimination in favor of higher paid individuals which would have replaced the Internal Revenue Commissioner's discretion with clear rules which essentially permitted a plan to disregard the first $4,000 of compensation.

The Senate Finance Committee, however, rejected these provisions since it felt that the mechanical rules in the House bill raised problems for many different types of plans. In view of the difficulty of developing adequate mechanical tests to meet these problems, the committee's bill retained the framework of the existing treatment of pension, profit-sharing and stock bonus plans pending further study.

While the integration issue came up from time to time during the tax-writing committees' considerations of social security legislation, there is no record of any subsequent action on the part of the Congress to formally study the issue until the recent consideration of the Employee Retirement Income Security Act of 1974

(Public Law 93–406). However, the integration rules have usually been re-examined by the Internal Revenue Service each time the Social Security Act was amended and some changes were made. The rather frequent amendments to the Social Security Act over the last few years, however, have not led to comparable adjustment in the integration rules.

Presently, Revenue Ruling 71–446 is in effect although this only reflects the amendments to the Social Security Act through 1971. After the enactment of any amendment to the Social Security Act affecting any employee's covered compensation, a plan may be amended to provide that the covered compensation of each employee whose benefits have not yet commenced shall be determined on the basis of the Social Security Act as so amended. Since 1971 there have been substantial increases in benefit levels and the taxable wage base has been raised from $9,000 to $13,200 with future automatic increases being authorized.

Appendix III

SUMMARY OF INTEGRATION RULES

As discussed later in appendix IV of this report, the general rationale of the integration rules is outlined in the Code of Federal Regulations (26 CFR 1.401–3(e)).

The most recent set of guidelines regarding integration of private pension and profit-sharing plans with social security are contained in Revenue Ruling 71–446. This ruling takes into consideration the Social Security Amendments of 1971. Since the act has been amended since then, most recently on December 20, 1973, Ruling 71–446 is no longer up-to-date. The IRS allows private plans considerable latitude in adapting their provisions to current law. In summary, a plan must meet the following requirements in order to be considered properly integrated with social security.

Integration Level

The integration level that can be used varies by the type of plan; that is, flat benefit, unit benefit, money purchase, profit-sharing, or stock bonus plan. Plans of the unit benefit type (which includes money purchase, profit-sharing, and stock bonus plans) may integrate at the taxable wage base in effect at any time. Presently, the taxable wage base is $13,200 ($14,100 after January 1, 1975). However, plans which are of the flat benefit type must set their integration levels at amounts reflecting the average maximum wage base in effect over an employee's working life. Typically, these average levels are lower than the current wage base.

Since the taxable wage base changes over a worker's career, a table of average covered compensation which takes into account these changes is utilized in determining the proper integration level for a flat benefit plan. The table in ruling 71–446 ranged from $5,400 for an individual retiring in the year 1971 up to $9,000 for an individual retiring in the year 2004. Although revised average covered compensation tables reflecting the social security amendments since 1971 have not been published, IRS permits flat benefit plans to integrate at average covered compensation levels which take into account the most recent increases in the social security wage base. Revenue Ruling 71–446 states in this regard that "After the enactment of any amendments to the Social Security Act affecting any employee's covered compensation, a plan may be amended to provide that the covered compensation of each employee whose benefits have not yet commenced shall be determined on the basis of the Social Security Act as so amended."

A flat benefit plan may set the integration level at the average covered compensation level applicable for the year in which the oldest employee's benefits commence, or it may have a separate integration level for each individual participant based upon the average covered compensation applicable to the year each individual would reach age 65.

Benefit and Contribution Limitations

Following are the different benefit and contribution limitations for earnings over the integration level, for various types of integrated plans:

UNIT-BENEFIT EXCESS PLAN

A unit-benefit excess plan under which an employee's retirement benefit is based on his average annual compensation in excess of the applicable integration levels, may not exceed 1 percent for any year of service.[1] If the retirement benefit is based on actual compensation, the rate may not exceed 1.4 percent.

STEP-RATE UNIT BENEFIT EXCESS PLAN

Same as above, but the difference in the retirement benefit in relation to compensation above and below the integration level may not exceed 1 percent for any year of service if based on average annual compensation (or 1.4 percent if based on actual compensation).

FLAT-BENEFIT EXCESS PLAN

The normal annual retirement benefit for an employee covered by a flat-benefit excess plan cannot exceed 37½ percent in the case of an employee with 15 or more years of service; or 2½ percent each year of service with an employee with less than 15 years of service.

STEP-RATE FLAT PERCENTAGE EXCESS PLAN

Same as above, but the difference in the retirement benefit in relation to compensation above and below the integration level may not exceed 37½ percent (or 2½ percent).

OFFSET PLAN

An offset plan is properly integrated if the rate at which the offset is applied against any employee's benefit does not exceed:

83⅓ percent, if the offset is computed on the basis of the Social Security Act in effect at the time at which the offset is first applied.

92 percent, if the offset is computed on the basis of the Social Security Act Amendments of 1969.

105 percent, if the offset is computed on the basis of the Social Security Act Amendments of 1967.

117 percent, if the offset is computed on the basis of the Social Security Act Amendments of 1958, or 1965.

MONEY-PURCHASE PLAN

A money-purchase (defined contribution) excess plan under which employer contributions are based on compensation in excess of the integration level may not exceed 7 percent when based on actual compensation, or 5 percent when based on average compensation.

PROFIT-SHARING AND STOCK BONUS PLANS

A profit-sharing or stock bonus is properly integrated only if the rate at which employer contributions and forfeitures allocated to any participant in any year with respect to his actual compensation in excess of the plan's integration level do not exceed 7 percent.

If integrated plans offer any "fringes" such as disability benefits or pre- or post-retirement death benefits the permitted differentials must be adjusted. Following is a summary of the various adjustments that would have to be made.

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[1] Average annual compensation is considered to be the employee's annual compensation averaged over at least 5 consecutive years. (It is acceptable to use the period of 5 consecutive years which will produce the highest average for him.)

Summary of Adjustments to Integration Limitations

A. If preretirement death benefits are offered in the form of a:

(1) Lump sum benefit, multiply the limitation by:

(a) 8/9 (or .89) if benefits do not exceed the greater of the reserve or total prior contributions,

(b) 8/10 (or .80) if benefits equal 100 times the anticipated monthly pension, or

(c) 7/9 (or .78) if benefits are equal to the greater of (a) or (b) above; or

(2) Spouse's annuity, multiply the limitation by the fraction 7 divided by (7 plus 2k) where k equals the survivor's benefit in the form of a straight life annuity not exceeding 100 percent.

B. If retirement benefits are in a form other than a straight life annuity, multiply the limitation by:

(1) 97 percent if annuity is for 5 years certain and life thereafter,

(2) 90 percent if annuity is for 10 years certain and life thereafter,

(3) 80 percent if annuity is for 15 years certain and life thereafter,

(4) 70 percent if annuity is for 20 years certain and life thereafter,

(5) 90 percent if it is a life annuity with an installment refund,

(6) 85 percent if it is a life annuity with a cash refund,

(7) 80 percent if it is a life annuity with one-half continued to the surviving spouse.

C. If normal retirement age is lower than 65, multiply the limitation by:

(1) 1/15 (or .067) for each of the first 5 years under age 65, and

(2) 1/30 (or .033) for each of the next five years, or

(3) 1/12 (or .083) for each of the first 5 years under a flat-benefit excess plan, or

(4) 1/24 (or .041) for each of the next 5 years.

D. Multiply limitation by 90% if it provides for disability benefits before age 65.

E. If plan calls for employee contributions, increase limitation by:

(1) 1/6 (or .166) of the employee's contributions if benefits are based on actual compensation, or

(2) 1/8 (or .125) of the employee's contributions if benefits are based on average compensation.

Appendix IV

DERIVATION OF THE CURRENT MAXIMUM INTEGRATION PERCENTAGES

Through a series of various mathematical steps and assumptions, the Internal Revenue Service has formulated the following three key percentages which are currently in effect to guide private pension plan integration with social security:

Thirty-seven and one-half percent (for defined benefit plans)—the maximum percentage, as a ratio of an employee's private retirement benefit to his earnings, that can be provided to an employee for earnings above the integration level without providing any benefits to earnings below this level.

Seven percent (for defined contribution plans)—the maximum percentage of employee compensation that employers can contribute per year to a private pension plan in behalf of earnings above the integration level without providing any benefits to earnings below this level.

Eighty-three and one-third percent (for offset plans)—the maximum percentage of the primary social security benefit that can be offset against the retirement benefit financed by employer contributions under a private pension plan.

Only limited information is available regarding the methods utilized by the IRS to derive these figures. The Code of Federal Regulations provides a partial derivation of the 37½-percent figure. This figure is intended to reflect the earnings replacement value of an employer's share of social security. No derivation is given, however, for the 7-percent limit for defined contribution plans or the 83⅓-percent offset limitation. These percentages appear in Revenue Ruling 71-446 without explanation. However, according to the Pension Trust Branch of the Internal Revenue Service, the 7-percent figure for defined contribution plans is the actuarial equivalent of the 37½-percent figure for defined benefit plans—in other words, the percentage of compensation that an employer would have to contribute to yield retirement benefits equal to 37½ percent of compensation. The 83⅓-percent figure is intended to reflect the employer's share of the total cost of providing all benefits under social security expressed as a percent of the primary social security benefit (about 50 percent of 162 percent).

According to the Code of Federal Regulations, the 37½-percent figure was arrived at through the following steps:

1. Calculate the ratio of the primary social security benefit to average career earnings for an employee retiring at age 65 whose earnings for each year of his working career have equaled the taxable wage base for that year. This is considered to be an average of:

(a) The ratio of the maximum benefit currently payable under the 1971 act (that is, in 1971) to the employee's earnings, and

(b) The ratio of the maximum benefit ultimately payable under the 1971 act (that is, in 2010), to the employee's earnings.

The resulting figure is found to be 43 percent of the average monthly wage on which such benefit is computed.

2. Calculate the ratio of total social security benefits to the primary benefit. Total social security benefits include such items as the benefits available to the employee's spouse, widow, or child; lump-sum death benefits; and disability benefits (but not medicare which is separately financed). By IRS calculations this percentage is estimated at 162 percent of the primary benefit.

3. Calculate the identical ratio as in item (1) except substitute the employee's total social security benefits for his primary benefit. This is calculated by multiplying the percentage in item (2) by the percentage in item (3) (43 percent times 162 percent equals 69.7 percent or 70 percent rounded to the nearest whole percentage).

4. Calculate the share of item (4) which is paid by employers. The assumption made here is that since employers and employees each contribute half the total social security contribution, 50 percent of the benefits are considered attributable to employer contributions (50 percent of 70 percent equals 35 percent).

5. Take into account possible future improvements in social security. Since future increases in social security may increase these percentages, plans may use a figure higher than 35 percent, but not in excess of 37½ percent.

Historical Review of IRS Rulings

Following is a listing of the various IRS rulings which have set integration limits.

CHRONOLOGICAL REVISIONS TO THE IRS INTEGRATION PERCENTAGES

Social Security amendment	Treasury ruling	Year	Wage base	Integration percentage limit for—: Benefits	Integration percentage limit for—: Contributions	Offset	Percent of benefits attributable to employer contributions
1939	Mim. 5539	1943	$3,000	25	----------	150	100.00
1950	Mim. 6641	1951	3,600	37½	9⅜	140	93.75
1952	Revenue ruling 13	1953	3,600	37½	9⅜	130	87.50
1954	Revenue ruling 56-692	1956	4,200	37½	9⅜	120	80.00
1958	Revenue ruling 61-75	1961	4,800	37½	9⅜	117	78.00
1965	Revenue ruling 67-10	1967	6,600	27¼	6⅘	85	78.00
1967	Revenue ruling 69-4	1969	7,800	30	6	75	50.00
1971	Revenue ruling 71-446	1971	9,000	37½	7	83⅓	50.00

The 37½-percent integration differential was in effect throughout the 16-year period, 1951–67. This figure was justified in four separate IRS rulings during this period. For instance, the 37½-percent differential set forth in Revenue Ruling 61–75 issued in 1961 was derived as follows:

(1) Compensation level—$4,800.

(2) Maximum primary social security benefit payable to employee—$1,524.

(3) Maximum primary social security benefit ($1,524) as a percentage of $4,800—31.75 percent.

(4) Value of total social security benefit package as percentage of $4,800 (150 percent times 31.75)—47.625 percent.

(5) Portion of total social security benefit package attributed to employer as percentage of $4,800 (78 percent times 47.625 percent)—37.145 percent (rounded to 37½ percent).

In 1965 the President's Committee on Corporate Pension Funds issued its report on "Public Policy and Private Pension Programs," which discussed many pension issues—including the integration of pension and profit-sharing plans with social security benefits. The report explained:

> At present, for tax purposes, 78 percent of maximum social security benefits may be considered as attributable to the employer's contribution. This proportion was set several years ago and represents that part of the employee benefits which cannot be directly attributed to the employee's own contributions.

The report went on to comment that this rule:

> Attributes to the employer more benefits than he has paid for with his own contributions, which in fact are equal to those of his employees. In fact, it attributes to the employer all benefits that the employees have not paid for by their own contributions.

The Cabinet Committee report concluded that:

> The Committee has examined this problem and recommends that qualified corporate plans be permitted to continue to integrate with OASDI but that, as to benefits earned after the date of the change, the employer be given credit for no more than one-half of the social security benefit. This would be consistent with the financing of OASDI benefits through equal tax contributions from employers and employees.

(It should be noted that Mimeograph 6641 issued by the Internal Revenue Service back in 1951 recognized this as the long-term solution.)

A comprehensive review of all aspects of Revenue Ruling 61–75 was undertaken by the Treasury Department in late 1965 and early 1966. This review led the Treasury to solicit the comments of interested parties regarding the appropriate standard in light of events since the 1961 ruling—particularly the increase in the taxable wage base from $4,800 to $6,600. At the time, the Treasury Department had estimated that if the same historical concepts were followed, the mathematical effect would be a drop in the 37½-percent differential figure to 24 percent.

The resulting Revenue Ruling 67–10 was therefore issued as an interim guide pending the development and publication of integration rules to be applied under the Social Security Amendments of 1965. Revenue Ruling 67–10 stated that a plan would satisfy the interim integration requirements if the rate of benefits or employer contributions did not exceed the applicable rate determined under the previous rulings multiplied by the ratio of $4,800 (the old taxable compensation level) to $6,600 (the new taxable compensation level under the 1965 Social Security Amendments). Thus, the integration percentages were mathematically adjusted under the interim guide to 27¼ percent for defined benefit plans, 6⅘ percent for defined contribution plans, and 85 percent for offset plans. However, in view of the pending Social Security Amendments of 1967, it was decided to postpone any final decision until the new law became final.

A major change in the assumptions underlying the integration rulings took place in 1969 with the issuance of Revenue Ruling 69–4 based on the Social Security Amendments of 1967. The most significant change in assumptions concerned the percentage of social security benefits considered attributable to employer contributions. Specifically, employers were now to be given credit for only 50 percent of the benefits provided under the social security program. In effect, the change carried out the earlier recommendation of the 1965 Cabinet Committee report.

A second major change in the integration regulations was the use of an averaging device for relating social security benefits to earnings. Since the wage base and benefits payable under the Social Security Act were increased rather sharply as a result of the 1965 and 1967 amendments, the Internal Revenue Service considered it inappropriate to base its calculations solely on the relation of benefits to earnings for a person retiring at that time. Instead, it was decided to average two calculations of the benefit/earnings relation:

(1) for a current retiree with the maximum benefit payable at that time (37.9 percent) and,

(2) for a future retiree when the maximum benefit under the law was ultimately payable (33.5 percent).

The resulting average of 35.7 percent was rounded up to 36 percent.

The individual elements included in calculating the cost of all social security benefits under the 1967 amendments in Revenue Ruling 65–4 are the following:

Item:	*Cost as a percentage of payroll*
Primary benefit	6.03
Wife's benefit	.50
Widow's benefit	1.27
Parent's benefit	.01
Child's benefit	.73
Mother's benefit	.13
Lump-sum death benefits	.09
Total	8.76

Dividing the payroll cost of total social security benefits (8.76 percent) by the primary benefit (6.03 percent) produced a total value of 145 percent of the primary benefit. However, the Treasury Department decided to retain the historic percent (150) and therefore rounded the 145 percent up to 150 percent.

The integration percentage was then arrived at under the following calculation:

	Percent
Monthly primary benefit as a percent of earnings	36
Value of total social security benefit package as a percent of primary benefit	×150
Value of total social security benefits as a percent of earnings	54
Percent of total benefit attributable to employer contributions	×50
Integration percent	27

Although the approach used in developing Revenue Ruling 69–4 led to an integration percentage of 27 percent, the regulations permitted an employer to utilize up to 30 percent. The main reason for using 30 percent was to mitigate the disruption and cost impact which a change to 27 percent could cause.

Revenue Ruling 71–466 was issued in 1971 and was based upon the 1971 amendments to the Social Security Act. As a result of the revisions, the integration percentage was raised back up to 37½ percent. According to the Internal Revenue Service, the primary reason for the upward revision was that disability benefits were considered for the first time as an ancillary benefit for integration purposes. This increased the total social security benefit package from 150 percent to 162 percent of the primary benefit. In addition, the average monthly benefit under social security increased from 36 percent to 43 percent of earnings. These two changes were sufficient to bring the integration guide to the level that prevailed from 1951–67.

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